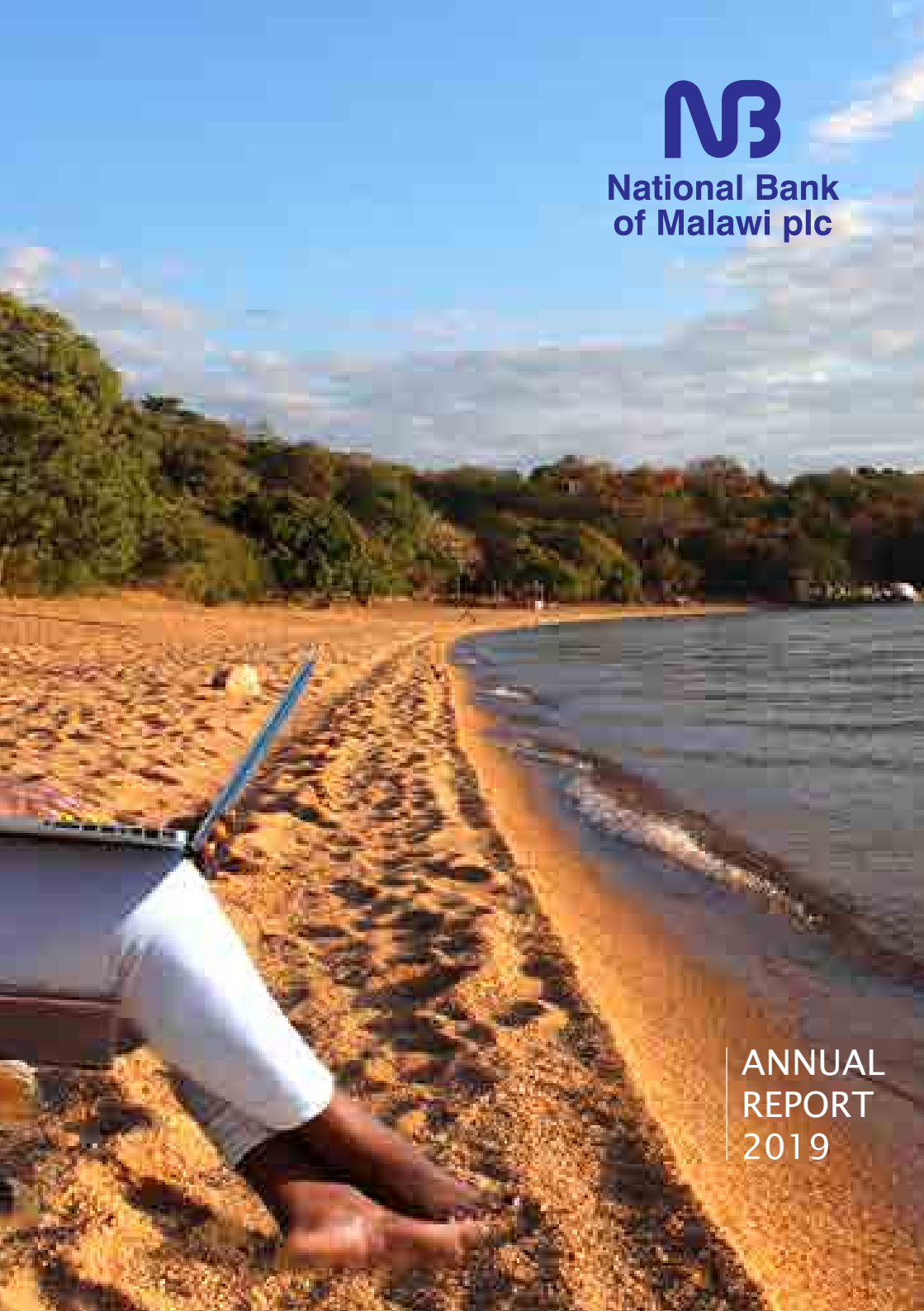




**National Bank
of Malawi plc**

**ANNUAL
REPORT
2019**



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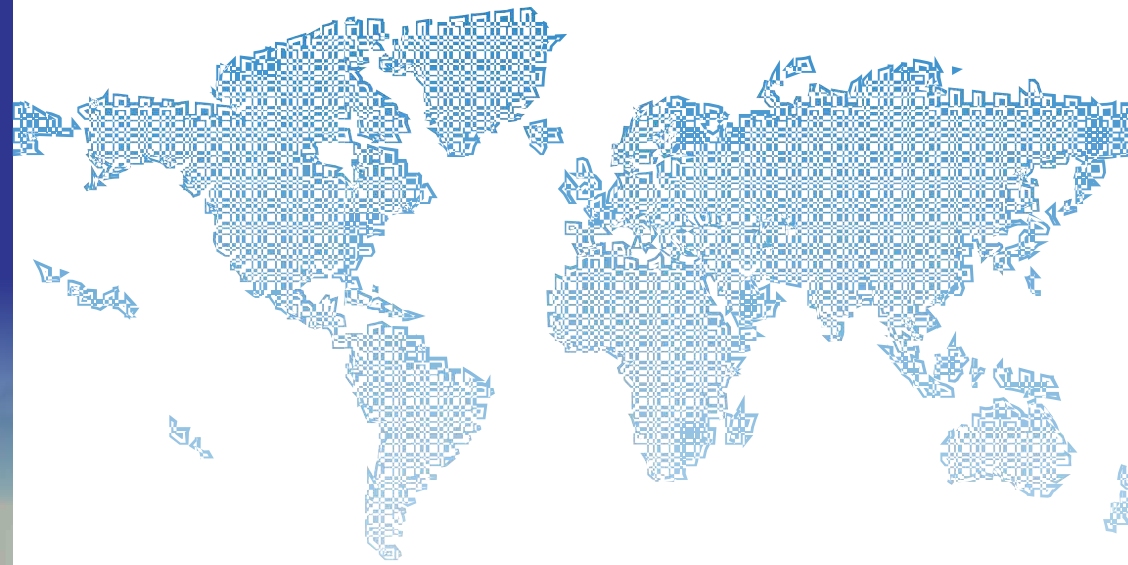
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VISION

To be the most successful financial institution in Malawi with an international visible presence

MISSION

To provide the best financial services in Malawi and internationally distinguished by outstanding service, product innovation and sustained earnings

CORE VALUES

Customer Centred

Always striving to meet our customers' expectations and putting the customer first.

Equal Opportunity Employee Recruitment and Development

- Employees are the key to the success of National Bank of Malawi plc
- The Bank will recruit based on merit and competencies required for the job.
- The Bank will ensure that employees are properly trained so that it retains a disciplined and motivated staff.
- The Bank will provide a working environment which is conducive to continuous employee self-development and advancement

Employee Commitment

The Bank will be committed to excellence in its performance and that the employees will have a clear understanding of its objectives and goals.

Integrity and Trust

All Bank employees will fully comply with and share the Bank's commitment to high moral, ethical and legal standards.

Team Work

The Bank will build and maintain a culture of mutual respect, recognition and cooperation and promote feedback, effective communication and group work.

Corporate Social Responsibility

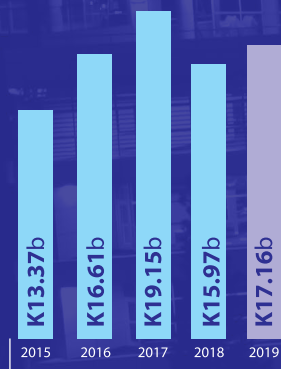
As a good corporate citizen, National Bank of Malawi will actively participate in deserving charitable and social activities.

VALUE PROPOSITION

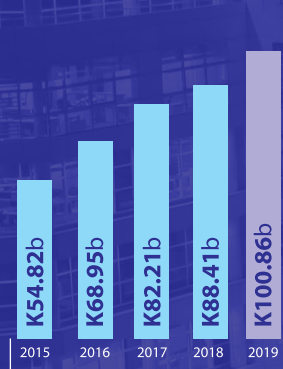
Reliable and Innovative Financial Solutions that Open Doors of Possibilities

2019 KEY PERFORMANCE HIGHLIGHTS

PROFIT AFTER TAX



SHAREHOLDER FUNDS



DEPOSITS



LOANS AND ADVANCES



BALANCE SHEET SIZE
MWK
459.16 b

PROFIT AFTER TAX
MWK
17.16 b

11.5%
Revenue Growth

PROFITABILITY HIGHLIGHTS (K'b)

	2019	2018	2019 vs 2018
Net Revenue	70.24	63.02	↑ 11.5%
Profit After Tax	17.16	15.97	↑ 7.5%

BALANCE SHEET HIGHLIGHTS (K'b)

	2019	2018	2019 vs 2018
Total Assets	459.16	417.33	↑ 10.0%
Total Deposits	318.47	294.53	↑ 8.1%
Total Loans and Advances	188.32	166.62	↑ 13.0%
Total Equity	100.86	88.41	↑ 14.1%



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National Bank of Malawi plc (NBM) follows principles of **openness, integrity and accountability** to achieve a cordial relationship with its shareholders, customers, strategic partners, suppliers of goods and services, regulators and staff.

Subsequent pages, therefore carry information about:

- Current Directors
- Directors' Report
- Chairman's Report
- Senior Management
- Chief Executive Officer's Statement



ANTICLOCKWISE

Macfussy M Kawawa (55)
B.Acc (Hons), FCCA,
CA (Mw), MBA
Director

Dr. George B Partridge (56)
B.Soc Sc (Econ),
Msc (Finance)
FCCA, CA (M)
Chairman

Bessy Nyirenda (Mrs) (57)
BSc, MSc, MBA
Director

James Mhura (43)
MBA, ACMA, B.Acc.
Director

John Biziwick (61)
B.Soc Sc (Econ)
Msc (Econ)
Director

Jim Nsomba (58)
FCCA, CPA, B.Com
Director

Zunzo E. Mitole (Mrs) (46)
LLB (Hons), MBA
Company Secretary
& Legal Counsel

Maureen Kachingwe (Mrs) (53)
LL.B (Hons), MBA
Director

Dorothy Ngwira (Mrs) (54)
FCCA, CA (Mw)
Director

Crispin Mzengereza (61)
B.A Pub (Admin),
BCom, MCom
Director

Harold Jiya (48)
B.Com, ACIB, MBA
Director

Elizabeth Mafeni (Mrs) (51)
MBL, FCCA, B.Com
Director

Raymond Banda (52)
MBA, BSc
Director



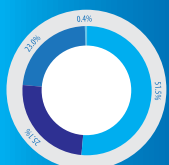
DIRECTORS' REPORT



Proposed
final dividend
K4,300m



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



Shareholders
and their
respective
shareholdings

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

CAPITAL

The authorised share capital of the Bank is K500m (2018: K500m) divided into 500,000,000 Ordinary Shares of K1 each. The issued capital is K467m (2018: K467m) divided into 466,931,738 (2018: 466,931,738) fully paid Ordinary Shares of K1 each.

The shareholders and their respective shareholdings are:

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

PROFIT AND DIVIDENDS

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

DIRECTORS

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

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

DIRECTORS' INTERESTS

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

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



13
Directors



967 337
Total Directors'
Ordinary Shares



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

DIRECTORS' REMUNERATION

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



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

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

DIRECTORS' TENURE POLICY

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

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

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

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

CORPORATE GOVERNANCE

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

OVERVIEW OF SUBSIDIARIES

Subsidiaries corporate governance

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

Subsidiaries board of directors

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

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



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



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



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

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

DONATIONS

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



ACTIVITIES

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

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

AREAS OF OPERATION

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



33 service centres throughout the country


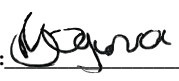
AUDITORS

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

AUDITORS' REMUNERATION

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

BY ORDER OF THE BOARD

Chairman:  Director: 

Date: 26th March 2020



Dr. George B. Partridge



CHAIRMAN'S REPORT

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



Non-interest income grew by **10%** ↑

THE OPERATING ENVIRONMENT

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

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

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

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



Net Interest and Investment Income income grew by **12%** ↑



Overall Net Revenue grew by **11%** ↑



The loan book
grew by
13%



Customer deposits
increased by
8%

PERFORMANCE

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

STRATEGY AND PROSPECTS

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

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

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



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

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

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

BOARD OF DIRECTORS

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

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

MANAGEMENT AND STAFF

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

Dr. G B Partridge
CHAIRMAN



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



ANTICLOCKWISE ↻

Eluphy Salamba
B.Com, MSc (LCM)
Head, Credit
Management

Macfussy M Kawawa
B.Acc (Hons.), FCCA,
CA, MBA.
Chief Executive Officer

Brian Bobby
B.Soc.Sc., MBA.
Head,
Operations

Charles Dulira
BA, CTP, MBA
Head, Human
Resources

Harold Jiya
B.Com, ACIB, MBA
General Manager & Head,
Wholesale Banking

Zunzo E Mitole (Mrs)
LLB (Hons), MBA
Company Secretary
& Legal Counsel

Wilkins Mijiga
B.Soc.Sc. (Econ)
Head, Client
Coverage

Masauko Katsala
B.Com, FCCA, CA, MBA.
Chief Financial
Officer

John Mitchell
BSc., MSc (Comp.)
Head, Information
Technology

Charles Ulaya
B.Acc, ACMA, CA
Chief Risk
Officer

William Chatsala
B.Com, MBA, FCIB
Head, Strategy
& Projects

Daniel Jere
B.Acc, MBA, FCMA,
CGMA, CA
Head, Internal Audit

Oswin Kasunda
B.Com, MSc (St.Mgt)
Head, Personal &
Business Banking

Harry Mukaka
BA, MBA.
Head, Treasury &
Investment Banking

William Kaunda
BSc, MSc (Bus Mgt)
Head, Cards &
e-Banking



Macfussy M. Kawawa



CHIEF EXECUTIVE OFFICER'S STATEMENT

PERFORMANCE OVERVIEW

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

The economy experienced some negative shocks as a result of Cyclone Idai which ravaged parts of the Southern Region coupled with poor tobacco export receipts compared to prior year. Inflation averaged 9.4% in 2019 compared to an annual average of 9.2% the previous year. Correspondingly, the Policy Rate as well as commercial banks' base lending rates continued on a downward trend. In the second half of the year, the industry adopted the use of a reference rate, a weighted average of several factors, as the new basis for lending. In the period under review, the reference rate ranged from 12% to 13.4%.

The Malawi Kwacha largely remained stable having shown some appreciation of about 18% between July 2019 and close of the year. In spite of the above positive developments, economic activity was for a greater part of the year rather subdued, largely on account of political instability before and after the May 2019 Tripartite Elections which disrupted business activity and raised perceived country risk.

WHOLESALE BANKING OPERATIONS

2019 was another difficult year on the Corporate Banking front. Despite the trending downwards of interest rates and foreign exchange rate stability, the quantum as well as quality of the Bank's loan book was not as good as desired largely on account of a rise in political risk before and after the May 2019 elections and power supply challenges. Going forward, we remain committed to offer our clients personalised access to dedicated Account Relationship Managers, supported by

product specialists, to work towards improved customer experience and delivery of tailor-made solutions.

TREASURY AND INVESTMENT BANKING

Treasury Division's overall performance was buoyed by better revenues from Money Market investments. Despite the year experiencing declining yields on various investments, money market revenue targets were achieved largely on account of increased Money Market portfolio as a result of the excess liquidity that arose from Monetary policy changes effected earlier in the year. Foreign exchange income also improved due to increased trade volumes, better margins during the tobacco season and active use of hedging instruments during the lean period and times of price volatility.

The stock market had a bearish performance in the year and this resulted in the Bank's equity portfolio registering a positive return.

PERSONAL AND BUSINESS BANKING OPERATIONS

Personal and Business Banking serves personal customers, Small to Medium Enterprises (SMEs) and leasing customers. The total lending portfolio registered a growth of 16%. This performance is attributed to the customer centric business model adopted which helped the Bank to effectively engage with customers and develop product and service offerings that address their unique needs.

In Personal Banking, the focus was on growing the loan book and providing personalised service through the Premium Banking service offering which in the year was enhanced by the inclusion of a credit card to its package. Further, focus was on building and strengthening long-term relationships with reputable corporate employers with an aim of increasing our credit and service offering to their employees. All these initiatives resulted in the growth of the portfolio by 43%.

In SME Banking, capacity building, understanding our customer needs and developing deep sector knowledge were key. The Bank developed a special product offering for women entrepreneurs called Amayi Angathe following rigorous engagements with them. Under this package, K1b was made available to this special group in form of business loans and credit cards within a period of six months. The Bank also provided in-class training in business management skills to young entrepreneurs in all the three regions of Malawi. Through implementation of such customer segmentation model, appropriate products and services and a more focused relationship management were delivered to SME customers. This resulted in growth of the business portfolio.

The Bank has maintained its leadership position in leasing business with a market share of 55% as at 31st December 2019 despite the portfolio registering a 7% decline over the previous year.

We will continue our quest to remain relevant to our customers by continuously reviewing our product and service offering to ensure that our solutions are responsive to the ever-changing needs of our customers and commensurate with leading offerings in the developed markets.



Transactions handled through cards and electronic services continued to proportionately increase and by the end of the year accounted for **90%** of the total transactions processed.



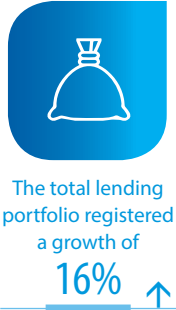
DIGITAL BANKING SERVICES

In the course of the year, the Bank continued to make strides in the digital banking services space. Transactions handled through cards and electronic services continued to proportionately increase and by the end of the year accounted for 90% of the total transactions processed. The Bank rolled out the new mobile digital app (Mo626 Digital+) and Internet Banking service (BankNet360) for retail customers both of which enable customers to interoperate with all service providers including making transfers to mobile money wallets. The Bank also rolled out contactless service for its portfolio of debit cards and POS devices.

Looking ahead, the Bank plans to roll out integrated services to merchants and roll out improved services in mobile services that will see introduction of a mobile wallet and mobile payments.

INFORMATION TECHNOLOGY SYSTEMS

In 2019, we engaged in several IT projects and activities with a view to improve ICT infrastructure, IT Security and delivery of existing products and services as well as to facilitate introduction of new ones. Among others, the card payment system was updated to enable usage of contactless cards and improve stability. The core network



infrastructure and architecture were upgraded to improve performance, availability and security and a new IT service management system was introduced to improve management of IT services.

CUSTOMER SERVICE CHANNEL IMPROVEMENTS

Dwangwa Service Centre was officially opened on 29th November 2019. The new service centre is strategically located at one of the busiest business hubs along the M5 Road and complements Salima Service Centre to offer convenience and better access to modern banking facilities in support of the booming tourism and other industries along the lakeshore area. Refurbishment of Zomba Service Centre was completed in November 2019. The service centre now has a Platinum Suite which offers tailor-made personalised service to top tier customers and a private business suite for corporate and SME customers.

Dwangwa Service Centre was officially opened on 29th November 2019



Other initiatives to improve customer experience in the area of cash processing are currently underway. Automation of cash processing through deposit taking ATMs for small-scale deposits and heavy-duty depositories for medium to large-scale deposits will be introduced at strategic locations within 2020. The automation will provide 24-hour cash deposit service as part of the Bank's drive to deliver convenient and efficient services through digital platforms.

TALENT MANAGEMENT ACTIVITIES

During the year under review, the Bank conducted an Employee Engagement Survey which was aimed at measuring the level of employee-employer engagement in the Bank. The overall Core Engagement score that was achieved was comparable to that of other banks of a similar size within Africa. That notwithstanding,

Management is committed to finding solutions to the dimensions with the lower scores in order to improve the level of employee engagement as higher levels of employee engagement result into better company performance and retention of top talent.

Employees in all divisions and service centres attended Stress Management sessions. This was in response to the results of a wellness audit the Bank conducted in the year prior which showed high stress levels among its employees. This was not good for their well-being. The Bank continued to give priority to matters related to HIV/AIDS.

We commissioned the Graphical Intelligence Electronic Operational Management (GIEOM) system which will among other things improve how the Learning and Growth Centre delivers training programmes to members of staff. This e-learning system will enable the Centre to offer online training programmes and assessment thereby reducing the cost of delivering courses.

CORPORATE SOCIAL INVESTMENT ACTIVITIES

To demonstrate leadership as one of Malawi's elite corporate citizens, the Bank continued its Corporate Social Investment programme in the year by reaching out to the underprivileged, restoring the environment, improving the quality of health services and education standards. The following are some of the donations the Bank made during the year:

Education

With the University Merit Awards spanning a period of 35 years, the Bank has become a beacon in Corporate Social Initiatives with a focus on education. Over the years, the scope of the Merit Awards has expanded from the University of Malawi to Lilongwe University of Agriculture and Natural Resources, Mzuzu University and Malawi University of Science and Technology. The Merit Awards have helped inculcate a strong work ethic, focus and determination in both existing and prospective beneficiaries.

The same is true with the University Scholarship Programme which in 2019 had 32 beneficiaries. The Bank extended its reach beyond these two flagship programmes through donations made to schools in different parts of Malawi in order to equip learners with tools necessary for academic success.

Health

In 2019, primary focus was on safe motherhood and maternal mortality. ICU theatre equipment was procured for Bwaila and Malamulo hospitals in the Central and Southern regions, respectively. It is

We commissioned the Graphical Intelligence Electronic Operational Management (GIEOM) which will among other things improve how the Learning and Growth Centre delivers training programmes to members of staff.



anticipated that this equipment will positively impact on surrounding communities by reducing maternal deaths, especially those caused by lack of appropriate/sufficient equipment in health facilities. Working with Nation Publications Limited's Mother's Fun Run Initiative, the Bank donated water tanks to Ntcheu District Hospital providing a steady supply of clean water to expectant mothers in the maternity wing and patients in other wards.



100,000
trees planted in
different areas
across Malawi

Go Green Campaign

The 2019-2020 tree planting season marked the closure of the Go Green Partnership with the Malawi Defense Force and the Archdiocese of Blantyre of the Roman Catholic Church. Throughout the duration of the partnership agreement, the Bank, in collaboration with its two partners and its members of staff managed to fulfill its promise to plant 100,000 trees in different areas across Malawi.



Charity

As per tradition, the Bank cheered patients in all the three regions of the country during the festive season, bringing light and hope to those that were unwell and away from home at this joyous time.



Disaster Relief

As a truly Malawian and people centred Bank, stepping in to assist flood victims in Neno, Dedza and Mangochi was critical. Disaster relief was provided to mostly those affected by Cyclone Idai through the Department of Disaster Management Affairs (DoDMA).

The pictorial focus of these investments is on pages 47 to 53.

SUBSIDIARIES AND ASSOCIATES

NBM Capital Markets Limited

NBM Capital Markets Limited (NBM Capital) is a wholly owned investment management subsidiary of the Bank whose main services include the provision of investment management and corporate finance and advisory services to third party clients.

Despite depressed money market margins and tough macroeconomic environment that characterised 2019, the Company's performance was satisfactory. Profit before tax grew by 27% to K746m from K588m reported in 2018. Funds under management closed at K13.8b representing growth of 10% over 2018 position of K12.5b.

The company is expected to grow its profitability in 2020 despite the anticipated low interest rates regime and therefore depressed yields on

Interest Bearing Instruments. The growth is expected from increased business volumes and active participation in corporate finance activities.

Stockbrokers Malawi Limited

Stockbrokers Malawi Limited, a 75% subsidiary of the Bank recorded a pre-tax profit of K283m representing a 21% reduction from the K357m achieved in 2018. The decline is generally attributed to slow business in 2019.

Going into the future, the Company is strategically repositioning itself for growth and improved profitability through activities that will improve its visibility and quality of customer service.

NBM Pensions Administration Limited (NBM PAL)

The Company achieved a Profit Before tax of K175m in the year 2019 from K127m in 2018, representing a 38% increase. The strong performance was as a result of organic growth of schemes within its portfolio in addition to new business acquired during the year.



NBM Development Bank (NBMDB)

This is a wholly owned subsidiary of the Bank which was formerly Indebank which is being revived to offer long-term financing to the SME sector. The NBMDB was successfully launched in September 2019. The activities of the subsidiary are expected to increase significantly in 2020 after surmounting the many implementation challenges. We are grateful for the support that the Reserve Bank of Malawi, the Ministry of Finance and other stakeholders provided for the subsidiary to take off.

United General Insurance (UGI)

The insurance industry was not spared the challenges of subdued business in 2019. Amid such an environment, the Company's focus during the year was to underwrite profitable business and preserve the shareholders' capital as well as improve the solvency margin. Gross Premium Written (GPW) stood at K6.3b against prior year's K6.2b. In its effort to clear legacy claims, the Company registered a loss ratio of 61% (2018: 52%) and this led to an underwriting loss of



Profit before tax grew by 27%

27%

K217m and a profit before tax of K115m against prior year's K534m.

Going forward, the Company is implementing a five-year strategy themed: 'Launching Into Greatness' whose main pillar is provision of Value Plus Solutions built on the power of technology. It is also developing critical partnerships to create value through exploitation of synergies.

International Expansion

The Bank's efforts to acquire a controlling stake in another bank outside Malawi gathered momentum in the course of the year. The Bank is in the process of securing both local and international regulatory approvals. The aspiration is to conclude the transaction within the first half of 2020.



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

Some operations will be scaled down and some staff will work from home

The Bank will continue to review the fast-changing situation and implement stringent procedures in line with the Ministry of Health and the World Health Organisation guidelines to ensure that the health and safety of all our key stakeholders is not compromised.

OUTLOOK

The economy is expected to grow at real GDP rate of about 5.2% in 2020. The agriculture sector will remain the mainstay for this growth anchored by sound macroeconomic foundation of relative low inflation and interest rates environment and a stable currency.

Downside risks for growth continues to be weather related exogenous shocks as the agriculture sector is still dependent on rain fed crop production as well as the Covid-19 pandemic which will negatively impact economic growth prospects for both Malawi and the world at large. In addition, the business operating environment is likely to be affected by the pre and post fresh Presidential Election activities should the Supreme Court of Appeal sustain the lower court's ruling of annulling the 2019 Presidential Election.

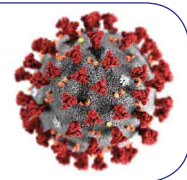
The economy is expected to grow at real GDP rate of about 5.2% in 2020

CONCLUSION

I wish to thank the Chairman and the Board of Directors for their guidance, support and direction during the year. My gratitude also goes to my senior management team and all members of staff for their dedication and call upon them to redouble their efforts in 2020 and beyond.

Finally, I take this opportunity to sincerely thank our customers and our correspondent banks worldwide for their custom and trust in our Bank as I look forward to their continued support.

Macfussy M Kawawa
Chief Executive Officer



OUR RESPONSE TO COVID-19

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

In this regard, a response team was set up in the Bank to ensure preparedness and implement safety measures to contain the spread of the COVID-19. Staff are being provided with relevant information and tools to help ensure safety as they carry out their day-to-day duties. Virtual meetings have replaced both internal and external physical meetings. Travel to high risk destinations has been suspended. Staff returning from high risk destinations are adopting a 14-day self-quarantine. To ensure safety through reduced exposures, customers are encouraged to leverage on digital self-service platforms. All customers and staff are now being encouraged to wash their hands before entering bank premises. The Bank has also implemented a social distancing strategy in managing its queues across the country to protect customers.

Further, the Bank's Business Continuity Plan was invoked. Some

Physical large meetings stopped. Virtual meetings being made

Travel to high risk destinations suspended

Use of digital banking self-services being encouraged

Washing of hands and social distancing encouraged

BANK SAFELY



Observe a **1 METRE** distance
in Banking Halls and at ATMs



SANITISE YOUR HANDS after
handling cash, using ATMs or
POS machines



Utilise our **DIGITAL BANKING CHANNELS:**
Mo626ice, Mo626 Digital+ and
BankNet360 wherever possible



OUR OPERATIONS REVOLVE AROUND OUR **STAFF**, OUR **CLIENTS** AND OUR **COMMUNITY**.

We therefore:

- value contributions which our workforce make towards the achievement of our corporate objectives;
- actively participate on a voluntary basis in deserving charitable and social activities;
- offer superior customer value to our clients in terms of product quality, speedy delivery of services, prices and relationship management.



 Staff Charity

National Bank of Malawi plc staff undertake several activities to contribute towards the achievement of the Bank's Corporate Social Initiatives




Cheering patients at Mwanza District Hospital during Christmas festivity



 Long Service Awards



Recognising staff contributions through Long Service Awards

 Staff in Sports



Posing for a photograph after participating in a Rotary Bed Race



Corporate Banking

We remain committed to offer our corporate clients personalised access to dedicated Account Relationship Managers, supported by product specialists, to work towards improved customer experience and delivery of tailor-made solutions.



Amaryllis Hotel: A newly-opened state-of-the art hotel in Blantyre Central Business District



Build Africa: A one-stop mega shop for electrical appliances, furniture, paints, etc.



Corporate Banking



Northern Region Water Board: Supplying potable water to urban and peri-urban areas of the Northern Region of Malawi



Plem Construction Limited: Building a better and prosperous Malawi



Corporate Banking

We offer our corporate customers a personalised Account Management service with superior value



Raiply Malawi: Producers and sellers of timber products



Corporate Banking



Namitunda Estate Limited: Contributing to the socioeconomic development of Malawi through poultry and tobacco farming



Afri-Oils: Taking groundnuts value addition to another level



Conforzi Plantations Limited: Grows and processes tea, tobacco and macademia. The company is also involved in poultry farming , manufacturing of blankets and general trading

 Personal and SMEs Banking

 Personal and SMEs Banking

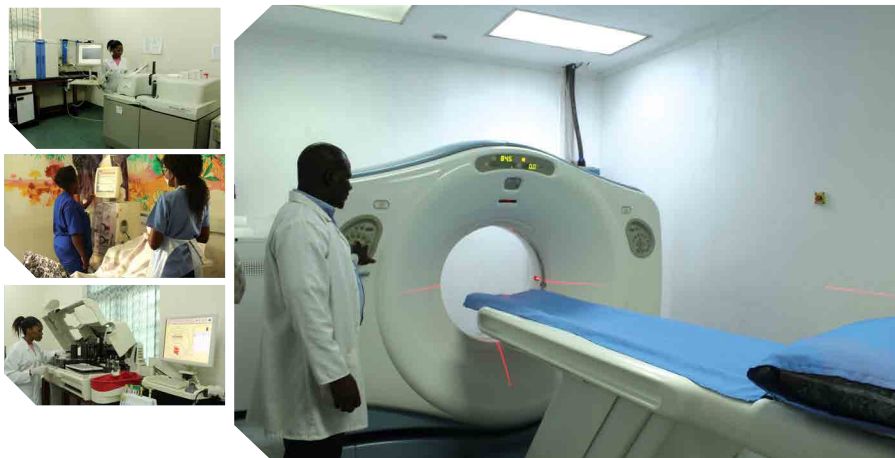
Our SME product and service offering are responsive to the ever-changing needs of our customers.



Annie's Lodge Ltd: Offering superior hospitality services through its lodges in Zomba, Blantyre, Liwonde and Mangochi



Supa Fit Limited: Suppliers of tyres and tyre fitting services



Mwaiwathu Private Hospital: Major private hospital in Malawi



Kabula Industrial Safety Specialists Limited: Suppliers of fire detection products and protective wear



Personal and SMEs Banking



Lilongwe Academy: Private education institution



YONECO (Yothnet and Counselling) youth, women and children empowerment by promoting good health

CORPORATE SOCIAL INVESTMENT ACTIVITIES

To demonstrate leadership as one of Malawi's elite corporate citizens, the Bank continued its Corporate Social Investment programme in the year by reaching out to the underprivileged, restoring the environment, improving the quality of health services and education standards. The following are some of the donations the Bank made during the year:



EDUCATION



HEALTH



ENVIRONMENT



CHARITY & PARTNERSHIPS



UNANTICIPATED NATURAL DISASTERS

 EDUCATION

MK
31.0m

IMPACT



K10.2m towards Mzuzu University University Merit Awards



K12.8m scholarships to University of Malawi, the Polytechnic and Mzuzu University



K6.0m for desks and K2.0m for sanitary wear to learners from Karonga Girls Secondary School

With the University Merit Awards spanning a period of 35 years, the Bank has become a beacon in Corporate Social Initiatives with an education focus. Over the years, the scope of the Merit Awards has expanded from the University of Malawi to Lilongwe University of Agriculture and Natural Resources, Mzuzu University and Malawi University of Science and Technology. They have helped inculcate strong work ethics, focus and determination in both existing and prospective beneficiaries.

The same is true with the University Scholarship Programme which in 2019 had 32 beneficiaries. The Bank further extended its reach beyond these two flagship programmes through donations made to schools in different parts of Malawi to equip learners with tools necessary for their academic success.



HEALTH

MK
23.3m

IMPACT



K8.0m ICU equipment for Malamulo Hospital Maternity Wing Theatre



K13.0m ICU equipment for Bwaila Hospital Maternity Wing Theatre

In 2019, Primary focus was on safe motherhood and maternal mortality. ICU theatre equipment was procured for Bwaila and Malamulo Hospitals in the Central and Southern regions respectively. It is anticipated that this equipment will positively impact on surrounding communities through curbing maternal mortality caused by a lack of appropriate/ sufficient equipment in health facilities. Working with Nation Publications Limited's Mother's Fun Run Initiative, the Bank donated water tanks to Ntcheu District Hospital with the intention of providing a steady supply of clean water to both general patients and those in the maternity wing.

K2,282,217 towards water tanks at Ntcheu District Hospital



ENVIRONMENT

MK 12.0m

IMPACT

Combat climate change and restore natural forests in the country. This has been a three-year commitment by the Bank to ensure that communities plant trees to bring back the beauty and forests in the country.



Through the Go Green Campaign, National Bank of Malawi plc partnered the Malawi Defence Force and the Archdiocese of Blantyre of the Catholic Church in the tree planting exercise





CHARITY & PARTNERSHIPS

MK
18.5m

IMPACT



- Supply of clean potable water to communities leading to a significant improvement in the quality of life.
- Spreading of Christmas cheer to people in need and positioning of the Bank as caring and truly Malawian.

K12.0m boreholes were drilled at Mua in Dedza and at Kapalamula Village in Balaka to ease water shortages in the districts

K6.5m for cheering patients and guardians at Nkhoma Hospital, Mwanza and Mzimba District hospitals



UNANTICIPATED NATURAL DISASTERS

MK
20.0m

IMPACT

Supporting needy and homeless flood victims in Neno, Dedza and Mangochi.

K20m channelled through the Department of Disaster Management Affairs to support flood victims





2019 ECONOMIC REVIEW

The economy is expected to grow by 5% in 2019 despite the negative shocks resulting from Cyclone Idai which ravaged parts of the Southern Region coupled with poor tobacco export receipts in the past selling season. This performance is attributed to favourable rainfall pattern in the 2018-19 season and improved energy supply as a result of improved water levels in Shire River. According to the final round of estimates from the Ministry of Agriculture, maize production in 2019 was approximately 3.3 million metric tonnes, up 27.5% on the year before. However, tobacco production was 166 million kilogrammes in 2019 down 16% on the previous year and earning US\$237 million down 29% on the year before.

Inflation remained relatively stable averaging 9.4% in 2019 compared to an annual average of 9.2% the previous year though it closed the year 2019 on a high of 11.5% as a result of increase in food inflation which was attributed to seasonal factors. Inflation in the year was largely anchored by non-food inflation which averaged 5% mainly due to exchange rate stability which among others, meant stable fuel prices.

In response to the stable inflation, the Reserve Bank of Malawi has been dropping the Policy Rate to the current 13.5%. Correspondingly, commercial banks have gradually reduced their lending rates. In the second half of the year, the banking industry adopted the use of a reference rate, a weighted average of several parameters, as the new basis for arriving at lending rates. Since its introduction, the reference rate has ranged 12% to 13.4%.

The Malawi Kwacha largely appreciated in the last half of 2019 from about K761/1USD at the beginning of July 2019 to K732/1USD at the end of 2019. This has mainly been supported by the confidence market players have on import cover data currently indicating approximately four months of imports, thus curbing speculation.

OUTLOOK FOR 2020

The economy is expected to maintain a growth trajectory of 5.2% in 2020, building on the implementation of smart climate resilient agricultural practices and energy production investment. Inflation is also expected to start declining towards the medium-term target of 5% by end of 2021.

Downside risks to achieving this growth include the uncertainty emanating from the fresh Presidential Election currently scheduled for 20th July 2020 amid the COVID 19 global outbreak which has resulted in a lockdown of almost all travel to neighboring countries and regional trading hubs. Job and output losses remain a potential threat to the real economy with increased prospects of a local lockdown in response to the COVID-19 outbreak.



CORPORATE GOVERNANCE STATEMENT

The Board of Directors of National Bank of Malawi plc is pleased to report that during the year ended 31st December 2019, the Company has been in full compliance with the standards of good corporate governance. This was achieved by following principles of openness, integrity and accountability as set out in the Malawi Corporate Governance Code, the Cadbury Report and the King Reports. As a result of this compliance, the Company had a satisfactory relationship with its shareholders, customers, strategic partners, suppliers of various goods and services, regulators and staff.

The good governance of the Company is enshrined in the Board Charter which lays out the division of responsibilities between the Board and executive management. In addition, the Charter underscores the Board's oversight role which it achieves by setting the strategic objectives and performance criteria of the Company and determining investment policies while the detailed planning and implementation of these objectives is delegated to management in accordance with appropriate restrictions.

The Company has adopted the following governance structure:

- a. General Meeting of Shareholders;
- b. Board of Directors;
- c. Board Committees;
- d. Management.

To achieve its function, the Board holds regular meetings every two months to scrutinise compliance with policies and achievement of objectives by holding management accountable for its activities and performance. The committees and the Board may also meet outside of the regular scheduled meetings where there are urgent issues to discuss.

The Board delegates some of its compliance monitoring responsibilities to committees of the Board namely – Risk; Audit; Appointments, Remuneration & Governance; Credit Committee and the Board Committee on Related Parties. During the year, the Board established

a new committee called “the Board IT Projects Oversight Committee” to oversee IT projects issues for the Company. Each Committee has specific terms of reference. The Committees' chairpersons report on the proceedings of their Committee meetings at the next meeting of the Board.

The Board maintains a robust system of internal controls. The system enables the Company to have effective and efficient systems with sound internal financial controls governing all its operations in line with best practice. These internal controls are a safeguard for ensuring compliance with laws and regulations. To accomplish this function, the Board supports investments in accounting, financial and risk management systems.

Annual General Meeting

The Annual General Meeting for the Company was held on 6th June 2019 at the Company's Learning and Growth Centre in Nancholi, Blantyre. The meeting was attended by 26 shareholders in person while 24 attended by proxy.

Apart from the ordinary transactions at the AGM, the meeting approved an amendment of the articles to increase the number of Directors from 11 to 13.

The Board

The Board is currently composed of 12 Directors, two of whom are Executive Directors and the rest are Non-Executive Directors. Following approval of the AGM, the Articles of Association for the company were amended to provide for 13 Directors. Currently there is one vacancy on the Board. The Chairman is chosen from among these Directors. The Chairman in the year 2019 was Dr George Partridge.

In the year 2019, one Non-Executive Director retired and the Board was joined by two new Directors

The Non-Executive Directors hold or have held senior leadership positions in financial services, public and private sectors and have diverse professional backgrounds. As such, they provide the Board with a wide composition of skills and experience emanating from the holding of such positions combined with their strength of character, independence of judgement and opinion.

The Board met six times in the year 2019.

COMMITTEES OF THE BOARD

Risk Committee

Mr. Raymond Banda is the Chairman of the Board Risk Committee which is responsible for the strategic risk management of the Bank as delegated by the Board.

The Committee's responsibility is to provide the crucial oversight and direction in relation to current and potential future risk exposures and future risk strategy. The Committee examines risk management reports covering credit, market, liquidity and operational risks among other reports provided by the Risk Division of the Bank. Compliance with Basel II requirements is also monitored by this Committee.

The Committee meets at least three times a year. In the 2019 financial year, the Committee met six times.

Audit Committee

Mrs. Dorothy Ngwira is the Chairperson of the Audit Committee. The Committee has the overall responsibility for the Bank's system of internal controls and for reviewing its effectiveness. The Committee also exercises the full powers and authority of the Board in accounting and financial reporting matters as guided by its terms of reference. Results of pre-arranged and surprise risk-based audits provide the Directors with information which assists them to assess the effectiveness of internal controls and management of risks in each business unit.

The Committee meets at least three times a year with the Bank's senior management and the external auditor to review, among other things, accounting, auditing, internal controls, financial reporting matters and financial statements for publication in line with laws and regulations. In the 2019 financial year, the Committee met six times.

The Head of the Bank's Internal Audit Division as well as the external auditor have unrestricted access to this Committee at all times.

Appointments Remuneration and Governance Committee

Mr Chrispin Mzengereza is the Chairman of this Committee, which is responsible for succession planning for Directors, board nominations and also good governance practices. The Committee also ensures that the Bank's human resources are best utilised, and that members of staff are remunerated commensurate to their responsibilities and effectiveness. The Committee also conducts board assessment which enables it to prepare for appropriate training for Board members and helps with succession planning.

The Committee meets at least three times a year. In the 2019 financial year, the Committee met eight times.

Credit Committee

Mr John Biziwick is the Chairman of the Committee. The Committee considers credit applications that are above management limit in line with the Bank's Authorities Schedule approved by the Board. It also reviews credit policies, the quality of the Bank's direct and contingent lending, the mix of industry concentration within agreed parameters, and dealing lines. The Committee monitors the quality of the loan book through review of substandard debt schedules and lists of facilities granted to sensitive customers, related parties and senior management.

The Committee meets as and when there are lending facilities to be considered. In the 2019 financial year, the Committee met eight times.

Related Parties Committee

Mrs Maureen Kachingwe is the Chairperson of this Committee. The Committee is charged with the responsibility of considering credit applications from Companies and Individuals related to the Bank to ensure that all transactions are conducted at arm's length. The

Committee is comprised of independent members of the Board.

In the 2019 financial year, the Committee met 5 times.

Board IT Oversight Committee

This Committee was established in the course of 2019 and it is chaired by Mrs Bessie Nyirenda. It is charged with the responsibility of reviewing and approving the Bank's IT Strategy and Policy documents from time-to-time to ensure that Management has an effective strategic planning process for IT issues in place and that the IT strategy is aligned with the business strategy. The Committee further reviews the annual IT and operational strategies, including the financial, tactical and strategic benefits of proposed major IT and operational related initiatives.

BOARD ATTENDANCE

The Directors' Board meeting attendance for the 2019 financial year is shown below:

Directors Board Meetings Attendance - 2019

Main Board								
Name	Jan. 31	March 28	May 30	June 6 AGM Caucus	June 6 AGM	July 29	Sept. 26	Nov. 28
Dr. G B Partridge	✓	✓	✓	✓	✓	✓	✓	✓
Mr. E J Kambalame	✓	✓	✓	-	-	✓	✓	✓
Mrs. E Mafeni	✓	✓	✓	✓	✓	✓	-	✓
Mr. J Nsomba	✓	✓	✓	✓	✓	✓	✓	-
Mr. R Banda	✓	✓	✓	✓	✓	✓	✓	✓
Mr. J Bizwick	✓	✓	✓	✓	✓	✓	✓	✓
Mr. J Mhura	✓	✓	✓	✓	✓	✓	✓	✓
Mrs. M Kachingwe	✓	-	✓	✓	✓	✓	✓	✓
Mrs D Ngwira	✓	-	✓	✓	✓	✓	✓	✓
Mrs. B Nyirenda	-	-	-	-	-	-	✓	✓
Mr. C Mzengereza	-	-	-	-	-	✓	✓	✓
Mr. M Kawawa	✓	✓	✓	✓	✓	✓	✓	✓
Mr. H Jiya	✓	✓	✓	✓	✓	✓	✓	✓

Board Credit Committee

Name	Jan. 23	March 19	May 15	July 16	Sept. 17	Nov. 13	Nov. 21
Mr. E J Kambalame	✓	✓	✓	✓	-	-	-
Mr. J Biziwick	✓	✓	✓	✓	✓	✓	✓
Mrs. M Kachingwe	-	-	-	-	✓	✓	✓

Board Committee on Related Parties

Name	Jan. 23	March 21	May 20	July 17	Sept. 17
Mr. E J Kambalame	✓	✓	✓	✓	-
Mrs. M Kachingwe	✓	✓	✓	✓	✓
Mrs. B Nyirenda	-	-	-	-	✓

Board Audit Committee

Name	Jan. 21	March 22	May 20	July 22	Sept. 23	Nov. 22
Mrs. E Mafeni	✓	✓	✓	✓	✓	✓
Mr. J Nsomba	✓	✓	-	✓	✓	✓
Mr. R Banda (Co-opted for the Meeting)	-	-	-	-	-	✓
Mrs. D Ngwira	✓	✓	✓	✓	✓	-

Board Risk Committee

Name	Jan. 23	March 21	May 20	July 18	Sept. 16	Nov. 20
Mrs. M Kachingwe	✓	✓	✓	✓	-	-
Mr. J Mhura	✓	✓	✓	✓	✓	✓
Mr R Banda	✓	✓	✓	✓	✓	✓
Mr. C Mzengereza	-	-	-	-	✓	✓

Board Appointment & Remuneration Committee

Name	Jan. 11	Feb. 28	March 7	March 20	April 12	May 17	Sept. 17	Nov. 20
Mr. E J Kambalame	✓	✓	✓	✓	✓	✓	-	-
Mr J Biziwick	✓	✓	✓	✓	✓	✓	✓	✓
Mr. J Mhura		✓	✓	✓	✓	✓	✓	-
Mr. C Mzengereza	-	-	-	-	-	-	✓	✓

Board IT Oversight Committee

Name	Sept. 18	Nov. 22
Mr. R Banda	✓	✓
Mr. J Nsomba	✓	✓
Mrs. B Nyirenda	✓	✓

Special Meetings

Name	Jan. 29	March	April 4	May 8	Sept. 13 Board Orientation
Mr E J Kambalame		✓	✓		
Mrs D Ngwira	✓				
	Orientation			✓	
Mr. R Banda			6/04 Basketball		
Mr. C Mzengereza					✓
Mrs B Nyirenda					✓
Mrs D Ngwira					✓

CHANGES IN BOARD COMPOSITION

Mr Elias Kambalame retired from the Board in July 2019. Mr Crispin Mzengereza and Mrs Bessie Nyirenda joined the Board in May 2019.

CODE OF ETHICS

The Code of Ethics adopted and enforced by the Bank reaffirms its commitment to fair dealing and integrity in the conduct of its business and ensures that business is conducted morally, honestly, fairly, legally and in a transparent manner.

AUDITOR INDEPENDENCE

The Board is satisfied that no aspect of the work of the external auditor has been impaired. This is due to the systems that the Bank has in place for ensuring independence, integrity, competence and professionalism of auditors.

BOARD INFORMATION AND DEVELOPMENT

The accountability for making sure that the Board complies with applicable rules and regulations lies with the Company Secretary. The Company secretary ensures that the Board complies with Corporate Governance issues, ensuring that board procedures are followed and are complied with. All the Directors have access to advice and services of the Company Secretary either as individuals or as committees, with the stewardship of the Chairman of the Board. Directors' training is coordinated by the Company Secretary. The trainings ensure for efficient discharge of the Board's oversight responsibilities. The Company Secretary also organises Board orientation from time to time and coordinates board assessment in liaison with the Chairman of the Appointment, Remuneration and Governance Committee of the Board.

The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and the Group and of their operating results for the year ended 31 December 2019, so far as concerns the members of the company.

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS



STATEMENT OF DIRECTORS' RESPONSIBILITIES

For the year ended 31 December 2019

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

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

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

Maintenance of proper accounting records;

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

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

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and the Group and of their operating results for the year ended 31 December 2019, so far as concerns the members of the company.

BY ORDER OF THE BOARD

Chairman: 

Director: 

Date: 26th March 2020

Deloitte.

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

Opinion

We have audited the consolidated and separate financial statements of National Bank of Malawi plc and its subsidiaries ("the Group"), set out on pages 73 to 200 which comprise the consolidated and separate statements of financial position as at 31 December 2019, and the consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

Key Audit Matters

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

Key Audit Matter	How the matter was addressed in the audit
Determination of Expected Credit Losses(ECL) for loans and advances (Separate financial statements)	
<p>The Bank exercises significant judgement using subjective assumptions over both when and how much to record expected credit losses, and estimation of the amount of the impairment provision for loans and advances. Because loans and advances form a major portion of the Bank's assets, and due to the significance of the judgements used in classifying loans and advances into various stages stipulated in IFRS 9 <i>Financial Instruments</i> and use of complex specialised models in determining related provision requirements, this was a matter of most significance to the audit.</p> <p>As at 31 December 2019, the gross loans and advances to customers were K199.9 billion (2018: K173.2 billion) against which expected credit losses of K11.6 billion (2018: K6.6 billion) were recorded. This is disclosed in note 12 (Loans</p>	<p>We obtained an understanding of the Bank's key credit processes comprising granting, booking, monitoring and provisioning and tested the relevant internal controls over impairment of loans and advances.</p> <p>We examined a sample of exposures and performed procedures to evaluate the:</p> <ul style="list-style-type: none"> • Timely identification of exposures with a significant deterioration in credit quality; and • For exposures determined to be individually impaired, we examined management's estimate of future cash flows, assessed their reasonableness and checked the resultant provision calculation. <p>For provision against exposures classified as Stage 1, Stage 2 and Stage 3, we obtained an understanding of the Bank's provisioning methodology and assessed the reasonableness of the underlying assumptions and the sufficiency of the data used by management. Our procedures in this regard are discussed in further detail below.</p> <p>With respect to impairment methodology, our audit procedures comprised the following:</p> <ul style="list-style-type: none"> • We read the Bank's IFRS 9 based impairment provisioning policy for loans and advances and compared it with the requirements of IFRS 9; • With the involvement of our credit specialist, we reviewed changes in methodology and assumptions underlying the IFRS 9 impairment model.

Key Audit Matter	How the matter was addressed in the audit
Determination of Expected Credit Losses(ECL) for loans and advances (Separate financial statements) (Continued)	
<p>and advances) to the financial statements. The impairment provision policy is presented in note 3 to the financial statements. Loans and advances are stated at amortised cost net of identified impairment losses.</p>	<ul style="list-style-type: none"> • We further performed procedures to ensure the competence, objectivity and independence of the Bank's Consultant; • We reviewed the appropriateness and compliance with the standard regarding the methods used to determine ECL. We validated the data that was used to compute ECL; • For a sample of exposures, we checked the appropriateness of the Bank's staging; • We checked and understood the key data sources and assumptions for data used in the models (the Models) used by the Bank to determine impairment provisions; • For forward looking assumptions used by the Bank's management in its ECL calculations, we held discussions with management and corroborated the assumptions used to publicly available information; • We checked the appropriateness of determining Exposure at Default (EAD), Loss Given Default (LGD) and Probability of Default (PD); • We checked the completeness of the loans and advances as of 31 December 2019; • We understood the theoretical soundness and tested the mathematical integrity of the Model; • We checked consistency of various inputs and assumptions used by the Bank's management to determine impairment provisions; and • We performed a quantitative impact assessment based on the Bank's data using our standard approaches to determine the underlying assumptions (PD, LGD and EAD), ECL and compared to the balance per general ledger. <p>We found that the judgements applied in determining expected credit losses against loans and advances were appropriate and that the amount raised was adequate.</p>

Key Audit Matter	How the matter was addressed in the audit
Goodwill impairment assessment (consolidated financial statements)	
<p>In October 2015, the Bank acquired 97.05% shareholding in Indebank Limited. In accordance with IFRS 3, <i>Business Combinations</i>, the Bank determined goodwill arising from acquisition which amounted to K4 billion as disclosed in note 19 to the financial statements. During the year, NBM assessed goodwill for impairment. We considered this as a key audit matter due to the following:</p> <ul style="list-style-type: none"> • The significance of the amount; • The judgement and assumptions used in the determination of impairment for goodwill; and • The complexity of the value in use calculation. 	<p>We reviewed the accuracy of the value in use calculation as well as the discount factor used.</p> <p>We also checked if the assumptions that were used in determining the future cash flows were reasonable.</p> <p>The results of our assessment indicated that goodwill is not impaired.</p>

Other Information

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

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements

or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

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

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

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

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

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

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

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

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

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

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

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



Chartered Accountants

Nkondola Uka
Partner

30 March 2020

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

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


Director


Director

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

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

STATEMENTS OF COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2019

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

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2019

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

STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2019

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

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

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

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

PROPERTY REVALUATION RESERVE

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

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

1. General information

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

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

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

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

2. Adoption of new and revised International Financial Reporting Standards

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

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

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

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

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

IFRS 16-Leases

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

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

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

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

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

IFRS 16-Leases (Continued)

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

Impact on Lessee Accounting

i. Former operating leases

IFRS16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

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

- a. Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments;
- b. Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of comprehensive income;
- c. Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cashflows.

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

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

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

- The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Group has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

ii. Former finance leases

For leases that were classified as finance leases applying IAS 17, the carrying amount of the leased assets and obligations under finance leases measured applying IAS 17 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustments,

2. Adoption of new and revised International Financial Reporting Standards (Continued)
2.1. Standards and Interpretations affecting amounts reported and/or disclosed in the financial statements (Continued)

except in cases where the Group has elected to apply the low-value lease recognition exemption.

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

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

Impact on Lessor Accounting

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

However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets. Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

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

Financial impact of initial application of IFRS16

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

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2020, and have not been applied in preparing these financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

2. Adoption of new and revised International Financial Reporting Standards (Continued)
2.2 Standards and Interpretations in issue, not yet effective

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2021	<p>IFRS 17 Insurance Contracts</p> <p>IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.</p> <p>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.</p> <p>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.</p>
Annual periods beginning on or after 1 January 2020	<p>Amendments to References to the Conceptual Framework in IFRS Standards.</p> <p>Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.</p> <p>Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.</p>

2. Adoption of new and revised International Financial Reporting Standards (Continued)
2.2 Standards and Interpretations in issue, not yet effective (Continued)

<p>Annual reporting periods beginning on or after 1 January 2020</p>	<p>Definition of a Business (Amendments to IFRS 3)</p> <p>The amendments in Definition of a Business (Amendments to IFRS 3) are changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only. They:</p> <ul style="list-style-type: none"> clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; add guidance and illustrative examples to help entities assess whether a substantive process has been acquired; remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.
<p>Annual reporting periods beginning on or after 1 January 2020</p>	<p>Definition of Material (Amendments to IAS 1 and IAS 8)</p> <p>The amendments in Definition of Material (Amendments to IAS 1 and IAS 8) clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards.</p> <p>Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)</p> <p>The amendments in Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) clarify that entities would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform.</p>

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

3. Accounting policies

Statement of compliance

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

Basis of preparation

The consolidated and separate financial statements have been prepared on the historical cost basis, except for the revaluation of certain non-current assets and financial instruments which are measured at revalued amount or fair value at the end of the reporting period. No other procedures are adopted to reflect the impact on the financial statements of specific price changes or changes in the general level of prices. The principal accounting policies of the Group, which are set out below, have been consistently followed in all material respects, unless otherwise stated.

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

3.1 Basis of consolidation

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

a. Subsidiaries

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

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

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

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

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

3. Accounting policies (Continued)

3.1 Basis of consolidation (Continued)

a. Subsidiaries (Continued)

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

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

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

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

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

(b) Associates

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

3. Accounting policies (Continued)

3.1 Basis of consolidation (Continued)

b. Associates (Continued)

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

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

3.2 *Business combinations*

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income taxes and IAS 19 Employee benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquired or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share based payment at the acquisition date and;
- assets (disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

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

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

3. Accounting policies (Continued)

3.2 Business combinations (Continued)

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

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

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

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

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

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

3.3 Goodwill

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

3. Accounting policies (Continued)

3.3 Goodwill (Continued)

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

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

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

3.4 Comparatives

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

3.5 Financial instruments

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

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

Financial assets

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

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

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

Classification of financial assets

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

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

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

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

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

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

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

i. 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.

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

i. Amortised cost and effective interest method (Continued)

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

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

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

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

Interest income is recognised in profit or loss and is included in the "Interest income" line item (note 29).

ii. Equity instruments designated as at FVTOCI

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

A financial asset is held for trading if:

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

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

ii. Equity instruments designated as at FVTOCI (Continued)

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

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

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

iii. Financial assets at FVTPL

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

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

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

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

Impairment of financial assets

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

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

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

Impairment of financial assets (Continued)

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

i. Significant increase in credit risk

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

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

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

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

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

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

i. Significant increase in credit risk (Continued)

determined to have low credit risk if:

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

The Group considers a financial asset to have low credit risk where the borrower has a strong capacity to meet their contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. It also considers assets in the investment grade category to be low credit risk assets.

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

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

ii. Definition of default

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

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

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

iii. Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

iii. Credit-impaired financial assets (Continued)

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

iv. Write-off policy

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

Measurement and recognition of expected credit losses

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

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

For a financial guarantee contract, as the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party. When a financial asset has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3. Reclassifications from stage 3 are however subject to a 'cooling off' period of 3 months.

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

Measurement and recognition of expected credit losses (Continued)

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

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

Reclassifications

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

Modification and derecognition of financial assets

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

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

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

Modification and derecognition of financial assets (Continued)

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

- Qualitative factors such as contractual cash flows after modification are no longer solely payments of Principal and Interest (SPPI), change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a substantial modification, then; and
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 10% the Group deems the arrangement is substantially different leading to derecognition.

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

The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

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

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

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

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

Modification and derecognition of financial assets (Continued)

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

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

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

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

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

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

Financial liabilities (Continued)

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

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

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

Financial liabilities at FVTPL (Continued)

comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

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

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

Financial liabilities measured subsequently at amortised cost

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

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

Financial guarantee contract liabilities

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

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

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

Financial guarantee contract liabilities

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the profit or loss for financial liabilities that are not part of a designated hedging relationship.

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

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

3.6 Sale and repurchase agreements

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

3.7 Property and equipment

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

3. Accounting policies (Continued)

3.7 Property and equipment (Continued)

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

Land and buildings comprise mainly service centres and offices.

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

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

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

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

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

Freehold land and capital work in progress are not depreciated.

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

3.8 Intangible assets

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

3.9 Leases

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

3. Accounting policies (Continued)

3.9 Leases (Continued)

Policies applicable from 1 January 2019

Group as a lessee

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

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

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

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

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

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

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

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

3. Accounting policies (Continued)

3.9 Leases (Continued)

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

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

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

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

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

The right-of-use assets are presented on the face to the consolidated statement of financial position.

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

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

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

3. Accounting policies (Continued)

3.9 Leases (Continued)

The Group as lessor

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

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

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

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

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

Accounting policies applied to Leases prior to 1 January 2019

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

a. The Group as lessor

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

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

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

3. Accounting policies (Continued)**3.9 Leases (Continued)****b. The Group as lessee**

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

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

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

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

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

3. Accounting policies (Continued)**3.10 Impairment of tangible and intangible assets excluding goodwill and financial assets (Continued)**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

3.12 Provisions

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

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

a. Restructuring

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

b. Onerous contracts

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

c. Warranties

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

3.13 Taxation

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

3. Accounting policies (Continued)**3.13 Taxation (Continued)**Current tax

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

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which these deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantially enacted at the year-end date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow the manner in which the Group expects, at the year-end date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

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

3. Accounting policies (Continued)**3.14 Cash and cash equivalents**

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

3.15 Employee benefits**a. Pension obligations – Defined Contribution Plan**

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

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

b. Short-term benefits

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

3.16 Foreign currency translation**a. Functional and presentation currency**

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

b. Transactions and balances

Foreign currency transactions are translated into Malawi Kwacha using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Foreign exchange gains and losses arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

3. Accounting policies (Continued)

3.17 Revenue recognition

Interest income and expense

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

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

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

For financial assets that have subsequently become credit-impaired (stage 3), interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Fee and commission income

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

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

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

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

Premium on foreign exchange deals

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

3.18 Share capital

Share issue costs

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

Dividends on ordinary shares

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

Dividends on ordinary shares (Continued)

Dividends for the year that are declared after the year-end date are dealt with in the subsequent events note.

Dividend per share

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

Earnings per share

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

3.19 Fiduciary activities

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

3.20 Classification and measurement of financial instruments under IFRS 9

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

3. Accounting policies (Continued)

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

The Group applies the following business models:

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

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

- a. The Group classifies its financial assets in the following measurement categories:
 - Amortised cost;
 - Fair value through the profit or loss (FVTPL); or
 - Fair value through other comprehensive income (FVOCI).
- b. Debt and loan instruments that are held by the Group whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are measured at amortised cost. For an asset to be classified and measured at amortised cost, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding.
- c. For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.
- d. Contractual cash flows that are SPPI are consistent with the basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to the basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.
- e. The Group recognises loss allowances for expected credit losses on the financial instruments that are not measured at FVTPL but are carried at amortised cost: No impairment loss is recognised on equity investments. IFRS 9 eliminates impairment assessment requirements for investments in equity instruments as they are only measured at FVPL or FVOCI without recycling of fair value changes to profit and loss.

3. Accounting policies (Continued)

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

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

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

Reclassification

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

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

3. Accounting policies (Continued)

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

Impairment and methodology

Overview of the ECL principles

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

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

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

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

The calculation of ECLs

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

3. Accounting policies (Continued)

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

The calculation of ECLs (Continued)

PD - The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The 12-month and lifetime PDs of a financial instrument represent the probability of a default occurring over the next 12 months and over its expected lifetime respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk.

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

EAD - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The Group's modelling approach for EAD reflects current contractual terms of principal and interest payments, contractual maturity date and expected utilisation of undrawn limits on revolving facilities and irrevocable off-balance sheet commitments.

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

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

When estimating the ECLs, the Group considers the stages in which an asset is and also whether there has been a SICR. Each of the stages and the specific conditions of the assets is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure.

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

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

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

The mechanics of the ECL method are summarised below:

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

Loan commitments and letters of credit: When estimating LTECLs for undrawn loan commitments, the Group estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

For overdrafts, revolving facilities that include both a loan and an undrawn commitment and loans commitments, ECLs are calculated and presented together with the loans and advances.

Financial guarantee contracts - The Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Group estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The ECLs related to financial guarantee contracts are recognised together with loans and advances.

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

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

likelihood of default and the Group's future risk mitigation procedures, which could include reducing or cancelling the facilities.

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

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made, on an individual basis for corporate and retail products.

Incorporation of forward-looking information

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

The Group uses multiple scenarios to model the non-linear impact of assumptions about macroeconomic factors on ECL. The Group applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Group for strategic planning and budgeting. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Group has not made changes in the estimation techniques or significant assumptions made during the reporting period.

Macroeconomic model

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

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

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

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

Sensitivity Analysis (Continued)

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

Low risk assets

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

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

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

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

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

4. Critical accounting judgments and key sources of estimation uncertainty

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

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

4.1 Critical judgements in applying the Group's accounting policies

Critical judgements made by the directors during the current period which would have a material impact on the financial statements relate to the recoverability of loans and advances to customers. The credit risk management policies are outlined in note 42 (c) below.

4. Critical accounting judgments and key sources of estimation uncertainty (Continued)**4.1 Critical judgements in applying the Group's accounting policies (Continued)****4.1.1 Business model assessment**

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (please see financial assets sections of note 3). The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

4.1.2 Significant increase in credit risk

As explained in note 3, Expected Credit Losses (ECL) are measured as an allowance equal to 12-month ECL for stage 1 assets, or life time ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk

In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking-information.

4.1.3 Models and assumptions used

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

4.2 Key sources of estimation uncertainty**4.2.1 Useful lives and residual values of property and equipment**

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

4.2.2 Impairment losses on loans and advances

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

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

4.2.2 Impairment losses on loans and advances (Continued)

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

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

Key assumptions used:

- Cash flows arising from repayment agreement are aggregated over yearly intervals and assumed to arise at the end of the period;
- Where there is an agreement but no security in place and cash flows in the subsequent years are doubtful, total future estimated cash flows are assumed to be nil;
- Unsupported guarantees are assumed to result in nil cash flows; and
- No cash flows are assumed to arise where there is no repayment agreement and no security and repayments are erratic or unpredictable.

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

When measuring ECL the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

4.2.4 Probability of Default (PD)

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

4.2.5 Loss Given Default (LGD)

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive.

4.2.6 Fair value measurement and valuation process

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

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

4.2.7 Determination of life of revolving credit facilities

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

4.2.8 Determination of lease term

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

4.2.9 Determination of Discount Factor for determining lease liability

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

5. Cash and funds with Reserve Bank of Malawi

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

The currency analysis of cash is in note 42f.

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

6. Government of Malawi treasury bills and treasury notes

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

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

7. Government of Malawi promissory notes

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

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

The fair value level has been disclosed under note

8. Equity investments

	2018 K'm	Additions/ (disposals) K'm	Fair value adjustment K'm	2019 K'm	Cost K'm
	260	51	(73)	238	343
	742	21	98	861	226
	389	86	191	666	325
	486	14	33	533	160
	381	(147)	82	316	213
	67	-	6	73	18
	673	-	(126)	547	241
	893	42	(67)	868	212
	<u>3 891</u>	<u>67</u>	<u>144</u>	<u>4 102</u>	<u>1 738</u>

GROUP AND COMPANY

Illovo Sugar (Malawi) plc
 1 554 000 (2018: 1 300 000) Ordinary shares of K0.02 each at a market value of K153.00 (2018: K200.00) per share
 NICO Holdings plc
 17 760 550 (2018: 17 260 560) Ordinary shares of K0.20 each at a market value of K48.49 (2018: K43.00) per share
 Malawi Property Investment Company plc
 34 119 431 (2018: 29 442 280) Ordinary shares of K0.05 each at a market value of K19.53 (2018: K13.20) per share
 National Investment Trust plc
 6 663 759 (2018: 6 478 259) Ordinary shares of K1.00 each at a market value of K80.00 (2018: K75.00) per share
 NBS Bank Plc
 23 494 753 (2018: 38 105 714) Ordinary shares of K0.50 each at a market value of K13.50 (2018: K10.00) per share
 Standard Bank of Malawi plc
 100 000 (2018: 100 000) Ordinary shares of K1.00 each at market value of K730.00 (2018: K670.00) per share
 Sunbird Malawi plc
 4 637 964 (2018: 4 637 964) Ordinary shares of K0.05 each at a market value of K118.00 (2018: K145.00) per share
 Telekom Networks Malawi plc
 33 350 194 (2018: 31 892 000) Ordinary shares of K0.04 each at a market value of K26.00 (2018: K28.00) per share

Total equity investment

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

8. Equity investments (Continued)

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

GROUP AND COMPANY

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

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

9. Investment in associates

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

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

10. Investment in subsidiaries

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

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

11. Placements with other banks

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

Placements with other banks are denominated in the following currencies:

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

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

12. Loans and advances

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

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

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

12. Loans and advances (Continued)

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

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

12. Loans and advances (Continued)

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

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

Restructured loans

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

12. Loans and advances (Continued)

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

At 31 December 2018

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

12. Loans and advances (Continued)

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

At 31 December 2019

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

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

13. Other money market deposits

Money market investments with Reserve Bank of Malawi and other banks
Expected credit losses

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

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

14. Other assets

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

Employee benefit subsidy

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

NBM's separate Expected Credit Losses (ECLs) on other assets

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

15. Property and equipment

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

15. Property and equipment (Continued)

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

15. Property and equipment (Continued)

GROUP

Land and buildings

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

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

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

	2018		Total K'm
	Related parties K'm	Others K'm	
Motor vehicles	925	331	1 256
	2019		Total K'm
	Related parties K'm	Others K'm	
Motor vehicles	422	81	503

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

15. Property and equipment (Continued)

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

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

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

Valuations in 2019

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

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

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

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

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

16. Intangible assets

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

16. Intangible assets (Continued)

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

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

17. Right-of-use assets

GROUP AND COMPANY

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

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

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

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

18.1 Deferred tax asset

GROUP

2019

	Opening balance K'm	to profit or loss K'm	Charge Charged to equity K'm	Closing balance K'm
Accelerated capital allowances	(1 704)	(35)	-	(1 739)
Revaluation of land and buildings	7 564	42	(146)	7 460
Tax losses	1 231	-	-	1 231
Other temporary differences	775	134	-	909
Total deferred tax	7 866	141	(146)	7 861

2018

Accelerated capital allowances	(1 591)	(113)	-	(1 704)
Revaluation of land and buildings	6 878	45	641	7 564
Expected credit losses	-	(235)	1 466	1 231
Other temporary differences	1 096	(321)	-	775
Total deferred tax	6 383	(624)	2 107	7 866

COMPANY

2019

Accelerated capital allowances	(284)	(24)	-	(308)
Revaluation of land and buildings	7 389	42	(146)	7 285
Tax losses	1 231	-	-	1 231
Other temporary differences	(509)	117	-	(392)
Total deferred tax	7 827	135	(146)	7 816

2018

Accelerated capital allowances	(169)	(115)	-	(284)
Revaluation of land and buildings	6 703	45	641	7 389
Expected credit losses	-	(235)	1 466	1 231
Other temporary differences	(202)	(307)	-	(509)
Total deferred tax	6 332	(612)	2 107	7 827

18.2 Deferred tax liability

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

19. Goodwill

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

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

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

Annual test for impairment

The Group determined the recoverable amount of the Cash Generating Unit (WBD) to be K64b based on the value in use model. The value in use was based on discounted future cash flows (using NBM's approved budgeted figures for 2020 and projections covering a 4 year period from 2021) discounted at a weighted average cost of capital of 12.95% (2018: 15.72%).

19. Goodwill (Continued)

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

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

The carrying amount of the CGUs was K4b. As such, in accordance with IAS 36 Impairment of Assets, NBM determined that the goodwill was not impaired as at 31 December 2019.

20. Customer deposits

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

20. Customer deposits (Continued)

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

Analysis by interest maturity:

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

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

21. Amounts due to other banks

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

22. Current income tax liabilities

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

23. Loans

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

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

23.1 Lines of credit
23.1.1 Malawi Government (denominated in Deutschemark (DM))

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

23.1.2 United States Agency for International Development (USAID)

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

23. Loans (Continued)
23.1 Lines of credit (Continued)
23.1.3 The Transport Sector Revolving Fund

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

23.1.4 Private Sector Revolving Fund

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

23.1.5 European Investment Bank (EIB)

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

24. Provisions

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

24. Provisions (Continued)
COMPANY
2018

	Employee bonus K'm	Tevet levy K'm	Other K'm	Total K'm
At 1 January 2018	2 177	51	691	2 919
Provisions made during the year	1 651	172	-	1 823
Transferred to other payables	-	-	(691)	(691)
Payments made during the year	(2 177)	(139)	-	(2 316)

At 31 December 2018

1 651	84	-	1 735
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2019

At 1 January 2019	1 651	84	-	1 735
Provisions made during the year	2 681	143	-	2 824
Payments made during the year	(1 651)	(163)	-	(1 814)

At 31 December 2019

2 681	64	-	2 745
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25. Other liabilities

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

26. Lease liability
GROUP AND COMPANY

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

26. Lease liability (Continued)

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

The maturity profiles for the lease payments are as follows:

GROUP AND COMPANY

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

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

27. Post balance sheet events

27.1 Potential acquisition

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

27.2 Court Ruling on May 2019 Presidential Election

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

27.3 COVID-19

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

27. Post balance sheet events (Continued)

27.3 COVID-19 (Continued)

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

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

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

28. Pension scheme

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

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

28. Pension scheme (Continued)

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

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

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

32. Other operating expenditure

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

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

34. Income tax expense

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

35. Earnings per share

Basic earnings per share

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

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

Diluted earnings per share

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

35. Earnings per share (Continued)

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

36. Dividend per share

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

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

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

37. Contingencies

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

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

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

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

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

38. Commitments

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

These commitments are to be funded from internal resources.

39. Cash and cash equivalents

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

40. Financial assets and liabilities

Accounting categories and fair values

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

40. Financial assets and liabilities (Continued)

Accounting categories and fair values (Continued)

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

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

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

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

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

41. Fair value measurements

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

41.1 Valuation techniques and assumptions applied for the purposes of measuring fair value
The Directors consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

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

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).

The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

41.2 Fair value measurements recognised in the statement of financial position
The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

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

GROUP & COMPANY

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

41. Fair value measurements (Continued)

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

GROUP

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

41.4 Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)
The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

42. Financial risk management

a. Introduction and overview

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

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

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

42. Financial risk management (Continued)

a. Introduction and overview (Continued)

Risk management framework

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

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

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

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

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

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

42. Financial risk management (Continued)

a. Introduction and overview (Continued)

Risk management framework (Continued)

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

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

b. Current and Emerging Risks

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

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

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

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

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

42. Financial risk management (Continued)

b. Current and Emerging Risks (Continued)

Economic and Business Environment Risk – the economic and Business risk remains Extremely High (Continued)

Thirdly, in 2019 the Reserve Bank made a resolution at its 2nd Monetary Policy Committee meeting dictating a new formula for computing the base lending rate applicable on credit facilities as the weighted average of the Lombard rate, the Interbank rate, all average Treasury bill rate, and the Savings rate. This significantly lowered applicable lending rates going forward.

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

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

c. Credit risk

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

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

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

42. Financial risk management (Continued)

c. Credit risk (Continued)

Management of credit risk

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

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

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

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

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

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

42. Financial risk management (Continued)

c. Credit risk (Continued)

Management of credit risk (Continued)

- v. To ensure that the credit-granting function is being properly managed and that credit exposures are within levels consistent with prudential standards and internal limits; and
- vi. To ensure that credit policies are communicated throughout the organisation, and are implemented through appropriate procedures, monitored and periodically revised to take into account changing internal and external circumstances.

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

Significant increase in credit risk

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

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

- a. Significant financial difficulty of the issuer or obligor;
- b. A breach of contract, such as a default or delinquency in interest or principal payments;
- c. The Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- d. It becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- e. The disappearance of an active market for that financial asset because of financial difficulties;
- f. The purchase or origination of a financial asset at a deep discount that reflects incurred credit losses; and
- g. Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including:
 - i. adverse changes in the payment status of borrowers in the Bank; and
 - ii. national or local economic conditions that correlate with defaults on the assets in the Bank.

42. Financial risk management (Continued)

c. Credit risk (Continued)

Internal credit risk ratings

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

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

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

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

The Nature & Extent of Credit Risk

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

Incorporation of Forward Looking

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

42. Financial risk management (Continued)

c. Credit risk (Continued)

Extent of utilization of granted limit

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

Forbearances (both requested and granted)

There are no significant forbearances in the reporting period.

Changes in business, financial and economic conditions;

The business condition was stable in the reporting period due to stability of the economy driven by stable exchange rates and single digit inflation rate. The inflation rate is expected to decline in 2020 due to recent reduction in fuel price which are a cost driver for many commodities.

Credit rating information supplied by external rating agencies;

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

Loans and advances to customers at amortised cost categorised per sector

The Group monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the year-end date is shown below:

Loans and advances to customers

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

42. Financial risk management (Continued)

c. Credit risk (Continued)

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

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

Loans and advances to customers at amortised cost categorised by Stages

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

Exposure to credit risk

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

The table below shows the maximum exposure to credit risk by class of financial instrument. Financial instruments include those instruments defined and recognised under IFRS 9 Financial Instruments as well as other financial instruments not recognised. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

42. Financial risk management (Continued)

c. Credit risk (Continued)

Gross maximum exposure

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

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

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

42. Financial risk management (Continued)

c. Credit risk (Continued)

 GROUP
2019

Balances with the Reserve Bank of Malawi Government of Malawi treasury bills and Treasury notes	1 512	-	1 512
Placements with other banks	133 278	-	133 278
Loans and advances to customers	17 826	-	17 826
Other money market deposits	188 324	4 863	183 461
Other assets	32 997	-	32 997
	1 506	-	1 506
	375 443	4 863	370 580

 COMPANY
2019

Balances with the Reserve Bank of Malawi Government of Malawi treasury bills and treasury notes	1 512	-	1 512
Government of Malawi promissory notes	123 489	-	123 489
Placements with other banks	17 826	-	17 826
Loans and advances to customers	188 178	4 863	183 315
Other money market deposits	18 498	-	18 498
Other assets	594	-	594
	350 097	4 863	345 234

 COMPANY
2018

Balances with the Reserve Bank of Malawi Government of Malawi treasury bills and treasury notes	10 833	-	10 833
Government of Malawi promissory notes	82 315	-	82 315
Placements with other banks	1 441	-	1 441
Loans and advances to customers	22 899	-	22 899
Other money market deposits	166 621	7 325	159 296
Other assets	26 426	-	26 426
	2 151	-	2 151
	312 686	7 325	305 361

The Group's credit risk is primarily attributed to overdraft and other loan facilities extended to its customers. The amounts presented in the statement of financial position are net of provisions for doubtful debts. The specific provision represents allowances for estimated irrecoverable amounts when there is objective evidence that the asset is impaired.

42. Financial risk management (Continued)

c. Credit risk (Continued)

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

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

Credit quality of loans and advances

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

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

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

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

42. Financial risk management (Continued)

c. Credit risk (Continued)

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

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

Impaired loans and advances

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

Past due but not impaired loans

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

Allowance for impairment

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

Write-off policy

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

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

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

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

42. Financial risk management (Continued)

c. Credit risk (Continued)

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

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

Collateral repossessed

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

d) Liquidity risk

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

42. Financial risk management (Continued)

d. Liquidity risk (Continued)

Management of liquidity risk

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

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

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

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

Measurement of liquidity risk

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

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

42. Financial risk management (Continued)

d. Liquidity risk (Continued)

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

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

42. Financial risk management (Continued)

d. Liquidity risk (Continued)

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

42. Financial risk management (Continued)

d. Liquidity risk (Continued)

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

42. Financial risk management (Continued)

d. Liquidity risk (Continued)

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

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

42. Financial risk management (Continued)

e. Market risk

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

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

Management of market risk

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

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

Exposure of interest rate risk: non-trading portfolio

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

42. Financial risk management (Continued)

e. Market risk (Continued)

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

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

42. Financial risk management (Continued)

e. Market risk (Continued)

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

42. Financial risk management (Continued)

e. Market risk (Continued)

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

42. Financial risk management (Continued)

e. Market risk (Continued)

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

42. Financial risk management (Continued)

e. Market risk (Continued)

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

f. Currency risk

The Group had the following significant foreign currency positions:

GROUP

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

42. Financial risk management (Continued)

f. Currency risk (Continued)

GROUP

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
2018							
Financial liabilities							
Loans	209	19 219	-	-	-	-	19 428
Customer deposits	224 465	61 919	3 245	4 706	190	-	294 525
Liabilities to other banks	373	342	-	-	699	-	1 414
Provisions	1 933	-	-	-	-	-	1 933
Other liabilities	1 526	-	-	-	-	-	1 526
Total financial liabilities	228 506	81 480	3 245	4 706	889	-	318 826
Net balance open position	46 963	(6 776)	118	92	123	28	40 548

Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit

- 678 (12) (9) (12) (2) 643

Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit

- (678) 12 9 12 2 (643)

GROUP

2019

Financial assets

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

42. Financial risk management (Continued)

f. Currency risk (Continued)

GROUP

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
2018							
Financial liabilities							
Loans	209	16 126	-	-	-	-	16 335
Customer deposits	252 462	59 630	1 756	4 406	216	-	318 470
Liabilities to other banks	194	181	-	-	277	-	652
Provisions	2 954	-	-	-	-	-	2 954
Other liabilities	1 617	-	-	-	-	-	1 617
Total financial liabilities	257 436	75 937	1 756	4 406	493	-	340 028
Net balance open position	54 562	1 466	230	61	22	6	56 350

Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit

- (147) (23) (6) (2) (1) (179)

Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit

- 147 23 6 2 1 179

COMPANY

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

42. Financial risk management (Continued)

f. Currency risk (Continued)

COMPANY

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
2018							
Financial liabilities							
Loans	209	19 219	-	-	-	-	19 428
Customer deposits	200 966	61 919	3 245	4 706	190	-	271 026
Liabilities to other banks	373	342	-	-	699	-	1 414
Provisions	1 735	-	-	-	-	-	1 735
Other liabilities	959	-	-	-	-	-	959
Total financial liabilities	204 242	81 480	3 245	4 706	889	-	294 562

Net balance open position 42 864 (6 776) 118 92 123 28 36 449

Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit

- 678 (12) (9) (12) (2) 643

Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit

- (678) 12 9 12 2 (643)

COMPANY

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

42. Financial risk management (Continued)

f. Currency risk (Continued)

COMPANY

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
2019							
Financial liabilities							
Loans	209	16 126	-	-	-	-	16 335
Customer deposits	232 271	59 630	1 756	4 406	216	-	298 279
Liabilities to other banks	194	181	-	-	277	-	652
Provisions	2 745	-	-	-	-	-	2 745
Other liabilities	1 051	-	-	-	-	-	1 051
Total financial liabilities	236 470	75 937	1 756	4 406	493	-	319 062

Net balance open position 50 182 1 466 230 61 22 9 51 970

Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit

- (147) (23) (6) (2) (1) (179)

Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit

- 147 23 6 2 1 179

g) Operational risk

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

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

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

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

42. Financial risk management (Continued)

g. Operational risk (Continued)

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

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

h. Compliance risk

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

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

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

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

42. Financial risk management (Continued)

h. Compliance risk (Continued)

Statutory requirements

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

Liquidity reserve requirement

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

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

The Bank complied with the requirement throughout the reporting period.

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

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

Prudential aspects of bank liquidity

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

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

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

Liquidity ratios

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

i. Capital management

Regulatory capital

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

42. Financial risk management (Continued)

i. Capital management (Continued)

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

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

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

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

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

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

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

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

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

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

42. Financial risk management (Continued)

i. Capital management (Continued)

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

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

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

j. Basel II implementation

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

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

42. Financial risk management (Continued)

j. **Basel II implementation** (Continued)

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

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

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

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

k) **Environmental and social risk**

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

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

42. Financial risk management (Continued)

k. **Environmental and social risk** (Continued)

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

l. **Reputational risk policy**

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

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

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

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

43. Related party transactions

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

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

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

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

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

43. Related party transactions (Continued)

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

GROUP AND COMPANY

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

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

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

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

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

43. Related party transactions (Continued)

The following transactions were conducted with related parties:

GROUP AND COMPANY

Interest receivable

	2019 K'm	2018 K'm
Press Corporation plc and its subsidiaries	1 309	1 415
Directors	3	7
Employees	1 123	1 265

Average interest rate (%)	19	23
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Operating lease income

Malawi Telecommunication Limited	2	29
Bottling and Brewing Group Limited	158	211

Interest payable

Press Corporation plc and its subsidiaries	24	78
Old Mutual Group	31	7
Employees	785	923

Purchases		
Press Corporation plc and its subsidiaries	799	912

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

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

44. Business segments

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

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

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

44. Business segments (Continued)

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

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

	Corporate banking K'm	Retail banking K'm	Treasury K'm	Other K'm	Total K'm
GROUP					
Statement of comprehensive income					
2018					
Total external income	34 216	11 806	21 631	2 456	70 109
Segment result	27 668	9 444	21 631	2 456	61 199
Unallocated expenses	-	-	-	-	(38 183)
Profit before tax	-	-	-	-	23 016
Corporate tax	-	-	-	-	(7 051)
Group profit for the year	-	-	-	-	15 965
Other information					
Depreciation					
Unallocated depreciation	-	-	-	-	3 362
Revaluation surplus on property					
Unallocated fair value gain	-	-	-	-	51
Statement of financial position					
2018					
Assets					
Total consolidated segment	112 353	64 785	155 331	84 861	417 330
Liabilities and equity					
Total consolidated segment					
Liabilities and equity	138 916	65 373	87 549	37 078	328 916
Other information					
Unallocated capital additions	-	-	-	-	88 414
Total	-	-	-	-	417 330

44. Business segments (Continued)

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

45. Exchange rates and inflation

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

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

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

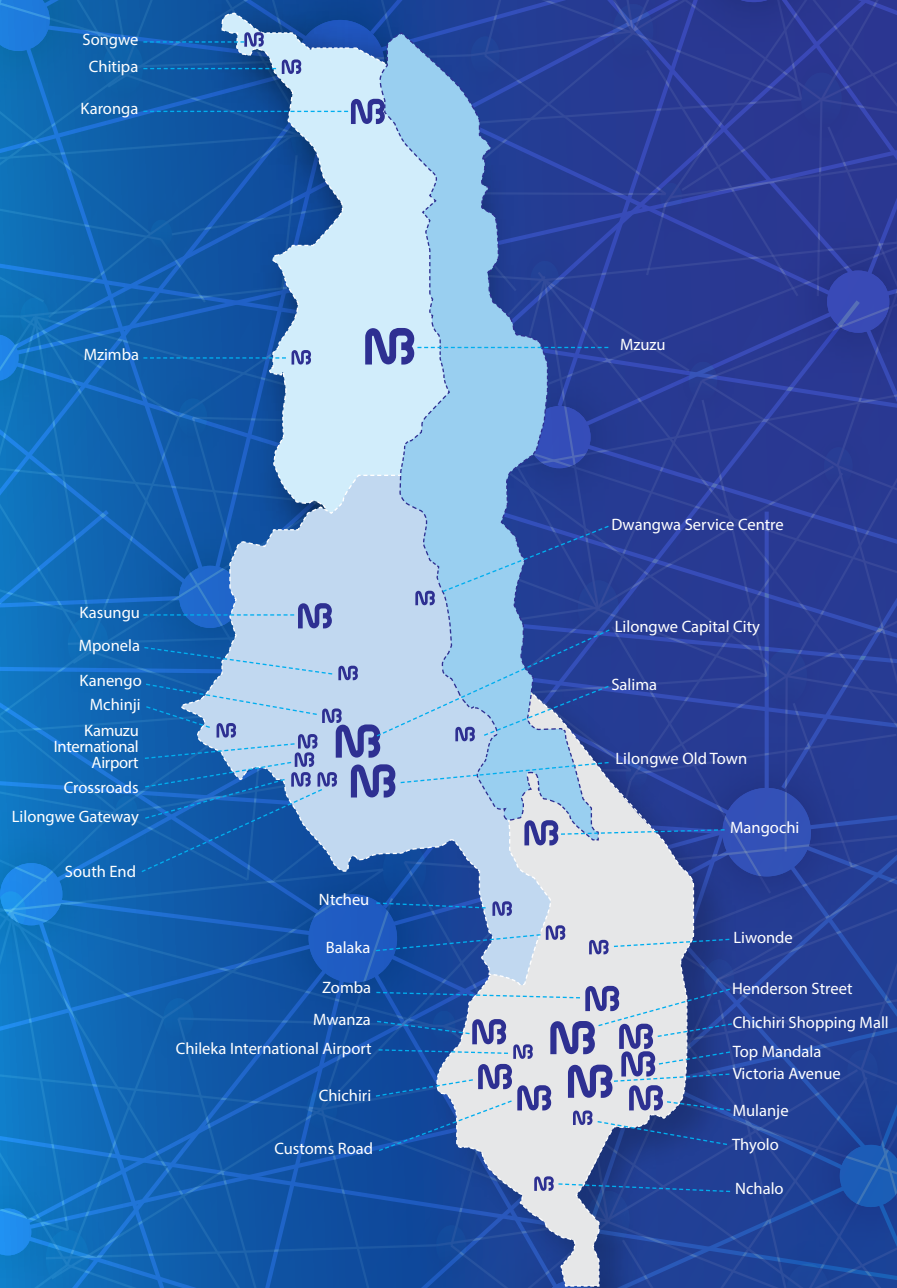
Kwacha/GBP	914.78
Kwacha/Rand	41.94
Kwacha/US Dollar	736.71
Kwacha/Euro	<u>818.65</u>
Inflation rate (%) (February 2020)	<u>11.0</u>



CORRESPONDENT BANKS

The Bank also has a network of correspondent banking relationships across the world. Some of these include:

- Bank of China Limited, Johannesburg
- Deutsche Bank AG, Frankfurt am Main
- Commerzbank AG, Frankfurt am Main
- Deutsche Bank AG, London
- Citibank NA, London
- The Mauritius Commercial Bank Ltd, Port Louis
- Skandinaviska Enskilda Banken AB, Stockholm
- Citibank NA, New York, New York
- Bank of China Limited, Beijing
- Deutsche Bank Trust Company Americas, New York, New York
- The Mauritius Commercial Bank Ltd, Port Louis
- South African Reserve Bank, Pretoria
- Absa Bank Ltd, Johannesburg
- FirstRand Bank Ltd, Sandton
- The Standard Bank of South Africa Limited, Johannesburg



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