# 2020 Annual Report

**FDH Bank Plc**

# Contents

## Company Information

**Company Secretary:**
Mr. Juliano Godfrey Kanyongolo

**Managing Director:**
Dr. Ellias Ngalande

**Registered office of the Company:**
FDH Bank Plc
Umoyo House
P.O. Box 512
Blantyre, Malawi
Tel: +265 (0) 1 820 219
info@ fdh.co.mw
www.fdh.co.mw

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

**Auditors:**
Deloitte

**Principal Attorneys:**
Mbendera and Nkhono Associates

## FDH Bank Plc Profile

**FDH Bank Plc** ('The Bank') was incorporated and registered in Blantyre, Malawi on 16 May 2007, with registration number 8328 under the Companies Act, 1984, as repealed by the Companies Act, 2013, as a private limited liability company. The Company was re-registered as a public limited liability company under the Companies Act, 2013 on 3 June 2020. The Bank is also registered with the Reserve Bank of Malawi ('RBM') as a commercial bank and authorized dealer for exchange control purposes. The Bank's registered office is situated at Umoyo House, Victoria Avenue, P.O. Box 512, Blantyre, Malawi. On 3 August 2020, the Bank was listed on the Malawi Stock Exchange.

As at 31 March 2020, FDH Bank Plc acquired the entire equity of MSB Properties Limited ('MSBP') from FDH Money Bureau limited. MSBP is a real estate investment company whose registered address is FDH House, Corner Victoria Avenue and Chilembwe Road, P.O. Box 512, Blantyre, Malawi.

**FDH Bank Plc** is a subsidiary of FDH Financial Holdings Limited. The other subsidiaries in the Group are the First Discount House Limited and FDH Money Bureau Limited.


The principal function of FDH Bank Plc is to provide banking services through our main divisions of Retail Banking, Corporate Banking, International Banking, Structured Trade Finance, Treasury Management, Corporate Advisory Services, Asset Finance and Digital Financial Services. The related products are:

1. Current accounts
2. Savings accounts
3. Call and fixed deposits
4. Overdrafts and loans
5. Foreign exchange and international trade transactions
6. Custodial services
7. Financial advice to corporate and private clients
8. Digital products and services

A leading money market service provider offering high yield investment products and services on the market to personal, business and corporate clients with a view to grow their investments. The services on offer include government securities, repurchase agreements and commercial papers, among others.

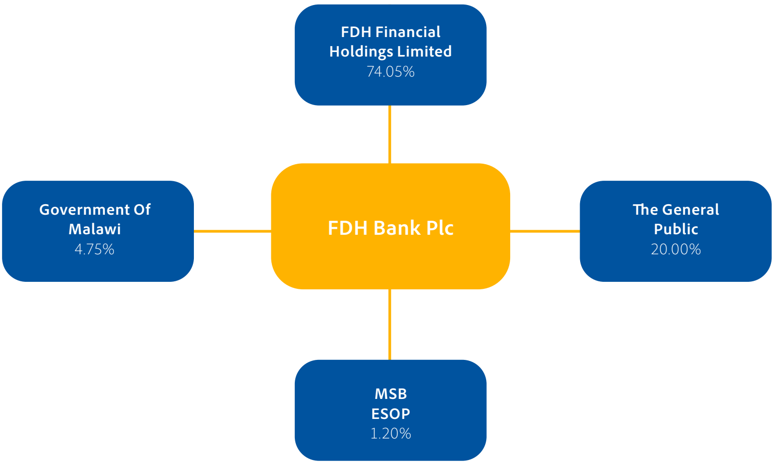
A leading money bureau in Malawi offering seamless transactions in foreign exchange trading and international money transfer services including MoneyGram, Western Union, Hello Paisa, Mukuru, Mama Money and Small World.

A real estate investment company that is wholly owned by FDH Bank Plc. It currently owns twenty-one (21) properties. The company offers independent commercial and residential property consultancy services.

The Bank has a leading, expansive and strategic branch network of 51 service centres, 92 auto-teller machines and over 4,000 *Banki Pakhomo* agents spread throughout the country. The Bank is also a leader in cutting edge innovative digital product solutions and has the most comprehensive portfolio of digital products in the sector. Some of our service and product offering are mainly provided over mobile phones, mobile banking platforms, Automated Teller Machines (ATMs) and the WhatsApp social media messaging application.

The current shareholding of FDH Bank Plc is as follows:

| | 2020 | 2019 |
|---|---|---|
| FDH Financial Holdings Limited | 74.05% | 93.70% |
| The General Public | 20.00% | - |
| Government of Malawi | 4.75% | 5.00% |
| MSB ESOP | 1.20% | 1.30% |



# Vision, Mission, Core Values

## *Our Vision*

To be the leading provider of first class financial solutions in Malawi and the Southern African region.

## *Our Mission*

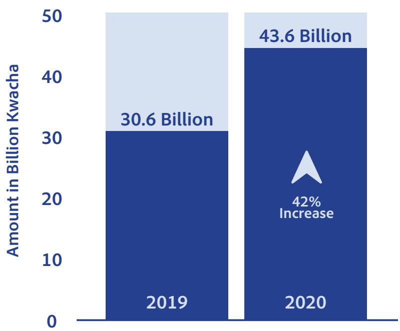
To provide value to all stakeholders through superior returns, sustainable growth, secure and efficient solutions based on sound business values while being an employer of choice.

## *Our Core Values*

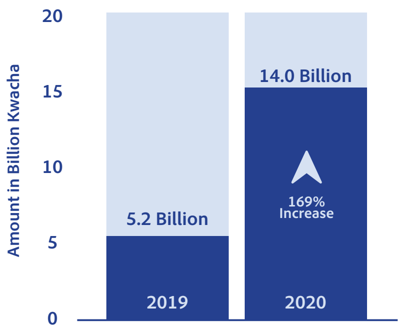
- Transparency and Accountability
- Respect - commitment to client
- Teamwork
- Innovation
- Customer Satisfaction
- Employee Development

# Financial Highlights

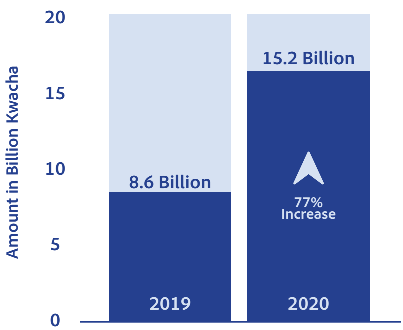
## Total Income



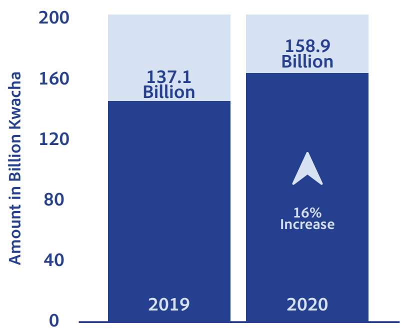

## Profit After Tax




## Net Interest Income




## Customer Deposits




| | | | |
|---|---|---|---|
| Corporate Social Responsibility K331.7 Million | 26% | Return on Equity 54% | 59% |
| Share Price K14.45 | 45% | Non Interest Income K28.4 Billion | 29% |
| Total Assets K235 Billion | 30% | Non-performing Loans Ratio 1.03% | 29% |
| Loan Book K79.3 Billion | 40% | Basic Earnings per Share (tambala) | 203 Tambala |

# 51 Branches

countrywide


FDH Bank

Our Bank • Our Future • Grow With Us

# Board of Directors

Chairperson

**Mrs. Charity Mseka**
Master of Science in Strategic Business Management
Member of the Chartered Institute of Management Accountants (CIMA)

Director

**Dr. Thomson F. Mpinganjira**
Fellow of the Association of Chartered Certified Accountants (FCCA)

Director

**Dr. Nathan Mpinganjira**
Doctor of Business Administration
Fellow of the Association of Chartered Certified Accountants (FCCA)

Director

**Dr. Eric James Sankhulani**
Doctor of Philosophy

Director

**Mr. Mark Mikwamba**
Chartered Financial Analyst (CFA)

Director

**Mr. Patrice Nkhono, SC**
Master of Laws (LLM) in International Development Law

Director

**Mrs. Judith Chirwa**
Master of Arts in Strategic Management

Director

**Mrs. Edith Jiya**
Master of Science in Strategic Management

Director

**Mrs. Gertrude L. Hiwa, SC**
Master of Laws in Legislative Drafting

Director

**Mr. Ben Botolo**
Master of Arts in Economics


## Mr. William Mpinganjira
Master of Business Administration
Fellow of the Association of Chartered Certified Accountants (FCCA)
Chartered Banker (UK)


## Dr. Ellias Ngalande
Doctor of Philosophy in Economics
Master of Political Economy


## Mr. George Chitera
Master of Business Administration
Fellow of the Association of Chartered Certified Accountants (FCCA)


## Dr. Ulemu Katunga
Doctor of Philosophy in Business Administration
Fellow of the Association of Chartered Certified Accountants (FCCA)


## Mr. Harold Kuchande
Master of Science in Human Resources Management


## Mr. Arthur Oginga
Certified Public Accountant (CPA)


## Mr. Juliano G. Kanyongolo
Bachelor of Laws (Hons)

# Executive Management

**Dr. Ellias Ngalande**
Managing Director
Doctor of Philosophy in Economics
Master of Political Economy

**Mr. George Chitera**
Deputy Managing Director
Master of Business Administration, Fellow of the Association of Chartered Certified Accountants (FCCA)

**Mr. Richard Chipezaani***
Head of Finance
Fellow of the Association of Chartered Certified Accountants (FCCA)

**Mr. Chrispin Chikwama**
Head of Human Resources
Bachelor of Arts in Public Administration

**Mr. Jones Chabwera**
Head of Credit
Fellow of the Association of Chartered Certified Accountants (FCCA)

**Mr. Juliano G. Kanyongolo**
Head of Legal and Company Secretary
Bachelor of Laws (Hons)

**Mrs. Mwiza Madanitsa**
Head of Operations and Administration
Member of the Association of Chartered Certified Accountants (ACCA)

**Mr. Kawawa Msapato**
Head of Personal and Business Banking
**Master of Science in Strategic Management**

**Mrs. Victoria T. Mbewe**
Head of Digital Financial Services
**Master of Business Administration**

**Mr. Ganizani Phiri**
Head of Information Technology
**Master of Science in Information Technology**

**Ms. Patricia M. Hamisi***
Head of Global Markets and Trade Finance
**Master of Business Administration**
**Chartered Banker (UK)**

**Mr. Levie Nkunika**
Head of Marketing and Communication
**Master of Business Administration Marketing**

**Mr. Arthur Yapuwa**
**Head of Risk and Compliance**
**Fellow of the Association of Chartered Certified Accountants (FCCA)**

**Mrs. Mary Nkando Jussab**
Head of Corporate and Institutional Banking
**Bachelor of Social Science in Economics**

**Mr. Allans Nkhoma****
Head of Internal Audit
**Master of Development Finance**
**Fellow of the Association of Chartered Certified Accountants (FCCA)**

**Mrs. Esnat Chilije Suleman***
Head of Treasury and Investment Banking
**Chartered Financial Analyst (CFA)**

*Appointment effective 1st January 2021.
**Appointment effective 1st March 2021.

# Board Committees Composition

## INFORMATION TECHNOLOGY (IT) COMMITTEE

| | | | |
|---|---|---|---|
| 1. | Dr. Eric J. Sankhulani | - | Chairperson |
| 2. | Dr. Nathan Mpinganjira | - | Member |
| 3. | Mrs. Judith Chirwa | - | Member |

## CREDIT RISK COMMITTEE

| | | | |
|---|---|---|---|
| 1. | Mrs Judith Chirwa | - | Chairperson |
| 2. | Mr. Mark Mikwamba | - | Member |
| 3. | Mrs. Gertrude L. Hiwa, SC | - | Member |
| 4. | Dr. Nathan Mpinganjira | - | Member |

## FINANCE & AUDIT COMMITTEE

| | | | |
|---|---|---|---|
| 1. | Dr. Ulemu Katunga | - | Chairperson |
| 2. | Mr. Patrice Nkhono, SC | - | Member |
| 3. | Mr. Harold Kuchande | - | Member |
| 4. | Mrs. Edith Jiya | - | Member |

## RISK & CAPITAL MANAGEMENT COMMITTEE

| | | | |
|---|---|---|---|
| 1. | Dr. Nathan Mpinganjira | - | Chairperson |
| 2. | Mr. Patrice Nkhono, SC | - | Member |
| 3. | Dr. Eric J. Sankhulani | - | Member |

## APPOINTMENTS & REMUNERATION COMMITTEE

| | | | |
|---|---|---|---|
| 1. | Mr Harold Kuchande | - | Chairperson |
| 2. | Dr. Eric J. Sankhulani | - | Member |
| 3. | Dr. Nathan Mpinganjira | - | Member |
| 4. | Mrs. Gertrude L. Hiwa, SC | - | Member |

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# Directors' Reports

**OUTLINE**

1. Chairperson's and Managing Director's Joint Statement
2. Directors' Statement

# Chairperson's and Managing Director's Joint Statement

**Mrs. Charity Mseka**
**Board Chairperson**

**Dr. Ellias E. Ngalande**
**Managing Director**

## PERFORMANCE

We are pleased to present the audited consolidated and separate financial statements of FDH Bank Plc for the year ended 31 December 2020. The Group reported a profit after tax of K13.989 billion and the Bank reported a profit after tax of K14.956 billion from the Bank's profit after tax of K5.193 billion in 2019 (Restated) amid a challenging operating environment.

Net Interest Income went up by 77% on the back of an increase in the loan book and other interest bearing assets. Interest expense went up by 16% reflecting the growth of the Bank's deposits.

Non-interest Income in the year was significantly affected by the Covid-19 pandemic. Digital financial services fees were reduced by 40% to encourage people to transact more on digital platforms to reduce the spread of Covid-19. International trade and local business transaction volumes were affected by lockdowns in trading partner countries which slowed down the economy. Total non-interest income could have dropped by 34% before the restatement. The result of the restatement is that non-interest income has grown by 29% from K22.022 billion in 2019 to K28.378 billion in 2020, as a significant portion of this revenue was recognized in 2020 after being restated from 2018 and 2019.

Total assets grew by 30% year on year mainly emanating from an increase in Loans and Advances by 40% and Government Securities by 56%. Customer deposits increased by 16% from K137.14 billion to K158.94 billion, however the growth in deposits was subdued by the Covid-19 pandemic. The growth in the loan book and the Covid-19 impact resulted in non-performing loans (NPL) ratio to increase from 0.80% in 2019 to 1.03% by close of 2020 against an industry average of 6.2%. The Bank applied cost management mechanism and total expenses grew by 4% from 2019 to 2020, besides that the Bank incurred some unplanned expenditure in response to the fight against the Covid-19 pandemic. The Bank will continue to put more focus on effective cost management.

## RESTATED FINANCIAL STATEMENTS

FDH Bank Plc restated 2018 and 2019 financial statements because in prior years commission revenue was recognised at a point in time instead of over the period to maturity of the underlying securities. The performance obligations applying overtime became evident in the current year upon early termination of the principals contracts and drawing of a new contract arrangement.

This has resulted in commission recognised in 2018 and 2019 to be spread over the period to maturity of the underlying securities.

## OPERATING ENVIRONMENT AND COVID-19 IMPACT

The pandemic negatively affected global and local economic growth in 2020 with the global gross domestic product (GDP) shrinking by an estimated 3.5% in 2020 while Malawi's GDP grew by around 1.2%. This was from an initial pre-pandemic local GDP growth projection of 5.1% according to the Reserve Bank of Malawi (RBM). The slowdown in the economy has affected productivity in many sectors with most businesses operating at reduced capacity. This has also increased the expected credit losses as some businesses are expected to struggle to meet their financial obligations.

The Kwacha depreciated against the United States dollar and other major currencies in the second half of 2020 due to the increased negative trade balance as exports slowed down due to logistical challenges resulting from lockdowns while imports increased due to importation of Covid-19 related materials. This increased the cost of all foreign-based contracts that the Bank has.

## LISTING

FDH Bank Plc successfully listed on the Malawi Stock Exchange (20% to the general public) on 3 August 2020 and there was an oversubscription on the Initial Public Offer (IPO) shares. The IPO price was at K10.00 per share and as at 31 December 2020 the share price had moved to K14.45 per share.

## DIVIDEND

On 8 February 2021, the Directors approved a dividend of K3.0 billion in respect of 2020 profits, this represents 43t (K0.43) per share. The dividend was paid on 26 March 2021 to members appearing in the register of the Company as at close of business on 12 March 2021.

## ACQUISITION OF MSB PROPERTIES LIMITED

In March 2020, the Bank acquired 100% stake in MSB Properties Limited from FDH Money Bureau Limited, a sister company. The consideration given for the acquisition was K5.599 billion. The Bank has prepared a consolidated statement of comprehensive income which incorporates the financial results of MSB Properties Limited for the nine months' period after the acquisition from 1 April 2020.

## OUR PEOPLE

We prioritise employee development and recognition and in the year all staff were effectively trained. 349 out of 683 employees were recognized as individuals and in teams for outstanding performance and innovation in the monthly staff Machawi Awards, with the Employee of the Year winning an all-expense paid trip to Dubai with spouse. As an employer of choice, we had 63 employees recognised for long service awards with service years ranging from 10 to 25 years.

We have a robust succession plan in a quest to groom leaders to cater for our immediate and future human resources needs. Our Executive Leadership Development Programme which runs in partnership with the Gordon Institute of Business School (GIBS) of the University of Pretoria saw four graduates taking up Executive Management roles and one senior manager role. The Leadership programme is complemented by an 18 months Graduate Training Programme that prepares graduates to take up management roles. The strategy is to develop leaders and required skill set within the organization while motivating the staff and preserving the FDH Excellence Culture.

The health and safety of our staff is a priority and in light of the Covid-19 pandemic, we worked tirelessly with Government Health Authorities to ensure that we had the most effective, preventative and supportive Covid-19 protocols to prevent and manage the pandemic among our staff. The programme is led by our internal Covid-19 Taskforce that implemented our business continuity plan (BCP) and kept the organisation abreast of key developments. Thankfully, we did not register any fatality from Covid-19 in 2020.

## BUSINESS

To ensure competitiveness, agility and efficiency, we restructured some of our key business units. Corporate and Investment Banking Department was combined with Government and International Non-governmental Organisations Department to form one department called Corporate and Institutional Banking. Treasury and Trade Finance Department was split into two departments namely, Treasury and Investment Banking and the other one being Global Markets and Trade Finance.

The Bank also added to its strategic partners on the global markets and this is expected to improve business in 2021. We are increasing our seasonal agricultural commodity financing and pre-export financing. Our economy being agro based, this product goes a long way in encouraging exports thereby contributing positively towards the trade balance. We have also unveiled an insurance premium financing product, which assists our clients to secure their assets, ensuring they are safe despite the cash flow challenges.

We continued to make strides in financial inclusion by leveraging our partnership with Financial Access for Rural Markets, Smallholders and Enterprise (FARMSE), the Malawi Government, and the International Fund for Agricultural Development (IFAD). In the year, we expanded our agency banking network (FDH Banki Pakhomo) to get to over 4,000 agents and reached out to over 1.4 million digital customers. This enhanced last mile outreach for our banking services to even the remotest areas, allowing customers to enjoy the wide array of services available on the mobile platforms within their locality.

Our payment solutions offering was further extended in the year with the introduction of point of sale (POS) machines that have been deployed to a number of merchants in the major cities and towns. This has created convenience for them by lessening the cash management burden they normally face and also increasing payment options for our card-holding customers as they make their various payments.

The year was exciting with the launch of Mastercard issuance to Digital Account holders, as well as Pompo Pompo Mastercards to our account holders. Looking ahead, the Bank will continue to introduce innovations that shall entail digitization of international money transfers and online payments that shall enable acquiring of card transactions at international level.

## SUSTAINABILITY

As part of our contribution to a sustainable society, our Corporate Social Responsibility program "FDH Cares" invested K331 million in various initiatives. Some resources went to the Covid-19 Response while other resources directly supported the health and education sectors. Among other things, these included donations of hospital equipment to some government hospitals, facilitating access to tertiary education for underprivileged students at University of Malawi, Malawi University of Science and Technology and Hope for the Blind.

We continued with investment in grassroots sports development with the introduction of Intercity Mayors Trophy and the development of football and netball at national level through continued sponsorship for the Football Association of Malawi and the Netball Association of Malawi respectively. The Bank also partnered with Plan International on a campaign to stop gender-based violence.

Informed by the UN's Sustainable Development Goals (SDGs), the Africa's Agenda 2063 and Malawi's Agenda 2063, "FDH Cares" has been reviewed to have greater impact on inclusivity and sustainability on its four pillars: the economy, the community, our people and the environment.

## OUTLOOK

The economy was expected to recover from the Covid-19 pandemic in 2021 but with the new wave of cases the 2021 GDP growth prospects are likely going to be subdued. Global GDP growth for 2021 is expected to reach 5.54% while the local GDP growth is projected to be 4.5% contingent on the evolution of the pandemic according to the Reserve Bank of Malawi. Inflation is expected to average around 8%. We anticipate the Kwacha/US Dollar exchange rate to continue to depreciate in 2021 due to the high negative trade balance.

To continue being competitive and exploit existing and emerging opportunities in the market and deliver value to our customers, shareholders and other stakeholders, we have reviewed and developed a new cycle of strategic objectives to run from 2021 to 2024. Leveraging on our market position, widest distribution network, effective digital platform, brand equity, and strong financial performance, we will focus on growing revenue and market share, reducing operating cost for sustainable performance and profitability, creating highly engaged employees and contributing significantly to the creation of an inclusive, diverse and sustainable society.

## APPRECIATION

The year 2020 was a demanding and challenging year and we sincerely thank all the Directors, Management, and Staff for their contribution and service towards the Bank. We also thank all stakeholders of FDH Bank Plc, including our valued clients, the shareholders, the Government of Malawi, the Reserve Bank of Malawi, the Malawi Stock Exchange, correspondent banks and other business partners, who rendered their support to the Bank to ensure a strong performance.

**Chairperson:** **Date:** **23 March 2021**

**Managing Director:** **Date:** **23 March 2021**

# Directors' Statement

The Directors have the pleasure in presenting the consolidated and separate financial statements of FDH Bank Plc and its subsidiary, MSB Properties Limited, which comprise the statements of financial position, statements of comprehensive income, statements of changes in equity and statements of cashflows and notes to the financial statements for the year ended 31 December 2020.

## ACTIVITIES

The Bank is engaged in the business of commercial banking whilst MSB Properties Limited manages property. Both companies are incorporated in Malawi and are registered under the Malawi Companies Act and the Bank is also registered under the Banking Act.

The registered office and principal place of business for both the Bank and its subsidiary, MSB Properties Limited is Upper Ground Floor, Umoyo House, 8 Victoria Avenue North, P.O. Box 512, Blantyre, Malawi.

## ACQUISITION OF MSB PROPERTIES LIMITED

In March 2020, the Bank acquired 100% stake in MSB Properties Limited from FDH Money Bureau Limited, a sister company. The consideration given for the acquisition was K5.599 billion. The Bank has prepared a consolidated statement of comprehensive income which incorporates the financial results of MSB Properties Limited for the nine month period after the acquisition from 1 April 2020.

## RESULTS

The Directors report a consolidated profit after tax of K13.989 billion and K14.956 billion for the Bank for the year ended 31 December 2020 (2019: K5.193 billion restated).

## SHARE CAPITAL

The authorised share capital of the Bank is K10,000,000,000 (31 December 2019: K500,000,000) divided into 10,000,000,000 (31 December 2019: 500,000,000) Ordinary shares of K1 (31 December 2019: K1) each. The issued share capital of the Bank is K6,901,031,250 (31 December 2019: K462,706,000) divided into 6,901,031,250 (31 December 2019: 462,706,000) Ordinary shares of K1 (31 December 2019: K1) each.

## LISTING

FDH Bank Plc was listed on the Malawi Stock Exchange on 3 August 2020 and the shareholding after the listing is as follows;

| | 2020 | 2019 |
|---|---|---|
| FDH Financial Holdings Limited | 74.05% | 93.70% |
| The General Public | 20.00% | - |
| Government of Malawi | 4.75% | 5.00% |
| Malawi Savings Bank (MSB) ESOP | 1.20% | 1.30% |

## NON-PERFOMING LOANS

Since the acquisition of MSB and subsequent merger with FDH Bank, the Bank has been cleaning its statement of financial position that had very high non-performing loans (NPL). At the time of acquisition, MSB's NPL ratio was at 87%. The total amount of bad debts the Bank has written off since 2015 stands at K40.2 billion and as at 31 December 2020, the Bank NPL ratio increased to 1.3% from 0.8% as at 31 December 2019, due to Covid-19 impact on the economy.

## DIVIDEND

The Board of Directors on 10 February 2020 declared a dividend of face value of K4 billion to the Shareholders of the Bank which was paid on 18 March 2020 and the total Group's dividend paid was K4.3 billion. Subsequent to year end, the Bank declared a dividend of K3.0 billion in respect of 2020 profits, this represents 43t (K0.43) per share. The dividend was paid on 26 March 2021 to members appearing in the register of the Company as at close of business on 12 March 2021.

## GOING CONCERN

In accordance with their responsibilities, the Directors have considered the appropriateness of the going concern basis for the preparation of the financial statements. The Group recorded a profit of K13.989 billion and the Bank recorded a profit of K14.956 billion (Restated 2019: K5.193 billion for the Bank) for the year ended 31 December 2020 and the Group had current liabilities of K195.257 billion and the Bank had current liabilities of K194.815 billion (2019: K154.286 billion for the Bank) against Group's current assets of K124.281 billion and Bank's current assets of K124.105 billion (2019: K137.169 billion for the Bank). As at 31 December 2020, the Capital Ratios for Tier 1 and Tier 2 ratios were as follows 14.24% (2019:11.83% as restated, 2018:11.37% as restated) and 16.19 % (2019:14.57% as restated, 2018: 7.95% as restated) respectively.

The Directors determined that the financial statements are prepared on a going concern basis that assumes that the Group and Bank will continue to be in operational existence for the foreseeable future.

## DIRECTORS

The following Directors served in office during the year while residing in Malawi unless stated. Directors serve a term of 3 years and are eligible for re-appointment.

| Name | Role | Period | Attendance of meetings |
|---|---|---|---|
| Mr. A. Oginga* | Chairperson | Up to 2 November 2020 | 3/4 |
| Mrs C. Mseka | Chairperson | From 27 November 2020 | 4/4 |
| Dr. E. J. Sankhulani | Director | Throughout the year | 4/4 |
| Dr. T. F. Mpinganjira | Director | Up to 28 January 2020 | 0/4 |
| Dr. N. Mpinganjira** | Director | Throughout the year | 4/4 |
| Mr. M. Mikwamba | Director | Up to 26 October 2020 | 2/4 |
| Mrs. J. Chirwa | Director | Throughout the year | 4/4 |
| Mrs. E. Jiya | Director | Up to 26 October 2020 | 2/4 |
| Mr. P. Nkhono, SC | Director | Throughout the year | 4/4 |
| Mr. B. Botolo | Director | Up to 10 February 2020 | 1/4 |
| Mrs. G. L. Hiwa, SC | Director | Up to 26 October 2020 | 3/4 |
| Dr. U. Katunga | Director | Throughout the year | 4/4 |
| Mr. H. Kuchande | Director | Throughout the year | 4/4 |
| Mr. W. Mpinganjira*** | Group CEO | Throughout the year | 4/4 |
| Dr. E. Ngalande | Managing Director | Throughout the year | 4/4 |
| Mr. G. Chitera | Deputy Managing Director | From 28 January 2020 | 4/4 |
| Mr. J. Kanyongolo | Company Secretary | Throughout the year | 4/4 |

*Resident in Kenya
**Resident in South Africa
***Appointed Group Chief Executive Officer on 31 August 2020.

## BOARD MEETINGS

The Board meets quarterly. Ad-hoc meetings are held when necessary. The Directors are provided with comprehensive board documentation at least seven days prior to each of the scheduled meetings. During the year, there were four board meetings. The board has five committees as follows:

## FINANCE AND AUDIT COMMITTEE (FAC)

The Committee meets at least four times a year. The committee comprises three Non-Executive Directors. The role of the committee is to provide an independent evaluation of the adequacy and efficiency of the Bank's internal control systems, accounting practices, information systems and auditing processes. Communication between the Board, executive management, internal auditor, and external auditor is encouraged. The committee liaises with the internal auditor on accounting procedures and on the adequacy of controls and information systems, and reviews the financial statements, considers loss reports on major defalcations, and the Bank's compliance plan for effectiveness. The committee also engages with the external auditor on matters pertaining to the Financial Reporting and internal controls based on the external auditor's work. The members of the Committee were:

| Name | Role | Period | Attendance of Meetings |
|---|---|---|---|
| Dr. U. Katunga | Chairperson | Throughout the year | 4/4 |
| Mrs. E. Jiya | Member | Up to 26 October 2020 | 2/4 |
| Mr. P. Nkhono, SC | Member | From 21 October 2020 | 1/4 |
| Mr. H. Kuchande | Member | From 21 October 2020 | 1/4 |

## RISK AND CAPITAL MANAGEMENT COMMITTEE (RCMC)

The Committee meets four times a year. The committee comprises three Non-Executive Directors. The Committee reviews and assesses the integrity of the risk control systems and ensures that risk policies and strategies are effectively identified, managed and monitored in order to contribute to a climate of discipline and control, which will reduce the opportunity of risk, including fraud, in all areas of operation. The RCMC also reviews the capital position and approves risk appetite; reviews stress testing results and considers the adequacy of mitigating actions if required. The members of the Committee were:

| Name | Role | Period | Attendance of Meetings |
|---|---|---|---|
| Dr. N. Mpinganjira | Chairperson | Throughout the year | 4/4 |
| Dr. E. J. Sankhulani | Member | Throughout the year | 4/4 |
| Mr. P. Nkhono, SC | Member | Throughout the year | 4/4 |

## REMUNERATION AND APPOINTMENTS COMMITTEE (RAC)

The Committee meets four times a year. The Committee is comprised of four Non-Executive Directors. The Committee considers all human resources issues including recruitment policy, industrial relations, succession planning, safety and health and remuneration terms and packages for management and staff. The members of the Committee were:

| Name | Role | Period | Attendance of Meetings |
|---|---|---|---|
| Mr. H. Kuchande | Chairperson | Throughout the year | 4/4 |
| Dr. E. J. Sankhulani | Member | Throughout the year | 4/4 |
| Dr. N. Mpinganjira | Member | Throughout the year | 4/4 |
| Mrs. G. L. Hiwa, SC | Member | Up to 26 October 2020 | 3/4 |

## CREDIT RISK COMMITTEE (CRC)

This Committee meets quarterly. The Committee comprises four Non-Executive Directors. The Board's Credit Risk Committee is tasked with the overall review of the Bank's lending policies. At each meeting, the committee directs, monitors, reviews and considers all issues that may materially impact on the present and future quality of the Bank's credit risk management. It ensures that there are effective procedures to identify irregular credit facilities, minimise credit losses and maximise recoveries.

The Committee analyses and authorizes any transactions above the authorised limits of the credit risk management committee. The members of the Committee were:

| Name | Role | Period | Attendance of Meetings |
|---|---|---|---|
| Mrs. J. Chirwa | Chairperson | Throughout the year | 4/4 |
| Mr. M. Mikwamba | Member | Up to 26 October 2020 | 2/4 |
| Dr. N. Mpinganjira | Member | Throughout the year | 4/4 |
| Mrs. G. L. Hiwa, SC | Member | Up to 26 October 2020 | 3/4 |

## INFORMATION TECHNOLOGY COMMITTEE (ITC)

The Information Technology Committee comprises three Non-Executive Directors. The Committee is tasked with ensuring effective and secure utilisation of technology within the Bank to ensure the attainment of its strategic objectives. It also evaluates, and advises with respect to, the direction of the Bank's technology evolution and in the process, oversee effective protection of the Bank's intellectual property. The Technology Committee also recommends technology and procedures to meet the Bank's financial and regulatory obligations with respect to privacy, data retention and data protection. The members of the Committee were:

| Name | Role | Period | Attendance of Meetings |
|---|---|---|---|
| Dr. E. J. Sankhulani | Chairperson | Throughout the year | 4/4 |
| Dr. N. Mpinganjira | Member | Throughout the year | 4/4 |
| Mrs. J. Chirwa | Member | Throughout the year | 4/4 |

## COMPLIANCE WITH CORPORATE GOVERNANCE

The Directors are committed to the implementation of and endorse 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 Bank has at Board level, a Board Audit Committee, Board Risk Committee, Board Credit Committee, Board Information Technology Committee and Board Appointments and Remuneration Committee. The Committees comprises Non-Executive Directors.

## DIRECTORS' INTEREST

10 Directors have shares in FDH Bank Plc which were bought on the stock exchange and these shares cumulatively were valued at K244.8 million as at 31 December 2020.

| | | No. of Shares | | Value of Shares (K) | |
|---|---|---|---|---|---|
| # | Name of Director | Direct Interest | Indirect Interest | Direct Interest | Indirect Interest |
| 1 | Dr. Ulemu Katunga | 200 000 | | 2 890 000 | |
| 2 | Dr. Eric James Sankhulani | 4 300 000 | | 62 135 000 | |
| 3 | Mr. Patrice Chikumbutso Nkhono, SC | 1 000 000 | | 14 450 000 | |
| 4 | Mr. Harold Kuchande | 3 000 000 | | 43 350 000 | |
| 5 | Mrs. Gertrude Hiwa, SC | 250 000 | | 3 612 500 | |
| 6 | Mrs. Charity Mseka | 300 000 | | 4 335 000 | |
| 7 | Mrs. Judith Penjani Chirwa | 1 000 000 | | 14 450 000 | |
| 8 | Mr. William Mpinganjira | 3 593 018 | | 51 919 110 | |
| 9 | Dr. Ellias E. Ngalande | 300 000 | | 4 335 000 | |
| 10 | Mr. George Chitera | | 3 000 000 | - | 43 350 000 |
| | **Total** | **13 943 018** | **3 000 000** | **201 476 610** | **43 350 000** |

## AUDITORS

The Auditors, Deloitte, have signified their willingness to continue in office and a resolution is to be proposed at the forthcoming Annual General Meeting in relation to their appointment as auditors in respect of the year ending 31 December 2021.

## FOR AND ON BEHALF OF THE BOARD

**Chairperson:**  **Date:** **23 March 2021**

**Director:**  **Date:** **23 March 2021**

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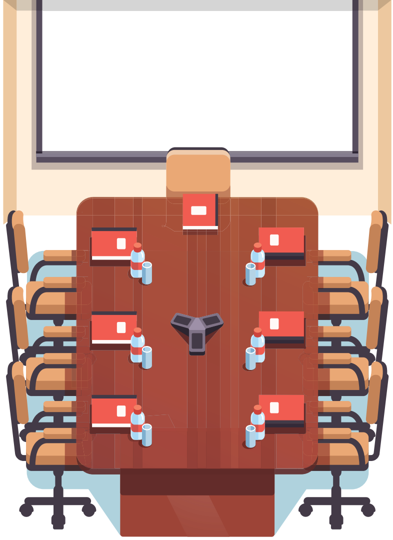
# Statement of Directors' Responsibilities



The Malawi 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 as at the end of the financial year and of the operating results for that year.

The Act also requires the Directors to ensure the Bank keeps proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Bank and enable them to ensure that the financial statements comply with the Malawi Companies Act, 2013.

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, subject to any material departures being disclosed and explained in the financial statements; and
- Preparation of financial statements on a going concern basis unless it is inappropriate to presume that the Bank will continue in business in the foreseeable future.

The Directors also accept responsibility for taking such steps that are reasonably open to them to safeguard the assets of the Bank 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 for the year ended 31 December 2020 give a true and fair view of the state of the financial affairs of the Bank and of its operating results.

**Chairperson:** **Date: 23 March 2021**

**Director:** **Date: 23 March 2021**

# 3
# Our Year


2020

## OUTLINE

1. FDH Bank Plc Listing
2. Celebrating Greatness: Founder and Group Chief Executive Officer Retirement
3. Our Sustainability Drive: FDH Cares
4. Product and Campaign launches
5. Our Customers

## FDH BANK PLC LISTING

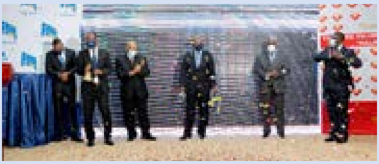
3 August, 2020 marked an important milestone in the history of FDH Financial Holdings. Twelve years since opening one of its subsidiaries, FDH Bank Limited successfully listed on the Malawi Stock Exchange after a strategic journey of growth and expansion. FDH Bank Limited is now FDH Bank Plc.

### Investors Engagement Listing Cocktails


FDH Bank Plc Managing Director Dr. Ellias Ngalande highlighting the Bank's growth trajectory at Sunbird Mount Soche Hotel in Blantyre.

FDH Financial Holdings Chairperson Mr. Noel Mkulichi (R) exchanging FDH Bank Plc Prospectus with Malawi Stock Exchange Chief Executive Officer Mr. John Robson Kamanga at Bingu International Conference Centre in Lilongwe.

### Listing Day



FDH Financial Holdings Limited Acting Chief Executive Officer (CEO), Mr. George Chitera (2L) rings the traditional listing bell after FDH Bank Plc Managing Director (MD) Dr. Ellias Ngalande (3R) cut the ribbon flanked by Malawi Stock Exchange (MSE) Chief Executive Officer Mr. John Robson Kamanga (R), MSE Chairperson Dr. Winford Masanjala (2R), FDH Bank Plc Board Representative Dr. Eric Sankhulani (3L), and FDH Bank Plc Deputy MD, Mr. William Mpinganjira.


FDH BANK LISTS ON MSE

Share price gains 50% to trade at K15

FDH Bank Plc share price gained 50% on the listing day.

## CELEBRATING GREATNESS: FOUNDER AND GROUP CHIEF EXECUTIVE OFFICER RETIREMENT

### Retirement

Under the theme Celebrating Greatness, the Group's staff and customers bade retirement farewell to the Group Chief Executive of FDH Financial Holdings Limited Dr. Thomson Frank Mpinganjira who retired in September 2020 after successfully building FDH Group starting with the First Discount House Limited which commenced operations in April 2002 and listing its flagship subsidiary, FDH Bank Plc on the Malawi Stock Exchange on 3 August 2020.

"*I want to assure you, our customers, that the last 4 years, when FDH has been registering great strides in digital and innovation, it has been because of the young team at FDH led by William. Those of you who have ever dealt with him know that I have left behind a solid team that will serve you even better.*"

**Dr. Thomson Frank Mpinganjira**
Founder of the FDH Group
24 September 2020

### Group Chief Executive Officer's Retirement Farewell Cocktails


FDH Financial Holdings Chairperson Mr. Noel Mkulichi hands over a Certificate of Retirement to the Group Chief Executive Officer Dr. Mpinganjira at the Customers Farewell Cocktail at Sunbird Mount Soche Hotel on 24 September 2020.

A cross section of guests at the Customers Farewell Cocktail.

FDH Bank Plc Board Member Dr. Eric Sankhulani presents a gift to the Founder Dr. Mpinganjira at the Staff Farewell Cocktail at Crossroads Hotel, Blantyre, on 22 September 2020.

Dr. Mpinganjira (C) and Dr. Sankhulani (4R) with former employees of FDH Group at the Cocktail.

## OUR SUSTAINABILITY DRIVE: FDH CARES

Our Corporate Social Responsibility program FDH Cares invested over K331 million in 2020 in various sectors to contribute towards the creation of an inclusive, diverse and sustainable society.

### Caring for growth: Health and COVID-19 response


FDH Bank Plc contributed to the strengthening of our health system in the fight against COVID-19 by making contributions of over K70 million for procurement of personal protective equipment (PPE) items and other items to various institutions including the following:

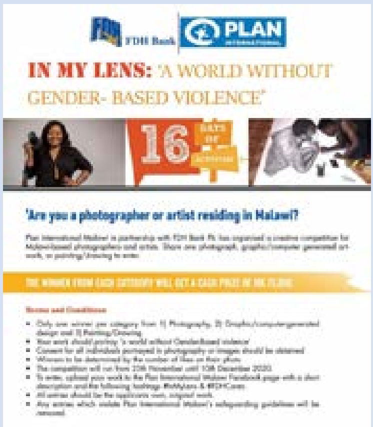
- K25 million to Malawi Government Covid-19 Response Committee
- K10.5 million to Queen Elizabeth Central Hospital Cancer Ward
- K9.2 million to Netball Association of Malawi
- K7 million to Private Sector Coalition Against Covid-19
- K5 million to University of Malawi College of Medicine for students electronic gadgets.
- K3.5 million to Blantyre District Health Office
- K3.2 million to Blantyre City Council
- K3 million to Care Malawi
- K3 million to Mother Care Groups through Ministry of Education
- K2 million to Friends of Embangweni Hospital
- K2 million to Institute of Chartered Accountants in Malawi (ICAM)
- K2 million to Department of Immigration and Citizenship
- Contribution of a modern ultrasound scan machine to Mwanza District Hospital valued at K14 million.

## Caring for growth: Education

- University of Malawi Scholarships for The Polytechnic and Chancellor College Students: Investment of K72 million for underprivileged students to complete their four year degree programs.
- Malawi University of Science and Technology Sponsorships – Investment of K62.5 million for underprivileged students to complete their five year degree programs.
- Hope for the Blind Sponsorships– Investment of K6 million to secondary school and college students with visual disabilities to complete various studies.
- MBC Top of the Class Quiz Sponsorship – Investment of K30 million towards the third season of the quiz to contribute towards improving education standards and financial literacy in secondary schools.

## Caring for growth: Community

- Construction of Ndirande Police Station Extension Building for K22.8 million to create adequate offices for Police Officers.
- We partnered with Plan International to fight against gender based violence and sponsored media prizes for the various players.



### Caring for growth: National and grassroots sports development

- National netball development – Continued our K360 million three year sponsorship to support FDH Netball Cup, The Queens and the Netball Association of Malawi to promote netball in Malawi.
- National football development - Continued our K450 million five year sponsorship to support FDH Football Cup, The Flames, the Football Association of Malawi to promote football in Malawi.
- Youth sports development – Sponsorship of K20 million, K15 million, K10 million and K10 million for Intercity Mayor's Trophy, Lilongwe Mayor's Trophy, Mzuzu Mayor's Trophy and Zomba Mayor's Trophy respectively to support development of sports in primary schools.

### Caring for growth: Staff engagement

- Machawi Awards – FDH Bank Plc continued to award staff members throughout the year and recognize hard work, innovation as well as long service. Account Relationship Manager Mr. Pempho Khomba (R) from Old Town Service Centre emerged 2020 Employee of the Year. He received his award from the Group Chief Executive Officer Mr. William Mpinganjira that includes an all-expenses paid Dubai trip with spouse plus $1,000 spending money.


- October Cancer Awareness Pink Wednesday – FDH Bank Plc as a responsible corporate citizen took part in the awareness through various initiatives that included engaging staff members to wear pink on Wednesdays dubbed Pink Wednesday in October (Breast Cancer Awareness Month) in solidarity with the fight against breast cancer in Malawi.

- World Aids Day – On 1 December 2020, World Aids Day our staff members across the country led by FDH Group Chief Executive Officer wore red ribbons and showed solidarity in the fight against HIV and AIDS.
- FDH Leadership Academy – FDH Bank Plc conducted various trainings throughout the year, training 100% of all frontline staff to build their capacity to effectively implement the bank strategy.

## PRODUCT AND CAMPAIGN LAUNCHES

### Our agency banking: Banki Pakhomo

Our partnership with Financial Access for Rural Markets, Smallholders and Enterprise (FARMSE) Programme enabled us to expand our agency banking network (FDH Banki Pakhomo) to get to over 4,000 agents to provide last mile banking services outreach to even the remotest areas.

### Osafinyika Digital Sales Promotion

This Promotion engaged and encouraged customers to use the digital products. The grand prize winner of the Mazda Demio was Fanny Zimba.

## OUR CUSTOMERS

- As per our brand promise of making growth possible, we supported our customers with our innovative and bespoke financial solutions to make them realize their vision.
- Below is one of our customers we financed, Malawi Fertilizer Company, completing construction of the state of the art 15,000 sqm fertilizer terminal and fertilizer blending facility in Liwonde, Machinga in 2020. The facility has a storage capacity of 40,000MT and capacity to blend almost 2,000MT of finished fertilizer product a day and is directly connected to the rail and to the deep sea port of Nacala. The facility will greatly contribute to a more efficient fertilizer supply chain, leading to more affordable farm input prices for Malawians. The facility will further enhance Malawi as an agricultural distribution hub for the region.

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# Independent Auditor's Report to the shareholders of FDH Bank Plc

Deloitte.

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Report on the Audit of the Consolidated and Separate Financial Statements

## OPINION

We have audited the consolidated and separate financial statements of FDH Bank Plc and its subsidiary, MSB Properties Limited ("the Group"), as set out on pages 35 to 126, which comprise the consolidated and separate statements of financial position as at 31 December 2020, the consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity and 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 financial statements give a true and fair view of the consolidated and separate financial position of the Group as at 31 December 2020, and of 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 the requirements of the Malawi 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 annual consolidated and separate Financial Statements* section of our report. We are independent of the Group and company 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 the 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 financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter | How the matter was addressed in the audit |
|---|---|
| **Impairment against loans and advances (consolidated and separate)** | |
| The Group and 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.<br><br>Key areas of judgement included:<br><br>• The interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Bank's expected credit loss model;<br>• The identification of exposures with a significant deterioration in credit quality;<br>• Assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward-looking macroeconomic factors (e.g., unemployment rates, interest rates, gross domestic product growth, property prices);<br>• The need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model;<br>• The significance of the judgements used in classifying loans and advances into various stages stipulated in IFRS 9; and<br>• The significance of the judgements used in determining the impact of COVID-19 on the expected credit losses.<br><br>As at 31 December 2020, the gross loans and advances to customers were K80.5 billion (2019: K57.6 billion) against which expected credit losses of K1.188 billion (2019: K801.3 million) were recorded, comprising K562.6 million (2019: K133.3 million) of provision against Stage 1 and 2 exposures and K625.1 million (K668.0 million) against exposures classified under Stage 3. This is disclosed in note 9 (Loans and Advances to customers) to the financial statements. The impairment provision policy is presented in accounting policies in note 3 to the financial statements. Loans and Advances are stated at amortised cost net of identified impairments.<br><br>In calculating the impairment loss, management assesses any observable data which may indicate 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.<br><br>Historical loss experience is used by management in determining the estimated probability of default and recovery rates of future cash flows. These are key areas of judgement as disclosed in note 4.1 (Critical accounting judgements and key sources of estimation uncertainty – Impairment losses on loans and advances) to the financial statements. | We gained an understanding of the Group's and Bank's key credit processes comprising granting, booking, monitoring and provisioning and tested the relevant internal controls over impairment of loans and advances.<br><br>We examined a sample of exposures and performed procedures to evaluate the:<br><br>• Timely identification of exposures with a significant deterioration in credit quality; and<br>• For exposures determined to be individually impaired, we examined management's estimate of future cash flows, assessed their reasonableness and checked the resultant provision calculation.<br><br>For provision against exposures classified as Stage 1 and Stage 2, we obtained an understanding of the Groups and Bank's provisioning methodology, assessed the reasonableness of the underlying assumptions and the sufficiency of the data used by management. Our procedures in this regard are discussed in further detail below. |

| Key Audit Matter | How the matter was addressed in the audit |
|---|---|
| | With respect to classification and measurement of financial assets and financial liabilities, our audit procedures comprised the following:<br><br>● We read the Bank's IFRS 9 based classification and measurement of financial assets and financial liabilities policy and compared it with the requirements of IFRS 9; and<br>● We obtained an understanding and checked the Bank's business model assessment and the test on the contractual cash flows, which give rise to cash flows that are 'solely payments of principal and interest' [SPPI test] performed by management.<br>With respect to impairment methodology, our audit procedures comprised the following;<br>● We read the Bank's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9;<br>● With the involvement of our credit specialists, we obtained an understanding of the Bank's internal rating models for loans and advances and checked that the calibration of the rating model is appropriate for the Bank. We obtained and read the IFRS impact and model documentation prepared by the Bank's Consultant. We further performed procedures to ensure the competence, objectivity and independence of the Bank's Consultant;<br>● We checked the appropriateness of the Bank's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages;<br>● For a sample of exposures, we checked the appropriateness of the Bank's staging;<br>● We checked and understood the key data sources and assumptions for data used in the Expected Credit Loss (ECL) models (the Models) used by the Bank to determine impairment provisions;<br><br>● For forward-looking assumptions including COVID-19 impact used by the Bank's management in its ECL calculations, we held discussions with management and corroborated the assumptions used to publicly available information;<br>● For a sample of exposures, we checked the appropriateness of determining Exposure at Default, including the consideration of prepayments and repayments in the cash flows and the resultant arithmetical calculations;<br>● For Probability of Default (PD) used in the ECL calculations, we checked the appropriateness of the use of S&P 10-point grading system to determine the PDs;<br>● We checked the calculation of the Loss Given Default (LGD) used by the Bank in the ECL calculations, including the appropriateness of the use of collateral and the resultant arithmetical calculations; |

| Key Audit Matter | How the matter was addressed in the audit |
|---|---|
| | • We checked the completeness of the loans and advances included in the ECL calculations as of 31 December 2020;<br>• We understood the theoretical soundness and tested the mathematical integrity of the Models;<br>• For data from external sources, we understood the process of choosing such data, its relevance for the Bank, and the controls and governance over such data; and<br>• We checked consistency of various inputs and assumptions used by the Bank's management to determine impairment provisions.<br><br>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. |

## OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the Directors' Report and the Statement of Directors Responsibilities, as required by the Malawi Companies Act which we obtained prior to the date of this auditor's report. The other information does not include the consolidated and separate 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 financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Malawi 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 Bank'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 Bank 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 Bank'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 Bank'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 Bank to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the 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 financial statements. We are responsible for the direction, supervision and performance of the Group's 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 financial statements of the current year 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**
**Madalo Mwenelupembe**
**Partner**

**24 March 2021**

# 5

# Financial Statements

## Contents

# 1 Statements of Financial Position

## As at 31 December 2020

| | Notes | 2020 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| | | K'000 | K'000 | K'000 | K'000 |
| | | | | Restated | Restated |
| | | Group | Bank | Bank | Bank |
| **ASSETS** | | | | | |
| Cash and Balances with Reserve Bank of Malawi | 5 | 12 319 745 | 12 319 745 | 7 062 293 | 14 885 769 |
| Malawi Government Treasury bills, promissory notes and Reserve Bank of Malawi bonds | 6 | 73 437 760 | 72 824 773 | 46 955 149 | 39 552 133 |
| Placements with other banks | 7 | 34 370 178 | 34 370 178 | 31 750 661 | 26 084 042 |
| Loans and advances to customers | 8 | 79 319 153 | 79 319 153 | 56 813 895 | 40 689 341 |
| Amounts due from related parties | 10 | - | - | - | 791 525 |
| Other receivables and prepayments | 11 | 16 215 122 | 15 613 167 | 23 796 752 | 6 736 887 |
| Investments in subsidiary | 12.a | - | 6 920 233 | - | - |
| Other investments | 12.b | 31 032 | 31 032 | 31 032 | 26 032 |
| Other short-term investments-OMO | 12.c | - | - | - | 5 496 484 |
| Property, plant and equipment | 13 | 14 205 508 | 8 595 208 | 8 631 509 | 8 085 928 |
| Intangible assets | 14 | 3 437 587 | 3 437 587 | 2 350 619 | 2 010 463 |
| Deferred tax assets | 20 | 774 802 | - | - | 3 757 010 |
| Current tax assets | | - | - | 1 334 733 | 575 132 |
| Right -of -use assets | 3.21 | 862 476 | 1 787 339 | 1 692 380 | - |
| **Total Assets** | | **234 973 363** | **235 218 415** | **180 419 023** | **148 690 746** |
| **LIABILITIES AND EQUITY** | | | | | |
| **LIABILITIES** | | | | | |
| Amounts due to related parties | 10 | - | - | - | 3 444 |
| Shareholders' loan | 15 | 2 188 968 | 2 188 968 | 2 606 543 | 2 729 144 |
| Long term loan | 16 | 7 731 836 | 7 731 836 | 5 760 919 | 5 454 618 |
| Liabilities to customers | 17 | 158 944 088 | 159 035 263 | 137 140 830 | 112 570 264 |
| Liabilities to financial institutions | 18 | 31 539 477 | 31 539 477 | 10 301 285 | 4 504 286 |
| Payables and accruals | 19 | 4 459 717 | 4 017 784 | 6 653 457 | 11 621 378 |
| Lease liabilities | 3.21 | 1 814 001 | 1 814 001 | 1 719 042 | - |
| Income tax payable | | 661 631 | 538 719 | - | - |
| Deferred tax liabilities | 20 | 667 784 | 667 784 | 294 753 | - |
| **Total Liabilities** | | **208 007 502** | **207 533 832** | **164 476 829** | **136 883 134** |
| **EQUITY** | | | | | |
| Share capital | | 6 901 031 | 6 901 031 | 462 706 | 462 706 |
| Share premium | | 4 910 065 | 4 910 065 | 7 450 660 | 7 450 660 |
| Capital reserve | | 2 716 230 | 2 716 230 | 2 716 230 | 2 716 230 |
| Preference shares | | - | - | 3 111 000 | 3 111 000 |
| Loan loss reserve | | 520 411 | 520 411 | 495 078 | 290 733 |
| Revaluation Reserve | | 378 921 | - | - | - |
| Retained earnings | | 11 539 203 | 12 636 846 | 1 706 520 | (2 223 717) |
| **Total Equity** | | **26 965 861** | **27 684 583** | **15 942 194** | **11 807 612** |
| **TOTAL EQUITY AND LIABILITIES** | | **234 973 363** | **235 218 415** | **180 419 023** | **148 690 746** |
| **Memorandum items** | | | | | |
| Guarantees and letters of credit | 21 | 49 835 158 | 49 835 158 | 32 386 342 | 15 588 105 |

The financial statements were approved and authorised for issue by the Board of Directors on **23 March 2021** and were signed on its behalf by:

**Chairperson**

**Director**

# 2 Statements of Comprehensive Income

## For the year ended 31 December 2020

| | Notes | 2020 K'000 Group | 2020 K'000 Bank | 2019 K'000 Restated Bank |
|---|---|---|---|---|
| **INCOME** | | | | |
| Interest earned | 22 | 24 183 108 | 24 183 108 | 16 343 445 |
| Interest expense | 22 | (8 992 269) | (8 992 269) | (7 766 556) |
| Net interest income | 22 | 15 190 839 | 15 190 839 | 8 576 889 |
| Commissions and other fee income | 23 | 28 378 248 | 29 446 265 | 22 022 512 |
| **Total Income** | | **43 569 087** | **44 637 104** | **30 599 401** |
| **EXPENDITURE** | | | | |
| Administrative costs | | (10 989 631) | (10 789 288) | (10 477 863) |
| Depreciation | | (2 403 127) | (2 403 127) | (2 477 009) |
| Employee benefits costs | | (9 749 640) | (9 749 640) | (9 209 017) |
| Total expenditure | | (23 142 398) | (22 942 055) | (22 163 889) |
| Profit before tax and net impartment losses | 24 | 20 426 689 | 21 695 049 | 8 435 512 |
| Impairment losses | 8 | (336 006) | (336 006) | (482 634) |
| Profit before tax | | 20 090 683 | 21 359 043 | 7 952 878 |
| Taxation | 25 | (6 101 904) | (6 403 384) | (2 759 633) |
| **PROFIT FOR THE YEAR** | | **13 988 779** | **14 955 659** | **5 193 245** |
| Other comprehensive income | | | | |
| Revaluation surplus | 13 | 176 699 | - | - |
| Deferred tax | | 202 222 | - | - |
| Total other comprehensive income net | | 378 921 | - | - |
| **Total comprehensive income for the year** | | **14 367 700** | **14 955 659** | **5 193 245** |
| Basic earnings per share (tambala) as restated | 26 | 203 | 217 | 1 122 |
| Basic earnings per share (tambala) before restatement | 26 | 105 | 119 | 1 696 |

# 3 Statements of Changes in Equity

## For the year ended 31 December 2020

| | Share capital | Share premium | Capital reserve | Preference shares | Loan loss reserve | Revaluation reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 |
| **Group** | | | | | | | | |
| **31 December 2020** | | | | | | | | |
| At the beginning of the year as restated | 462 706 | 7 450 660 | 2 716 230 | 3 111 000 | 495 078 | - | 1 706 520 | 15 942 194 |
| Issued fully paid up shares to existing shareholders | 6 037 294 | (6 037 294) | - | - | - | - | - | - |
| Pre-acquisition profits- MSB Properties Ltd | - | - | - | - | - | - | 169 237 | 169 237 |
| New subscriptions | 401 031 | 3 496 699 | - | (3 111 000) | - | - | - | 786 730 |
| Transfer from retained earnings | - | - | - | - | 25 333 | - | (25 333) | - |
| Deferred tax | - | - | - | - | - | 202 222 | - | 202 222 |
| Revaluation reserve | - | - | - | - | - | 176 699 | - | 176 699 |
| Profit for the year | - | - | - | - | - | - | 13 988 779 | 13 988 779 |
| Dividend paid | - | - | - | - | - | - | (4 300 000) | (4 300 000) |
| **At the end of the year** | **6 901 031** | **4 910 065** | **2 716 230** | **-** | **520 411** | **378 921** | **11 539 203** | **26 965 861** |
| **Bank** | | | | | | | | |
| **31 December 2020** | | | | | | | | |
| At the beginning of the year as restated | 462 706 | 7 450 660 | 2 716 230 | 3 111 000 | 495 078 | - | 1 706 520 | 15 942 194 |
| Issued fully paid up shares to existing shareholders | 6 037 294 | (6 037 294) | - | - | - | - | - | - |
| New subscriptions | 401 031 | 3 496 699 | - | (3 111 000) | - | - | - | 786 730 |
| Transfer from retained earnings | - | - | - | - | 25 333 | - | (25 333) | - |
| Profit for the year | - | - | - | - | - | - | 14 955 659 | 14 955 659 |
| Dividend paid | - | - | - | - | - | - | (4 000 000) | (4 000 000) |
| **At the end of the year** | **6 901 031** | **4 910 065** | **2 716 230** | **-** | **520 411** | **-** | **12 636 846** | **27 684 583** |

| | Share capital | Share premium | Capital reserve | Preference shares | Loan loss reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| **Bank** | | | | | | | |
| **Restated** | | | | | | | |
| **31 December 2019** | | | | | | | |
| At the beginning of the year as previously reported | 462 706 | 7 450 660 | 2 716 230 | 3 111 000 | 290 733 | 1 854 445 | 15 885 774 |
| Restatement on the profit for the year ended 31 December 2018 | - | - | - | - | - | (4 078 162) | (4 078 162) |
| At the beginning of the year as restated | 462 706 | 7 450 660 | 2 716 230 | 3 111 000 | 290 733 | (2 223 717) | 11 807 612 |
| Transfer from retained earnings | - | - | - | - | 204 345 | (204 345) | - |
| IFRS 16 transitional adjustment | - | - | - | - | - | (26 662) | (26 662) |

| | Share capital | Share premium | Capital reserve | Preference shares | Loan loss reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| Deferred tax on transitional adjustment | - | - | - | - | - | 7 999 | 7 999 |
| Profit for the year as restated | - | - | - | - | - | 5 193 245 | 5 193 245 |
| Dividend paid | - | - | - | - | - | (1 040 000) | (1 040 000) |
| **At end of the year as restated** | **462 706** | **7 450 660** | **2 716 230** | **3 111 000** | **495 078** | **1 706 520** | **15 942 194** |

| | 2020 | 2019 |
|---|---|---|
| | K'000 | K'000 |
| **Analysis of share capital** | | |
| **Authorised** | | |
| 6,901,031,250 (2019: 500,000,000) Ordinary shares of K1 each | 6 901 031 | 500 000 |
| **Issued and fully paid** | | |
| 6 901 031 250 (2019: 462 706 000) Ordinary shares of K1 each | 6 901 031 | 462 706 |

## Share capital and share premium

Additional share capital was issued in July 2020 before listing the Bank on the Malawi Stock Exchange. The new shares were in part offer for sale and offer for subscription on the other part. The total amount issued as additional share capital was K6.4 billion, including share premium of K6.1 billion.

## Capital reserve

Included in capital reserve is a transfer of share capital and share premium of MSB Properties Limited on acquisition of MSB Properties Limited and FDH Bank Plc.

## Preference share capital

The preference shares of a total value of K3,111,000,000 which were issued on 30 June 2017 were converted to ordinary shares when the Bank listed on the Malawi Stock Exchange on 3 August 2020.

## Group opening balances

The opening balances for the Group are the opening balances for the Bank since there was no Group in 2019.

## Revaluation reserves

The revaluation reserves relate to surplus arising from valuation of land and buildings in accordance with accounting policy in note 3.7 to the financial statements. The reserves are not available for distribution in terms of the Malawi Companies Act.

# 4 Statements of Cashflows

## For the year ended 31 December 2020

| | Notes | 2020 K'000 Group | 2020 K'000 Bank | 2019 K'000 Restated Bank |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Profit before tax | | 20 090 683 | 21 359 043 | 7 952 878 |
| Adjustments for: | | | | |
| Depreciation of property plant and equipment | 13 | 1 693 641 | 1 693 641 | 1 807 479 |
| Impairment losses on loans and advances | 8 | 1 018 675 | 1 018 675 | 1 366 869 |
| Depreciation of right of use assets | 3.21 | 1 561 109 | 1 561 109 | 1 484 031 |
| Amortisation of intangible assets | 14 | 709 486 | 709 486 | 669 530 |
| Dividend received | | - | (300 000) | - |
| Loss/(Profit) on disposal of equipment | | 42 237 | (48 763) | (14 162) |
| Interest payable on shareholder's loan | 15 | 302 736 | 302 736 | 375 735 |
| Interest payable on long term loan | 16 | 563 975 | 563 975 | 408 938 |
| Interest on lease liabilities | 3.21 | 334 310 | 334 310 | 357 142 |
| Operating cash flows before movements in working capital | | 26 316 852 | 27 194 212 | 14 408 440 |
| Movement in other receivables and prepayments | | 7 581 630 | 8 183 585 | (17 059 865) |
| Movement in loans and advances | | (23 523 933) | (23 523 933) | (17 491 423) |
| Movement in payables and accruals | | (2 193 740) | (2 635 673) | (4 967 921) |
| Movement in amount due from related parties | | - | - | 791 525 |
| Movement in liabilities to customers | | 21 803 258 | 21 894 433 | 24 570 566 |
| Movement in liabilities to financial institutions | | 21 238 192 | 21 238 192 | 5 796 999 |
| Movement in investment in unlisted & listed companies | | - | - | (5 000) |
| Movement in amount due to related parties | | - | - | (3 444) |
| Cash generated from operating activities | | 51 222 259 | 52 350 816 | 6 039 877 |
| Interest paid on lease liabilities | 3.20 | (334 310) | (334 310) | (357 142) |
| Interest paid on shareholders loan | 15 | (302 736) | (302 736) | (375 735) |
| Interest paid on long term loan | 16 | (563 975) | (563 975) | (284 012) |
| Taxation paid claimed | | (4 141 104) | (4 156 901) | 532 529 |
| Net cash generated from operating activities | | 45 880 134 | 46 992 894 | 5 555 517 |
| **Cash flows from investing activities** | | | | |
| Proceeds from disposal of equipment | | 358 224 | 88 224 | 28 429 |
| Dividend income | | - | 300 000 | - |
| Movement in treasury bills investments | | (29 724 266) | (29 287 978) | (4 543) |
| Purchase of intangible assets | | (1 796 454) | (1 796 454) | (1 009 686) |
| Purchase of plant and equipment | 13 | (7 491 402) | (1 696 801) | (2 367 327) |
| Increase in right -of - use assets | 3.21 | (1 656 068) | (1 656 068) | (3 176 411) |
| Proceeds from elimination of right of use assets | | 924 863 | - | - |
| Investment in subsidiary | | - | (6 920 233) | - |
| Net cash used in investing activities | | (39 385 103) | (40 969 310) | (6 529 538) |
| **Cash flows from financing activities** | | | | |
| Proceeds from issuance of new shares capital | | 6 438 325 | 6 438 325 | - |
| Decrease in share premium on sale of shareholding | | (2 540 595) | (2 540 595) | - |
| Conversion of Preference shares | | (3 111 000) | (3 111 000) | - |
| Dividend paid | | (4 300 000) | (4 000 000) | (1 040 000) |

| | Notes | 2020 | 2020 | 2019 |
|---|---|---|---|---|
| | | K'000 | K'000 | K'000 |
| | | | | Restated |
| | | Group | Bank | Bank |
| Repayment of shareholder's principal loan | 15 | (417 575) | (417 575) | (122 601) |
| Proceeds from long term loan | 16 | 2 992 825 | 2 992 825 | 181 375 |
| Repayment of long term loan | 16 | (1 021 908) | (1 021 908) | - |
| Increase in lease liabilities | | 94 959 | 94 959 | 1 700 379 |
| Net (decrease)/increase in cash generated from financing activities | | (1 864 969) | (1 564 969) | 719 153 |
| **Net increase/(decrease) in cash and cash equivalents** | | **4 630 062** | **4 458 615** | **(254 868)** |
| **Cash and cash equivalents at the beginning of the year-MSB Properties Ltd** | | **5 252** | **-** | **-** |
| **Cash and cash equivalents at beginning of the year-the Bank** | | **63 999 706** | **63 999 706** | **64 254 574** |
| **Cash and cash equivalents at end of the year** | | **68 635 020** | **68 458 321** | **63 999 706** |
| Cash and cash equivalents comprise: | | | | |
| Cash and funds with the Reserve Bank of Malawi | | 12 319 745 | 12 319 745 | 7 062 293 |
| Malawi Government Treasury bills (maturing within 3 months) (note 6) | | 21 945 097 | 21 768 398 | 25 186 752 |
| Effect of foreign exchange rate changes- Placements | | (2 061) | (2 061) | 30 025 |
| Placements with other banks (maturing within 3 months) (Note 29c) | | 34 372 239 | 34 372 239 | 31 720 636 |
| | | **68 635 020** | **68 458 321** | **63 999 706** |

# 5 Notes to the consolidated and separate financial statements

### For the year ended 31 December 2020

## 1. GENERAL INFORMATION

The Group is engaged in the business of commercial banking whilst the subsidiary is engaged in the business of property management. The Group and its subsidiary are incorporated in Malawi and are registered under the Companies Act. The Group is also registered under the Banking Act.

The Group's registered office and principal place of business is Upper Ground Floor, Umoyo House, 8 Victoria Avenue North, P.O. Box 512, Blantyre, Malawi. The Group (FDH BANK PLC) is owned by FDH Financial Holdings Limited, an investment holding company registered under the Companies Act (74.05%); The General Public (20%); Government of Malawi (4.75%) and Malawi Savings Bank (MSB) ESOP (1.2%).

### 1.2 Impact of restatements on 2018 and 2019 signed financial statements

There was an error in prior years where revenue from commissions was recognised at a point in time instead of over the period to maturity of the underlying securities. The performance obligations applying overtime became evident in the current year upon early termination of the principals contracts and drawing of a new contract arrangement.

This has resulted in commission recognised in 2018 and 2019 to be spread over the period to maturity of the underlying securities.

The balances and transactions that have been affected by the restatement are the commission income, deferred tax assets and income tax payable, the resulting profit after tax, earnings per share, capital ratios, other receivables and retained earnings as noted below:

| | As previously reported | Adjustments | As restated |
|---|---|---|---|
| | K'000 | K'000 | K'000 |
| **Bank** | | | |
| **31 December 2018** | | | |
| Commission and fee income | 21 019 785 | (5 825 946 ) | 15 193 839 |
| Income tax charge | (2 191 098) | 1 747 784 | (443 314) |
| Profit for the year | 5 965 442 | (4 078 162) | 1 887 280 |
| Retained earnings | 1 854 445 | (4 078 162) | (2 223 717) |
| Deferred tax assets | 2 009 226 | 1 747 784 | 3 757 010 |
| Other receivables | 12 562 833 | (5 825 946) | 6 736 887 |
| | | | |
| **Bank** | | | |
| **31 December 2019** | | | |
| Commission and fee income | 25 812 682 | (3 790 170) | 22 022 512 |
| Income tax charge | (3 896 684) | 1 137 051 | (2 759 633) |
| Profit for the year | 7 846 364 | (2 653 119) | 5 193 245 |
| Retained earnings | 8 437 801 | (6 731 281) | 1 706 520 |
| Current tax assets | - | 1 334 733 | 1 334 733 |
| Income tax payable | 1 550 102 | (1 550 102) | - |
| Other receivables | 33 412 868 | (9 616 116) | 23 796 752 |

Impact on statements of cashflows

| | Before restatement |
|---|---|
| | Bank 2019 |
| | K'000 |
| Profit before tax | 11 743 048 |
| Other receivables | (20 850 035) |

| | After restatement |
|---|---|
| | Bank 2019 |
| | K'000 |
| Profit before tax | 7 952 878 |
| Other receivables | (17 059 865) |
| | |
| Impact (PBT) | 3 790 170 |
| Impact (Other receivables) | (3 790 170) |
| **Net impact** | - |

Effects of restatement on capital ratios

| | 2018 | 2018 | 2019 | 2019 |
|---|---|---|---|---|
| Capital ratio | Before restatement | After restatement | Before restatement | After restatement |
| **Tier II** | 16.14% | 11.37% | 19.59% | 14.57% |
| **Tier I** | 12.72% | 7.95% | 16.86% | 11.83% |

Effect on basic earnings per share

| | Bank 2019 K'000 | Bank 2018 K'000 |
|---|---|---|
| *Profit* | | |
| Profit for the purposes of basic/diluted | | |
| Earnings per share as restated | 5 193 245 | 1 887 280 |
| Profit before restatement | 7 846 364 | 5 965 442 |
| | **Nos '000** | **Nos '000** |
| *Number of shares* | | |
| Weighted average number of ordinary shares for the purposes of basic/diluted earnings per share | 462 706 | 462 706 |
| Earnings per share (tambala) as restated | 1 122 | 408 |
| Earnings per share (tambala) before restatement | 1 696 | 1 289 |

Further details of the restatements are disclosed in note 23 of these financial statements.

## 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 1 January 2020.

The adoption of these new and revised Standards and Interpretations did not have a significant impact on the consolidated and separate 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 issued and effective for annual periods beginning on or after 1 January 2021 and have not been applied in preparing these consolidated and separate 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<br>IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.<br>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.<br>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 reporting periods beginning on or after 1 January 2023** | Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)<br><br>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)<br><br>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)<br><br>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)<br><br>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). |

| Effective date | Standard, Amendment or Interpretation |
|---|---|
| **Annual reporting periods beginning on or after 1 January 2022**<br>• | Annual Improvements to IFRS Standards 2018–2020<br><br>Makes amendments to the following standards:<br><br>• **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.<br>• **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.<br>• **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.<br>• **IAS 41** – The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. |

The Directors anticipate that these Standards and Interpretations in future periods will have no significant impact on the consolidated and separate financial statements of the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Statement of compliance

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

### 3.2 Basis of preparation

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

### 3.3 Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the consolidated and separate financial statements.

### 3.4 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries) made up to 31 December each year. Control is achieved when the company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affects its returns.

The company reassesses 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 listed above.

When the company has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The company considers all relevant facts and circumstances in assessing whether or not the company's voting rights in an investee are sufficient to give it power, including:

- the size of the company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the company, other vote holders or other parties;

- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the company obtains control over the subsidiary and ceases when the company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date the company gains control until the date when the company ceases to control the subsidiary. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured 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 is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. 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.

Profit or loss and each component of other comprehensive income are attributed to the owners of the company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non- controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the company.

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as required/permitted by applicable IFRS Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

### 3.5 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest 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 the liabilities assumed are recognised at their fair value at the acquisition date, 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 and IAS 19 respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree 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 at the acquisition date (see below); and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 are measured in accordance with that Standard.

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

acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.
When the consideration transferred by the Group in a business combination includes 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 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 remeasured at subsequent reporting dates and its subsequent
settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held interests (including joint operations) in the acquired entity are remeasured 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, where such treatment would be appropriate if that interest were disposed of.

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 as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Investments in associates and joint ventures
An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control

The results and assets and liabilities of associates or joint ventures are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5.

Under the equity method, an investment in an associate or a joint venture is recognised initially in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture. When the Group retains an interest in the former associate or a joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate or a joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or a joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the associate or joint venture is disposed of.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

The Group applies IFRS 9, including the impairment requirements, to long-term interests in an associate or joint venture to which the equity method is not applied and which form part of the net investment in the investee.

Furthermore, in applying IFRS 9 to long-term interests, the Group does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a Group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenue and expenses relating to its interest in a joint operation in accordance with the IFRS Standards applicable to the particular assets, liabilities, revenue and expenses.

When a Group entity transacts with a joint operation in which a Group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a Group entity transacts with a joint operation in which a Group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

The principal accounting policies adopted are set out below.

## 3.6 Foreign Currencies

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

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

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

## 3.7 Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

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

Freehold land is not depreciated.

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

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

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

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

| | |
|---|---|
| **Buildings** | 4 per cent per annum |
| **Plant and machinery** | 10 per cent – 25 per cent per annum |
| **Fixtures and fittings** | 10 per cent – 20 per cent per annum |
| **Computer Equipment** | 20 per cent per annum |
| **Motor Vehicles** | 20 per cent per annum |

## 3.8 Intangible assets acquired separately

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

**Internally-generated intangible assets – research and development expenditure**
Expenditure on research activities is recognised as an expense in the period in which it is incurred.
An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following conditions have been demonstrated:

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

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

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

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

## 3.9 Impairment of non-financial assets excluding goodwill

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

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

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

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

## 3.10 Leases

### (a) The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). 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 rate cannot be readily determined, the Group uses its incremental borrowing rate.

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

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

The lease liability is presented as a separate line in the consolidated statement of financial position.
The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

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

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

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

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

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

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the right-of-use 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 as a separate line in 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 the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Other expenses" in profit or loss (see note 31).

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 a contract that contains 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.

(b) The Group as lessor
The Group enters into lease agreements as a lessor with respect to some of its investment properties.

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.

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

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

Amounts due from lessees under finance leases are recognised as receivables at the amount of the 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.

Subsequent to initial recognition, the Group regularly reviews the estimated unguaranteed residual value and applies the impairment requirements of IFRS 9, recognising an allowance for expected credit losses on the lease receivables.

Finance lease income is calculated with reference to the gross carrying amount of the lease receivables, except for credit-impaired financial assets for which interest income is calculated with reference to their amortised cost (i.e., after a deduction of the loss allowance).

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

## 3.11 Financial instruments

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

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

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

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

*Classification of financial assets*
Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):
- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Despite the foregoing, the Bank may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Bank may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (iii) below); and
- the Bank may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (iv) below). and receivables are initially measured at fair value and subsequently at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

**(i) Amortised cost and effective interest method**

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

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

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

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

For purchased or originated credit-impaired financial assets, the Bank recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss and is included in the "Interest income" line item (note 22).

**(ii) Debt instruments classified as at FVTOCI**

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

**(iii) Equity instruments designated as at FVTOCI**

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

A financial asset is held for trading if:

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

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

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

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

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

**(iv) Financial assets at FVTPL**

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

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

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

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

*Foreign exchange gains and losses*

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

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

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

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

For all other financial instruments, the Bank recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the 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 Bank compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Bank's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Bank's core operations.

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

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

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

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

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

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

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

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

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

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Bank, in full (without taking into account any collateral held by the Bank).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### 3.11.2 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 Bank are recognised at the proceeds received, net of direct issue costs.
Repurchase of the Bank's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

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

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

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

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

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

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

*Financial liabilities at FVTPL*
Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

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

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

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

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

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

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

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

*Financial liabilities measured subsequently at amortised cost*
Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

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

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

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

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

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

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

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

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

**3.11.3 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.

## 3.12 Cash and cash equivalents

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

## 3.13 Other receivables

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

## 3.14 Provisions

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

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

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

## 3.15 Assets classified as held for sale

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

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

## 3.16 Revenue recognition

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

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

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

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

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

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

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

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

## 3.17 Taxation

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

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

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

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

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

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

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

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

## 3.18 Retirement benefit costs

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

## 3.19 Earnings per share

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

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

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

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

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

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

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

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

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

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

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

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

**Impairment and methodology**

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

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

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

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

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

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

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

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

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

With the exception overdrafts, the maximum period for which the credit losses are determined is the contractual life of a

financial instrument unless the Bank has the legal right to call it earlier.
Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method are summarised below:

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

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

- Financial guarantee contracts - The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the four scenarios. The ECLs related to financial guarantee contracts are recognised within Provisions.
- Overdrafts and other revolving facilities - The Bank's product offering includes a variety of corporate and retail overdraft facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but instead calculates ECL over a period that reflects the Bank's expectations of the customer behaviour, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities.

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

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

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

- GDP growth;

- Unemployment rate;
- Reserve Bank policy rate;
- Inflation rate; and
- Exchange rate.

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

The table below summarizes the principal macroeconomic indicators included in the economic scenarios used for the year ended the 31st December 2020, including the projections for the years 2021 to 2024. It is worth noting that the forecast macroeconomic factors relate to Malawi which is the country where the Bank operates. The macroeconomic factors of the country have a material impact in the determination of the expected credit losses (ECLs) of the Bank.

| | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| **GDP growth** | | | | | |
| Base scenario | 1.9 | 4.5 | 5.3 | 5.5 | 5.7 |
| Range of upside scenarios | 2.0 | 6.1 | 6.3 | 6.5 | 6.7 |
| Range of downside scenarios | -3.8 | 4.1 | 4.3 | 4.5 | 4.7 |
| **Unemployment rates** | | | | | |
| Base scenario | 5.5 | 6.0 | 6.0 | 6.0 | 6.0 |
| Range of upside scenarios | 5.0 | 4.5 | 4.5 | 4.5 | 4.5 |
| Range of downside scenarios | 6.0 | 7.5 | 7.5 | 7.5 | 7.5 |
| **Benchmark interest rates (RBM Policy Rate)** | | | | | |
| Base scenario | 13.5 | 11.0 | 9.0 | 9.0 | 9.0 |
| Range of upside scenarios | 11.0 | 9.0 | 7.0 | 7.0 | 7.0 |
| Range of downside scenarios | 15.5 | 13.0 | 11.0 | 11.0 | 11.0 |
| **USD: Kwacha Exchange Rate** | | | | | |
| Base scenario | 750 | 800 | 800 | 820 | 900 |
| Range of upside scenarios | 710 | 750 | 780 | 800 | 820 |
| Range of downside scenarios | 790 | 850 | 850 | 870 | 950 |

Note: GDP, Unemployment, and interest rates are in percentages terms. The macroeconomic indicator data above were obtained mainly from three different sources (the base case was obtained from the Ministry of Finance and Economic Planning. The upside case was obtained from Malawi Development Growth Strategy paper, while the downside case was obtained from the Economic Intelligence Unit).

FDH Bank performs sensitivity analyses on how ECL on the main portfolios change given that the key assumptions for calculating ECL change. The Bank uses an adjustment factor of 25% variation from a base case in order to consider the upside and the downside risk factors in the estimation of the ECL. The table below provides the summary of the total ECL per portfolio as at 31 December 2020 given the assumptions for measuring ECL remain as expected (amount as presented in the statement of financial position), as well as also that each of the key assumptions changes by a plus or a minus 25% risk factor. The changes are applied in isolation for illustrative purposes, and are applied to each probability weighted scenarios to estimate expected credit losses. In reality, the sensitivity of the exposure may vary across different economic scenarios and there are interdependencies between the various economic inputs. Nonetheless, the model assumptions and scenarios provide a fair estimate of the movements of the ECL.

| Expected Credit Losses Scenario Analyses - 31 December 2020 | | | | |
|---|---|---|---|---|
| **[Total Portfolio Model]** | | | | |
| | **Scenario** | **Average PD** | **Average LGD** | **ECL Cum (K)** |
| **GDP growth** | 25% | 0.3768 | 0.3280 | 1 121 104 581 |
| | (25%) | 0.3767 | 0.3280 | 1 136 804 240 |
| **Unemployment rates** | 25% | 0.3767 | 0.3280 | 1 128 685 762 |
| | (25%) | 0.3769 | 0.3280 | 1 132 111 870 |
| **Benchmark interest rates (Policy Rate)** | 25% | 0.3767 | 0.3280 | 1 128 937 165 |
| | (25%) | 0.3767 | 0.3280 | 1 128 937 165 |
| **USD: Kwacha Exchange Rate** | 25% | 0.3767 | 0.3280 | 1 128 937 165 |
| | (25%) | 0.3767 | 0.3280 | 1 128 937 165 |
| **Actual Case** | | | | **1 128 937 165** |

**Measurement of ECL**
The key inputs used for measuring ECL are:

- **Probability of default (PD)**; this is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.
- **Loss given default (LGD)**; an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral.
- **Exposure at default (EAD)**: an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

**Estimation / calculation of ECL, PDs, LGDs and EADs**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

For Personal and Business Banking these are:

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

For Corporate and Transaction Banking exposures:

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

**Individual and collective assessment**

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

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

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

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

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

**ECL computation use the following factors when estimating future changes**

GDP Growth
Gross Domestic Product (GDP) grew by 1.9% in 2020 compared to 4.5% in 2019 mainly due to the negative effects of the COVID-19 pandemic in 2020. It is expected to grow by 4.5% in 2021 which is an improvement from 2020. The reduction in the GDP Growth rate increased credit risk in the year under review. The Bank expects to have improvements in 2021 owing to the increase in the forecast GDP Growth rates. Hence increased expected loss for 2020.

Unemployment Rate
The unemployment rate increased to 5.67% in 2020 from 5.5% in 2019. This had a positive impact on employer supported loans in 2020 but the rate is expected to increase to 6.0% in 2021. This is expected to slightly increase default rates mainly for employer supported loans hence increasing the ECL position.

RBM Policy Rate
The policy rate remained stable at 13.5% in 2020. This was also the same rate in 2019. This position has provided a positive impact on the ECLs for 2020. The projections for 2021 are that the policy rate will reduce further with a 250-basis point reduction to 11.0%.  The reduction will improve the ECL estimates.

USD: Kwacha Exchange Rate
The exchange rate (Kwacha to US Dollar Rate) has been stable for the past 2 years, closing at MK767.45 in 2020 up by 4.74% from MK732.75 at the end of 2019. The changes that may happen in 2021 depend on the outcomes of the agricultural (Tobacco) output and Tobacco sales which depend on the rainfall patterns and are therefore highly susceptible to change. Nonetheless, based on the historical trends, the Bank expects a moderate change where the exchange rates will increase by 4.24% to increase to MK800.00 in 2021, and this may have a moderate impact on the increase in ECLs.

**Probability of Default**

The PD is affected by the credit history of the account as well as the forward-looking macroeconomic factors above. The COVID-19 impact has also been included in the forward-looking information, this will impact mostly the GDP growth, unemployment rate and the exchange rate. The impact of COVID-19 on the economy, has resulted to increased business stress; in the short term most of the big businesses have survived but the challenge has been to the small businesses which have struggled, these are the ones that are having difficulties to meet their financial obligations. In addition to that, some sectors have been heavily affected like Travel, Tourism and Accommodation & Transportation. However, the Bank does not have much exposure in these sectors.

The Bank expects the ECLs to increase due to the impact of COVID-19 on the economy, However, stage 3 facilities bear 100% PD since the account has defaulted. With NPL ratio at 1.03% as at 31 December 2020 compared to 0.80% as at 31 December 2019, the ECL is increased minimally since the above macroeconomic factors were favorable.

**Loss Given Default (LGD)**

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

**Type of collateral**

| Assets | Type of Collateral |
|---|---|
| Derivative Assets | |
| Loans & Advances to banks | Government Securities |
| Mortgage lending | Property |
| Personal Lending | Property, Cash & African Guarantee Fund (AGF) |
| Corporate lending | Property, Cash & Guarantees |
| Investment securities | |
| Lease receivables | |
| Other | |

Qualitative Factors

| Factor | Item |
|---|---|
| **Economy, Wider environment, Industry & Competition** | Position within industry rapidly eroding<br>Industry may be mature and in long term decline, and / or in a cyclical downturn<br><br>Catastrophic events such as flooding or drought in an area may negatively affect performance of assets in that particular area.<br><br>Falling gross domestic production, rising inflation and interest rates, movements in rates of unemployment, and balance of payments.<br><br>Government policy toward certain industries |
| **Ownership/ Management** | Concerns over the ability of management to effectively manage existing operations, and/or the business expansion plans.<br><br>Owners show lack of commitment to support business operations.<br><br>Environmental Risk: Causing pollution or destruction of the natural environment (land, water, air, natural habitats, animal and plant species) either through accidents or deliberate actions.<br><br>Social Risk: Customer not meeting acceptable standards for employment and business ethics within his business or by his actions. |

| Factor | Item |
|---|---|
| **Balance Sheet** | Delay in submission, stale financials and / or continued weakness and/or deterioration.<br><br>Operating results are deteriorating and/or working capital cycle deteriorating.<br><br>Highly geared relative to peers / industry and on upward trend.<br><br>Rapid acquisition of assets without proper financial structuring<br><br>Declining asset cover for short term debt. |
| **Cash Flow/Repayment Source** | Liquidity strained and there is a need for additional borrowing or capital now or in the near future. The working capital needs ratio of greater than 50%<br><br>Cash flow is unlikely to cover both mandatory debt service (principal plus interest) and other business needs (e.g., Capex).<br><br>Ability to reduce working capital bank lines is limited or non-existent.<br><br>The client diverted funds to other usages other than purpose specified in loan application. |
| **Performance/T24 Reports** | Interest or principal 30 days overdue.<br>Temporary overdraft 30 days or more which has not been regularised via formal limit and security documentation. |
| **General economic and/or market conditions** | 1. existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligations, such as an actual or expected increase in interest rates or an actual or expected significant increase in unemployment rates.<br>2. other market information related to the borrower, such as changes in the price of a borrower's debt and equity instruments.<br>3. an actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations, such as a decline in the demand for the borrower's sales product because of a shift customer tastes.<br>4. significant increases in credit risk on other financial instruments of the same borrower. |

Additional qualitative factors that are considered include the following:

| Qualitative Factor | Description |
|---|---|
| **Operating performance of the borrower** | An actual or expected significant change in the operating results of the borrower. Examples include actual or expected declining revenues or margins, increasing operating risks, working capital deficiencies, decreasing asset quality, increased balance sheet leverage, liquidity, management problems or changes in the scope of business or organisational structure (such as the discontinuance of a segment of the business) that results in a significant change in the borrower's ability to meet its debt obligations. |
| **Breaches of covenant** | Expected changes in the loan documentation including an expected breach of contract that may lead to covenant waivers or amendments, interest payment holidays, interest rate step-ups, requiring additional collateral or guarantees, or other changes to the contractual framework of the instrument. |
| **Changes to contractual terms** | Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated or issued at the reporting date (such as more stringent covenants, increased amounts of collateral or guarantees, or higher income coverage) because of changes in the credit risk of the financial instrument since initial recognition. |
| **Cash flow or liquidity issues** | 1. Significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Bank (for example, an increase in the expected number or extent of delayed contractual payments)<br>2. Liquidity strained and there is a need for additional borrowing or capital now or in the near future. The working capital needs ratio of greater than 50%.<br>3. Cash flow is unlikely to cover both mandatory debt service (principal plus interest) and other business needs (e.g. Capex).<br>4. Ability to reduce working capital bank lines is limited or non-existent.<br>5. The client diverted funds to other usages other than purpose specified in loan application.. |
| **Credit Rating** | 1. An actual or expected internal credit rating downgrade for the borrower or decrease in behavioural scoring used to assess credit risk internally. Internal credit ratings and internal behavioural scoring are more reliable when they are mapped to external ratings or supported by default studies.<br>2. An actual or expected significant change in the financial instrument's external credit rating. |
| **Payment delays and past due information** | Past due information, including the rebuttable presumption - Interest or principal 30 days overdue. |

| Qualitative Factor | Description |
|---|---|
| **Changes in Collateral Value/Quality of Parent Guarantee** | 1. Significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements, which are expected to reduce the borrower's economic incentive to make scheduled contractual payments or to otherwise have an effect on the probability of a default occurring. For example, if the value of collateral declines because house prices decline, borrowers in some jurisdictions have a greater incentive to default on their mortgages.<br>2. significant change in the quality of the guarantee provided by a shareholder (or an individual's parents) if the shareholder (or parents) have an incentive and financial ability to prevent default by capital or cash infusion. |

### Low risk assets

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

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

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

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

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

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

| Loss allowance – low risk assets | Government securities | Interbank placements | Staff loans | Off-balance assets | Intercompany receivables | Total |
|---|---|---|---|---|---|---|
| | **K'000** | **K'000** | **K'000** | **K'000** | **K'000** | **K'000** |
| Loss allowance as at 1 January 2020 | 4 654 | 3 155 | 5 856 | 3 249 | - | 16 914 |
| Changes in the loss allowance | - | - | - | - | - | - |
| Transfer to stage 1 | - | - | - | - | - | - |
| Transfer to stage 2 | - | - | - | - | - | - |
| Transfer to stage 3 | - | - | - | - | - | - |
| Changes due to modifications that did not result in derecognition | - | - | - | - | - | - |
| Other movements | 2 629 | 282 | 6 828 | 1 735 | | 11 474 |
| **Loss allowance as at 31 December 2020** | **7 283** | **3 437** | **12 684** | **4 984** | **-** | **28 388** |

Movement in low risk assets balances is as follows:

| Low credit risk assets | Government Securities | Placements with other banks | Staff loans | Off-Balance Assets | Intercompany balance | Total |
|---|---|---|---|---|---|---|
| | **K'000** | **K'000** | **K'000** | **K'000** | **K'000** | **K'000** |
| **Gross Carrying Amount as at 1 January 2020** | **46 955 149** | **31 750 661** | **1 139 273** | **32 499 268** | **-** | **112 344 351** |
| Changes in the gross carrying amount | 25 876 907 | 2 622 954 | 1 427 912 | 17 335 890 | - | 47 263 663 |
| 1– Transfer to stage 1 | | - | - | - | - | - |

| Low credit risk assets | Government Securities | Placements with other banks | Staff loans | Off-Balance Assets | Intercompany balance | Total |
|---|---|---|---|---|---|---|
| 2 – Transfer to stage | - | - | - | - | - | - |
| 3 – Transfer to stage | - | - | - | - | - | - |
| **Gross Carrying Amount at 31 December 2020** | **72 832 056** | **34 373 615** | **2 567 185** | **49 835 158** | **-** | **159 608 014** |
| Loss allowance as at 31 December 2019 | (7 283) | (3 437) | (12 684) | (4 984) | - | (28 388) |
| Transfer to loan and advances | - | - | - | 4 984 | - | 4 984 |
| **Carrying Amount at 31 December 2020** | **72 824 773** | **34 370 178** | **2 554 501** | **49 835 158** | **-** | **159 584 610** |

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

Government securities loss allowance

| Government securities at amortised cost | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| | **K'000** | **K'000** | **K'000** | **K'000** | **K'000** |
| Loss allowance as at 1 January 2020 | 4 654 | - | - | - | 4 654 |
| Changes in the loss allowance | - | - | - | - | - |
| Transfer to stage 1 | - | - | - | - | - |
| Transfer to stage 2 | - | | | - | - |
| Transfer to stage 3 | - | | | - | - |
| Increases due to change in credit risk | - | - | - | - | - |
| Write-offs | - | - | - | - | - |
| Changes due to modifications that did not result in derecognition | - | - | - | - | - |
| Other movements | 2 629 | - | - | - | 2 629 |
| **Loss allowance as at 31 December 2020** | **7 283** | **-** | **-** | **-** | **7 283** |

Interbank placements loss allowance

| Interbank placements at amortised cost | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| | **K'000** | **K'000** | **K'000** | **K'000** | **K'000** |
| Loss allowance as at 1 January 2020 | 3 155 | - | - | - | 3 155 |
| Changes in the loss allowance | - | - | - | - | - |
| Transfer to stage 1 | - | - | - | - | - |
| Transfer to stage 2 | - | | | - | - |
| Transfer to stage 3 | - | | | - | - |
| Increases due to change in credit risk | - | - | - | - | - |
| Write-offs | - | - | - | - | - |
| Changes due to modifications that did not result in derecognition | - | - | - | - | - |
| Other movements | 282 | - | - | - | 282 |
| **Loss allowance as at 31 December 2020** | **3 437** | **-** | **-** | **-** | **3 437** |

Staff loans loss allowance

| Staff loans at amortised cost | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 | K'000 |
| Loss allowance as at 1 January 2020 | 5 856 | - | - | - | 5 856 |
| Changes in the loss allowance | - | - | - | - | - |
| Transfer to stage 1 | - | - | - | - | - |
| Transfer to stage 2 | - | - | - | - | - |
| Transfer to stage 3 | - | - | - | - | - |
| Increases due to change in credit risk | - | - | - | - | - |
| Write-offs | - | - | - | - | - |
| Changes due to modifications that did not result in derecognition | - | | | | |
| - | - | - | - | | |
| Other movements | 6 828 | - | - | - | 6 828 |
| **Loss allowance as at 31 December 2020** | **12 684** | **-** | **-** | **-** | **12 684** |

Government securities loss allowance

| Off balance sheet assets at amortised cost | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 | K'000 |
| Loss allowance as at 1 January 2020 | 3 249 | - | - | - | 3 249 |
| Changes in the loss allowance | - | - | - | - | - |
| Transfer to stage 1 | - | - | - | - | - |
| Transfer to stage 2 | - | - | - | - | - |
| Transfer to stage 3 | - | | | - | - |
| Increases due to change in credit risk | - | - | - | - | - |
| Write-offs | - | - | - | - | - |
| Changes due to modifications that did not result in derecognition | - | - | - | - | - |
| Other movements | 1 735 | - | - | - | 1 735 |
| **Loss allowance as at 31 December 2020** | **4 984** | **-** | **-** | **-** | **4 984** |

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

| Government Securities at amortised cost | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 | K'000 |
| Gross Carrying Amount as at 1 January 2020 | 46 955 149 | - | - | - | 46 955 149 |
| Changes in the gross carrying amount | 25 876 907 | - | - | - | 25 876 907 |
| Transfer to stage 1 | - | - | - | - | - |
| Transfer to stage 2 | - | - | - | - | - |
| Transfer to stage 3 | - | - | - | - | - |
| Changes due to modifications that did not result in derecognition | - | - | - | - | - |
| **Gross Carrying Amount at 31 December 2020** | **72 832 056** | **-** | **-** | **-** | **72 832 056** |
| Loss allowance as at 31 December 2020 | (7 283) | - | - | - | (7 283) |
| **Carrying Amount at 31 December 2020** | **72 824 773** | **-** | **-** | **-** | **72 824 773** |

Placements with other banks at amortised cost

| Placements with other banks at amortised cost | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 | K'000 |
| Gross Carrying Amount as at 1 January 2020 | 31 750 661 | - | - | - | 31 750 661 |
| Changes in the gross carrying amount | 2 622 954 | - | - | - | 2 622 954 |
| Transfer to stage 1 | - | - | - | - | - |
| Transfer to stage 2 | - | - | - | - | - |
| Transfer to stage 3 | - | - | - | - | - |
| Changes due to modifications that did not result in derecognition | - | - | - | - | - |
| **Gross Carrying Amount at 31 December 2020** | **34 373 615** | **-** | **-** | **-** | **34 373 615** |
| Loss allowance as at 31 December 2020 | (3 437) | - | - | - | (3 437) |
| **Carrying Amount at 31 December 2020** | **34 370 178** | **-** | **-** | **-** | **34 370 178** |

Staff loans at amortised cost (included in note 11)

| Staff loans at amortised cost | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 | K'000 |
| Gross Carrying Amount as at 1 January 2020 | 1 139 273 | - | - | - | 1 139 273 |
| Changes in the gross carrying amount | 1 326 061 | | - | - | 2 622 954 |
| 1 326 061 | - | - | - | - | - |
| Transfer to stage 1 | - | - | - | - | - |
| Transfer to stage 2 | - | - | - | - | - |
| Transfer to stage 3 | - | - | - | - | - |
| Changes due to modifications that did not result in derecognition | - | - | - | - | - |
| **Gross Carrying Amount at 31 December 2020** | **2 465 334** | **-** | **-** | **-** | **2 465 334** |
| Loss allowance as at 31 December 2020 | (12 684) | - | - | - | (12 684) |
| **Carrying Amount at 31 December 2020** | **2 452 650** | **-** | **-** | **-** | **2 452 650** |

Off-Balance Assets at amortised cost (included in note 20)

| Off-Balance Assets at amortised cost | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 | K'000 |
| Gross Carrying Amount as at 1 January 2020 | 32 499 268 | - | - | - | 32 499 268 |
| Changes in the gross carrying amount | 17 335 890 | - | - | - | 17 335 890 |
| Transfer to stage 1 | - | - | - | - | - |
| Transfer to stage 2 | - | - | - | - | - |
| Transfer to stage 3 | - | - | - | - | - |
| Changes due to modifications that did not result in derecognition | - | - | - | - | - |
| Gross Carrying Amount at 31 December 2020 | 49 835 158 | - | - | - | 49 835 158 |
| **Loss allowance as at 31 December 2020** | **(4 984)** | **-** | **-** | **-** | **(4 984)** |
| Transfer to loan and advances | 4 984 | | | | 4 984 |
| **Carrying Amount at 31 December 2020** | **49 835 158** | **-** | **-** | **-** | **49 835 158** |

Movement in allowance for impairment in low-risk assets for 2019 were as follows:

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

Movement in low-risk assets balances is as follows:

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

## Staff loans loss allowance

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

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

## Amounts due from related parties loss allowance

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

Movement in low-risk assets balances is as follows:

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

| Government Securities at amortised cost | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 | K'000 |
| Gross Carrying Amount as at 1 January 2019 | 39 556 675 | - | - | - | 39 556 675 |
| Changes in the gross carrying amount | 7 403 128 | - | - | - | 7 403 128 |
| Transfer to stage 1 | - | - | - | - | - |
| Transfer to stage 2 | - | - | - | - | - |
| Transfer to stage 3 | - | - | - | - | - |
| Changes due to modifications that did not result in derecognition | - | - | - | - | - |
| **Gross Carrying Amount at 31 December 2019** | **46 959 803** | **-** | **-** | **-** | **46 959 803** |
| Loss allowance as at 31 December 2019 | (4 654) | - | - | - | (4 654) |
| **Carrying Amount at 31 December 2019** | **46 955 149** | **-** | **-** | **-** | **46 955 149** |

Placements with other banks at amortised cost

| Placements with other banks at amortised cost | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 | K'000 |
| Gross Carrying Amount as at 1 January 2019 | 26 086 651 | - | - | - | 26 086 651 |
| Changes in the gross carrying amount | 5 667 165 | - | - | - | 5 667 165 |
| Transfer to stage 1 | - | - | - | - | - |
| Transfer to stage 2 | - | - | - | - | - |
| Transfer to stage 3 | - | - | - | - | - |
| Changes due to modifications that did not result in derecognition | - | - | - | - | - |
| **Gross Carrying Amount at 31 December 2019** | **31 753 816** | **-** | **-** | **-** | **31 753 816** |
| Loss allowance as at 31 December 2019 | (3 155) | - | - | - | (3 155) |
| **Carrying Amount at 31 December 2019** | **31 750 661** | **-** | **-** | **-** | **31 750 661** |

Staff loans at amortised cost (included in note 11)

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

## 3.21 Right-of-use assets and lease liabilities

**Right-of-use assets**

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

| | Buildings | Plant | Equipment | Total |
|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 |
| **Group** | | | | |
| **31 December 2020** | | | | |
| **Cost** | | | | |
| At 1 January 2020 | 3 176 411 | - | - | 3 176 411 |
| Additions | 1 656 068 | - | - | 1 656 068 |
| Elimination | (1 900 083) | - | - | (1 900 083) |
| At 31 December | 2 932 396 | - | - | 2 932 396 |
| **Accumulated depreciation** | | | | |
| At 1 January 2020 | 1 484 031 | - | - | 1 484 031 |
| Charge for the year | 1 561 109 | - | - | 1 561 109 |
| Elimination | (975 220) | - | - | (975 220) |
| At 31 December 2020 | 2 069 920 | - | - | 2 069 920 |
| Carrying amount | | | | |
| **As at 31 December 2020** | **862 476** | **-** | **-** | **862 476** |

*The opening balances for the group are for the Bank since there was no group in prior year.*

| | Buildings | Plant | Equipment | Total |
|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 |
| **Bank** | | | | |
| **31 December 2020** | | | | |
| **Right- of-use assets** | | | | |
| **Cost** | | | | |
| At I January 2020 | 3 176 411 | - | - | 3 176 411 |
| Additions | 1 656 068 | - | - | 1 656 068 |
| At 31 December | 4 832 479 | - | - | 4 832 479 |
| **Accumulated depreciation** | | | | |
| At 1 January 2020 | 1 484 031 | - | - | 1 484 031 |
| Charge for the year | 1 561 109 | - | - | 1 561 109 |
| At 31 December 2020 | 3 045 140 | - | - | 3 045 140 |
| **Carrying amount** | | | | |
| **As at 31 December 2020** | **1 787 339** | **-** | **-** | **1 787 339** |

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

**Lease liabilities**

| | 2020 | 2019 |
|---|---|---|
| | K'000 | K'000 |
| Analysed as: | | |
| Non-current | 385 343 | 349 119 |
| Current | 1 428 658 | 1 369 923 |
| | 1 814 001 | 1 719 042 |
| Maturity analysis | | |
| Year 1 | 1 428 658 | 1 369 923 |
| Year 2 | 182 627 | 150 850 |
| Year 3 | 43 815 | 31 448 |
| Year 4 | 83 921 | 85 564 |
| Year 5 | 10 698 | 16 947 |
| Onwards | 64 282 | 64 310 |
| | 1 814 001 | 1 719 042 |

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

| | 2020 |
|---|---|
| | K'000 |
| **Lease liabilities** | |
| Operating lease commitments at 1 January 2020 | 2 163 120 |
| Short-term leases and leases of low value assets | - |
| Effects of discounting the above amounts | (349 119) |
| Present value of the variable lease payments that depend on a rate or index | 1 814 001 |
| Present value of the lease payments due in periods covered by extension options that are included in the lease term and not previously included in operating lease commitments | - |
| Lease liabilities recognised at 31 December 2020 | 1 814 001 |

| | 2019 |
|---|---|
| | K'000 |
| Operating lease commitments at 1 January 2019 | 2 119 007 |
| Short-term leases and leases of low value assets | - |
| Effects of discounting the above amounts | (399 965) |
| Present value of the variable lease payments that depend on a rate or index | 1 719 042 |
| Present value of the lease payments due in periods covered by extension options that are included in the lease term and not previously included in operating lease commitments | - |
| Lease liabilities recognised at 31 December 2019 | 1 719 042 |

**Finance costs**

| | 2020 | 2019 |
|---|---|---|
| | **K'000** | **K'000** |
| Interest expense on lease liabilities | 334 310 | 357 142 |
| **Amounts recognised in profit and loss** | | |
| Depreciation expense on right-of-use assets | 1 561 109 | 1 484 031 |
| Interest expense on lease liabilities | 334 310 | 357 142 |
| Income from subleasing right-of-use assets | - | - |
| **Total lease expense recognised in profit and loss** | **1 895 419** | **1 841 173** |

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

### 4.1 Critical judgements in applying the Bank's accounting policies

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

**4.1.1 Business model assessment**

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

**4.1.2 Significant increase in credit risk**

As explained in note 3, Expected Credit Losses (ECL) are measured as an allowance equal to 12-month ECL for Stage 1 assets, or 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 Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information.

**4.1.3 Establishing groups of assets with similar credit risk characteristics**

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

#### 4.1.4 Models and assumptions used

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

### 4.2 Key sources of estimation uncertainty

#### 4.2.1 Useful lives and residual values of property and equipment

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

#### 4.2.2 Valuation of investment properties

The Group carries its investment properties at open market value. The properties were valued by Knight Frank as at 31 December 2020 for incorporation in the 31 December 2020 consolidated financial statements.

#### 4.2.3 Impairment losses on loans and advances

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

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

Key assumptions used:

a. Cash flows arising from repayment agreement are aggregated over yearly intervals and assumed to arise at the end of the period;
b. Where there is an agreement but no security in place and cash flows in the subsequent years are doubtful, total future estimated cash flows are assumed to be nil;
c. Unsupported guarantees are assumed to result in nil cash flows;
d. No cash flows are assumed to arise where there is no repayment agreement and no security and repayments are erratic or unpredictable; and
e. Cash flows arising from security realisation have been assumed to arise at the end of the calendar year in which they are expected.

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

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

#### 4.2.5 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. See note 3.20 for more details, including analysis of the sensitivity of the reported ECL to changes in PD resulting from changes in economic drivers.

#### 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, taking into account cash flows from collateral and integral credit enhancements. See note 3.20 for more details, including analysis of the sensitivity of the reported ECL to changes in LGD resulting from changes in economic drivers.

#### 4.2.7 Fair value measurement and valuation process

In estimating the fair value of a financial asset or a liability, the Bank uses market-observable data to the extent it is available. Where such Level 1 inputs are not available the Bank uses valuation models to determine the fair value of its financial instruments. Refer to note 28 for more details on fair value measurement.

## 5. CASH AND BALANCES WITH RESERVE BANK OF MALAWI

| | 2020 | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 |
| | Group | Bank | Bank | Bank |
| Cash on hand | 6 961 170 | 6 961 170 | 6 389 007 | 7 458 535 |
| Balances with Reserve Bank of Malawi | 5 358 575 | 5 358 575 | 673 286 | 7 427 234 |
| **Total** | **12 319 745** | **12 319 745** | **7 062 293** | **14 885 769** |

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

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

| | 2020 | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 |
| | Group | Bank | Bank | Bank |
| Malawi Government Treasury bills | 73 445 043 | 72 832 056 | 46 959 803 | 38 548 604 |
| Promissory notes | | | | 1 008 071 |
| Loss allowance (see note 3.20) | (7 283) | (7 283) | (4 654) | (4 542) |
| **Net** | **73 437 760** | **72 824 773** | **46 955 149** | **39 552 133** |
| Bills, bonds and promissory notes are due to mature as follows: | | | | |
| • Within 3 months | 21 945 097 | 21 768 398 | 25 186 752 | 17 788 279 |
| • Over 3 months | 51 492 663 | 51 056 375 | 21 768 397 | 21 763 854 |
| **Total** | **73 437 760** | **72 824 773** | **46 955 149** | **39 552 133** |

Average interest on Treasury bills was 10.99% (2019: 10.6%, 2018: 15%). Average interest rate on the Reserve Bank of Malawi bond was 18.3% (2019: 9.6%, 2018: 15.8%).

## 7. PLACEMENTS WITH OTHER BANKS

| | 2020 | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 |
| | Group | Bank | Bank | Bank |
| Balances with banks abroad | 27 138 417 | 27 138 417 | 20 921 448 | 26 086 651 |
| Balances with local banks | 7 235 198 | 7 235 198 | 10 832 368 | - |
| Gross amount | 34 373 615 | 34 373 615 | 31 753 816 | 26 086 651 |
| Loss allowance (see note 3.20) | (3 437) | (3 437) | (3 155) | (2 609) |
| **Net amount** | **34 370 178** | **34 370 178** | **31 750 661** | **26 084 042** |
| The balances with banks abroad were denominated in foreign currency as follows: | | | | |
| US Dollar denominated | 19 386 513 | 19 386 513 | 17 901 887 | 22 669 786 |
| GBP denominated | 148 135 | 148 135 | 325 407 | 72 704 |
| Euro denominated | 7 589 823 | 7 589 823 | 2 686 152 | 3 337 275 |
| ZAR denominated | 12 232 | 12 232 | 5 440 | 5 604 |
| JPY denominated | 65 | 65 | 84 | 604 |
| DKK denominated | 1 649 | 1 649 | 2 478 | 678 |
| | **27 138 417** | **27 138 417** | **20 921 448** | **26 086 651** |

Balances with banks abroad earn interest at an average rate of 0.11% (2019 & 2018: 1.5%). Placements with local banks earned average interest rate of 1% (2019: 13.5%, 2018: 14.6%).

## 8. LOANS AND ADVANCES TO CUSTOMERS

| | 2020 | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 |
| | Group | Bank | Bank | Bank |
| Term loans | 58 635 071 | 58 635 071 | 38 084 678 | 24 763 197 |
| Overdrafts | 21 871 782 | 21 871 782 | 19 530 517 | 16 474 073 |
| Gross loans and advances | 80 506 853 | 80 506 853 | 57 615 195 | 41 237 270 |
| Expected credit losses allowance | (1 187 700) | (1 187 700) | (801 300) | (547 929) |
| **Net loans and advances** | **79 319 153** | **79 319 153** | **56 813 895** | **40 689 341** |
| **Movement in expected credit loss allowances** | | | | |
| At the beginning of the year | 801 300 | 801 300 | 547 929 | 11 534 197 |
| Transfer from off balance sheets assets (IFRS 9 transition) | - | - | - | 1 602 |
| Effects of change in accounting policy (IFRS 9 transition) | - | - | - | 5 234 217 |

| | 2020 | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| | **K'000** | **K'000** | **K'000** | **K'000** |
| | **Group** | **Bank** | **Bank** | **Bank** |
| Write offs relating to prior years | (632 275) | (632 275) | (229 263) | (11 029 656) |
| Outstanding expected credit losses | 169 025 | 169 025 | 318 666 | 5 740 360 |
| Gross current year loss allowances | 1 023 659 | 1 023 659 | 1 370 118 | 2 483 222 |
| Recoveries | - | - | (884 235) | (1 046 760) |
| Transfer from off balance sheet assets (See note 3.20) | (4 984) | (4 984) | (3 249) | (276) |
| Net current year charge | 1 018 675 | 1 018 675 | 482 634 | 1 436 186 |
| Current year write-offs | - | - | - | (6 628 617) |
| **At the end of the year** | **1 187 700** | **1 187 700** | **801 300** | **547 929** |
| **Net impairment loss** | | | | |
| Increase in expected credit losses | 1 018 675 | 1 018 675 | 1 366 869 | 1 436 186 |
| Recoveries from write offs | (682 669) | (682 669) | (884 235) | - |
| **Net impairment loss** | **336 006** | **336 006** | **482 634** | **1 436 186** |
| **Principal and interest past due** | | | | |
| Amounts past due | 851 382 | 851 382 | 451 202 | 464 661 |
| Amounts past due and impaired | (851 382) | (851 382) | (451 202) | (464 661) |
| **Amounts past due but not impaired** | **-** | **-** | **-** | **-** |

The maturity profile of loans and advances is outlined in note 29c to the financial statements. The Malawi Kwacha base-lending rate for the Bank as at 31 December 2020 was 23.4% (2019: 23.6%).

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

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

| Loss allowance – Loans and advances to customers at amortised cost | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 |
| Loss allowance as at 1 January 2020 | 85 866 | 47 400 | 668 034 | 801 300 |
| Changes in the loss allowance | | | | |
| Transfer to stage 1 | - | - | - | - |
| Transfer to stage 2 | 30 021 | - | - | 30 021 |
| Transfer to stage 3 | - | (27 362) | 235 475 | 208 113 |
| Increases due to change in credit risk | 376 014 | 55 651 | 353 860 | 785 525 |
| Write-offs | - | - | (632 275) | (632 275) |
| Changes due to modifications that did not result in derecognition - | - | - | - | - |
| Changes in loss allowance for guarantees | (4 984) | - | - | (4 984) |
| New financial assets originated or purchased | - | - | - | - |
| Financial assets that have been derecognised | - | - | - | - |
| **Closing Balance** | **486 917** | **75 689** | **625 094** | **1 187 700** |

| Loss allowance – Loans and advances to customers at amortised cost | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 | K'000 |
| Loss allowance as at 1 January 2019 | 177 012 | 67 696 | 303 221 | - | 547 929 |
| Changes in the loss allowance | - | - | - | - | - |
| Transfer to stage 1 | 369 | (341) | (28) | | - |
| Transfer to stage 2 | (4 625) | 4 974 | (349) | | - |
| Transfer to stage 3 | (6 388) | (16 658) | 23 046 | | - |
| Increases due to change in credit risk | (51 223) | (579 459) | 2 000 800 | - | 1 370 118 |
| Write-offs | (26 030) | 571 188 | ( 774 421) | - | (229 263) |
| Recoveries | - | - | (884 235) | - | (884 235) |
| Changes due to modifications that did not result in derecognition | - | - | - | - | - |
| Changes in loss allowance for guarantees | (3 249) | - | - | - | (3 249) |
| New financial assets originated or purchased | - | - | - | - | - |
| Financial assets that have been derecognised | - | - | - | - | - |
| **Closing Balance** | **85 866** | **47 400** | **668 034** | **-** | **801 300** |

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

| | As at 31 December 2020 | | As at 31 December 2019 | |
|---|---|---|---|---|
| Days past due | Gross carrying amount | Loss allowance | Gross carrying amount | Loss allow-ance |
| | K'000 | K'000 | K'000 | K'000 |
| 0-29 days | 77 767 892 | 486 917 | 53 412 823 | 85 866 |
| 30-90 days | 1 887 579 | 9 834 | 3 741 026 | 298 787 |
| 91-180 days | 224 620 | 91 483 | 100 440 | 69 740 |
| 181-360 days | 256 916 | 232 910 | 60 414 | 46 414 |
| More than 360 days | 369 846 | 366 556 | 300 492 | 300 493 |
| **Total** | **80 506 853** | **1 187 700** | **57 615 195** | **801 300** |

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

## 10. RELATED PARTIES

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

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

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

| | Amounts due to related parties | Amounts due from related parties |
|---|---|---|
| | K'000 | K'000 |
| **31 December 2020** | | |
| First Discount House Limited | - | - |
| MSB Properties Limited | - | - |
| FDH Money Bureau Limited | - | - |
| Net amount | - | - |
| **Bank balances** | | |
| FDH Money Bureau Limited | 5 512 | - |
| MSB Properties Limited | 130 365 | - |
| First Discount House Limited | 5 462 | - |
| FDH Financial Holdings Limited | 385 482 | - |
| | 526 821 | - |

| | Amounts due to related parties | Amounts due from related parties |
|---|---|---|
| | K'000 | K'000 |
| **31 December 2019** | | |
| First Discount House Limited | - | - |
| MSB Properties Limited | - | - |
| FDH Money Bureau Limited | - | - |
| Net amount | - | - |
| **Bank balances** | | |
| FDH Money Bureau Limited | 70 007 | - |
| MSB Properties Limited | 40 000 | - |
| First Discount House Limited | 422 803 | - |
| FDH Financial Holdings Limited55 971 | - | |
| | 588 781 | - |

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

Included in FDH Bank Plc expenses is financial advisory fees amounting to K770.875 million (2019: K1.092 million) paid to FDH Financial Holdings Limited.
Amounts due to and from related parties relate to payments made to third parties by one company on behalf of the other. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the current period or prior years for bad or doubtful debts in respect of the amounts owed by related parties.

Included in loans and advances at period end are the following related party balances:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| | K'000 | K'000 | K'000 |
| FDH Money Bureau Limited | 2 501 387 | - | - |
| Orascon Continental Security Services | 1 941 | 109 | 4 524 967 |
| Electricity Supply Commission of Malawi | - | 3 262 053 | - |
| Malawi Property Investment Company Plc | 891 289 | - | - |
| Mbendera & Nkhono Associates | - | 6 041 | - |
| Chisapi Limited | 468 057 | 130 372 | 31 403 |
| Saan Investments | - | 285 296 | 205 622 |
| Senior Management | 140 942 | 90 246 | 114 498 |
| Directors | 46 084 | 136 521 | 144 |

Included in liabilities to customers are related party deposits by Old Mutual Malawi Plc amounting to K 8.3 billion (2019: K5.8 billion, 2018: K1.3 billion). Interest payable to Old Mutual Malawi Plc amounted to K57.9 million (2019: K37.7 million, 2018: K10.4 million).

The following transactions were conducted with related parties: -

| | 2020 | 2019 |
|---|---|---|
| | K'000 | K'000 |
| **Interest payable** | | |
| FDH Discount House Limited | - | - |
| | | |
| **Interest receivable** | | |
| FDH Money Bureau Limited | 280 671 | - |
| FDH Financial Holdings Limited | - | 314 |
| Orascon Continental Security Services | 716 | 402 |
| Malawi Property Investment Company Limited | 88 356 | 28 392 |
| Mbendera & Nkhono Associates | 456 | 3 411 |
| Chisapi Limited | 39 486 | 7 867 |
| Senior management | - | 18 967 |
| Directors | 10 588 | 8 343 |
| **Total** | **420 273** | **67 696** |
| | | |
| **Rent payable** | | |
| T. F. Mpinganjira Trust | 101 595 | 101 174 |
| | | |
| *Compensation of key management personnel* | | |
| Current period earnings and short-term benefits | 2 300 702 | 2 089 671 |

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

Included in interest expense is preference share interest of K686 million (2019: K1.296 billion) which was paid to First Private Equity Limited in June and July 2020 before listing in August 2020. The preference shares were subsequently turned into ordinary share on listing of the Bank.

Directors' fees, allowances and expenses paid during the year amount to K180.224 million (K236.247 million in 2019).

Included in administrative expense is K64.315 million (K48.651million in 2019) paid to MSB Properties Limited as property management fees as they manage properties for the Bank.

## 11. OTHER RECEIVABLES AND PREPAYMENTS

| | 2020 | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 |
| | | | Restated | Restated |
| | Group | Bank | Bank | Bank |
| Sundry receivables | 5 285 120 | 5 017 183 | 13 341 748 | 3 243 824 |
| Staff loans | 2 567 185 | 2 567 185 | 1 139 273 | 936 460 |
| Settlement accounts | 4 490 653 | 4 490 653 | 14 698 139 | 312 650 |
| Prepayments | 3 884 848 | 3 550 830 | 4 239 564 | 2 253 438 |
| Gross amount | 16 227 806 | 15 625 851 | 23 802 608 | 6 746 372 |
| Loss allowance (see note 3.20) | (12 684) | (12 684) | (5 856) | (9 485) |
| Net other receivables and prepayments | 16 215 122 | 15 613 167 | 23 796 752 | 6 736 887 |

Refer to details in note 1.2 stating the cause for restating other receivables for 2019 and 2018.
Sundry receivables largely relate to clearing accounts and prepayments mainly relate to prepaid rentals and license fees for systems. Staff loans are recovered through payroll. Average interest rate on staff loans is 6.25% (2019 & 2018: 6.25%). No interest is charged on prepaid rentals and license fees.

## 12. A. INVESTMENT IN SUBSIDIARY

| | Group | Bank | Bank | Bank |
|---|---|---|---|---|
| | 2020 | 2020 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| | | | Restated | Restated |
| Investment in subsidiary | - | 6 920 233 | - | - |

In March 2020, the Bank acquired 100% stake in MSB Properties Limited from FDH Money Bureau Limited and therefore MSB Properties Limited is wholly owned by FDH Bank Plc. The consideration given for the acquisition was K5.599 billion.

## B. OTHER INVESTMENTS

| | | | | |
|---|---|---|---|---|
| Other investments | 31 032 | 31 032 | 31 032 | 31 032 |

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

## C. OTHER SHORT TERM INVESTMENTS-OMO

| | | | | |
|---|---|---|---|---|
| Other short term investments-OMO | - | - | - | 5 496 484 |

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Plant and equipment | Computer equipment | Motor vehicles | Furniture and fittings | Capital Work in progress | Total |
|---|---|---|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 |
| **Group** | | | | | | | |
| **31 December 2020** | | | | | | | |
| **Cost/valuation** | | | | | | | |
| At the beginning of the year | 813 514 | - | 8 745 616 | 2 577 005 | 3 852 562 | 1 068 535 | 17 057 232 |
| Reclassification to Plant | - | 1 272 302 | (1 272 302) | - | - | - | - |
| Transfers for CWIP | 3 420 | 12 183 | 308 561 | - | 502 144 | (826 308) | - |
| Additions | 5 794 601 | 45 170 | 617 646 | 825 434 | 157 156 | 51 395 | 7 491 402 |
| Revaluation | 176 699 | - | - | - | - | - | 176 699 |
| Disposals | (361 000) | - | - | (342 223) | - | - | (703 223) |
| At the end of the year | 6 427 234 | 1 329 655 | 8 399 521 | 3 060 216 | 4 511 862 | 293 622 | 24 022 110 |
| **Depreciation** | | | | | | | |
| At the beginning of the year | 15 152 | - | 5 369 973 | 1 171 897 | 1 868 701 | - | 8 425 723 |
| Reclassification to Plant | - | 1 125 244 | (1 125 244) | - | - | - | - |
| Charge for the year | 32 357 | 17 546 | 1 130 162 | 380 208 | 133 368 | - | 1 693 641 |
| Disposals | - | - | - | (302 762) | - | - | (302 762) |
| At the end of the year | 47 509 | 1 142 790 | 5 374 891 | 1 249 343 | 2 002 069 | - | 9 816 602 |
| **Net book value** | | | | | | | |
| **At the end of the year** | 6 379 725 | 186 865 | 3 024 630 | 1 810 873 | 2 509 793 | 293 622 | 14 205 508 |

Following the acquisition of MSB Properties Limited in the year ended 31 December 2020, The Group consolidated revaluation surplus and all classes of Property, Plant and Equipment emanating from MSB Properties Limited.

| | Buildings | Plant and equipment | Computer equipment | Motor vehicles | Furniture and fittings | Capital Work in progress | Total |
|---|---|---|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 |
| **Bank** | | | | | | | |
| **31 December 2020** | | | | | | | |
| **Cost** | | | | | | | |
| At the beginning of the year | 813 514 | - | 8 745 616 | 2 577 005 | 3 852 562 | 1 068 535 | 17 057 232 |
| Reclassification to Plant | - | 1 272 302 | (1 272 302) | - | - | - | - |
| Transfers for CWIP | 3 420 | 12 183 | 308 561 | - | 502 144 | (826 308) | - |
| Additions | - | 45 170 | 617 646 | 825 434 | 157 156 | 51 395 | 1 696 801 |
| Disposals | - | - | - | (342 223) | - | - | (342 223) |
| **At the end of the year** | **816 934** | **1 329 655** | **8 399 521** | **3 060 216** | **4 511 862** | **293 622** | **18 411 810** |

| | Buildings | Plant and equipment | Computer equipment | Motor vehicles | Furniture and fittings | Capital Work in progress | Total |
|---|---|---|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 |
| **Depreciation** | | | | | | | |
| At the beginning of the year | 15 152 | - | 5 369 973 | 1 171 897 | 1 868 701 | - | 8 425 723 |
| Reclassification to Plant | - | 1 125 244 | (1 125 244) | - | - | - | - |
| Charge for the year | 32 357 | 17 546 | 1 130 162 | 380 208 | 133 368 | - | 1 693 641 |
| Disposals | - | - | - | (302 762) | - | - | (302 762) |
| At the end of the year | 47 509 | 1 142 790 | 5 374 891 | 1 249 343 | 2 002 069 | - | 9 816 602 |
| **Net book value** | | | | | | | |
| **At the end of the year** | 769 425 | 186 865 | 3 024 630 | 1 810 873 | 2 509 793 | 293 622 | 8 595 208 |

Note: From 1 January 2020 the Group introduced a new category of assets called plant and equipment which comprise of ATM and Generators. These were initially being included in office equipment.

| | Buildings | Computer equipment | Motor vehicles | Furniture and fittings | Capital Work in progress | Total |
|---|---|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 |
| **Restated** | | | | | | |
| **Bank** | | | | | | |
| **31 December 2019** | | | | | | |
| **Cost** | | | | | | |
| At the beginning of the year | 175 903 | 7 445 115 | 2 339 020 | 3 426 372 | 1 425 037 | 14 811 447 |
| Transfers for CWIP | 637 611 | 451 674 | - | 295 320 | (1 384 605) | - |
| Additions | - | 849 322 | 359 032 | 130 870 | 1 028 103 | 2 367 327 |
| Disposals | - | (495) | (121 047) | - | - | (121 542) |
| At the end of the year | 813 514 | 8 745 616 | 2 577 005 | 3 852 562 | 1 068 535 | 17 057 232 |
| **Depreciation** | | | | | | |
| At the beginning of the year | - | 4 286 313 | 885 417 | 1 553 789 | - | 6 725 519 |
| Charge for the year | 15 152 | 1 084 155 | 393 260 | 314 912 | - | 1 807 479 |
| Disposals | - | (495) | (106 780) | - | - | (107 275) |
| At the end of the year | 15 152 | 5 369 973 | 1 171 897 | 1 868 701 | - | 8 425 723 |
| **Net book value at the end of the year** | **798 362** | **3 375 643** | **1 405 108** | **1 983 861** | **1 068 535** | **8 631 509** |

Register of Land and Buildings is maintained at the registered office of the Group and is available for inspection by members.

| | Buildings | Computer equipment | Motor vehicles | Furniture and fittings | Capital Work in progress | Total |
|---|---|---|---|---|---|---|
| | **K'000** | **K'000** | **K'000** | **K'000** | **K'000** | **K'000** |
| **Restated** | | | | | | |
| **Bank** | | | | | | |
| **31 December 2018** | | | | | | |
| **Cost** | | | | | | |
| At the beginning of the year | - | 5 922 443 | 1 767 572 | 2 847 839 | 591 377 | 11 129 231 |
| Transfers for CWIP | 175 903 | 507 376 | - | 524 075 | (1 207 354) | - |
| Additions | - | 1 015 894 | 879 430 | 54 458 | 2 041 014 | 3 990 796 |
| Disposals | - | (598) | (307 982) | - | - | (308 580) |
| At the end of the year | 175 903 | 7 445 115 | 2 339 020 | 3 426 372 | 1 425 037 | 14 811 447 |
| **Depreciation** | | | | | | |
| At the beginning of the year | - | 3 302 292 | 745 534 | 1 265 102 | - | 5 312 928 |
| Charge for the year | - | 984 340 | 321 123 | 288 687 | - | 1 594 150 |
| Disposals | - | (319) | (181 240) | - | - | (181 559) |
| At the end of the year | - | 4 286 313 | 885 417 | 1 553 789 | - | 6 725 519 |
| **Net book value at the end of the year** | **175 903** | **3 158 802** | **1 453 603** | **1 872 583** | **1 425 037** | **8 085 928** |

## 14. INTANGIBLE ASSETS

| | Computer Software | Work in progress | Total |
|---|---|---|---|
| | **K'000** | **K'000** | **K'000** |
| **Group and Bank** | | | |
| **31 December 2020** | | | |
| **Cost** | | | |
| At the beginning of the year | 5 116 127 | 517 470 | 5 633 597 |
| Additions | 1 599 636 | 196 818 | 1 796 454 |
| Transfers to CWIP | 559 433 | (559 433) | - |
| At the end of the year | 7 275 196 | 154 855 | 7 430 051 |
| **Amortisation** | | | |
| At the beginning of the year | 3 282 978 | - | 3 282 978 |
| Charge for the year | 709 486 | - | 709 486 |
| At the end of the year | 3 992 464 | - | 3 992 464 |
| **Net book value** | | | |
| **At the end of the year** | **3 282 732** | **154 855** | **3 437 587** |

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

The computer software is amortised over a period of five years. Included in work in progress (WIP) are developments for various software-based products such as Mobile App Redesigning, Instaloan Scoring Matrix, Data Recovery and Archiving.

## 15. SHAREHOLDER LOAN

| | 2020 | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 |
| | Group | Bank | Bank | Bank |
| ***Shareholder Loan:*** | | | | |
| Long-term portion | 1 250 000 | 1 250 000 | 1 785 714 | 1 763 383 |
| Current portion | 938 968 | 938 968 | 820 829 | 965 761 |
| Total | 2 188 968 | 2 188 968 | 2 606 543 | 2 729 144 |
| **Shareholder's loan movement** | | | | |
| At beginning of the year | 2 606 543 | 2 606 543 | 2 729 144 | 505 374 |
| Additions | - | - | - | 2 500 000 |
| Interest charged | 302 736 | 302 736 | 375 735 | 405 541 |
| Repayment | (720 311) | (720 311) | (498 336) | (681 771) |
| **At the end of the year** | **2 188 968** | **2 188 968** | **2 606 543** | **2 729 144** |

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

## 16. LONG TERM LOANS

| | 2020 | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 |
| | Group | Bank | Bank | Bank |
| Long-term portion | 6 230 505 | 6 230 505 | 5 099 566 | 4 828 428 |
| Current portion | 1 501 331 | 1 501 331 | 661 353 | 626 190 |
| Total | 7 731 836 | 7 731 836 | 5 760 919 | 5 454 618 |
| **Long-term loans movement** | | | | |
| At the beginning of the year | 5 760 919 | 5 760 919 | 5 454 618 | - |
| Additions | 2 992 825 | 2 992 825 | 181 375 | 5 441 250 |
| Interest charged | 563 975 | 563 975 | 408 938 | 13 368 |
| Repayments | (1 585 883) | (1 585 883) | (284 012) | - |
| **At the end of the year** | **7 731 836** | **7 731 836** | **5 760 919** | **5 454 618** |

The long-term loan was obtained from a Dutch Bank FMO. The loan of US$ 7,500,000 was granted in December 2018. The Loan is repayable in five years' time with the last installment payable on 31 December 2023. The foreign currency amount is fully hedged through a swap with RBM covering the same period of the loan amount. Interest is on a floating rate Fixed quarterly. The interest rates applicable in 2020 were Q1: 5.834%, Q2: 5.3114%, Q3: 4.2729% and Q4: 4.2205%.

During the year, the Bank obtained a new unsecured loan of US$ 3,899,700.00 from European Investment Bank (EIB), which was granted in January 2020. The loan is repayable in seven years' time with the last installment payable on 29 January 2027.

Interest is paid quarterly on a floating rate.

The lender notifies the Bank on the interest rate applicable for each quarter. The interest rates applicable in 2020 were Q1: 5.0951%, Q2: 4.0781%, Q3: 3.5786% and Q4: 3.5324%.

The Bank repaid the US$250,000 long-term loan from Land O Lakes in full during the year.

## 17. LIABILITIES TO CUSTOMERS

| | 2020 | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 |
| | Group | Bank | Bank | Bank |
| Current accounts | 59 647 550 | 59 738 725 | 44 555 536 | 39 332 339 |
| Foreign currency accounts | 19 263 735 | 19 263 735 | 17 402 272 | 18 040 122 |
| Deposit accounts | 36 591 715 | 36 591 715 | 35 289 595 | 27 498 300 |
| Savings accounts | 43 441 088 | 43 441 088 | 39 893 427 | 27 699 503 |
| **Total liabilities to customers** | **158 944 088** | **159 035 263** | **137 140 830** | **112 570 264** |

The maturity profile of liabilities to customers is included in note 29(c) to the financial statements.
The average interest rate on deposits was 4.2% (2019: 3.5%).

## 18. LIABILITIES TO FINANCIAL INSTITUTIONS

| | 2020 | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 |
| | Group | Bank | Bank | Bank |
| National Bank of Malawi Plc | - | - | 3 001 134 | - |
| CDH Investment Bank | 1 500 473 | 1 500 473 | 1 800 675 | - |
| Ecobank Limited | - | - | 4 899 249 | 4 506 286 |
| MyBucks Banking Corporation | - | - | 600 227 | - |
| Reserve Bank of Malawi (FX Taking) | 3 847 056 | 3 847 056 | - | - |
| Reserve Bank of Malawi (OMO) | 26 191 948 | 26 191 948 | - | - |
| **Total money markets liabilities** | **31 539 477** | **31 539 477** | **10 301 285** | **4 506 286** |

The maturity profile of liabilities to financial institutions is given in note 29(c) to the financial statements.
Interest on interbank borrowings was 11.5% (2019: 13.5%, 2018: 14.9%).

## 19. PAYABLES AND ACCRUALS

| | 2020 | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 |
| | Group | Bank | Bank | Bank |
| Settlement account | 2 289 828 | 2 289 828 | 4 366 958 | 10 795 945 |
| Sundry accruals | 615 491 | 577 613 | 1 698 520 | 340 812 |
| Local payables | 886 801 | 766 141 | 269 184 | 59 206 |
| Bank cheques | 96 587 | 96 587 | 163 715 | 104 297 |
| Audit fees | 131 443 | 126 395 | 101 280 | 99 615 |
| Gratuity | - | - | - | 114 837 |
| Staff pension payable | 100 071 | 100 071 | - | 46 582 |
| VAT Payable | 278 347 | - | - | 6 603 |
| Withholding tax payable | 61 149 | 61 149 | 53 800 | 53 481 |
| **Total payables and accruals** | **4 459 717** | **4 017 784** | **6 653 457** | **11 621 378** |

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

## 20. DEFERRED TAX

| | 2020 | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 |
| | Group | Bank | Bank | Bank |
| **Deferred tax (liabilities)/assets** | | | | |
| At the beginning of the year | (294 753) | (294 753) | 3 757 010 | - |
| Tax effect of IFRS 16 and 9 transition adjustment | - | - | 7 999 | - |
| As restated | (294 753) | (294 753) | 3 765 009 | - |
| Deferred tax as restated | - | - | (1 747 784) | - |
| Deferred tax that has passed through equity | - | - | (7 999) | - |
| Current year charge | (373 031) | (373 031) | (2 303 979) | - |
| At the end of the year | (667 784) | (667 784) | (294 753) | - |
| | | | | |
| **Deferred tax liabilities analysed as follows:** | | | | |
| Accelerated capital allowances | (775 297) | (775 297) | (545 948) | - |
| Other temporary differences | 107 513 | 107 513 | 251 195 | - |
| **Total deferred tax liabilities** | **(667 784)** | **(667 784)** | **(294 753)** | **-** |
| | | | | |
| **Deferred tax assets** | | | | |
| At the beginning of the year | 572 580 | - | - | 3 926 623 |
| Tax effects of IFRS 9 transition | | | | 1 575 815 |
| Deferred tax through equity | | | | (1 575 815) |
| Deferred tax as restated | | | | 1 747 784 |
| Deferred tax asset on properties' transfer | | | | 273 701 |
| Current year charge | | | | (2 191 098) |
| Deferred tax credit through other comprehensive income | 202 222 | - | - | - |
| At the end of the year | 774 802 | - | - | 3 757 010 |
| | | | | |
| **Deferred tax assets analysed as follows:** | | | | |
| Accelerated capital allowances | - | - | - | 655 498 |
| Other temporary differences | 774 802 | - | - | 3 101 512 |
| **Total deferred tax assets** | **774 802** | **-** | **-** | **3 757 010** |

Refer to details in note 1.2 stating the cause for restating commission income which has affected deferred tax assets/liabilities balances for 2019 and 2018.

The deferred tax asset was from MSB Properties Limited only recognised at Group level, prior year comparatives are for the Bank.

## 21. GUARANTEES AND LETTERS OF CREDIT

| | 2020 | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 |
| | Group | Bank | Bank | Bank |
| Local guarantees and performance bonds | 15 649 358 | 15 649 358 | 15 655 535 | 12 454 129 |
| Letters of credit | 34 185 800 | 34 185 800 | 16 730 807 | 3 133 976 |
| | **49 835 158** | **49 835 158** | **32 386 342** | **15 588 105** |

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

## 22. NET INTEREST INCOME

| | 2020 | 2020 | 2019 |
|---|---|---|---|
| | K'000 | K'000 | K'000 |
| | Group | Bank | Bank |
| **Interest income** | | | |
| Interest on loans and advances | 12 169 057 | 12 169 057 | 8 121 381 |
| Interest on money market investments | 12 014 051 | 12 014 051 | 8 222 064 |
| **Total interest income** | **24 183 108** | **24 183 108** | **16 343 445** |
| **Interest expense** | | | |
| Preference share dividend | (686 285) | (686 285) | (871 081) |
| Interest on shareholders' loan | (302 736) | (302 736) | (375 735) |
| Money market and customers | (8 003 248) | (8 003 248) | (6 519 740) |
| Total interest expense | (8 992 269) | (8 992 269) | (7 766 556) |
| **Net interest income** | **15 190 839** | **15 190 839** | **8 576 889** |

## 23. COMMISSIONS AND OTHER FEE INCOME

| | 2020 | 2020 | 2019 |
|---|---|---|---|
| | K'000 | K'000 | K'000 |
| | Group | Company | Company |
| Commissions | 17 261 092 | 16 622 571 | 17 004 739 |
| Restated commissions (Note 1.2) | - | - | (3 790 170) |
| Other income | 9 502 740 | 9 588 045 | 7 749 900 |
| Arrangement fees | 1 614 416 | 1 614 416 | 1 058 043 |
| Bargain purchase gain | - | 1 321 233 | - |
| Dividend income | - | 300 000 | - |
| **Total commissions and other fee income** | **28 378 248** | **29 446 265** | **22 022 512** |

Included in other income among other things is trade finance revenue, custodial services income and cards business transaction fees.

**Restated commissions**

Commission income for 2019 and 2018 of K3.8 billion and K5.8 billion respectively for services whose performance obligation according to IFRS 15 *Revenue from Contracts with Customers* was not satisfied as at 31 December 2019 and 31 December 2018 has been recognised in 2019 and 2020 respectively when the performance obligation was satisfied. The Bank recognised revenue from commissions at a point in time instead of recognising revenue over the period of the underlying securities.

As a result, commission income, other receivables (note 11), income tax charge (note 25), deferred tax (note 20), earnings per share (note 26) and retained earnings in 2018 and 2019 were misstated.

These financial statements have therefore been restated in respect of 2019 and 2018 to correct the misstatements in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors.

**Impact of restatements on 2018 and 2019 signed financial statements**

The restatement has resulted in commission recognised in 2018 and 2019 to be spread over the period to maturity of the underlying securities.

Below are the details of the restatements;

**Year ended 31 December**

| | 2018 | 2019 | Total |
|---|---|---|---|
| **Commission Income** | **K'000** | **K'000** | **K'000** |
| Income before restatement | 15 515 562 | 17 004 739 | 32 520 301 |
| Restatement adjustment | (5 825 946) | 5 825 946 | - |
| Restatement adjustment | - | (9 616 116) | (9 616 116) |
| **Net Restated Revenue** | **9 689 616** | **13 214 569** | **22 904 185** |
| | | | |
| Revenue before restatement | 15 515 562 | 17 004 739 | 32 520 301 |
| **Net Movement** | **(5 825 946)** | **(3 790 170)** | **(9 616 116)** |
| | | | |
| Restated Tax | 443 314 | 2 759 633 | 3 202 947 |
| Tax before restatement | 2 191 098 | 3 896 684 | 6 087 782 |
| **Movement** | **(1 747 784)** | **(1 137 051)** | **(2 884 835)** |
| | | | |
| Restated Profit | 1 887 280 | 5 193 245 | 7 080 525 |
| Profit before restatement | 5 965 442 | 7 846 364 | 13 811 806 |
| **Movement** | **(4 078 162)** | **(2 653 119)** | **(6 731 281)** |

## 24. PROFIT BEFORE TAX AND NET IMPAIRMENT LOSSES

| | 2020 | 2020 | 2019 |
|---|---|---|---|
| | **K'000** | **K'000** | **K'000** |
| | **Group** | **Company** | **Company** |
| Profit before tax is arrived at after taking into account the following: | | | |
| Auditor's remuneration | 134 340 | 127 167 | 117 035 |
| Depreciation of plant and equipment | 1 693 641 | 1 693 641 | 1 807 479 |
| Amortisation of intangible assets | 709 486 | 709 486 | 669 530 |
| Profit on disposal of equipment | 42 237 | 48 763 | 14 162 |
| Directors' fees and expenses | 205 375 | 180 224 | 236 247 |
| Pension contributions | 869 024 | 869 024 | 750 501 |

## 25.TAXATION

| | 2020 | 2020 | 2019 |
|---|---|---|---|
| | K'000 | K'000 | K'000 |
| | | | Restated |
| | Group | Bank | Bank |
| Income tax | 5 728 873 | 6 030 353 | 1 592 705 |
| Income tax as restated | - | - | (2 884 835) |
| Deferred tax as restated | - | - | 1 747 784 |
| Deferred tax | 373 031 | 373 031 | 2 303 979 |
| **Total taxation** | **6 101 904** | **6 403 384** | **2 759 633** |
| | | | |
| **Profit before tax** | **20 090 683** | **21 359 043** | **7 952 878** |
| | | | |
| **Reconciliation of rate of tax** | % | % | % |
| Standard rate of tax | 30.00 | 30.00 | 30.00 |
| Permanent differences | 0.37 | (0.02) | 4.70 |
| **Effective rate of tax** | **30.37** | **29.98** | **34.70** |
| | | | |
| **Tax paid/(claimed)** | | | |
| Opening balance from FDH Bank Plc | (1 334 733) | (1 334 733) | (575 132) |
| Opening balance from MSB Properties Limited | 408 595 | - | - |
| Income tax as restated | - | - | (2 884 835) |
| Income tax charge | 5 728 873 | 6 030 353 | 1 592 705 |
| (Less)/add: closing balance | (661 631) | (538 719) | 1 334 733 |
| **Tax paid/(claimed)** | **4 141 104** | **4 156 901** | **(532 529)** |

Refer to details in note 1.2 stating the cause for restating income tax charge for 2019 and 2018.

## 26. BASIC EARNINGS PER SHARE

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

| | 2020 | 2020 | 2019 |
|---|---|---|---|
| | K'000 | K'000 | K'000 |
| | Group | Bank | Bank |
| *Profit* | | | |
| Profit for the purposes of basic/diluted Earnings per share as restated | 13 988 779 | 14 955 659 | 5 193 245 |
| Profit before restatement | 13 988 779 | 14 955 659 | 7 846 364 |

| | Nos | Nos | Nos |
|---|---|---|---|
| | '000 | '000 | '000 |
| *Number of shares* | | | |
| Weighted average number of ordinary shares for the purposes of basic/diluted earnings per share | 6 901 031 | 6 901 031 | 462 706 |
| Earnings per share (tambala) as restated | 203 | 217 | 1 122 |
| Earnings per share (tambala) before restatement | 203 | 217 | 1 696 |

## 27. FINANCIAL ASSETS AND LIABILITIES

Accounting classifications and fair values

| | At fair value through profit or loss | At amortised cost | Carrying amount | Fair Value |
|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 |
| **Group** | | | | |
| **31 December 2020** | | | | |
| **Assets** | | | | |
| Cash and bank balances with Reserve Bank of Malawi | - | 12 319 745 | 12 319 745 | 12 319 745 |
| Malawi Government Treasury Bills and Reserve Bank bond | - | 73 437 760 | 73 437 760 | 73 437 760 |
| Placements with other banks | - | 34 370 178 | 34 370 178 | 34 370 178 |
| Loans and advances to customers | - | 79 319 153 | 79 319 153 | 79 319 153 |
| Investments | - | 31 032 | 31 032 | 31 032 |
| Other receivables | - | 12 330 274 | 12 330 274 | 12 330 274 |
| **Total financial assets** | **-** | **211 808 142** | **211 808 142** | **211 808 142** |
| **Liabilities** | | | | |
| Shareholder's loan | - | 2 188 968 | 2 188 968 | 2 188 968 |
| Long term loan | - | 7 731 836 | 7 731 836 | 7 731 836 |
| Liabilities due to customers | - | 158 944 088 | 158 944 088 | 158 944 088 |
| Liabilities to financial institutions | - | 31 539 477 | 31 539 477 | 31 539 477 |
| Payables and accruals | - | 4 459 717 | 4 459 717 | 4 459 717 |
| **Total financial liabilities** | **-** | **204 864 086** | **204 864 086** | **204 864 086** |

| | At fair value through profit or loss | At amortised cost | Carrying amount | Fair Value |
|---|---|---|---|---|
| | **K'000** | **K'000** | **K'000** | **K'000** |
| **Bank** | | | | |
| **At 31 December 2020** | | | | |
| **Assets** | | | | |
| Cash and bank balances with Reserve | | | | |
| Bank of Malawi | - | 12 319 745 | 12 319 745 | 12 319 745 |
| Malawi Government Treasury | | | | |
| Bills and Reserve Bank bond | - | 72 824 773 | 72 824 773 | 72 824 773 |
| Placements with other banks | - | 34 370 178 | 34 370 178 | 34 370 178 |
| Loans and advances to customers | - | 79 319 153 | 79 319 153 | 79 319 153 |
| Other investments- | | 6 951 265 | 6 951 265 | |
| Other receivables | - | 12 062 337 | 12 062 337 | 12 062 337 |
| **Total financial assets** | **-** | **217 847 451** | **217 847 451** | **217 847 451** |
| **Liabilities** | | | | |
| Shareholder's loan | - | 2 188 968 | 2 188 968 | 2 188 968 |
| Long term loan | - | 7 731 836 | 7 731 836 | 7 731 836 |
| Liabilities due to customers | - | 159 035 263 | 159 035 263 | 159 035 263 |
| Liabilities to financial institutions | - | 31 539 477 | 31 539 477 | 31 539 477 |
| Payables and accruals | - | 4 017 784 | 4 017 784 | 4 017 784 |
| **Total financial liabilities** | **-** | **204 513 328** | **204 513 328** | **204 513 328** |
| **Bank** | | | | |
| **Restated** | | | | |
| **At 31 December 2019** | | | | |
| **Assets** | | | | |
| Cash and bank balances with Reserve Bank of Malawi | - | 7 062 293 | 7 062 293 | 7 062 293 |
| Malawi Government Treasury | | | | |
| Bills and Reserve Bank bond | - | 46 955 149 | 46 955 149 | 46 955 149 |
| Placements with other banks | - | 31 750 661 | 31 750 661 | 31 750 661 |
| Loans and advances to customers | - | 56 813 895 | 56 813 895 | 56 813 895 |
| Other investments - | | 31 032 | 31 032 | |
| Sundry receivables | - | 19 557 188 | 19 557 188 | 19 557 188 |
| **Total financial assets** | **-** | **162 170 218** | **162 170 218** | **162 170 218** |

| | At fair value through profit or loss | At amortised cost | Carrying amount | Fair Value |
|---|---|---|---|---|
| | **K'000** | **K'000** | **K'000** | **K'000** |
| **Liabilities** | | | | |
| Shareholder's loan | - | 2 606 543 | 2 606 543 | 2 606 543 |
| Long term loan | - | 5 760 919 | 5 760 919 | 5 760 919 |
| Liabilities due to customers | - | 137 140 830 | 137 140 830 | 137 140 830 |
| Liabilities to financial institutions | - | 10 301 285 | 10 301 285 | 10 301 285 |
| Payables and accruals | - | 6 653 457 | 6 653 457 | 6 653 457 |
| **Total financial liabilities** | **-** | **162 463 034** | **162 463 034** | **162 463 034** |
| **Restated** | | | | |
| **At 31 December 2018** | | | | |
| **Assets** | | | | |
| Cash and bank balances with Reserve Bank of Malawi | - | 14 885 769 | 14 885 769 | 14 885 769 |
| Malawi Government Treasury Bills and Reserve Bank bond | - | 39 552 133 | 39 552 133 | 39 552 133 |
| Placements with other banks | - | 26 084 042 | 26 084 042 | 26 084 042 |
| Other short-term investments – OMO | - | 5 496 484 | 5 496 484 | 5 496 484 |
| Loans and advances to customers | - | 40 689 341 | 40 689 341 | 40 689 341 |
| Other investments | - | 26 032 | 26 032 | 26 032 |
| Amounts due from related parties | - | 791 525 | 791 525 | 791 525 |
| Sundry receivables | - | 4 483 449 | 4 483 449 | 4 483 449 |
| **Total financial assets** | **-** | **132 008 775** | **132 008 775** | **132 008 775** |
| **Liabilities** | | | | |
| Shareholder's loan | - | 2 729 144 | 2 729 144 | 2 729 144 |
| Long term loan | - | 5 454 618 | 5 454 618 | 5 454 618 |
| Liabilities due to customers | - | 112 570 264 | 112 570 264 | 112 570 264 |
| Liabilities to financial institutions | - | 4 504 286 | 4 504 286 | 4 504 286 |
| Amounts due to related parties | - | 3 444 | 3 444 | 3 444 |
| Payables and accruals | - | 11 621 378 | 11 621 378 | 11 621 378 |
| **Total financial liabilities** | **-** | **136 883 134** | **136 883 134** | **136 883 134** |

## 28. FAIR VALUE MEASUREMENTS

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

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

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

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

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

### 28.2 Fair value measurements recognised in the statement of financial position

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

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

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

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

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

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

## 29. FINANCIAL RISK MANAGEMENT

**(A) Introduction and overview**

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

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

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

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

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

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

business units.
FDH Bank has approved policies and procedures in place which have been approved by the Board and these include:

- Credit Policy;
- Market and Trading book Policy
- Liquidity Risk Policy;
- Market Risk Policy; and
- Operational Risk Policy

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

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

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

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


### The Board of Directors (The Board)

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

### Executive Management Committee (ExCo)

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

### The Finance and Audit Committee (F&A)

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

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

### Appointments and Remuneration Committee (ARM)
The committee meets four times a year. The committee is comprised of five Non-Executive Directors. The committee considers all human resources issues including recruitment policy, industrial relations, succession planning, safety and health and remuneration terms and packages for management and staff.

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

### Information Technology Committee (ITC)
The Information Technology Committee comprises three Non-Executive Directors. The Committee is tasked with ensuring effective and secure utilisation of technology within the Bank to ensure the attainment of its strategic objectives. It also evaluates, and advises with respect to, the direction of the Bank's technology evolution and in the process, oversee effective protection of the Bank's intellectual property. The Technology Committee also recommends technology and procedures to meet the Bank's financial and regulatory obligations with respect to privacy, data retention and data protection.

*Management Committees*

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

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

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

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

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

### Operational Risk and Compliance Management Committee (ORCC)

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

### Internal Audit

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

### **(B) Credit risk**

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

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

### Management of credit risk

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

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

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

- Ensuring that the Bank has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances in accordance with the Bank's stated policies and procedures, IFRS and relevant supervisory guidance;
- Identifying, assessing and measuring credit risk across the Bank, from an individual instrument to a portfolio level;
- Creating credit policies to protect the Bank against the identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits;
- Limiting concentrations of exposure by type of asset, counterparties, industry, credit rating, geographic location etc;

- Establishing a robust control framework regarding the authorisation structure for the approval and renewal of credit facilities;
- Developing and maintaining the Bank's risk grading to categorise exposures according to the degree of risk of default. Risk grades are subject to regular reviews;
- Developing and maintaining the Bank's processes for measuring ECL including monitoring of credit risk, incorporation of forward-looking information and the method used to measure ECL;
- Ensuring that the Bank has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL; and
- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

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

### Significant increase in credit risk

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

### Internal credit risk ratings

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

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

- Payment record, including payment ratios and ageing analysis;
- Extent of utilisation of granted limit;
- Forbearances (both requested and granted);
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies;
- For retail exposures: internally generated data of customer behaviour, affordability metrics etc.; and
- For corporate exposures: information obtained by periodic review of customer files including audited financial statements review, market data such as prices of credit default swaps (CDS) or quoted bonds where available, changes in the financial sector the customer operates etc.

The Bank uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed. The table below provides a mapping of the Bank's internal credit risk grades to external ratings.

The Bank's principal financial assets are cash and balances with banks, treasury bills and other loans and advances and corporate lending. The Bank's credit risk is primarily attributable to these assets. The credit risks on balances with banks and treasury bills are limited because the counterparties are institutions with high credit ratings.

### The Nature & Extent of Credit Risk

The Bank's exposure as at 31 December 2020 was at K79.319 billion with NPL standing at 1.03% while in 2019, the bank closed the year with a loan book worth K56.813 billion with NPL ratio of 0.80%. With default rate declining from the previous reporting period and the Bank's enhanced credit risk management, it is expected to reduce further in 2021.

### Incorporation of Forward-looking

Apart from the macroeconomic factors above, the qualitative factors are considered when estimating the PD. These factors include general customer behaviour and changes in the customer business sector.

### Payment record, including payment ratios and ageing analysis;

The loan repayment rate in 2020 was 98.92% (2019: 98.75%). The rate has increased due to enhanced credit risk management and recoveries. The Bank closed the year with an exposure of K79.274 billion (2019: K57.615 billion). Out of the gross loans, K76.535 billion was in stage 1 (2019: K53.724 billion), K1.887 billion was in stage 2 (2019: K3.439 billion) and K0.851 billion was in stage 3 (2019: K0.451 billion). Based on this ageing analysis, there is no significant increase in credit risk since the increase in NPL corresponds with the loan book growth of 38% year on year.

### Extent of utilization of granted limit

The Bank closed 2020 with unutilized overdrafts of K431 million against limits of K7.394 billion representing 5.83% of the total limits compared to the unutilized limits of K200million against limits of K17.925 billion reported in December 2019 representing 1.12% of the total limits. The increase in the unutilised overdrafts shows a decrease in limits utilisation as a result of effects of the COVID-19 pandemic on economic activities. The unutilized ratio is expected to decline in 2021 as the economy is expected to recover from the pandemic with the coming in of the vaccine.

### Forbearances (both requested and granted)

There are no significant forbearances in the reporting period.

### Changes in business, financial and economic conditions;

The business condition was stable in the reporting period due to stability of the economy driven by stable exchange rates and inflation rate. The inflation rate is expected to decline in 2021 due to recent reduction in fuel price which is a cost driver for many commodities.

### Credit rating information supplied by external rating agencies;

The Bank uses the Credit Reference Bureau to obtain credit history of all the loan applications it gets before approving the loans. This enhances the credit risk management in that loans are only given out to customers who have the capability to pay.

### Loans and advances to customers at amortised cost categorised per industry

The below tables show gross loans and advances categorised in two main categories, Corporate and Retail, and then further categorised into the industry sectors;

| | As at 31 December 2020 | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|---|
| | Group and Bank | Bank | Bank |
| | K'000 | K'000 | K'000 |
| **Retail**: | | | |
| 1. Agriculture, forestry, fishing and hunting | 1 041 281 | 1 751 458 | 361 136 |
| 2. Mining and quarrying | 6 167 | 1 273 | 538 448 |
| 3. Manufacturing | 87 721 | 36 396 | 149 757 |
| 4. Electricity, gas, water and energy | 87 347 | 117 811 | 65 931 |
| 5. Construction | 1 440 118 | 977 752 | 891 376 |
| 6. Wholesale and retail trade | 7 837 783 | 1 162 157 | 1 045 660 |
| 7. Restaurants and hotels | 348 439 | 269 361 | - |
| 8. Transport storage and communications | 882 521 | 682 791 | 486 742 |
| 9. Financial services | 323 070 | 219 758 | 222 301 |
| 10. Community social and personal services | 12 809 406 | 8 957 263 | 4 176 737 |
| **Corporate**: | | | |
| 1. Agriculture, forestry, fishing and hunting | 4 707 758 | 937 600 | 491 605 |
| 2. Mining and quarrying | 137 | 467 060 | - |
| 3. Manufacturing | 8 642 569 | 9 732 158 | 9 994 987 |
| 4. Electricity, gas, water and energy | 4 950 746 | 5 387 880 | 4 845 357 |
| 5. Construction | 6 220 555 | 3 926 112 | 2 477 689 |
| 6. Wholesale and retail trade | 17 130 644 | 10 756 266 | 11 107 157 |
| 7. Restaurants and hotels | 297 794 | 400 000 | - |
| 8. Transport storage and communications | 2 382 432 | 2 287 137 | 1 787 483 |
| 9. Financial services | 7 582 466 | 8 580 320 | 2 498 528 |
| 10. Community social and personal services | 3 727 899 | 964 642 | 96 376 |
| **Total** | **80 506 853** | **57 615 195** | **41 237 270** |

Loans and advances to customers at amortised cost concentration by region

Concentration by region

| | As at 31 December 2020 | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|---|
| | Group and Bank | Bank | Bank |
| | K'000 | K'000 | K'000 |
| **Region** | | | |
| South | 57 315 880 | 43 666 675 | 33 451 791 |
| Centre | 19 917 408 | 13 230 338 | 7 111 414 |
| North | 3 273 565 | 718 182 | 674 065 |
| **Total** | **80 506 853** | **57 615 195** | **41 237 270** |

Loans and advances to customers at amortised cost categorised by Stages

| | As at 31 December 2020 | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|---|
| | Group and Bank | Bank | Group and Bank |
| | K'000 | K'000 | K'000 |
| Stage 1 | 77 767 892 | 53 724 240 | 36 812 572 |
| Stage 2 | 1 887 579 | 3 439 753 | 3 556 799 |
| Stage 3 | 851 382 | 451 202 | 867 899 |
| **Total Gross Carrying Amount** | **80 506 853** | **57 615 195** | **41 237 270** |
| Loss Allowance | (1 187 700) | (801 300) | (547 929) |
| **Carrying amount** | **79 319 153** | **56 813 895** | **40 689 341** |

Maximum exposure to credit risk without taking into account any collateral or other credit enhancements

The table below shows the maximum exposure to credit risk by class of financial instrument. Financial instruments include financial instruments defined and recognised under IFRS 9 *Financial Instruments: Recognition and Measurement*. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

| | 2020 | 2020 | 2019 |
|---|---|---|---|
| | K'000 | K'000 | K'000 |
| | Group | Bank | Bank |
| **Gross Maximum exposure** | | | |
| Funds with Reserve Bank of Malawi | 12 319 745 | 12 319 745 | 7 062 293 |
| Placements with other local banks | 34 373 615 | 34 373 615 | 31 753 816 |
| Malawi Government Treasury Bills and Reserve Bank of Malawi bond | 73 445 043 | 72 832 056 | 46 959 803 |
| Other investments | 31 032 | 6 951 265 | 31 032 |
| Loans and advances | 80 506 853 | 80 506 853 | 57 615 195 |
| Other receivables and prepayments | 12 342 958 | 12 075 021 | 19 563 044 |
| **Total credit risk exposure** | **213 019 246** | **219 058 555** | **162 985 183** |

The Group and Bank's collateral held as security and other credit enhancements in respect of the exposure through loans and advances above is as follows:

| | 2020 | 2019 |
|---|---|---|
| | K'000 | K'000 |
| | Bank | Bank |
| Commercial property | 39 253 701 | 3 187 310 |
| Residential property | 3 013 350 | 26 872 332 |
| Cash deposits | 296 519 | 542 404 |
| Guarantees | 207 000 | 3 914 467 |
| Investments | 800 000 | 400 000 |
| Equipment and vehicles | 232 193 | 512 008 |
| **Total** | **43 802 763** | **35 428 521** |

The Bank's policy is to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding loans.

### Net exposure to credit risk without taking into account any collateral or other credit enhancements

In respect of certain financial assets, the Bank has legally enforceable rights to offset them with financial liabilities. However, in normal circumstances, there would be no intention of settling net, or of realizing the financial assets and settling the financial liabilities simultaneously. Consequently, the financial assets are not offset against the respective financial liabilities for financial reporting purposes. However, the exposure to credit risk relating to the respective financial assets is currently not mitigated by any asset offset arrangements.

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit by sector is presented below:

### Overview of the Group's exposure to credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. As at 31 December 2020, the Group's maximum exposure to credit risk without taking into account any collateral held or other credit enhancements, which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group arises from:

- the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position; and
- the maximum amount the entity would have to pay if the financial guarantee is called upon, irrespective of the likelihood of the guarantee being exercised as disclosed in note 63(e)(i). The related loss allowance is disclosed in note 39.

The Group's current credit risk grading framework comprises the following categories:

| Category | Description | Basis for recognizing expected credit losses (ECL) |
|---|---|---|
| Performing | The counterparty has a low risk of default and does not have any past-due amounts | 12-month ECL |
| Watchlist | The amount is past due from 1 to 90 days | Lifetime ECL not impaired |
| Substandard | The amount is over 90 days past due | Lifetime ECL credit impaired |
| Doubtful | Amount is >120 days past due or there has been a significant increase in credit risk since initial recognition | Lifetime ECL – credit- impaired |
| Loss | Amount is >180 days past due or there is evidence indicating the asset is credit-impaired | Lifetime ECL – credit-impaired |
| Write-off | There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery | Amount is written off |

### Loans and advances to customers

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| | K'000 | K'000 | K'000 |
| | Group and Bank | Bank | Bank |
| **Segmental analysis-industry** | | | |
| Agriculture | 5 749 038 | 2 690 059 | 5 685 113 |
| Construction | 7 660 673 | 4 903 864 | 3 322 933 |
| Finance, real estate and other business services | 8 551 786 | 9 268 413 | 2 683 573 |
| Transport, storage and communications | 3 264 953 | 2 969 928 | 2 243 084 |
| Wholesale and retail trade | 25 072 423 | 12 719 724 | 12 005 128 |
| Community, social and personal services | 16 433 292 | 9 910 757 | 8 847 895 |
| Manufacturing | 8 736 594 | 9 768 554 | 1 687 014 |
| Electricity, gas, steam and water supply | 5 038 094 | 5 383 896 | 4 214 601 |
| | **80 506 853** | **57 615 195** | **40 689 341** |

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

To manage the level of credit risk, the Bank deals with counter-parties of good credit standing, and when appropriate, obtains collateral.

#### Internal credit ratings

In order to minimise credit risk, the Bank has tasked its Credit Management Committee to develop and maintain the Bank's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the Credit Management Committee uses other publicly available financial information and the Bank's own trading records to rate its major customers and other debtors. The Bank's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

#### COVID-19 Consideration

Malawi registered its first ever COVID-19 cases in April 2020. Thus, the Government of Malawi implemented restrictive measures in both international and local travel, in the conduct of business within the country, and in the acquisition of personal preventative equipment to curb the further spread of the pandemic. We noted that this was in line with the measures that the other Southern Africa countries took in preventing the further spread of the pandemic.

The pandemic slowed down in the final quarter of 2020, and the total number of active cases were also slowing down. The reduction in cases was therefore expected to ease pressure on the local economy with an expectation for a recovery in 2021. The second wave of the COVID-19 pandemic was expected to affect the first half of 2021 but the global economy was forecasted to recover and to grow the GDP by 5.4% in 2021 from the -4.9% GDP growth in 2020.

The Malawi 2020 GDP growth projected at 1.9%, down from the initial projections of 5.1% projection as forecasted at the beginning of the year. The forecasts indicated the local economy GDP would grow by 4.5% in 2021.

The following were the key factors for consideration in the Group and FDH Bank ECL Model:

#### Considering COVID-19 impact on credit risk

The Group and Bank expected the ECLs to increase due to the impact of COVID-19 on the economy, the economy had slowed down and this had affected most businesses.

### Incorporating COVID-19 into the Model

#### The Key macro-economic factors.

Changes in the macro-economic factors affected loans in that sector according to the co-efficient relationship established from historical data. These were mainly the GDP Growth, Policy rate, Exchange Rate and Unemployment Rate. From the Historical

Data, out of the four Macro-economic factors, GDP growth had a negative correlation with Probability of Default (PD) while the rest had a positive correlation.

With the COVID-19 impact on the Malawi economy, the Macroeconomic factors are expected to be affected as below;

| Factor | Expected Performance | Impact on PDs | Model Update |
|---|---|---|---|
| **GDP growth** | GDP growth for 2020 was initially projected at 5.5% but with COVID-19 impact this has been revised downwards to 1.9% for 2020. For 2021 initial projections were at 5.1% but this is being revised downwards to 4.5% due to COVID-19 impact. | Since there is a negative correlation between GDP growth and Probability of Default, with the drop in GDP the PDs are expected to rise. | We have updated the COVID-19 adjusted GDP growth rates into the model on the sheet "ASS2-Macro Forecasts" |
| **Unemployment Rate** | Unemployment Rate for 2020 before COVID-19 was initially projected at 5.0% but with COVID-19 impact this has been revised upwards to 5.8% for 2020. For 2021 initial projections were at 6.0% but this is being revised downwards to 6.2% due to COVID-19 impact. | Since there is a positive correlation between Unemployment Rate and Probabil-ity of Default, with the in-crease in the rate, the PDs are expected to rise. | We have updated the COVID-19 adjusted unemployment rates into the model on the sheet "ASS2-Macro Forecasts" |
| **Policy rate** | The Policy Rate for 2021 before COVID-19 was initially projected at 13.5% but with COVID-19 impact it is expected to go up to 15% with the high government borrowing which is push-ing the government securities rate up-wards. | Since there is a positive correlation between Policy Rate and Probability of Default, with the increase in the rate, the PDs are expected to rise. | We have updated the Policy rates into the model on the sheet "ASS2-Macro Fore-casts" |
| **USD/Kwacha Exchange rate** | Exchange rate for 2020 before COVID-19 was initially projected at K750/$ but with COVID-19 impact this has been revised upwards to K780/$ for 2020. For 2021 initial projections were at K750/$ but this is being revised upwards to K800/$ due to COVID-19 impact. | Ordinarily we expect a posi-tive correlation between Ex-change Rate and Probability of Default i.e. with the in-crease in the rate, the PDs are expected to increase. How-ever, there is a negative cor-relation based on the histori-cal data as the exchange rate has not been increasing sig-nificantly in the past few years and the PDs have been reducing over the years due to the stabilisation of the economy. | We have updated the exchange rates into the model on the sheet "ASS2-Macro Forecasts" Most of the loans are linked to GDP growth as the key Macroeconomic driver. |

### Incorporating Industry Sectors affected with COVID-19

We have also considered the sectors which have been significantly affected with COVID-19 and increased the probability of default in those sectors based on the information available.
We did a review of the loans restructured as a result of the COVID-19 moratorium that was directed by RBM and Bankers Association of Malawi (BAM).

We have followed the loans for three months to check how they have performed after the moratorium. The movement of loans to stage 2 represents the significant increase in credit risk and we have used that basis as an indicator of how COVID-19 will increase the credit risk.

### Industry Sector Summary impact

The diagram in section "(b) credit impairment impact" shows the impact of the COVID-19 on the economy per industry sector that has also helped the bank to analyse the impact of COVID-19 on each sector.

### Credit impairments impact

We have noted increases in the financial stress on businesses in general. However, for the short term, most of the large/ corporate businesses have survived. There has been challenges for the small businesses that are struggling and are having difficulties to meet their financial obligations. In addition to that, some sectors have been heavily affected like Travel, Tourism and Accommodation & Transportation. It is worth noting that the Bank risk appetite has also restricted business in sectors such as Travel, Tourism and Accommodation and hence while the Bank has noticed the impact, the amount of ECLs have been lower.

RBM and BAM gave a three month moratorium to SMEs on both principal and interest and these ended on 31 July 2020.

The table below shows the ECL impairments by the industry/sector performance as at the end of December 2020. The key observation is that the actual ECL fell in line with the projections that the Bank made at the end of the year. Expected COVID-19 impact has resulted in higher expected credit losses being reported in the Tourism and Leisure Sector, Transportation, Construction, Wholesale and Retail Trading (restrictions on travel), Education and in the portfolio of the consumer loans on the back of rising unemployment rate. While we did not forecast more losses in the agricultural sector, the actual performance of this sector has shown increased ECLs. This year's tobacco selling season closed with total sales amounting to $173.5 million (about K130 billion) which is 23% lower than the sales registered during last year's market season. According to figures by Auction Holdings Limited (AHL), the market this year sold 112.89 million kgs of tobacco as opposed to 165.67 million kgs sold last year. The COVID-19 pandemic stands as a contributing factor to the lowered sales.

Below is the sector analysis of the COVID-19 impact on the Loans. The Bank does not have huge loans in the sectors mostly affected by COVID-19 like Hotels & Accommodation, Tourism and Transportation. The other industries like Education, under social services, have also been affected to some extent but are picking up with online learning and other new innovations. Personal loans are expected to register an increase in ECL due to the expected high unemployment rates.

| ECL Summary By Business Unit/Product Line and By Industry | |
|---|---|
| **Industry** | **Grand Total** |
| 1. Agriculture, Forestry and Fishing | 126 132 |
| 2. Mining | 380 |
| 3. Manufacturing | 23 286 |
| 4. Electricity, Gas, Steam and Air conditioning Supply, Water Collection, Treatment and Supply | 24 573 |
| 5. Construction and Engineering | 65 556 |
| 6. Wholesale and Retail, Accommodation and Food Services | 176 217 |
| 7. Restaurants & Hotels | 4 771 |
| 8. Transport, and Storage, Information and Communication | 40 707 |
| 9. Financial and Insurance Activities, Real Estate Activities, Professional, Scientific and Technical Activities | 51 664 |
| 10. Community, Social and Personal Services | 674 414 |
| | |
| **Grand Total** | **1 187 700** |

| Loan Book Summary By Business Unit and By Industry | |
|---|---|
| **Industry** | **Grand Total** |
| 1. Agriculture, Forestry and Fishing | 5 749 038 |
| 2. Mining | 6 304 |
| 3. Manufacturing | 8 730 290 |
| 4. Electricity, Gas, Steam and Air Conditioning Supply, Water Collection, Treatment and Supply | 5 038 094 |
| 5. Construction and Engineering | 7 660 673 |
| 6. Wholesale and Retail, Accommodation and Food Services | 25 117 440 |
| 7. Restaurants & Hotels | 646 234 |
| 8. Transport, and Storage, Information and Communication | 3 264 953 |
| 9. Financial and Insurance Activities, Real Estate Activities, Professional, Scientific and Technical Activities | 7 905 535 |
| 10. Community, Social and Personal Services | 16 388 292 |
| | |
| **Grand Total** | **80 506 853** |

### (C) Liquidity risk

Liquidity risk arises where the operations of the Bank cannot be funded due to mismatches in the cash flows of assets and liabilities within the statement of financial position. The Asset and Liability Committee reviews the potential for these mismatches and takes measures to alter certain maturity profiles where necessary with a view to minimising the impact of such mismatches.

#### Management of Liquidity risk

The Bank has access to a diverse funding base. Funds are raised mainly from deposits and shareholders. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business objectives. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy. The table below analyses assets and liabilities into relevant maturity profiles based on the remaining period at 31 December 2020 and 31 December 2019 to the contractual maturity date.

| | Up to 1 month | 1-3 months | 3-12 months | Over 1 year | Carrying Total |
|---|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 | K'000 |
| **Group** | | | | | |
| **At 31 December 2020** | | | | | |
| **Assets** | | | | | |
| Cash and funds with Reserve Bank of Malawi | 12 319 745 | - | - | - | 12 319 745 |
| Placements with other banks | 22 850 507 | 11 519 671 | - | - | 34 370 178 |
| Malawi Government Treasury Bills and Reserve Bank of Malawi bond | 937 485 | 21 007 612 | 1 351 298. | 50 141 361 | 73 437 760 |
| Loans and advances to customers | 11 639 809 | 7 395 690 | 23 197 132 | 37 086 522 | 79 319 153 |
| Other investments | - | - | - | 31 032 | 31 032 |
| Other receivables | 11 438 986 | 547 414 | 75 937 | 267 937 | 12 330 274 |
| **Total assets** | **59 186 532** | **40 470 387** | **24 624 367** | **87 526 856** | **211 808 142** |
| **Liabilities** | | | | | |
| Shareholder's loan | - | 469 484 | 469 484 | 1 250 000 | 2 188 968 |
| Liabilities to customers | 103 057 564 | 39 273 839 | 14 722 509 | 1 890 176 | 158 944 088 |
| Liabilities to financial institutions | 16 301 189 | 15 238 288 | - | - | 31 539 477 |
| Long term loan | - | 631 913 | 633 330 | 6 466 593 | 7 731 836 |
| Payables and accruals | 4 459 717 | - | - | - | 4 459 717 |
| **Total liabilities** | **123 818 470** | **55 613 524** | **15 825 323** | **9 606 769** | **204 868 086** |
| **Contractual liquidity mismatch** | **(64 631 938)** | **(15 143 137)** | **8 799 044** | **77 920 087** | **6 944 056** |
| **Cumulative liquidity mismatch** | **(64 631 938)** | **(79 775 075)** | **(70 976 031)** | **6 944 056** | **6 944 056** |

| | Up to 1 month | 1-3 months | 3-12 months | Over 1 year | Carrying Total |
|---|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 | K'000 |
| **Bank** | | | | | |
| **At 31 December 2020** | | | | | |
| **Assets** | | | | | |
| Cash and funds with Reserve Bank of Malawi | 12 319 745 | - | - | - | 12 319 745 |
| Placements with other banks | 22 850 507 | 11 519 671 | - | - | 34 370 178 |
| Malawi Government Treasury Bills and Reserve Bank of Malawi bond | 937 485 | 20 830 913 | 1 351 298 | 49 705 077 | 72 824 773 |
| Loans and advances to customers | 11 639 809 | 7 395 690 | 23 197 132 | 37 086 522 | 79 319 153 |
| Other investments | - | - | - | 6 951 265 | 6 951 265 |
| Other receivables | 11 438 986 | 547 414 | 75 937 | - | 12 062 337 |
| **Total assets** | **59 186 532** | **40 293 688** | **24 624 367** | **93 742 864** | **217 847 451** |
| **Liabilities** | | | | | |
| Shareholder's loan | - | 469 484 | 469 484 | 1 250 000 | 2 188 968 |
| Liabilities to customers | 103 057 564 | 39 273 839 | 14 722 509 | 1 981 351 | 159 035 263 |
| Liabilities to financial institutions | 16 301 189 | 15 238 288 | - | - | 31 539 477 |
| Long term loan | - | 631 913 | 633 330 | 6 466 593 | 7 731 836 |
| Payables and accruals | 4 017 784 | - | - | - | 4 017 784 |
| **Total liabilities** | **123 376 537** | **55 613 524** | **15 825 323** | **9 697 944** | **204 513 328** |
| **Contractual liquidity mismatch** | **(64 190 005)** | **(15 319 836)** | **8 799 044** | **84 044 920** | **13 334 123** |
| **Cumulative liquidity mismatch** | **(64 190 005)** | **(79 509 841)** | **(70 710 797)** | **13 334 123** | **13 334 123** |

| | Up to 1 month | 1-3 months | 3-12 months | Over 1 year | Carrying Total |
|---|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 | K'000 |
| **Bank** | | | | | |
| **At 31 December 2019** | | | | | |
| **Assets** | | | | | |
| Cash and funds with Reserve Bank of Malawi | 7 062 293 | - | - | - | 7 062 293 |
| Placements with other banks | 31 750 661 | - | - | - | 31 750 661 |
| Malawi Government Treasury Bills and Reserve Bank of Malawi bond | 521 696 | 21 246 701 | 13 560 000 | 11 626 752 | 46 955 149 |
| Loans and advances to customers | 7 711 529 | 10 314 140 | 25 444 720 | 13 343 506 | 56 813 895 |
| Other investments | - | - | - | 31 032 | 31 032 |
| Other receivables and prepayments | 10 851 671 | 5 098 244 | 3 607 273 | - | 19 557 188 |
| **Total assets** | **57 897 850** | **36 659 085** | **42 611 993** | **25 001 290** | **162 170 218** |

| | Up to 1 month | 1-3 months | 3-12 months | Over 1 year | Carrying Total |
|---|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 | K'000 |
| **Liabilities** | | | | | |
| Shareholder's loan | - | 410 414 | 410 414 | 1 785 715 | 2 606 543 |
| Liabilities to customers | 83 557 257 | 24 914 205 | 27 956 542 | 712 826 | 137 140 830 |
| Liabilities to financial institutions | 10 301 285 | - | - | - | 10 301 285 |
| Long term loan | - | 82 107 | - | 5 678 812 | 5 760 919 |
| Payables and accruals | 3 297 656 | 3 355 801 | - | - | 6 653 457 |
| **Total liabilities** | **97 156 198** | **28 762 527** | **28 366 956** | **8 177 353** | **162 463 034** |
| **Contractual liquidity mismatch** | **(39 258 348)** | **7 896 558** | **14 245 037** | **16 823 937** | **(292 816)** |
| **Cumulative liquidity mismatch** | **(39 258 348)** | **(31 361 790)** | **(17 116 753)** | **(292 816)** | **(292 816)** |

| | Up to 1 month | 1-3 months | 3-12 months | Over 1 year | Carrying Total |
|---|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 | K'000 |
| **Bank** | | | | | |
| **At 31 December 2018** | | | | | |
| **Assets** | | | | | |
| Cash and funds with Reserve Bank of Malawi | 14 885 769 | - | - | - | 14 885 769 |
| Placements with other banks | 26 084 042 | - | - | - | 26 084 042 |
| Malawi Government Treasury Bills and Reserve Bank of Malawi bond | 2 305 500 | 9 935 633 | 1 876 071 | 25 434 929 | 39 552 133 |
| Other short term investments – OMO | 5 496 484 | - | - | - | 5 496 484 |
| Loans and advances to customers | 7 075 019 | 11 443 458 | 9 968 476 | 12 202 388 | 40 689 341 |
| Other investments | - | - | - | 26 032 | 26 032 |
| Amounts due from related parties | 791 525 | - | - | - | 791 525 |
| Other receivables and prepayments | 4 483 449 | - | - | - | 4 483 449 |
| **Total assets** | **61 121 788** | **21 379 091** | **11 844 547** | **37 663 349** | **132 008 775** |
| **Liabilities** | | | | | |
| Shareholder's loan | 80 823 | 2 648 321 | - | - | 2 729 144 |
| Liabilities due to customers | 87 064 977 | 16 068 707 | 9 436 580 | - | 112 570 264 |
| Liabilities to financial institutions | 4 504 286 | - | - | - | 4 504 286 |
| Long term loan | - | - | - | 5 454 618 | 5 454 618 |
| Amounts due to related parties | 3 444 | - | - | - | 3 444 |
| Payables and accruals | 11 621 378 | - | - | - | 11 621 378 |
| **Total liabilities** | **103 274 908** | **18 717 028** | **9 436 580** | **5 454 618** | **136 883 134** |
| **Contractual liquidity mismatch** | **(42 153 120)** | **2 662 063** | **2 407 967** | **32 208 731** | **(4 874 359)** |
| **Cumulative liquidity mismatch** | **(42 153 120)** | **(39 491 057)** | **(37 083 090)** | **(4 874 359)** | **(4 874 359)** |

## (D) Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and credit spreads will affect the Bank's income or the value of holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

### Market risk review

The following table sets out the allocation of the carrying value of assets and liabilities subject to market risk between trading and non-trading portfolios:

| | Carrying amount | Trading portfolio | Non-trading portfolios |
|---|---|---|---|
| | K'000 | K'000 | K'000 |
| **Group** | | | |
| **At 31 December 2020** | | | |
| **Assets subject to market risk** | | - | - |
| Cash and cash equivalents | 12 319 745 | - | 12 319 745 |
| Placements with other banks | 34 370 178 | - | 34 370 178 |
| Loan and advances to customers | 79 319 153 | - | 79 319 153 |
| Investment securities | 73 437 760 | - | 73 437 760 |
| | **199 446 836** | **-** | **199 446 836** |
| **Liabilities subject to market risk** | | | |
| Deposits from banks | 31 539 477 | - | 31 539 477 |
| Deposits from customers | 158 944 088 | - | 158 944 088 |
| Debt securities issued | 7 731 836 | - | 7 731 836 |
| Subordinated liabilities | 2 188 968 | - | 2 188 968 |
| | **200 404 369** | **-** | **200 404 369** |

### Market risk type

| | Carrying amount | Trading portfolio | Non-trading portfolios |
|---|---|---|---|
| | K'000 | K'000 | K'000 |
| **Bank** | | | |
| **At 31 December 2020** | | | |
| Assets subject to market risk | | - | - |
| Cash and cash equivalents | 12 319 745 | - | 12 319 745 |
| Placements with other banks | 34 370 178 | - | 34 370 178 |
| Loan and advances to customers | 79 319 153 | - | 79 319 153 |
| Investment securities | 72 824 773 | - | 72 824 773 |
| | **198 833 849** | **-** | **198 833 849** |
| **Liabilities subject to market risk** | | | |
| Deposits from banks | 31 539 477 | - | 31 539 477 |
| Deposits from customers | 159 035 263 | - | 159 035 263 |
| Debt securities issued | 7 731 836 | - | 7 731 836 |

| | Carrying amount | Trading portfolio | Non-trading portfolios |
|---|---|---|---|
| | K'000 | K'000 | K'000 |
| Subordinated liabilities | 2 188 968 | - | 2 188 968 |
| | **200 495 544** | **-** | **200 495 544** |
| **Bank** | | | |
| **At 31 December 2019** | | | |
| **Assets subject to market risk** | | | |
| Cash and cash equivalents | 7 062 293 | - | 7 062 293 |
| Placements with other banks | 31 750 661 | - | 31 750 661 |
| Loan and advances to customers | 56 813 895 | - | 56 813 895 |
| Investment securities | 46 955 149 | - | 46 955 149 |
| | **142 581 998** | **-** | **142 581 998** |
| **Liabilities subject to market risk** | | | |
| Deposits from banks | 10 301 285 | - | 10 301 285 |
| Deposits from customers | 137 140 830 | - | 137 140 830 |
| Debt securities issued | 5 760 919 | - | 5 760 919 |
| Subordinated liabilities | 2 606 543 | - | 2 606 543 |
| | **155 809 577** | **-** | **155 809 577** |
| **Bank** | | | |
| **At 31 December 2018** | | | |
| **Assets subject to market risk** | | | |
| Cash and cash equivalents | 14 885 769 | - | 14 885 769 |
| Other short term investment - OMO | 5 496 484 | - | 5 496 484 |
| Placements with other banks | 26 084 042 | - | 26 084 042 |
| Loan and advances to customers | 40 689 341 | - | 40 689 341 |
| Investment securities | 39 552 133 | - | 39 552 133 |
| | **126 707 769** | **-** | **126 707 769** |
| **Liabilities subject to market risk** | | | |
| Deposits from banks | 4 504 286 | - | 4 504 286 |
| Deposits from customers | 112 570 264 | - | 112 570 264 |
| Debt securities issued | 5 454 618 | - | 5 454 618 |
| Subordinated liabilities | 2 729 144 | - | 2 729 144 |
| | **125 258 312** | **-** | **125 258 312** |

## Management of market risks

Overall authority for market risk management is vested in the ALCO.

### Interest rate risks

Bank's interest rate risk exposure is related to money market investments, advances to customers, customer deposits and money market liabilities.

## (E) Currency risk

The Group and Bank undertake certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The Bank has the following currency positions:

| | USD | GBP | Euro | ZAR | JYP | Other Currencies | MK | Total |
|---|---|---|---|---|---|---|---|---|
| | **K'000** | **K'000** | **K'000** | **K'000** | **K'000** | **K'000** | **K'000** | **K'000** |
| **Group** | | | | | | | | |
| **At 31 December 2020** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and bank balances with Reserve Bank of Malawi | 232 895 | 7 827 | 10 447 | 568 | - | - | 12 068 008 | 12 319 745 |
| Placement with other banks | 19 386 513 | 148 135 | 7 589 823 | 12 232 | 65 | 1 649 | 7 231 761 | 34 370 178 |
| Malawi Government Treasury Bills | - | - | - | - | - | - | 73 437 760 | 73 437 760 |
| Loans and advances to customers | 2 021 234 | - | - | - | - | - | 77 297 919 | 79 319 153 |
| Other investments | - | - | - | - | - | - | 31 032 | 31 032 |
| Other receivables | - | - | - | - | - | - | 12 330 274 | 12 330 274 |
| **Total assets** | **21 640 642** | **155 962** | **7 600 270** | **12 800** | **65** | **1 649** | **182 396 754** | **211 808 142** |
| **Liabilities** | | | | | | | | |
| Liabilities to customers | 12 256 577 | 155 962 | 7 366 071 | 6 722 | - | - | 139 158 756 | 158 944 088 |
| Liabilities to financial institutions | 3 847 056 | - | - | - | - | - | 27 692 421 | 31 539 477 |
| Shareholders' loan | - | - | - | - | - | - | 2 188 968 | 2 188 968 |
| Long-term loan | 7 731 836 | - | - | - | - | - | - | 7 731 836 |
| Payables and accruals | 17 032 | - | - | - | - | - | 4 442 685 | 4 459 717 |
| **Total liabilities** | **23 852 501** | **155 962** | **7 366 071** | **6 722** | **-** | **-** | **173 482 830** | **204 864 086** |
| Net balance | (2 211 859) | - | 234 199 | 6 078 | 65 | 1 649 | 8 913 924 | 6 944 056 |

| | USD | GBP | Euro | ZAR | JYP | Other Currencies | MK | Total |
|---|---|---|---|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 |
| **Bank** | | | | | | | | |
| **At 31 December 2020** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and bank balances with Reserve Bank of Malawi | 232 895 | 7 827 | 10 447 | 568 | - | - | 12 068 008 | 12 319 745 |
| Placement with other banks | 19 386 513 | 148 135 | 7 589 824 | 12 232 | 64 | 1 649 | 7 231 761 | 34 370 178 |
| Malawi Government Treasury Bills | - | - | - | - | - | - | 72 824 773 | 72 824 773 |
| Loans and advances to customers | 2 021 234 | - | - | - | - | - | 77 297 919 | 79 319 153 |
| Other investments | - | - | - | - | - | - | 6 951 265 | 6 951 265 |
| Other receivables | ¬- | - | - | - | - | - | 12 062 337 | 12 062 337 |
| **Total assets** | **21 640 642** | **155 962** | **7 600 271** | **12 800** | **64** | **1 649** | **188 436 063** | **217 847 451** |
| **Liabilities** | | | | | | | | |
| Liabilities to customers | 12 347 752 | 155 962 | 7 366 071 | 6 722 | - | - | 139 158 756 | 159 035 263 |
| Liabilities to financial institutions | 3 847 056 | - | - | - | - | - | 27 692 421 | 31 539 477 |
| Shareholders' loan | - | - | - | - | - | - | 2 188 968 | 2 188 968 |
| Long-term loan | 7 731 836 | - | - | - | - | - | - | 7 731 836 |
| Payables and accruals | 17 032 | - | - | - | - | - | 4 000 752 | 4 017 784 |
| **Total liabilities** | **23 943 676** | **155 962** | **7 366 071** | **6 722** | **-** | **-** | **173 040 897** | **204 513 328** |
| Net balance | (2 303 034) | (-) | 234 200 | 6 078 | 64 | 1 649 | 15 395 166 | 13 334 123 |

| | USD | GBP | Euro | ZAR | JYP | Other Currencies | MK | Total |
|---|---|---|---|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 |
| **Bank** | | | | | | | | |
| **At 31 December 2019** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and bank balances with Reserve Bank of Malawi | 26 557 | - | - | - | - | - | 7 035 736 | 7 062 293 |
| Placement with other banks | 17 901 887 | 325 407 | 2 686 152 | 5 440 | 84 | 2 478 | 10 829 213 | 31 750 661 |
| Malawi Government Treasury Bills | - | - | - | - | - | - | 46 955 149 | 46 955 149 |
| Loans and advances to customers | 2 266 562 | - | - | 328 | - | - | 54 547 005 | 56 813 895 |
| Other investments- | | - | - | - | - | - | 31 032 | 31 032 |
| Other receivables | - | - | - | - | - | - | 195 557 188 | 29 173 304 |
| **Total assets** | **20 195 006** | **325 407** | **2 686 152** | **5 768** | **84** | **2 478** | **138 955 323** | **162 170 218** |
| **Liabilities** | | | | | | | | |
| Liabilities to customers | 14 277 813 | 463 337 | 3 309 994 | 4 765 | - | - | 119 084 921 | 137 140 830 |
| Liabilities to financial institutions | 2 203 379 | - | - | - | - | - | 8 097 906 | 10 301 285 |
| Shareholders' loan | - | - | - | - | - | - | 2 606 543 | 2 606 543 |

| | USD | GBP | Euro | ZAR | JYP | Other Currencies | MK | Total |
|---|---|---|---|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 |
| Long-term loan | - | - | - | - | - | - | 5 760 919 | 5 760 919 |
| Payables and accruals | 52 594 | - | - | - | - | - | 6 600 863 | 6 653 457 |
| **Total liabilities** | **16 533 786** | **463 337** | **3 309 994** | **4 765** | **-** | **-** | **142 151 152** | **162 463 034** |
| Net balance | 3 661 220 | (137 930) | (623 842) | 1 003 | 84 | 2 478 | (3 195 829) | (292 816) |

The impact of a 5% movement in foreign currency exchange rates in both directions is K399 million as at 31 December 2020 (2019: K268 million).

| | USD | GBP | Euro | ZAR | JYP | Other Currencies | MK | Total |
|---|---|---|---|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 |
| **Bank** | | | | | | | | |
| **At 31 December 2018** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and bank balances with Reserve Bank of Malawi | - | - | - | - | - | - | 14 885 769 | 14 885 769 |
| Placement with other banks | 22 667 177 | 72 704 | 3 337 275 | 5 604 | 604 | 678 | - | 26 084 042 |
| Malawi Government Treasury Bills | - | - | - | - | - | - | 39 552 133 | 39 552 133 |
| Other short term investments – OMO | 5 496 484 | - | - | - | - | - | - | 5 496 484 |
| Loans and advances to customers | 64 341 | - | - | - | - | - | 40 625 000 | 40 689 341 |
| Other investments | - | - | - | - | - | - | 26 032 | 26 032 |
| Amounts due from related parties | - | - | - | - | - | - | 791 525 | 791 525 |
| Other receivables | - | - | - | - | - | - | 4 483 449 | 4 483 449 |
| **Total assets** | **28 228 002** | **72 704** | **3 337 275** | **5 604** | **604** | **678** | **100 363 908** | **132 008 775** |
| **Liabilities** | | | | | | | | |
| Liabilities to customers | 14 665 133 | 82 888 | 3 287 973 | 4 129 | - | - | 94 530 141 | 112 570 264 |
| Liabilities to financial institutions | - | - | - | - | - | - | 4 504 286 | 4 504 286 |
| Shareholders' loan | - | - | - | - | - | - | 2 729 144 | 2 729 144 |
| Long-term loan | 5 454 618 | - | - | - | - | - | - | 5 454 618 |
| Amount due to related parties | - | - | - | - | - | - | 3 444 | 3 444 |
| Payables and accruals | - | - | - | - | - | - | 11 621 378 | 11 621 378 |
| **Total liabilities** | **20 119 751** | **82 888** | **3 287 973** | **4 129** | **-** | **-** | **113 388 393** | **136 883 134** |
| **Net balance** | **8 108 251** | **(10 184)** | **(49 302)** | **1 475** | **604** | **678** | **(13 024 485)** | **(4 874 359)** |

## (F) Operational risks

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

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

The Bank has an internal audit department with the mandate of conducting audits to provide independent assurance on the adequacy and effectiveness of the management of operational risk, including, but not limited to, the processes, systems and controls.

**(G) Compliance risk**

This refers to the risk of non-compliance with any statutory requirements of central or local government, including regulations imposed by the Reserve Bank of Malawi and other regulatory bodies.

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

The Bank is subject to extensive supervisory and regulatory regimes, and the executive management remains responsible for overseeing the management of the Bank's compliance risk.

Statutory requirements

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

Liquidity reserve requirement

The Bank is required to maintain a liquidity reserve with the Reserve Bank of Malawi equivalent to no less than 3.5% (2019: 7.5%) of total customer deposits. At the end of the year, the liquidity reserve was equivalent to 3.5% of customer deposits.

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

Capital adequacy requirements are discussed in section 'h' below.

Prudential aspects of bank liquidity

As a compliment to Section 38 of the Banking Act, 2009, the Reserve Bank of Malawi had issued the following guidelines on the management of liquidity as at the end of the reporting period:

- Liquidity Ratio I - Net liquidity (total liquid assets less suspense accounts in foreign currency) divided by total deposits must be at least 30%; and
- Liquidity Ratio II - Net liquidity (total liquid assets less suspense accounts in foreign currency and cheques in the course of collection) divided by total deposits must be at least 20%.

Liquidity Ratios

At the end of the period the Bank's liquidity ratio I was 62.59% (2019: 68.58%) and liquidity ratio II was 62.24% (2019: 68.08%).

**(H) Capital management**

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

- Tier I capital, which comprises ordinary share capital, share premium, retained profits from prior periods, and 60% of after-tax profits in the current period-to-date, less any unconsolidated investment in financial companies; and
- Tier II capital, which also includes share revaluation reserves, investment revaluation reserve, property revaluation reserve and loan loss reserve.

The calculation of the above ratios is given below:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| | K'000 | K'000 | K'000 |
| | | Restated | Restated |
| | Bank | Bank | Bank |
| **Tier 1 capital** | | | |
| Share capital | 6 901 031 | 462 706 | 462 706 |
| Share premium | 4 910 065 | 7 450 660 | 7 450 660 |
| Preference shares | - | 3 111 000 | 3 111 000 |
| Capital reserve | 2 716 230 | 2 716 230 | 2 716 230 |
| Retained earnings | (2 449 576) | (3 486 725) | (4 110 997) |
| 60% of net income for the period | 8 393 267 | 3 115 947 | 1 132 368 |
| Unconsolidated investment | (15 000) | (15 000) | (13 016) |
| Deferred tax asset | (774 802) | - | (3 757 010) |
| Total Tier 1 capital | 19 681 215 | 13 354 818 | 6 991 941 |
| Loan loss reserve | 520 411 | 495 078 | 290 733 |
| Unconsolidated investment | (15 000) | (15 000) | (13 016) |
| Shareholder loan | 2 188 968 | 2 606 543 | 2 729 144 |
| Total capital (Tier I & II) | 22 375 594 | 16 441 439 | 9 998 802 |
| Risk weighted assets | 138 185 069 | 112 861 264 | 87 920 79 |
| **Capital ratio** | | | |
| Total regulatory capital (Tier II) expressed as a percentage of total risk weighted assets | 16.19% | 14.57% | 11.37% |
| Total Tier I capital expressed as a percentage of total risk weighted assets | 14.24% | 11.83% | 7.95% |

Over and above the tier 1 and tier 2 ratios, the Reserve Bank of Malawi has also set a minimum share capital, share premium and retained earnings requirements. The sum of share capital, share premium must be at least K1 640 million as from 1 January 2015 for all registered banks. FDH Bank complies with this regulatory requirement.

## 30. CONTINGENT LIABILITIES

The Bank is a defendant to several cases which are outstanding in the courts of Malawi. While liability is not admitted, if the defence against the actions is unsuccessful, then the Bank would pay the claims estimated at K0.986 billion (2019: K1.037 billion). The outcome of these cases are subject of the determination by the courts.

## 31. GOING CONCERN

The Group recorded a profit of K14.368 billion and the Bank recorded a profit of K14.956 billion (2019: K5.193 billion for the Bank restated) for the year ended 31 December 2020, and the Group had current liabilities of K195.257 billion, and the Bank had current liabilities of K194.815 billion (2019: K154.286 billion for the Bank) against Group's current assets of K124.281 billion and Bank's current assets of K124.105 billion (2019: K137.169 billion for the Bank). As at 31 December 2020, the Capital Ratios for Tier 1 and Tier 2 ratios were as follows 14.24% (2019:11.83%) and 18.14 % (2019:14.57%) respectively.

The consolidated and separate financial statements have been prepared on a going concern basis that assumes that the Group and Bank will continue in operational existence for the foreseeable future. The validity of the going concern assumptions is dependent on the Group and Bank being able to have funds to sustain its operations.

## 32. EXCHANGE RATES AND INFLATION

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

| | 2020 | 2019 |
|---|---|---|
| Kwacha/GBP | 967.48 | 968.02 |
| Kwacha/Rand | 47.24 | 51.57 |
| Kwacha/US Dollar | 742.53 | 736.66 |
| Kwacha/Euro | 867.87 | 815.47 |
| Inflation rate (%) | 8.6 | 11.5 |

As at the date of approval of financial statements, the above noted rates had moved as follows:

| | |
|---|---|
| Kwacha/GBP | 1 108.29 |
| Kwacha/Rand | 55.53 |
| Kwacha/US Dollar | 775.69 |
| Kwacha/Euro | 974.75 |
| Inflation rate (%) | 7.7 |

## 33. SUBSEQUENT EVENT

No events have occurred which require adjustments to or disclosures in the consolidated and separate financial statements.

Our Bank, Our Future, Grow With Us