

ANNUAL
REPORT
2022



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greatness**

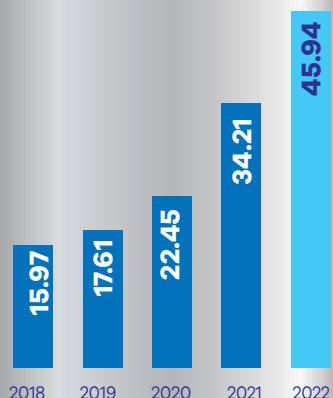
CONTENTS

Key Financial Highlights	04
Our Mission, Vision and Values	07
Current Directors	08
Directors' Report	10
Chairman's Report	16
Senior Management	20
Chief Executive Officer's Statement	22
Corporate Social Investment Activities	36
Staff Activities	41
Selected Key Clients	45
Economic Report 2022 and Outlook for 2023	55
Corporate Governance Statement	57
Statement of Directors' Responsibilities	65
Independent Auditor's Report	66
Statements of Financial Position	71
Statements of Comprehensive Income	72
Statements of Changes in Equity	74
Statements of Cash flows	76
Notes to the Financial Statements	78
Correspondent Banks	194
Map of Malawi - National Bank of Malawi plc Service Centres	195
National Bank of Malawi plc Head Office and Major Service Centres	196

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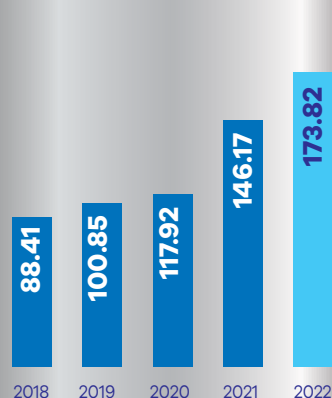
FINANCIAL HIGHLIGHTS

PROFIT AFTER TAX (K'b)



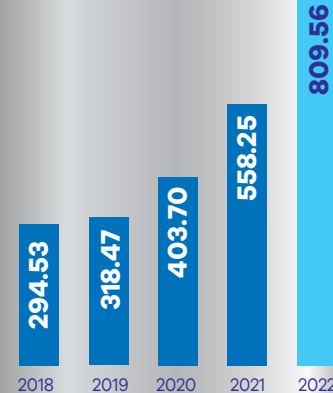
K45.94b
Profit After Tax
↑ 34%

SHAREHOLDER FUNDS (K'b)



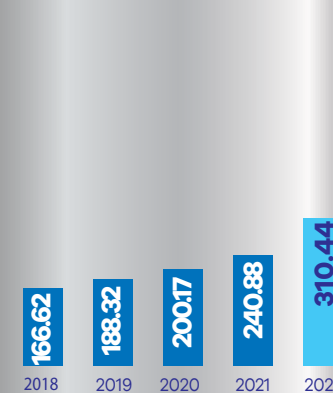
K173.82b
Shareholder Funds
↑ 19%

DEPOSITS (K'b)



K809.56b
Customer Deposits
↑ 45%

LOANS AND ADVANCES (K'b)



K310.44b
Loans & Advances to Customers
↑ 29%

PROFITABILITY HIGHLIGHTS (K'b)

	2022	2021	2022 vs 2021
Net Revenue	144.11	114.19	26%
Profit After Tax	45.94	34.21	34%



BALANCE SHEET (K'b)

	2022	2021	2022 vs 2021
Total Assets	1,073.35	802.91	34%
Total Deposits	809.56	558.25	45%
Total Loans and Advances	310.44	240.88	29%
Total Equity	173.82	146.17	19%



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OUR MISSION

To provide outstanding and inclusive financial solutions that deliver sustained stakeholder value.

OUR VISION

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

OUR VALUES

Customer Centred

We always strive to meet our customers' expectations and put the customer first.

Commitment

The Bank is committed to excellence in its performance and all employees will have a clear understanding of NBM plc's strategic focus.

Teamwork

We will build and maintain a culture of mutual respect, collaboration and recognition. We will promote feedback, effective communication and group work.

Fairness and Equity

We always strive to provide fair opportunities for all employees based on their needs and abilities.

Integrity and Trust

As employees of NBM plc, we will fully comply with and share the Bank's commitment to high moral, ethical and legal standards.

Socially Responsible

As a good corporate citizen, NBM plc will actively invest in deserving charitable and social activities within Local Communities. We will seek to increase transparency, investment in green technologies as well as diversity and inclusion initiatives.

CURRENT DIRECTORS



Jimmy Lipunga (59)
FCCA, CA,
Cert. PPP Specialist
Chairman



Macfussy M Kawawa (58)
MBA, B.ACC. (Hons),
FCCA, CPA
Director



Macleod Nkhoma (60)
MBA, FCIS,
PGDIPL
Director



Dorothy Ngwira (Mrs) (57)
FCCA, CA
Director



Crispin Mzengereza (64)
M.Com, B.Com
(Hons.), B.A. (Pub.
Admin), PGD in
Bus. Admin.
Director



Harold Jiya (52)
B.Com, ACIB, MBA
Director

CURRENT DIRECTORS (CONTINUED)



Jim Nsomba (61)
B.Com (Accountancy)
Director



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



Dr. Bernadette Malunga (41)
PhD Law, MA
(Women Law),
LLB (Hons)
Director



Moureen Mbeye (Ms) (41)
MBA, FCCA,
CPA, B.Acc.
Director



Dr. Lyton Chithambo (43)
PhD Finance, MSc
Finance & Risk,
FCCA, BAC, FHEA
Director



Bessy Nyirenda (Mrs) (60)
BSc (Econ, Stat, Comp
Sci), Dip. (Bus. Sys.
Analysis & Design),
MSc (Comp), MBA (Intl.
Global Econ)
Director



Raymond Banda (55)
MBA in Intl. Bus.,
Dip. in Bus. Admin.,
BSc (Comp Sci,
Math, Physics)
Director



Zunzo E Mitole (Mrs) (49)
LLB (Hons), MBA
Company Secretary
& Legal Counsel

DIRECTORS' REPORT

For the year ended 31 December 2022

The directors report a consolidated profit before tax of
K69 363m

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 2022.

CAPITAL

The authorised share capital of the Bank is K500m (2022: K500m) divided into 500,000,000 Ordinary Shares of K1 each. The issued capital is K467m (2021: K467m) divided into 466,931,738 (2021: 466,931,738) fully paid Ordinary Shares of K1 each.

The shareholders and their respective shareholdings are:

	2022 %	2021 %
Press Corporation plc	51.5	51.5
Old Mutual Group	22.0	22.4
Members of the public	26.5	26.1
	100.0	100.0

PROFIT AND DIVIDENDS

The directors report a consolidated profit before tax of K69 363m (2021: K50 588m) for the year. A final dividend of K15 000m (2021: K11 000m) is proposed for the year. A first interim dividend of K8 003m (2021: K5 001m) was paid to shareholders in September 2022. A second interim dividend of K10 000m (2021: K7 000m) will be paid on 6 April 2023.

DIRECTORS

The following directors, appointed in terms of

Article 52 of the Articles of Association, served in office during the year:

Name	Tenure
Lipunga, J	Chairman - From 01 April 2022
Partridge, Dr. G B	Chairman - Up to 31 March 2022
Mhura, J	All year
Nsomba, J	All year
Banda, R	All year
Mafeni, E (Mrs)	Up to 31 March 2022
Ndau, B	Up to 31 March 2022
Kachingwe, M (Mrs)	Up to 31 March 2022
Chithambo, L (Dr)	From 01 April 2022
Mbeye, M (Ms)	From 01 April 2022
Malunga, B (Dr)	From 01 April 2022
Ngwira, D (Mrs)	All year
Nyirenda, B (Mrs)	All year
Mzengereza, C	All year
Nkhoma, M	All year
Kawawa, M	All year
Jiya, H	All year

DIRECTORS' INTERESTS

The following directors held shares in the Bank as at 31 December 2022:

Kawawa, M M	- 113 255 (2021: 113 255) Ordinary Shares
Nsomba, J	- 758 (2021: 758) Ordinary shares
Jiya, H	- 48 813 (2021: 17 306) Ordinary Shares

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

DIRECTORS' REPORT (CONTINUED)

For the year ended 31 December 2022

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 2022			
National Bank of Malawi plc	330	745	1 075
NBM Capital Markets Limited	23	147	170
NBM Securities Limited	-	-	-
National Bank of Malawi Nominees Limited	-	-	-
Stockbrokers Malawi Limited	6	-	6
NBM Bureau de Change Limited	-	-	-
NBM Pension Administration Limited	20	-	20
NBM Development Bank Limited	54	-	54
Akiba Commercial Bank plc	78	-	78
Total	511	892	1 403
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
Total	401	832	1 233

CORPORATE GOVERNANCE

In accordance with the Articles of Association, each shareholder with 10% or more shareholding may appoint one Director for each 10% held. 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

DIRECTORS' REPORT (CONTINUED)

For the year ended 31 December 2022

CORPORATE GOVERNANCE (Continued)

no predetermined compensation on termination of the appointment of Non-executive Directors.

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

OVERVIEW OF SUBSIDIARIES

Subsidiaries corporate governance

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

Subsidiaries board of directors

During the year ended 31 December 2022, none of the directors for the subsidiary companies had interest in any material contract relating to the businesses of the subsidiaries.

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

Subsidiary	Directors	Tenure	Directors interest in shares of the subsidiary
NBM Capital Markets Limited	Mr M Kawawa	All year- Chairman	None
	Mr. H Mukaka	All year	None
	Mr. B Jere	All year	None
	Mr. M Katsala	All year	None
	Mrs. H Singo	From September 2022	None
	Mr. J Lipunga	Up to March 2022	None
	Mrs. M Mulele	All year - Company secretary	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

DIRECTORS' REPORT (CONTINUED)

For the year ended 31 December 2022

Subsidiary	Directors	Tenure	Directors interest in shares of the subsidiary
NBM Pension Administration Limited	Mr. O Kasunda	All year - Chairman	None
	Mr. H Jiya	All year	None
	Mr. B Boby	All year	None
	Mr. G Munthali	All year	None
	Mr. B Sitima	All year	None
	Mrs. S Mkandawire	All year	None
	Mrs. C Chithila	All year	None
	Mrs. Z Mitole	All year - Company Secretary	None
NBM Development Bank	Mr. M Kawawa	All year - Chairman	None
	Mr. H Jiya	All year	None
	Mr. M Katsala	All year	None
	Mr. A Sukasuka	All year	None
	Mr. F Muula	All year	None
	Mr. K Aroni	All year	None
	Mrs. C Khofi	From 03 November 2022	None
	Mrs. M Mulele	All year - Company secretary	None
Akiba Commercial Bank Limited	Mr. E Massawe	Chairperson up to 20 August 2022	None
	Ms. R Juma	All year	None
	Ms. C Kimaryo	All year - Chairperson from 20 August 2022	None
	Mr. M Kawawa	All year	None
	Mr. H Jiya	All year	None
	Mr. M Katsala	All year	None
	Mrs Z Mitole	All year	None
	Ms. E Chanza	Up to 12 December 2022	None
	Mr. B Mahona	All year	None
Mr. A Massawe	From 20 August 2022	None	
	Prof. J Lotto	All year	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

DIRECTORS' REPORT (CONTINUED)

For the year ended 31 December 2022

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

DONATIONS

During the year, the Group made charitable donations of K277m (2021: K76m).

**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% (2021: 100%)	Investments and fund management
NBM Securities Limited	100% (2021:100%)	Dormant
National Bank of Malawi Nominees Limited	100% (2021:100%)	Holding of investments as nominee (Dormant)
Stockbrokers Malawi Limited	75% (2021: 75%)	Registered stockbroker
NBM Bureau de Change Limited	100% (2021:100%)	Dormant
NBM Pension Administration Limited	100% (2021: 100%)	Pension administration
NBM Development Bank Limited	100% (2021: 100%)	Small and Medium Enterprises and long-term Financing
Akiba Commercial Bank plc	60.48% (2021: 60.48%)	Banking and related services.

The Group has **51**
(2021: 51) service centres:

33 centres through out Malawi
and **18** centres throughout
Tanzania

**AREAS OF OPERATION**

The Group has 51 (2021: 51) service centres: 33 centres throughout Malawi and 18 centres throughout Tanzania. For 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.

DIRECTORS' REPORT (CONTINUED)

For the year ended 31 December 2022

AUDITORS

The Reserve Bank of Malawi through its regulation on External Auditors of Banks requires that a Bank changes its external auditors every five years. The regulation came into force in 2018.

The auditor, Deloitte, has reached the five years threshold. And as per regulation, a competitive tender process, in which Deloitte will not be eligible to participate, will be undertaken and a resolution for the appointment of the auditor will be submitted to the Annual General Meeting.

AUDITORS' REMUNERATION

Group Auditor's remuneration including VAT and expenses for the year was K549m (2021: K508m).

BY ORDER OF THE BOARD

Director (Lipunga, J (Mr)):

Director (Ngwira, D (Mrs)) :

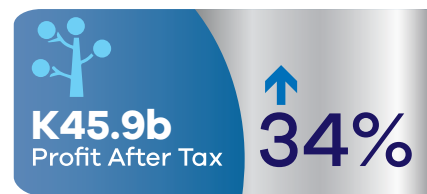
31st March 2023

Date:

CHAIRMAN'S REPORT

Jimmy Lipunga

CHAIRMAN'S REPORT (CONTINUED)



All the subsidiaries of the Bank posted profits that contributed positively to the Group performance except for Akiba Commercial Bank (ACB) in Tanzania and our associate company United General Insurance which posted losses.

THE OPERATING ENVIRONMENT

The Malawi economy grew by 1.2% from 4.2% in 2021. The growth in 2022 was adversely affected by weather related shocks in some parts of the country such as erratic rains and cyclones. The country experienced cyclones Ana and Gombe, that came along with heavy rains and subsequent flooding particularly in the southern part of Malawi during the first quarter of 2022. The economy also faced critical shortage of foreign exchange which precipitated a 25 percent devaluation of the Malawi Kwacha mid-year thereby putting a lot of pressure on inflation. The Russia/Ukraine war which started in February 2022 led to global supply chain challenges and high commodity prices. A combination of low supply of foreign exchange and spiraling costs of offshore petroleum products resulted in endemic fuel shortages especially during the third quarter. Fuel prices almost doubled since 2021, militating against prospects of high economic growth. This was exacerbated by protracted power supply disruptions as a result of significantly reduced generation capacity due to the adverse impact of the cyclones on power generation infrastructure.

The year was characterized by high inflation due to the above factors. The overall average annual inflation increased to 22% from an average of 9.3% in 2021. The authorities increased the Policy rate by 400 basis points to 18% in order to contain inflationary pressures. Generally, consumer demand was accordingly constrained.

As earlier indicated, the Malawi kwacha was devalued by 25% in May 2022. Despite the devaluation, however, foreign exchange supply challenges continued resulting in a significant buildup of arrears in foreign payments.

PERFORMANCE

I am pleased to report that the Group continued to perform very well notwithstanding a rather turbulent environment. It posted a profit after

CHAIRMAN'S REPORT (CONTINUED)



I am pleased to report that first and second interim dividends were paid in September 2022 and April 2023

tax of K45.9b representing a 34% increase from K34.21b reported in 2021. These results were driven by volume increases in both the loan book and fixed income securities, made possible by growth in customer deposits. The Group continued to aggressively contain costs where practicable.

All the subsidiaries of the Bank posted profits that contributed positively to the Group performance except for Akiba Commercial Bank (ACB) in Tanzania and our associate company United General Insurance which posted losses. Strategies have been put in place to achieve a turnaround in the performance of the two entities.

DIVIDENDS

The Board has given much consideration to the payment of a dividend for this financial year, and I am pleased to report that first and second interim dividends were paid in September 2022 and April 2023. Meanwhile, a final dividend of K15 billion representing K32.12 per share has been recommended by Directors. Once the final dividend has been approved and paid, the total dividend paid will be K33 billion representing K70.67 per share in respect of 2022 profits. This is an increase of 43.46% over the dividends paid in respect of 2021 profits.

STRATEGY AND PROSPECTS

The economy is expected to grow by 2.7% in 2023. However, the impact of the most recent cyclone Freddy which has affected most parts of the southern region coupled with the protracted power supply, and the foreign exchange supply challenges are expected to weigh heavily on the growth prospects. On the positive side, there have been indications that the power supply could be improved as Egenco Limited restores the lost generation capacity.

The Bank completed implementation of its 5-year strategic plan in 2022. A new strategic plan has been developed for 2023 to 2027 to take the Bank to the next level. The Board envisages a continuing challenging operating environment due the factors enumerated above. However, the Bank 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.

CHAIRMAN'S REPORT (CONTINUED)

BOARD OF DIRECTORS

My predecessor, Dr George Partridge, Mr. Bernard Nda, Mrs Elizabeth Mafeni and Mrs Maureen Kachingwe retired from the Board in March 2022, whilst I together with Dr Lyton Chithambo, Ms Moureen Mbeye, and Dr Mrs Bernadette Malunga joined the Board in May 2022. The selection of new board members reflects the Group's commitment towards diversity and inclusiveness in our corporate governance approach. On behalf of the shareholders, and my own, I would like to thank Dr Partridge and the directors who retired from the Board for the valuable contributions they made to the Company over the years. The new Directors are welcome to the Board and the Company looks forward to their valuable contribution.

MANAGEMENT AND STAFF

I wish to take the opportunity to express my sincere gratitude to management and staff for their hard work, dedication, loyalty, and commitment during the year to achieve such commendable results. I am confident that the Board can count on their continued commitment to take the Bank to greater heights.

Jimmy Lipunga
CHAIRMAN

EXECUTIVE MANAGEMENT



EXECUTIVE MANAGEMENT (CONTINUED)



L-R

John Mitchell

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

Charles Ulaya

B.Acc, ACMA, CA
Head, Risk

Oswin Kasunda

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

Brian Boby

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

Masauko Katsala

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

Harold Jiya

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

Daniel Jere

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

Zunzo E Mitole (Mrs)

LLB (Hons), MBA
Company Secretary
& Legal Counsel

L-R

Eluphy Salamba

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

Charles Dulira

BA, CTP, MBA
Head, Human
Capital Division

Macfussy M Kawawa

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

Wilkins Mijiga

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

William Chatsala

B.Com, MBA, FCIB
Head, Corporate
Banking Division

William Kaunda

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

Harry Mukaka

BA, MBA.
Head, Treasury
& Investment
Banking

CHIEF EXECUTIVE OFFICER'S STATEMENT



Macfussy Kawawa

CHIEF EXECUTIVE OFFICER'S STATEMENT

PERFORMANCE OVERVIEW

The Group registered a profit after tax of K45.9b representing a 34% increase from K34.21b reported in 2021. These results were largely driven by growth in customer deposits which resulted in increases in the loan book and fixed income securities. Consequently, Net interest and investment income grew by 38%. In addition, there was growth in foreign exchange commissions. Overall net revenue grew by 26%. Operating expenses increased by 16%, a pace lower than the average inflation for the year. On the other hand, impairment losses increased by 60% due to cleaning up of our foreign subsidiary's loan book.

Customer deposits increased by 45% year on year while the Bank's loan book grew by 29% (2021: 20%). Investment in Fixed Income securities grew by 16% (2021:66%).

CORPORATE BANKING OPERATIONS

The Corporate Banking Division provides banking solutions to the Bank's large private sector corporations, public institutions, and non-Governmental Organizations (NGO). The Division has a well-qualified and skilled team of Business Development Managers with proven expertise in tailoring solutions to customers' varied banking needs. The Division remains responsive and stands ready to strengthen the partnerships that the Bank enjoys with its customers.

The year 2022 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. This adversely affected levels of non-interest income.

Funding for the NGO community, which is a significant source of foreign exchange, remained below pre-Covid 19 Pandemic levels. The hospitality industry also continued to experience negative swings in business levels, necessitating facility restructuring and significant provisioning.



CHIEF EXECUTIVE OFFICER'S STATEMENT (CONTINUED)



Lending to tobacco farmers increased by **40%**, whilst lending to other crops increased by **30%**

Notwithstanding the challenging operating environment, Corporate Loans and Advances grew by 16% to K149.2 billion, Gross Lease Debtors grew by 42% to K27.29 billion, whilst deposits grew by 34% to K337 billion.

The Division recorded increased lending to the agriculture sector. In particular, lending to tobacco farmers increased by 40% to USD17.7 million, whilst lending to other crops increased by 30%.

Overall, the Non-Performing Loans (NPL) ratio on the corporate book worsened to 21% mostly due to non-performing loans extended to customers in the hospitality, agro-trading and real estate sectors. The Division continues to pursue recovery of the loans, including security realization.

Going forward, the Division sees good prospects in mining, energy, agricultural mechanisation and alternative crops like macadamia and legumes that must be exploited.

TREASURY AND INVESTMENT BANKING

Treasury and Investment Banking performance remained robust in the year. The stellar performance was as a result of better yields from investments in government securities. Revenue on government securities was 51% higher and this was achieved despite the portfolio marginally reducing in the year.

Income from the Foreign Exchange trading line grew by 49%. This was at the back of better margins that prevailed for a good part of the first half of the year and moderated for the rest of the year due to changes in the regulatory landscape.



The Stock market generally remained buoyant for the better part of the year, earning our portfolio positive returns.

RETAIL BANKING OPERATIONS

Retail Banking Division manages personal and Small to Medium Enterprises (SMEs) portfolios of the Bank. With a service centre network across the country, the Division provides transactional banking services to all customers of the Bank including corporate customers. The total lending portfolio comprising of 66% personal banking and 34% SME banking, registered a growth of 35% year on year. This performance was attributed to the continuous improvement of the customer centric business

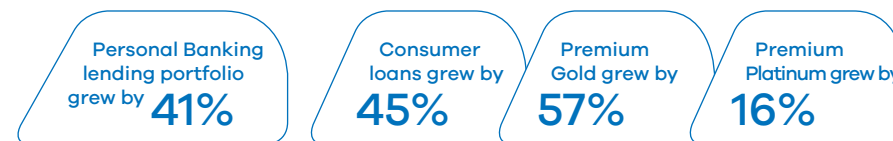
CHIEF EXECUTIVE OFFICER'S STATEMENT (CONTINUED)

Retail Banking Division lending portfolio comprising of



66% & **34%** registered growth of **35%**
Personal Banking SME Banking on year

model adopted in 2015 and later enhanced in 2021 which has helped the Bank to effectively engage with customers and develop products and service offerings that address their unique needs. There was also a 19% increase in the deposit book for the Division, comprising of 33% SMEs and 67% personal customers.



Personal Banking lending portfolio grew by 41%, year on year. A revision to our personal lending product offerings like consumer loans, Premium Gold and Premium Platinum made them more attractive to customers hence the growth in each segment of 45%, 57% and 16%, respectively. This has been achieved despite the prolonged economic challenges that were being experienced beyond the Covid-19 peak periods and the impact of the Russia/Ukraine war on the global supply chain. This meant that there was increased appetite for borrowing from the personal sector as there was need to survive in the challenging times. The deposit portfolio of the personal customers grew by 16%, 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 launched yet another product offering for the SME sector in 2022, coined Taoloka Finance. This product is meant to serve the Urban Vendors and as it is customary, it comes with attractive tailor-made solutions for the target group and various concessions on the applicable fees. This was in addition to existing special products portfolios of Amayi Angathe, Kasupe Finance, StepUp Entrepreneur that had continued to grow during year. Consequently the SME loans and advances portfolio grew by 26% year on year. The performance was likely to be greater than realized had it not been for economic challenges that included foreign exchange shortage. The deposit book for SME grew by 27% in the year which largely was attributed to deposit mobilization initiatives that were being carried out by the Division.

Going forward, the Division will continue to push for the growth of the customer base and introduction of new products which have proved vital to the growth of the Bank's profitability. The initiatives will also include those that will increase the uptake and usage of the Bank's various digital platforms.

CHIEF EXECUTIVE OFFICER'S STATEMENT (CONTINUED)

DIGITAL FINANCIAL SERVICES

The Bank continued to make strides in the areas of digital banking services. Transactions handled through cards and electronic services accounted for 93% of the total transactions processed. It rolled out new products including the Mo626Pay, Mo626 Wallet, Cardless Withdrawal on Mo626ice and several improvements on the digital app. The new fuel card solution had been tested and made ready to rollout in 2023. The bank also grew its branchless banking service (NBM FastServe), a banking service conducted through Agents. So far branchless banking agents are in most key areas in the country and in all districts in the country. Customers in these rural areas continue to access the NBM banking service from these agents for services including cash-out, cash-in, bill payments and mobile top up.

Looking ahead, the plans are to roll out integrated services to merchants, further integrations to the National Switch and introduce financial access to the less included through the provisions of specialized loans for this sector.

INFORMATION TECHNOLOGY SYSTEMS

In 2022, we engaged in several IT projects and activities with a view to improving ICT infrastructure, IT Security and delivery of existing products and services as well as to facilitate introduction of new ones. Improvements were made on the mo626ice, mo626digital+ and Banknet360 platforms by introducing new products that facilitated payments to various service providers. These included M-VISA system that uses QR code; Agent Banking; and Wallet App on the Digital Platform.

The Core Banking System Database Infrastructure was upgraded to improve performance. This significantly improved system performance. A total of 25 dispense only ATMs were replaced with new ones and 5 deposit taking ATMs were commissioned. The SWIFT system was upgraded to meet compliance requirements while the core network was upgraded to improve reliability and security.

TALENT MANAGEMENT ACTIVITIES

The Bank intensified implementation of its new Culture Blueprint (Tiiphula) which included several activities designed to entrench the new culture. To crown it all, the Bank successfully held the first Tiiphula Culture Anniversary celebrations in all the three regions of the country in November 2022.

The amalgamation of Learning & Growth Centre and Moneymen Club to form NBM Leadership Centre was completed in the year under review. The Leadership Centre now offers its core functions as well as social, and recreational services under one management which has led to an improvement in the quality of services rendered to its clients. The Bank has also embarked on several projects to

New Products Rolled out

Mo626Pay

Mo626 Wallet

Cardless Withdrawal on Mo626ice

M-VISA system that uses QR code, Agent Banking and Wallet App on the Digital Platform

5 Deposit taking ATMs commissioned

CHIEF EXECUTIVE OFFICER'S STATEMENT (CONTINUED)



improve the physical ambience of the Centre such as refurbishment of accommodation rooms, lecture rooms, and the sporting facilities.

The Bank also conducted Employee Engagement survey with an aim of measuring the level of engagement between employees and their employer. The overall results showed that 82% of the employees are positively engaged to the Bank which is encouraging news when compared with 78% that was registered during the last survey.

The Bank registered success in vaccination against Covid-19, reaching 94%, a level way above the recommended herd immunity level of 70%. All employees who contracted the virus recovered except one who sadly passed away due to covid 19 complications. Intensification of the preventative measures is ongoing.

The Bank's success in vaccination against Covid-19 reached **94%**

The Bank also promoted wellness activities among its employees to promote healthy living. This led to the resumption of wellness activities among staff members such as aerobics and various sporting activities (social football, netball, etc) which got suspended at the height of the Covid-19 pandemic. Experts were invited to provide healthy talks to the employees on how they can have good health through promotion of healthy diet as well as exercises. Members of staff were also encouraged to have regular checkups so that they can avoid suffering from strokes, hypertension, cancer, etc.

The Bank continued to invest in further education of its employees as part of business continuity initiatives. Twelve members of staff attended various courses ranging from an Executive Development Programme, undergraduate programs to post graduate degrees at various universities within and outside the continent.

CHIEF EXECUTIVE OFFICER'S STATEMENT (CONTINUED)



CORPORATE SOCIAL INVESTMENT ACTIVITIES

In 2022, NBM plc launched a Brand Campaign – Inspire Greatness across a multiple range of channels. The campaign utilized 100 percent Malawian content generated by Malawian creative teams to reaffirm the fact that NBM plc is the Bank of the Nation committing to building the Malawi Nation. Inspire Greatness celebrates ordinary Malawians who have done and continue to do great things for themselves and their communities. Through the campaign, the Brand motivates its stakeholders to embrace a culture of inspiration and support, which will subsequently help others reach their full potential and make a positive difference in the Nation.

As a Bank, NBM plc inspired greatness through the creation of social impact which is crucial for building a ‘Great’ nation and promoting positive change. By prioritizing social impact, NBM plc intends to help create a more sustainable and equitable future for all.

In 2022, the Bank implemented some CSI initiatives in response to emerging issues in different sectors of the society. The following are some of the initiatives; -

K50 million Cyclone Ana Response

Floods that hit Malawi in January affected 16 districts in the country with the southern region being the hardest hit resulting in the declaration of a State of National Disaster.

The Bank responded to the Government’s call for support through the provision of food and non-food items to five camps in Nsanje district worth K50m. A total of 2,140 victims benefited from the response.

CHIEF EXECUTIVE OFFICER'S STATEMENT (CONTINUED)

K130 million Commitment to Purchase of Theatre Equipment for the Kamuzu Barracks Camp Hospital

The Malawi Defense Force (MDF) through the Military Health Services runs 13 hospitals and clinics across the country with an average of 1.2 million people accessing medical attention from the facilities each year. These include both MDF officers and civilians from surrounding communities.

In April 2022, NBM plc committed to purchase theatre equipment amounting to K100 million. (However, due to exchange rate fluctuations, total expenditure on this equipment was K130 million). The surgical equipment since presented to MDF is expected to enable the undertaking of complex procedures at the Kamuzu Barracks Camp Hospital and thereby minimize spending on referrals to local or international institutions.

K100 million Partnership with Yamba Malawi to Construct and Provide Administrative Oversight of four Community Based Child Care Centres

The Bank signed a partnership with International Non-Governmental Organization Yamba Malawi to construct and provide administrative oversight in four Community Based Child-Care Centres (CBCC’s) valued at K100 million in total. Early childhood offers a critical window of opportunity to shape the trajectory of a child’s holistic development and build a foundation for their future. Appropriate care and stimulation outside the home is therefore essential at this stage. However, in Malawi, this aspect of education and growth still requires significant commitment from multiple sectors to enhance efforts currently made by the Government. The Bank has, therefore, come in to help address this gap. With each CBCC serving an average of 100 children per intake, it is estimated that the four structures will serve approximately 400 at every intake. These 400 children will be provided with early childhood education in a safe and secure environment. The CBCCs will be constructed in the Eastern, Northern and Central Regions of Malawi.

K100 million Forest Regeneration Through the Adopt a Forest Initiative in Collaboration with the Department of Forestry

Environmental preservation remains one of the Bank’s key focus Social Investment areas and, to this effect, NBM plc signed a Memorandum of Understanding with the Government of Malawi through the Department of Forestry (DoF)intended to help foster the Government’s green recovery efforts. Through it, the Bank has adopted three forests, namelyMangochi Palm Forest, Jembya Forest in Chitipa and Seven Hills in Dedza. Under this MoU, the Bank provides financial support for various forest restoration activities, the DoF provides management and technical expertise while the surrounding communities earn a livelihood through the provision of paid labour and resources such as seedlings. Forest regeneration works which include tree planting and rehabilitation are currently underway in all the three sites. Regeneration of forest reserves will in the long run mitigate adverse impact of climate change in the three regions. In the short term, the project will create jobs for over 250 people from the surrounding communities. It is expected that the project will also help establish community development projects such as beekeeping, coconut farming and animal husbandry. The Bank will spend K100m on this initiative.

K60 million Sustainable Student Support through the MUST Endowment Fund (Over a three-year period)

The K60 million Malawi University of Science and Technology (MUST) Endowment Fund is a three-year program that aims to support underprivileged students. Many students from public universities face challenges in access to tuition and boarding facilities primarily due to a lack of financial resources. The fund therefore offers students lifeline to a secured future regardless of their economic background. The Bank contributes K20m a year.

CHIEF EXECUTIVE OFFICER'S STATEMENT (CONTINUED)

K20 million towards Presidential Golf

This initiative was championed by the State President Dr. Lazarus McCarthy Chakwera with an objective of soliciting funds from Corporate entities to support needy students from public universities. Part of the funds raised were to be utilized in assisting victims of Cyclone Ana which hit Malawi in January 2022.

K62 million Mo626 College Basketball

NBM plc founded Mo626 College Basketball in collaboration with the Basketball Association of Malawi (BASMAL) in 2017. The brand property is more than just a commitment to sport development; it fosters healthy competition, teamwork, collaboration and helps students spend their time outside of the classroom constructively.

In the year under review, NBM plc concluded the third edition of Mo626 Basketball and announced its commitment to continue sponsoring the brand property in 2023 with a revised value of K450 million for the next three years. To ensure sustainability, the Bank intends to commit one third of this sponsorship value towards the rehabilitation or building of basketball courts in select institutions.

Innovation Jam in Collaboration with ICT Association of Malawi (ICTAM K17.5 million)

Digitization is at the core of the Bank's Strategic values and intents. Because of this, support of tech and innovation is one of the areas in which the Bank is mandated to invest as stipulated in the Corporate Social Investment Policy. The Innovation Jam, hosted in collaboration with ICTAM, seeks to help unearth and reward young innovators working to provide solutions in areas such as Fintech, Education, Agriculture and Health. In 2022, the Bank sponsored the third Innovation Jam. Going forward, it is anticipated that talent will be nurtured through partnerships with incubation hubs to ensure that innovations are supported beyond the once off annual event.

The pictorial focus of these investments is on pages 37 through 40.

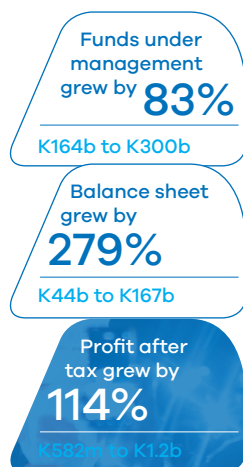
SUBSIDIARIES AND ASSOCIATES

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 83% from K164b to K300bn. On balance sheet funds grew by 279% from K44b in 2021 to close at K167b in 2022. In line with this growth, the company reported a 114% growth in profit after tax from K582m in 2021 to K1.2b in 2022. This performance was attributed to substantial increase in money market business and organic growth of pension business.

The company foresees a continued profit growth in 2023. This is in line with the economic outlook of continued forex shortage in the bigger part of the year.



CHIEF EXECUTIVE OFFICER'S STATEMENT (CONTINUED)

Stockbrokers Malawi Limited

Stockbrokers Malawi Limited (SML), a 75% subsidiary of National Bank of Malawi Plc recorded a pre-tax profit of K459m (2021: K286m) representing a 60% increase. Revenue increased by 46% to K843m (2021:578m). This was largely attributed to a bullish stock market.

The company will continue to pursue business growth in 2023.

NBM Pensions Administration Limited (NBM PAL)

NBM PAL is a wholly owned subsidiary of the Bank engaged in Pension administration. The Company recorded a Profit Before Tax at K241m which was 313% above that reported for the prior year. The improved performance was as a result resumption of business by post COVID-19 pandemic.

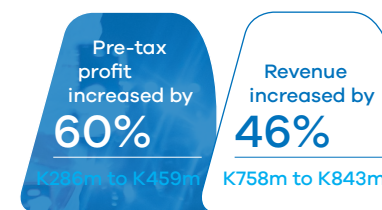
Funds under Administration closed at K112b as at the end of 2022, 9% higher than the K103b recorded at the end of the previous year.

The Company expects a better 2023 on the basis that the post COVID 19 pandemic lagging effects are over as employers have managed to resume economic activities at full swing. The year, however, will see an influx of pension claims on account of the new changes to the Pension Law.

United General Insurance (UGI)

The year 2022 was very challenging for UGI because of the generally difficult economic environment businesses were operating in. Most businesses down sized and reduced production and had challenges to honour their insurance premium payment obligations in time. This affected the growth of business for the company. The Gross Written Premium grew negatively by 7% from K7.224 billion in 2021 down to K6.722 billion in 2022, mainly due to reversals made because of non- payment of premiums. The business continues to pursue the unpaid premiums which are reinstated upon collection.

Claims grew by 53% with two classes namely, Motor and Worker's compensation being the major contributors to the losses. This was largely due to the increasing trend in court awards and litigation costs that were incurred in the year. Management has already put in place initiatives to curb the trend.

**New Products Rolled out**

Mo626Pay

Mo626 Wallet

Cardless Withdrawal on Mo626ice

M-VISA system that uses QR code, Agent Banking and Wallet App on the Digital Platform

CHIEF EXECUTIVE OFFICER'S STATEMENT (CONTINUED)

Management expenses grew by -3%; however, the expense ratio remained high at 36%. Investment income grew by 71% due to good gains on some counters on the stock exchange and higher interest rates on the money market.

Total assets grew by 31% as a manifestation of great potential the business has although it posted a loss of K2.24 billion before tax.

In 2023 the company will focus on achieving meaningful profitable growth by increasing sales and distribution channels and more importantly by being more customer centric. The company will focus on risk management to curb the growth in claims and its overall processes management. The company is reviewing its reinsurance placements and processes to ensure it gets maximum value from the arrangements. The company has upgraded its Aims operating system to Aims Enterprise 2018 Web version which brings agility, control and efficient document processing.

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. The Development Bank commenced its operations in September 2019 and has now operated for a full three years.

The Bank continued to operate in a subdued operating environment characterized by acute foreign currency shortages and high inflation. This negatively impacted uptake of credit facilities by the Bank's customers for the importation of machinery and equipment for various projects. Despite the current economic challenges, the Bank registered a pretax profit of K450m compared to a Loss Before Tax of K3.3m in 2021.

Total Loans and Advances grew to K4.6b from K2.2b in the previous year (2021). During the year, the Bank continued to finance high developmental impact projects in the Health, Tourism and Agribusiness Sectors.

Looking ahead in 2023, the Bank will continue in its growth trajectory with the main objective of reaching out to more SMEs with tailor made products and services.

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 continued with implementation of its five-year strategic plan for 2021 to 2025. The thrust of the strategy is to transform the Bank from a predominantly micro lending institution to a fully-fledged commercial bank that is capable of meeting the banking needs of a cross section of its clientele.

The Bank intends to continue implementing the following transformative initiatives to achieve the objectives of the strategy in the planned time horizon:

1. Upgrade of the core banking system (Temenos T24)
2. Finalize the rollout of new products and services
3. Staff and branch rationalization
4. Culture transformation programme

The year 2022 was challenging as the Bank could not achieve profitability as initially projected. ACB

CHIEF EXECUTIVE OFFICER'S STATEMENT (CONTINUED)

recorded a loss before tax of K2.96 b (2021: K1.89 b). The financial results were largely impacted by the Bank's strategic initiative to clean the balance sheet by writing-off legacy non-performing loans and settlement of prior year outstanding taxes.

ACB is looking forward to another challenging 2023 as it embarks on a staff rationalization exercise, but with a view of returning to profitability from this cost saving and continued focus on business growth, customer service, operational efficiency and recovery of non-performing and written-off loans.

OUTLOOK

The economy is expected to grow by 2.7% in 2023, from an estimated growth of 1.2% in 2022. The recovery will be led by the agriculture sector following a good rainfall pattern in the year. However, the impact of the cyclone Freddy which affected most parts of the southern region and the protracted electricity and the foreign exchange supply challenges are expected to weigh heavily on the 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. 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 recent years 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

PRODUCT ACTIVATION AND YOUTH ENGAGEMENT



Kidz Daniel show sponsored by MoPay and MoWallet



Mo626 proudly sponsors College Basketball



CORPORATE SOCIAL INVESTMENT

As a Bank, NBM plc inspired greatness through the creation of social impact which is crucial for building a 'Great' nation and promoting positive change. By prioritizing social impact, NBM plc intends to help create a more sustainable and equitable future for all.

In 2022, the Bank implemented some Corporate Social Investment (CSI) initiatives in response to emerging issues in different sectors of the society. The following are some of the initiatives

through the lens: →

Total Corporate Social Investment in 2022
K539.5m

CORPORATE SOCIAL INVESTMENT (CONTINUED)

K50 million Cyclone Ana Response



K130 million Commitment to purchase of theatre equipment for the Kamuzu Barracks Camp Hospital



CORPORATE SOCIAL INVESTMENT (CONTINUED)

CORPORATE SOCIAL INVESTMENT (CONTINUED)

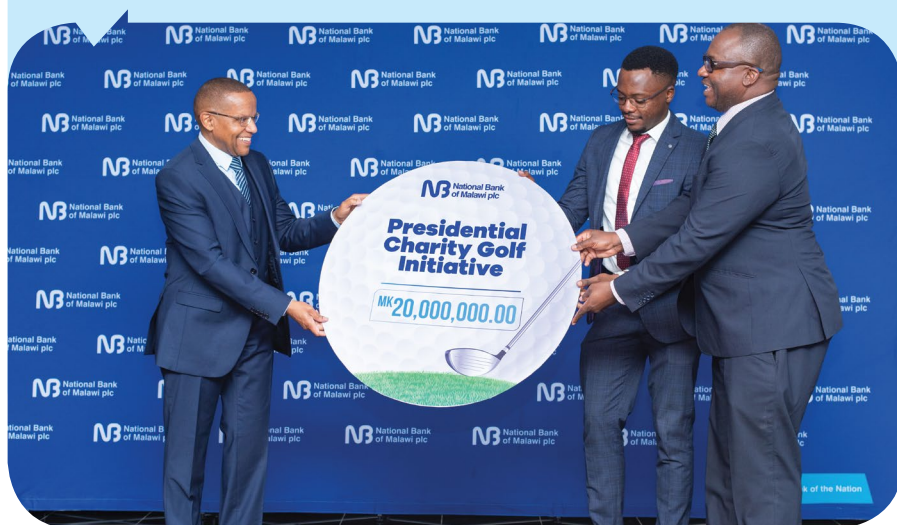
K100 million Partnership with Yamba Malawi to construct and provide administrative oversight of four community based child care centres



K100 million Forest regeneration through the Adopt a Forest Initiative in collaboration with the Department of Forestry



K20 million Towards Presidential Golf



K60 million Sustainable student support through the MUST Endowment Fund (Over a three-year period)



CORPORATE SOCIAL INVESTMENT (CONTINUED)



K62 million Mo626 College Basketball sponsorship



Staff Activities

The Bank intensified implementation of its new Culture Blueprint (Tiiphula) which included several activities designed to entrench the new culture. To crown it all, the Bank successfully held the first Tiiphula Culture Anniversary celebrations in all the three regions of the country in November 2022. The Bank also carried out other staff related events during the year. Here are the activities

through the lens:

Innovation Jam in collaboration with ICT Association of Malawi (ICTAM) **K175 million**



STAFF ACTIVITIES (CONTINUED)

STAFF ACTIVITIES (CONTINUED)

Tiiphula, Blantyre



Tiiphula, Mzuzu



STAFF ACTIVITIES (CONTINUED)

Celebrating 58 years of Malawi's independence



Key Clients Activities

During the year, the Bank continued to finance high developmental impact projects in the Health, Tourism, Agribusiness and other sectors through its wholly owned subsidiary NBM Development Bank. Following are some of the projects financed as seen

through the lens: 

KEY CLIENTS ACTIVITIES (CONTINUED)

KEY CLIENTS ACTIVITIES (CONTINUED)

Tapempha Medical Care Centre, Lilongwe



It is a 70 bed hospital located in Namitete, Lilongwe. The hospital aims to provide specialised medical care services to people within Lilongwe and Mchinji districts and neighbouring countries.

Uromed Clinic Limited



The first private urology clinic in Malawi. It is situated in Area 17 in Lilongwe, offering world class health services.



KEY CLIENTS ACTIVITIES (CONTINUED)

KEY CLIENTS ACTIVITIES (CONTINUED)

Cape View Beach Resort Limited



Lakeshore beach resort situated in Cape Maclear, Mangochi. It caters for both local and international tourists.

Ziweto Enterprises Limited



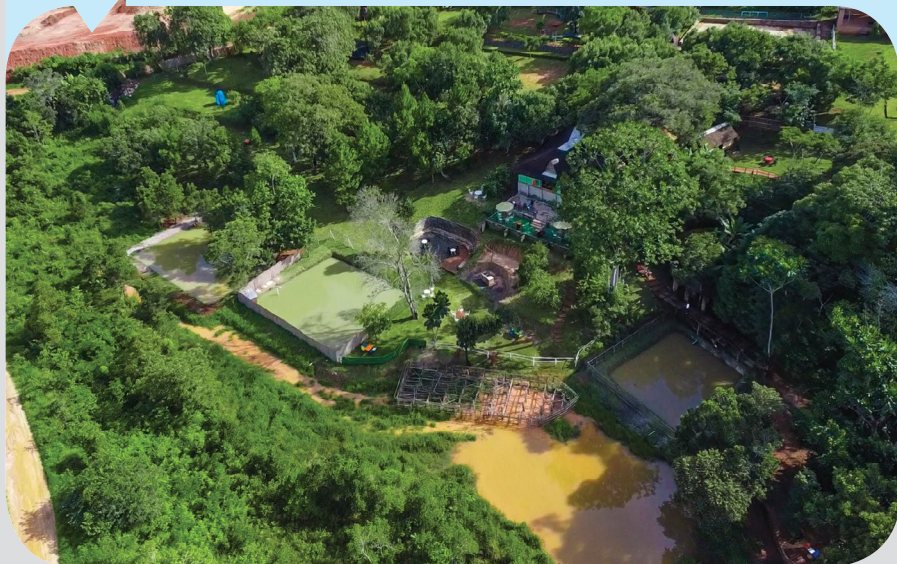
Manufacturers of animal feed supplements. Located in Kanengo, Lilongwe.



KEY CLIENTS ACTIVITIES (CONTINUED)

KEY CLIENTS ACTIVITIES (CONTINUED)

Springs Park Limited



A tourism facility situated in Mzuzu City

Ethanol Company Limited (EthCo)



Manufacturers of Fuel Ethanol, Extra Neutral Alcohol, Rectified Alcohol, SafeHands Hand Sanitiser and SafeSurface Disinfectants. Located in Dwangwa, Nkhotakota.



KEY CLIENTS ACTIVITIES (CONTINUED)

KEY CLIENTS ACTIVITIES (CONTINUED)

Nature's Gift Limited



28 hectare banana plantation situated in Lilongwe. Offers employment to locals within the area. It is a substitute to imported bananas.

Deloitte



Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services.



KEY CLIENTS ACTIVITIES (CONTINUED)

KEY CLIENTS ACTIVITIES (CONTINUED)

Anti-Corruption Bureau, Malawi



Economic Report 2022

The Ministry of Finance and Economic Development indicates that real GDP for the domestic economy grew by 1.2% in 2022, from 4.2% in 2021. The reduction in the growth rate of the economy emanated from the adverse effects of the erratic rains experienced in some parts of the country on agriculture production; tropical storms Ana and Gombe which hit the country in January 2022; low supply of foreign exchange; and the impact of the Russia-Ukraine war, which mostly led to high commodity prices in the year.

Further, the economy was negatively affected by the protracted power supply disruptions in the country coupled with fuel shortages, within the context of a high inflation environment which constrained consumer demand.

INFLATION

The year 2022 was characterized by high inflation with prices accelerating from an average inflation of 13.1% in 2022Q2 to average inflation 19.4% in 2022Q2 rising further to 25.3% by 2022Q3. Overall, annual average inflation was recorded at 21% in 2022 from an annual average of 9.3% the previous year.

The above scenario notwithstanding, there is ample evidence indicating that the Monetary Policy Committee’s decision to increase the Policy Rate by 400 basis points taken in October 2022 is bearing fruit. Headline inflation dampened to 25.4% in December 2022 from 25.8% the previous month in the aftermath of the Policy Rate increase among other factors. Food and non-food inflation on the other hand closed the year at 31.3% and 18.6% respectively.

EXCHANGE RATE

The market for foreign exchange continues to be characterized by continued excess demand conditions with supply being insufficient to finance the available demand. Uncharacteristically, this imbalance is continuing despite the 25% devaluation in the Kwacha effected in May 2022. The soaring global commodity prices are exacerbating the situation as this phenomenon is being translated into an increase in bills for imports of essentials. The Malawi Kwacha is currently trading at MK1028/1US\$.



GDP for the domestic economy grew by **1.2%** in 2022, from **4.2%** in 2021



Headline inflation dampened to **25.4%** in December 2022 from **25.8%** the previous month



Outlook for 2023

Growth is expected to recover in 2023 with real GDP forecasted at 2.7%. The recovery will be led by the agriculture sector following a good rainfall pattern in the year. This growth rate is likely to be revised downwards when the full effects of Cyclone Freddy have been enumerated.

Meanwhile, the protracted power supply disruptions in the country coupled with foreign exchange excess demand conditions and the impact of the ongoing Ukraine war, are expected to continue weighing heavily on growth prospects.

Looking ahead, domestic inflation is likely to remain elevated in the first half of 2023 reflecting the high cost of maize in the aftermath of high cost of inputs observed in the 2022 growing season. However, expected slowdown in world gross domestic product in 2023 is expected to dampen global aggregate demand leading to disinflation. As a result, inflation is expected to average 18.2% in 2023.

As regards foreign exchange, pressure on the Malawi kwacha is likely to be sustained in 2023 as signaled by the Reserve Bank in maintaining the 30% export proceeds surrender requirements for the 2023 tobacco auction season. This fact notwithstanding, the estimated tobacco crop size of 120 million kgs is significant volume wise to cushion some of the pressure.



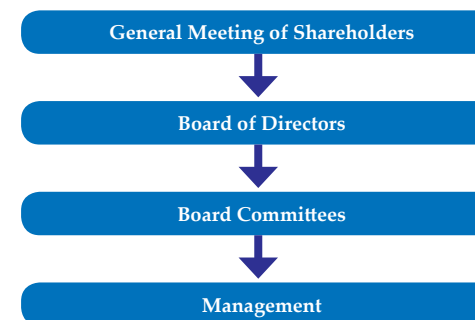
Growth is expected to recover in 2023 with real GDP forecasted at 2.7%

Corporate Governance Statement

The Board of Directors of National Bank of Malawi plc is delighted to report that during the year ended 31st December 2022, the Bank was in full compliance with the standards of good corporate governance. The Bank 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. As a result, the Bank had a cordial relationship with its shareholders, customers, strategic partners, suppliers of various goods and services, regulators, and staff.

The Bank has laid out the division of responsibilities between the Board and Executive Management in its Board Charter thereby enshrining principles of good governance. In addition, the Charter emphasises the Board's oversight role achieved by setting the strategic objectives and performance criteria of the Bank, 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 Bank is shown in the chart below:



CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Annual General Meeting

The Annual General Meeting for the Bank was held on 2nd June 2022. Following the easing of COVID-19 prevalence and easing of restrictions, the Bank held a hybrid AGM where some shareholders attended physically whilst others attended virtually. Shareholders who attended virtually were requested to raise questions and vote before the meeting. The meeting was attended by 18 shareholders in person whilst 114 attended by proxy.

The Board

The Board met every two months in 2022 to scrutinize compliance with policies and achievement of objectives by holding Management accountable for its activities and performance. The Main Board and its Committees also met outside of the regular scheduled meetings where there were urgent issues to transact.

The Board has six Committees to which it delegates some its compliance monitoring responsibilities. These Committees are 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 a robust system of internal controls that enable the Bank to have effective and efficient systems with sound internal financial controls governing all its operations in line with best practice. These internal controls are a safeguard for ensuring compliance with laws and regulations. The Board supports investments in accounting, financial and risk management systems to accomplish this function.

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 from January to March 2022 was Dr George Partridge whilst Mr Jimmy Lipunga was Chairman from May to December 2022.

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 met 6 times in the year 2022.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Name of Committee	Functions	Chairperson	Number of Meetings in 2022
Risk Committee	<ul style="list-style-type: none"> - Provide the crucial oversight and direction in relation to current and potential future risk exposures and future risk strategy. - Examine risk management reports covering credit, market, liquidity, and operational risks among other reports provided by the Risk Division of the Company. - Monitor compliance with Basel II requirements. 	Mr. Raymond Banda	6
Audit Committee	<ul style="list-style-type: none"> - Provide oversight over the Company's system of internal controls and review its effectiveness. - Exercise the full powers and authority of the Board in accounting and financial reporting matters as guided by its terms of reference. - Assess the effectiveness of internal controls and management of risks in each business unit. - The Head of the Company's Internal Audit Division as well as the external auditor always have unrestricted access to this Committee. 	Mrs. Dorothy Ngwira	6
Appointments, Remuneration and Governance Committee	<ul style="list-style-type: none"> - Responsible for succession planning for directors, board nominations and good governance practices. - Ensure that the Company's human resources are best utilised, and that members of staff are remunerated commensurate to their responsibilities and effectiveness. - Conduct board assessment which enables it to prepare for appropriate training for board members and helps with succession planning. 	Mr Crispin Mzengereza	6

Name of Committee	Functions	Chairperson	Number of Meetings in 2022
IT Projects Oversight Committee	<ul style="list-style-type: none"> - 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. - Review the annual IT and operational strategies, including the financial, tactical, and strategic benefits of proposed major IT and operational related initiatives. 	Mrs. Bessie Nyirenda	3
Credit Committee	<ul style="list-style-type: none"> - Consider credit applications that are above management limit in line with the Bank's Authorities Schedule approved by the Board. - Review credit policies, the quality of the Bank's direct and contingent lending, the mix of industry concentration within agreed parameters, and dealing lines. - 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. 	Mr. Macleod Nkhoma	7
Related Parties Committee	<ul style="list-style-type: none"> - Consider credit applications from Companies and Individuals related to the Bank to ensure that all transactions are conducted at arm's length. 	Mr. Macleod Nkhoma	4

Meeting attendance

The Annual General Meeting for the Bank was held on 2nd June 2022. Following the easing of COVID-19 prevalence and easing of restrictions, the Company held a hybrid AGM where some shareholders attended physically whilst others attended virtually. Shareholders who attended virtually were requested to raise questions and vote before the meeting. The meeting was attended by 18 shareholders in person whilst 114 attended by proxy.

The Directors' Board and Committee meeting attendance for the 2022 financial year is shown below:

Directors Board Meetings Attendance - 2022

Main Board

Name	Jan. 27	March 31	May 26	July 28	Sept. 29	Nov. 24
Dr. G Partridge	✓	✓	-	-	-	-
Mrs. E. Mafeni	✓	✓	-	-	-	-
Mrs. M. Kachingwe	✓	-	-	-	-	-
Mr. B Ndau	-	✓	-	-	-	-
Mr. J Nsomba	✓	✓	✓	✓	✓	✓
Mr. R Banda	✓	✓	✓	✓	✓	✓
Mr. J. Mhura	✓	✓	✓	✓	✓	✓
Mrs D. Ngwira	✓	✓	✓	✓	✓	✓
Mrs. B. Nyirenda	✓	✓	✓	✓	✓	✓
Mr. C. Mzengereza	✓	✓	✓	✓	✓	✓
Mr. M. Nkhoma	✓	✓	✓	✓	✓	✓
Dr. L. Chithambo	-	-	✓	✓	✓	✓
Ms. M. Mbeye	-	-	✓	✓	✓	✓
Dr. B. Malunga	-	-	✓	✓	✓	✓
Mr. J. Lipunga	-	-	✓	✓	✓	✓
Mr. M. Kawawa	✓	✓	✓	✓	✓	✓
Mr. H. Jiya	✓	✓	✓	-	✓	✓

The Directors also attended an Annual General meeting on 2nd June 2022 and a Strategy Presentation Session on 21st October 2022.

Board Credit Committee

Name	Jan. 24	March 21	March 30	May 19	July 26	Sept. 15	Nov. 10
Mrs. M. Kachingwe	✓	✓	✓	-	-	-	-
Mr. M Nkhoma	✓	✓	✓	✓	✓	✓	✓
Mr. B. Ndau	✓	✓	✓	-	-	-	-
Mrs. B. Nyirenda (co-opted)	-	-	-	✓	✓	-	-
Dr. L Chithambo	-	-	-	-	✓	✓	✓
Dr. Malunga	-	-	-	-	✓	✓	✓

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Committee on Related Parties

Name	Jan. 24	March 21	March 30	Sept. 20
Mrs. M. Kachingwe	✓	✓	✓	-
Mrs. B. Nyirenda	✓	✓	✓	✓
Mr. Nkhoma	✓	✓	✓	✓

Board Audit Committee

Name	Jan. 20	March 23	May 23	July 26	Sept. 19	Nov. 22
Mrs. E. Mafeni	✓	✓	-	-	-	-
Mr. J. Nsomba	✓	✓	✓	✓	✓	✓
Mrs. D. Ngwira	✓	✓	✓	✓	✓	✓
Ms M. Mbeye	-	-	✓	✓	✓	✓

Board Risk Committee

Name	Jan. 21	March 24	May 23	July 25	Sept. 20	Nov. 17
Mr. J Mhura	✓	✓	✓	✓	✓	✓
Mr R Banda	✓	✓	✓	✓	✓	✓
Mr. C. Mzengereza	✓	✓	✓	✓	✓	✓

Board Appointment & Remuneration Committee

Name	Jan. 21	March 25	May 18	July 21	Sept. 23	Nov. 16
Mr Ndau	✓	✓	-	-	-	-
Mr. J Mhura	✓	✓	✓	✓	✓	✓
Mr. C. Mzengereza	✓	✓	✓	✓	✓	✓
Dr. L. Chithambo	-	-	✓	✓	✓	✓

Board IT Projects Oversight Committee

Name	March 17	July 26	Nov. 15
Mr. R Banda	✓	✓	✓
Mrs. B. Nyirenda	✓	✓	✓
Mr. J. Mhura	✓	-	-
Dr. B Malunga	-	✓	✓

Changes in Board Composition

Dr George Partridge, Mr. Bernard Ndau, Mrs Elizabeth Mafeni and Mrs Maureen Kachingwe left the Board in March 2022, whilst Mr Jimmy Lipunga, Dr Lyton Chithambo, Ms Moureen Mbeye, and Dr Mrs Bernadette Malunga joined the Board in May 2023.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Code of Ethics

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

Auditor Independence

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

Board Information and Development

The 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. The Bank periodically trains its Directors, and this 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 2022, the Company Secretary organised a board orientation session for all the new Directors and a refresher on the Bank's operations for all Directors. Two Directors attended training on the Revised Risk Based Supervision Framework.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Consolidated and Separate Financial Statements



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 2022, so far as concerns the members of the company.

BY ORDER OF THE BOARD

Director (Lipunga, J (Mr))

Director (Ngwira, D (Mrs))

Date: 31st March 2023



P.O. Box 187
Blantyre
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 71 to 193 which comprise the consolidated and separate statements of financial position as at 31 December 2022, 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 2022, 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
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 (CONTINUED)

Key Audit Matters

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

Key Audit Matter	How the matter was addressed in the audit
Determination of Expected Credit Losses(ECL) for loans and advances (Consolidated and Separate financial statements)	
<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"> 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 Assumptions used in the expected credit loss model such as, expected future cash flows arising from collateral values. <p>As at 31 December 2022, the consolidated gross loans and advances to customers were K319.0 billion (separate: K268.4 billion) against which Expected Credit Losses of K8.5 billion (separate: K5.6 billion) were recorded. This is disclosed in note 12 (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.</p> <p>We therefore consider this as a key audit matter.</p>	<p>With respect to staging of loans and advances, our audit procedures comprised the following:</p> <ul style="list-style-type: none"> We evaluated the design and implementation of key controls around ECLs; We obtained an understanding of the Bank's staging criteria; We assessed management's criteria for appropriateness and completeness against the requirements of IFRS 9 and other relevant regulatory guidance; We checked accuracy and completeness of data used in staging; We selected a sample of loans and advances and checked if they have been correctly staged based on the Bank's accounting policy and IFRS 9 requirements; and For the selected loans and advances that were restructured, we obtained the restructure facility letters to confirm the restructure and assessed if staging is in line with the requirements of IFRS 9. <p>For expected future cash flows arising from collateral, we performed the following procedures:</p> <ul style="list-style-type: none"> We obtained an understanding of how the Bank incorporates collateral in its ECL model; We checked whether the Bank had a valid charge over the collateral that was used and also whether the collaterals were recently inspected, where necessary; We obtained management calculation of the haircuts that were applied on the collateral and checked the calculation for accuracy; and

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

Key Audit Matters (Continued)

Key Audit Matter	How the matter was addressed in the audit
Determination of Expected Credit Losses(ECL) for loans and advances (Consolidated and Separate financial statements) (Continued)	
	<ul style="list-style-type: none"> 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. <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 Financial Instruments.</p>

Other Information

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

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

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

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

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

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

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

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

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

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

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

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

We also:

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

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

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

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

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

13 April 2023

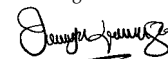
STATEMENTS OF FINANCIAL POSITION

For the year ended 31 December 2022

Notes	GROUP		COMPANY		
	2022 K'm	2021* K'm	2022 K'm	2021* K'm	
ASSETS					
Cash and funds with Central Banks	5&39	64 650	35 768	53 604	26 054
Placements with other banks	6&39	83 515	31 367	83 302	31 367
Other money market deposits	7&39	169 277	95 681	-	49 583
Other assets	8	16 580	9 554	11 408	7 506
Income Tax receivable	22	16	839	-	-
Equity investments	9	6 892	5 357	6 892	5 357
Government of Malawi promissory notes	10	-	12 126	-	12 126
Government securities	11	345 939	298 916	309 930	271 254
Loans and advances	12	310 440	240 884	262 768	210 320
Investment in associates	13	918	1 558	992	992
Investment in subsidiaries	14	-	-	15 641	12 029
Property and equipment	15	44 936	40 047	44 338	39 557
Intangible assets	16	9 496	9 424	9 268	9 143
Right-of-use assets	17	4 946	6 293	792	1 570
Deferred tax	18	11 785	11 137	9 348	8 648
Goodwill	19	3 959	3 959	-	-
Total assets		1 073 349	802 910	808 283	685 506
LIABILITIES AND EQUITY					
LIABILITIES					
Customer deposits	20	809 562	558 245	568 644	456 412
Amounts due to other banks	21	35 640	51 677	27 959	49 510
Current income tax liabilities	22	7 712	4 901	7 189	4 789
Loans	23	11 108	10 596	8 105	10 596
Provisions	24	6 391	6 046	5 966	5 848
Other liabilities	25	22 261	17 376	19 351	15 372
Lease liability	26	6 849	7 900	1 838	2 603
Deferred tax	18	2	-	-	-
Total liabilities		899 525	656 741	639 052	545 130
EQUITY					
CAPITAL AND RESERVES					
Share capital		467	467	467	467
Share premium		613	613	613	613
Regulatory reserve		-	417	-	-
Revaluation reserve		35 498	30 076	36 809	31 387
Foreign currency translation reserve		2 566	538	-	-
Retained earnings		133 036	110 847	131 342	107 909
Equity attributable to equity holders of the parent		172 180	142 958	169 231	140 376
Non-controlling interests		1 644	3 211	-	-
Total equity		173 824	146 169	169 231	140 376
Total equity and liabilities		1 073 349	802 910	808 283	685 506
Memorandum items					
Letters of credit and guarantees	37	29 376	35 548	29 376	35 548

* The order of liquidity has been re-presented in the current period to present assets in increasing to decreasing order of liquidity. The re-presentation includes the movement of placements with other banks, other money market deposits, income tax receivable, other assets and loans and advances higher up in the order of liquidity, and Government securities and promissory notes were moved down in the order of liquidity. The changes only impact the presentation of these line items in the statement of financial position and has no other impacts on the financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 31 March 2023 and were signed on its behalf by:



Director (Lipunga, J (Mr))



Director (Ngwira, D (Mrs))

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

Notes	GROUP		COMPANY		
	2022 K'm	2021 K'm	2022 K'm	2021 K'm	
Income					
Interest and similar income	29	111 984	79 476	99 662	69 441
Interest expense and similar charges	29	(13 111)	(7 778)	(10 775)	(5 462)
Net interest income	29	98 873	71 698	88 887	63 979
Commission and fee income	30	32 376	30 213	26 654	26 831
Profit from dealing in foreign currencies		12 804	10 957	12 642	10 872
Income from operating leases		156	149	156	149
Net gain on financial instruments classified as held through profit and loss	9	931	606	931	606
Profit/(Loss) on disposal of financial instruments classified as held through profit and loss		(163)	119	(163)	119
Share of profits/ (loss) of associate		(1 042)	313	-	-
Net loss on modified and restructured loans	12	(126)	(461)	(126)	(461)
Dividend income		202	175	731	553
Properties fair value gain/(loss)	33	93	105	93	105
Bargain purchase on acquisition of Akiba		-	278	-	-
Profit on disposal of plant and equipment		1	41	1	33
Total income		144 105	114 193	129 806	102 786
Expenditure					
Staff costs	31	34 059	30 026	26 479	23 812
Other operating expenditure	32	36 688	31 080	31 108	26 199
Total expenditure		70 747	61 106	57 587	50 011
Profit before net impairment on financial assets		73 358	53 087	72 219	52 775
Recoveries on impaired loans and advances	12	2 146	3 187	1 783	2 849
Impairment losses on financial assets	12	(6 141)	(5 686)	(2 785)	(4 497)
Profit before tax		69 363	50 588	71 217	51 127
Income tax expense	34	(23 419)	(16 378)	(22 082)	(15 902)
Profit for the year		45 944	34 210	49 135	35 225
Other comprehensive income					
<i>Items that will not be reclassified subsequently to profit or loss:</i>					
Surplus on revaluation of properties	33	3 696	4 454	3 696	4 454
Deferred tax on revalued assets	18	2 032	735	2 032	735
Total other comprehensive income		5 728	5 189	5 728	5 189
Total comprehensive income for the year		51 672	39 399	54 863	40 414

STATEMENTS OF COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2022

Notes	GROUP		COMPANY		
	2022 K'm	2021 K'm	2022 K'm	2021 K'm	
Profit attributable to:					
Equity holders of the company	35	47 474	34 928	49 135	35 225
Non-controlling interests		(1 530)	(718)	-	-
		45 944	34 210	49 135	35 225
Comprehensive income attributable to:					
Equity holders of the company		53 202	40 117	54 863	40 414
Non-controlling interests		(1 530)	(718)	-	-
		51 672	39 399	54 863	40 414
Earnings per share (K)	35	<u>101.66</u>	<u>74.79</u>		
Diluted earnings per share (K)	35	<u>101.66</u>	<u>74.79</u>		

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2022

GROUP	Share capital K'm	Share premium K'm	Regulatory reserve K'm	Revaluation reserve K'm	Foreign currency translation reserve K'm	Retained earnings K'm	Equity attributable to equity holders of the parent K'm	Non-controlling interests K'm	Total K'm
2022									
At beginning of the year	467	613	417	30 076	538	110 847	142 958	3 211	146 169
Total comprehensive income	-	-	-	5 728	-	47 474	53 202	(1 530)	51 672
Transfer of excess depreciation	-	-	-	(306)	-	306	-	-	-
Transfer to retained earnings	-	-	(417)	-	-	417	-	-	-
Translation differences	-	-	-	-	2 028	-	2 028	-	2 028
Dividend paid to minority shareholders	-	-	-	-	-	-	-	(37)	(37)
2021 Final dividend declared and paid	-	-	-	-	-	(18 005)	(18 005)	-	(18 005)
2022 First interim dividend declared and paid	-	-	-	-	-	(8 003)	(8 003)	-	(8 003)
At end of the year	467	613	-	35 498	2 566	133 036	172 180	1 644	173 824
2021									
At beginning of the year	467	613	-	25 150	-	91 575	117 805	113	17 918
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	538	110 847	142 958	3 211	146 169

REGULATORY RESERVE

Regulatory reserve represents the surplus of Expected Credit Losses (ECL) computed in accordance with The Central Banks' 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 2022

COMPANY	Share capital K'm	Share premium K'm	Revaluation reserve K'm	Retained earnings K'm	Total K'm
2022					
At beginning of the year	467	613	31 387	107 909	140 376
Total comprehensive income	-	-	5 728	49 135	54 863
Transfer of excess depreciation	-	-	(306)	306	-
2020 Final interim dividend declared and paid	-	-	-	(18 005)	(18 005)
2021 First interim dividend declared and paid	-	-	-	(8 003)	(8 003)
At end of the year	467	613	36 809	131 342	169 231
2021					
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

	2022 K'm	2021 K'm
ANALYSIS OF SHARE CAPITAL		
<u>Authorised</u>		
500,000,000 Ordinary Shares of K1 each	500	500
<u>Issued and fully paid</u>		
466,931,738 Ordinary Shares of K1 each	467	467

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 2022

Note	GROUP		COMPANY	
	2022	2021	2022	2021
	K'm	K'm	K'm	K'm
		Restated*		Restated*
Cash flows from operating activities				
Profit before tax	69 363	50 588	71 217	51 127
Adjustments for:				
• Depreciation of property and equipment	15	3 146	2 929	2 913
• Amortisation of intangible assets	16	1 356	1 326	1 288
• Amortisation of Right-of-use Asset	17	1 347	1 314	787
• Interest on lease liability	26	1 035	1 078	417
• Profit on disposal of property and equipment		(1)	(41)	(1)
• Profit on sale of other assets		-	(10)	-
• Write off of property and equipment	15&32	4	7	4
• Write off of intangible assets	16&32	-	76	-
• Movement in impairment losses on financial assets		6 141	5 686	2 785
• Losses/(Gains) on disposal of financial instruments classified as held through profit and loss		163	(119)	163
• Net gains on financial instruments classified as held through profit and loss	9	(931)	(606)	(931)
• Dividend receivable		(202)	(175)	(731)
• Net fair value loss on revaluation of properties	33	(93)	(105)	(93)
• Share of loss/(profits) of associate		1 042	(313)	-
• Net loss on modified and restructured loans	12	126	461	126
Operating cashflows before working capital movements		82 496	62 096	77 944
• Movement in customer deposits		251 317	113 033	112 232
• Movement in investments		(2 174)	14 110	6 173
• Movement in liabilities to other banks		(16 037)	39 120	(21 551)
• Movement in other liabilities and provisions		5 230	4 740	3 332
• Movement in loans and advances		(75 697)	(19 934)	(55 233)
• Movement in other assets		(5 504)	(1 456)	(3 301)
Cash generated from operations		239 631	211 709	119 596
Tax paid	22	(18 511)	(15 070)	(18 350)
Net cash flow from operating activities		221 120	196 639	101 246
Cash flows from investing activities				
Movement in restricted cash		-	-	-
Gross receipts from investments		242 384	155 454	242 384
Gross payments for investments		(275 107)	(281 761)	(275 107)
Increase in investments in subsidiaries	12	-	-	(3 612)
Acquisition of Akiba net cash acquired	12	-	7 867	-
Purchase of property and equipment		(4 299)	(2 644)	(3 958)
Purchase of intangible assets		(1 429)	(842)	(1 414)
Proceeds from disposal of property and equipment		51	150	51
Purchase of equity investments		(1 258)	(404)	(1 258)
Proceeds from disposal of equity investments		529	516	529
Dividend received		202	175	731
Net cash used in investing activities		(38 927)	(121 489)	(41 654)

STATEMENTS OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2022

Note	GROUP		COMPANY	
	2022	2021	2022	2021
	K'm	K'm	K'm	K'm
		Restated*		Restated*
Cash flows from financing activities				
Increase in loans	23	3 000	-	-
Payment of interest on loans	23	(322)	(266)	(318)
Repayment of loan	23	(2 166)	(2 851)	(2 173)
Interest paid on lease liability	26	(1 035)	(1 078)	(417)
Repayments of lease liability	26	(999)	(871)	(774)
Dividends paid		(26 045)	(15 518)	(26 008)
Net cash outflow from financing activities		(27 567)	(20 584)	(29 690)
Net increase/ (decrease) in cash and cash equivalent		154 626	54 566	29 902
Cash and cash equivalents at beginning of the year		162 816	108 250	107 004
Cash and cash equivalents at end of the year (note 39)		317 442	162 816	136 906

*Refer to note 1.2: Restatement of 2021 financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

1.1 General 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 (2021: 51) 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.

1.2 Restatement of 2021 financial statements

In order to correct non-compliance with IAS 7, the statement of cashflows has been restated to disclose separately gross receipts and payments of investing activities (investment in government securities), gross receipts and payments of long-term loans and reclassification of non-cash items from investment income to working capital under operating activities, reclassification of liabilities to other banks from cash and cash equivalents to working capital movements under operating activities.

The impact of the restatement is included in the analysis below:

GROUP	As previously reported K'm	Adjustment K'm	Restated K'm
Operating cash flows before working capital movements	62 096	-	62 096
Movement in customer deposits	113 033	-	113 033
Movement in investments	-	14 110	14 110
Movement in liabilities to other Banks	-	39 120	39 120
Movement in other liabilities and provisions	4 740	-	4 740
Movement in loans and advances	(19 934)	-	(19 934)
Movement in other assets	(1 456)	-	(1 456)
Cash generated from operations	158 479	53 230	211 709
Taxation paid	(15 070)	-	(15 070)
Net cashflow from operating activities	143 409	53 230	196 639
Cashflows from investing activities			
Movement in restricted cash	-	-	-
Increase in investments	(112 197)	112 197	-
Gross receipts from investments	-	155 454	155 454
Gross payments for investments	-	(281 761)	(281 761)
Increase in investment in subsidiaries and associates	7 867	-	7 867
Purchase of Property and equipment and intangible assets	(3 486)	-	(3 486)
Proceeds from disposal of property and equipment	150	-	150
Proceeds from disposal of Assets Held for Sale	-	-	-
Purchase of equity investments	(404)	-	(404)
Proceeds from disposal of equity investments	516	-	516
Dividends received	175	-	175
Net cashflow from investing activities	(107 379)	(14 110)	(121 489)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

1.2 Restatement of 2021 financial statements (Continued)

GROUP	As previously reported K'm	Adjustment K'm	Restated K'm
Cash flows from financing activities			
Decrease in loans	(3 117)	3 117	-
Increase in loans	-	-	-
Interest paid on loans	-	(266)	(266)
Repayments on loans	-	(2 851)	(2 851)
Interest paid on lease liability	(1 078)	-	(1 078)
Repayments of lease liability	(871)	-	(871)
Dividends paid	(15 518)	-	(15 518)
Net cash flow from financing activities	(20 584)	-	(20 584)
Net increase/(Decrease) in cash and cash equivalents	15 446	39 122	54 568
Cash and cash equivalents at beginning of the year	95 693	12 557	108 250
Cash and cash equivalents at end of the year (note 35)	111 139	51 679	162 818
COMPANY			
Operating cash flows before working capital movements	59 970	-	59 970
Movement in customer deposits	88 691	-	88 691
Movement in investments	-	20 397	20 397
Movement in liabilities to other Banks	-	36 953	36 953
Movement in other liabilities and provisions	4 677	-	4 677
Movement in loans and advances	(15 656)	-	(15 656)
Movement in other assets	(2 477)	-	(2 477)
Cash generated from operations	135 205	-	135 205
Taxation paid	(14 621)	-	(14 621)
Net cashflow from operating activities	120 584	57 350	177 934
Cashflows from investing activities			
Movement in restricted cash	-	5 585	5 585
Increase in investments	(100 325)	100 325	-
Gross receipts from investments	-	155 454	155 454
Gross payments for investments	-	(281 761)	(281 761)
Increase in investment in subsidiaries and associates	(5 585)	-	(5 585)
Purchase of Property and equipment and intangible assets	(3 326)	-	(3 326)
Proceeds from disposal of property and equipment	141	-	141
Proceeds from disposal of Assets Held for Sale	-	-	-
Purchase of equity investments	(404)	-	(404)
Proceeds from disposal of equity investments	516	-	516
Dividends received	553	-	553
Net cashflow from investing activities	(108 430)	(20 397)	(128 827)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

1.2 Restatement of 2021 financial statements (Continued)

COMPANY	As previously reported K'm	Adjustment K'm	Restated K'm
Cash flows from financing activities			
Decrease in loans	(3 117)	3 117	-
Increase in loans	-	-	-
Interest paid on loans		(266)	(266)
Repayments on loans		(2 851)	(2 851)
Interest paid on lease liability	(526)	-	(526)
Repayments of lease liability	(555)	-	(555)
Dividends paid	(15 502)	-	(15 502)
Net cash flow from financing activities	(19 700)	-	(19 700)
Net increase/(Decrease) in cash and cash equivalents	(7 546)	36 953	29 407
Cash and cash equivalents at beginning of the year	65 040	12 557	77 597
Cash and cash equivalents at end of the year (note 39)	57 494	49 510	107 004

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 2022.

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2022	<p>Standard, Amendment or Interpretation</p> <p>Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)</p> <p>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.</p>
Annual reporting periods beginning on or after 1 January 2022	<p>Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)</p> <p>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).</p>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

2. Adoption of new and revised International Financial Reporting Standards (Continued)
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"> IFRS 1 – The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs. IFRS 9 – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. IFRS 16 – The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example. 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.

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 2023 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	<p>Annual Improvements to IFRS Standards 2018–2020</p> <p>IFRS 17 Insurance Contracts</p> <p>IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.</p> <p>IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.</p>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

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

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 2023	<p>Annual Improvements to IFRS Standards 2018–2020</p> <p>The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.</p>
Annual reporting periods beginning on or after 1 January 2024	<p>Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)</p> <p>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.</p>
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"> • Deferral of the date of initial application of IFRS 17 by two years to annual periods beginning on or after 1 January 2023 • 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 • 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. • Clarification of the application of IFRS 17 in interim financial statements allowing an accounting policy choice at a reporting entity level • 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 • Extension of the risk mitigation option to include reinsurance contracts held and non-financial derivatives • 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

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

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 2023	<ul style="list-style-type: none"> • 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 • 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
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>
Annual reporting periods beginning on or after 1 January 2024	<p>Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)</p> <p>The amendment clarifies how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale.</p>
Annual reporting periods beginning on or after 1 January 2024	<p>Non-current Liabilities with Covenants (Amendments to IAS 1)</p> <p>The amendment clarifies how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.</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 2022

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 2022. 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 2022

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

3. Accounting policies (Continued)**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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

3. Accounting policies (Continued)**3.2 Business combinations (Continued)**

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

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

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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

3. Accounting policies (Continued)**3.5 Financial instruments (Continued)****Financial assets (Continued)****(i) Amortised cost and effective interest method (Continued)**

the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

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

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

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

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

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

(ii) Equity instruments designated as at FVTOCI

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

3. Accounting policies (Continued)**3.5 Financial instruments (Continued)****Financial assets (Continued)****(ii) Equity instruments designated as at FVTOCI (Continued)**

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

(iii) Financial assets at FVTPL

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

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

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

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

Impairment of financial assets

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

3. Accounting policies (Continued)**3.5 Financial instruments (Continued)****Financial assets (Continued)***Impairment of financial assets (Continued)***(i) Significant increase in credit risk (Continued)**

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

3. Accounting policies (Continued)**3.5 Financial instruments (Continued)****Financial assets (Continued)***Impairment of financial assets (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 16 Leases.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

3. Accounting policies (Continued)**3.5 Financial instruments (Continued)****Financial assets (Continued)***Impairment of financial assets (Continued)***Measurement and recognition of expected credit losses (Continued)**

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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

Financial assets (Continued)

Modification and derecognition of financial assets (Continued)

substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

Financial assets (Continued)

Modification and derecognition of financial assets (Continued)

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 equityClassification 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

3. Accounting policies (Continued)**3.5 Financial instruments (Continued)****Financial liabilities and equity (Continued)**Financial liabilities at FVTPL (Continued)

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 41.

Financial liabilities measured subsequently at amortised cost

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

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

Financial guarantee contract liabilities

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

3. Accounting policies (Continued)**3.5 Financial instruments (Continued)****Financial liability and equity (Continued)**Financial guarantee contract liabilities (Continued)

- 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.

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.

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. Accounting policies (Continued)

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.

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.

Internally-generated intangible assets – research and development expenditure

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

3. Accounting policies (Continued)

3.8 Intangible assets (Continued)

Internally-generated intangible assets – research and development expenditure (Continued)

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

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

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

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

In accordance with the standard, the Group reassessed the lease liability as at 31 December 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 2022

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 2022

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 2022

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 due from other banks, short-term government securities and short term money market deposits.

3. Accounting policies (Continued)

3.15 Employee benefits

(a) Pension obligations – Defined Contribution Plan

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

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

(b) Short-term benefits

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

3.16 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

3.17 Revenue recognition

Interest income and expense

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

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

3. Accounting policies (Continued)

3.17 Revenue recognition (Continued)

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 apportionment 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

3. Accounting policies (Continued)**3.18 Share capital (Continued)**Earnings per share (Continued)

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 2022

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

3. Accounting policies (Continued)

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

Reclassification

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

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

Impairment and methodology

Overview of the ECL principles

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

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

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

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

3. Accounting policies (Continued)

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

The calculation of ECLs

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

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

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

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

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

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

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

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

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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

3. Accounting policies (Continued)**3.20 Classification and measurement of financial instruments under IFRS 9 (Continued)****Incorporation of forward-looking information (Continued)****Incorporation of forward-looking information**

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

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

Macroeconomic model

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

Gross monetary claims on private sector and lending interest rates proved to be statistically significant in the macro-economic model. According to the estimated coefficients, the relationship between Economic PD and loans is negative while with interest rates is positive, as expected by economic theory. As such, the Group forecasted the future private sector and lending interest 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.

Sensitivity analysis as at 31 December 2022

The FLI model base scalar of 1.0469 that was applied to the December 2022 results, is derived using the Weighted Average of the Expected Economic PD scenarios. The weights of the headline results apply 60% probability for realisation of the Baseline Scenario, 20% probability of realisation of the Optimistic scenario and 20% probability for the Pessimistic scenario. The scenarios and their probability of realisation are informed by the positive outlook post the covid19 pandemic, when compared to the previous year's realisations.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

3. Accounting policies (Continued)

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

Incorporation of forward-looking information (Continued)

Sensitivity analysis as at 31 December 2022 (Continued)

The impact of the 2 economic factors underlying the Economic PD predictions is determined by the impact coefficients in the Economic PD model, i.e. -0.202 for Changes in Gross Monetary Claims and +0.734 for Changes in Net lending Rate. The impact of interest rate is stronger with variations determining 78% of changes in Economic PD. As expected by economic theory, interest rates move by small increments, but have large impact on the financial variables and real economy. On the opposite, changes in monetary claims (loans) have relatively smaller absolute impact of about 28% on Economic PDs.

• 0.020* Gross monetary claims on private sector (t-9) + 0.734* Lending Interest Rate (t-2)

Variables	Estimate	Std. error	t-stat	p-value
Δ Gross monetary claims on private sector (t-9)	-0.202	0.044	-4.611	0.00
Δ Lending Interest Rate (t-2)	0.734	0.048	15.197	0.00
RMSE	3.46	(Root Mean Square Error)		
R ²	0.64	R ² Adj	0.87	
F-stats	180.2	p-value	0.00	
Obs.	50	Df	48	

Economic forecasts are probabilistic and surrounded by uncertainty. Therefore, the ECL value can be affected by underestimation or overestimation of the probability of upside and downside forecast errors, i.e. probabilistic assessment of scenarios. To test the sensitivity of the change in the economic outlook, the Group evaluated 2 additional alternatives:

- more optimistic scenario sets – Optimistic 30% probability, Pessimistic 10% probability, and Baseline 60% probability.
- More pessimistic scenario set - Optimistic 10% probability, Pessimistic 30% probability, and Baseline 60% probability.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

3. Accounting policies (Continued)

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

Incorporation of forward-looking information (Continued)

Impact on Provisions as at 31 December 2022					
	Probability Scenarios	FLI Scaler	ECL%	Provision (K'm)	Absolute Change (K'm)
Optimistic Probability Scenario	O=30% B=60% P=10%	0.9170	1.81%	4 921	(301)
Pessimistic Probability Scenario	O=10% B=60% P=30%	1.1768	2.03%	5 522	301
Baseline Probability Scenario	O=20% B=60% P=20%	1.0469	1.92%	5 221	-

Sensitivity analysis as at 31 December 2021

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

3. Accounting policies (Continued)**3.20 Classification and measurement of financial instruments under IFRS 9 (Continued)****Incorporation of forward-looking information (Continued)****Sensitivity analysis as at 31 December 2021 (Continued)**

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

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

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

Impact on provisions as at 31 December 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	-

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

The Impact of Covid-19 on IFRS 9 Post Model Adjustment 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

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

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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

4. Critical accounting judgments and key sources of estimation uncertainty (Continued)**4.1 Critical judgements in applying the Group's accounting policies (Continued)****4.1.3 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 (refer to note 3 above).

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.

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

Key assumptions used:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

4. Critical accounting judgments and key sources of estimation uncertainty (Continued)**4.2 Key sources of estimation uncertainty (Continued)****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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

5. Cash and funds with Central Banks

	GROUP		COMPANY	
	2022 K'm	2021 K'm	2022 K'm	2021 K'm
Cash	30 465	25 995	26 001	18 833
Balances with Central Banks	34 188	9 774	27 606	7 222
Expected credit losses	(3)	(1)	(3)	(1)
Total cash and funds with Central Banks	64 650	35 768	53 604	26 054

The currency analysis of cash is in note 42f.

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 42f and 42h.

6. Placement with other Banks

	GROUP		COMPANY	
	2022 K'm	2021 K'm	2022 K'm	2021 K'm
Balances with other Banks	83 523	31 370	83 310	31 370
Expected credit losses	(8)	(3)	(8)	(3)
Total cash and funds with Central Banks	83 515	31 367	83 302	31 367

Placements with other banks are denominated in the following currencies:

	Average interest rates		GROUP		COMPANY	
	2022	2021	2022 K'm	2021 K'm	2022 K'm	2021 K'm
US Dollar denominated	0.50%	0.50%	67 865	15 930	67 652	15 930
GBP denominated	1.75%	1.75%	4 803	4 714	4 803	4 714
Euro denominated	0.50%	0.50%	9 332	9 829	9 332	9 829
ZAR denominated	4.00%	4.00%	1 500	885	1 500	885
Other			15	9	15	9
			83 515	31 367	83 302	31 367

Money market placements with other banks are held to maturity and mature within three months (2021: one month) of the year-end.

7. Other money market deposits

	GROUP		COMPANY	
	2022 K'm	2021 K'm	2022 K'm	2021 K'm
Money market investments with Central Banks and other banks	169 277	95 686	-	49 588
Expected credit losses	-	(5)	-	(5)
	169 277	95 681	-	49 583

Money market investments with Reserve Bank of Malawi, Bank of Tanzania and other banks are held to maturity and mature within one month (2021: one month) after the year-end. The deposits earned an average interest rate of 13% (2021: 13%) per annum.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

8. Other assets

Sundry receivables	966	1 069	568	287
Office accounts	10 012	2 177	5 627	1 151
Prepayments	2 876	2 878	2 487	2 341
Due from local banks	318	448	318	448
Employee benefit subsidy	1 517	571	1 517	571
Mastercard accounts	-	2 972	-	2 972
Bulk stock stationery	705	550	705	550
Other investments	186	112	186	98
Provision for potential losses on other assets	-	(1 223)	-	(912)

Total other assets

	GROUP		COMPANY	
	2022 K'm	2021 K'm	2022 K'm	2021 K'm
	16 580	9 554	11 408	7 506

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

In 2021, the provision mainly related to old cards transactions whose recoverability was doubtful. The transactions have been written off during the year after management exhausted all recovery efforts.

Assessment of impairment of other assets

The Group assessed the other assets for impairment. There were no impairments recognised in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

9. Equity investments

GROUP AND COMPANY	2021 K'm	Additions/ (disposals) K'm	Fair value adjustment K'm	2022 K'm	Cost K'm
2022					
<u>Illovo Sugar (Malawi) plc</u> 3,615,930 (2021: 1,580,930) Ordinary shares of K0.02 each at a market value of K540.00 (2021: K300.00) per share	474	918	561	1 953	1 293
<u>NICO Holdings plc</u> 17,048,832 (2021: 19 760 550) Ordinary shares of K0.20 each at a market value of K60.00 (2021: K55.00) per share	1 087	(149)	85	1 023	173
<u>Malawi Property Investment Company plc</u> 34,119,431 (2021: 34 119 431) Ordinary shares of K0.05 each at a market value of K20.64 (2021: K20.70) per share	706	-	(2)	704	325
<u>National Investment Trust plc</u> 6,663,759 (2021: 6 663 759) Ordinary shares of K1.00 each at a market value of K124.99 (2021: K94.98) per share	633	-	200	833	160
<u>NBS Bank Plc</u> 15,000,000 (2021: 20,000,000) Ordinary shares of K0.50 each at a market value of K34.00 (2021: K22.90) per share	458	(115)	167	510	111
<u>Standard Bank of Malawi plc</u> 101 900 (2021: nil) Ordinary shares of K1.00 each at market value of K2 000.00 (2021: K1 400) per share	-	188	16	204	188
<u>FDH Bank of Malawi plc</u> 5 000 000 (2021: nil) Ordinary shares of K1.00 each at market value of K17.37.00 (2021:N/A) per share	-	70	17	87	70
<u>Sunbird Malawi plc</u> 5,637,964 (2021: 5,637,964) Ordinary shares of K0.05 each at a market value of K92.06 (2021: K90.01) per share	508	-	11	519	359
<u>Telekom Networks Malawi plc</u> 32,435,090 (2021: 45,350,194) Ordinary shares of K0.04 each at a market value of K14.00 (2021: K22.92) per share	1 039	(296)	(289)	454	144
<u>FMB Capital Holdings plc</u> 631,854 (2021: 529,924) Ordinary shares of K1.00 each at a market value of K110.86 (2021: 80.00) per share	42	8	20	70	37
Ordinary shares of K1.00 each at a market value of K56.64 (2021: K40.00) per share	410	(20)	145	535	203
Total equity investment	5 357	604	931	6 892	3 063

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 2022

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
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 2022

9. Equity investments (Continued)

	GROUP AND COMPANY			Fair value
	Level 1	Level 2	Level 3	2022
	K'm	K'm	K'm	K'm
Equity investments in listed companies	6 892	-	-	6 892

	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

10. Government of Malawi promissory notes

	GROUP AND COMPANY	
	2022 K'm	2021 K'm
Government of Malawi promissory note	-	12 127
Expected credit losses	-	(1)
	-	12 126

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.

During the year 2021, 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 matured 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, in 2021, 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. These promissory notes matured in the year 2022.

The fair value level has been disclosed under note 41.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

11. Government securities

	Average interest rates		GROUP		COMPANY	
	2022	2021	2022 K'm	2021 K'm	2022 K'm	2021 K'm
Government securities-treasury bills	14.51%	12.29%	127 907	125 610	102 484	103 458
Government securities-treasury notes	18.15%	19.76%	207 817	167 823	207 477	167 823
Government securities-Bonds	11.62%	11.62%	10 246	5 510	-	-
Expected credit losses			(31)	(27)	(31)	(27)
			345 939	298 916	309 930	271 254

The Government securities are due to mature as follows:

- Within three months
- Between three months and one year
- Over one year

	74 433	60 984	48 670	33 322
	114 130	83 730	114 130	83 730
	157 376	154 202	147 130	154 202
	345 939	298 916	309 930	271 254

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.

12. Loans and advances

	GROUP		COMPANY	
	2022 K'm	2021 K'm	2022 K'm	2021 K'm
Gross loans and advances	311 295	243 021	262 844	211 765
Staff loans	7 655	6 560	5 517	5 084
Total loans and advances	318 950	249 581	268 361	216 849
Impairment provisions	(8 510)	(8 697)	(5 593)	(6 529)
Net loans and advances	310 440	240 884	262 768	210 320

Due to mature as follows:

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

	31 824	30 892	27 522	27 578
	75 911	54 581	60 641	43 287
	205 079	158 056	176 975	142 100
	(2 374)	(2 645)	(2 370)	(2 645)
	310 440	240 884	262 768	210 320

Analysis of net loans by currency

Malawi Kwacha denominated	215 409	159 782	210 847	157 517
Tanzania shillings denominated	43 091	28 299	-	-
US Dollar denominated	51 940	52 803	51 921	52 803
	310 440	240 884	262 768	210 320

The Malawi Kwacha average lending rate for the Bank's loans and advances as at 31 December 2022 was 25.44% (2021: 20.18%) per annum, the US Dollar denominated loans carried an average interest rate of 7.98% (2021: 8.14%) per annum and the Tanzanian shilling denominated loans were at an average interest rate of 23.22% (2021: 23.22%).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

12. Loans and advances (Continued)

	GROUP		COMPANY	
	2022 K'm	2021 K'm	2022 K'm	2021 K'm
Movement on interest in suspense				
At beginning of the year	2 645	1 129	2 645	1 129
Applied against advances	(2 063)	-	(2 063)	-
Suspended in the year	1 792	1 922	1 788	1 922
Recovered	-	(406)	-	(406)
At end of the year	2 374	2 645	2 370	2 645
Recoveries on impaired loans and advances				
Interest in suspense	-	406	-	406
Debts previously written off	1 783	2 443	1 783	2 443
Provision	363	338	-	-
Total recoveries recognized in Income statement	2 146	3 187	1 783	2 849

GROUP AND COMPANY

	2022	2021
	K'm	K'm
Finance lease receivables		
Gross investment in finance lease receivable:		
• Within three months	391	567
• Between three months and one year	1 644	1 133
• After one year and not later than five years	25 383	17 560
	27 418	19 260
Unearned future income on finance leases	(7 409)	(3 922)
Impairment provision	20 009	15 338
	(755)	(427)
Net investment in finance leases	19 254	14 911
The net investment in finance leases matures as follows:		
• Within three months	389	414
• Between three months and one year	1 507	875
• After one year and not later than five years	17 358	13 622
	19 254	14 911

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 2022 was 23.1% (2021: 20.22%). All leases are in Malawi kwacha.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

12. Loans and advances (Continued)

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

Group

Days past due	31 December 2021 Gross carrying amount K'm	31 December 2021 Loss allowance K'm	31 December 2022 Gross carrying amount K'm	31 December 2022 Loss allowance K'm
0-29 days	203 265	3 005	250 411	2 970
30-90 days	20 230	993	20 988	416
91-180 days	11 983	1 328	32 581	2 652
181-360 days	7 189	1 415	4 982	1 215
More than 360 days	6 914	1 956	9 988	1 257
Total	249 581	8 697	318 950	8 510

Company

Days past due	31 December 2021 Gross carrying amount K'm	31 December 2021 Loss allowance K'm	31 December 2022 Gross carrying amount K'm	31 December 2022 Loss allowance K'm
0-29 days	175 995	2 540	209 376	1 530
30-90 days	19 777	976	19 362	304
91-180 days	10 910	652	31 612	2 254
181-360 days	7 189	1 415	3 319	668
More than 360 days	2 978	946	4 692	837
Total	216 849	6 529	268 361	5 593

Restructured loans and modifications

During the year, loans with a total carrying amounting of K42 074m (2021: K16 602m) were restructured (modified). Their total fair value after restructuring was K41 496m (2021: K16 418m) resulting into a net fair value loss of K578m (2021: net loss of K184m) 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 K33 970m (2021: K840m) and their fair value was K33 670m (2021: K859m) resulting in a net modification loss amounting to K300m (2021: net gain of K19m) 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 gain of K452m (2021: net loss K277m) relating to amortization of the gains and losses on loans that were modified in 2018, 2019, 2020, 2021 and 2022.

The net loss recognised in the statement of income for the year ended 31 December 2022 is therefore K126 (2021: net loss K461m).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

12. Loans and advances (Continued)

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

Group

At 31 December 2022

Loss allowance – Loans and advances to customers at amortised cost	Stage 1 K'm	Stage 2 K'm	Stage 3 K'm	Total K'm
At 1 January 2022	3 137	1 004	4 556	8 697
Changes in the loss allowance				
– Transfer to stage 1	126	(41)	(85)	-
– Transfer to stage 2	(110)	187	(77)	-
– Transfer to stage 3	(480)	(96)	576	-
Write offs	-	-	(2 607)	(2 607)
Charge to income statement	1 514	(415)	1 312	2 411
Changes in loss allowance for off balance sheet assets	(96)	7	98	9
New financial assets originated	799	20	207	1 026
Financial assets that have been de-recognised	(336)	(70)	(620)	(1 026)
Closing Balance	4 554	596	3 360	8 510

The consolidated charge to the statement of comprehensive income of K6 141m includes loans and advances written down during the year amounting to K3 711m and net impairment losses of investments and other assets amounting to K10m (Notes 5, 6, 7,8 and 12).

Group

At 31 December 2021

Loss allowance – Loans and advances to customers at amortised cost	Stage 1 K'm	Stage 2 K'm	Stage 3 K'm	Total K'm
At 1 January 2021	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)
Closing Balance	3 137	1 004	4 556	8 697

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, 7,8 and 12).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

12. Loans and advances (Continued)

Company

At 31 December 2022

Loss allowance – Loans and advances to customers at amortised cost	Stage 1 K'm	Stage 2 K'm	Stage 3 K'm	Total K'm
At 1 January 2022	2 539	976	3 014	6 529
Changes in the loss allowance				
– Transfer to stage 1	85	(22)	(63)	-
– Transfer to stage 2	(60)	90	(30)	-
– Transfer to stage 3	(25)	(68)	93	-
Charge to income statement	196	(788)	(353)	(945)
Changes in loss allowance for off balance sheet assets	(96)	7	98	9
Closing Balance	2 639	195	2 759	5 593

The Bank's charge to statement of comprehensive income of K2 785m includes loans and advances written down during the year amounting to K3 711m and net impairment losses of investments and other assets amounting to K10m (Notes 5, 6, 7,8 and 12).

Company

At 31 December 2021

Loss allowance – Loans and advances to customers at amortised cost	Stage 1 K'm	Stage 2 K'm	Stage 3 K'm	Total 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)
Closing Balance	2 539	976	3 014	6 529

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, 7,8 and 12).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

13. Investment in associates

	GROUP AND COMPANY			
	2022 K'm	2021 K'm	2022 K'm	2021 K'm
Purchase consideration	992	992	992	992
Share of accumulated results	(74)	566	-	-
	918	1 558	992	992
Assets	12 674	9 658		
Liabilities	(11 175)	(6 487)		
Net assets	1 499	3 171		
Group's share of net assets of associates	705	1 490		
Total revenue	5 659	5 646		
(Loss)/profit before tax for the year	(2 218)	665		
(Loss)/profit after tax for the year	(1 675)	465		

The Bank holds 47% (2021: 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.

14. Investment in subsidiaries

	COMPANY	
	2022 K'm	2021 K'm
NBM Development Bank Limited	7 572	6 072
NBM Pensions Administration Limited	250	250
Stockbrokers Malawi Limited	98	98
NBM Bureau de Change Limited	7	7
Akiba Commercial Bank plc	7 697	5 585
NBM Capital Markets Limited	17	17
Total investment in subsidiaries	15 641	12 029

NBM, through National Bank Nominees Limited, holds 75% (2021: 75%) stake in Stockbrokers Malawi Limited. The Bank also holds 100% (2021: 100%) stake in NBM Bureau de Change Limited, a 100% (2021: 100%) stake in NBM Capital Markets Limited, a 100% (2021: 100%) stake in NBM Pension Administration Limited and a 100% (2021: 100%) stake in NBM Development Bank. NBM Bureau de Change ceased operations in 2013. In 2021, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

14. Investment in subsidiaries (Continued)

14.1 Akiba Commercial Bank plc

At 31 December 2021

Entity	Principal activity	Effective date of acquisition	Interest acquired	Consideration transferred
Akiba Commercial Bank plc	Commercial banking	1 January 2021	60.48%	K'm 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%.

14.1.1 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:

	K'm
Assets	
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
Total assets	57 673
Liabilities	
Amounts due to other banks	243
Customer deposits	41 509
Lease liability	4 883
Other liabilities	1 344
Total liabilities	47 979
Net assets fair value	9 694

14.1.2 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

4. Investment in subsidiaries (Continued)

4.1 Akiba Commercial Bank plc (Continued)

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

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 finalisation of the final price.

	K'm
14.1.4 Net cash outflow on acquisition of subsidiary	
Cash and cash equivalent balances acquired	13 452
Less: Consideration paid	(5 585)
Net cash inflow	7 867

14.1.5 Impact of acquisition on the results of the Group

Included in the profit for the year is a loss of K4 072m (2021: loss of K1 942m) attributable to the additional business generated by Akiba Commercial Bank plc. Income for the year includes K13 081m (2021: K10 095m) in respect of Akiba Commercial Bank plc.

15. Property and Equipment

	Freehold land & buildings K'm	Leasehold land & buildings K'm	Motor vehicles & equipment K'm	Work in progress K'm	Total K'm
GROUP					
Cost or valuation					
At 1 January 2022	27 233	9 208	23 433	21	59 895
Additions	-	3	4 212	84	4 299
Transfer from work in progress	-	40	20	(60)	-
Transfer from intangible assets work in progress	-	-	1	-	1
Transfer between classes	(163)	163	-	-	-
Disposals	-	-	(268)	-	(268)
Write offs	-	-	(77)	-	(77)
Revaluation surplus	2 438	674	-	-	3 112
At 31 December 2022	29 508	10 088	27 321	45	66 962
At 1 January 2023	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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

15. Property and Equipment (Continued)

	Freehold land & buildings K'm	Leasehold land & buildings K'm	Motor vehicles & equipment K'm	Work in progress K'm	Total K'm
GROUP					
Depreciation					
1 January 2022	-	2 877	16 971	-	19 848
Charge for the year	542	226	2 378	-	3 146
Elimination on revaluation	(542)	(135)	-	-	(677)
Elimination on disposal	-	-	(218)	-	(218)
Write offs	-	-	(73)	-	(73)
At 31 December 2022	-	2 968	19 058	-	22 026
Depreciation					
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
Carrying amount					
At 31 December 2022	29 508	7 120	8 263	45	44 936
At 31 December 2021	27 233	6 331	6 462	21	40 047
COMPANY					
Cost or valuation					
At 1 January 2022	27 233	7 256	20 470	21	54 980
Additions	-	-	3 874	84	3 958
Transfer from work in progress	-	40	20	(60)	-
Transfer from intangible assets work in progress	-	-	1	-	1
Transfer from other classes	(163)	163	-	-	-
Disposals	-	-	(265)	-	(265)
Write offs	-	-	(77)	-	(77)
Revaluation surplus	2 438	674	-	-	3 112
At 31 December 2022	29 508	8 133	24 023	45	61 709
COMPANY					
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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

15. Property and Equipment (Continued)

15.1 Land and buildings (Continued)

	Freehold land & buildings	Leasehold land & buildings	Motor vehicles & equipment	Work in progress	Total
	K'm	K'm	K'm	K'm	K'm
COMPANY					
Depreciation					
1 January 2022	-	1 154	14 269	-	15 423
Charge for the year	542	144	2 227	-	2 913
Elimination on revaluation	(542)	(135)	-	-	(677)
Elimination on disposal	-	-	(215)	-	(215)
Write offs	-	-	(73)	-	(73)
At 31 December 2022	-	1 163	16 208	-	17 371
Depreciation					
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
Carrying amount					
At 31 December 2022	29 508	6 970	7 815	45	44 338
At 31 December 2021	27 233	6 102	6 201	21	39 557

GROUP**Land and buildings**

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

	GROUP	
	2022	2021
	K'm	K'm
Freehold - at 2022 valuation	29 508	-
- at 2021 valuation	-	27 233
Total freehold land and buildings	29 508	27 233
Leasehold - at 2022 valuation	10 088	-
- at 2021 valuation	-	9 208
Total leasehold land and buildings	10 088	9 208

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

15. Property and Equipment (Continued)

15.1 Land and buildings (Continued)

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

	Related parties	Others	Total
	K'm	K'm	K'm
2022			
Motor vehicles	-	156	156
2021			
Motor vehicles	143	123	266

In 2021, People Trading Centre Limited (PTC) was the related party to whom the Bank leased motor vehicles which were purchased at a cost of K217m. PTC is no longer related party to the Group.

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

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

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

Valuations in 2022

Land and buildings for the Bank were fair valued as at 31 December 2022 by Nickson Mwanyali, BSc (Est. Mgmt) of Knight Frank, qualified independent valuer on a current market value basis.

Out of the K3 789m (2021: K4 559m) the Group's gross revaluation surplus, K93m (2021: K105m) 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 K3 696m (2021: K4 454m) was credited to the revaluation reserve through the statement of other comprehensive income (refer note 33).

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

15. Property and Equipment (Continued)

15.1 Land and buildings (Continued)

	Fair value			2022
	Level 1	Level 2	Level 3	
	K'm	K'm	K'm	K'm
Freehold land and buildings	-	29 508	-	29 508
Leasehold land and buildings	-	10 088	-	10 088

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

Had land and buildings been carried at historical cost less depreciation and accumulated impairment losses, their carrying value would have been approximately K8 502m (2021: K8 701m)

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 2022

16. Intangible assets

	Development costs	Computer software	Work in progress	Total
	K'm	K'm	K'm	K'm
GROUP				
Cost or valuation				
At 1 January 2022	-	14 324	1 932	16 256
Additions	-	15	1 414	1 429
Transfer from work in progress	-	1 080	(1 080)	-
Transfer to Property and Equipment	-	-	(1)	(1)
Write offs	-	-	(169)	(169)
At 31 December 2022	-	15 419	2 096	17 515
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
Amortisation				
At 1 January 2022	-	6 832	-	6 832
Charge for the year	-	1 356	-	1 356
Write offs	-	(169)	-	(169)
At 31 December 2021	-	8 019	-	8 019
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
Carrying amounts				
31 December 2022	-	7 231	2 265	9 496
31 December 2021	-	7 492	1 932	9 424

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

16. Intangible assets (Continued)

	Development costs K'm	Computer software K'm	Work in progress K'm	Total K'm
COMPANY				
Cost or valuation				
At 1 January 2022	-	12 903	1 922	14 825
Additions	-	-	1 414	1 414
Transfer from work in progress	-	1 080	(1 080)	-
Transfer to property and equipment	-	-	(1)	(1)
Write offs	-	(169)	-	(169)
At 31 December 2022	-	13 814	2 255	16 069
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
Depreciation				
At 1 January 2022	-	5 682	-	5 682
Charge for the year	-	1 288	-	1 288
Write offs	-	(169)	-	(169)
At 31 December 2022	-	6 801	-	6 801
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
Carrying amounts				
31 December 2022	-	7 013	2 255	9 268
31 December 2021	-	7 221	1 922	9 143

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 K169m relates to FLEXCUBE 10.5 version computer software that was acquired from Inderbank in 2016. The system is no longer required by the Group and its licence expired. The asset was fully amortised.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

17. Right-of-use assets

GROUP**Cost or valuation**

At 1 January 2022	10 184
Additions	9
Akiba Right of use asset remeasurement	62
Akiba Right of use asset adjustment	(10)

At 31 December 2022

At 1 January 2021	3 774
Acquired through business combination	5 680
Akiba Right of use asset remeasurement	730

At 31 December 2021

Amortisation

At 1 January 2022	3 891
Akiba Right of use asset adjustment	61
Charge for the year	1 347

At 31 December 2022

At 1 January 2021	1 419
Acquired through business combination	1 158
Charge for the year	1 314

At 31 December 2021

Carrying amounts

31 December 2022

31 December 2021

COMPANY**Cost or valuation**

At 1 January 2022	3 774
Addition	9

At 31 December 2022

At 1 January 2021

At 31 December 2021

Amortisation

At 1 January 2022	2 204
Charge for the year	787

At 31 December 2022

At 1 January 2021

Charge for the year

At 31 December 2021

Carrying amounts

31 December 2022

31 December 2021

Buildings
K'm

10 184

9

62

(10)

10 245

3 774

5 680

730

10 184

3 891

61

1 347

5 299

1 419

1 158

1 314

3 891

4 946

6 293

3 774

9

3 783

3 774

3 774

2 204

787

2 991

1 419

785

2 204

792

1 570

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

17. 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.

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
GROUP					
2022					
Accelerated capital allowances	-	(1 383)	(41)	-	(1 424)
Revaluation of land and buildings	-	9 014	27	2 032	11 073
Tax losses*	-	1 452	-	-	1 452
Other temporary differences	-	2 054	(1 370)	-	684
Total deferred tax	-	11 137	(1 384)	2 032	11 785
2021					
Accelerated capital allowances	249	(1 798)	166	-	(1 383)
Revaluation of land and buildings	-	8 248	31	735	9 014
Tax losses*	1 452	-	-	-	1 452
Other temporary differences	706	2 256	(908)	-	2 054
Total deferred tax	2 407	8 706	(711)	735	11 137

* The tax losses relate to Akiba Commercial Bank Limited. Under Income Tax Act, 2004 of Tanzania, tax losses can be carried indefinitely. However, when taxable profits start to be generated only 70% of the taxable profits can be offset with carried forward taxable losses in that particular year and 30% of those taxable profits will have to be subjected to tax in that year at 30%. The remaining taxable losses are allowed to be carried forward.

COMPANY

2022					
Accelerated capital allowances	-	(218)	(38)	-	(256)
Revaluation of land and buildings	-	8 839	27	2 032	10 898
Other temporary differences	-	27	(1 321)	-	(1 294)
Total deferred tax	-	8 648	(1 332)	2 032	9 348
2021					
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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

18.2 Deferred tax liability

GROUP

2022

	Opening balance K'm	On Disposal K'm	to profit or loss K'm	Charge Charged to equity K'm	Closing balance K'm
Other temporary differences	-	-	2	-	2
Total deferred tax	-	-	2	-	2

2021

Other temporary differences	-	-	-	-	-
Total deferred tax	-	-	-	-	-

GROUP

2022 K'm	2021 K'm
Balance at beginning of the year	3 959
Balance at end of the year	3 959

19. Goodwill

Balance at beginning of the year	3 959
Balance at end of the year	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 K43 780m (2021: K77 120m) 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 2023 and projections covering a 4 year period from 2024) discounted at a weighted average cost of capital of 40.23% (2021: 24.13%).

All forecasts used in the determination of value in use are extracted directly from the Bank's 2023 budget that was presented to the Board of Directors and approved by them.

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

The carrying amount of the CGUs was K9 800m (2021: K10 207m). As such, in accordance with IAS 36 Impairment of Assets, NBM determined that the goodwill was not impaired as at 31 December 2022.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

23. Loans (Continued)**23.1 Lines of credit (Continued)****23.1.2 United States Agency for International Development (USAID)**

This is a two-part loan: The first loan, which is unsecured, is for USD1.2m and bears interest at 4% per annum. The Malawi Kwacha value of the loan was set at the time of disbursement. The loan is repayable to the Malawi Government in Malawi Kwacha over a period of 25 years commencing 30 June 1993. The carrying amount of the loan as at 31 December 2022 was K3m (2021: 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 2022 was K9m (2021: 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.

23.1.3 The Transport Sector Revolving Fund

The transport sector revolving fund loan bears interest at 3% per annum. The loan is repayable on such dates as the Government and the Bank shall mutually agree in writing. As at year-end an agreement had not yet been reached. The carrying amount of the loan as at 31 December 2022 was K67m (2021: K67m).

23.1.4 Private Sector Revolving Fund

The private sector revolving fund loan is effectively interest free. However, from 1 July 2004, the Group is obliged to pay an administrative fee pegged at 3% per annum on all sums advanced by Government. The loan is repayable on such a date as the Government and the Bank shall mutually agree in writing. As at reporting date, an agreement had not yet been reached. The carrying amount of the loan as at 31 December 2022 was K25m (2021: K25m).

23.1.5 European Investment Bank (EIB)

In 2016, the Bank signed an agreement for an unsecured line of credit for Euro 30 million joint facility with the European Investment Bank (EIB) to facilitate purchase, construction and extension of warehouses and agristorage assets. The Bank shall pay interest on the outstanding balance at the rate of either (i) 3.381 % in respect of those tranches deemed by the Bank to be in respect of HDI Investments or (ii) 3.471 % for all tranches in respect of Standard Investments. Both rates shall incur interest semi-annually in arrears. The loan is repayable semi-annually. As at 31 December 2022, the Bank drew down USD29 142m (2021: USD29 142m) and made total repayments amounting to USD22.9m (2020: USD17.4m). The carrying amount includes accrued interest amounting to USD0.03m (2021: USD0.06m) which is repayable by 30 June 2023. The carrying amount of the loan as at 31 December 2022 was K7 896m (2021: K10 387m).

23.2 Reserve Bank of Malawi Loan

During the year, NBM Development Bank Limited signed an agreement with Reserve Bank of Malawi (RBM) for unsecured Micro, Small and Medium Enterprise Line of Credit Facility (MSMELCF) amounting K3 000m to facilitate lending to Micro, Small and Medium Enterprises. The Bank pays interest at the rate of 3% per annum, payable semi-annually. The facility expires in September 2025. As at 31 December 2022 interest amounting to K50m was accrued and K48m was made towards repayments. The carrying amount of the loan as at 31 December 2022 was therefore K3 002m.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

24. Provisions**GROUP****2022**

At 1 January 2022 5 962 84 6 046
Provisions made during the year 6 189 238 6 427
Payments made during the year (5 962) (120) (6 082)

At 31 December 2022 6 189 202 6 391

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 5 962 84 6 046

COMPANY**2022**

At 1 January 2022 5 772 76 5 848
Provisions made during the year 5 772 229 6 001
Payments made during the year (5 772) (111) (5 883)

At 31 December 2022 5 772 194 5 966

2021

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

Employee bonus K'm	Tevet levy K'm	Total K'm
5 962	84	6 046
6 189	238	6 427
(5 962)	(120)	(6 082)
6 189	202	6 391
3 716	81	3 797
5 962	194	6 156
(3 716)	(191)	(3 907)
5 962	84	6 046
5 772	76	5 848
5 772	229	6 001
(5 772)	(111)	(5 883)
5 772	194	5 966
3 578	74	3 652
5 772	186	5 958
(3 578)	(184)	(3 762)
5 772	76	5 848

GROUP**COMPANY**

2022 K'm	2021 K'm	2022 K'm	2021 K'm
1 603	1 434	1 603	1 434
2 126	1 600	1 496	1 326
2 278	3 944	2 278	3 944
5 010	2 604	4 683	2 588
3 846	3 713	2 902	2 201
2 394	1 464	1 713	1 061
24	628	24	628
4 609	1 046	4 609	1 046
371	943	43	1 144
22 261	17 376	19 351	15 372

25. Other liabilities

Unclaimed balances 1 603 1 434 1 603 1 434
Deferred income 2 126 1 600 1 496 1 326
Bank cheque 2 278 3 944 2 278 3 944
Office accounts 5 010 2 604 4 683 2 588
Trade and other payables 3 846 3 713 2 902 2 201
Other tax payables 2 394 1 464 1 713 1 061
Cash security 24 628 24 628
Cards and other products 4 609 1 046 4 609 1 046
Sundry payables 371 943 43 1 144

Total other liabilities 22 261 17 376 19 351 15 372

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

26. Lease liability

	GROUP		COMPANY	
	2022 K'm	2021 K'm	2022 K'm	2021 K'm
Opening lease liability as at 01 January	7 900	3 158	2 603	3 158
Additions	9	-	9	-
Acquired through business combination	-	4 883	-	-
Interest on lease	1 035	1 078	417	526
Lease repayments (principal and interest)	(2 034)	(1 949)	(1 191)	(1 081)
Lease liability adjustment	(61)	730	-	-
Closing balance as at 31 December	6 849	7 900	1 838	2 603

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 K2 034m (2021: K1 949m) payments, K999m (2021: K871m) were towards settlement of the lease liability (principal) and K1 035m (2021: K1 078m) for payment of the interest on lease liability.

The maturity profiles for the lease payments are as follows:

	GROUP		COMPANY	
	2022 K'm	2021 K'm	2022 K'm	2021 K'm
Year 1	3 174	2 508	2 102	1 425
Year 2	1 086	3 172	3	2 100
Year 3	1 097	1 083	3	-
Year 4	1 108	1 094	3	-
Year 5	1 116	1 105	-	-
Year 6	1 127	1 116	-	-
Year 7	1 138	1 127	-	-
Year 8	1 150	1 138	-	-
Year 9	1 161	1 150	-	-
Year 10	-	1 161	-	-
Total lease payments	12 157	14 654	2 111	3 525

The currency analysis of lease liability is included in note 42(f).

27. Post balance sheet events

Preference shares investment in Akiba Commercial Bank plc of Tanzania.

Subsequent to the reporting period, in February 2023, NBM Group finalised a preference share investment in Akiba Commercial Bank plc of Tanzania at a cash consideration of K2 325m.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

28. Pension scheme

The Group operates a fully defined contribution pension scheme for its employees. The contributions of employees and the employer are 5.5% (2021: 5.5%) and 11.0% (2021: 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 K2 114m (2021: K1 791m).

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 K509m (2021: K450m) in rentals for such properties during the year.

The Fund was valued by independent actuaries, Alexander Forbes, as at 31 December 2021. As per the actuarial valuation, the General Fund had a surplus of K2 376m (December 2020: surplus of K1 471m) and the Special Fund had a surplus of K410m (December 2020: surplus of K427m). According to the report, the special Fund had no liabilities as at 31 December 2021.

29. Net interest income

Interest and similar income

	GROUP		COMPANY	
	2022 K'm	2021 K'm	2022 K'm	2021 K'm
Interest on loans and advances and bills discounted	50 205	38 335	40 373	29 557
Income from investments	50 756	32 375	49 169	31 894
Income from lease financing	3 546	2 763	3 546	2 763
Interest on placements with other banks	1 547	1 432	653	663
Arrangement and other fee income	5 930	4 571	5 921	4 564
	111 984	79 476	99 662	69 441

Interest expense and similar charges

Banks and customers	10 738	6 617	8 693	4 327
Interest on Foreign Bank loan	354	417	354	417
Interest on Reserve Bank of Malawi loan	50	-	-	-
Money market loans and repos	1 969	744	1 728	718
	13 111	7 778	10 775	5 462
Net interest income	98 873	71 698	88 887	63 979

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

	GROUP	
	2022 K'm	2021 K'm
36. Dividend per share		
Final dividend (prior year)	18 005	10 501
First interim dividend (current year)	8 003	5 001
	<u>26 008</u>	<u>15 502</u>
Weighted average number of Ordinary Shares in issue (millions)	467	467
Dividend per share	<u>55.69</u>	<u>33.19</u>

The proposed current year final dividend is K15 000m (2021: K11 000m) representing K32.12 per share (2021: K23.55 per share). A second interim dividend of K10 000m (2021: K7 000m) will be paid on 6 April 2023.

	GROUP		COMPANY	
	2022 K'm	2021 K'm	2022 K'm	2021 K'm
37. Contingencies				
Letters of credit and guarantees				
Foreign guarantees	644	2 016	644	2 016
Local guarantees and performance bonds	7 184	6 595	7 184	6 595
Letters of credit	21 548	26 937	21 548	26 937
Total letters of credit and guarantees	<u>29 376</u>	<u>35 548</u>	<u>29 376</u>	<u>35 548</u>
Other contingencies				
Legal claims	3 495	2 034	3 495	2 034
Tax dispute	787	545	-	-
Customer funds under management	177 215	122 392	-	-
Total other contingencies	<u>181 497</u>	<u>124 971</u>	<u>3 495</u>	<u>2 034</u>

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.

There are pending tax appeal cases in the Tax Revenue Appeals Tribunal in which Akiba Commercial Bank is contesting tax assessments which amounts to K787m (2021: K545m).

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 K6 709m (2021: K3 980m).

In 2021, there were pending tax appeal cases in the Tax Revenue Appeals Tribunal in which Akiba Commercial Bank was contesting tax assessments. The Bank won the objection.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

	GROUP		COMPANY	
	2022 K'm	2021 K'm	2022 K'm	2021 K'm
38. Commitments				
Expenditure contracted for but not yet incurred	2 573	1 903	2 176	1 558
Expenditure approved by the Board but not contracted	6 853	3 542	6 853	3 542
Total commitments	<u>9 426</u>	<u>5 445</u>	<u>9 029</u>	<u>5 100</u>

These commitments are to be funded from internal resources.

	GROUP		COMPANY	
	2022 K'm	2021 K'm	2022 K'm	2021 K'm
39. Cash and cash equivalents				
Cash and funds with central banks (note 5)	64 650	35 768	53 604	26 054
Placements with other banks (note 6)	83 515	31 367	83 302	31 367
Other money market deposits (note 7)	169 277	95 681	-	49 583
Total cash and cash equivalents	<u>317 442</u>	<u>162 816</u>	<u>136 906</u>	<u>107 004</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

40. Financial assets and liabilities

Accounting categories and fair values

GROUP	Notes	Fair value through profit or loss K'm	Fair value through other comprehensive income K'm	Amortised cost K'm	Total carrying amount K'm	Fair value K'm
2022						
Assets						
Cash and bank balances with Central Banks	5	64 650	-	-	64 650	64 650
Placements with other banks	6	-	-	83 515	83 515	83 515
Government securities	10	-	-	345 939	345 939	345 939
Equity investments	9	6 892	-	-	6 892	6 892
Loans and advances	11	-	-	310 440	310 440	310 440
Other money market deposits	7	-	-	169 277	169 277	169 277
Other assets		-	-	5 573	5 573	5 573
Total financial assets		71 542	-	914 744	986 286	986 286
Liabilities and equity						
Customer deposits	20	-	-	809 562	809 562	809 562
Amounts due to other banks	21	-	-	35 640	35 640	35 640
Loans	23	-	-	11 108	11 108	11 108
Provisions	24	-	-	6 391	6 391	6 391
Other liabilities		-	-	3 108	3 108	3 108
Lease liability	26	-	-	6 849	6 849	6 849
Total financial liabilities		-	-	872 658	872 658	872 658

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

40. Financial assets and liabilities (continued)

Accounting categories and fair values (Continued)

GROUP	Notes	Fair value through profit or loss K'm	Fair value through other comprehensive income K'm	Amortised cost K'm	Total carrying amount K'm	Fair value K'm
2021						
Assets						
Cash and bank balances with Central Banks	5	35 768	-	-	35 768	35 768
Placements with other banks	6	-	-	31 367	31 367	31 367
Government securities	11	-	-	298 916	298 916	298 916
Government of Malawi promissory note	10	-	-	12 126	12 126	12 126
Equity investments	9	5 357	-	-	5 357	5 357
Loans and advances	12	-	-	240 884	240 884	240 884
Other money market deposits	7	-	-	95 681	95 681	95 681
Other assets		-	-	5 343	5 343	5 343
Total financial assets		41 125	-	684 317	725 442	725 442
Liabilities and equity						
Customer deposits	20	-	-	558 245	558 245	558 245
Amounts due to other banks	21	-	-	51 677	51 677	51 677
Loans	23	-	-	10 596	10 596	10 596
Provisions	24	-	-	6 046	6 046	6 046
Other liabilities		-	-	2 869	2 869	2 869
Lease liability	26	-	-	7 900	7 900	7 900
Total financial liabilities		-	-	637 333	637 333	637 333

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

40. Financial assets and liabilities (continued)

Accounting categories and fair values (Continued)

COMPANY	Notes	Fair value through profit or loss K'm	Fair value through other comprehensive income K'm	Amortised cost K'm	Total carrying amount K'm	Fair value K'm
2022						
Assets						
Cash and bank balances with Central Banks	5	53 604	-	-	53 604	53 604
Placements with other banks	6	-	-	83 302	83 302	83 302
Government securities	11	-	-	309 930	309 930	309 930
Equity investments	9	6 892	-	-	6 892	6 892
Loans and advances	12	-	-	262 768	262 768	262 768
Other assets		-	-	878	878	878
Total financial assets		60 496	-	656 878	717 374	717 374
Liabilities and equity						
Customer deposits	20	-	-	568 644	568 644	568 644
Amounts due to other banks	21	-	-	27 959	27 959	27 959
Loans	23	-	-	8 105	8 105	8 105
Provisions	24	-	-	5 966	5 966	5 966
Other liabilities		-	-	765	765	765
Lease liability	26	-	-	1 838	1 838	1 838
Total financial liabilities		-	-	613 277	613 277	613 277

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

40. Financial assets and liabilities (continued)

Accounting categories and fair values (Continued)

COMPANY	Notes	Fair value through profit or loss K'm	Fair value through other comprehensive income K'm	Amortised cost K'm	Total carrying amount K'm	Fair value K'm
2021						
Assets						
Cash and bank balances with Central Banks	5	26 054	-	-	26 054	26 054
Placements with other banks	6	-	-	31 367	31 367	31 367
Government securities	11	-	-	271 254	271 254	271 254
Government of Malawi		-	-	-	-	-
Promissory note	10	-	-	12 126	12 126	12 126
Equity investments	9	5 357	-	-	5 357	5 357
Loans and advances	12	-	-	210 320	210 320	210 320
Other money market deposits	7	-	-	49 583	49 583	49 583
Other assets		-	-	700	700	700
Total financial assets		31 411	-	575 350	606 761	606 761
Liabilities and equity						
Customer deposits	20	-	-	456 412	456 412	456 412
Amounts due to other banks	21	-	-	49 510	49 510	49 510
Loans	23	-	-	10 596	10 596	10 596
Provisions	24	-	-	5 848	5 848	5 848
Other liabilities		-	-	988	988	988
Lease liability	26	-	-	2 603	2 603	2 603
Total financial liabilities		-	-	525 957	525 957	525 957

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

41. Fair value measurements

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

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

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

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

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

41.2 Fair value measurements recognised in the statement of financial position

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

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

GROUP & COMPANY

	2022 K'm	2021 K'm
6 892		5 357

Financial assets at fair value through profit or loss

Non-derivative financial assets held for trading

Level 1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

41. Fair value measurements (Continued)

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

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

Group Financial assets/financial liabilities	Fair value		Fair value hierarchy	Valuation technique(s) and key input(s)
	2022 K'm	2021 K'm		
Equity investments	6 892	5 357	Level 1	Quoted prices
Government of Malawi Promissory note	-	12 126	Level 2	Discounted cash flows using applicable interest rates and agreed repayment plan agreed
	6 892	17 483		

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

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

42. Financial risk management

a) Introduction and overview

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

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

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

Risk management framework

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)**a) Introduction and overview (Continued)****Risk management framework (Continued)**

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)**a) Introduction and overview (Continued)****Risk management framework (Continued)**

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	
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: -

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

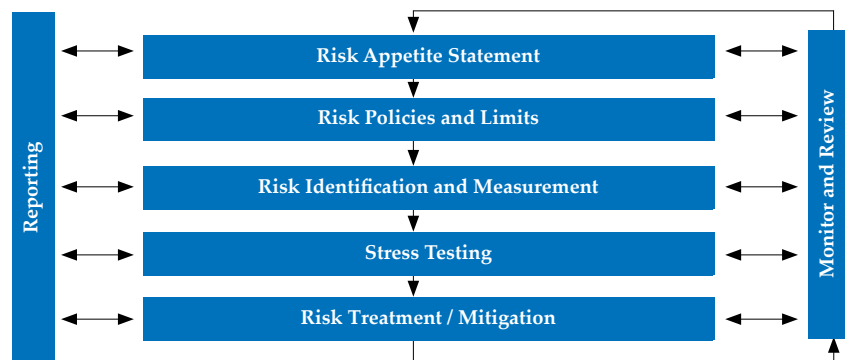
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. 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:-

i) Economic and Business Environment Risk – the Economic and Business risk remained high in 2022. The economy was negatively impacted by the effects of weather-related shocks related to cyclone Ana and Gombe as well as the delayed and early cessation of rains in most parts of the country. Other factors included the intermittent power supply, spillover effects of the ongoing Russia/Ukraine war, persistent global supply chain disruptions, and the resurgence of new waves of the COVID-19 pandemic. On the foreign exchange front, pressures emanating from demand/supply imbalances persisted despite the devaluation of the Malawi Kwacha by 25%, as the country pursued the securing of an approval for an ECF program with the IMF which is yet to be granted. The economy remained heavily reliant of imports which continues to suffer from huge forex shortage. This continues to put pressure on the Malawi Kwacha which is now unstable and continues to depreciate. The combined effect of the highlighted factors anchored a heightened up inflationary pressure in the economy.

ii) The Impact of Covid-19 – Covid-19 was very disruptive to many business models in 2020. However, its impact in 2021 and 2022 was moderate. During the onset months of 2022, the country experienced the 'fourth wave' of the pandemic, however, the economy remained open for business. Still performance of most businesses in some sectors like hospitality subdued. 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 compen

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)

b) Current and emerging risks (Continued)**ii) The Impact of Covid-19 (Continued)**

sated 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.

iii) 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.

iv) Climate change – Cyclone Ana, Gombe and Freddy destroyed the major hydro power station in the country, which impacted industrial and business productivity in the economy. These cyclones destroyed roads, infrastructure as well as crops in the country. This resulted into an unexpected fiscal outlay by the government which affected its public expenditure plan. As most households fell into the food insecure band since most crops were affected and the respective yield of these fell off the initial projected levels. Clients of the Bank in the affected sectors saw their business operations affected heavily.

v) Investment in other territories-The Group holds an investment in Akiba Commercial Bank plc of Tanzania. since January 2021. The Group is therefore exposed to the risks associated with the investment in Tanzania. The Group has put in place measures to identify, manage and mitigate itself against the impact of such risks on its investment in Akiba. For year ended 31 December 2022 Akiba has made a loss after tax of K4 072m (2021: K1 942m) which was mainly due significant increases in provisions for loans and tax. However, the performance is expected to turn around in 2023.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)

c) Credit risk (Continued)

Business Units, Risk Division and Internal Audit (Continued)

These are; the Standardised Approach and the Internal Ratings Based (IRB) approaches. The approaches are more aligned or biased towards the robustness of the internal risk management systems of the banks. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of credit risk

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

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)

c) Credit risk (Continued)

Management of credit risk (Continued)

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

Significant increase in credit risk

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

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

- (ii) Significant financial difficulty of the issuer or obligor;
- (iii) A breach of contract, such as a default or delinquency in interest or principal payments;
- (iv) The Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (v) It becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- (vi) The disappearance of an active market for that financial asset because of financial difficulties;
- (vii) The purchase or origination of a financial asset at a deep discount that reflects incurred credit losses; and
- (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);

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)

c) Credit risk (Continued)

Internal credit risk ratings (Continued)

- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies;
- For retail exposures: internally generated data of customer behaviour, affordability metrics etc.; and
- For corporate exposures: information obtained by periodic review of customer files including audited financial statements review, changes in the financial sector the customer operates etc.

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

The Nature & Extent of Credit Risk

The Group's exposure as at 31 December 2022 was at K318 950m (2021: K249 581m) with Non-Performing Loans (NPL) standing at 13.75% (2021: 10.45%). The Bank's separate exposure as at 31 December 2022 was at K268 361m (2021: K216 849m) with Non-Performing Loans (NPL) standing at 14.76% (2021: 9.72%).

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 2022 with utilised overdrafts of K29 337m (2021: K41 626m) against limits of K58 279m (2021: K71 315m) representing 50.34% (2021: 58.37%) of the total limits. The Bank closed 2022 with utilized overdrafts of K28 533m (2021: K41 506m) against limits of K57 278 (2021: K71 163m) representing 49.81% (2021: 58.33%) of the total limits.

Forbearances (both requested and granted)

There are significant forbearances in the reporting period. Refer to note 11 for the impact of the forbearances (restructured and modified facilities).

Changes in business, financial and economic conditions;

As discussed above on note 42 b) (i) the Economic and Business risk remained high in 2022 as a result of weather related shocks, intermittent power supply and the 25% devaluation of the Malawi kwacha among several factors. The Group remained resilient to these shocks and continues to monitor closely the lending portfolios.

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 2022

42. Financial risk management (Continued)

c) Credit risk (Continued)

Loans and advances to customers at amortised cost categorised per sector

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

	GROUP		COMPANY	
	2022 K'm	2021 K'm	2022 K'm	2021 K'm
Concentration by sector				
Agriculture, forestry, fishing and hunting	36 047	33 742	34 330	33 195
Mining and quarrying	2 192	634	2 192	634
Manufacturing	28 228	21 066	27 561	20 990
Electricity, gas, water and energy	18 711	10 039	18 350	10 039
Construction	4 881	3 529	4 881	3 529
Wholesale and retail trade	62 193	56 641	30 826	34 838
Restaurants and hotels	30 118	25 326	29 075	20 170
Transport, storage and communications	21 670	12 959	19 192	12 474
Financial services	8 879	8 077	8 858	8 077
Community and social services	10 738	8 059	8 894	8 059
Real estate	6 987	7 300	6 983	7 300
Personal	79 796	53 512	71 626	51 015
	310 440	240 884	262 768	210 320

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	2022 K'm	2021 K'm
Stage 1	254 757	203 265
Stage 2	20 346	20 230
Stage 3	43 847	26 086
Total Gross Carrying Amount	318 950	249 581
Loss Allowance	(8 510)	(8 697)
Carrying amount	310 440	240 884

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)

c) Credit risk (Continued)

Company loans and advances to customers at amortised cost categorised by stages

Stage	2022 K'm	2021 K'm
Stage 1	209 376	175 995
Stage 2	19 362	19 777
Stage 3	39 623	21 077
Total Gross Carrying Amount	268 361	216 849
Loss Allowance	(5 593)	(6 529)
Carrying amount	262 768	210 320

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	
	2022 K'm	2021 K'm	2022 K'm	2021 K'm
Balances with the Central Banks	34 185	9 773	27 603	7 221
Placements with other banks	83 515	31 367	83 302	31 367
Government securities	345 939	298 916	309 930	271 254
Government of Malawi Promissory note	-	12 126	-	12 126
Loans and advances	310 440	240 884	262 768	210 320
Other money market deposits	169 277	95 681	-	49 583
Other assets	5 573	5 343	878	700
Total recognised financial instruments	948 929	694 090	684 481	582 571
Guarantees and performance bonds	7 828	8 611	7 828	8 611
Letters of credit	21 548	26 937	21 548	26 937
Total unrecognised financial instruments	29 376	35 548	29 376	35 548
Total credit exposure	978 305	729 638	713 857	618 119

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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)

c) Credit risk (Continued)

GROUP

2022

Balances with Central Banks	-	34 185
Placements with other banks	-	83 515
Government securities	-	345 939
Loans and advances	8 758	301 682
Other money market deposits	-	169 277
Other assets	-	5 573
948 929	8 758	940 171

2021

Balances with Central Banks	-	15 283
Placements with other banks	-	31 367
Government securities	-	293 406
Government of Malawi Promissory note	-	12 126
Loans and advances	12 388	228 496
Other money market deposits	-	95 681
Other assets	-	5 343
694 090	12 388	681 702

COMPANY

2022

Balances with the Reserve Bank of Malawi	-	27 603
Placements with other banks	-	83 302
Government of Malawi treasury bills and Treasury notes	-	309 930
Loans and advances	5 350	257 418
Other assets	-	878
684 481	5 350	679 131

2021

Balances with the Reserve Bank of Malawi	-	7 221
Placements with other banks	-	31 367
Government of Malawi treasury bills and Treasury notes	-	271 254
Government of Malawi Promissory note	-	12 126
Loans and advances	10 158	200 162
Other money market deposits	-	49 583
Other assets	-	700
582 571	10 158	572 413

Carrying Amount K'm	Offset K'm	Net exposure to credit risk K'm
34 185	-	34 185
83 515	-	83 515
345 939	-	345 939
310 440	8 758	301 682
169 277	-	169 277
5 573	-	5 573
948 929	8 758	940 171
9 773	-	15 283
31 367	-	31 367
298 916	-	293 406
12 126	-	12 126
240 884	12 388	228 496
95 681	-	95 681
5 343	-	5 343
694 090	12 388	681 702

Carrying Amount K'm	Offset K'm	Net exposure to credit risk K'm
27 603	-	27 603
83 302	-	83 302
309 930	-	309 930
262 768	5 350	257 418
878	-	878
684 481	5 350	679 131
7 221	-	7 221
31 367	-	31 367
271 254	-	271 254
12 126	-	12 126
210 320	10 158	200 162
49 583	-	49 583
700	-	700
582 571	10 158	572 413

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)
c) Credit risk (Continued)

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	
	2022 K'm	2021 K'm	2022 K'm	2021 K'm
Individually impaired:				
Grade 9: Impaired	11 682	14 103	8 011	10 167
Grade 8: Impaired	32 165	11 983	31 612	10 910
Past due but not impaired:				
Grade 7: Watch list	20 346	20 230	19 362	19 777
Neither past due nor impaired:				
Grade 1 - 3 Low risk	53 090	33 646	8 303	6 827
Grade 4 - 6 Fair risk	201 667	169 619	201 073	169 168
Impairment provision	(8 510)	(8 697)	(5 593)	(6 529)
Total net carrying amount	310 440	240 884	262 768	210 320

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

	GROUP		COMPANY	
	Gross amount K'm	Provision K'm	Gross amount K'm	Provision K'm
31 December 2022				
Risk Grade				
Grade 9: Impaired	11 682	2 564	8 011	1 505
Grade 8: Impaired	32 165	2 338	31 612	2 254
Grade 7: Watch list	20 346	700	19 362	304
Grade 4 - 6 Fair risk	201 667	1 390	201 073	895
Grade 1 - 3 Low risk	53 090	1 045	8 303	162
Total Gross carrying amount	318 950	8 037	268 361	5 120
31 December 2021				
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	249 581	8 111	216 849	5 943

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)
c) Credit risk (Continued)

The Group's impairment provision of K8 037m (2021: K8 111m) excludes provision for off-balance sheet assets and unutilized limits amounting to K473m (2021: K586m). The Bank's impairment provision of K5 120m (2021: K5 943m) excludes provision for off-balance sheet assets and unutilized limits amounting to K473m (2021: K586m).

The current year total carrying amount includes K43 111m (2021: K28 299m) and K4 561m (2021: K2 265m) loans and advances extended by Akiba Commercial Bank plc and NBM Development Bank respectively. The provision related to Akiba Commercial Bank plc amounted K1 747m (2021: K2 107m) while for NBM Development Bank Limited amounted to K60m (2021: K17m) as at the reporting date.

Impaired loans and advances

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

Past due but not impaired loans

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

Allowance for impairment

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

Write-off policy

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

During the year, the Group has written off loans amounting to K6 318m (2021: K9 555m) out of which K3 711m (2021: K8 166m) has been charged to the statement of comprehensive income and K2 607m (2021: K1 389m) has been written off against provisions. Refer to note 12. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)

c) Credit risk (Continued)

Write-off policy (Continued)

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

	GROUP		COMPANY	
	2022 K'm	2021 K'm	2022 K'm	2021 K'm
<u>Against individually impaired</u>				
Motor vehicles	2 837	5 398	1 602	4 292
Commercial property	19 612	12 569	17 767	11 533
Residential property	14 709	13 518	7 934	2 865
Cash	17	40	-	-
	37 175	31 525	27 303	18 690
<u>Against the rest of the loan book</u>				
Motor vehicles and machinery	39 398	19 822	33 348	13 297
Commercial property	91 533	120 526	71 669	116 659
Residential property	107 362	109 364	40 553	34 816
Cash	8 741	12 388	5 350	10 158
Government guarantees	12 600	-	12 600	-
Total	259 634	262 100	163 520	174 930
Grand Total	296 809	293 625	190 823	193 620

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)

d) Liquidity risk (Continued)

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:

	2022	2021
At 31 December	48%	48%
Average of the period	45%	47%
Maximum for the period	49%	52%
Minimum for the period	41%	39%

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

GROUP

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Total K'm	Carrying amount K'm
2022						
Financial assets						
Cash and funds with						
Central Banks	64 650	-	-	-	64 650	64 650
Placements with other banks	83 302	213	-	-	83 515	83 515
Government securities	-	74 433	114 130	157 376	345 939	345 939
Equity investments	-	6 892	-	-	6 892	6 892
Loans and advances	12 518	16 932	75 911	205 079	310 440	310 440
Other money markets deposits	169 277	-	-	-	169 277	169 277
Other assets	5 573	-	-	-	5 573	5 573
Total financial assets	335 320	98 470	190 041	362 455	986 286	986 286
Financial liabilities						
Loans	358	-	5 610	5 140	11 108	11 108
Customer deposits	697 533	89 266	20 910	1 853	809 562	809 562
Amounts due to other banks	35 640	-	-	-	35 640	35 640
Provisions	-	-	6 391	-	6 391	6 391
Other liabilities	3 108	-	-	-	3 108	3 108
Lease liability	-	-	3 113	3 736	6 849	6 849
Total financial liabilities	736 639	89 266	36 024	10 729	872 658	872 658
Contractual liquidity mismatch	(401 319)	9 204	154 017	351 726	113 628	113 628
Cumulative mismatch	(401 319)	(392 115)	(238 098)	113 628	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)
d) Liquidity risk (Continued)

GROUP

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Total K'm	Carrying amount K'm
2021						
Financial assets						
Cash and funds with						
Central Banks	35 768	-	-	-	35 768	35 768
Placements with other banks	31 367	-	-	-	31 367	31 367
Government securities	-	60 984	83 730	154 202	298 916	298 916
Government of Malawi promissory note	-	-	12 126	-	12 126	12 126
Equity investments	-	5 357	-	-	5 357	5 357
Loans and advances	14 460	13 787	54 581	158 056	240 884	240 884
Other money markets deposits	95 681	-	-	-	95 681	95 681
Other assets	5 343	-	-	-	5 343	5 343
Total financial assets	182 619	80 128	150 437	312 258	725 442	725 442
Financial liabilities						
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
Total financial liabilities	529 526	71 907	23 579	12 321	637 333	637 333
Contractual liquidity mismatch	(346 907)	8 221	126 858	299 937	88 109	88 109
Cumulative mismatch	(346 907)	(338 686)	(211 828)	88 109	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)
d) Liquidity risk (Continued)

COMPANY

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Total K'm	Carrying amount K'm
2022						
Financial assets						
Cash and funds with						
Reserve Bank of Malawi	53 604	-	-	-	53 604	53 604
Placements with other banks	83 302	-	-	-	83 302	83 302
Government of Malawi treasury bills and treasury notes	-	48 670	114 130	147 130	309 930	309 930
Equity investments	-	6 892	-	-	6 892	6 892
Loans and advances	8 357	16 795	60 641	176 975	262 768	262 768
Other assets	878	-	-	-	878	878
Total financial assets	146 141	72 357	174 771	324 105	717 374	717 374
Financial liabilities						
Loans	-	-	5 296	2 809	8 105	8 105
Customer deposits	469 458	85 960	13 226	-	568 644	568 644
Amounts due to other banks	27 959	-	-	-	27 959	27 959
Provisions	-	-	5 966	-	5 966	5 966
Other liabilities	765	-	-	-	765	765
Lease liability	-	-	1 838	-	1 838	1 838
Total financial liabilities	498 182	85 960	26 326	2 809	613 277	613 277
Contractual liquidity mismatch	(352 041)	(13 603)	148 445	321 296	104 097	104 097
Cumulative mismatch	(352 041)	(365 644)	(217 199)	104 097	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)
d) Liquidity risk (Continued)

COMPANY

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Total K'm	Carrying amount K'm
2021						
Financial assets						
Cash and funds with						
Reserve Bank of Malawi	26 054	-	-	-	26 054	26 054
Placements with other banks	31 367	-	-	-	31 367	31 367
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
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
Total financial assets	120 284	51 032	139 143	296 302	606 761	606 761
Financial liabilities						
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
Total financial liabilities	434 750	67 354	15 554	8 299	525 957	525 957
Contractual liquidity mismatch	(314 466)	(16 322)	123 589	288 003	80 804	80 804
Cumulative mismatch	(314 466)	(330 788)	(207 199)	80 804	-	-

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)
e) Market risk (Continued)

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.

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

GROUP

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Non interest sensitive K'm	Total K'm
2022						
Financial assets						
Cash and funds with						
Central Banks	-	-	-	-	64 650	64 650
Placements with other banks	83 302	213	-	-	-	83 515
Government securities	-	74 433	114 130	157 376	-	345 939
Equity investments	-	-	-	-	6 892	6 892
Loans and advances	12 518	16 932	75 911	205 079	-	310 440
Other money market deposits	169 277	-	-	-	-	169 277
Other assets	-	-	-	-	5 573	5 573
Total financial assets	265 097	91 578	190 041	362 455	77 115	986 286
Financial liabilities						
Loans	358	-	5 610	5 140	-	11 108
Customer deposits	441 366	89 266	20 910	1 853	256 167	809 562
Amounts due to other banks	35 640	-	-	-	-	35 640
Provisions	-	-	-	-	6 391	6 391
Other liabilities	-	-	-	-	3 108	3 108
Lease liability	-	-	3 113	3 736	-	6 849
Total financial liabilities	477 364	89 266	29 633	10 729	265 666	872 658
Interest sensitivity gap	(212 267)	2 312	160 408	351 726	(188 551)	113 628
Cumulative gap	(212 267)	(209 955)	(49 547)	302 179	113 628	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)

e) Market risk (Continued)

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

GROUP

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Non interest sensitive K'm	Total K'm
2022						
<i>Impact on profit of an increase in interest rates:</i>						
+1%	(2 123)	23	1 604	3 517	-	3 021
+2%	(4 246)	46	3 208	7 034	-	6 042
+3%	(6 369)	69	4 812	10 551	-	9 063
<i>Impact on profit of a decrease in interest rates:</i>						
-1%	2 123	(24)	(1 604)	(3 517)	-	(3 021)
+2%	4 246	(46)	(3 208)	(7 034)	-	(6 042)
+3%	6 369	(69)	(4 812)	(10 551)	-	(9 063)
GROUP						
2021						
Financial assets						
Cash and funds with Central Banks	-	-	-	-	35 768	35 768
Placements with other banks	31 367	-	-	-	-	31 367
Government securities	-	60 984	83 730	154 202	-	298 916
Government of Malawi Promissory note	-	-	-	-	12 126	12 126
Equity investments	-	-	-	-	5 357	5 357
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
Total financial assets	141 508	74 771	138 311	312 258	58 594	725 442
Financial liabilities						
Loans	-	-	4 066	6 530	-	10 596
Customer deposits	267 532	71 907	11 072	286	207 448	558 245
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
Total financial liabilities	319 209	71 907	17 533	12 321	216 363	637 333
Interest sensitivity gap	(177 701)	2 864	120 778	299 937	(157 769)	88 109
Cumulative gap	(177 701)	(174 837)	(54 059)	245 878	88 109	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)

e) Market risk (Continued)

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

GROUP

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Non interest sensitive K'm	Total K'm
2021						
<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)
GROUP						
2022						
Financial assets						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	53 604	53 604
Placements with other banks	83 302	-	-	-	-	83 302
Government of Malawi treasury bills and treasury notes	-	48 670	114 130	147 130	-	309 930
Equity investments	-	-	-	-	6 892	6 892
Loans and advances	8 357	16 795	60 641	176 975	-	262 768
Other assets	-	-	-	-	878	878
Total financial assets	91 659	65 465	174 771	324 105	61 374	717 374
Financial liabilities						
Loans	-	-	5 296	2 809	-	8 105
Customer deposits	221 644	85 960	13 226	-	247 814	568 644
Amounts due to other banks	27 959	-	-	-	-	27 959
Provisions	-	-	-	-	5 966	5 966
Other liabilities	-	-	-	-	765	765
Lease liability	-	-	1 838	-	-	1 838
Total financial liabilities	249 603	85 960	20 360	2 809	245 545	615 297
Interest sensitivity gap	(157 944)	(20 495)	154 411	321 296	(193 171)	104 097
Cumulative gap	(157 944)	(178 439)	(24 028)	297 268	104 097	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)

e) Market risk (Continued)

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

GROUP

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Non interest sensitive K'm	Total K'm
2022						
<i>Impact on profit of an increase in interest rates:</i>						
+1%	(1 579)	(205)	1 544	3 213	-	2 973
+2%	(3 158)	(410)	3 088	6 426	-	5 946
+3%	(4 737)	(615)	4 632	9 639	-	8 919
<i>Impact on profit of a decrease in interest rates:</i>						
-1%	1 579	205	(1 544)	(3 213)	-	(2 973)
+2%	3 158	410	(3 088)	(6 426)	-	(5 946)
+3%	4 737	615	(4 632)	(9 639)	-	(8 919)
2021						
Financial assets						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	26 054	26 054
Placements with other banks	31 367	-	-	-	-	31 367
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
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
Total financial assets	93 530	45 675	127 017	296 302	44 237	606 761
Financial liabilities						
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
Total financial liabilities	239 439	67 354	9 706	8 299	201 159	525 957
Interest sensitivity gap	(145 909)	(21 679)	117 311	288 003	(156 922)	80 804
Cumulative gap	(145 909)	(167 588)	(50 277)	237 726	80 804	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)

e) Market risk (Continued)

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

COMPANY

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Non interest sensitive K'm	Total K'm
2021						
<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)

f) Currency risk

The Group had the following significant foreign currency positions:

GROUP

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
2022							
Financial assets							
Cash and funds with Central Banks	53 004	1 815	12	341	18	9 460	64 650
Placements with other banks	-	67 865	4 803	9 332	1 500	15	83 515
Government securities	327 823	-	-	-	-	18 116	345 939
Equity investments	6 892	-	-	-	-	-	6 892
Loans and advances	215 409	51 940	-	-	-	43 091	310 440
Other money market deposits	169 277	-	-	-	-	-	169 277
Other assets	3 841	-	-	-	-	1 732	5 573
Total financial assets	776 246	121 620	4 815	9 673	1 518	72 414	986 286
Financial liabilities							
Loans	3 211	7 897	-	-	-	-	11 108
Customer deposits	637 170	100 733	4 409	9 338	1 104	56 808	809 562
Liabilities to other banks	19 517	8 247	-	-	59	195	7 622
Provisions	6 391	-	-	-	-	-	6 391
Other liabilities	1 818	-	-	-	-	1 290	3 108
Lease liability	1 838	-	-	-	-	5 011	6 849
Total financial liabilities	669 945	116 877	4 409	9 397	1 299	70 731	872 658
Net balance open position	106 301	4 743	406	276	219	1 683	113 628
<i>Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit</i>	-	(474)	(41)	(28)	(22)	(168)	(733)
<i>Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit</i>	-	474	41	28	22	168	733

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)
f) Currency risk (Continued)

GROUP

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
2021							
Financial assets							
Cash and funds with Central Banks	18 786	1 614	14	91	52	15 211	35 768
Placements with other banks	-	15 930	4 714	9 829	885	9	31 367
Government securities	293 406	-	-	-	-	5 510	298 916
Government of Malawi Promissory note	12 126	-	-	-	-	-	12 126
Equity investments	5 357	-	-	-	-	-	5 357
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
Total financial assets	586 982	70 347	4 728	9 920	937	52 528	725 442
Financial liabilities							
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
Total financial liabilities	475 844	93 981	4 519	9 724	603	52 662	637 333
Net balance open position	111 138	(23 634)	209	196	334	(134)	88 109
<i>Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit</i>	-	2 363	(21)	(20)	(33)	13	2 302
<i>Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit</i>	-	(2 363)	21	20	33	(13)	(2 302)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)
f) Currency risk (Continued)

COMPANY

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
2022							
Financial assets							
Cash and funds with Central Banks	53 195	381	8	8	12	-	53 604
Placements with other banks	-	67 652	4 803	9 332	1 500	15	83 302
Government securities	309 930	-	-	-	-	-	309 930
Equity investments	6 892	-	-	-	-	-	6 892
Loans and advances	210 847	51 921	-	-	-	-	262 768
Other assets	878	-	-	-	-	-	878
Total financial assets	581 742	119 954	4 811	9 340	1 512	15	717 374
Financial liabilities							
Loans	209	7 896	-	-	-	-	8 105
Customer deposits	454 639	99 171	4 408	9 322	1 104	-	568 644
Liabilities to other banks	19 517	8 247	-	-	195	-	27 959
Provisions	5 966	-	-	-	-	-	5 966
Other liabilities	765	-	-	-	-	-	765
Lease liability	1 838	-	-	-	-	-	1 838
Total financial liabilities	482 934	115 314	4 408	9 322	1 299	-	613 277
Net balance open position	98 808	4 640	403	18	213	15	104 097
<i>Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit</i>	-	(464)	(40)	(2)	(21)	(2)	(529)
<i>Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit</i>	-	464	40	2	21	2	529

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)
f) Currency risk (Continued)

COMPANY

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
2021							
Financial assets							
Cash and funds with Reserve Bank of Malawi	25 583	383	11	25	52	-	26 054
Placements with other banks Government of Malawi Treasury bills and treasury notes Government of Malawi Promissory note	-	15 930	4 714	9 829	885	9	31 367
Equity investments	271 254	-	-	-	-	-	271 254
Loans and advances	12 126	-	-	-	-	-	12 126
Other money market deposits	5 357	-	-	-	-	-	5 357
Other assets	157 517	52 803	-	-	-	-	210 320
	49 583	-	-	-	-	-	49 583
	700	-	-	-	-	-	700
Total financial assets	522 120	69 116	4 725	9 854	937	9	606 761
Financial liabilities							
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
Total financial liabilities	418 394	92 730	4 518	9 712	603	-	525 957
Net balance open position	103 726	(23 614)	207	142	334	9	80 804

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

	-	2 361	(21)	(14)	(33)	(1)	2 292
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Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)
g) Operational risk (Continued)

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.

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:

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

The Bank complied with the requirement throughout the reporting period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)

h) Compliance risk (Continued)

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% (2021: 27%) of its risk bearing assets and contingent liabilities.

Prudential aspects of bank liquidity

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

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

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

Liquidity ratios

At the end of the year, National Bank's liquidity ratio was 48% (2021: 48%)

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)

i) Capital management (Continued)

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

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

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

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

	2022 K'm	2021 K'm
Tier 1 capital		
Ordinary share capital	467	467
Share premium	613	613
Retained earnings	131 342	107 909
Unconsolidated investment	(8 410)	(6 560)
Total regulatory (tier 1) capital	124 012	102 429
Supplementary capital		
Revaluation reserve	36 809	31 387
Deferred tax	(9 348)	(8 648)
Unconsolidated investment	(8 410)	(6 560)
Total regulatory (tier 2) capital	143 063	118 608
Risk-weighted assets		
Retail bank, corporate bank and treasury	532 728	435 793
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	27%	27%
Total tier 1 capital expressed as a percentage of risk-weighted assets	23%	23%

The Reserve Bank of Malawi, in 2015, revised the minimum capital requirements for Banks from USD5m to USD10m effective 1 January 2020. National Bank plc is in full compliance with the revised minimum capital requirement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)

i) Capital management (Continued)

Akiba Commercial Bank Capital management

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

- To comply with the capital requirements set by 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.

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

- Hold a minimum level of core capital of TZS15 billion
- Maintain a 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 conservation buffer of 2.5% of risk-weighted assets and off-balance sheet exposures. The capital conservation buffer is made up of items that qualify as tier 1 capital

When a bank is holding capital conservation buffer of less than 2.5% 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 2022 and year ended 31 December 2021. 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 2022

42. Financial risk management (Continued)

i) Capital management (Continued)
Akiba Commercial Bank Capital management (Continued)

	2022 TZS' m	2021 TZS' m
Tier 1 capital		
Share capital	27 797	27 797
Share premium	2 432	2 432
Preference shares	5 960	-
Retained earnings	(15 276)	(12 101)
Deferred charges	(6 864)	(7 067)
Prepaid expenses	(817)	(953)
Others (Advance Towards Capital)	-	5 888
Total qualifying Tier 1 capital	13 232	15 996
Tier 2 capital		
Allowance supplementary capital	930	2 370
Total qualifying Tier 2 capital	930	2 370
Total regulatory capital (Tier 1 & Tier 2)	14 162	18 366
Risk-weighted assets		
On-balance sheet	112 389	105 108
Off-balance sheet	523	56
Operational Risk	11 648	13 005
Market Risk	134	342
Total risk-weighted assets, operational and market risk	124 694	118 511
	Bank's ratio 2022 %	Bank's Ratio 2021 %
Tier 1 capital (BOT minimum 12.5%)	10.61%	13.50%
Tier 1 + Tier 2 capital (BOT minimum 14.5%)	11.36%	15.50%

In February, 2023, the Bank received US\$ 2.44 million (TZS 5,663 million) from the National Bank of Malawi plc under an agreement where additional Perpetual Non-Cumulative Preference shares with a par value of TZS 1,000 per share will be issued to the National Bank of Malawi in continued efforts by the majority shareholders to ensure that the Bank is adequately capitalised.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)**j) Basel II implementation**

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

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

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

The Group is fully committed to develop its operational risk measurement tools through enhancement of Loss Data Collection which will be escalated to set the foundation for the Bank to finally graduate to upper Basel Approaches based on Regulator's set timelines. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

42. Financial risk management (Continued)**i) Reputational risk policy (Continued)**

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

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

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

43. Related party transactions

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

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

The Group is controlled by Press Corporation plc (incorporated in Malawi), which owns 51.5% (2021: 51.5%) of the Ordinary Shares. The Old Mutual Group owns 22.0% (2021: 22.4%) of the Ordinary Shares and the remaining 26.5% (2021: 26.1%) 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

	Loans K'm	Deposits K'm	Net 2022 K'm	Net 2021 K'm
Press Corporation plc and its subsidiaries	4 842	(6 855)	(2 013)	(8 112)
Old Mutual Group	-	(3 712)	(3 712)	(4 926)
Limbe Leaf Tobacco Company Limited	-	(166)	(166)	(327)
Puma Malawi Limited	3	(558)	(555)	(306)
Macsteel Limited	907	-	907	57
Press Trust	-	(53)	(53)	(15)
Directors	173	(54)	119	304
Employees	7 648	(852)	6 796	5 905
Lifco Group	-	(85)	(85)	(13)
Open Connect Limited	7 109	(989)	6 120	3 632
United General Insurance Limited	29	(6)	23	(1 207)
NBM Capital Markets Limited	-	(19)	(19)	-
NBM Pension Administration Limited	-	(182)	(182)	(29)
Total related party balance	20 711	(13 531)	7 180	(5 037)

During the year, Press Corporation plc fully divested from PTC Limited. Limbe Leaf Tobacco Company Limited, Macsteel Limited and Puma Malawi Limited are associates of Press Corporation plc.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

43. Related party transactions (Continued)

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

During the year, no amount due from a related party was written off against interest in suspense and provision for loan losses. There were no provisions in respect of loans granted to related parties as at the end of the year (2021: 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

	2022 K'm	2021 K'm
Interest receivable		
Press Corporation plc and its subsidiaries	1 010	579
Directors	2	6
Puma Malawi Limited	27	-
Open Connect Limited	801	30
Mpico Limited	-	5
Macsteel Limited	38	3
United General Insurance Limited	2	-
Employees	1 223	1 125
Average interest rate (%)	22	20
Operating lease income		
Press Corporation plc and its subsidiaries	-	110
Interest payable		
Press Corporation plc and its subsidiaries	1	-
Open Connect Limited	4	-
Limbe Leaf Tobacco Company Limited	7	-
Employees	848	780
Purchases		
Press Corporation plc and its subsidiaries	1 828	1 298
Puma Malawi Limited	281	168
Commission income		
Press Corporation plc and its subsidiaries	321	299
Limbe Leaf Tobacco Company Limited	5	-
Lifeco Group	1	-
Old Mutual Group	3	-
Sunbird Hotels and Resorts	1	-
Trade payables		
Press Corporation plc and its subsidiaries	730	523

	GROUP		COMPANY	
	2022 K'm	2021 K'm	2022 K'm	2021 K'm
Compensation of key management personnel				
Salaries, bonuses and benefits	5 876	4 582	4 737	3 750

No specific share options were offered to key management personnel during the year (2021: nil). No shares were exercised by key management during the year (2021: nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

44. Business segments

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

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

- 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.

	Corporate banking K'm	Retail banking K'm	Treasury K'm	Other K'm	Total K'm
Group					
Statement of comprehensive income					
2022					
Total external income	65 912	25 960	65 945	1 547	159 364
Segment result	50 789	21 829	65 945	1 547	140 110
Unallocated expenses	-	-	-	-	(70 747)
Profit before tax	-	-	-	-	69 363
Corporate tax	-	-	-	-	(23 419)
Group profit for the year	-	-	-	-	45 944
Other information					
Depreciation					
Unallocated depreciation	-	-	-	-	4 502
Revaluation surplus on property					
Unallocated fair value gain	-	-	-	-	93
Statement of financial position					
2022					
Total consolidated segment assets	168 833	161 487	612 450	130 579	1 073 349
Liabilities and equity					
Total consolidated segment liabilities and equity	347 332	124 279	136 100	291 814	899 525
Other information					
Unallocated capital additions	-	-	-	-	173 824
Total	-	-	-	-	1 073 349

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

44. Business segments (Continued)

	Corporate banking K'm	Retail banking K'm	Treasury K'm	Other K'm	Total K'm
Group					
Statement of comprehensive income					
2021					
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
Other information					
Depreciation					
Unallocated depreciation	-	-	-	-	4 255
Revaluation surplus on property					
Unallocated fair value gain	-	-	-	-	105
Statement of financial position					
2021					
Total consolidated segment assets	148 817	105 068	450 668	98 357	802 910
Liabilities and equity					
Total consolidated segment liabilities and equity	266 596	109 545	140 377	141 223	656 741
Other information					
Unallocated capital additions	-	-	-	-	146 169
Total	-	-	-	-	802 910

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

44. Business segments (Continued)

	NATIONAL BANK BROKERS		STOCK		NBM BUREAU		NBM CAPITAL		NBM DEVELOPMENT BANK		AKIBA		ADJUSTMENT		CONSO-LIDATED	
	K'm	K'm	K'm	K'm	K'm	K'm	K'm	K'm	K'm	K'm	K'm	K'm	K'm	K'm	K'm	K'm
Total assets	808 283	18 520	7	171 906	827	83 444	7 731	1 073 349	7 731	83 444	83 444	(17 369)	1 073 349			
Total equity	169 231	758	(3)	2 102	731	8 679	4 426	173 824	4 426	8 679	8 679	(12 100)	173 824			
Total liabilities	639 052	17 762	10	169 804	96	74 765	3 305	899 525	3 305	74 765	74 765	(5 269)	899 525			
Total equity and liabilities	808 283	18 520	7	171 906	827	83 444	7 731	1 073 349	7 731	83 444	83 444	(17 369)	1 073 349			
Summarized Statement of comprehensive income 2022 for each company																
Total net income	129 806	843	-	2 661	657	10 794	945	144 105	945	10 794	10 794	(1 601)	144 105			
Total Expenses	(57 587)	(386)	-	(891)	(414)	(11 052)	(447)	(70 747)	(447)	(11 052)	(11 052)	30	(70 747)			
Net impairment provisions	(1 002)	-	-	-	-	(2 962)	(31)	(3 995)	(31)	(2 962)	(2 962)	-	(3 995)			
Profit before Tax	71 217	457	-	1 770	243	(3 220)	467	69 363	467	(3 220)	(3 220)	(1 571)	69 363			
Income tax expense	(22 082)	(139)	-	(537)	(75)	(852)	(138)	(23 419)	(138)	(852)	(852)	404	(23 419)			
Profit after tax	49 135	318	-	1 233	168	(4 072)	329	45 944	329	(4 072)	(4 072)	(1 167)	45 944			

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

44. Business segments (Continued)

Summarized Statement of Financial Position 2021 for each company

	NATIONAL BANK K'm	STOCK BROKERS K'm	NBM BUREAU K'm	NBM CAPITAL K'm	NBM PAL K'm	NBM DEVELOPMENT BANK K'm	AKIBA K'm	ADJUST-MENT K'm	CONSO-LIDATED K'm
Total assets	685 506	13 501	7	46 675	676	2 747	64 706	(10 908)	802 910
Total equity	140 376	587	(3)	1 269	582	2 635	10 461	(9 726)	146 181
Total liabilities	545 130	12 914	10	45 406	94	112	54 245	(1 182)	656 729
Total equity and liabilities	685 506	13 501	7	46 675	676	2 747	64 706	(10 908)	802 910

Summarized Statement of comprehensive income 2021 for each company

Total income	102 786	578	-	1 472	457	422	8 302	176	114 193
Total Expenses	(50 011)	(292)	-	(638)	(404)	(405)	(9 393)	37	(61 106)
Net impairment provisions	(1 648)	-	-	-	-	(53)	(798)	-	(2 499)
Profit before Tax	51 127	286	-	834	53	(36)	(1 889)	213	50 588
Income tax expense	(15 902)	(88)	-	(251)	(19)	30	(53)	(95)	(16 378)
Profit after tax	35 225	198	-	583	(34)	(6)	(1 942)	118	34 210

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

45. Exchange rates and inflation

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

	2022	2021
Kwacha/GBP	1 287	1 199
Kwacha/Rand	63	59
Kwacha/US Dollar	1 036	817
Kwacha/Euro	1 137	1 012
Inflation rate (%)	25.4	9.3
As at 31 March 2023 the above rates had moved as follows:		
Kwacha/GBP	1 308	
Kwacha/Rand	58	
Kwacha/US Dollar	1 036	
Kwacha/Euro	1 144	
Inflation rate (%) (February 2023)	26.70	

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
- Firstrand Bank Limited
- Standard Bank of South Africa Limited
- ABSA Bank Limited
- SIRESS

MAP OF MALAWI - NATIONAL BANK OF MALAWI PLC SERVICE CENTRES

