



**National Bank  
of Malawi plc**

**2021 ANNUAL REPORT**





National Bank  
of Malawi plc

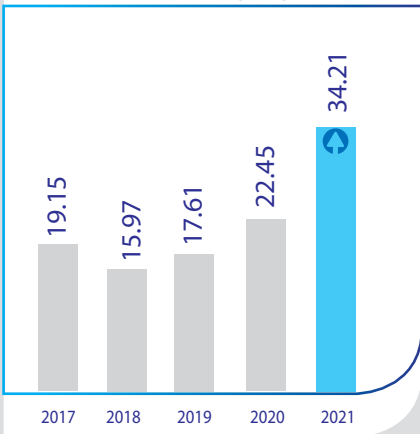
## 2021 ANNUAL REPORT

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# FINANCIAL HIGHLIGHTS

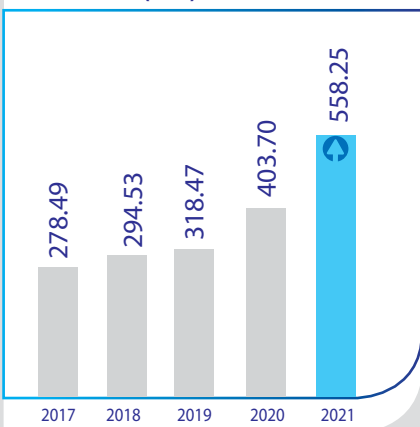
PROFIT AFTER TAX (K'b)



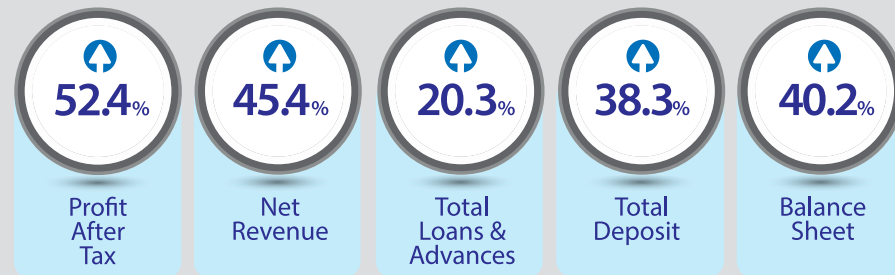
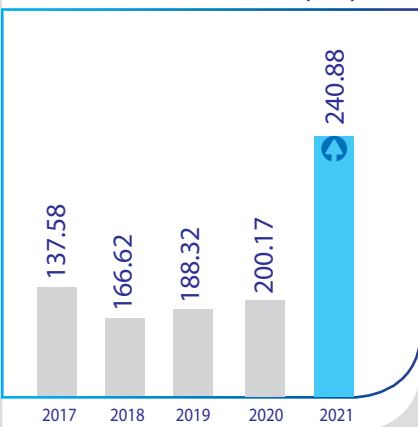
SHAREHOLDER FUNDS (K'b)



DEPOSITS (K'b)



LOANS AND ADVANCES (K'b)



PROFITABILITY HIGHLIGHTS (K'b)

	2020	2021	2021 vs 2020
Net Revenue	78.55	114.19	45.4%
Profit After Tax	22.45	34.21	52.4%

BALANCE SHEET (K'b)

	2020	2021	2021 vs 2020
Total Assets	572.69	802.91	40.2%
Total Deposits	403.70	558.25	38.3%
Total Loans and Advances	200.17	240.88	20.3%
Total Equity	117.92	146.17	24.0%

## CORPORATE SOCIAL INVESTMENT

Health



**K70.0m**

Education



**K60.0m**

Charity & Partnerships



**K11.0m**



## CORE VALUES

### 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

#### 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



CURRENT DIRECTORS  
DIRECTORS' REPORT  
CHAIRMAN'S REPORT

## CURRENT DIRECTORS



**Dr. George B Partridge (58)**  
B.Soc Sc (Econ),  
Msc (Finance)  
FCCA, CA (M)  
Chairman



**Macfussy M Kawawa (57)**  
B.Acc (Hons), FCCA,  
CA (Mw), MBA  
Director



**Macleod Nkhoma (60)**  
MBA, FCIS, PGDIPL  
Director



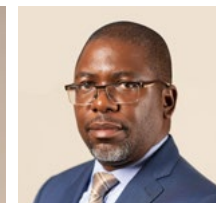
**Jim Nsomba (60)**  
FCCA, CPA, B.Com  
Director



**James Mhura (46)**  
MBA, ACMA, B.Acc.  
Director



**Bessy Nyirenda (Mrs) (60)**  
BSc, MSc, MBA  
Director



**Benard Nda (49)**  
LLM (USA), LLB (Hons)  
Director



**Maureen Kachingwe (Mrs) (55)**  
LL.B (Hons), MBA  
Director



**Dorothy Ngwira (Mrs) (56)**  
FCCA, CA (Mw)  
Director



**Crispin Mzengereza (63)**  
B.A Pub (Admin),  
BCom, MCom  
Director



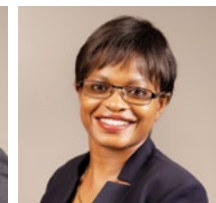
**Harold Jiya (51)**  
BCom, ACIB, MBA  
Director



**Elizabeth Mafeni (Mrs) (53)**  
MBL, FCCA, B.Com  
Director

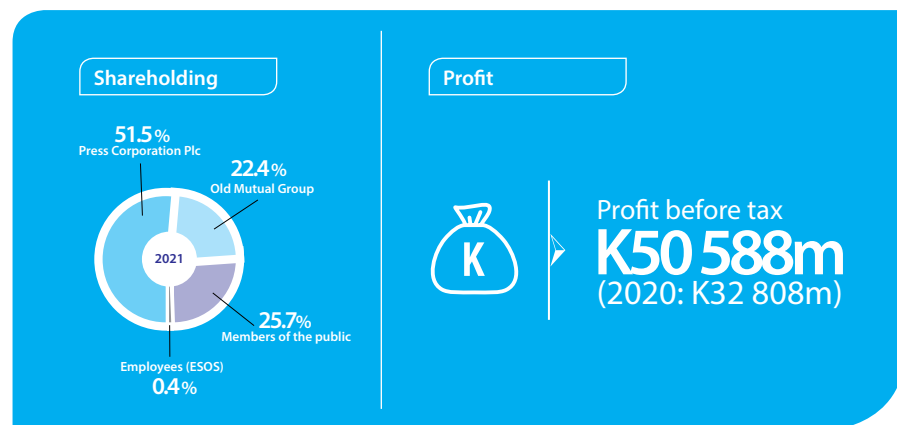


**Raymond Banda (54)**  
MBA, BSc  
Director



**Zunzo E Mitole (Mrs) (48)**  
LLB (Hons), MBA  
Company Secretary  
& Legal Counsel

# DIRECTORS' REPORT



The directors have pleasure in presenting the consolidated and separate financial statements of National Bank of Malawi plc (NBM) for the year ended 31 December 2021.

## CAPITAL

The authorised share capital of the Bank is K500m (2020: K500m) divided into 500,000,000 Ordinary Shares of K1 each. The issued capital is K467m (2020: K467m) divided into 466,931,738 (2020: 466,931,738) fully paid Ordinary Shares of K1 each.

The shareholders and their respective shareholdings are:

	2021	2020
	%	%
Press Corporation Plc	51.5	51.5
Old Mutual Group	22.4	24.6
Members of the public	25.7	23.5
Employees (ESOS)	0.4	0.4
	<u>100.0</u>	<u>100.0</u>

## PROFIT AND DIVIDENDS

The directors report a consolidated profit before tax of K50 588m (2020: K32 808m) for the year. A final dividend of K11 000m (2020: K8 000m) is proposed for the year. A first interim dividend of K5 001m (2020: K2 498m) was paid to shareholders in September 2021. A second interim dividend of K7 000m (2020: K2 500m) will be paid on 31 March 2022.

## IMPACT OF COVID-19

During the financial year, the number of COVID-19 pandemic infections and deaths have generally been on downward trend. It appears the vaccinations are being effective. The global economy is opening up and it is anticipated that the global economy will recover to pre-pandemic levels. The Malawi economy also has a similar expectation.

The Group has written off loans amounting to K9 555m (2020: K4 548m) out of which K8 166m (2020: K4 548m) has been charged to the statement of comprehensive income and K1 389m (2020: nil) has been written off against provisions. While the write downs were not directly due to the pandemic, the economic downturn exacerbated the customers default position. The Group also incurred K76m in COVID-19 containment measures including but not limited to sanitizer and masks.

Despite the above impacts, the Group has still reported high profit before tax of K50 588m (2020: K32 808m) representing 54.19% (2020: 29.42%) increase over last year. The financial performance further reinforces our already strong provisioning and balance sheet controls that position the Bank well for a range of possible economic scenarios. The Group's lending portfolios continue to be monitored closely, with detailed portfolio stress testing as the situation continues to evolve. The focus for the Group continues to be supporting our customers through continued operational excellence underpinned by the commitment and pride of our people.

## DIRECTORS

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

Name	Tenure
Partridge, Dr. G B	Chairman-All year
Mhura, J	All year
Nsomba, J	All year
Banda, R	All year
Mafeni, E (Mrs)	All year
Kachingwe, M (Mrs)	All year
Ngwira, D (Mrs)	All year
Nyirenda, B (Mrs)	All year
Mzengereza, C	All year
Nkhoma, M	All year
Ndau, B	From 17th February 2021
Kawawa, M	All year
Jiya, H	All year



Written off loans  
**K9 555m**  
(2020: (K4 548))

**DIRECTORS' INTERESTS**

The following directors held shares in the Bank as at 31 December 2021:

Partridge, Dr. G B	846 507 (2020: 846 507) Ordinary Shares
Kawawa, M M	113 255 (2020: 113 255) Ordinary Shares
Nsomba, J	758 (2020: 758) Ordinary shares
Kachingwe, M	1 935 (2020: 1 935) Ordinary Shares
Jiya, H	17 306 (2020: 2 306) Ordinary Shares
Ndaub, B	31 593 (2020: 31 593) Ordinary Shares

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

**DIRECTORS' REMUNERATION**

The directors' fees and remuneration for the Group and its subsidiaries was as follows:

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 2020			
National Bank of Malawi plc	216	642	858
NBM Capital Markets Limited	12	122	134
NBM Securities Limited	-	-	-
National Bank of Malawi Nominees Limited	-	-	-
Stockbrokers Malawi Limited	5	-	5
NBM Bureau de Change Limited	-	-	-
NBM Pension Administration Limited	8	-	8
NBM Development Bank Limited	29	-	29
<b>Total</b>	<b>270</b>	<b>764</b>	<b>1 034</b>
For the year ended 31 December 2021			
National Bank of Malawi plc	270	690	960
NBM Capital Markets Limited	17	142	159
NBM Securities Limited	-	-	-
National Bank of Malawi Nominees Limited	-	-	-
Stockbrokers Malawi Limited	6	-	6
NBM Bureau de Change Limited	-	-	-
NBM Pension Administration Limited	15	-	15
NBM Development Bank Limited	23	-	23
Akiba Commercial Bank plc	70	-	70
<b>Total</b>	<b>401</b>	<b>832</b>	<b>1 233</b>

**DIRECTORS' TENURE POLICY**

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

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

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

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

**CORPORATE GOVERNANCE**

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



*The Group continues to embrace and abide by the main principles of modern corporate governance*

**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 2021, none of the directors for the subsidiary companies had interest in any material contract relating to the businesses of the subsidiaries.

OVERVIEW OF SUBSIDIARIES (CONTINUED)

Information about subsidiaries' board of directors and their interest in shares, if any, in the respective subsidiaries is shown below:

Subsidiary	Directors	Tenure	Directors interest in shares of the subsidiary
NBM Capital Markets Limited	Mr M Kawawa	All year- Chairman	None
	Mr. H Mukaka	All year	None
	Mr. B Jere	All year	None
	Mr. M Katsala	All year	None
	Mrs. M Mulele	All year- Company secretary	None
	Mr. J Lipunga	All year	None
Stockbrokers Malawi Limited	Mr. M Kawawa	All year-Chairman	None
	Mr. H Mukaka	All year	None
	Mr. D Kafoteka	All year	None
	Mr. M Siwu	All year	None
	Mr. N Kadzakumanja	All year- Company Secretary	None
NBM Pension Administration Chairman Limited	Mr. O Kasunda	All year- None	None
	Mrs. Z Mitole	All year- Company Secretary	None
	Mr. H Jiya	All year	None
	Mr. B Boby	All year	None
	Mr. G Munthali	All year	None
	Mr. E Namboya	Up to January 2021	None
	Mr. B Sitima	All year	None
	Mr. E Chokani	Up to February 2021	None
	Mr. S Mkandawire	From May 2021	None
	Mr. C Chithila	From May 2021	None

OVERVIEW OF SUBSIDIARIES (CONTINUED)

Subsidiary	Directors	Tenure	Directors interest in shares of the subsidiary	
NBM Development Bank Limited	Mr. M Kawawa	All year- Chairman	None	
	Mrs. M Mulele	All year- Company secretary	None	
	Mr. H Jiya	All year	None	
	Mr. M Katsala	All year	None	
	Mr. A. Sukasuka	All year	None	
	Mr. F. Muula	All year	None	
Akiba Commercial Bank Plc	Mr. E Massawe	All year - Chairman	None	
	Ms. N Mziray	All year - Company Secretary	None	
	Prof. J Lotto	All year	None	
	Ms. R Juma	All year	None	
	Ms. C Kimaryo	From 23 March 2021	None	
	Mr. M Kawawa	From 3 May 2021	None	
	Mr. H Jiya	From 3 May 2021	None	
	Mr. M Katsala	From 3 May 2021	None	
	Mrs. Z Mitole	From 3 May 2021	None	
	Ms. E Chanza	From 3 May 2021	None	
	Mr. B Mahona	From 28 September 2021	None	
	National Bank of Malawi Nominees Limited	Mrs. Z Mitole	All year - Chairperson	None
		Mr. H Mukaka	All year	None
Mrs M Mulele		All year - Company Secretary	None	
NBM Bureau de Change Limited	Mr. A Musyani	All year - Chairman	None	
	Mr. B Boby	All year	None	
	Mr. H Jiya	All year	None	
	Mrs. Z Mitole	All year - Company Secretary	None	

NBM Securities Limited does not have directors. The company's business activities were incorporate into National Bank of Malawi plc.

## DIRECTORS' REPORT

### DONATIONS

During the year, the Group made charitable donations of K76m (2020: K35m).



### 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% (2020: 100%)	Investments and fund management
NBM Securities Limited	100% (2020:100%)	Dormant
National Bank of Malawi Nominees Limited	100% (2020:100%)	Holding of investments as nominee (Dormant)
Stockbrokers Malawi Limited	75% (2020: 75%)	Registered stockbroker
NBM Bureau de Change Limited	100% (2020:100%)	Dormant
NBM Pension Administration Limited	100% (2020: 100%)	Pension administration
NBM Development Bank Limited	100% (2020: 100%)	Small and Medium Enterprises and long-term Financing
Akiba Commercial Bank plc	60.48% (2020: nil)	Banking and related services.

NBM Securities Limited does not have directors. The company's business activities were incorporate into National Bank of Malawi plc.

## DIRECTORS' REPORT



### AREAS OF OPERATION

The Group has 51 (2020: 33) service centres: 33 centres throughout Malawi and 18 centres throughout Tanzania. The Bank and its subsidiaries, except Akiba Commercial Bank plc (ACB), registered offices and principal places of business are in Blantyre, Malawi. ACB's registered office and principal place of business is in Dar es Salaam, Tanzania.

### 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 2022.

### AUDITORS' REMUNERATION

Group Auditor's remuneration including VAT and expenses for the year was K508m (2020: K349m).

### BY ORDER OF THE BOARD

Director (Nsomba, J (Mr))

Director (Ngwira, D (Mrs))

Date: 31 March 2022

## CHAIRMAN'S REPORT



The Group posted a profit after tax of K34.21 b representing a

**52% increase**

from K22.45b reported in 2020.

### THE OPERATING ENVIRONMENT

The Malawi economy, like the most parts of the world, continued to recover and grew by 3.9% up from 0.8% in 2020. The easing of COVID-19 restrictions and the introduction of vaccines has improved business confidence levels resulting in a general surge in demand for goods and services worldwide culminating in increased business activities.

The annual headline inflation, averaged 9.3% in 2021 compared to 8.6% recorded the previous year. Inflation was driven by both food inflation and non-food inflation mainly on account of the increase in global oil prices and persistent disruptions to global supply chains.

The Malawi kwacha depreciated against all major currencies due to a significant buildup of arrears in foreign payments due to scarcity of foreign currency. The consequences of an already low foreign currency reserves position was exacerbated by the general increase in global commodity prices driven by a sharp recovery in demand as economies bounced back from the impact of the COVID-19 pandemic.

### PERFORMANCE

I am pleased to report that the Bank performed very well in spite of the challenging operating environment enumerated above. The Group posted a profit after tax of K34.21b representing a 52% increase from K22.45b reported in

2020. Net interest and investment income grew by 44%. These results were driven by volume increases in fixed income securities, made possible by growth in customer deposits. In addition, there was a tremendous increase in transaction volumes, especially from our digital platforms that resulted in a significant growth in non-interest income of 49%. Overall net revenue grew by 45%. Operating expenses and impairment losses increased by 41% and 2% respectively.

Customer deposits increased by 38% year on year while the Bank's loan book grew by 20% (2020: 6%). Investment in Fixed Income securities grew by 66% (2020:35%). The Bank achieved an overall growth of 40% in the Statement of Financial Position.



*Customer deposits increased by **38%** year on year while the Bank's loan book grew by **20%** (2020: 6%).*



*As at end of the year, the Bank had completed the acquisition of a 60.48% controlling stake in Akiba Commercial Bank (ACB) in Tanzania. Negotiations are still on going to acquire a further stake to reach the intended target of 75%.*

### STRATEGY AND PROSPECTS

The economy is expected to grow by 4.1% in 2022. This growth will be underpinned mainly by an anticipated increase in the mining and quarrying, manufacturing, and construction sectors. Downside risks to these growth prospects will emanate from uncertainties in the evolution of the COVID-19 pandemic and its containment measures, climate change and the war in Ukraine. Pressures on inflation are likely to continue, mainly arising from rising energy prices and global supply chain disruptions, worsened by the war in Ukraine.

As at end of the year, the Bank had completed the acquisition of a 60.48% controlling stake in Akiba Commercial Bank (ACB) in Tanzania. Negotiations are still on going to acquire a further stake to reach the intended target of 75%.

Looking ahead, the Board envisages a continuing challenging operating environment due to the factors enumerated above. However, the Group is expected to sustain its enviable performance through its ability to leverage on its core strengths, address challenges and exploit opportunities in the market, the hostile environment notwithstanding.

### BOARD OF DIRECTORS

The Board and Management welcomed Mr. Bernard Ndau who joined the Board in February 2021.

I would like to take this opportunity to thank fellow directors for their counsel, support, co-operation and direction in what was a difficult year where all meetings were being conducted online.

### MANAGEMENT AND STAFF

I wish to take the opportunity to express my sincere gratitude to management and staff for their hard work, dedication, loyalty, resilience and commitment during a year full of unprecedented risks and uncertainties. I am confident that the Board can count on their continued commitment to take the Bank to greater heights.

**George B. Partridge**  
CHAIRMAN



SENIOR MANAGEMENT  
CHIEF EXECUTIVE  
OFFICER'S STATEMENT



SEATED (L-R)

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

**Harold Jiya**  
B.Com, ACIB, MBA  
Deputy CEO & Chief  
Commercial Officer

STANDING (L-R)

**John Mitchell**  
BSc (Tech Edu),  
MSc (Computing)  
Head, Information  
Technology,  
Organisation and  
Methods Division

**William Kaunda**  
BSc, MSc (Bus Mgt)  
Head, Digital Banking  
Services Division

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

**Charles Ulaya**  
B.Acc, ACMA, CA  
Head, Risk

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

SEATED (L-R)

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

**Eluphy Salamba**  
B.Comm (Bus  
Admin), MSc (LCM)  
Head, Credit Management

STANDING (L-R)

**Charles Dulira**  
BA, CTP, MBA  
Head, Human  
Capital Division

**Brian Boby**  
B.Soc.Sc., MBA.  
Head,  
Operations

**William Chatsala**  
B.Com, MBA, FCIB  
Head, Corporate  
Banking Division

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

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

**Oswin Kasunda**  
B.Com,  
MSc (St.Mgt)  
Head, Retail  
Banking  
Division

## CHIEF EXECUTIVE OFFICER'S STATEMENT



### PERFORMANCE OVERVIEW



The Bank's group profit after tax increased by 52% from K 22.45b to K 34.21b. This was driven by a growth in income, especially non-interest income which went up by 48% as a result of increased transaction volumes. Interest and investment income increased by 44% following a 38% growth in customer deposits year on year that resulted in increased interest income from fixed income securities. Overall Net Revenue grew by 45% while operating expenses increased by 41%.

The Bank's loan book grew by 20% while fixed income securities grew by 66%. The Bank achieved an overall growth of 40% in the Statement of Financial Position year on year.

### CORPORATE BANKING OPERATIONS

Corporate Banking Division manages the Bank's relationships with large Private and Public sector customers and the NGO community. The Division prides itself in the provision of tailor-made banking solutions, through loan syndications, project finance, structured trade finance, leasing facilities, international payments; it also significantly supports agricultural development in the country.

During the year, in addition to funding various manufacturing and production activities, the Division also supported commercial and agricultural infrastructure development.

The year was characterized by acute foreign exchange shortages on the market which resulted in low utilization of facilities for importing customers. The Division did not fully meet large ticket requirements of customers that needed to establish Letters of Credit due to the low supply of foreign currency.

The Covid-19 Pandemic continued to affect funding for the NGO community, which is a significant source of foreign exchange. The hospitality industry also continued to experience negative swings in business levels, necessitating facility restructure and significant provisioning. Notwithstanding the challenging operating environment, the

Non-Performing Loans (NPL) ratio on the corporate book improved to 10.6% (14%) due to proactive management and close monitoring of credit exposures.

Whilst the loans and advances figures remained flat during the year due to the foregoing challenges and significant early repayments on some large exposures, the deposits base held in real terms. The Division registered a Profit After Tax that far exceeded expectations mainly due to high non-interest income attributed to increase in transaction volumes, and significantly lower net provisions figures.

The Division maintains a team of well-qualified and skilled Business Development Managers that we believe will continue to provide valuable banking solutions to the satisfaction of the Bank's corporate customers.

**TREASURY AND INVESTMENT BANKING**

Revenue from Treasury operations remained one of the major sources of income for the Bank in 2021. Strong results in Money Market, Foreign Exchange dealing and Equity trades bolstered Treasury performance in the year.

Investments in Fixed Income securities continued to be the mainstay of the Money Market portfolio and this was supported by higher deposit volumes at the back of reduced borrowing as COVID effects continued to dampen economic activity. Foreign Exchange trading income continued on the upward trajectory because of increased trades volumes and better margins. Furthermore, the Stock market generally remained buoyant for the better part of the year, earning our portfolio positive returns.

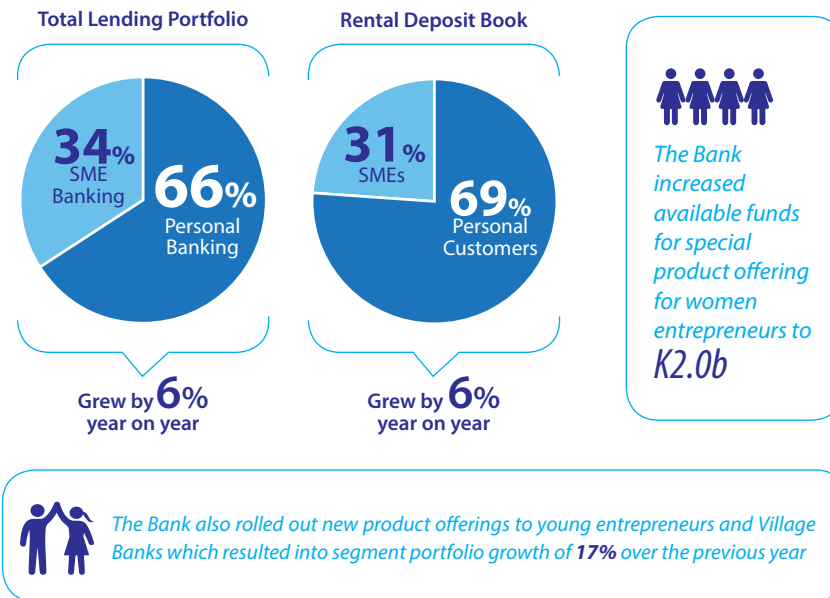
Foreign Exchange trading income continued on the upward trajectory



**RETAIL BANKING OPERATIONS**

We implemented a new business operating model which involved the consolidation of the service centres and the business centres under a renamed division called Retail Banking Division (formerly Personal and Business Banking) and the moving of Vehicle and Asset Finance (VAF) function to Corporate Banking Division. The service centre structures were changed so that they are more business focused and what used to be Agencies were delinked from the bigger service centres to become standalone service centres, fully equipped to undertake business on their own. These changes were made in our quest to become more customer focused, specialized sales, portfolio and product development-oriented bank

The total Retail lending portfolio comprising of 66% personal banking and 34% SME banking registered a growth of 6% year on year. The Retail deposit book comprising of 31% SMEs and 69% personal customers grew by a similar measure.



The prolonged economic challenges that were being experienced could not result in replication of the growth that was registered in 2020 on this portfolio since most sectors were running out of borrowing capacity despite individuals having the need to borrow. Despite the obvious challenges on the lending portfolio, the deposit book for personal customers grew by 11% from prior year. Personal Banking lending portfolio marginally grew by 1%, year on year.

In SME Banking, capacity building, understanding our customer needs and

developing deep sector knowledge continued to be a major drive. The Bank increased available funds for special product offering for women entrepreneurs to K2.0b. The Bank also rolled out new product offerings to young entrepreneurs and Village Banks after engagements with players in these market segments. All this resulted into segment portfolio growth of 17% over the previous year, despite the obvious challenges that were being faced economically. The deposit book for the SME sector, however stagnated at K55.0b in the year.

**CARDS AND e-BANKING SERVICES**

The Bank continued to make strides in the areas of digital financial services. Transactions handled through cards and electronic services accounted for 93% of the total transactions processed in the Bank. The Bank enhanced its card acquiring services by introducing an e-commerce platform that allows merchants to acquire cards from their web portals. The Bank also enhanced its card issuing business by being a MasterCard Cash passport issuer in Malawi and also sponsored TNM Mpamba to issue companion cards using the Bank's MasterCard BIN. The Bank also enhanced its security process for online card service by introducing 3D Secure services in order to further protect its customers transacting online using debit or credit cards.

Looking ahead, we plan to roll out integrated services to merchants, introduce deposit taking on our network of agents and ATMs, rollout QR acquiring for the Bank's merchants, as well as improved services in mobile services that will see introduction of the mobile wallet and enhanced mobile payments.

**INFORMATION TECHNOLOGY SYSTEMS**

In 2021, we engaged in several projects and activities with a view to improving ICT infrastructure, IT Security and general delivery of existing products and services as well as to facilitate introduction of new ones. Improvements were made on the mo626ice, mo626digital+ and Banknet360 Internet Banking platforms by introducing new products for facilitating payments to various service providers. The Core Banking System database and infrastructure was upgraded to improve performance. A total of 35 ATMs were replaced with new ones and 14 had their PC Cores upgraded. The SWIFT system was upgraded to comply with the latest Standards.



*A total of 35 ATMs were replaced with new ones and 14 had their PC cores upgraded*



*The Bank launched its new Culture Blueprint, dubbed, Tiiphula*

**TALENT MANAGEMENT ACTIVITIES**

The Bank launched its new Culture Blueprint, dubbed, Tiiphula, which is founded on six building blocks among which are what we have termed our True Blue Behaviours (TBBs), which are our Culture and our DNA that will repeatedly assist us to deliver amazing results whilst endearing us with our customers and employees.

Towards the end of the year under review, the country witnessed the onset of the 4th wave of COVID 19 which was dominated by the highly transmissible Omicron variant and the Bank was not spared. The number of registered positive cases peaked at 112, all of whom recovered except for 2 that were still active at the time of reporting and another that sadly passed away due to covid 19 complications

In order to contain the situation, the Bank emphasized on the need for members of staff

to be vaccinated against covid 19 and follow the preventative measures of the pandemic some of which included the following: wearing of face masks; frequent washing of hands with soap and water; usage of hand sanitizers; observing social distancing; regular disinfection of office premises every fortnight; and tracing and testing of close contacts in situations where we registered positive cases. The Bank managed to reach the herd immunity level for covid 19 at the end of December 2021 as 79% of its members of staff were fully inoculated.

The Bank continued to invest in further education of its employees. One member of staff completed his studies in the United Kingdom at the University of Cranfield for a Master of Science Degree in Management and Information Systems. The other member of staff enrolled for an Executive MBA Program with the University of Cape Town in February 2021 that he is expected to complete soon.

**CORPORATE SOCIAL INVESTMENT ACTIVITIES**

In 2021, the Bank implemented some CSI initiatives in response to emerging issues in different sectors of the society. These included responses to the COVID-19 pandemic which had majority of the CSI budget. The following are some of the initiatives; -

**MK60 million medical supplies to government**

In January 2021, Covid-19 pandemic cases were on the increase resulting in more hospitalizations and deaths. In response, the Bank made a donation of medical supplies worth K60.0m to the Malawi government through the Ministry of Health.

The Bank procured high importance, low availability medical supplies which included oxygen concentrators, oxygen flow metres, suction and patient monitors. The items were delivered to 35 hospitals, health centers and clinics across the country.

**MK10 million medical supplies donation to Covid Private Response**

The Private Citizens Covid Response was an initiative that some individuals came up with in order to mobilize resources for the effective containment of the pandemic. This was a 'for the people, by the people' initiative that the

Bank found worthwhile to join by donating medical supplies to the grouping which were distributed to various health facilities across the country.

**MK60 million MUST Endowment Fund**

The K60.0m contribution to the Malawi University of Science and Technology (MUST) Endowment Fund is a three-year program that aims at supporting underprivileged students many of whom from public universities are facing challenges to study, primarily due to lack of financial resources.

The contribution towards the Fund is the first of the Bank's sustainable, long-term initiatives whose results are expected to be seen beyond the initial three years of investment.

The pictorial focus of these investments is on pages 36 through 40.



**SUBSIDIARIES AND ASSOCIATES**

**NBM Capital Markets Limited**

NBM Capital Markets Limited (NBM Capital) is a wholly owned investment management subsidiary of National Bank of Malawi plc. Its business focus is on fund management, Money Market Management, Corporate Finance and Financial Advisory Services.

Total funds under management grew by 29% to K165b from K128b in 2020. In line with this growth, earnings in the year increased despite the continued negative impact of the COVID 19 pandemic. The company reported profit before tax of K833.0m (K594.0m: 2020) representing 40% growth.

The company foresees a continued profit growth in 2022. Profit growth is anticipated to be driven by both volumes, improved returns on interest bearing assets as well as commissions from corporate finance and advisory services.

**Stockbrokers Malawi Limited**

Stockbrokers Malawi Limited (SML), a 75% subsidiary of National Bank of Malawi plc recorded a pre-tax profit of K286.0m (2020: K256.0m) representing a 11.7% increase. Revenue increased by 10% to K578m (2020:525.0m). The minimal growth is mainly attributed to squeezed margins in the money market.

The company is on a drive to grow its money market portfolio and continue increasing its market share on the Malawi Stock Exchange.



Total funds under management grew by 29% to K165b from K129b in 2020

Profit before tax grew by 40%



Profit before tax K58.0m

Funds under administration grew by 14.0%

**NBM Pensions Administration Limited (NBM PAL)**

NBM PAL is a wholly owned subsidiary of the Bank engaged in Pension administration. The Company recorded a subdued performance with Profit Before Tax at K58.0m which is 38% below that reported for the prior year. The slump in performance is as a result of scaling down of business by employers due to the impact of the COVID-19 pandemic which led to increased provisions for nonpayment of fees, with K102.0m actually written off in the year.

Funds under Administration closed at K103.0b as at the end of 2021, 14% higher than the K90.0b recorded at the end of the previous year. The portfolio grew but revenues went down due to non-remittance of pension benefits by Employers as explained above.



Profit before tax grew by 11.7%




Revenue increased by 10.0%

**United General Insurance (UGI)**

UGI developed a turnaround strategy whose main focus was to restore its profitability, liquidity and solvency margin. This resulted in an impressive performance compared to previous year in which a loss was reported. The company registered growth in Gross Premium Written of 4% to K7.02b from K6.78b and this was mainly due to an introduction of a new product, crop insurance. Claims incurred improved to K3.0b from K3.4b in 2020 and the Claims ratio improved to 56% from 64%. This was achieved through the mapping of clientele into service zones to ensure efficiency and optimisation. Consequently, the company reported a profit of K644.0m compared to a loss of K255.0m in 2020.

The company's total assets grew by 3% from K9.3b at K9.6b. Shareholders' equity also improved by 15% to K3.1b from K2.7b.

Going forward, the company's focus is to organically grow the business through improved relationships with brokers while aligning expenditure to revenue.



*The company reported a profit of K644.0m compared to a loss of K255m in 2020*

---

*Profit before tax grew by*  
**40%**

The Bank witnessed a decline in profit before net impairments to K16.0 from K100.0m in the previous year (2020). After taking into account expected credit losses, the Bank recorded a loss before tax of K3.3m against a prior year profit before tax of K92.4m. The Bank made a profit after tax of K28.6m (2020: K60.0m) largely attributed to a tax credit. Total Loans and Advances grew to K2.23b from K1.0b in 2020. During the year, the Bank continued to finance high developmental impact projects in the Health, Tourism and Agribusiness Sectors.

Going forward in the year 2022, the Bank will continue in its growth trajectory as the economy opens up and becomes more resilient to the impacts of the COVID -19 Pandemic.

*The Bank made a profit after tax of* **K28.6m**

**NBM Development Bank (NBMDB)**

NBM Development Bank Limited is a wholly owned subsidiary of National Bank of Malawi plc whose main business activity is the provision of long-term finance to the SME sector. It commenced its operations in September 2019.

The Bank continues to conduct its business in a subdued operating environment largely as a result of the impact of the COVID-19 Pandemic which has had a negative impact on SME businesses and the economy as a whole.

**Akiba Commercial Bank plc (ACB)**

National Bank of Malawi plc acquired 60.48% controlling stake in Akiba Commercial Bank (ACB) in Tanzania in January 2021. Negotiations are still ongoing to acquire a further stake to reach 75%.

ACB developed a new five-year strategic plan to run from 2021 to 2025 following the Bank's recapitalization in January 2021 after sealing a strategic partnership with the National Bank of Malawi plc. The new strategy aims at transforming the Bank from a predominantly micro-lending institution to a fully-fledged commercial bank that can meet the banking needs of a cross section of its customer base.

During the year under review, ACB recorded a loss before tax of K1.89b (2020: K2.94 b). This is an improvement of 34% mainly attributed to cost control and containment of non-performing loans.

ACB has committed to upgrade its core banking system (T24) to the latest available version (R21). The upgrade will allow the bank to achieve a greater degree of automation, security, compliance and innovation of products and services through technology. It will move to diversify its products portfolio by re-introducing a bouquet of personal and corporate banking products and services.

The Bank plans to rationalize its current branch network and staffing with a view to increasing efficiency and proximity of services to our customers. It will also investigate possibilities of expanding to new regions currently not serviced during the tenure of the current business strategy.

ACB is looking forward to 2022 with optimism as it positions itself to become a profitable bank. It will continue its focus on business growth through customer service and operational efficiency.



## CHIEF EXECUTIVE OFFICER'S STATEMENT

### OUTLOOK

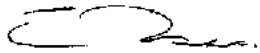
The economy is expected to grow by 4.1% in 2022, from an estimated growth of 3.9% in 2021. The optimism is emanating from the initial prospects of a good agriculture season, on anticipation of favourable weather conditions and continued implementation of the Affordable Inputs Program (AIP). Further, non-agricultural sectors including mining and quarrying, utilities and construction are poised to contribute positively to growth in 2022, following the investments currently being undertaken in these sectors. The evolution of the COVID-19 pandemic as well as the effects of climate change could, however, jeopardize these growth prospects.

Looking ahead, the Bank envisages a challenging operating environment emanating from pressures on inflation, foreign exchange rate, and developments in the other parts of the world. Despite the above the Group is expected to continue the growth trajectory.

### CONCLUSION

I wish to thank the Chairman and the Board of directors for their guidance, support and direction as we sailed through unprecedented challenges in the face of COVID 19. My gratitude also goes to my senior management team and all members of staff for their resilience as we together kept going in spite of the very challenging operating environment. Guided by the lessons learnt in 2021 I am confident that everyone will come out wiser as we continue to operate in these 'business unusual' times.

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

inspire  
society  
greatness

CORPORATE  
SOCIAL  
INVESTMENT



inspire  
society  
greatness

  
K70.0m

Covid 19 Response



BNS Field Hospital



Bwaila Hospital



Holy Family



Kamuzu Barracks



Kamuzu Central Hospital



Pirimiti Health Centre

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Covid 19 Response



QECH AETC



QECH Field Hospital



Zomba Central Hospital



Zomba Police



Private Citizens Covid Response

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NBM plc 12 Days of Christmas



Day 1 > Kamkodola Primary School



Day 2 > Bangwe Health Centre



Day 7 > Kabudula Health Centre



Day 8 > Chezi Rehabilitation Centre



Day 3 > Nancholi Youth Organisation



Day 4 > Chilinga School for the Blind



Day 9 > Livingstonia Aids Program



Day 10 > Karonga School for the Deaf



Day 5 > Mlambe Hospital



Day 6 > Mulanje School for the Blind



Day 11 > Namachira Primary School



Day 12 > Lilongwe Girls Secondary School

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NBM plc 12 Days of Christmas

## inspire society greatness



### Investment towards MUST Endowment Fund



Pro. Address  
Malata, MUST  
Vice Chancellor  
(L) receives  
the NBM plc  
Endowment Fund  
dummy cheque  
from Macfussy  
Kawawa, NBM plc  
CEO.

Exchange of the Endowment Fund Agreement

## inspire corporate greatness



## SELECTED KEY CLIENTS

Corporate Banking

## inspire corporate greatness

### Sunbird Hotels & Resorts

Sunbird Livingstonia Beach



Sunbird Ku Chawe



Sunbird Hotels and Resorts is Malawi's leading hotel chain with nine properties including four city hotels in all three regions of Malawi, four popular beach resorts along Lake Malawi and an iconic mountain resort, in the former capital city, Zomba.

## inspire corporate greatness

### Raiply Malawi Limited

School Desks



Briquettes



Raiply Malawi Limited is a leading manufacturer of wood products and quality MDF boards in central and southern Africa.

At a time when Malawi is losing 659,000 hectares of its forest per annum to cooking fuel, Raiply came up with an intervention to conserve the forest by commissioning a \$1 million briquette making factory in Mzimba district.

## inspire corporate greatness

### Makandi Tea & Coffee Estates Limited



Makandi Tea and Coffee Estates Limited is one of the largest producers of tea in Malawi.

### Eastern Produce Malawi Limited



Eastern Produce Malawi Limited (EPM) is the biggest single producer of tea in Malawi.

## inspire corporate greatness

### Rab Processors Limited



Rab Processors is a leading player in the agriculture industry in Malawi and specialises in value addition and trading of locally grown produce.

### GM Plastics



GM Plastics manufactures a wide range of houseware, kitchenware, bottles, closures, preforms, jars, black sheets and PET.

inspire  
SME  
**greatness**

---

**SELECTED  
KEY CLIENTS**

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Personal & SME Banking



## inspire SME greatness

### Mzuzu Coffee



Mzuzu Coffee produces honey, speciality ground coffee and export quality Mzuzu Speciality Tea for those who love good quality.

### Kombeza Foods



Kombeza Foods is a food processing business that specialises in affordable, delicious, nutritious and well-packed food products. Their aim is to aid women and youth to become independent through creation of opportunities

## inspire SME greatness

### Shayona Cement Corporation Limited



Shayona Cement Corporation Limited produces Akshar, Buildplast and Thanthwe cement brands

### Wijays Enterprises



Wijays Enterprises is a detergents (soap, cleaning, water treatment, etc) manufacturing and distribution company.

## ECONOMIC REPORT 2021 AND OUTLOOK FOR 2022

### ECONOMIC REPORT 2021

The Malawi economy recovered from the slowdown in real GDP growth experienced in 2020. The Delta and Omicron variants being the main culprits in 2020. In 2021, the economy grew by 3% up from 0.8% recorded the previous year. The improvement is largely being driven by rising vaccination rates which have enhanced business confidence coupled with a resulting improvement in cross border trade within the SADC and COMESA regions. Headline inflation, averaged 9.3% in 2021 from an annual average of 8.6% recorded the previous year. This inflation outturn has effectively wiped out all the monetary policy gains accrued in the last few years as it approaches the high of 9.4% recorded in 2017.

The National Bank of Malawi plc specific forex demand closed at US\$109.23 million in December 2021 (December 2020: US\$133.2 million); of which US\$51.34 was settled by the close of the year (December 2020: US\$94.0million) whilst US\$57.89 million (December 2020: US\$39.2 million) remained unmet. These excess demand conditions in the forex markets are expected to continue throughout Q1:2022, moderating thereafter with the opening of tobacco auction markets expected in April 2022.

At the end of Q4:2021, the kwacha gained value against the US dollar and the South African rand, reflecting improved supply of foreign exchange following offloading of foreign exchange by some market participants. In particular, the kwacha appreciated by 0.3 percent (K2.72) against the US dollar and 2.1 percent (K1.21) against the South African rand. However, the local currency depreciated against the British pound and the euro during the same period.

### OUTLOOK 2022

The Ministry of Finance and Economic Planning estimate that real GDP is projected to grow by 4.1% in 2022, from an estimated growth of 3.9% in 2021. The optimism emanated from the initial prospects of a good agriculture season, on anticipation of favourable weather conditions and continued implementation of the Affordable Inputs Program (AIP). Further, non-agricultural sectors including mining and quarrying, utilities and construction are poised to contribute positively to growth in 2022, following the investments currently being undertaken in these sectors. However, downside risks to these growth prospects remain the uncertainty regarding the evolution of the COVID-19 pandemic and its containment measures as well as the effects of climate change ushering in erratic weather patterns typified by the recent tropical cyclones.

Going into Q1:2022, pressures on inflation are likely to continue, mainly arising from a seasonal increase in prices of domestically produced food items and imported high broad-based inflation emanating from rising energy prices and supply chain disruptions and many emerging market economies. Reflecting these pressures, the inflation path domestically, has shifted upwards compared to developments in the previous year. The annual average headline inflation for 2022 is now projected at 10.4%, from an earlier forecast of 8.9%.

## CORPORATE GOVERNANCE STATEMENT

The Board of Directors of National Bank of Malawi plc is pleased to report that during the year ended 31st December 2021, the Company was in full compliance with the standards of good corporate governance. The Company achieved this by following principles of openness, integrity and accountability as set out in the Malawi Corporate Governance Code, the Cadbury Report and the King Reports. The Company thus had a cordial relationship with its shareholders, customers, strategic partners, suppliers of various goods and services, regulators and staff due to this compliance.

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

The Governance structure of the Company is shown in the chart below:



The Board meets every two months to scrutinize compliance with policies and achievement of objectives by holding management accountable for its activities and performance. The Main Board and its Committees may also meet outside of the regular scheduled meetings where there are urgent business to transact.

The Board delegates some of its compliance monitoring responsibilities to committees of the board namely – Risk, Audit, Appointments, Remuneration & Governance, IT Projects Oversight, Credit and the Board Committee on Related Parties. Each Committee has its own 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 robust controls that enable the Company to have efficient and 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 4th June 2021. Due to COVID-19 restrictions, the meeting was held virtually. Shareholders were requested to raise questions and vote before the meeting. The meeting was attended by 5 shareholders in person whilst 10 attended by proxy.

Apart from the ordinary transactions at the AGM, the meeting approved a new Article 27B in the Company’s Articles of Association that incorporates the holding of Annual General Meetings virtually.

#### The Board

The Board is currently composed of thirteen directors, two of whom are executive directors and the rest are non-executive directors. The chairman is chosen from among these directors. The Chairman in the year 2021 was Dr George Partridge.

The non-executive directors have diverse professional backgrounds and hold or have held senior leadership positions in the financial services, public and private sectors. This enables them to provide the Board with a wide range of skills and experience emanating from the holding of such positions combined with their strength of character, independence of judgement and opinion.

#### The Board (Continued)

Name of Committee	Functions	Chairperson	Number of Meetings in 2021
Risk Committee	<ul style="list-style-type: none"> <li>- Provide the crucial oversight and direction in relation to current and potential future risk exposures and future risk strategy;</li> <li>- Examine risk management reports covering credit, market, liquidity and operational risks among other reports provided by the Risk Division of the Company;</li> <li>- Monitor compliance with Basel II requirements.</li> </ul>	Mr. Raymond Banda	5
Audit Committee	<ul style="list-style-type: none"> <li>- Provide oversight over the Company’s system of internal controls and review its effectiveness.</li> <li>- Exercise the full powers and authority of the Board in accounting and financial reporting matters as guided by its terms of reference.</li> <li>- Assess the effectiveness of internal controls and management of risks in each business unit.</li> <li>- The Head of the Company’s Internal Audit Division as well as the external auditor always have unrestricted access to this Committee.</li> </ul>	Mrs. Dorothy Ngwira	7

## The Board (Continued)

Name of Committee	Functions	Chairperson	Number of Meetings in 2021
<b>Appointments, Remuneration and Governance Committee</b>	<ul style="list-style-type: none"> <li>- Responsible for succession planning for directors, board nominations and good governance practices.</li> <li>- Ensure that the Company's human resources are best utilised, and that members of staff are remunerated commensurate to their responsibilities and effectiveness.</li> <li>- Conduct board assessment which enables it to prepare for appropriate training for board members and helps with succession planning.</li> </ul>	Mr Chrispin Mzengereza	4
<b>IT Projects Oversight Committee</b>	<ul style="list-style-type: none"> <li>- Review and approve the Company'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.</li> <li>- Review the annual IT and operational strategies, including the financial, tactical and strategic benefits of proposed major IT and operational related initiatives.</li> </ul>	Mrs. Bessie Nyirenda	4

## The Board (Continued)

Name of Committee	Functions	Chairperson	Number of Meetings in 2021
<b>Credit Committee</b>	<ul style="list-style-type: none"> <li>- Consider credit applications that are above management limit in line with the Company's Authorities Schedule approved by the Board.</li> <li>- Review credit policies, the quality of the Company's direct and contingent lending, the mix of industry concentration within agreed parameters, and dealing lines.</li> <li>- Monitor 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.</li> </ul>	Mr. Bernard Ndau	9
<b>Related Parties Committee</b>	<ul style="list-style-type: none"> <li>- consider credit applications from Companies and Individuals related to the Company to ensure that all transactions are conducted at arm's length.</li> </ul>	Mrs Maureen Kachingwe	5

## DIRECTORS BOARD MEETING ATTENDANCE - 2021

The directors' main board and committee meeting attendance for the 2021 financial year is shown below:

## MAIN BOARD

Name	Jan. 28	March 25	May 27	AGM 4 June	July 2021	Sept 30	Nov 25
Mr. G. B. Partridge	✓	✓	✓	✓	✓	✓	✓
Mrs. E. Mafeni	✓	✓	✓	✓	✓	✓	✓
Mr. J Nsomba	✓	✓	✓	✓	✓	✓	✓
Mr. R Banda	✓	✓	✓	✓	✓	✓	✓
Mr. J. Mhura	✓	✓	✓	✓	✓	✓	✓
Mrs. M. Kachingwe	✓	✓	✓	✓	✓	✓	✓
Mrs D. Ngwira	✓	✓	✓	✓	✓	✓	✓
Mrs. B. Nyirenda	✓	✓	✓	✓	✓	✓	✓
Mr. C. Mzengereza	✓	✓	✓	✓	✓	✓	✓
Mr. B Ndau	-	✓	✓	✓	✓	✓	✓
Mr. M. Nkhoma	✓	✓	✓	✓	✓	✓	✓
Mr. M. Kawawa	✓	✓	✓	✓	✓	✓	✓
Mr. H. Jiya	✓	✓	✓	✓	✓	✓	✓

## BOARD CREDIT COMMITTEE

Name	Jan. 18	March 15	May 19	July 5	July 27	August 16	Sept 27	Nov 24	Dec 15
Mrs. M. Kachingwe	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. M. Nkhoma	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. B. Ndau	-	-	✓	✓	✓	✓	✓	✓	✓

## BOARD COMMITTEE ON RELATED PARTIES

Name	Jan. 18	March 15	May 19	July 5	Aug 16
Mrs. M. Kachingwe	✓	✓	✓	✓	✓
Mrs. B. Nyirenda	✓	✓	✓	✓	✓
Mr. M. Nkhoma	✓	✓	✓	✓	✓

## BOARD AUDIT COMMITTEE

Name	January 22	March 22	May 18	July 22	Sept 22	Nov 18	Nov 19
Mrs. E. Mafeni	✓	✓	✓	✓	✓	✓	✓
Mr. J. Nsomba	✓	✓	✓	✓	✓	✓	-
Mrs. D. Ngwira	✓	✓	✓	✓	✓	✓	✓

## BOARD RISK COMMITTEE

Name	Jan 25	March 18	May 18	July 20	Sept 20	Nov 22
Mr. J Mhura	✓	✓	✓	✓	✓	✓
Mr R Banda	✓	✓	✓	✓	✓	✓
Mr. C. Mzengereza	✓	✓	✓	✓	✓	✓

## BOARD APPOINTMENTS, REMUNERATION &amp; GOVERNANCE COMMITTEE

Name	March 16	May 17	July 20	Nov 16
Mr Ndau	✓	✓	✓	✓
Mr. J Mhura	✓	✓	✓	✓
Mr. C. Mzengereza	✓	✓	✓	✓

## BOARD IT PROJECTS OVERSIGHT COMMITTEE

Name	March 18	May 17	July 19	Nov
Mr. R Banda	✓	✓	✓	✓
Mrs. B. Nyirenda	✓	✓	✓	✓
Mr. J. Mhura	✓	✓	✓	✓

## Changes in Board Composition

Mr. Bernard Ndau joined the Board in February 2021.

## Code of Ethics

The Code of Ethics adopted and enforced by the Company 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 Company has in place for ensuring independence, integrity, competence and professionalism of auditors.

#### Board Information and Development

The Company Secretary is responsible for ensuring that the Board complies with applicable rules and regulations, corporate governance issues, and board procedures. 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 the efficient discharge of the Board's oversight responsibilities. The Company Secretary also organises board orientation from time to time and conducts board assessment in liaison with the Chairman of the Appointment, Remuneration and Governance Committee of the Board. In the course of 2021, the Company Secretary organised a board orientation session for Director Benard Ndau. All the directors attended Anti – Money laundering training, three directors attended Risk Management training and 3 directors, and the Company Secretary attended Corporate Governance training.



## CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

For the year ended 31 December 2021

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.

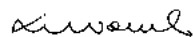
In preparing the financial statements, the directors accept responsibility for ensuring the following:

- 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.

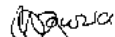
The directors also accept responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and the Group and to maintain adequate systems of internal controls to prevent and detect fraud and other irregularities.

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 2021, so far as concerns the members of the company.

### BY ORDER OF THE BOARD



Director (Nsomba, J (Mr))



Director (Ngwira, D (Mrs))

Date: 31 March 2022

# Deloitte.

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Malawi

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## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS 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 65 to 194 which comprise the consolidated and separate statements of financial position as at 31 December 2021, 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 2021, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Companies Act.

### Basis for Opinion

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



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

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

Key Audit Matter	How the matter was addressed in the audit
<p><b>Determination of Expected Credit Losses(ECL) for loans and advances (Consolidated and Separate financial statements)</b></p> <p>The Group exercises significant judgement using subjective assumptions over both when and how much to record as expected credit losses, and estimation of the amount of the impairment provision for loans and advances.</p> <p>Key areas of judgment included:</p> <ul style="list-style-type: none"> <li>The significance of the judgements used in classifying loans and advances into various stages stipulated in IFRS 9. Staging of loans and advances is a significant component in determining the Expected Credit Losses (ECL) as such inaccurate staging may have a significant impact on ECL output. The categories of loans and advances that were determined to be significant in the Group's staging were large exposures, stage 1 and stage 2 loans as the Group's loans are concentrated under these categories; and</li> <li>Assumptions used in the expected credit loss model such as, expected future cash flows arising from collateral values.</li> <li>As at 31 December 2021, the consolidated gross loans and advances to customers were K249.6 billion (separate: K216.8 billion) against which Expected Credit Losses of K8.7 billion (separate: K6.5 billion) were recorded. This is disclosed in note 13 (Loans and advances) to the financial statements. The Expected Credit Losses policy is presented in accounting policies in note 3 to the financial statements. Loans and advances are stated at amortised cost net of identified impairments. We therefore consider this as a key audit matter.</li> </ul>	<p>With respect to staging of loans and advances, our audit procedures comprised the following:</p> <ul style="list-style-type: none"> <li>We checked the design and implementation of key controls around ECLs;</li> <li>We obtained an understanding of the Bank's staging criteria;</li> <li>We assessed management's criteria for appropriateness and completeness against the requirements of IFRS 9 and other relevant regulatory guidance;</li> <li>We checked accuracy and completeness of data used in staging;</li> <li>We selected a sample of loans and advances and checked if they have been correctly staged based on the Bank's accounting policy and IFRS 9 requirements; and</li> <li>For the selected loans and advances that were restructured, we obtained the restructure facility letters to confirm the restructure and assessed if staging is in line with the requirements of IFRS 9.</li> </ul> <p>For expected future cash flows arising from collateral, we performed the following procedures:</p> <ul style="list-style-type: none"> <li>We obtained an understanding of how the Bank incorporates collateral in its ECL model;</li> <li>We checked whether the Bank had a valid charge over the collateral that was used and also whether the collaterals were recently inspected, where necessary;</li> <li>We obtained management calculation of the haircuts that were applied on the collateral and checked the calculation for accuracy; and</li> <li>We further checked if the information that was used in the haircut calculation was complete and accurate by reference to transactions data on recent enforcements.</li> </ul> <p>We found that the modelling approach and methods applied in determining expected credit losses against loans and advances were appropriate and that the amount impaired and recognised in the consolidated and separate financial statements was reasonable and complied with IFRS 9 <i>Financial Instruments</i>.</p>

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

### 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.

The directors are responsible for overseeing the Group's financial reporting process.

### 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;

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

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

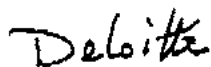
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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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



Chartered Accountants  
Nkondola Uka  
Partner

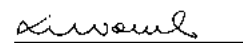
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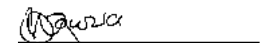
## STATEMENTS OF FINANCIAL POSITION

For the year ended 31 December 2021

Notes	GROUP		COMPANY		
	2021 K'm	2020 K'm	2021 K'm	2020 K'm	
<b>ASSETS</b>					
	5	35 768	26 267	26 054	26 267
	6	-	5 585	-	5 585
	7	298 916	180 435	271 254	172 274
	8	12 126	5 196	12 126	5 196
	9	5 357	4 744	5 357	4 744
	10	1 558	1 339	992	992
	11	-	-	12 029	6 444
	12	31 367	44 231	31 367	44 231
	13	240 884	200 170	210 320	199 161
	14	95 681	37 752	49 583	7 099
	15	9 554	6 854	7 506	5 480
	23	839	-	-	-
	16	40 047	35 053	39 557	34 978
	17	9 424	10 047	9 143	9 945
	18	6 293	2 355	1 570	2 355
	19	11 137	8 706	8 648	8 617
	20	3 959	3 959	-	-
		<b>802 910</b>	<b>572 693</b>	<b>685 506</b>	<b>533 368</b>
<b>LIABILITIES AND EQUITY</b>					
<b>LIABILITIES</b>					
	21	558 245	403 703	456 412	367 721
	22	51 677	12 557	49 510	12 557
	23	4 901	4 306	4 789	4 212
	24	10 596	13 713	10 596	13 713
	25	6 046	3 797	5 848	3 652
	26	17 376	13 541	15 372	12 891
	27	7 900	3 158	2 603	3 158
		<b>656 741</b>	<b>454 775</b>	<b>545 130</b>	<b>417 904</b>
<b>EQUITY</b>					
<b>CAPITAL AND RESERVES</b>					
		467	467	467	467
		613	613	613	613
		417	-	-	-
		30 076	25 150	31 387	26 461
		111 385	91 575	107 909	87 923
		<b>142 958</b>	<b>117 805</b>	<b>140 376</b>	<b>115 464</b>
		3 211	113	-	-
		<b>146 169</b>	<b>117 918</b>	<b>140 376</b>	<b>115 464</b>
		<b>802 910</b>	<b>572 693</b>	<b>685 506</b>	<b>533 368</b>
<b>Memorandum items</b>					
	38	35 548	33 639	35 548	33 639

The financial statements were approved and authorised for issue by the Board of Directors on 31 March 2022 and were signed on its behalf by:

  
Director (Nsomba, J (Mr))

  
Director (Ngwira, D (Mrs))

## STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

Notes	GROUP		COMPANY		
	2021 K'm	2020 K'm	2021 K'm	2020 K'm	
Income					
Interest and similar income	30	79 476	55 253	69 441	54 456
Interest expense and similar charges	30	(7 778)	(5 314)	(5 462)	(5 314)
Net interest income	30	71 698	49 939	63 979	49 142
Commission and fee income	31	30 213	22 134	26 831	20 255
Profit from dealing in foreign currencies		10 957	5 948	10 872	5 948
Income from operating leases		149	326	149	326
Net gain on financial instruments classified as held for trading	9	606	286	606	286
Profit on disposal of financial instruments classified as held for trading		119	57	119	57
Share of profits/ (loss) of associate		313	(85)	-	-
Net loss on modified and restructured loans	13	(461)	(20)	(461)	(20)
Dividend income		175	33	553	471
Properties fair value gain/(loss)	34	105	(89)	105	(89)
Negative goodwill on acquisition of Akiba	11	278	-	-	-
Profit on disposal of plant and equipment		41	20	33	20
Total income		<u>114 193</u>	<u>78 549</u>	<u>102 786</u>	<u>76 396</u>
Expenditure					
Staff costs	32	30 026	20 711	23 812	19 834
Other operating expenditure	33	31 080	22 586	26 199	21 693
Total expenditure		<u>61 106</u>	<u>43 297</u>	<u>50 011</u>	<u>41 527</u>
Profit before net impairment on financial assets		53 087	35 252	52 775	34 869
Recoveries on impaired loans and advances	13	3 187	709	2 849	709
Impairment losses on financial assets	13	(5 686)	(3 153)	(4 497)	(3 145)
Profit before tax		50 588	32 808	51 127	32 433
Income tax expense	35	(16 378)	(10 359)	(15 902)	(10 075)
Profit for the year		<u>34 210</u>	<u>22 449</u>	<u>35 225</u>	<u>22 358</u>
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss:					
Surplus on revaluation of properties	34	4 454	2 239	4 454	2 239
Deferred tax on revalued assets	19	735	761	735	761
Total other comprehensive income		<u>5 189</u>	<u>3 000</u>	<u>5 189</u>	<u>3 000</u>
Total comprehensive income for the year		<u>39 399</u>	<u>25 449</u>	<u>40 414</u>	<u>25 358</u>

## STATEMENTS OF COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2021

Notes	GROUP		COMPANY		
	2021 K'm	2020 K'm	2021 K'm	2020 K'm	
Profit attributable to:					
Equity holders of the company	36	34 928	22 406	35 225	22 358
Non-controlling interests		(718)	43	-	-
		<u>34 210</u>	<u>22 449</u>	<u>35 225</u>	<u>22 358</u>
Comprehensive income attributable to:					
Equity holders of the company		40 117	25 406	40 414	25 358
Non-controlling interests		(718)	43	-	-
		<u>39 399</u>	<u>25 449</u>	<u>40 414</u>	<u>25 358</u>
Earnings per share (K)	36	<u>74.79</u>	<u>47.98</u>		
Diluted earnings per share (K)	36	<u>74.79</u>	<u>47.98</u>		
Dividend per share (K)	37	<u>33.19</u>	<u>17.91</u>		

## STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2021

GROUP	Share Capital	Share Premium	Regulatory Reserve	Revaluation Reserve	Retained Earnings	Equity Attributable to Equity Holders of the Parent	Non-Control-ling Interests	Total
	K'm	K'm	K'm	K'm	K'm	K'm	K'm	K'm
<b>2021</b>								
At beginning of the year	467	613	-	25 150	91 575	117 805	113	117 918
Total comprehensive income	-	-	-	5 189	34 928	40 117	(718)	39 399
Transfer of excess depreciation	-	-	-	(263)	263	-	-	-
Transfer from retained earnings	-	-	417	-	(417)	-	-	-
Acquired through business combination	-	-	-	-	-	-	3 832	3 832
Translation differences	-	-	-	-	538	538	-	538
Dividend paid to minority shareholders	-	-	-	-	-	-	(16)	(16)
2020 Final dividend declared and paid	-	-	-	-	(10 501)	(10 501)	-	(10 501)
2021 First interim dividend declared and paid	-	-	-	-	(5 001)	(5 001)	-	(5 001)
At end of the year	467	613	417	30 076	111 385	142 958	3 211	146 169
<b>2020</b>								
At beginning of the year	467	613	-	22 395	77 287	100 762	98	100 860
Total comprehensive income	-	-	-	3 000	22 406	25 406	43	25 449
Transfer of excess depreciation	-	-	-	(245)	245	-	-	-
Dividend paid to minority shareholders	-	-	-	-	-	-	(28)	(28)
2019 Final dividend declared and paid	-	-	-	-	(5 865)	(5 865)	-	(5 865)
2020 First interim dividend declared and paid	-	-	-	-	(2 498)	(2 498)	-	(2 498)
At end of the year	467	613	-	25 150	91 575	117 805	113	117 918

## REGULATORY RESERVE

Regulatory reserve represents the surplus of Expected Credit Losses (ECL) computed in accordance with Bank of Tanzania regulations over ECL for loans and advances computed in accordance with International Financial Reporting Standards.

## STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2021

COMPANY	Share Capital	Share Premium	Revaluation Reserve	Retained Earnings	Total
	K'm	K'm	K'm	K'm	K'm
<b>2021</b>					
At beginning of the year	467	613	26 461	87 923	115 464
Total comprehensive income	-	-	5 189	35 225	40 414
Transfer of excess depreciation	-	-	(263)	263	-
2020 Final interim dividend declared and paid	-	-	-	(10 501)	(10 501)
2021 First interim dividend declared and paid	-	-	-	(5 001)	(5 001)
At end of the year	467	613	31 387	107 909	140 376
<b>2020</b>					
At beginning of the year	467	613	23 706	73 683	98 469
Total comprehensive income	-	-	3 000	22 358	25 358
Transfer of excess depreciation	-	-	(245)	245	-
2019 Final interim dividend declared and paid	-	-	-	(5 865)	(5 865)
2020 First interim dividend declared and paid	-	-	-	(2 498)	(2 498)
At end of the year	467	613	26 461	87 923	115 464

## ANALYSIS OF SHARE CAPITAL

Authorised

500,000,000 Ordinary Shares of K1 each

Issued and fully paid

466,931,738 Ordinary Shares of K1 each

	2021 K'm	2020 K'm
Authorised		
500,000,000 Ordinary Shares of K1 each	500	500
Issued and fully paid		
466,931,738 Ordinary Shares of K1 each	467	467

## PROPERTY REVALUATION RESERVE

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

## STATEMENTS OF CASH FLOWS

For the year ended 31 December 2021

	Notes	GROUP		COMPANY	
		2021	2020	2021	2020
		K'm	K'm	K'm	K'm
<b>Cash flows from operating activities</b>					
Profit before tax		50 588	32 808	51 127	32 433
Adjustments for:					
• Depreciation of property and equipment	16	2 929	2 403	2 661	2 377
• Amortisation of intangible assets	17	1 326	1 134	1 256	1 122
• Amortisation of Right-of-use Asset	18	1 314	785	785	785
• Interest on lease liability	27	1 078	615	526	615
• Profit on disposal of property and equipment		(41)	(20)	(33)	(20)
• Profit on sale of other assets		(10)	-	(10)	-
• Write off of property and equipment	16&33	7	2	7	-
• Write off of intangible assets	17&33	76	-	76	-
• Movement in impairment losses on financial assets		5 686	3 153	4 497	3 145
• Gains on disposal of financial instruments classified as held for trading		(119)	(57)	(119)	(57)
• Net gains on financial instruments classified as held for trading	9	(606)	(286)	(606)	(286)
• Dividend receivable		(175)	(33)	(553)	(471)
• Net fair value loss on revaluation of properties	34	(105)	89	(105)	89
• Share of loss/(profits) of associate		(313)	85	-	-
• Net loss on modified and restructured loans	13	461	20	461	20
Operating cashflows before working capital movements		62 096	40 698	59 970	39 752
• Movement in customer deposits		113 033	85 233	88 691	69 442
• Movement in other liabilities and provisions		4 740	1 556	4 677	1 252
• Movement in loans and advances		(19 934)	(14 999)	(15 656)	(14 128)
• Movement in other assets		(1 456)	(1 481)	(2 477)	(707)
Cash generated from operations		158 479	111 007	135 205	95 611
Tax paid	23	(15 070)	(9 643)	(14 621)	(9 260)
Net cash flow from operating activities		143 409	101 364	120 584	86 351

## STATEMENTS OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2021

	Notes	GROUP		COMPANY	
		2021	2020	2021	2020
		K'm	K'm	K'm	K'm
<b>Cash flows from investing activities</b>					
Increase in investments		(112 197)	(57 938)	(100 325)	(59 566)
Acquisition of shares in Akiba	11	-	-	(5 585)	-
Acquisition of Akiba net cash acquired	11	7 867	-	-	-
Purchase of property and equipment and intangible assets		(3 486)	(4 100)	(3 326)	(4 076)
Proceeds from disposal of property and equipment		150	141	141	138
Purchase of equity investments		(404)	(489)	(404)	(489)
Proceeds from disposal of equity investments		516	187	516	187
Dividend received		175	33	553	471
Net cash used in investing activities		(107 379)	(62 166)	(108 430)	(63 335)
<b>Cash flows from financing activities</b>					
Decrease in loans		(3 117)	(2 622)	(3 117)	(2 622)
Interest paid on lease liability	27	(1 078)	(615)	(526)	(615)
Repayments of lease liability	27	(871)	(393)	(555)	(393)
Dividends paid		(15 518)	(8 391)	(15 502)	(8 363)
Net cash outflow from financing activities		(20 584)	(12 021)	(19 700)	(11 993)
Net increase/ (decrease) in cash and cash equivalent		15 446	27 177	(7 546)	11 023
Cash and cash equivalents at beginning of the year		95 693	68 516	65 040	54 017
Cash and cash equivalents at end of the year (note 40)		111 139	95 693	57 494	65 040

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

### 1. information

National Bank of Malawi plc Group (the Group) provides retail, Small and Medium Enterprise, corporate and investment banking as well as stockbroking, insurance and pension administration services in Malawi and Tanzania. The Group has a network of 51 (2020: 33) service centres.

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

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

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

### 2. Adoption of new and revised International Financial Reporting Standards

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

In the current year, the Group has adopted those new and revised Standards and Interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee of the International Accounting Standards Board that are relevant to its operations and are effective for annual reporting periods beginning on or after 1 January 2021.

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

#### 2.2 Standards and Interpretations in issue, not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2022 and have not been applied in preparing these financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2023	IFRS 17 <i>Insurance Contracts</i>  IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.  IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2023	IFRS 17 <i>Insurance Contract (Continued)</i>  The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.
Annual periods beginning on or after 1 January 2023	Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)  The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.
Annual reporting periods beginning on or after 1 January 2022	Reference to the Conceptual Framework (Amendments to IFRS 3)  The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard.
Annual reporting periods beginning on or after 1 January 2022	Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)  The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.
Annual reporting periods beginning on or after 1 January 2022	Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)  The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

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

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2022	<p>Annual Improvements to IFRS Standards 2018–2020</p> <p>Makes amendments to the following standards:</p> <ul style="list-style-type: none"> <li>• <b>IFRS 1</b> – The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.</li> <li>• <b>IFRS 9</b> – <i>The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.</i></li> <li>• <b>IFRS 16</b> – <i>The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.</i></li> <li>• <b>IAS 41</b> – The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.</li> </ul>
Annual reporting periods beginning on or after 1 January 2023	<p>Amendments to IFRS 17</p> <p>Amends IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 Insurance Contracts was published in 2017. The main changes are:</p> <ul style="list-style-type: none"> <li>• Deferral of the date of initial application of IFRS 17 by two years to annual periods beginning on or after 1 January 2023</li> <li>• Additional scope exclusion for credit card contracts and similar contracts that provide insurance coverage as well as optional scope exclusion for loan contracts that transfer significant insurance risk</li> <li>• Recognition of insurance acquisition cash flows relating to expected contract renewals, including transition provisions and guidance for insurance acquisition cash flows recognised in a business acquired in a business combination</li> <li>• Clarification of the application of IFRS 17 in interim financial statements allowing an accounting policy choice at a reporting entity level</li> <li>• Clarification of the application of contractual service margin (CSM) attributable to investment-return service and investment-related service and changes to the corresponding disclosure requirements</li> <li>• Extension of the risk mitigation option to include reinsurance contracts held and non-financial derivatives</li> </ul>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

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

Effective date	Standard, Amendment or Interpretation
	<p>Amendments to IFRS 17 (Continued)</p> <ul style="list-style-type: none"> <li>• Amendments to require an entity that at initial recognition recognises losses on onerous insurance contracts issued to also recognise a gain on reinsurance contracts held</li> <li>• Simplified presentation of insurance contracts in the statement of financial position so that entities would present insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts rather than groups of insurance contracts</li> <li>• Additional transition relief for business combinations and additional transition relief for the date of application of the risk mitigation option and the use of the fair value transition approach</li> </ul>
Annual reporting periods beginning on or after 1 January 2023	<p>Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)</p> <p>The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added. To support the amendment, the Board has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.</p>
Annual reporting periods beginning on or after 1 January 2023	<p>Definition of Accounting Estimates (Amendments to IAS 8)</p> <p>The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error.</p>
Annual reporting periods beginning on or after 1 January 2023	<p>Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)</p> <p>The amendments clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.</p>

As assessment was done and the directors anticipate that these Standards and Interpretations in future periods will have no significant impact on the financial statements of the Group.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

### 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, NBM Development Bank Limited and Akiba Commercial Bank plc. 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 2021. 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

### 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-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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.1 Basis of consolidation (Continued)

##### (b) Associates (Continued)

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

#### 3.2 Business combinations

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

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

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

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

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.2 Business combinations (Continued)

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 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.3 Goodwill (Continued)

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

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

#### 3.4 Comparatives

Where necessary, the Group adjusts comparative figures to conform to changes in presentation. There were no such changes 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.

##### 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.5 Financial instruments (Continued)

##### Classification of financial assets (Continued)

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.

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.5 Financial instruments (Continued)

##### (i) Amortised cost and effective interest method (Continued)

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).

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.5 Financial instruments (Continued)

##### (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.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.5 Financial instruments (Continued)

(i) Significant increase in credit risk (Continued)  
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 determined to have low credit risk if:

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.5 Financial instruments (Continued)

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

iv) Write-off policy

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

Measurement and recognition of expected credit losses

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 3. ACCOUNTING POLICIES (CONTINUED)

## 3.5 Financial instruments (Continued)

16 Leases.

Measurement and recognition of expected credit losses (Continued)

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.

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 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 forbore loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behavior following modification leading to a reversal of the previous significant increase in credit risk.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

**3. ACCOUNTING POLICIES (CONTINUED)****3.5 Financial instruments (Continued)***Modification and derecognition of financial assets (Continued)*

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

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

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

**Financial liabilities and equity***Classification as debt or equity*

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

*Equity instruments*

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

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

**Financial liabilities**

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

**3. ACCOUNTING POLICIES (CONTINUED)****3.5 Financial instruments (Continued)***Financial liabilities at FVTPL*

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

A financial liability is classified as held for trading if:

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

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

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

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

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

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

Fair value is determined in the manner described in note note 42.

*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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.5 Financial instruments (Continued)

##### *Financial liabilities measured subsequently at amortised cost (Continued)*

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

##### *Financial guarantee contract liabilities*

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

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

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

##### *Financial guarantee contract liabilities*

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

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

##### *Derecognition of financial liabilities*

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

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.5 Financial instruments (Continued)

##### *Offsetting of financial instruments*

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

#### 3.6 Sale and repurchase agreements

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

#### 3.7 Property and equipment

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

Land and buildings comprise mainly service centres and offices.

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

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

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

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

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

Freehold land and capital work in progress are not depreciated.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2021

**3. ACCOUNTING POLICIES (CONTINUED)****3.7 Property and equipment (Continued)**

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

**3.8 Intangible assets**

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

**3.9 Leases****Group as a lessee**

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

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

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

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

The lease liability balance is presented on the face and its details are disclosed in the notes of the consolidated statement of financial position.

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2021

**3. ACCOUNTING POLICIES (CONTINUED)****3.9 Leases (Continued)**

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

In accordance with the standard, the Group reassessed the lease liability as at 31 December 2021. Based on the assessment, the Group concluded that there were no circumstances necessitating remeasurement of lease liability. Accordingly, the Group maintained the prior year measurements adjusted for interest accruals and rental repayments.

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

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

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2021

**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.

**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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2021

**3. ACCOUNTING POLICIES (CONTINUED)****3.10 Impairment of tangible and intangible assets excluding goodwill and financial assets (Continued)**

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

**3.11 Non-current assets held for sale**

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

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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2021

**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.

**3.14 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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2021

**3. ACCOUNTING POLICIES (CONTINUED)**

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.

**3.17 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.17 Revenue recognition (Continued)

other premiums or discounts.

##### Interest income and expense (Continued)

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

##### Fee and commission income

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

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

##### Dividend income

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

##### Premium on foreign exchange deals

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

#### 3.18 Share capital

##### Share issue costs

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

##### Dividends on ordinary shares

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

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

##### Dividend per share

The calculation of dividend per share is based on the dividends declared during the period

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.18 Share capital (Continued)

divided by the number of ordinary shareholders on the register of shareholders as at year-end.

##### Earnings per share

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

#### 3.19 Fiduciary activities

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

#### 3.20 Classification and measurement of financial instruments under IFRS 9

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

The Group applies the following business models:

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

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

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

### 3. ACCOUNTING POLICIES (CONTINUED)

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

- 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.

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

Categories	Business Model Criterion	Assets classified under this category
Amortised cost ( <b>Lending / customer financing activity</b> )	Must meet all of the following: <ul style="list-style-type: none"> <li>Contractual cash flows solely payments of principal and interest on the principal outstanding</li> <li>Manage through customer financing or lending activities with a primary focus on collection of substantially all contractual cash flows</li> <li>Holder has ability to manage credit risk by negotiating any potential adjustment of contractual cash flows with the counterparty in the event of a potential credit loss. Sales or settlements limited to circumstances that would minimize losses due to deteriorating credit, or to exit a particular market</li> <li>Not held for sale</li> </ul>	<ol style="list-style-type: none"> <li>Loans and advances to customers;</li> <li>Placements with other banks;</li> <li>Government Securities;</li> <li>Loan commitments and letters of credit issued;</li> <li>Financial guarantee contracts issued;</li> <li>Staff loans;</li> <li>Debt investment securities.</li> </ol>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

### 3. ACCOUNTING POLICIES (CONTINUED)

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

FVOCI ( <b>Investing activity</b> )	Must meet all of the following: <ul style="list-style-type: none"> <li>Investing either to:               <ol style="list-style-type: none"> <li>Maximise total return by collecting contractual cash flows or selling</li> <li>Manage the interest rate or liquidity risk of the entity by holding or selling</li> </ol> </li> <li>Not held for sale</li> </ul>	None
Categories	Business Model Criterion	Assets classified under this category
FVPL ( <b>Held for sale/ trading activity</b> )	Must meet either of the following: <ul style="list-style-type: none"> <li>Held for sale</li> <li>Actively managed and monitored internally on a fair value basis</li> </ul>	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.

#### 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

### 3. ACCOUNTING POLICIES (CONTINUED)

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

to 'cooling off' period of 3 months;

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

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

#### The calculation of ECLs

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

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

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

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

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

The Group segmented the loan book into various risk groups depending on the parameter being

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

### 3. ACCOUNTING POLICIES (CONTINUED)

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

modelled. The grouping of exposures was based on shared credit risk characteristics. PD has 18 Risk groups for Stage 1 and another 18 risk groups for Stage 2 facilities. LGD has 6 risk groups. EAD has 14 risk groups.

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

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

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

The mechanics of the ECL method are summarised below:

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

### 3. ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

#### Incorporation of forward-looking information

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

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

#### 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

### 3. ACCOUNTING POLICIES (CONTINUED)

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

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

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

#### Sensitivity Analysis

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 3. ACCOUNTING POLICIES (CONTINUED)

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

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

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

	Impact on provisions as at 31 December 2021					
	Scaler	Change in Prime Rate (%)	Prime Rate (%)	ECL%	Provision (K'm)	Absolute Change (K'm)
Favourable scenario	0.970	(1.50)	12.00	2.93	6,370	(222)
Stressed scenario	1.014	1.50	15.00	3.07	6,659	67
Baseline	1.010	-	13.50	3.03	6,592	-

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 3. ACCOUNTING POLICIES (CONTINUED)

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

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

## The Impact of Covid-19 on IFRS 9 Post Model Adjustment as at 31 December 2021

The impact of COVID-19 during the year was not as severe as in the initial year. The severity of infections and deaths improved. This was attributed to the effectiveness of the vaccines which were rolled out. The future outlook is more promising given the increased number of people being vaccinated. As such, there was an insignificant adjustment to FLI model as a result of incorporating the impact of COVID-19 in the model.

## The Impact of Covid-19 on IFRS 9 Post Model Adjustment as at 31 December 2020

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

**3. ACCOUNTING POLICIES (CONTINUED)****3.20 Classification and measurement of financial instruments under IFRS 9 (Continued)**

The Group just like many advanced establishments, quickly adapted to the environment to ensure business continuity, for instance; -

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

**3. ACCOUNTING POLICIES (CONTINUED)****3.20 Classification and measurement of financial instruments under IFRS 9 (Continued)**

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

31 DECEMBER AS AT 2020

Stage	Number of Accounts	Exposure (k'm)	Impairments (k'm)	Coverage Ratio	12-Month PD	Lifetime PD	%Balance Affected	%Accounts Impacted
Stage 1	57	17 878	79	0.44%	4.74%	4.74%	10.13%	0.18%
Stage 2	9	280	27	9.72%	27.36%	31.53%	2.95%	0.85%
Stage 3	10	177	13	7.20%	0.00%	0.00%	0.66%	0.21%
<b>Total</b>	<b>76</b>	<b>18 335</b>	<b>119</b>	<b>0.65%</b>	<b>6.79%</b>	<b>7.29%</b>	<b>8.62%</b>	<b>0.20%</b>

Stage	Number of Accounts	Exposure (k'm)	Impairments (k'm)	Coverage Ratio	12-Month PD	Lifetime PD	%Balance Affected	%Accounts Impacted
Stage 1	31 684	158 542	1 620	1.02%	4.43%	4.43%	89.87%	99.82%
Stage 2	1 044	9 232	650	7.04%	29.46%	31.34%	97.05%	99.15%
Stage 3	4 792	26 533	7 156	26.97%	0.00%	0.00%	99.34%	99.79%
<b>Total</b>	<b>37 520</b>	<b>194 307</b>	<b>9 426</b>	<b>4.85%</b>	<b>4.56%</b>	<b>4.62%</b>	<b>91.38%</b>	<b>99.80%</b>

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

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2021

**3. ACCOUNTING POLICIES (CONTINUED)****3.20 Classification and measurement of financial instruments under IFRS 9 (Continued)****Low risk assets**

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

1. Malawi Government Securities;
2. Interbank Placements; and
3. Other trading and non-trading receivables.

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

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

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

**4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

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

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

**4.1 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 43 (c) below.

**4.1.1 Business model assessment**

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (please see financial assets sections of note 3). The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2021

**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 (Continued)**

objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

**4.1.2 Significant increase in credit risk**

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

**4.1.3 Models and assumptions used**

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

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

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

**4.2.2 Impairment losses on loans and advances**

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

### 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

#### 4.2 Key sources of estimation uncertainty (Continued)

##### 4.2.2 Impairment losses on loans and advances (Continued)

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 agreements 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 Incorporating collateral and applying haircuts to market values of securities

Group includes collateral in calculation of LGD for an exposure. The Group applies different haircuts on various types of collateral depending on the asset's liquidity and price volatility. The collateral values are based on open market valuations. According to the Group's policy collateral is revalued every five years. However, the Group inspects the assets offered as collateral every year. Customers are required to carry out professional desk-top valuations every 3 years.

##### 4.2.5 Probability of Default (PD)

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

##### 4.2.6 Loss Given Default (LGD)

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

##### 4.2.7 Fair value measurement and valuation process

In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available, the Group uses valuation models to determine the fair value of its financial instruments. Refer to note 42 for more details on fair value measurement.

##### 4.2.8 Determination of life of revolving credit facilities

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

### 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

#### 4.2 Key sources of estimation uncertainty (Continued)

##### 4.2.9 Determination of lease term

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

##### 4.2.10 Determination of Discount Factor for determining lease liability

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

	GROUP		COMPANY	
	2021	2020	2021	2020
	K'm	K'm	K'm	K'm
Cash	25 995	16 040	18 833	16 040
Balances with Central Banks	9 774	10 228	7 222	10 228
Expected credit losses	(1)	(1)	(1)	(1)
Total cash and funds with Central Banks	35 768	26 267	26 054	26 267

### 5. CASH AND FUNDS WITH CENTRAL BANKS

Cash  
Balances with Central Banks  
Expected credit losses

Total cash and funds with Central Banks

The currency analysis of cash is in note 43f.

Balances held at central banks which are denominated in Malawi Kwacha, United States Dollars and Tanzanian shilling are non-interest bearing and regulated as disclosed in note 43f and 43h.

### 6. RESTRICTED CASH

#### GROUP AND COMPANY

	2021	2020
	K'm	K'm
Restricted cash	-	5 585
	-	5 585

During the year 2020, pursuant to the acquisition of shares in Akiba Commercial Bank plc of Tanzania (Akiba) and in accordance to an agreement with the selling shareholders, the Group set aside funds amounting to K5 585m in an Escrow account with NMB Bank of Tanzania. The amount was set aside solely for the purposes of the acquisition and could not be used for a different purpose. During the year 2021, the Group completed the acquisition of 60.48% of Akiba and the whole Escrow balance was transferred to Akiba.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 7. GOVERNMENT SECURITIES

	Average interest rates		GROUP		COMPANY	
	2021	2020	2021	2020	2021	2020
			K'm	K'm	K'm	K'm
Government securities-treasury bills	12.29%	11.70%	125 610	79 103	103 458	70 942
Government securities-treasury notes	19.76%	10.40%	167 823	101 349	167 823	101 349
Government securities-Bonds	11.62%	N/A	5 510	-	-	-
Expected credit losses			(27)	(17)	(27)	(17)
			<u>298 916</u>	<u>180 435</u>	<u>271 254</u>	<u>172 274</u>
The Government securities are due to mature as follows:						
Within three months			60 984	28 047	33 322	19 886
Between three months and one year			83 730	61 850	83 730	61 850
Over one year			154 202	90 538	154 202	90 538
			<u>298 916</u>	<u>180 435</u>	<u>271 254</u>	<u>172 274</u>

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

## 8. GOVERNMENT OF MALAWI PROMISSORY NOTES

	GROUP AND COMPANY	
	2021	2020
	K'm	K'm
Government of Malawi promissory note	12 127	5 197
Expected credit losses	(1)	(1)
	<u>12 126</u>	<u>5 196</u>

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 8. GOVERNMENT OF MALAWI PROMISSORY NOTES (CONTINUED)

During the year, on 29 June 2021, GoM issued to the Group a promissory note with a face value of K7 794m on maturity. This was in full settlement of Lilongwe Water Board loan balance (principal and interest) as at that date. The promissory note matures on 31 March 2022. The promissory note was discounted at 13.85%. The discount rate was based on the weighted average Treasury Bills rate. The discounted value was K7 057m. The Group recognized a loss of K736m and a discount income amounting to K496m in the statement of income for the year ended 31 December 2021.

Additionally, the Group also purchased three Promissory note instruments from the secondary market with combined face value of K4 838m. They were discounted at an average rate of 13.34%. The total discounted value was K4 199m. Interest income amounting to K375m has been recognized in the statement of income for the year ended 31 December 2021. The newest matures on 31 May 2022.

The fair value level has been disclosed under note 42.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 9. EQUITY INVESTMENTS

GROUP AND COMPANY	2020 K'm	Additions/ (disposals) K'm	Fair value adjustment K'm	2021 K'm	Cost K'm
2021					
<u>Illovo Sugar (Malawi) plc</u> 1,580,930 (2020: 1 554 500) Ordinary shares of K0.02 each at a market value of K300.00 (2020: K80.50) per share	125	3	346	474	346
<u>NICO Holdings plc</u> 19,760,550 (2020: 19 760 550) Ordinary shares of K0.20 each at a market value of K55.00 (2020: K52.00) per share	1 028	-	59	1 087	322
<u>Malawi Property Investment Company plc</u> 34,119,431 (2020: 34 119 431) Ordinary shares of K0.05 each at a market value of K20.70 (2020: K21.00) per share	716	-	(10)	706	325
<u>National Investment Trust plc</u> 6,663,759 (2020: 6 663 759) Ordinary shares of K1.00 each at a market value of K94.98 (2020: K94.95) per share	633	-	-	633	160
<u>NBS Bank Plc</u> 20,000,000 (2020: 13 755 784) Ordinary shares of K0.50 each at a market value of K22.90 (2020: K21.60) per share	297	144	17	458	226
<u>Standard Bank of Malawi plc</u> Nil (2020: 100 000) Ordinary shares of K1.00 each at market value of K1 400.00 (2020: K1 046.39) per share	105	(105)	-	-	-
<u>Sunbird Malawi plc</u> 5,637,964 (2020: 5,637,964) Ordinary shares of K0.05 each at a market value of K90.01 (2020: K105.00) per share	592	-	(84)	508	359
<u>Telekom Networks Malawi plc</u> 45,350,194 (2020: 33 350 194) Ordinary shares of K0.04 each at a market value of K22.92 (2020: K20.07) per share	669	228	142	1 039	440
<u>FMBcapital Holdings plc</u> 529,924 (2020: Nil) Ordinary shares of K1.00 each at a market value of K80.00 (2020: N/A) per share	-	29	13	42	29
<u>Airtel Malawi PLC</u> 10,238,934 (2020: 20 700 000) Ordinary shares of K1.00 each at a market value of K40.00 (2020: K27.98) per share	579	(292)	123	410	222
Total equity investment	4 744	7	606	5 357	2 429

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 9. EQUITY INVESTMENTS (CONTINUED)

GROUP AND COMPANY	2020 K'm	Additions/ (disposals) K'm	Fair value adjustment K'm	2021 K'm	Cost K'm
2020					
<u>Illovo Sugar (Malawi) plc</u> 1,554,500 (2019: 1 554 000) Ordinary shares of K0.02 each at a market value of K80.50 (2019: K153.00) per share	238	-	(113)	125	343
<u>NICO Holdings plc</u> 19,760,550 (2019: 17 760 550) Ordinary shares of K0.20 each at a market value of K52.00 (2019: K48.49) per share	861	96	71	1 028	322
<u>Malawi Property Investment Company plc</u> 34,119,431 (2019: 34 119 431) Ordinary shares of K0.05 each at a market value of K21.00 (2019: K19.53) per share	666	-	50	716	325
<u>National Investment Trust plc</u> 6,663,759 (2019: 6 663 759) Ordinary shares of K1.00 each at a market value of K94.95 (2019: K80.00) per share	533	-	100	633	160
<u>NBS Bank Plc</u> 13,755,784 (2019: 23 434 753) Ordinary shares of K0.50 each at a market value of K21.60 (2019: K13.50) per share	316	(131)	112	297	82
<u>Standard Bank of Malawi plc</u> 100,000 (2019: 100 000) Ordinary shares of K1.00 each at market value of K1 046.39 (2019: K730.00) per share	73	-	32	105	18
<u>Sunbird Malawi plc</u> 5,637,964 (2019: 4 637 964) Ordinary shares of K0.05 each at a market value of K105.00 (2019: K118.00) per share	547	118	(73)	592	359
<u>Telekom Networks Malawi plc</u> 33,350,194 (2019: 33 350 194) Ordinary shares of K0.04 each at a market value of K20.07 (2019: K26.00) per share	868	-	(199)	669	212
<u>Airtel Malawi PLC</u> 20,700,000 (2019: Nil) Ordinary shares of K1.00 each at a market value of K27.98 (2019: N/A) per share	-	273	306	579	273
Total equity investment	4 102	356	286	4 744	2 094

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 9. EQUITY INVESTMENTS (CONTINUED)

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

	GROUP AND COMPANY			
	Fair value			
	Level 1	Level 2	Level 3	2021
	K'm	K'm	K'm	K'm
Equity investments in listed companies	5 357	-	-	5 357

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

	GROUP		COMPANY	
	2021	2020	2021	2020
	K'm	K'm	K'm	K'm
Purchase consideration	992	992	992	992
Share of accumulated results	566	347	-	-
	1 558	1 339	992	992
Assets	9 658	9 307		
Liabilities	(6 487)	(6 565)		
Net assets	3 171	2 742		
Group's share of net assets of associates	1 490	1 289		
Total revenue	5 646	5 547		
Total (loss)/profit for the year	465	(108)		

The Bank holds 47% (2020: 47%) of United General Insurance Company Limited's share capital. Its principal place of business and registered office is National Bank of Malawi plc, Victoria Avenue service centre, Blantyre. The Group assessed the investment in UGI for impairment. No impairment has been recognized in the financial statements.

## 10. INVESTMENT IN ASSOCIATES

Purchase consideration  
Share of accumulated results

Assets  
Liabilities  
Net assets  
Group's share of net assets of associates  
Total revenue  
Total (loss)/profit for the year

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 11. INVESTMENT IN SUBSIDIARIES

	COMPANY	
	2021	2020
	K'm	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
Akiba Commercial Bank plc	5 585	-
NBM Capital Markets Limited	17	17
Total investment in subsidiaries	12 029	6 444

NBM, through National Bank Nominees Limited, holds 75% (2020: 75%) stake in Stockbrokers Malawi Limited. The Bank also holds 100% (2020: 100%) stake in NBM Bureau de Change Limited, a 100% (2020: 100%) stake in NBM Capital Markets Limited, a 100% (2020: 100%) stake in NBM Pension Administration Limited and a 100% (2020: 100%) stake in NBM Development Bank. NBM Bureau de Change ceased operations in 2013. During the year, the Bank completed the acquisition of 60.48% shareholding in Akiba Commercial Bank plc of Tanzania.

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

## 11.1 Subsidiary acquired during the year (Akiba Commercial Bank plc)

Entity	Principal activity	Effective date of acquisition	Interest acquired	Consideration transferred K'm
Akiba Commercial Bank plc	Commercial banking	01 January 2021	60.48%	5 585

National Bank of Malawi holds 16 813 000 out of 27 797 416 ordinary shares of Akiba Commercial Bank plc. Akiba was acquired as an International growth strategy for NBM. The consideration transferred to materialise the acquisition was cash. NBM obtained control of Akiba through its shareholding of 60.48%.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 11. INVESTMENT IN SUBSIDIARIES (CONTINUED)

## 11.1.1 Fair value of assets acquired and liabilities recognised as at the date of acquisition

Fair valuation exercise was carried out by KPMG, Chartered Accountants, during the audit of Akiba financial statements as at 31 December 2020. The fair value of the assets acquired and liabilities recognized as at the acquisition date, 01 January 2021 were as follows:

Assets	K'm
Cash and Funds with Central Banks	7 796
Placements with other Banks	5 899
Loans and advances	26 466
Government securities	7 616
Unquoted equity investment	13
Other assets	1 341
Current income tax receivable	841
Property and equipment	5 045
Intangible assets	249
Deferred tax	2 407
<b>Total assets</b>	<b>57 673</b>
<b>Liabilities</b>	
Amounts due to other banks	243
Customer deposits	41 509
Lease liability	4 883
Other liabilities	1 344
<b>Total liabilities</b>	<b>47 979</b>
<b>Net assets fair value</b>	<b>9 694</b>

## 11.1.2 Non-Controlling Interest (NCI) fair value

The non-controlling interest of 39.52% recognized at the acquisition date was by reference to the net asset fair value of the NCI amounting to K3 831m.

## 11.1.3 Goodwill arising on acquisition

	K'm
Consideration transferred	5 585
Non-controlling interest	3 831
Less: Fair value of identifiable net assets acquired	(9 694)
<b>Negative goodwill arising on acquisition recognized in Statement of comprehensive income</b>	<b>(278)</b>

The bargain purchase of K278m arose because the acquiree (Akiba Commercial Bank plc) had liquidity and capital challenges. Consequently, the acquirer (National Bank of Malawi plc) was requested to pay capital in advance pending finalization of the final price.

## 11.1.4 Net cash outflow on acquisition of subsidiary

Cash and cash equivalent balances acquired	13 452
Less: Consideration paid	(5 585)
<b>Net cash inflow</b>	<b>7 867</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 11. INVESTMENT IN SUBSIDIARIES (CONTINUED)

## 11.1.5 Impact of acquisition on the results of the Group

Included in the profit for the year is a loss of K1 942m attributable to the additional business generated by Akiba Commercial Bank plc. Income for the year includes K10 095m in respect of Akiba Commercial Bank plc.

## 12. PLACEMENTS WITH OTHER BANKS

	GROUP AND COMPANY	
	2021 K'm	2020 K'm
Balances due from other banks	31 370	44 235
Expected credit losses	(3)	(4)
<b>Total placements with other banks</b>	<b>31 367</b>	<b>44 231</b>

Placements with other banks are denominated in the following currencies:

	GROUP AND COMPANY			
	2021 %	2020 %	2021 K'm	2020 K'm
US Dollar denominated	0.50%	0.5%	15 930	32 192
GBP denominated	1.75%	1.75%	4 714	3 530
Euro denominated	0.5%	0.50%	9 829	8 023
ZAR denominated	4.00%	4.00%	885	470
Other	0%	0%	9	16
			<b>31 367</b>	<b>44 231</b>

Money market placements with other banks are held to maturity and mature within one month (2020: one month) of the year-end.

## 13. LOANS AND ADVANCES

	GROUP		COMPANY	
	2021 K'm	2020 K'm	2021 K'm	2020 K'm
Gross loans and advances	243 021	205 344	211 765	204 327
Staff loans	6 560	5 045	5 084	5 045
<b>Total loans and advances</b>	<b>249 581</b>	<b>210 389</b>	<b>216 849</b>	<b>209 372</b>
Impairment provisions	(8 697)	(10 219)	(6 529)	(10 211)
<b>Net loans and advances</b>	<b>240 884</b>	<b>200 170</b>	<b>210 320</b>	<b>199 161</b>
Due to mature as follows:				
• Within three months	30 892	25 982	27 578	25 946
• Between three months and one year	54 581	43 659	43 287	43 595
• After one year and not later than five years	158 056	131 658	142 100	130 749
• Interest in suspense	(2 645)	(1 129)	(2 645)	(1 129)
	<b>240 884</b>	<b>200 170</b>	<b>210 320</b>	<b>199 161</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 13. LOANS AND ADVANCES (CONTINUED)

	GROUP		COMPANY	
	2021	2020	2021	2020
	K'm	K'm	K'm	K'm
<b>Analysis of net loans by currency</b>				
Malawi Kwacha denominated	159 782	145 118	157 517	144 109
Tanzania shillings denominated	28 299	-	-	-
US Dollar denominated	52 803	55 052	52 803	55 052
	<u>240 884</u>	<u>200 170</u>	<u>210 320</u>	<u>199 161</u>

The Malawi Kwacha average lending rate for the Bank's loans and advances as at 31 December 2021 was 20.18% (2020: 20.85%) per annum, the US Dollar denominated loans carried an average interest rate of 8.14% (2020: 8.26%) per annum and the Tanzanian shilling denominated loans were at an average interest rate of 23.22%.

	GROUP		COMPANY	
	2021	2020	2021	2020
	K'm	K'm	K'm	K'm
<b>Movement on interest in suspense</b>				
At beginning of the year	1 129	402	1 129	402
Suspended in the year	1 922	727	1 922	727
Recovered	(406)	-	(406)	-
At end of the year	<u>2 645</u>	<u>1 129</u>	<u>2 645</u>	<u>1 129</u>
<b>Analysis of recoveries</b>				
Interest in suspense	406	-	406	-
Debts previously written off	2 443	709	2 443	709
Provision	338	-	-	-
	<u>3 187</u>	<u>709</u>	<u>2 849</u>	<u>709</u>

**Finance lease receivables**

Gross investment in finance lease receivable:

- Within three months
- Between three months and one year
- After one year and not later than five years

Unearned future income on finance leases

Impairment provision

Net investment in finance leases

GROUP AND COMPANY	
2021	2020
K'm	K'm
567	354
1 133	1 849
<u>17 560</u>	<u>20 006</u>
19 260	22 209
<u>(3 922)</u>	<u>(4 374)</u>
15 338	17 835
<u>(427)</u>	<u>(350)</u>
<u>14 911</u>	<u>17 485</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 13. LOANS AND ADVANCES (CONTINUED)

## GROUP AND COMPANY

	2021	2020
	K'm	K'm
	The net investment in finance leases matures as follows:	
• Within three months	414	348
• Between three months and one year	875	1 736
• After one year and not later than five years	<u>13 622</u>	<u>15 401</u>
	<u>14 911</u>	<u>17 485</u>

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 2021 was 20.22% (2020: 19.36%). All leases are in Malawi kwacha.

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

## GROUP

Days past due	31 December 2020	31 December 2020	31 December 2021	31 December 2021
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
	K'm	K'm	K'm	K'm
0-29 days	159 668	2 596	203 265	3 005
30-90 days	19 058	751	20 230	993
91-180 days	5 374	580	11 983	1 328
181-360 days	16 004	5 114	7 189	1 415
More than 360 days	10 285	1 178	6 914	1 956
<b>Total</b>	<b>210 389</b>	<b>10 219</b>	<b>249 581</b>	<b>8 697</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 13. LOANS AND ADVANCES (CONTINUED)

## COMPANY

Days past due	31 December 2020	31 December 2020	31 December 2021	31 December 2021
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
	K'm	K'm	K'm	K'm
0-29 days	158 651	2 588	175 995	2 540
30-90 days	19 058	751	19 777	976
91-180 days	5 374	580	10 910	652
181-360 days	16 004	5 114	7 189	1 415
More than 360 days	10 285	1 178	2 978	946
<b>Total</b>	<b>209 372</b>	<b>10 211</b>	<b>216 849</b>	<b>6 529</b>

**Restructured loans and modifications relating to COVID-19**

The Group introduced a number of support measures for customers impacted by COVID-19, which included loan repayment deferrals. During the year, loans with a total carrying amounting of K16 602m (2020: K32 884m) were restructured (modified). Their total fair value after restructuring was K16 418m (2020: K33 008m) resulting into a net fair value loss of K184m (2020: net gain of K124m) which was recognised in the statement of comprehensive income. Out of the total restructured facilities, the carrying amount of loans restructured due to COVID-19 was K840m (2020: K28 377m) and their fair value was K859m (2020: K28 361m) resulting in a net modification gain amounting to K19m (2020: net gain of K16m) which has been recognised in the statement of comprehensive income. In accordance with the Reserve Bank of Malawi's measures to mitigate the impact of COVID-19, restructured facilities due to COVID -19 were maintained in the stages they were before restructure.

The Group has also recognised a net loss of K277m relating to amortization of the gains and losses on loans that were modified in 2018, 2019, 2020 and 2021.

The net loss recognised in the statement of income for the year ended 31 December 2021 is therefore K461m.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 13. LOANS AND ADVANCES (CONTINUED)

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

## GROUP

At 31 December 2021

Loss allowance – Loans and advances to customers at amortised cost	Stage 1	Stage 2	Stage 3	Total
	K'm	K'm	K'm	K'm
At 1 January 2020	2 596	751	6 872	10 219
Acquired from Akiba	643	72	1 645	2 360
Changes in the loss allowance				
– Transfer to stage 1	574	(13)	(561)	-
– Transfer to stage 2	(10)	383	(373)	-
– Transfer to stage 3	(497)	(550)	1 047	-
Write offs	-	-	(1 389)	(1 389)
Charge to income statement	(138)	187	(2 526)	(2 477)
Changes in loss allowance for off balance sheet assets	(63)	2	45	(16)
New financial assets originated	431	235	482	1 148
Financial assets that have been de-recognised	(399)	(63)	(686)	(1 148)
<b>Closing Balance</b>	<b>3 137</b>	<b>1 004</b>	<b>4 556</b>	<b>8 697</b>

The consolidated charge to the statement of comprehensive income of K5 686m includes loans and advances written down during the year amounting to K8 166m and net impairment losses of investments and other assets amounting to K13m (Notes 5, 6, 7, 11, 12 and 14).

At 31 December 2020

Loss allowance – Loans and advances to customers at amortised cost	Stage 1	Stage 2	Stage 3	Total
	K'm	K'm	K'm	K'm
At 1 January 2020	3 809	1 508	6 305	11 622
Changes in the loss allowance				
– Transfer to stage 1	1 234	(297)	(937)	-
– Transfer to stage 2	(90)	4 420	(4 330)	-
– Transfer to stage 3	(1 438)	(4 204)	5 642	-
Charge to income statement	(1 037)	(653)	217	(1 473)
Changes in loss allowance for off balance sheet assets	118	(23)	(25)	70
<b>Closing Balance</b>	<b>2 596</b>	<b>751</b>	<b>6 872</b>	<b>10 219</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 13. LOANS AND ADVANCES (CONTINUED)

The consolidated charge to the statement of comprehensive income of K3 153m (K3 145m for the Bank) includes loans and advances written down during the year amounting to K4 548m and net impairment losses of investments and other assets amounting to K8m (Notes 5, 6, 7, 11, 12 and 14). The Group's 2020 charge to income statement includes K8m provisions for NBM Development Bank Limited. The Group has also recognised additional Expected losses amounting to K78m due to COVID-19 post model adjustment.

## COMPANY

At 31 December 2021

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 2021	2 588	751	6 872	10 211
Changes in the loss allowance				
– Transfer to stage 1	574	(13)	(561)	-
– Transfer to stage 2	(7)	380	(373)	-
– Transfer to stage 3	(275)	(286)	561	-
Charge to income statement	(278)	142	(3 530)	(3 666)
Changes in loss allowance for off balance sheet assets	(63)	2	45	(16)
<b>Closing Balance</b>	<b>2 539</b>	<b>976</b>	<b>3 014</b>	<b>6 529</b>

The Bank's charge to statement of comprehensive income of K4 497m includes loans and advances written down during the year amounting to K8 166m and net impairment losses of investments and other assets amounting to K13m (Notes 5, 6, 7, 11, 12 and 14).

At 31 December 2020

Loss allowance – Loans and advances to customers at amortised cost	Stage 1	Stage 2	Stage 3	Total
	K'm	K'm	K'm	K'm
At 1 January 2020	3 809	1 508	6 305	11 622
Changes in the loss allowance				
– Transfer to stage 1	1 234	(297)	(937)	-
– Transfer to stage 2	(90)	4 420	(4 330)	-
– Transfer to stage 3	(1 438)	(4 204)	5 642	-
Charge to income statement	(1 045)	(653)	217	(1 481)
Changes in loss allowance for off balance sheet assets	118	(23)	(25)	70
<b>Closing Balance</b>	<b>2 588</b>	<b>751</b>	<b>6 872</b>	<b>10 211</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 14. OTHER MONEY MARKET DEPOSITS

	GROUP		COMPANY	
	2021 K'm	2020 K'm	2021 K'm	2020 K'm
Money market investments with Central Banks and other banks	95 686	37 753	49 588	7 100
Expected credit losses	(5)	(1)	(5)	(1)
	<b>95 681</b>	<b>37 752</b>	<b>49 583</b>	<b>7 099</b>

Money market investments with Reserve Bank of Malawi, Bank of Tanzania and other banks are held to maturity and mature within one month (2020: one month) after the year-end. The deposits earned an average interest rate of 13% (2020: 11.50%) per annum.

## 15. OTHER ASSETS

	GROUP		COMPANY	
	2021 K'm	2020 K'm	2021 K'm	2020 K'm
Sundry receivables	1 069	1 747	287	189
Office accounts	2 177	1 164	1 151	1 164
Prepayments	2 878	1 970	2 341	1 970
Due from local banks	448	1 008	448	1 008
Employee benefit subsidy	571	616	571	616
Mastercard accounts	2 972	1 093	2 972	1 093
Bulk stock stationery	550	254	550	254
Other investments	112	98	98	98
Provision for potential losses on other assets	(1 223)	(1 096)	(912)	(912)
Total other assets	<b>9 554</b>	<b>6 854</b>	<b>7 506</b>	<b>5 480</b>

**Employee benefit subsidy**

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

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

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

**Provision for potential losses on other assets**

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

**Assessment of impairment of other assets due to COVID-19**

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 16. PROPERTY AND EQUIPMENT

	Freehold land & buildings	Leasehold land & buildings	Motor vehicles & equipment	Work in progress	Total
	K'm	K'm	K'm	K'm	K'm
<b>GROUP</b>					
<b>Cost or valuation</b>					
At 1 January 2021	23 892	6 392	17 534	-	47 818
Additions	-	-	2 623	21	2 644
Acquired through business combination	-	2 190	3 731	-	5 921
Transfer from intangible work in progress	-	-	312	-	312
Disposals	-	-	(636)	-	(636)
Write offs	-	-	(131)	-	(131)
Revaluation surplus	3 341	626	-	-	3 967
At 31 December 2021	27 233	9 208	23 433	21	59 895
At 1 January 2020	22 471	5 975	15 246	256	43 948
Additions	-	-	3 193	-	3 193
Transfer from work in progress	202	50	4	(256)	-
Disposals	-	-	(884)	-	(884)
Write offs	-	-	(25)	-	(25)
Revaluation loss	(137)	-	-	-	(137)
Revaluation surplus	1 356	367	-	-	1 723
At 31 December 2020	23 892	6 392	17 534	-	47 818
<b>Depreciation</b>					
1 January 2021	-	884	11 881	-	12 765
Charge for the year	475	221	2 233	-	2 929
Acquired through business combination	-	1 889	3 508	-	5 397
Elimination on revaluation	(475)	(117)	-	-	(592)
Elimination on disposal	-	-	(527)	-	(527)
Write offs	-	-	(124)	-	(124)
At 31 December 2021	-	2 877	16 971	-	19 848
<b>Depreciation</b>					
1 January 2020	-	759	10 950	3	11 712
Charge for the year	422	267	1 714	-	2 403
Elimination on revaluation	(422)	(142)	-	-	(564)
Elimination on disposal	-	-	(763)	-	(763)
Transfer between classes	-	-	3	(3)	-
Write offs	-	-	(23)	-	(23)
At 31 December 2020	-	884	11 881	-	12 765
<b>Carrying amount</b>					
At 31 December 2021	27 233	6 331	6 462	21	40 047
At 31 December 2020	23 892	5 508	5 653	-	35 053

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 16. PROPERTY AND EQUIPMENT (CONTINUED)

	Freehold land & buildings	Leasehold land & buildings	Motor vehicles & equipment	Work in progress	Total
	K'm	K'm	K'm	K'm	K'm
<b>COMPANY</b>					
<b>Cost or valuation</b>					
At 1 January 2021	23 892	6 630	18 414	-	48 936
Additions	-	-	2 463	21	2 484
Transfer from intangible assets work in progress	-	-	312	-	312
Disposals	-	-	(588)	-	(588)
Write offs	-	-	(131)	-	(131)
Revaluation surplus	3 341	626	-	-	3 967
At 31 December 2021	27 233	7 256	20 470	21	54 980
At 1 January 2020	22 471	6 213	16 136	257	45 077
Additions	-	-	3 169	-	3 169
Transfer from work in progress	202	50	5	(257)	-
Disposals	-	-	(874)	-	(874)
Write offs	-	-	(22)	-	(22)
Revaluation loss	(137)	-	-	-	(137)
Revaluation surplus	1 356	367	-	-	1 723
At 31 December 2020	23 892	6 630	18 414	-	48 936
<b>Depreciation</b>					
1 January 2021	-	1 142	12 816	-	13 958
Charge for the year	475	129	2 057	-	2 661
Elimination on revaluation	(475)	(117)	-	-	(592)
Elimination on disposal	-	-	(480)	-	(480)
Write offs	-	-	(124)	-	(124)
At 31 December 2021	-	1 154	14 269	-	15 423
<b>Depreciation</b>					
1 January 2020	-	1 017	11 903	3	12 923
Charge for the year	422	267	1 688	-	2 377
Elimination on revaluation	(422)	(142)	-	-	(564)
Elimination on disposal	-	-	(756)	-	(756)
Transfer between classes	-	-	3	(3)	-
Write offs	-	-	(22)	-	(22)
At 31 December 2020	-	1 142	12 816	-	13 958
<b>Carrying amount</b>					
At 31 December 2021	27 233	6 102	6 201	21	39 557
At 31 December 2020	23 892	5 488	5 598	-	34 978

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 16. PROPERTY AND EQUIPMENT (CONTINUED)

## GROUP

## Land and buildings

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

	GROUP	
	2021	2020
	K'm	K'm
Freehold - at 2021 valuation	27 233	-
- at 2020 valuation	-	23 892
<b>Total freehold land and buildings</b>	<b>27 233</b>	<b>23 892</b>
Leasehold - at 2021 valuation	9 208	-
- at 2020 valuation	-	6 392
<b>Total leasehold land and buildings</b>	<b>9 208</b>	<b>6 392</b>

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

2020	Related parties	Others	Total
	K'm	K'm	K'm
Motor vehicles	288	239	527
2021	Related parties	Others	Total
	K'm	K'm	K'm
Motor vehicles	143	123	266

During the current year, People Trading Centre Limited is the related party to whom the Bank leases motor vehicles which were purchased at a cost of K217m (2020: K217m). In 2020, Bottling and Brewing Group Limited, People Trading Centre Limited and The Foods Limited were the related parties to whom the Bank leased motor vehicles which were purchased at a cost of K611m.

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 16. PROPERTY AND EQUIPMENT (CONTINUED)

## Valuations in 2021

Land and buildings for the Bank were fair valued as at 31 December 2021 by Bernard J Mughogho, BSc (Est. Mgmt) of Knight Frank, qualified independent valuer on a current market value basis.

Out of the K4 559m (2020: K2 287m) the Group's gross revaluation surplus, K105m (2020: K48m) 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 K4 454m (2020: K2 239m) was credited to the revaluation reserve through the statement of other comprehensive income (refer note 34).

Details of land and buildings at fair value and information about the fair value hierarchy as at 31 December 2021 are as follows:

	Level 1	Level 2	Level 3	Fair value
	K'm	K'm	K'm	2021
Freehold land and buildings	-	27 233	-	27 233
Leasehold land and buildings	-	9 208	-	9 208
	Level 1	Level 2	Level 3	Fair value
	K'm	K'm	K'm	2020
Freehold land and buildings	-	23 892	-	23 892
Leasehold land and buildings	-	6 392	-	6 392

Had land and buildings been carried at historical cost less depreciation and accumulated impairment losses, their carrying value would have been approximately K8 701m (2020: K8 941m).

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 17. INTANGIBLE ASSETS

	Development costs	Computer software	Work in progress	Total
	K'm	K'm	K'm	K'm
<b>GROUP</b>				
<b>Cost or valuation</b>				
At 1 January 2021	219	11 979	2 490	14 688
Additions	-	-	842	842
Acquired through business combination	-	1 333	-	1 333
Transfer from work in progress	-	1 012	(1 012)	-
Transfer to Property and Equipment	-	-	(312)	(312)
Write offs	(219)	-	(76)	(295)
At 31 December 2021	-	14 324	1 932	16 256
At 1 January 2020	265	11 602	2 069	13 936
Additions	-	-	907	907
Transfer from work in progress	-	486	(486)	-
Write offs	(46)	(109)	-	(155)
At 31 December 2020	219	11 979	2 490	14 688
<b>Amortisation</b>				
At 1 January 2021	219	4 422	-	4 641
Charge for the year	-	1 326	-	1 326
Acquired through business combination	-	1 084	-	1 084
Write offs	(219)	-	-	(219)
At 31 December 2021	-	6 832	-	6 832
At 1 January 2020	265	3 397	-	3 662
Charge for the year	-	1 134	-	1 134
Write offs	(46)	(109)	-	(155)
At 31 December 2020	219	4 422	-	4 641
<b>Carrying amounts</b>				
31 December 2021	-	7 492	1 932	9 424
31 December 2020	-	7 557	2 490	10 047

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 16. INTANGIBLE ASSETS (CONTINUED)

COMPANY  
Cost or valuation

	Development costs	Computer software	Work in progress	Total
	K'm	K'm	K'm	K'm
At 1 January 2021	219	11 891	2 480	14 590
Additions	-	-	842	842
Transfer from work in progress	-	1 012	(1 012)	-
Transfer to property and equipment	-	-	(312)	(312)
Write offs	(219)	-	(76)	(295)
At 31 December 2021	-	12 903	1 922	14 825
At 1 January 2020	265	11 525	2 048	13 838
Additions	-	-	907	907
Transfer from work in progress	-	475	(475)	-
Write offs	(46)	(109)	-	(155)
At 31 December 2020	219	11 891	2 480	14 590
<b>Depreciation</b>				
At 1 January 2021	219	4 426	-	4 645
Charge for the year	-	1 256	-	1 256
Write offs	(219)	-	-	(219)
At 31 December 2021	-	5 682	-	5 682
At 1 January 2020	265	3 413	-	3 678
Charge for the year	-	1 122	-	1 122
Write offs	(46)	(109)	-	(155)
At 31 December 2020	219	4 426	-	4 645
<b>Carrying amounts</b>				
31 December 2021	-	7 221	1 922	9 143
31 December 2020	-	7 465	2 480	9 945

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

The write off amounting to K219m relates to computer software that were not being utilised by the Group due to operability limitations. The operability limitations were due to expiry of licences. The assets had been fully amortised. The work in progress write off amounting to K76m relates to expenditures which were incurred in implementing credit quest system which was later cancelled due to punitive licensing requirements and poor business relationship with the system provider.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 18. RIGHT-OF-USE ASSETS

	Buildings K'm
<b>GROUP</b>	
<b>Cost or valuation</b>	
At 1 January 2021	3 774
Acquired through business combination	5 680
Akiba Right of use asset remeasurement	730
At 31 December 2021	10 184
At 1 January 2020	3 774
At 31 December 2020	3 774
<b>Amortisation</b>	
At 1 January 2021	1 419
Acquired through business combination	1 158
Charge for the year	1 314
At 31 December 2021	3 891
At 1 January 2020	634
Charge for the year	785
At 31 December 2020	1 419
<b>Carrying amounts</b>	
31 December 2021	6 293
31 December 2020	2 355
<b>COMPANY</b>	
<b>Cost or valuation</b>	
At 1 January 2021	3 774
At 31 December 2021	3 774
At 1 January 2020	3 774
At 31 December 2020	3 774
<b>Amortisation</b>	
At 1 January 2021	1 419
Charge for the year	785
At 31 December 2021	2 204
At 1 January 2020	634
Charge for the year	785
At 31 December 2020	1 419
<b>Carrying amounts</b>	
31 December 2020	1 570
	2 355

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 18. RIGHT-OF-USE ASSETS (CONTINUED)

The Group enters into agreement with Property owners (Landlords) to occupy the whole building(s) or part of the building (area in square meters) to operate a service centre, an office, or install Auto Teller Machines (ATMs). In such cases, there is an identified asset which is the building or the floor space. The assets are explicitly specified in the contracts. The lease terms range from 1 year to 5 years but most of them have options for extensions which have generally been exercised. The Group adopted and applied IFRS 16 *Leases* to such contracts from 01 January 2019.

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

	Acquired from Akiba K'm	Opening balance K'm	Charge to profit or loss K'm	Charged to equity K'm	Closing balance K'm
<b>19.1 DEFERRED TAX ASSET</b>					
<b>GROUP</b>					
<b>2021</b>					
Accelerated capital allowances	249	(1 798)	166	-	(1 383)
Revaluation of land and buildings	-	8 248	31	735	9 014
Tax losses	2 777	-	-	-	2 777
Unrecoverable deferred tax asset	(1 325)	-	-	-	(1 325)
Other temporary differences	706	2 256	(908)	-	2 054
Total deferred tax	2 407	8 706	(711)	735	11 137
<b>2020</b>					
Accelerated capital allowances	-	(1 739)	(59)	-	(1 798)
Revaluation of land and buildings	-	7 460	27	761	8 248
Other temporary differences	-	2 140	116	-	2 256
Total deferred tax	-	7 861	84	761	8 706
<b>COMPANY</b>					
<b>2021</b>					
Accelerated capital allowances	-	(377)	159	-	(218)
Revaluation of land and buildings	-	8 073	31	735	8 839
Other temporary differences	-	921	(894)	-	27
Total deferred tax	-	8 617	(704)	735	8 648
<b>2020</b>					
Accelerated capital allowances	-	(308)	(69)	-	(377)
Revaluation of land and buildings	-	7 285	27	761	8 073
Other temporary differences	-	839	82	-	921
Total deferred tax	-	7 816	40	761	8 617

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 19.2 DEFERRED TAX LIABILITY

	Acquired from Akiba	Opening balance	Charge to profit or loss	Charged to equity	Closing balance
	K'm	K'm	K'm	K'm	K'm
<b>GROUP</b>					
<b>2021</b>					
Other temporary differences	-	-	-	-	-
Total deferred tax	-	-	-	-	-
<b>2020</b>					
Other temporary differences	5	-	(5)	-	-
Total deferred tax	5	-	(5)	-	-

## 20. GOODWILL

Balance at beginning of the year	3 959	3 959
Balance at end of the year	3 959	3 959

GROUP	
2021	2020
K'm	K'm
3 959	3 959
3 959	3 959

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

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

**Annual test for impairment**

The Group determined the recoverable amount of the Cash Generating Unit (WBD) to be K77 120m (2020: K46 683m) 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 2022 and projections covering a 4 year period from 2023) discounted at a weighted average cost of capital of 24.13% (2020: 26.45%).

All forecasts used in the determination of value in use are extracted directly from the Bank's 2022 budget that was presented to the Board of Directors and approved by them.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 20. GOODWILL (CONTINUED)

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

The carrying amount of the CGUs was K10 207m (2020: K9 322m). As such, in accordance with IAS 36 *Impairment of Assets*, NBM determined that the goodwill was not impaired as at 31 December 2021.

## 21. CUSTOMER DEPOSITS

Analysis by account type:

	Average interest rates		GROUP		COMPANY	
	2021	2020	2021	2020	2021	2020
			K'm	K'm	K'm	K'm
Current accounts	0.00%	0.00%	206 949	153 917	194 323	153 917
Foreign currency accounts	0.50%	0.50%	81 535	81 609	80 271	81 609
Savings accounts	2.80%	3.80%	125 646	91 582	109 544	91 582
Deposit accounts	3.75%	3.90%	87 379	40 613	72 274	40 613
Client funds	13.00%	10.00%	56 736	35 982	-	-

Total customer deposits

Analysis by interest risk type:

Interest bearing deposits	350 797	249 786	262 089	213 804
Non-interest bearing deposits	207 448	153 917	194 323	153 917
	558 245	403 703	456 412	367 721

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

Analysis by interest maturity:

	GROUP		COMPANY	
	2021	2020	2021	2020
	K'm	K'm	K'm	K'm
Customer deposits are payable as follows:				
• Within three months	546 887	400 777	451 606	364 795
• Between three months and one year	11 072	2 926	4 806	2 926
• Over one year	286	-	-	-
	558 245	403 703	456 412	367 721

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 21. CUSTOMER DEPOSITS (CONTINUED)

	GROUP		COMPANY	
	2021	2020	2021	2020
	K'm	K'm	K'm	K'm
Analysis by sector:				
Agriculture	13 504	11 666	13 242	11 666
Manufacturing	24 337	19 336	23 958	19 336
Wholesale and retail	76 224	40 855	54 435	40 855
Finance and insurance	37 636	29 340	36 113	31 386
Personal accounts	283 245	218 760	266 012	218 760
Construction	13 321	12 760	13 132	12 760
Electricity gas water and energy	15 190	12 161	15 149	12 161
Transport, storage and	13 288	6 674	11 110	6 674
Restaurants and hotels	3 773	5 126	3 733	5 126
Mining and qualifying	13 799	3 464	13 799	3 464
Real Estate	3 475	2 573	3 434	2 573
Clients funds	56 736	35 982	-	-
Other	3 817	5 006	2 295	2 960
Total	558 345	403 703	456 412	367 721

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

## 22. AMOUNTS DUE TO OTHER BANKS

	GROUP		COMPANY	
	2021	2020	2021	2020
	K'm	K'm	K'm	K'm
Liabilities in Malawi Kwacha	49 188	12 071	49 188	12 071
Liabilities in foreign currency	2 408	280	241	280
Bills in suspense in foreign currency	81	206	81	206
Total amounts due to other banks	51 677	12 557	49 510	12 557

## 23.1 CURRENT INCOME TAX LIABILITIES

	2021	2020	2021	2020
	K'm	K'm	K'm	K'm
Balance at beginning of the year	4 306	3 501	4 212	3 357
Current charge (note 35)	15 614	10 448	15 198	10 115
Tax paid	(15 019)	(9 643)	(14 621)	(9 260)
Balance at end of the year	4 901	4 306	4 789	4 212

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 23.2 CURRENT INCOME TAX RECEIVABLE

	GROUP	
	2021	2020
	K'm	K'm
Opening balance	-	-
Acquired through business combination	841	-
Charge for the year	(53)	-
Payments made during the year	51	-
Total amounts due to other banks	839	-

## 24. LOANS

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

	GROUP & COMPANY	
	2021	2020
	K'm	K'm
Amounts repayable within one year	4 066	3 908
Amount repayable after one year	6 530	9 805
Total amounts due to other banks	10 596	13 713

## 24.1 Lines of credit

## 24.1.1 Malawi Government (denominated in Deutschemark (DM))

The loan is in two parts: Part 1 and Part 2. The two loans, which are unsecured, are for DM5.0m and DM6.6m, respectively. The amounts drawn against specific projects at the year-end are equivalent to DM4.78m and DM6.07m, respectively. Both loans are interest free. The loans are repayable to the Malawi Government in Malawi Kwacha starting in 2034 and 2043, respectively. The Malawi Kwacha value of the loan was set at the time of disbursement. The total carrying amount of the loan as at 31 December 2021 was K105m (2020: K105m).

## 24.1.2 United States Agency for International Development (USAID)

This is a two-part loan: The first loan, which is unsecured, is for USD1.2m and bears interest at 4% per annum. The Malawi Kwacha value of the loan was set at the time of disbursement. The loan is repayable to the Malawi Government in Malawi Kwacha over a period of 25 years commencing 30 June 1993. The carrying amount of the loan as at 31 December 2021 was K3m (2020: 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 2021 was K9m (2020: K9m). The loan has not been repaid because the Malawi Government lost documentation relating to the loan and the Group is yet to renegotiate with Malawi Government on a new repayment schedule.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 24. LOANS (CONTINUED)

24.1.3 The Transport Sector Revolving Fund

The transport sector revolving fund loan bears interest at 3% per annum. The loan is repayable on such dates as the Government and the Bank shall mutually agree in writing. As at year-end an agreement had not yet been reached. The carrying amount of the loan as at 31 December 2021 was K67m (2020: K67m).

24.1.4 Private Sector Revolving Fund

The private sector revolving fund loan is effectively interest free. However, from 1 July 2004, the Group is obliged to pay an administrative fee pegged at 3% per annum on all sums advanced by Government. The loan is repayable on such a date as the Government and the Bank shall mutually agree in writing. As at reporting date, an agreement had not yet been reached. The carrying amount of the loan as at 31 December 2021 was K25m (2020: K25m).

24.1.5 European Investment Bank (EIB)

In 2016, the Bank signed an agreement for an unsecured line of credit for Euro 30 million joint facility with the European Investment Bank (EIB) to facilitate purchase, construction and extension of warehouses and agristorage assets. The Bank shall pay interest on the outstanding balance at the rate of either (i) 3.381 % in respect of those tranches deemed by the Bank to be in respect of HDI Investments or (ii) 3.471 % for all tranches in respect of Standard Investments. Both rates shall incur interest semi-annually in arrears. The loan is repayable semi-annually. As at 31 December 2021, the Bank drew down USD29.142m (2020: USD29.142m) and made total repayments amounting to USD17.4m (2020: USD12.36m). The carrying amount includes accrued interest amounting to USD0.06m (2020: USD0.26m) which is repayable by 30 June 2022. The carrying amount of the loan as at 31 December 2021 was K10 387m (2021: K13 504m).

	Employee bonus K'm	Tevet levy K'm	Total K'm
<b>2021</b>			
At 1 January 2021	3 716	81	3 797
Provisions made during the year	5 962	194	6 156
Payments made during the year	(3 716)	(191)	(3 907)
At 31 December 2021	5 962	84	6 046
<b>2020</b>			
At 1 January 2020	2 889	65	2 954
Provisions made during the year	3 792	175	3 967
Payments made during the year	(2 965)	(159)	(3 124)
At 31 December 2020	3 716	81	3 797

## 25. PROVISIONS

## GROUP

**2021**

At 1 January 2021	3 716	81	3 797
Provisions made during the year	5 962	194	6 156
Payments made during the year	(3 716)	(191)	(3 907)

At 31 December 2021

**2020**

At 1 January 2020	2 889	65	2 954
Provisions made during the year	3 792	175	3 967
Payments made during the year	(2 965)	(159)	(3 124)

At 31 December 2020

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 25. PROVISIONS (CONTINUED)

## COMPANY

**2021**

	Employee bonus K'm	Tevet levy K'm	Total K'm
At 1 January 2021	3 578	74	3 652
Provisions made during the year	5 772	186	5 958
Payments made during the year	(3 578)	(184)	(3 762)
At 31 December 2021	5 772	76	5 848

**2020**

At 1 January 2020	2 681	64	2 745
Provisions made during the year	3 653	168	3 821
Payments made during the year	(2 756)	(158)	(2 914)
At 31 December 2020	3 578	74	3 652

## 26. OTHER LIABILITIES

	GROUP		COMPANY	
	2021 K'm	2020 K'm	2021 K'm	2020 K'm
Unclaimed balances	1 434	1 304	1 434	1 304
Deferred income	1 600	675	1 326	675
Bank cheque	3 944	2 232	3 944	2 232
Office accounts	2 604	2 811	2 588	2 811
Trade and other payables	3 713	3 536	2 201	2 739
Other tax payables	1 464	928	1 061	928
Cash security	628	653	628	653
Cards and other products	1 046	1 074	1 046	1 074
Sundry payables	943	328	1 144	475
Total other liabilities	17 376	13 541	15 372	12 891

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 27. LEASE LIABILITY

	GROUP		COMPANY	
	2021	2020	2021	2020
	K'm	K'm	K'm	K'm
Opening lease liability as at 01 January	3 158	3 551	3 158	3 551
Acquired through business combination	4 883	-	-	-
Interest on lease	1 078	615	526	615
Lease repayments (principal and interest)	(1 949)	(1 008)	(1 081)	(1 008)
Lease liability adjustment	730	-	-	-
Closing balance as at 31 December	7 900	3 158	2 603	3 158

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 18). The interest on lease liability has been charged to Statement of Comprehensive income (Refer to note 33). Out of the Group's lease payments of K1 949m (2020: K1 008m) payments, K871m (2020: K393m) were towards settlement of the lease liability (principal) and K1 078m (2020: K615m) for payment of the interest on lease liability.

The maturity profiles for the lease payments are as follows:

	GROUP		COMPANY	
	2021	2020	2021	2020
	K'm	K'm	K'm	K'm
Year 1	2 508	1 256	1 425	1 256
Year 2	3 172	1 425	2 100	1 425
Year 3	1 083	2 100	-	2 100
Year 4	1 094	-	-	-
Year 5	1 105	-	-	-
Year 6	1 116	-	-	-
Year 7	1 127	-	-	-
Year 8	1 138	-	-	-
Year 9	1 150	-	-	-
Year 10	1 161	-	-	-
Total lease payments	14 654	4 781	3 525	4 781

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

## 28. POST BALANCE SHEET EVENTS

## 28.1 Preference shares investment in Akiba Commercial Bank plc of Tanzania.

Subsequent to the reporting period, in January 2022, NBM Group finalised a preference share investment in Akiba Commercial Bank plc of Tanzania at a cash consideration of K2 133m.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 28. POST BALANCE SHEET EVENTS (SHEETS (CONTINUED))

## 28.2 COVID-19

Generally the number of COVID-19 cases has been dwindling during the months of January 2022 to March 2022 when compared to the same period last year.

However, there remains significant uncertainty regarding how the COVID-19 pandemic will evolve given the coming in of different variants over the years since its inception. Its duration, severity and speed of economic recovery is also uncertain. However, the world has started opening up to business and it is expected that the global economy will recover to pre-pandemic error.

In accordance with IAS 10 *Events after the reporting period*, the Group considered whether events after the reporting period confirmed conditions existing before reporting the date. The Group did not identify any subsequent events precipitated by COVID-19 related developments, which would require adjustments to the amounts or disclosures in the financial statements. Further, no other material non-adjusting subsequent events relating to COVID-19 were identified requiring disclosure in the financial statements. Given the fluid nature of the current situation, the Group will continue to regularly review forward looking assumptions and forecast economic scenarios.

## 28.3 Political tension between Russia and Ukraine

The escalating political tension in Eastern Europe which has culminated into Russia's invasion of Ukraine has serious implications for global economic and political stability. This has seen the diplomatic relations between Russia and the US-led North Atlantic Treaty Organization (NATO) at an all-time low with tensions so high that the threat of nuclear warfare or other dangerous weapons is high. Russia, which is the second largest producer of crude oil and has the world's largest natural gas deposits is facing stringent economic sanctions, which have driven oil prices very high due to reduced global supply in the wake of an ever-increasing demand as the global economy was recovering from a two-year Covid-19 crisis. The European Union is heavily reliant on Russia for its natural gas supplies and the economic sanctions will hurt both sides as the European Union will have to source more expensive gas from other sources as prices soar due to demand-supply imbalance. Furthermore, Russia has since been excluded from the SWIFT system, thus isolating it from the global financial system. This has the potential to drive Russia into desperation to escalate the conflict beyond the present levels, amidst fears that its end goal is to recreate the former Union of Soviet Socialist Republic (USSR). This unfolding situation has serious implications for the Malawi economy as Russia is amongst its Top-10 export destinations which accounted for up to K8.2b in 2021 and K21.4b in the year before. The group will continue to regularly review the situation so that it puts in place mechanisms that will ensure that its strategic objectives are achieved.

## 29. PENSION SCHEME

The Group operates a fully defined contribution pension scheme for its employees. The contributions of employees and the employer are 5.5% (2020: 5.5%) and 11.0% (2020: 11.0%) of the fund members' basic pensionable salaries, respectively. The funds are invested with NBM Pension Administration Limited. The amount charged against income during the year was K1 791m (2020: K1 258m).

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 K450m (2020: K427m) in rentals for such properties during the year.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 29. PENSION SCHEME

The Fund was valued by independent actuaries, Alexander Forbes, as at 31 December 2020. As per the actuarial valuation, the General Fund had a surplus of K1 471m (December 2019: surplus of K2 227m) and the Special Fund had a surplus of K427m (December 2019: surplus of K963m). According to the report, the special Fund had no liabilities as at 31 December 2020.

	GROUP		COMPANY	
	2021	2020	2021	2020
	K'm	K'm	K'm	K'm
<b>30. NET INTEREST INCOME</b>				
<b>Interest and similar income</b>				
Interest on loans and advances and bills discounted	38 335	29 369	29 557	29 280
Income from investments	32 375	17 502	31 894	17 502
Income from lease financing	2 763	3 465	2 763	3 465
Interest on placements with other banks	1 432	1 302	663	597
Arrangement and other fee income	4 571	3 615	4 564	3 612
	<u>79 476</u>	<u>55 253</u>	<u>69 441</u>	<u>54 456</u>
<b>Interest expense and similar charges</b>				
Banks and customers	6 617	4 503	4 327	4 503
Interest on Foreign Bank loan	417	532	417	532
Money market loans and repos	744	279	718	279
	<u>7 778</u>	<u>5 314</u>	<u>5 462</u>	<u>5 314</u>
Net interest income	<u>71 698</u>	<u>49 939</u>	<u>63 979</u>	<u>49 142</u>

## 31. COMMISSION AND FEE INCOME

Commissions	28 286	20 790	25 011	19 166
Other income	1 927	1 344	1 820	1 089
Total commission and fee income	<u>30 213</u>	<u>22 134</u>	<u>26 831</u>	<u>20 255</u>

## 32. STAFF COSTS

Salaries and wages	17 642	11 646	12 353	11 177
Other staff costs	4 607	3 987	4 304	3 766
Staff loans fair value adjustment	24	28	24	28
Staff bonus	5 962	3 792	5 772	3 653
Pension costs	1 791	1 258	1 359	1 210
Total staff costs	<u>30 026</u>	<u>20 711</u>	<u>23 812</u>	<u>19 834</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 33. OTHER OPERATING EXPENDITURE

	GROUP		COMPANY	
	2021	2020	2021	2020
	K'm	K'm	K'm	K'm
Recurrent expenditure on premises and equipment	8 243	5 873	7 155	5 751
Depreciation of property and equipment	2 929	2 403	2 661	2 377
Amortisation of intangible assets	1 326	1 134	1 256	1 122
Amortisation of Right-of-use assets	1 314	785	785	785
Interest expense on lease liability	1 078	615	526	615
Write off of intangible assets	76	-	76	-
Write off of plant and equipment	7	2	7	-
Legal charges	374	110	145	110
Communication	2 048	1 497	1 982	1 480
Travel, Hotel and meals	799	650	690	639
Office expenses	1 701	1 261	1 110	1 242
Security and insurance	1 901	1 174	1 380	1 151
Professional fees	925	373	858	358
Card expenses	2 497	2 769	2 466	2 769
Agent bank charges	361	145	358	145
Reserve Bank of Malawi Supervisory fees and inspection charges	98	112	98	109
Customer cash collection expenses	44	34	44	34
Write off of system balances	1 330	911	1 328	731
SMS Banking expenses	969	655	862	655
Auditor's remuneration including VAT and expenses	508	349	364	265
Directors' remuneration				
- fees for services as directors	241	155	122	105
- for managerial services	832	764	690	642
Board expenses	160	115	148	111
Other expenses	1 319	700	1 088	497
Total other operating expenses	<u>31 080</u>	<u>22 586</u>	<u>26 199</u>	<u>21 693</u>

## 34. Properties fair value gains and losses

	GROUP AND COMPANY	
	2021	2020
	K'm	K'm
Fair value loss on properties through income statement	-	(137)
Fair value gains on properties through income statement	105	48
Net fair value gain /n(losses) through statement comprehensive income	105	(89)
Fair value gains on properties included in other comprehensive income	4 454	2 239
Total properties fair value gains	<u>4 559</u>	<u>2 150</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 35. INCOME TAX EXPENSE

	GROUP		COMPANY	
	2021	2020	2021	2020
	K'm	K'm	K'm	K'm
Income tax (note 23)	15 614	10 448	15 198	10 115
Deferred tax (note 19)	711	(84)	704	(40)
Total income tax expenses	16 325	10 364	15 902	10 075
Profit before tax	50 588	32 808	51 127	32 433
Reconciliation of rate of tax	%	%	%	%
Standard rate of taxation	30	30	30	30
Permanent differences	2	2	1	1
Effective rate of taxation	32	32	31	31

## 36. EARNINGS PER SHARE

## Basic earnings per share

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

	GROUP	
	2021	2020
Profit attributable to equity holders of the Company (K'm)	34 928	22 406
Net profit used to determine diluted earnings per share (K'm)	34 928	22 406
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)	74.79	47.98

## Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of Ordinary Shares outstanding to assume conversion of all dilutive potential ordinary shares. The Bank has nil outstanding share options which are dilutive potential ordinary shares. As such the diluted earnings per share are the same as basic earnings per share.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 36. EARNINGS PER SHARE (CONTINUED)

	GROUP	
	2021	2020
Profit attributable to equity holders of the Company (K'm)	34 928	22 406
Net profit used to determine diluted earnings per share (K'm)	34 928	22 406
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)	74.79	47.98

## 37. DIVIDEND PER SHARE

	GROUP AND COMPANY	
	2021	2020
	K'm	K'm
Final dividend (prior year)	10 501	5 865
First interim dividend (current year)	5 001	2 498
	15 502	8 363
Weighted average number of Ordinary Shares in issue (millions)	467	467
Dividend per share	33.19	17.91

The proposed current year final dividend is K11 000m (2020: K8 000m) representing K23.55 per share (2020: K17.13 per share). A second interim dividend of K7 000m (2020: K2 500m) will be paid on 31 March 2022.

## 38. CONTINGENCIES

## Letters of credit and guarantees

	GROUP		COMPANY	
	2021	2020	2021	2020
	K'm	K'm	K'm	K'm
Foreign guarantees	2 016	1 967	2 016	1 967
Local guarantees and performance bonds	6 595	4 682	6 595	4 682
Letters of credit	26 937	26 990	26 937	26 990
Total letters of credit and guarantees	35 548	33 639	35 548	33 639

## Other contingencies

Legal claims	2 034	1 414	2 034	1 414
Tax dispute	545	-	-	-
Customer funds under management	122 392	98 193	-	-
Total other contingencies	124 971	99 607	2 034	1 414

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 38. CONTINGENCIES (CONTINUED)

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

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

Legal claims represent outstanding legal cases against the Group in the ordinary course of business, the outcome of which is uncertain. The amount disclosed represents an estimate of the cost to the Group in the event that legal proceedings find the Group to be in the wrong. In the opinion of the directors, the claims are not expected to give rise to a cost to the Group.

Legal claims in favour of the Group as at the end of the year were K3 980m (2020: K5 529m).

There are pending tax appeal cases in the Tax Revenue Appeals Tribunal in which Akiba Commercial Bank is contesting tax assessments which amounts K545m (2020: K545m).

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.

	GROUP		COMPANY	
	2021	2020	2021	2020
	K'm	K'm	K'm	K'm
Expenditure contracted for but not yet incurred	1 903	1 112	1 558	1 112
Expenditure approved by the Board but not contracted	3 542	5 781	3 542	5 781
<b>Total commitments</b>	<b>5 445</b>	<b>6 893</b>	<b>5 100</b>	<b>6 893</b>

## 39. COMMITMENTS

Expenditure contracted for but not yet incurred  
Expenditure approved by the Board but not contracted

Total commitments

These commitments are to be funded from internal resources.

	GROUP		COMPANY	
	2021	2020	2021	2020
	K'm	K'm	K'm	K'm
Cash and funds with central banks (note 5)	35 768	26 267	26 054	26 267
Placements with other banks (note 12)	31 367	44 231	31 367	44 231
Other money market deposits (note 14)	95 681	37 752	49 583	7 099
Amounts due to other banks (note 22)	(51 677)	(12 557)	(49 510)	(12 557)
<b>Total cash and cash equivalents</b>	<b>111 139</b>	<b>95 693</b>	<b>57 494</b>	<b>65 040</b>

## 40. CASH AND CASH EQUIVALENTS

Cash and funds with central banks (note 5)  
Placements with other banks (note 12)  
Other money market deposits (note 14)  
Amounts due to other banks (note 22)

Total cash and cash equivalents

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 41. FINANCIAL ASSETS AND LIABILITIES

## Accounting categories and fair values

	Notes	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost	Total carrying amount	Fair value
		K'm	K'm	K'm	K'm	K'm
<b>GROUP</b>						
<b>2021</b>						
<b>Assets</b>						
Cash and bank balances with Central Banks	5	35 768	-	-	35 768	35 768
Government securities	7	-	-	298 916	298 916	298 916
Government of Malawi promissory note	8	-	-	12 126	12 126	12 126
Equity investments	9	5 357	-	-	5 357	5 357
Placements with other banks	12	-	-	31 367	31 367	31 367
Loans and advances	13	-	-	240 884	240 884	240 884
Other money market deposits	14	-	-	95 681	95 681	95 681
Other assets		-	-	5 343	5 343	5 343
<b>Total financial assets</b>		<b>41 125</b>	<b>-</b>	<b>684 317</b>	<b>725 442</b>	<b>725 442</b>
<b>Liabilities and equity</b>						
Customer deposits	21	-	-	558 345	558 345	558 345
Amounts due to other banks	22	-	-	51 677	51 677	51 677
Loans	24	-	-	10 596	10 596	10 596
Provisions	25	-	-	6 046	6 046	6 046
Other liabilities		-	-	2 869	2 869	2 869
Lease liability	27	-	-	7 900	7 900	7 900
<b>Total financial liabilities</b>		<b>-</b>	<b>-</b>	<b>637 433</b>	<b>637 433</b>	<b>637 433</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 41. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

## Accounting categories and fair values (Continued)

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 41. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

## Accounting categories and fair values (Continued)

	Notes	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost	Total carrying amount	Fair value
		K'm	K'm	K'm	K'm	K'm
<b>COMPANY</b>						
<b>2021</b>						
<b>Assets</b>						
Cash and bank balances with Central Banks	5	26 054	-	-	26 054	26 054
Government securities Government of Malawi	7	-	-	271 254	271 254	271 254
Promissory note	8	-	-	12 126	12 126	12 126
Equity investments	9	5 357	-	-	5 357	5 357
Placements with other banks	12	-	-	31 367	31 367	31 367
Loans and advances	13	-	-	210 320	210 320	210 320
Other money market deposits	14	-	-	49 583	49 583	49 583
Other assets		-	-	700	700	700
<b>Total financial assets</b>		<b>31 411</b>	<b>-</b>	<b>575 350</b>	<b>606 761</b>	<b>606 761</b>
<b>Liabilities and equity</b>						
Customer deposits	21	-	-	456 412	456 412	456 412
Amounts due to other banks	22	-	-	49 510	49 510	49 510
Loans	24	-	-	10 596	10 596	10 596
Provisions	25	-	-	5 848	5 848	5 848
Other liabilities		-	-	988	988	988
Lease liability	27	-	-	2 603	2 603	2 603
<b>Total financial liabilities</b>		<b>-</b>	<b>-</b>	<b>525 957</b>	<b>525 957</b>	<b>525 957</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 41. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

## Accounting categories and fair values (Continued)

	Notes	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost	Total carrying amount	Fair value
		K'm	K'm	K'm	K'm	K'm
<b>COMPANY</b>						
<b>2020</b>						
<b>Assets</b>						
Cash and bank balances with Reserve Bank of Malawi	5	26 267	-	-	26 267	26 267
Restricted cash	6	-	-	5 585	5 585	5 585
Government of Malawi treasury bills and treasury notes	7	-	-	172 274	172 274	172 274
Government of Malawi Promissory note	8	-	-	5 196	5 196	5 196
Equity investments	9	4 744	-	-	4 744	4 744
Placements with other banks	12	-	-	44 231	44 231	44 231
Loans and advances	13	-	-	199 161	199 161	199 161
Other money market deposits	14	-	-	7 099	7 099	7 099
Other assets		-	-	1 167	1 167	1 167
<b>Total financial assets</b>		<b>31 011</b>	<b>-</b>	<b>434 713</b>	<b>465 724</b>	<b>465 724</b>
<b>Liabilities and equity</b>						
Customer deposits	21	-	-	367 721	367 721	367 721
Amounts due to other banks	22	-	-	12 557	12 557	12 557
Loans	24	-	-	13 713	13 713	13 713
Provisions	25	-	-	3 652	3 652	3 652
Other liabilities		-	-	1 053	1 053	1 053
Lease liability	27	-	-	3 158	3 158	3 148
<b>Total financial liabilities</b>		<b>-</b>	<b>-</b>	<b>401 854</b>	<b>401 854</b>	<b>401 854</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 42. FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

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

## GROUP AND COMPANY

	2021	2020
	K'm	K'm
<i>Financial assets at fair value through profit or loss</i>		
Non-derivative financial assets held for trading		
Level 1	5 357	4 744

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 42. FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

Group  Financial assets/financial liabilities	Fair value		Fair value hierarchy	Valuation technique(s) and key input(s)
	2021	2020		
	K'm	K'm		
Equity investments Government of Malawi	5 357	4 744	Level 1	Quoted prices
Promissory note	12 126	5 196	Level 2	Discounted cash flows using applicable interest rates and agreed repayment plan
	17 483	9 940		agreed

42.4 Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

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

## 43. FINANCIAL RISK MANAGEMENT

## a) Introduction and overview

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

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

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

**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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

**Risk management framework** (Continued)

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

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

**The Board Audit Committee** has the overall responsibility for the Bank's system of internal controls and for reviewing its effectiveness. The Committee also exercises the full powers and authority of the Board in accounting and financial reporting matters as guided by its terms of reference. Results of pre-arranged and surprise risk-based audits provide the Directors with information which assists them to assess the effectiveness of internal controls and management of risks in each business unit. The Board Audit Committee is assisted in these functions by an Internal Audit Division which undertakes both regular and ad-hoc reviews of risk management controls and procedures whose results are reported directly to Board Audit Committee.

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

### 43. FINANCIAL RISK MANAGEMENT (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.

The Group adopted three lines of defense in mitigation of the risk exposures namely: business unit management, risk and internal audit. This has been illustrated below:

First line of defense	Second line of defense	Third line of defense
Business Unit management.	Risk management function including compliance.	Internal Audit
Assesses, evaluates, measures and controls risk exposures through the day-to-day activities of the business within the framework set by the second line of defense.	Sets frameworks within the parameters set by the Board. Provides independent oversight of the first line of defense.	Provides independent assessment of the adequacy and effectiveness of the frameworks and thereby providing the overall assurance.
Reports to senior management	Reports to Enterprise Risk Committee (ERCO) and the Board Risk Committee	Reports to Board Audit Committee

#### Risk Assessment

The Group operates its business in conformity with Malawi and Tanzanian legislation as well as directives issued by Reserve Bank of Malawi (RBM) and Bank of Tanzania (BOT) as Registrars of Financial Institutions of Malawi and Tanzania respectively. The Group is therefore committed to manage all risks inherent in the banking business. The Enterprise Risk Management Policy encompasses the scope of enterprise wide risks to be managed by the Group. The Policy covers the following risks: Financial risk, Strategic risk, Credit risk, Liquidity risk, Market risk, IT Risk, Cyber risk, Operational risk, Environmental and social risk, Compliance risk, AML/CFT risk, Reputation risk, Project risk, Procurement Risk, Litigation risk and all other risks that affect the Bank.

#### Risk Management Philosophy

The Group's risk philosophy and approach towards effective enterprise wide risk management shall be supported by the following pillars: -

- A risk focused culture and proactive risk management process
- A robust corporate governance structure

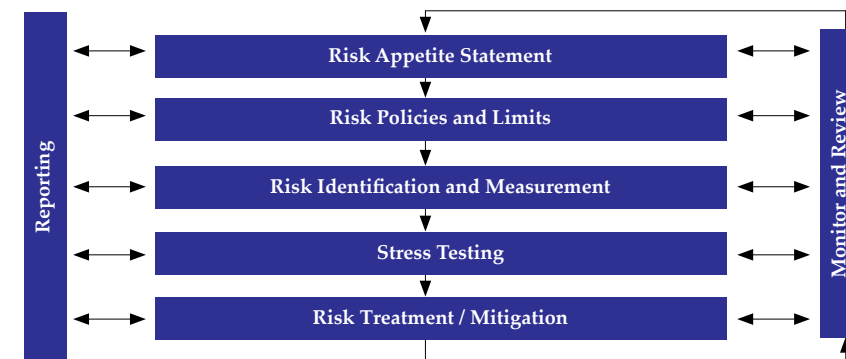
## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

### 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Risk Management Process

The diagram below summarises the Bank's risk management process;



#### 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:-

- Economic and Business Environment Risk**– the economic and Business risk remained High for 2021. The economy which is heavily reliant of imports has suffered from huge forex shortage in the year that has put pressure on the Kwacha which is now unstable and continues to depreciate. This has resulted in increased prices impacting businesses. .
- The Impact of Covid-19** which was very disruptive to many business models in 2020 was moderate in 2021. The country is experiencing the 'fourth wave' of the Covid-19 pandemic although the economy remained open for business but still economic activity and business was subdued in some sectors. There has been continuous risk and security assessment and improvements in response. The regulatory guidelines by the Reserve Bank of Malawi (RBM) which allowed for moratorium on interest and principal repayments for loans by borrowers on a case by case basis was extended. As at the reporting date, moratorium directive was still effective. The directives did not have significant impact on the business of the group as the reduction in the fees for three months was compensated with increased volumes owing to the fact that more customers were recruited on the digital platforms. The deferment of repayments did not also affect the group as interest income was still being recognised as it remained payable by the customers.
- Technology and Cyber security risk (Use of Application Programming Interfaces (APIs):** The Group as part of integration with third parties connects through Application Programming Interfaces (APIs) to enable its customers access its services. These third-party services offered through Mo626 are directly interfaced with the providers and customers access them through USSD and mobile app services with payments validated and done in real time. Among the institutions connected through APIs are MRA, ESCOM, Universities, Shoprite, Dstv, and Water Boards among others. This has increased the attack surface for cybercriminals

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2021

**43. FINANCIAL RISK MANAGEMENT (CONTINUED)****b) Current and Emerging Risks (Continued)**

iv) **Climate change** – the country has been affected by various cyclones which have destroyed major hydro power station for the nation thereby impacting production. The hurricanes have also destroyed roads and some infrastructure as well as crops in the Country. This will result into unexpected fiscal outlay by the government which will affect its public expenditure plan as well as food deficit respectively given that most crops have been affected and the yield will not be as per the initial projected levels. Some of our customers in those areas have been affected in their business operations.

v) **Investment in new territory**–In January 2021, the Group had completed the acquisition of Akiba Commercial Bank plc of Tanzania. The Group is therefore exposed to the risks associated with the investment in the new territory. The Group has put in place measures to identify, manage and mitigate itself against the impact of such risks on its investment in Akiba. In 2021, Akiba has made a loss after tax of K1 942m but it is expecting to turn around in 2022.

**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).

**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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2021

**43. FINANCIAL RISK MANAGEMENT (CONTINUED)****Management of credit risk (Continued)**

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

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

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

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

- i). To regularly review, formulate and approve Credit Policy documents and consider policy changes, making appropriate recommendations to the Board;
- ii). To develop policies and procedures for identifying, measuring, monitoring and controlling credit risk;
- iii). To establish overall credit limits at the level of individual borrowers and counterparties, and groups of connected counterparties that aggregate in a comparable and meaningful manner different types of exposures, both in the banking and trading book and on and off the balance sheet;
- iv). To identify and manage credit risk inherent in all products and activities;
- v). To ensure that the credit-granting function is being properly managed and that credit exposures are within levels consistent with prudential standards and internal limits; and
- vi). To ensure that credit policies are communicated throughout the 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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2021

**43. FINANCIAL RISK MANAGEMENT (CONTINUED)****Significant increase in credit risk (Continued)**

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

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

**Internal credit risk ratings**

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2021

**43. FINANCIAL RISK MANAGEMENT (CONTINUED)****Internal credit risk ratings (Continued)**

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 2021 was at K249 581m (2020: K210 389m) with Non-Performing Loans (NPL) standing at 10.45% (2020: 15.05%). The Bank's separate exposure as at 31 December 2021 was at K216 849m (2020: K210 389m) with Non-Performing Loans (NPL) standing at 9.72% (2020: 15.05%). The decrease in default rates is due to enhanced debt recovery efforts and stringent credit risk management enforced by the Group during the period under review.

**Incorporation of Forward Looking**

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

**Extent of utilisation of granted limit**

The Group closed 2021 with utilized overdrafts of K41 626m (2020: K33 124m) against limits of K71 315m (2020: K55 546m) representing 58.37% (2020: 59.63%) of the total limits. The Bank closed 2021 with utilized overdrafts of K41 506m (2020: K33 124m) against limits of K71 163m (2020: K55 546m) representing 58.33% (2020: 59.63%) of the total limits.

**Forbearances (both requested and granted)**

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

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

In spite of COVID-19, the business condition was relatively stable in the reporting period. The economy experienced marginal depreciation of the kwacha and average inflation remained in single digit. During the same period the interest rates have remained relatively constant. The inflation rate is expected to decline in 2022 due to normalization of global supply chain to pre-pandemic levels. The Group was not much affected by COVID-19 due to the measures put in place by the Reserve of Malawi and also due to the Bank's initiatives to recruit more customers on the digital platforms and closer monitoring of the loan exposures.

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

	Loans and advances to customers			
	GROUP		COMPANY	
	2021	2020	2021	2020
	K'm	K'm	K'm	K'm
<b>Concentration by sector</b>				
Agriculture	33 863	38 408	33 316	38 408
Finance and insurance	8 222	4 365	8 222	4 365
Manufacturing	21 759	22 970	21 683	22 970
Other	45 730	33 460	40 574	33 460
Transport and communication	13 076	8 896	12 591	8 896
Real estate	7 358	6 763	7 358	6 763
Personal	54 116	42 894	51 619	42 894
Wholesale and retail	56 760	42 414	34 957	41 405
	<u>240 884</u>	<u>200 170</u>	<u>210 320</u>	<u>199 161</u>

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

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

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

Stage	2021	2020
	K'm	K'm
Stage 1	203 265	159 668
Stage 2	20 230	19 058
Stage 3	26 086	31 663
<b>Total Gross Carrying Amount</b>	<u>249 581</u>	<u>210 389</u>
Loss Allowance	(8 697)	(10 219)
<b>Carrying amount</b>	<u>240 884</u>	<u>200 170</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

## Company loans and advances to customers at amortised cost categorised by Stages

Stage	2021	2020
	K'm	K'm
Stage 1	175 995	158 651
Stage 2	19 777	19 058
Stage 3	21 077	31 663
<b>Total Gross Carrying Amount</b>	<u>216 849</u>	<u>209 372</u>
Loss Allowance	(6 529)	(10 211)
<b>Carrying amount</b>	<u>210 320</u>	<u>199 161</u>

## Exposure to credit risk

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

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

## Gross maximum exposure

	GROUP		COMPANY	
	2021	2020	2021	2020
	K'm	K'm	K'm	K'm
Balances with the Central Banks	9 773	10 227	7 221	10 227
Restricted cash	-	5 585	-	5 585
Government securities	298 916	180 435	271 254	172 274
Government of Malawi Promissory note	12 126	5 196	12 126	5 196
Placements with other banks	31 367	44 231	31 367	44 231
Loans and advances	240 884	200 170	210 320	199 161
Other money market deposits	95 681	37 752	49 583	7 099
Other assets	5 343	2 180	700	1 167
<b>Total recognised financial instruments</b>	<u>694 090</u>	<u>485 776</u>	<u>582 571</u>	<u>444 940</u>
Guarantees and performance bonds	8 611	6 649	8 611	6 649
Letters of credit	26 937	26 990	26 937	26 990
<b>Total unrecognised financial instruments</b>	<u>35 548</u>	<u>33 639</u>	<u>35 548</u>	<u>33 639</u>
<b>Total credit exposure</b>	<u>729 638</u>	<u>519 415</u>	<u>618 119</u>	<u>478 579</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

## Gross maximum exposure (Continued)

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

	Carrying Amount K'm	Offset K'm	Net exposure to credit risk K'm
<b>GROUP</b>			
<b>2021</b>			
Balances with Central Banks	9 773	-	15 283
Government securities	298 916	-	293 406
Government of Malawi Promissory note	12 126	-	12 126
Placements with other banks	31 367	-	31 367
Loans and advances	240 884	12 388	228 496
Other money market deposits	95 681	-	95 681
Other assets	5 343	-	5 343
	<u>694 090</u>	<u>12 388</u>	<u>681 702</u>
<b>2020</b>			
Balances with the Reserve Bank of Malawi	10 227	-	10 227
Restricted cash	5 585	-	5 585
Government of Malawi treasury bills and Treasury notes	180 435	-	180 435
Government of Malawi Promissory note	5 196	-	5 196
Placements with other banks	44 231	-	44 231
Loans and advances	200 170	5 612	194 558
Other money market deposits	37 752	-	37 752
Other assets	2 180	-	2 180
	<u>485 776</u>	<u>5 612</u>	<u>480 164</u>
<b>COMPANY</b>			
<b>2021</b>			
Balances with the Reserve Bank of Malawi	7 221	-	7 221
Government of Malawi treasury bills and Treasury notes	271 254	-	271 254
Government of Malawi Promissory note	12 126	-	12 126
Placements with other banks	31 367	-	31 367
Loans and advances	210 320	10 158	200 162
Other money market deposits	49 583	-	49 583
Other assets	700	-	700
	<u>582 571</u>	<u>10 158</u>	<u>572 413</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

## Gross maximum exposure (Continued)

## COMPANY

## 2020

	Carrying Amount K'm	Offset K'm	Net exposure to credit risk K'm
Balances with the Reserve Bank of Malawi	10 227	-	10 227
Restricted cash	5 585	-	5 585
Government of Malawi treasury bills and treasury notes	172 274	-	172 274
Government of Malawi promissory note	5 196	-	5 196
Placements with other banks	44 231	-	44 231
Loans and advances	199 161	5 612	193 549
Other money market deposits	7 099	-	7 099
Other assets	1 167	-	1 167
	<u>444 940</u>	<u>5 612</u>	<u>439 328</u>

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

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

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

## Credit quality of loans and advances

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

	GROUP		COMPANY	
	2021 K'm	2020 K'm	2021 K'm	2020 K'm
Individually impaired:				
Grade 9: Impaired	14 103	19 125	10 167	19 125
Grade 8: Impaired	11 983	5 467	10 910	5 467
Past due but not impaired:				
Grade 7: Watch list	20 230	26 129	19 777	26 129
Neither past due nor impaired:				
Grade 1 - 3 Low risk	33 646	13 856	6 827	12 839
Grade 4 - 6 Fair risk	169 619	145 812	169 168	145 812
Impairment provision	(8 697)	(10 219)	(6 529)	(10 211)
Total net carrying amount	<u>240 884</u>	<u>200 170</u>	<u>210 320</u>	<u>199 161</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

## Credit quality of loans and advances (Continued)

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

	GROUP		COMPANY	
	Gross amount	Provision	Gross amount	Provision
	K'm	K'm	K'm	K'm
<b>31 December 2021</b>				
Risk Grade				
Grade 9: Impaired	14 103	3 025	10 167	2 015
Grade 8: Impaired	11 983	1 656	10 910	998
Grade 7: Watch list	20 230	995	19 777	976
Grade 4 – 6 Fair risk	169 619	1 808	169 168	1 792
Grade 1 - 3 Low risk	33 646	627	6 827	162
Total Gross carrying amount	<u>249 581</u>	<u>8 111</u>	<u>216 849</u>	<u>5 943</u>
<b>31 December 2020</b>				
Risk Grade				
Grade 9: Impaired	19 125	5 843	19 125	5 843
Grade 8: Impaired	12 538	1 029	12 538	1 029
Grade 7: Watch list	19 058	751	19 058	751
Grade 4 – 6 Fair risk	145 812	2 301	144 795	2 293
Grade 1 - 3 Low risk	13 856	110	13 856	110
Total Gross carrying amount	<u>210 389</u>	<u>10 034</u>	<u>209 372</u>	<u>10 026</u>

The Group's impairment provision of K8 111m (2020: K10 034m) excludes provision for off-balance sheet assets and unutilized limits amounting to K586m (2020: K185m). The Bank's impairment provision of K5 943m (2020: K10 026m) excludes provision for off-balance sheet assets and unutilized limits amounting to K586m (2020: K185m).

The current year total carrying amount includes K28 299m (2020: nil) and K2 265m (2020: K1 009m) loans and advances extended by Akiba Commercial Bank plc and NBM Development Bank respectively. The provision related to Akiba Commercial Bank plc amounted K2 107m (2020: nil) while for NBM Development Bank Limited amounted to K17m (2020: K8m) as at the reporting date.

## Impaired loans and advances

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

## Past due but not impaired loans

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

## 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 year, the Group has written off loans amounting to K9 555m (2020: K4 548m) out of which K8 166m (2020:K4 548m) has been charged to the statement of comprehensive income and K1 389m (2020: nil) has been written off against provisions. Refer to note 13. The whole amounts written off are subject to enforcement activity by the Group to recover.

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

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

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

	GROUP		COMPANY	
	2021	2020	2021	2020
	K'm	K'm	K'm	K'm
<u>Against individually impaired</u>				
Motor vehicles	5 398	1 205	4 292	1 205
Commercial property	12 569	12 286	11 533	12 286
Residential property	13 518	849	2 865	849
Cash	40	-	-	-
Government guarantees	-	13 119	-	13 119
	<u>31 525</u>	<u>27 459</u>	<u>18 690</u>	<u>27 459</u>
<u>Against the rest of the loan book</u>				
Motor vehicles and machinery	19 822	19 634	13 297	19 634
Commercial property	120 526	115 429	116 659	115 429
Residential property	109 364	27 126	34 816	27 126
Cash	12 388	5 612	10 158	5 612
Other guarantees	-	37 097	-	37 097
Total	<u>262 100</u>	<u>204 898</u>	<u>174 930</u>	<u>204 898</u>
Grand Total	<u>293 625</u>	<u>232 357</u>	<u>193 620</u>	<u>232 357</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

**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.

**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:

	2021	2020
At 31 December	48%	41%
Average of the period	47%	36%
Maximum for the period	52%	41%
Minimum for the period	39%	25%

At 31 December  
Average of the period  
Maximum for the period  
Minimum for the period

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 43. FINANCIAL RISK MANAGEMENT (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	1 - 3 months	3 - 12 months	Over 1 year	Total	Carrying amount
	K'm	K'm	K'm	K'm	K'm	K'm
<b>2021</b>						
<b>Financial assets</b>						
Cash and funds with Central Banks	35 768	-	-	-	35 768	35 768
Government securities Government of Malawi promissory note	-	60 984	83 730	154 202	298 916	298 916
Equity investments	-	-	12 126	-	12 126	12 126
Placements with other banks	-	5 357	-	-	5 357	5 357
Loans and advances	31 367	-	-	-	31 367	31 367
Other money markets deposits	14 460	13 787	54 581	158 056	240 884	240 884
Other assets	95 681	-	-	-	95 681	95 681
	5 343	-	-	-	5 343	5 343
<b>Total financial assets</b>	<b>182 619</b>	<b>80 128</b>	<b>150 437</b>	<b>312 258</b>	<b>725 442</b>	<b>725 442</b>
<b>Financial liabilities</b>						
Loans	-	-	4 066	6 530	10 596	10 596
Customer deposits	474 980	71 907	11 072	286	558 245	558 245
Amounts due to other banks	51 677	-	-	-	51 677	51 677
Provisions	-	-	6 046	-	6 046	6 046
Other liabilities	2 869	-	-	-	2 869	2 869
Lease liability	-	-	2 395	5 505	7 900	7 900
<b>Total financial liabilities</b>	<b>529 526</b>	<b>71 907</b>	<b>23 579</b>	<b>12 321</b>	<b>637 333</b>	<b>637 333</b>
<b>Contractual liquidity mismatch</b>	<b>(346 907)</b>	<b>8 221</b>	<b>126 858</b>	<b>299 937</b>	<b>88 109</b>	<b>88 109</b>
<b>Cumulative mismatch</b>	<b>(346 907)</b>	<b>(338 686)</b>	<b>(211 828)</b>	<b>88 109</b>	<b>-</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

## GROUP

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

## COMPANY

	Less than 1 month	1 - 3 months	3 - 12 months	Over 1 year	Total	Carrying amount
	K'm	K'm	K'm	K'm	K'm	K'm
<b>2021</b>						
<b>Financial assets</b>						
Cash and funds with						
Reserve Bank of Malawi	26 054	-	-	-	26 054	26 054
Government of Malawi treasury						
bills and treasury notes	-	33 322	83 730	154 202	271 254	271 254
Government of Malawi						
promissory note	-	-	12 126	-	12 126	12 126
Equity investments	-	5 357	-	-	5 357	5 357
Placements with other banks	31 367	-	-	-	31 367	31 367
Loans and advances	12 580	12 353	43 287	142 100	210 320	210 320
Other money markets deposits	49 583	-	-	-	49 583	49 583
Other assets	700	-	-	-	700	700
<b>Total financial assets</b>	<b>120 284</b>	<b>51 032</b>	<b>139 143</b>	<b>296 302</b>	<b>606 761</b>	<b>606 761</b>
<b>Financial liabilities</b>						
Loans	-	-	4 066	6 530	10 596	10 596
Customer deposits	384 252	67 354	4 806	-	456 412	456 412
Amounts due to other banks	49 510	-	-	-	49 510	49 510
Provisions	-	-	5 848	-	5 848	5 848
Other liabilities	988	-	-	-	988	988
Lease liability	-	-	834	1 769	2 603	2 603
<b>Total financial liabilities</b>	<b>434 750</b>	<b>67 354</b>	<b>15 554</b>	<b>8 299</b>	<b>525 957</b>	<b>525 957</b>
<b>Contractual liquidity mismatch</b>	<b>(314 466)</b>	<b>(16 322)</b>	<b>123 589</b>	<b>288 003</b>	<b>80 804</b>	<b>80 804</b>
<b>Cumulative mismatch</b>	<b>(314 466)</b>	<b>(330 788)</b>	<b>(207 199)</b>	<b>80 804</b>	<b>-</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

## COMPANY

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

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

## 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

GROUP	Less than	1 - 3	3 - 12	Over	Non	Total
	1 month	months	months	1 year	interest sensitive	
	K'm	K'm	K'm	K'm	K'm	K'm
<b>2021</b>						
<b>Financial assets</b>						
Cash and funds with Central Banks	-	-	-	-	35 768	35 768
Government securities Government of Malawi	-	60 984	83 730	154 202	-	298 916
Promissory note	-	-	-	-	12 126	12 126
Equity investments	-	-	-	-	5 357	5 357
Placements with other banks	31 367	-	-	-	-	31 367
Loans and advances	14 460	13 787	54 581	158 056	-	240 884
Other money market deposits	95 681	-	-	-	-	95 681
Other assets	-	-	-	-	5 343	5 343
<b>Total financial assets</b>	<b>141 508</b>	<b>74 771</b>	<b>138 311</b>	<b>312 258</b>	<b>58 594</b>	<b>725 442</b>
<b>Financial liabilities</b>						
Loans	-	-	4 066	6 530	-	10 596
Customer deposits	267 332	71 907	11 072	286	207 448	558 045
Amounts due to other banks	51 677	-	-	-	-	51 677
Provisions	-	-	-	-	6 046	6 046
Other liabilities	-	-	-	-	2 869	2 869
Lease liability	-	-	2 395	5 505	-	7 900
<b>Total financial liabilities</b>	<b>319 009</b>	<b>71 907</b>	<b>17 533</b>	<b>12 321</b>	<b>216 363</b>	<b>637 133</b>
<b>Interest sensitivity gap</b>	<b>(177 501)</b>	<b>2 864</b>	<b>120 778</b>	<b>299 937</b>	<b>(157 769)</b>	<b>88 309</b>
<b>Cumulative gap</b>	<b>(177 501)</b>	<b>(174 637)</b>	<b>(53 859)</b>	<b>246 078</b>	<b>88 309</b>	<b>-</b>
<b>2021</b>						
<i>Impact on profit of an increase in interest rates:</i>						
+1%	(1 777)	(29)	1 208	2 999	-	2 401
+2%	(3 554)	(58)	2 416	5 998	-	4 802
+3%	(5 331)	(87)	3 624	8 997	-	7 203
<i>Impact on profit of a decrease in interest rates:</i>						
-1%	1 777	29	(1 208)	(2 999)	-	(2 401)
-2%	3 554	58	(2 416)	(5 998)	-	(4 802)
-3%	5 331	87	(3 624)	(8 997)	-	(7 203)

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

COMPANY	Less than	1 - 3	3 - 12	Over	Non	Total
	1 month	months	months	1 year	interest sensitive	
	K'm	K'm	K'm	K'm	K'm	K'm
<b>2021</b>						
<b>Financial assets</b>						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	26 054	26 054
Government of Malawi treasury bills and treasury notes	-	33 322	83 730	154 202	-	271 254
Government of Malawi Promissory note	-	-	-	-	12 126	12 126
Equity investments	-	-	-	-	5 357	5 357
Placements with other banks	31 367	-	-	-	-	31 367
Loans and advances	12 580	12 353	43 287	142 100	-	210 320
Other money market deposits	49 583	-	-	-	-	49 583
Other assets	-	-	-	-	700	700
<b>Total financial assets</b>	<b>93 530</b>	<b>45 675</b>	<b>127 017</b>	<b>296 302</b>	<b>44 237</b>	<b>606 761</b>
<b>Financial liabilities</b>						
Loans	-	-	4 066	6 530	-	10 596
Customer deposits	189 929	67 354	4 806	-	194 323	456 412
Amounts due to other banks	49 510	-	-	-	-	49 510
Provisions	-	-	-	-	5 848	5 848
Other liabilities	-	-	-	-	988	988
Lease liability	-	-	834	1 769	-	2 603
<b>Total financial liabilities</b>	<b>239 439</b>	<b>67 354</b>	<b>9 706</b>	<b>8 299</b>	<b>201 159</b>	<b>525 957</b>
<b>Interest sensitivity gap</b>	<b>(145 909)</b>	<b>(21 679)</b>	<b>117 311</b>	<b>288 003</b>	<b>(156 922)</b>	<b>80 804</b>
<b>Cumulative gap</b>	<b>(145 909)</b>	<b>(167 588)</b>	<b>(50 277)</b>	<b>237 726</b>	<b>80 804</b>	<b>-</b>
<b>2020</b>						
<i>Impact on profit of an increase in interest rates:</i>						
+1%	(1 459)	(217)	1 173	2 880	-	2 377
+2%	(2 918)	(434)	2 346	5 760	-	4 754
+3%	(4 377)	(651)	3 519	8 640	-	7 131
<i>Impact on profit of a decrease in interest rates:</i>						
+1%	1 459	217	(1 173)	(2 880)	-	(2 377)
+2%	2 918	434	(2 346)	(5 760)	-	(4 754)
+3%	4 377	651	(3 519)	(8 640)	-	(7 131)

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

COMPANY	Less than	1 - 3	3 - 12	Over	Non	Total
	1 month	months	months	1 year	interest sensitive	
	K'm	K'm	K'm	K'm	K'm	K'm
<b>2020</b>						
<b>Financial assets</b>						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	26 267	26 267
Restricted cash	5 585	-	-	-	-	5 585
Government of Malawi treasury bills and treasury notes	-	19 886	61 850	90 538	-	172 274
Government of Malawi Promissory note	-	-	-	-	5 196	5 196
Equity investments	-	-	-	-	4 744	4 744
Placements with other banks	44 231	-	-	-	-	44 231
Loans and advances	13 504	11 313	43 595	130 749	-	199 161
Other money market deposits	7 099	-	-	-	-	7 099
Other assets	-	-	-	-	1 167	1 167
<b>Total financial assets</b>	<b>70 419</b>	<b>31 199</b>	<b>105 445</b>	<b>221 287</b>	<b>37 374</b>	<b>465 724</b>
<b>Financial liabilities</b>						
Loans	-	-	3 908	9 805	-	13 713
Customer deposits	173 303	37 575	2 926	-	153 917	367 721
Amounts due to other banks	12 557	-	-	-	-	12 557
Provisions	-	-	-	-	3 652	3 652
Other liabilities	-	-	-	-	1 053	1 053
Lease liability	-	-	893	2 265	-	3 158
<b>Total financial liabilities</b>	<b>185 860</b>	<b>37 575</b>	<b>7 727</b>	<b>12 070</b>	<b>158 622</b>	<b>401 854</b>
<b>Interest sensitivity gap</b>	<b>(115 441)</b>	<b>(6 376)</b>	<b>97 718</b>	<b>209 217</b>	<b>(121 248)</b>	<b>63 870</b>
<b>Cumulative gap</b>	<b>(115 441)</b>	<b>(121 817)</b>	<b>(24 099)</b>	<b>185 118</b>	<b>63 870</b>	<b>-</b>
<b>2020</b>						
<i>Impact on profit of an increase in interest rates:</i>						
+1%	(1 154)	(64)	977	2 092	-	1 851
+2%	(2 308)	(128)	1 954	4 184	-	3 702
+3%	(3 462)	(192)	2 931	6 276	-	5 553
<i>Impact on profit of a decrease in interest rates:</i>						
-1%	1 154	64	(977)	(2 094)	-	(1 851)
-2%	2 308	128	(1 954)	(4 184)	-	(3 702)
-3%	3 462	192	(2 931)	(6 276)	-	(5 553)

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

## f) Currency risk

The Group had the following significant foreign currency positions:

## GROUP

	MK	USD	GBP	EURO	ZAR	OTHER	TOTAL
	K'm	K'm	K'm	K'm	K'm	K'm	K'm
<b>2021</b>							
<b>Financial assets</b>							
Cash and funds with Central Banks	18 786	1 614	14	91	52	15 211	35 768
Government securities Government of Malawi	293 406	-	-	-	-	5 510	298 916
Promissory note	12 126	-	-	-	-	-	12 126
Equity investments	5 357	-	-	-	-	-	5 357
Placements with other banks	-	15 930	4 714	9 829	885	9	31 367
Loans and advances	159 782	52 803	-	-	-	28 299	240 884
Other money market deposits	95 681	-	-	-	-	-	95 681
Other assets	1 844	-	-	-	-	3 499	5 343
<b>Total financial assets</b>	<b>586 982</b>	<b>70 347</b>	<b>4 728</b>	<b>9 920</b>	<b>937</b>	<b>52 528</b>	<b>725 442</b>
<b>Financial liabilities</b>							
Loans	209	10 387	-	-	-	-	10 596
Customer deposits	416 212	83 433	4 519	9 724	524	43 833	558 245
Liabilities to other banks	49 270	161	-	-	79	2 167	51 677
Provisions	6 046	-	-	-	-	-	6 046
Other liabilities	1 504	-	-	-	-	1 365	2 869
Lease liability	2 603	-	-	-	-	5 297	7 900
<b>Total financial liabilities</b>	<b>475 844</b>	<b>93 981</b>	<b>4 519</b>	<b>9 724</b>	<b>603</b>	<b>52 662</b>	<b>637 333</b>
<b>Net balance open position</b>	<b>111 138</b>	<b>(23 634)</b>	<b>209</b>	<b>196</b>	<b>334</b>	<b>(134)</b>	<b>88 109</b>

Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit

- 2 363 (21) (20) (33) 13 2 302

Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit

- (2 363) 21 20 33 (13) (2 302)

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

## f) Currency risk (Continued)

## GROUP

	MK	USD	GBP	EURO	ZAR	OTHER	TOTAL
	K'm	K'm	K'm	K'm	K'm	K'm	K'm
<b>2020</b>							
<b>Financial assets</b>							
Cash and funds with Reserve Bank of Malawi	25 824	285	19	23	116	-	26 267
Restricted cash	-	5 585	-	-	-	-	5 585
Government of Malawi Treasury bills and treasury notes	172 274	-	-	-	-	-	172 274
Government of Malawi Promissory note	5 196	-	-	-	-	-	5 196
Equity investments	4 744	-	-	-	-	-	4 744
Placements with other banks	-	32 192	3 530	8 023	470	16	44 231
Loans and advances	144 109	55 052	-	-	-	-	199 161
Other money market deposits	7 099	-	-	-	-	-	7 099
Other assets	1 167	-	-	-	-	-	1 167
<b>Total financial assets</b>	<b>360 413</b>	<b>93 114</b>	<b>3 549</b>	<b>8 046</b>	<b>586</b>	<b>16</b>	<b>465 724</b>
<b>Financial liabilities</b>							
Loans	209	13 504	-	-	-	-	13 713
Customer deposits	286 112	69 953	3 318	8 100	238	-	367 721
Liabilities to other banks	12 277	74	-	-	206	-	12 557
Provisions	3 652	-	-	-	-	-	3 652
Other liabilities	1 053	-	-	-	-	-	1 053
Lease liability	3 158	-	-	-	-	-	3 158
<b>Total financial liabilities</b>	<b>306 461</b>	<b>83 531</b>	<b>3 318</b>	<b>8 100</b>	<b>444</b>	<b>-</b>	<b>401 854</b>
<b>Net balance open position</b>	<b>53 952</b>	<b>9 583</b>	<b>231</b>	<b>(54)</b>	<b>142</b>	<b>16</b>	<b>63 870</b>

Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit

- (958) (23) 5 (14) (2) (992)

Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit

- 958 23 (5) 14 2 992

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

## f) Currency risk (Continued)

## COMPANY

	MK	USD	GBP	EURO	ZAR	OTHER	TOTAL
	K'm	K'm	K'm	K'm	K'm	K'm	K'm
<b>2021</b>							
<b>Financial assets</b>							
Cash and funds with Reserve Bank of Malawi	25 583	383	11	25	52	-	26 054
Government of Malawi Treasury bills and treasury notes	271 254	-	-	-	-	-	271 254
Government of Malawi Promissory note	12 126	-	-	-	-	-	12 126
Equity investments	5 357	-	-	-	-	-	5 357
Placements with other banks	-	15 930	4 714	9 829	885	9	31 367
Loans and advances	157 517	52 803	-	-	-	-	210 320
Other money market deposits	49 583	-	-	-	-	-	49 583
Other assets	700	-	-	-	-	-	700
<b>Total financial assets</b>	<b>522 120</b>	<b>69 116</b>	<b>4 725</b>	<b>9 854</b>	<b>937</b>	<b>9</b>	<b>606 761</b>
<b>Financial liabilities</b>							
Loans	209	10 387	-	-	-	-	10 596
Customer deposits	359 476	82 182	4 518	9 712	524	-	456 412
Liabilities to other banks	49 270	161	-	-	79	-	49 510
Provisions	5 848	-	-	-	-	-	5 848
Other liabilities	988	-	-	-	-	-	988
Lease liability	2 603	-	-	-	-	-	2 603
<b>Total financial liabilities</b>	<b>418 394</b>	<b>92 730</b>	<b>4 518</b>	<b>9 712</b>	<b>603</b>	<b>-</b>	<b>525 957</b>
<b>Net balance open position</b>	<b>103 726</b>	<b>(23 614)</b>	<b>207</b>	<b>142</b>	<b>334</b>	<b>9</b>	<b>80 804</b>

Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit

- 2 361 (21) (14) (33) (1) 2 292

Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit

- (2 361) 21 14 33 1 (2 292)

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

## f) Currency risk (Continued)

## COMPANY

	MK	USD	GBP	EURO	ZAR	OTHER	TOTAL
	K'm	K'm	K'm	K'm	K'm	K'm	K'm
<b>2020</b>							
<b>Financial assets</b>							
Cash and funds with Reserve Bank of Malawi	25 824	285	19	23	116	-	26 267
Restricted cash	-	5 585	-	-	-	-	5 585
Government of Malawi Treasury bills and treasury notes	172 274	-	-	-	-	-	172 274
Government of Malawi Promissory note	5 196	-	-	-	-	-	5 196
Equity investments	4 744	-	-	-	-	-	4 744
Placements with other banks	-	32 192	3 530	8 023	470	16	44 231
Loans and advances	144 109	55 052	-	-	-	-	199 161
Other money market deposits	7 099	-	-	-	-	-	7 099
Other assets	1 167	-	-	-	-	-	1 167
<b>Total financial assets</b>	<b>360 413</b>	<b>93 114</b>	<b>3 549</b>	<b>8 046</b>	<b>586</b>	<b>16</b>	<b>465 724</b>
<b>Financial liabilities</b>							
Loans	209	13 504	-	-	-	-	13 713
Customer deposits	286 112	69 953	3 318	8 100	238	-	367 721
Liabilities to other banks	12 277	74	-	-	206	-	12 557
Provisions	3 652	-	-	-	-	-	3 652
Other liabilities	1 053	-	-	-	-	-	1 053
Lease liability	3 158	-	-	-	-	-	3 158
<b>Total financial liabilities</b>	<b>306 461</b>	<b>83 531</b>	<b>3 318</b>	<b>8 100</b>	<b>444</b>	<b>-</b>	<b>401 854</b>
<b>Net balance open position</b>	<b>53 952</b>	<b>9 583</b>	<b>231</b>	<b>(54)</b>	<b>142</b>	<b>16</b>	<b>63 870</b>

Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit

- (958) (23) 5 (14) (2) (992)

Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit

- 958 23 (5) 14 2 992

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2021

**43. FINANCIAL RISK MANAGEMENT (CONTINUED)****g) Operational risk**

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

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

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

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

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

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

**h) Compliance risk**

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

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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2021

**43. FINANCIAL RISK MANAGEMENT (CONTINUED)****h) Compliance risk (Continued)**

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

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

**Statutory requirements-National Bank of Malawi**

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

Liquidity reserve requirement

The Liquidity Reserve Requirement in the year were as follows:

- a. 5.0 percent on local currency deposits; and
- b. 3.75 percent on foreign currency deposits.

The Bank complied with the requirement throughout the reporting period.

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

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

At the end of the year, the National Bank's available capital was 27% (2020: 25%) of its risk bearing assets and contingent liabilities.

Prudential aspects of bank liquidity

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

- a. All encumbered liquid assets of a bank shall not be included in the computation of liquidity ratio.
- b. All deposits held for Liquidity Reserve Requirement purposes shall not be included in the computation of liquidity ratio.
- c. The minimum prudential liquidity ratio is 25%.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

### 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Liquidity ratios

At the end of the year, National Bank's liquidity ratio was 48% (2020: 41%)

#### i) Capital management

##### Regulatory capital-National Bank of Malawi

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

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

- A core (tier 1) capital of not less than 11.5% of total risk-weighted on statement of financial position assets plus risk-weighted off-statement of financial position items; and
- A total capital (tier 2) of not less than 15% of its total risk-weighted on statement of financial position assets plus risk-weighted off-statement of financial position items.

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

- Core capital (Tier 1) consists of ordinary share capital, share premium, retained profits, 60% of after-tax profits in the current year (or less 100% of current year loss), less any unconsolidated investment in financial companies.
- Total capital (Tier 2), consists of revaluation reserves and general provisions, when such general provisions have received prior approval of the Reserve Bank of Malawi plus tier 1 capital. Supplementary capital must not exceed core capital i.e. shall be limited to 100% of total core capital.

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

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

### 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	2021	2020
	K'm	K'm
<b>Tier 1 capital</b>		
Ordinary share capital	467	467
Share premium	613	613
Retained earnings	107 909	87 923
Unconsolidated investment	(6 560)	(3 767)
<b>Total regulatory (tier 1) capital</b>	<b>102 429</b>	<b>85 236</b>
<b>Supplementary capital</b>		
Revaluation reserve	31 387	26 461
Deferred tax	(8 648)	(8 617)
Unconsolidated investment	(6 560)	(3 767)
<b>Total regulatory (tier 2) capital</b>	<b>118 608</b>	<b>99 313</b>
<b>Risk-weighted assets</b>		
Retail bank, corporate bank and treasury	435 793	392 417
<b>Capital ratios</b>		
Total regulatory capital expressed as a percentage of total risk-weighted assets	27%	25%
Total tier 1 capital expressed as a percentage of risk-weighted assets	23%	22%

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

#### Akiba Commercial Bank Capital management

The Bank's objectives when managing capital, which is a broader concept than the "equity" on the face of 8 statement of financial positions, are:

- To comply with the capital requirements set by are Bank of Tanzania (BoT).
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee as implemented by the Bank of Tanzania (BoT) for supervisory purposes. The required information is filed with the BoT monthly.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Bank of Tanzania required each bank of banking group to:

- Hold a minimum level of core capital of TZS15 billion
- Maintain of ratio of core capital to the risk-weighted assets plus risk-weighted off-balance sheet assets or above the required minimum of 12.5%; and
- Maintain total capital of not less than 14.5% of risk-weighted assets plus risk-weighted off-balance sheet items
- Maintain a capital conversation buffer of 2.5% of risk-weighted assets and off-balance sheet exposures. The capital conversation buffer is be made up of items the qualify as tier 1 capital

When a bank is holding capital conversation buffer of less than 2.4% of risk-weighted assets and off-balance sheet but is meeting minimum capital requirements the bank:

- Shall not distribute dividends to shareholders or bonuses to senior management and other staff members until the buffer is restored to at least 2.5%
- Shall submit a capital restoration plan to the Bank of Tanzania within a specified period by BoT including how the Bank is going to raise capital to meet its minimum requirement including capital conservation buffer with a specified period; and
- If BoT does not approve the capital restoration plan, it may direct the bank to raise additional capital within a specified time to restore its capital conservation buffer.

The Bank's regulatory capital is divided into two tiers:

Tier 1 capital: means permanent shareholders' equity in the form of issued and fully paid ordinary shares, and perpetual non-cumulative preference shares, capital grants and disclosed reserves less year to date losses, goodwill organization, pre-operating expenses, prepaid expenses, deferred charges, leasehold rights and any other intangible assets.

Tier 2 capital: means general provisions which are held against future, presently unidentified losses and are truly available to meet losses which subsequently materialize, subordinated debts, commutative redeemable preferred stocks and any other form of capital as may be determined and announced from time to time by the Bank.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral guarantees.

A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarizes the composition of regulatory capital and the ratios of the Bank for the year ended 31 December 2021 and year ended 31 December 2020. During these two periods, the Bank has not complied with all the externally imposed capital requirements to which they are subject.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

	2021	2020
Tier 1 capital	TZS' m	TZS' m
Share capital	27 797	10 984
Share premium	2 432	2 432
Retained earnings	(12 101)	(5 627)
Deferred charges	(7 067)	(7 067)
Prepaid expenses	(953)	(640)
Others (Advance Towards Capital)	5 888	16 992
Total qualifying Tier 1 capital	15 996	17 074
Tier 2 capital		
Allowance supplementary capital	2 370	2 289
Total qualifying Tier 2 capital	18 366	19 363
Total regulatory capital (Tier 1 & Tier 2)	18 366	19 363
Risk-weighted assets		
On-balance sheet	105 108	101 719
Off-balance sheet	56	72
Operational Risk	13 005	16 697
Market Risk	342	79
Total risk-weighted assets, operational and market risk	118 511	118 567
	<b>Bank's ratio</b>	
	2021	2020
	%	%
Tier 1 capital (BOT minimum 12.5%)	13.50%	14.40%
Tier 1 + Tier 2 capital (BOT minimum 14.5%)	15.50%	16.33%

## j) Basel II implementation

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

The Group was fully compliant to Basel II as at 1 January 2014. All banks are on the basic approaches for the initial reporting on capital adequacy requirements and will be accepted to graduate into other advanced measurement approaches after a satisfactory assessment of their risk management processes by Reserve Bank of Malawi. Therefore, the Group is computing the individual risks under each category using the following approaches:

- Operational Risk – Basic Indicator Approach (BIA);
- Credit Risk – Standardized Approach (SA); and
- Market Risk – Standardized Approach (SA).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

j) **Basel II implementation** (Continued)

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

Going forward, the Group continues to assess the Basel II approaches and their impact on its capital position to arrive at an appropriately calibrated total level of risk-weighted assets, qualifying capital and leverage ratio, and factor them into its strategic business plans. In the year under review, the Group capital ratios were all above the prescribed minimum requirements under Basel II for the Reserve Bank of Malawi of 11.5% and 15% for tier I and tier II ratios, respectively. Further, the ratios are above the 2020 set risk appetite for the Group for capital ratios of the range of 11.5% to 15% for tier I and 15% to 20 % for tier II.

k) **Environmental and social risk**

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

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

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

l) **Reputational risk policy**

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

l) **Reputational risk policy** (Continued)

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

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

## 44. RELATED PARTY TRANSACTIONS

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

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

The Group is controlled by Press Corporation plc (incorporated in Malawi), which owns 51.5% (2020: 51.5%) of the Ordinary Shares. The Old Mutual Group owns 22.4% (2020: 24.6%) of the Ordinary Shares and the remaining 26.1% (2020: 23.9%) 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% (2020: 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.

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

GROUP AND COMPANY		Net	Net
Loans	Deposits	2021	2020
K'm	K'm	K'm	K'm
Press Corporation plc and its subsidiaries	3 050	(11 162)	2 618
Old Mutual Group	-	(4 926)	1 914
Castel Malawi Limited	-	-	(1 131)
Limbe Leaf Tobacco Company Limited	-	(327)	(371)
Puma Malawi Limited	-	(306)	(445)
Macsteel Limited	89	(32)	(64)
Press Trust	-	(15)	(66)
Directors	429	(125)	304
Employees	6 560	(655)	5 234
Lifco Life Limited	-	(13)	-
Open Connect Limited	4 416	(784)	(1 224)
United General Insurance Limited	-	(1 207)	-
National Bank of Malawi Pension Fund	-	(29)	(86)
<b>Total related party balance</b>	<b>14 544</b>	<b>(5 037)</b>	<b>6 683</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 44. RELATED PARTY TRANSACTIONS (CONTINUED)

During the year, Press Corporation plc fully divested from Bottling and Brewing Group Limited (Castel Limited). Limbe Leaf Tobacco Company Limited, Macsteel Limited and Puma Malawi 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 (2020: nil).

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

The following transactions were conducted with related parties:

## GROUP AND COMPANY

	2021	2020
	K'm	K'm
<b>Interest receivable</b>		
Press Corporation plc and its subsidiaries	579	800
Directors	6	4
Puma Malawi Limited	-	2
Open Connect Limited	30	25
Mpico Limited	5	25
Macsteel Limited	3	1
Employees	1 125	1 107
Average interest rate (%)	20	21
<b>Operating lease income</b>		
Press Corporation plc and its subsidiaries	110	203
Open Connect Limited	-	25
Bottling and Brewing Group Limited	-	42
<b>Interest payable</b>		
Press Corporation plc and its subsidiaries	-	104
Old Mutual Group	-	6
Puma Malawi Limited	-	9
Employees	780	765
<b>Purchases</b>		
Press Corporation plc and its subsidiaries	1 298	888
Puma Malawi Limited	168	146
<b>Commission income</b>		
Press Corporation plc and its subsidiaries	299	315
<b>Trade payables</b>		
Press Corporation plc and its subsidiaries	523	425

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 44. RELATED PARTY TRANSACTIONS (CONTINUED)

	GROUP		COMPANY	
	2021	2020	2021	2020
	K'm	K'm	K'm	K'm
<b>Compensation of key management personnel</b>				
Salaries, bonuses and benefits	4 582	3 674	3 750	3 499

No specific share options were offered to key management personnel during the year (2020: nil). No shares were exercised by key management during the year (2020: nil).

## 45. BUSINESS SEGMENTS

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

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

- 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;
- Treasury – incorporating financial instruments trading, dealings in foreign currency, stock broking and derivative products; and
- Other operations comprising fund management, custodial services and providing training services, none of which constitutes a separately reportable segment.

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 45. BUSINESS SEGMENTS (CONTINUED)

	Corporate banking	Retail banking	Treasury	Other	Total
	K'm	K'm	K'm	K'm	K'm
<b>Group</b>					
<b>Statement of comprehensive income</b>					
<b>2021</b>					
Total external income	56 086	20 784	45 501	2 836	125 207
Segment result	44 885	18 472	45 501	2 836	111 694
Unallocated expenses	-	-	-	-	(61 106)
Profit before tax	-	-	-	-	50 588
Corporate tax	-	-	-	-	(16 378)
Group profit for the year	-	-	-	-	34 210
<b>Other information</b>					
<b>Depreciation</b>					
Unallocated depreciation	-	-	-	-	4 255
<b>Revaluation surplus on property</b>					
Unallocated fair value gain	-	-	-	-	105
<b>Statement of financial position</b>					
<b>2021</b>					
Total consolidated segment assets	148 817	105 068	450 668	98 357	802 910
<b>Liabilities and equity</b>					
Total consolidated segment liabilities and equity	266 596	109 545	140 377	141 223	656 741
<b>Other information</b>					
Unallocated capital additions	-	-	-	-	146 169
Total	-	-	-	-	802 910

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

## 45. BUSINESS SEGMENTS (CONTINUED)

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2021

**46. EXCHANGE RATES AND INFLATION**

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

	2021	2020
Kwacha/GBP	1 199	1 088
Kwacha/Rand	59	56
Kwacha/US Dollar	817	771
Kwacha/Euro	1 012	987
Inflation (%)	9.3	7.9

As at 31 March 2022, the above rates had moved as follows:

Kwacha/GBP	1 216
Kwacha/Rand	68
Kwacha/US Dollar	825
Kwacha/Euro	1 028
Inflation rate (%) (February 2022)	13.0

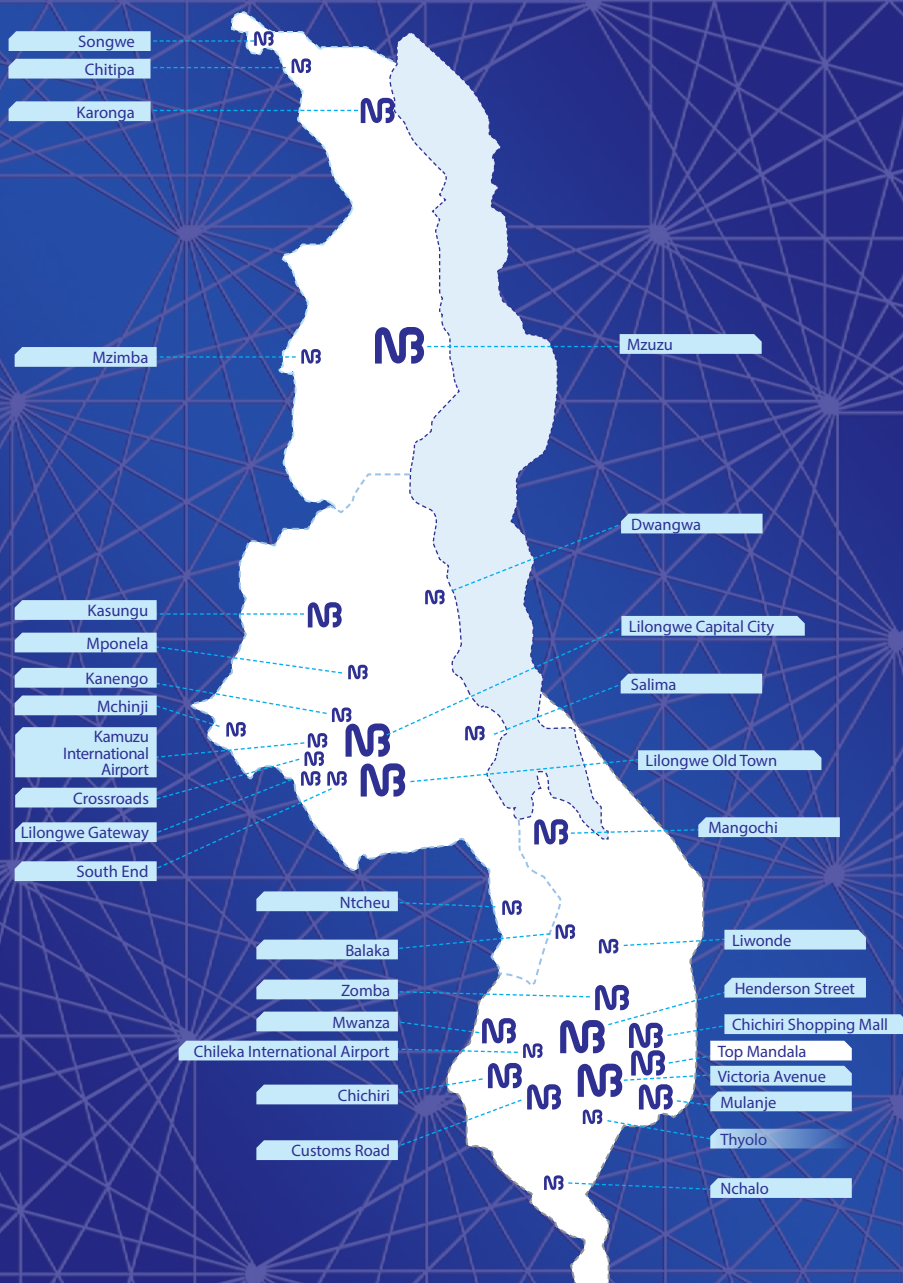
**CORRESPONDENT BANKS**

The Bank also has a network of correspondent banking relationships across the world. Some of these include:

- Bank of China, Johannesburg
- Deutsche Bank AG, Frankfurt
- Deutsche Bank AG, London
- Deutsche Bank Trust
- Citi Bank, New York
- Commerz Bank Frankfurt
- Firststrand Bank Limited
- Standard Bank of South Africa Limited
- ABSA Bank Limited
- SIRESS



## MAP OF MALAWI - NATIONAL BANK OF MALAWI PLC SERVICE CENTRES



## HEAD OFFICE AND MAJOR SERVICE CENTRES

### NBM PLC HEAD OFFICE

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