

NB National Bank
of Malawi plc



Annual
Report

20
23



Annual
Report

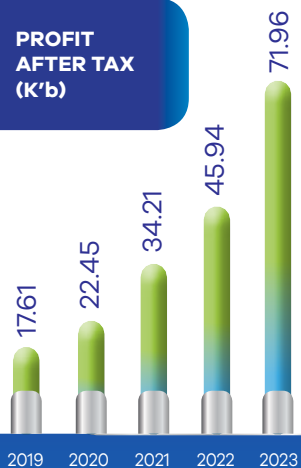
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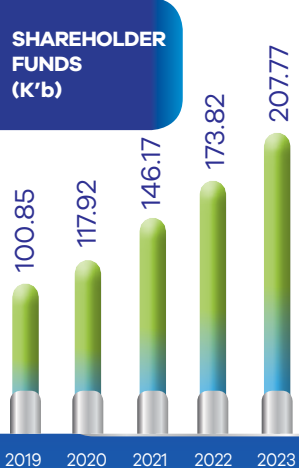
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FINANCIAL HIGHLIGHTS

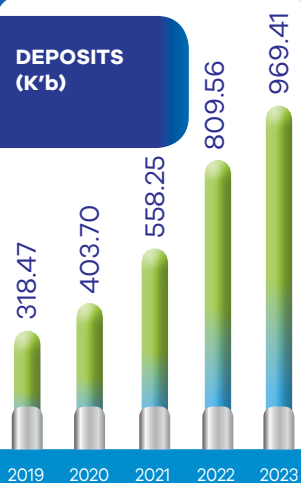
PROFIT AFTER TAX (K'b)



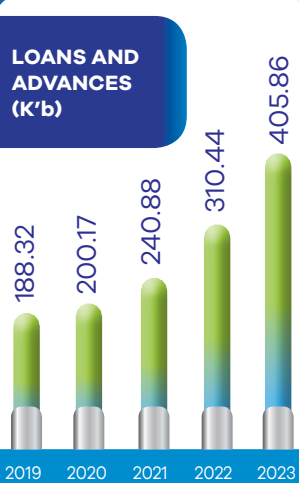
SHAREHOLDER FUNDS (K'b)



DEPOSITS (K'b)



LOANS AND ADVANCES (K'b)



PROFITABILITY HIGHLIGHTS (K'b)

	2023	2022	2023 vs 2022
Net Revenue	215.76	144.11	49.7%
Profit After Tax	71.96	45.94	56.6%



BALANCE SHEET (K'b)

	2023	2022	2023 vs 2022
Total Assets	1,272.00	1,073.35	18.5%
Total Deposits	969.41	809.56	19.7%
Total Loans and Advances	405.86	310.44	30.7%
Total Equity	207.77	173.82	19.5%
Profit After Tax	71.96	45.94	56.6%

OUR MISSION, VISION AND VALUES

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.

OUR STRATEGIC JOURNEY

2023 marked the beginning of our new strategic journey dubbed **1-2-4-100**. It's a journey that aims to position the Bank as

1
the leading digital Bank in Malawi

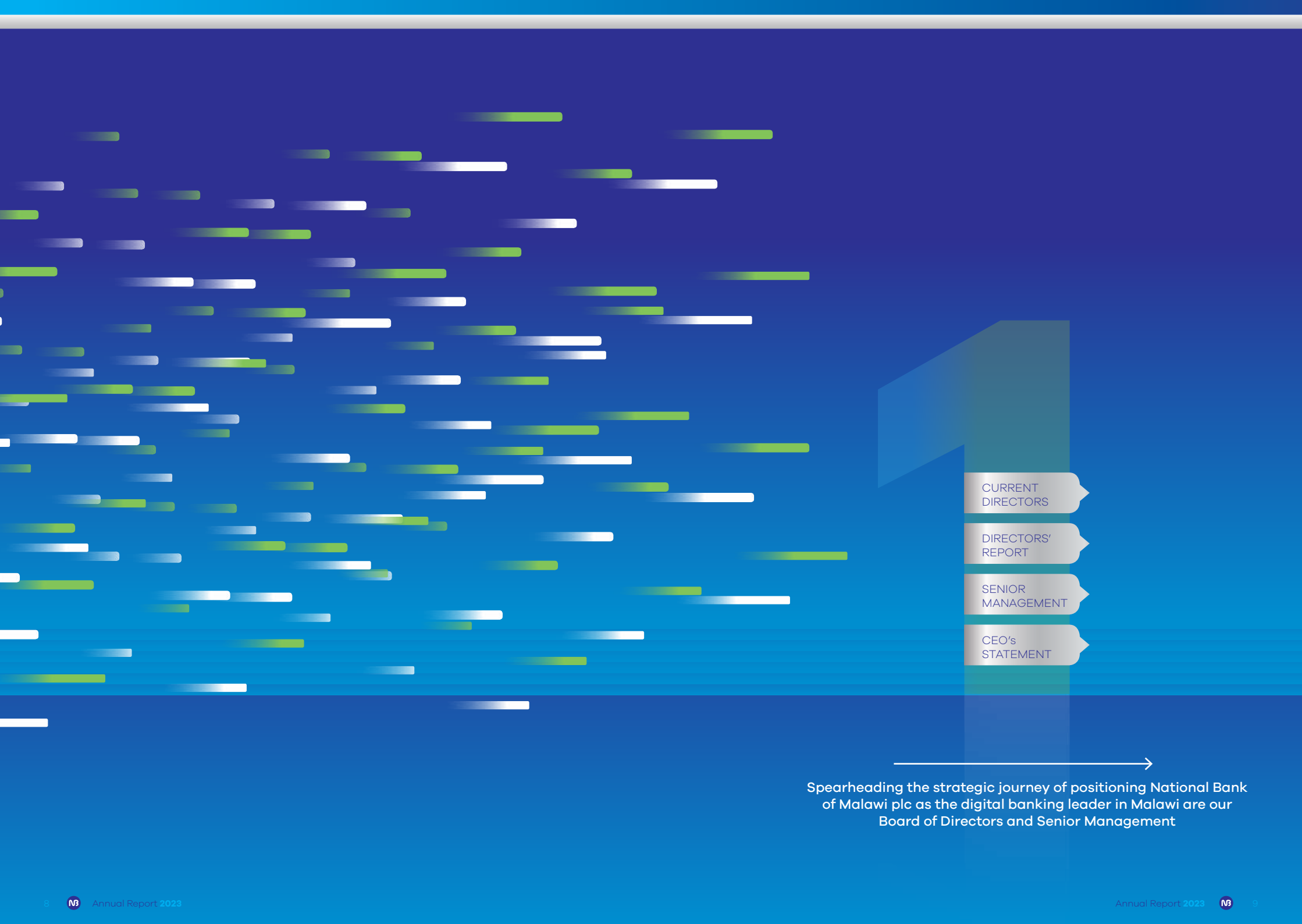
2
with over 2 million customers

4
across 4 countries

100
achieving Profit After Tax of USD100 million, 12% of which will be contributed by subsidiaries

READ ON

as we take you through the first year of our five years' 1-2-4-100 strategic journey



CURRENT DIRECTORS

DIRECTORS' REPORT

SENIOR MANAGEMENT

CEO'S STATEMENT

—————>

Spearheading the strategic journey of positioning National Bank of Malawi plc as the digital banking leader in Malawi are our Board of Directors and Senior Management

Current Directors



Jimmy Lipunga (60)
FCCA, CA,
Cert. PPP Specialist

Chairman



Macfussy M Kawawa (59)
MBA, B.ACC.
(Hons), FCCA, CPA

Director



Macleod Nkhoma (61)
MBA, FCIS,
PGDIPL

Director



Jim Nsomba (62)
BCom (Accountancy)

Director



Crispin Mzengereza (65)
M.Com, B.Com
(Hons.), B.A. (Pub.
Admin), PGD in
Bus. Admin.

Director



Harold Jiya (53)
BCom, ACIB, MBA

Director



Dr. Lyton Chithambo (44)
PhD Finance, MSc
Finance & Risk,
FCCA, BAC, FHEA

Director

Current Directors



James Mhura (47)
MBA in Finance,
ACMA, B.Acc.

Director



Dr. Bernadette Malunga (42)
PhD Law, MA
(Women Law),
LLB (Hons)

Director



Moureen Mbeye (Ms) (42)
MBA, FCCA,
CPA, B.Acc.

Director



Dorothy Ngwira (Mrs) (58)
FCCA, CA

Director



Bessy Nyirenda (Mrs) (61)
BSc (Econ, Stat, Comp
Sci), Dip. (Bus. Sys.
Analysis & Design),
MSc (Comp), MBA
(Intl. Global Econ)

Director



Raymond Banda (56)
MBA in Intl. Bus.,
Dip. in Bus. Admin,
BSc (Comp Sci,
Math, Physics)

Director

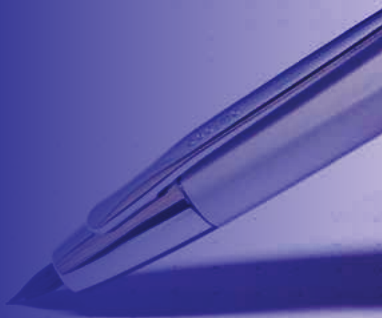


Zunzo E Mitole (Mrs) (50)
LLB (Hons), MBA

Company Secretary
& Legal Counsel

DIRECTORS' REPORT

For the year ended 31 December 2023



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 2023.

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 (2022: K467m) divided into 466,931,738 (2022: 466,931,738) fully paid Ordinary Shares of K1 each.

The shareholders and their respective shareholdings are:

	2023	2022
	%	%
Press Corporation plc	51.5	51.5
Old Mutual Group	21.5	22.0
Members of the public	27.0	26.5
Total	100.0	100.0

Profit and Dividends

The directors are pleased to report a consolidated profit before tax of K120,129m for the year ended 31 December 2023 (2022: K69,363m).

On 23rd February 2023, the board declared a second interim dividend of K10,002m (representing K21.42 per share) in respect of 2022 profits and this was paid on 6th April 2023.

The directors are pleased to report a consolidated profit before tax of **K120,129m** for the year ended 31 December 2023 (2022: **K69,363m**).



Directors' Report

For the year ended 31 December 2023

On 20th July 2023 the board declared and paid a K14,998m final dividend in respect of 2022 profits.

A first interim dividend of K10,973m, (2022: K 8,003m) was declared and paid to shareholders in September 2023 in respect of 2023 profits.

The directors propose a second interim dividend of K14,000m, (2022: K10,002m) to be declared in February 2024 and will be paid in April 2024. Further, a final dividend of K23,000m, (2022: K15,000m) is proposed for the year. This will make a total dividend of K47,973m, (2022: K33,005m) in respect of 2023 profits.

Directors

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

Name	Tenure	Nature of Directorship
Lipunga, J	Chairman-All year	Non-executive
Mhura, J	All year	Non-executive
Nsomba, J	All year	Non-executive
Chithambo, L (Dr)	All year	Non-executive
Mbeye, M (Ms)	All year	Non-executive
Malunga, B (Dr)	All year	Non-executive
Mzengereza, C	All year	Non-executive
Banda, R	All year	Independent non-executive
Ngwira, D (Mrs)	All year	Independent non-executive
Nyirenda, B (Mrs)	All year	Independent non-executive
Nkhoma, M	All year	Independent non-executive
Kawawa, M	All year	Executive
Jiya, H	All year	Executive

Directors' Interests

The following directors held shares in the Bank as at 31 December 2023:

Name of Director	No. of shares		Value of shares (K 'million)	
	2023	2022	2023	2022
Kawawa, M M	128,255	113,225	269	175
Nsomba, J	758	758	2	1
Jiya, H	48,813	48,813	103	75
Mbeye, M	1,000	1,000	2	2
Total	178,826	163,796		

Except for the additional shares acquired by Director Kawawa there were no other contracts between the Bank and its directors nor were there any further arrangements to enable the directors of the Bank to acquire shares in the Bank.



FIRST INTERIM DIVIDEND PAID

K10,973m
(2022: K8,003m)

SECOND INTERIM DIVIDEND

K14,000m
(2022: K10,002m)

FINAL DIVIDEND

K23,000m
(2022: K15,000m)

Directors' Remuneration

The directors' fees and remuneration for the Bank 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 2023			
National Bank of Malawi plc	458	789	1,247
NBM Capital Markets Limited	21	160	181
NBM Securities Limited	-	-	-
National Bank of Malawi Nominees Limited	-	-	-
Stockbrokers Malawi Limited	10	-	10
NBM Bureau de Change Limited	-	-	-
NBM Pension Administration Limited	15	-	15
NBM Development Bank Limited	50	-	50
Akiba Commercial Bank plc	128	-	128
Total	682	949	1,631
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

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

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



is delivered to the Company Secretary. There is 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, Remuneration and Governance Committee, Board IT Projects Oversight Committee, Board committee on Related Parties and Board Investments Committee. 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 interests 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 2023, 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	All year	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
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	Up to 10 March 2023	None
Mrs. Z Mitole	All year-Company Secretary	None	

Subsidiary	Directors	Tenure	Directors interest in shares of the subsidiary
NBM Development Bank Limited	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	All year	None
	Mrs. M Mulele	All year- Company secretary	None
Akiba Commercial Bank Limited	Ms. C Kimaryo	All year-Chairperson	None
	Ms. R Juma	All year	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
	Mr. B Mahona	All year	None
	Mr. A Massawe	All year	None
	Prof. J Lotto	All year	None
Niwaeli Mziray	All year - Company Secretary	None	
National Bank of Malawi Nominees Limited	Mrs. Z Mitole	All year - Chairperson	None
	Mr. H Mukaka	All year	None
	Mrs. M. Mulele	All year- Company Secretary	None
NBM Bureau de Change Limited	Mr. A Musyani	All year - Chairman	None
	Mr. B Boby	All year	None
	Mr. H Jiya	All year	None
	Mrs. Z Mitole	All year - Company Secretary	None

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

Donations

During the year, the Group made charitable donations of K464m (2022: K277m). The donations were as follows: Cyclones K304m (2022: K56m), Medical and Health K76m (2022: K162m), Reforestation K58m (2022: K22m), Christmas cheering K26m (2022: K30m) and Education nil (2022: K7m).



Activities

The Group is engaged in the business of commercial banking, investments and fund management, pension administration, stockbroking and general insurance.

Subsidiaries of National Bank of Malawi Plc	Percentage of control	Nature of operations
NBM Capital Markets Limited	100% (2022: 100%)	Investments and fund management
NBM Securities Limited	100% (2022:100%)	Dormant
National Bank of Malawi Nominees Limited	100% (2022:100%)	Holding of investments as nominee (Dormant)
Stockbrokers Malawi Limited	75% (2022: 75%)	Registered stockbroker
NBM Bureau de Change Limited	100% (2022:100%)	Dormant
NBM Pension Administration Limited	100% (2022: 100%) administration	Pension
NBM Development Bank Limited	100% (2022: 100%)	Small and Medium Enterprises and long-term financing
Akiba Commercial Bank plc	60.48% (2022:60.48%)	Banking and related services.
Associate of National Bank of Malawi Plc	Percentage of significant influence	Nature of operations
United General Insurance Limited	47% (2022:47%)	General Insurance

Areas of Operation

The Group has 50 (2022: 51) service centers: 32 centers throughout Malawi and 18 centers throughout Tanzania. The Bank and its subsidiaries, except Akiba Commercial Bank plc (ACB), registered offices and principal places of business are in Blantyre, Malawi. ACB's registered office and principal place of business is in Dar es Salaam, Tanzania.

Auditors

On 20 July 2023 the National Bank of Malawi plc Annual General Meeting (AGM) approved the appointment of Ernst & Young (EY) as the auditor for the Bank for year ended 31 December 2023. EY, have signified their willingness to continue in office and a resolution is to be proposed at the forthcoming Annual General Meeting in relation to their appointment as auditors in respect of the year ending 31 December 2024.

Auditors' Remuneration

Group Auditors' remuneration including VAT and expenses for the year was K736m (2022: K549m).

By order of the Board

Director (Lipunga, J. (Mr))
Date; 28 February 2024

Director (Ngwira, D (Mrs))
Date: 28 February 2024

CHAIRMAN'S REPORT

For the year ended 31 December 2023

The Group continued to perform very well notwithstanding a rather turbulent environment, registering a profit after tax of **K71.96b** representing a **56.6% increase** from the K45.94b reported in 2022.



Jimmy Lipunga

Chairman's Report

The Operating Environment

It is quite a privilege and honour to present the annual report for the year ended 31 December 2023. The Group has delivered what can be described as stellar results relative to other players in the market. This is against the backdrop of major economic uncertainties, high inflation, exchange rate volatility and stiff competition. The pleasant outcome conveyed in this report simply reflects the Group's dogged commitment towards impactful strategic focus and value creation, aimed at satisfying our shareholders and other stakeholders. I must at the outset salute our astute members of staff and management for their distinct performance that has allowed the Group to maintain its position as a leading financial player in the Malawi economy.

The Malawi economy grew by 1.5% in 2023 (2022: 1.1%). This was anchored by positive growth prospects in utilities, manufacturing, and wholesale and retail trade sectors. However, a high inflation environment prevailed and foreign exchange supply challenges persisted which adversely affected the growth.

The average headline inflation remained elevated having increased from 26.1% in the first quarter to 31.5% in the last quarter. Interest rates were also on the rise as The Reserve Bank of Malawi raised the policy rate by 600 basis points during the year from 18% in the first quarter to 24% in the last quarter of the year.

The Malawi kwacha devalued by a cumulative 63% between January 2023 and December 2023. Despite the devaluation, foreign exchange supply challenges persisted. Generally, the operating environment was very challenging.

Performance

As mentioned earlier, the Group continued to perform very well notwithstanding a rather turbulent environment, registering a profit after tax of K71.96b representing a 56.6% increase from the K45.94b reported in 2022. 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 33%. In addition, there was growth in commissions by 99%. Overall net revenue grew by 50%. Operating expenses increased by 25%, within the average inflation for the year. On the other hand, net impairment losses increased by 81% (2022: 60%) reflecting the realities of the tough operating environment.

Customer deposits increased by 20% (2022:45%) year on year while the Bank's loan book grew by 31% (2022: 29%). Investment in Fixed Income securities grew by 10% (2022:16%).

All the subsidiaries of the Bank posted profits that contributed positively to the Group performance except for Akiba Commercial Bank (ACB) in Tanzania and an associate company, United General Insurance, which posted losses. Positive trends continue to be registered in the two-loss making entities where the results improved significantly from the previous period. The losses registered were much lower than those of the prior period. The Group continues to implement strategies to achieve a turnaround in the performance of the two entities in the near future.

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 2023 (K11 billion) and April 2024 (K14 billion). Meanwhile, a final dividend of K23 billion representing K49.26 per share has been recommended by Directors. Once the final dividend has been approved and paid, the total dividend paid will be K48 billion representing K102.80 per share in respect of 2023 profits. This is an increase of 45.45% over the dividends paid in respect of 2022 profits.



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



TOTAL DIVIDEND PAID WILL BE

K48b
(45.45% ↑)

Strategy and Prospects

The economy is expected to grow by 3.2% in 2024 from 1.5 percent in 2023, supported by an increase in public investment and recovery in mining and quarrying, manufacturing, information and communication, financial and insurance activities, and education sectors. The resumption of the IMF-supported ECF program is expected to unlock foreign exchange inflows going into 2024, which will in turn support importation of raw materials and promote economic activity.

The above described positive outlook is, however, clouded by a highly uncertain global economic and geopolitical environment and El Niño-induced weather conditions, likely to see the inflation remaining high due to the anticipated low maize production.

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



The economy is expected to grow by **3.2%** from 1.5% in 2023

Board of Directors

I would like to take this opportunity to thank fellow directors for their counsel, support, dedication, and co-operation. I look forward to a fruitful working relationship with them in 2024. In keeping with international best practice, NBM is committed towards the promotion of diverse and inclusive boards within the group. Presently the board comprises a mixture of independent and non-independent directors with the former being in majority. Female directors account for 30% of the board composition. It is the intention of NBM to seek every opportunity to increase the presence of female directors.



Female directors account for **30%** of the board composition

NBM has embraced the principles encapsulated in the ESG (Environment, Social and Governance) principles. Our corporate social investments reflect the desire to be a responsible corporate citizen as demonstrated by our commitment to set aside 2% of prior year profits for that cause.

Management and Staff

I would like to reiterate my commendation to management and staff for their dedication, hard work and loyalty to the Group. It is with great sadness that I must intimate that the current Chief



Mr Kawawa has provided strong leadership to the Bank which has seen the **profitability grow from K19.147b in 2017 to K71.959b as at December 2023**. He has been instrumental in growing the assets base from K392b to K1,272b.

Executive Officer, Mr Macfussy Kawawa, will be retiring on 30th June 2024. Mr Kawawa has provided strong leadership to the Bank which has seen the profitability grow from K19.147b in 2017 to K71.959b as at December 2023. He has been instrumental in growing the asset base from K392b to K1,272b. Mr Kawawa is credited for developing a team of talented men and women to be part of the NBM success story. We will no doubt miss his leadership capacity, business acumen and wisdom. Based on a solid succession planning regularly reviewed by the Board, Mr Kawawa will be succeeded by Mr Harold Jiya, a highly qualified and experienced banker who has been with NBM plc for the past 20 years. There is no doubt that Mr Jiya will provide the requisite leadership skills which will underwrite and sustain the growth trajectory of the Group.

Conclusion

I would like to thank all our shareholders for entrusting us with the stewardship of NBM plc. We would like to assure them that our efforts will be motivated by a desire to exceed their expectations. We also pay tribute to the regulator, customers and suppliers for the enduring partnership that has seen us deliver strong results from year to year.

Jimmy Lipunga
CHAIRMAN



Senior Management



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



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



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



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

Senior Management



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



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



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



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



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



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



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



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



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



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



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

CHIEF EXECUTIVE OFFICER'S STATEMENT



Macfussy Kawawa



Performance Overview

The Group registered a profit after tax of K71.96b representing a 56.62% increase from K45.9b reported in 2022. 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 33%. In addition, there was a 99% growth in foreign exchange commissions from K12.8b to K25.5b. Overall net revenue grew by 50%. Operating expenses increased by 25%, within the average inflation for the year. On the other hand, impairment losses continued to increase reflecting the realities of the tough operating environment.

Customer deposits increased by 20% year on year while the Bank's loan book grew by 31% (2022: 29%). Investment in Fixed Income securities grew by 10% (2021:16%).

Our subsidiary, Akiba Commercial Bank (ACB) and associate company United General Insurance (UGI) which posted losses last year continue to implement turnaround strategies. It is pleasing to see them post improved results though they are still loss making.

Corporate Banking Operations

The Corporate Banking Division provides banking solutions to the Bank's large private sector

corporations, public institutions, international organizations, and Non-Governmental Organizations. The Division has a well-qualified and skilled team of Account Relationship 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 2023 was characterized by acute foreign exchange shortages on the market which resulted in low utilisation of facilities for importing customers. The Division was not able to fully meet large ticket requirements of customers that needed to establish Letters of Credit or settle import payments on open account due to the low supply of foreign currency. In addition, a significant devaluation in the Kwacha, high inflation and interest rates increased the cost of doing business in the country. This adversely affected levels of net interest income, non-interest income, operating costs, and loan provisions.

Notwithstanding the challenging operating environment, Corporate Loans and Advances grew by 28.7% to K193 billion, Gross Lease Debtors grew by 40.7% to K38 billion, whilst deposits grew by 31% to K443 billion.

The Division recorded increased lending to the agriculture sector. Lending to tobacco famers increased by 28.8% to USD22.8 million, whilst lending to other crops increased by 30% to K53.4 billion.

Although still higher than the maximum threshold, the Non-Performing Loans (NPL) ratio on the corporate book improved to 14% from 21% in 2022 mostly due to loan recoveries from customers in the real estate sector. However, Large non-performing loans extended to customers in the hospitality and agriculture sectors remain outstanding. Consequently, net provisions increased by 173.7%. The Division is pursuing legal action to recover the loans, including security realization.

The country has taken positive strides to improve the operating environment, for instance, the securing of an ECF program with the IMF. and the Bank will seek to exploit opportunities that will arise. However, availability of foreign currency remains a challenge. High inflation and interest rates and the El Nino phenomenon pose real challenges to business recovery in 2024. This notwithstanding, the Division will build on its strengths to sustain its operations. The team will seek to exploit emerging prospects in mining, energy, agricultural mechanisation and alternative cash crops like macadamia and legumes, among others.

Treasury and Investment Banking

Treasury and Investment Banking division have posted excellent results in all their income lines in 2023. Foreign exchange trading income at K25.3bio was double that of the previous year which was K12.6bio. The unit achieved this excellent result in an environment that was characterized by short supply of foreign currency and tough regulation.

The equity portfolio registered a very strong performance, benefiting from a buoyant stock market. The achievement of K5.3b revenue, was 2,300% above budget. Similarly, the Money Market investments income grew by about 148% to MWK74.953bn over last year's achievement capitalizing on portfolio growth as well

Foreign exchange trading income

K25.3b
(2022: K12.6b)

Equity portfolio

K5.3b
2,300% above budget

as increase in yields for government securities at the back of two upward Policy rate revisions in the year.

Retail Banking Operations

The Retail Banking Division operating model established in 2021 which was centred on a customer centric approach continued to benefit the Bank. This has helped the Bank to effectively engage with customers and develop products and service offerings that address their unique needs. The Division manages the personal and Small to Medium Enterprises (SMEs) portfolios of the Bank. Using the Bank's network of 32 service centres across the country, the Division provides transactional banking services to all customers of the Bank. The total lending portfolio comprising of 65% personal banking and 35% SME banking registered a year-on-year growth of 17%. The division registered a year-on-year increase of 47% in the deposit book comprising 29% SMEs and 71% personal customers.

Personal Banking lending portfolio grew by 16%, year on year. We have embarked on focused segmentation strategy meant to drive growth in personal lending product segments. Ordinary personal, Premium Gold and Premium Platinum registered year on year growth of 12%, 47% and 16% respectively. The growth was further achieved through the development of special business partnerships with various corporate employers. This has been achieved despite the prolonged economic challenges that included conflicts in the East, global supply chain challenges and the effects of the cholera pandemic that hit the country in the course of the year. These challenges stimulated an increased appetite for borrowing from the personal sector as a means of survival in difficult times. The deposits portfolio of the personal customers grew by 56%, year on year.

In SME Banking, capacity building, understanding our customer needs and developing deep sector knowledge continued to be the divisions' major drive. The division continued to grow its footprint using the special products of Taoloka, Amayi Angathe, Kasupe Finance, Step Up Entrepreneur as a means of attaining financial inclusion. SME lending grew by 18% year on year. The economic challenges that included foreign exchange shortage, and the effects of cyclone Freddy, derailed growth in the SME sector. The division, however, remained resilient and managed to overcome these challenges through aggressive marketing interventions.

The deposit book for SME grew by 29% year on year largely attributed to aggressive deposit mobilization initiatives throughout the year.

Total lending portfolio registered a year-on-year growth of

17%

Deposit book registered a year-on-year increase of

47%

Personal banking lending portfolio grew by

16%
year-on-year

The deposit book for SME grew by

29%
year-on-year

In 2024 Retail Banking will adopt management of the leasing facilities as personal and SME products. This was previously managed by Corporate Banking Division. Under this arrangement, personal and SME customers will have access to leasing facilities at any service centre across the country.

Going forward the Division will continue to strengthen the front line to push for growth of the customer base and increase usage of the Bank's various digital platforms.

Digital Financial Services

During the year the Bank continued to make strides in the areas of digital banking services. Transactions handled through cards and electronic services accounted for 94% of the total transactions processed in the Bank. The Bank enhanced its integration with various partners to enable seamless utility and fees payments to various institutions.

The Bank continued to grow its branchless banking service (NBM FastServe), a banking service conducted through Agents. So far branchless banking agents can offer both cash-in and cash-out services, bill payments and mobile airtime top-up.

Looking ahead, the Bank plans to upgrade its internet banking system, introduce digital products for SMEs and revamp the NBM Fast Serve solution. It is also looking into introducing financial access to the less included through the provision of specialised loans for this sector.

Information Technology Systems

In 2023, the Bank engaged in several IT projects and activities with a view to improving the ICT infrastructure, IT Security and delivery of existing products and services as well as to facilitate introduction of new ones. The Bank undertook several key activities in that respect. It procured HPE Synergy Composable Infrastructure to form the basis of its on premise IT infrastructure going into the future to increase agility and time to market. The core network continued to be upgraded to increase capacity, improve reliability and security. The USSD Banking system, mo626ice was also upgraded to increase capacity and improve stability. In addition, the Bank introduced a remote, tablet-based customer onboarding platform called RAOS and replaced the Fuel Management system with a new cloud-based platform.

Transactions handled through cards and electronic services accounted for **94%** of the total transactions processed in the Bank.

The core network continued to be upgraded to increase capacity, improve reliability and security.

Talent Management Activities

During the year under review, the Bank embarked on a mental health awareness campaign which covered all its units and the wholly owned subsidiaries. Facilitated by Saint John of God, this was done in line with the new Strategic Plan which has the mental wellbeing of employees as one of its key deliverables. The sessions assisted employees to learn how they can manage psycho-social challenges which can affect their output if left unchecked.

In addition to activities to entrench the new Culture Blueprint (Tiiphula) conducted during the year, the Bank also promoted wellness and other related activities among its employees to enhance healthy living.

To improve HR service offering to the business, the Bank embarked on the upgrading project of the HR system from Sage Premier to Sage 300 People which is an all-in-one system with payroll, Employee Self Service (ESS), Premier HR and online performance management systems. Once completed, the new Sage People 300 system will lead to greater improvement in service delivery of HR services in that most of its functions will be done online as opposed to being paper based.

Staff training and development activities were also prioritized during the year. The Bank sent three (3) employees to pursue various postgraduate studies in the United Kingdom in the following fields: Financial Technology Data Analytics and Business Administration Thirty-six (36) employees also upgraded their professional and academic qualifications through studies which were being done on a part-time basis through the Banks's educational loan scheme. The Leadership Centre also delivered forty-two short term courses in various fields to improve employees' performance. Forty-four courses external courses were also done during the year, the majority of which were offshore programs in line with the Banks master training plan.

Corporate Social Investment Activities

In the period under review, K 932.6 million was channeled towards Corporate Social Investment (CSI) and Sponsorships with the intention of driving social impact and maintaining brand affinity as the Bank of the Nation. Key of these investments were:

- Corporate social Investment:
- Cyclone Freddy Relief through the Malawi Red Cross Society and Press Corporation Limited (MWK 135m) presented to over 2000 households in affected areas (Q1).
 - Surgical equipment valued at K130m to Kamuzu Barracks Camp Hospital. (Q1)
 - Disbursement of funds and monitoring of works in the three forests adopted by NBM plc in Mangochi, Dedza and Chitipa. K100mn was initially approved by the Board towards this project which is being implemented through the Department of Forestry. (Q1-4).
 - Final payment of K20m towards the NBM plc Malawi University of Science and Technology Endowment Fund account valued at K60m. (Q2).

Cyclone Freddy Relief
K135m

Surgical equipment
K130m

Forests adopted by NBM
K100m

MUST Endowment Fund final payment
K20m

- e. Construction of housing valued at \$50,000 for Cyclone Freddy victims at Mikolongwe Veterinary Station in Chiradzulu. (Q3)
- f. Yamba Malawi Community Based Childcare Centre Investment – in addition to an earlier approval of K100m to construct four centres, a supplementary K37.4m was approved for the construction of additional toilets and kitchens to aid community school feeding programmes. The project is expected to serve approximately 400 children at each intake. (Q4).
- g. Chemistry Analyser valued at K91m to Elizabeth Central Hospital's paediatric cancer ward under the World Child Cancer project. The machine is expected to serve 946 children in the next two years and thousands of children in subsequent years. (Q4)
- h. Purchase of two blood bank fridges valued at K80m for use by the Malawi Blood Transfusion Services (MBTS) to serve their catchment area in Mulanje and Mangochi regions. (Q4).
- i. Community Outreach Through the 12 Days of Christmas Initiative valued at K70 million. (Q4).

Construction of housing

\$50,000

Yamba Malawi
K137.4m

Chemistry analyser

K91m

Blood bank fridges

K70m

Sponsorships

During the period under review, the Bank maintained two Brand Properties as key sponsorships as follows:

- a. Mo626 College Basketball – In 2023, NBM plc initiated the fourth edition of Mo626 Basketball towards which K150m was invested to finance games and prizes and foster engagement with the Bank's youthful customer segment. To ensure impact and sustainability, a third of the approved funds was invested into building and rehabilitation of basketball courts across the country. Court construction at UNIMA and LUANAR commenced in Q4 of 2023.
- b. Innovation Jam in Collaboration with ICT Association of Malawi (ICTAM). In November 2023, NBM plc renewed its partnership with ICTAM for the provision of technological advancement through the NBM plc Innovation Jam valued at K115m per annum. The new Memorandum of Understanding (MOU) makes a provision for innovation hubs to incubate winners. It is hoped that in doing so, innovators will be given requisite skills and knowledge on how best to commercialize their innovations.



Mo626 College Basketball

K150m

Innovation Jam

K115m

Other activities

The Bank engaged its multiple stakeholders throughout the year.

- a. Of keynote was the inaugural Stakeholder Engagement Forum in May. Aligned with its strategic goal of becoming the leading digitalized bank in Malawi, this hybrid forum experienced significant physical and online attendance.
- b. To commemorate International Women's Day, the Bank actively involved its Amayi Angathe prospective and existing clientele in a series of events held in Blantyre, Lilongwe, and Mzuzu in March and April 2023.

- c. In efforts to further enhance customer relationships, the Bank hosted successful interactions for SME customers in Blantyre and Lilongwe.
- d. Following a five-year hiatus, the Bank hosted an Inspire Greatness Golf tournament in at Lilongwe Golf Club with 126 golfers in attendance (including the Vice President Rt Honourable Saulos Klaus Chilima). The Tournament provided a platform to the Bank and its valued corporate clients to create memorable moments and meaningful conversations that inspire mutual growth.
- e. In May 2023, the Bank actively participated in the inaugural Malawi Investors Forum held in South Africa. With a sponsorship of K15m, the Bank asserted its brand dominance and engaged with a range of potential investors and Malawians in the Diaspora in preparation for the launch of its Diaspora Account offering.



The pictorial focus of some of these activities is on pages and

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 the management of pension funds, high net worth and money market portfolios. The company also executes corporate financing mandates and financial advisory services for its third – party clients.

For the year ended 31st December 2023, the company recorded profit after tax of K3.39b which translates to a 175% growth from FY2022 (K1.23b). The outstanding performance is attributed to growth in overall portfolio driven by the bullish capital market and money market inflows.

Overall portfolio under management has hovered around K310b due to high fluctuations of the money market portfolio while the off – balance sheet portfolio has registered a significant growth of 46% to close at K196b from K134b in 2022.

The company foresees a sustained strong performance in FY2024. It has lined up several business development and marketing initiatives as outlined in its 5 – Year Business & Strategic Plan (2023 – 2027) to achieve the above.

Foreign exchange trading income

K3.39b
(2022: K1.23b)

↑
175%

Portfolio under management

K310.0b

Off-balance sheet portfolio

K196.0b
(2022: K134b)

↑
46%

Stockbrokers Malawi Limited

Stockbrokers Malawi Limited (SML), a 75% subsidiary of National Bank of Malawi plc recorded a pre-tax profit of K552m, 20% higher than K459m registered in 2022.

Revenue increased by 30% from K843m in 2022 to K1099m. This was largely attributed to a bullish stock market.

The company will continue to pursue business growth in 2024.

NBM Pensions Administration Limited (NBM PAL)

NBM PAL is a wholly owned subsidiary of the Bank engaged in Pension administration. The Company recorded a subdued performance with PBT of K170m which was down by 30% compared to the prior year. The slump in performance is partly as a result of challenges to onboard new clients as a result of the challenging economic environment.

Funds under Administration portfolio closed at K166b as at the end of 2023. However, this position is 55% higher when compared to K105b recorded prior year. The portfolio grew significantly due to investment returns largely from listed stocks.

Looking ahead, 2024 looks promising as some deals in the pipeline carried over from the year 2023 may be closed. The Company is also diversifying revenue generation by;

- Introducing new pension ancillary products such as the Programmed Withdrawal Arrangement (PWA).
- Intensifying consultancy and Technical Management deals.

United General Insurance (UGI)

In the year 2023, the company reviewed its underwriting philosophy, risk management and claims processes to set up a strong springboard going forward. Despite the numerous related challenges faced in the year such as high inflation, electricity black outs, intermittent water supply, shortage of foreign exchange and effects of Cyclone Freddy, the Company's Gross Written Premium grew by 19% from K 6.7b in 2022 to K 8.0b in 2023.

Claims grew by 32% with two classes namely, Motor and Worker's compensation being the major contributors to the losses. This is largely due to the increasing trend in court awards and litigation costs that were incurred in the year. The strategies put in place to curb the growth of claims have started yielding results.

Management expenses grew by 8%; however, the expense ratio remained high at 41%. Investment income grew by 127% due to

Pre-tax profit
K552.0m
(2022: K459.0m) ↑ 20%

Pre-tax profit
K170.0m
↓ 30%

Funds under administration
K166b
(2022: K105b) ↑ 55%

Total assets
K15.0b
(2022: K11.0b) ↑ 35%

The company closed the year with a loss after tax of **K56.0m**

good gains on some counters on the stock exchange and higher interest rates on the money market.

Total assets grew by 35% from K11b in 2022 to K 15b in 2023. The company closed the year with a loss after tax of K 56m.

Going forward, the company has restructured its business model to be Sales driven and to be more customer centric to satisfy customers' needs. In 2024 the company will focus on achieving meaningful profitable growth by increasing sales and distribution channels. The upgraded Aims Enterprise 2018 which is a web version brings agility, control, cost efficiency 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 four years.

In the year to December 2023, the Bank registered a profit after tax of K893m from K304m reported in the year 2022. These results were largely driven by the growth of the loan book and funds under investments which saw total interest income growing by 124%.

The Bank's loan book grew from K4.6b to K10.8b representing a growth of 135% in 2023 (2022: 104%). During the year 2023, the Bank continued to finance high development impact projects in the Agribusiness, Tourism, Education and Health Sectors.

The operating environment was largely subdued because of inflationary pressures, the devaluation of the Kwacha and acute foreign currency shortages which negatively impacted the implementation of projects in various sectors which the Bank operates.

The Bank remains resilient and optimistic to continue in its growth trajectory in the year 2024 notwithstanding the tough operating environment. The uptake of credit facilities by SMEs is expected to increase during the year despite the envisaged challenges.

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%.

Profit after tax
K893.0m
(2022: K304.0m) ↑ 194%

Total interest income grew by ↑ 124%

Loan book
K10.8b
(2022: K4.6b) ↑ 135%

The Bank's business remains concentrated in business banking serving micro, small and medium enterprises. However, there were continued efforts during the year to expand in the personal and corporate banking segments, whereby personal banking continued to be the fastest growing segment. The Bank continued its efforts to implement new products and during the year launched Visa cards and a new Agency banking platform. Digital banking channels such as internet banking and an enhanced mobile application were at pilot stage as of end of the year. These new products and services will enhance customer experience and attract new customers in the various segments.

During the year under review, the Bank recorded a loss before tax of K755m compared with a loss before tax of K3,219m recorded in 2022. This represents a 77% reduction in the loss before tax when compared to previous year. Loss after tax reduced by 76% from K4,072m in 2022 to K989m in 2023.

Total income increased by 50% to K16,221m from K10,794m in the previous year, as interest income remained flat due to a decline in the higher yielding Biashara loans.

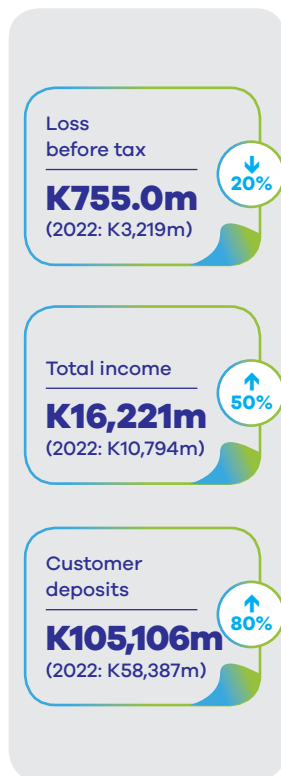
Operating expenses increased by 21% to K16,976m from K14,013m in 2022 due to increases in staff, security and fuel expenses due in turn to delayed implementation of staff rationalisation, an increase in minimum wages and an increase in global fuel prices respectively. The bank has continued to implement cost containment measures which partly reduced the overall increase in costs. Income tax expense for the year amounted to K234m as a result of a reduction in the deferred tax asset.

Customer deposits increased by 80% from K58,387m in 2022 to K105,106m while net loans and advances increased by 73% from K42,435m in 2022 to K73,376m, mainly due to the growth of the personal consumer loans.

The Bank completed the third year 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.

1. The Bank has continued to implement transformative initiatives to achieve the objectives of the strategy in the planned time horizon. These include: the upgrade of the core banking system (Temenos T24); finalizing the rollout of new products and services; Staff and branch rationalization; and a culture transformation programme

The Bank is looking forward to another challenging year 2024 as it plans to carry out the main phase of the staff rationalization exercise, 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

Economic growth is projected to pick up to 3.2% in 2024, from 1.5 percent in 2023, supported by an increase in public investment and recovery in mining and quarrying, manufacturing, information and communication, financial and insurance activities, and education sectors. The positive outlook is, however, clouded by El Niño-induced weather conditions, and a highly uncertain global economic and geopolitical environment.

Inflation, on the other hand, is likely to remain elevated in 2024 due to the anticipated low maize product associated with the El Niño-induced weather conditions coupled with the uncertainty caused by geopolitical environment. These developments will likely point to an even tighter monetary policy environment.

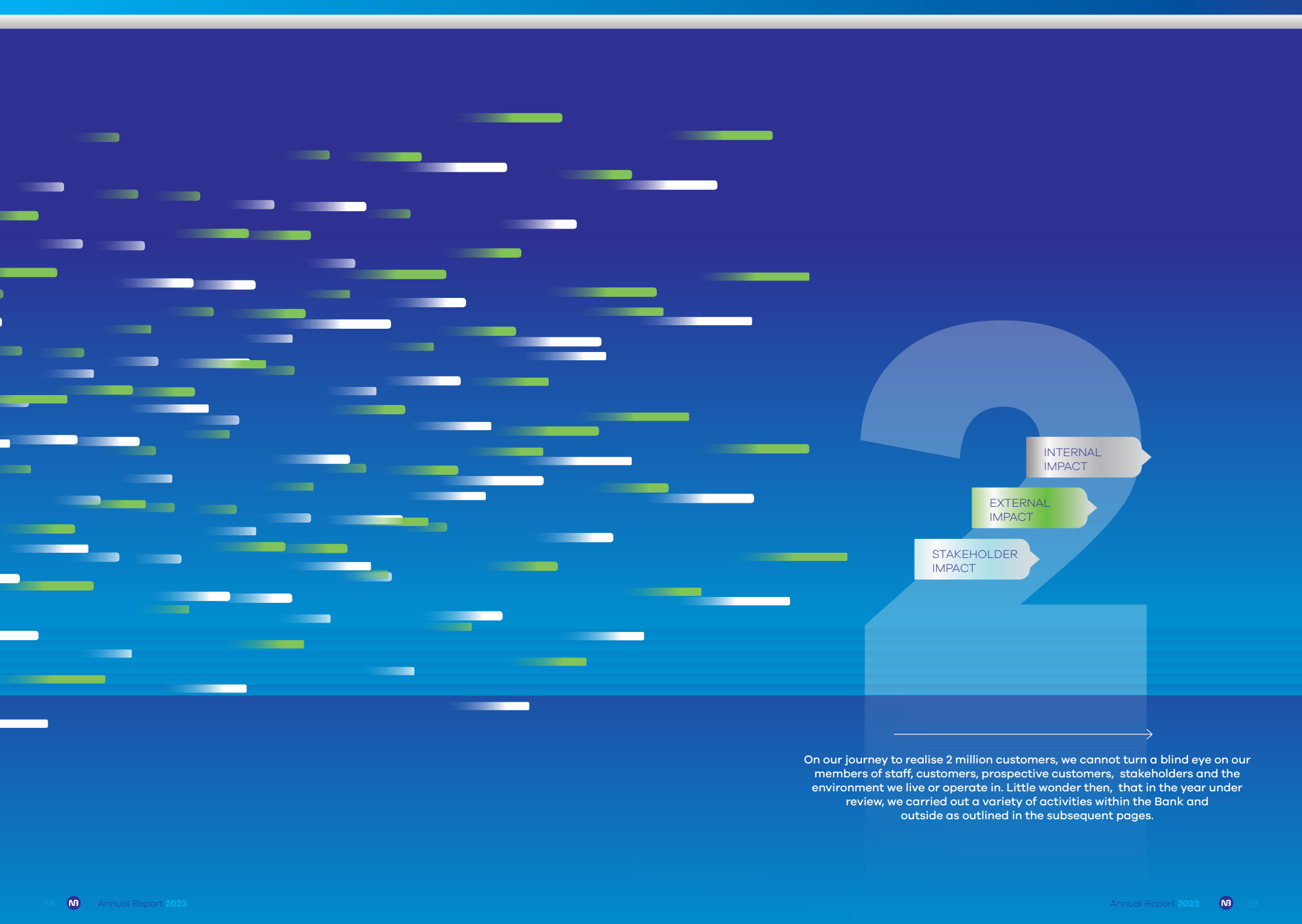
Looking ahead, the Bank envisages a challenging operating environment emanating from pressures on inflation, foreign exchange rate, and developments in the other parts of the world. Despite the above the Group is expected to continue the growth trajectory.

Conclusion

I will be leaving the Group on 30th June 2024 on retirement after serving the Bank for 26 years. Harold Jiya will be taking over from me and my congratulations go to him. I wish him all the best as he steers the Bank to greater heights. I would like 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 amidst numerous challenges met along the way. Guided by the lessons learnt in recent years I am confident that everyone will come out wiser as the Group continues 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. I look forward to their continued support to my successor as well just like they rendered to me all the years I was at the helm of the Bank.

Macfussy M Kawawa
Chief Executive Officer



On our journey to realise 2 million customers, we cannot turn a blind eye on our members of staff, customers, prospective customers, stakeholders and the environment we live or operate in. Little wonder then, that in the year under review, we carried out a variety of activities within the Bank and outside as outlined in the subsequent pages.

INTERNAL
IMPACT



Africa Day commemoration



Tiiphula second anniversary



International Women's Day commemoration

EXTERNAL
IMPACT

In the period
under review,

**K932.6
million**

was channeled towards
Corporate Social
Investment (CSI) and
Sponsorships with the
intention of driving
social impact and
maintaining brand
affinity as the Bank
of the Nation.

EXTERNAL
IMPACT



Cyclone Freddy housing donation



Cyclone Freddy relief, Mulanje



Cyclone Freddy Relief through the Malawi Red Cross Society and Press Corporation Limited (MWK 135m) presented to over 2000 households in affected areas

EXTERNAL
IMPACT



Surgical equipment valued at K130m to Kamuzu Barracks Camp Hospital



Purchase of two blood bank fridges valued at K80m for use by the Malawi Blood Transfusion Services (MBTS) to serve their catchment area in Mulanje and Mangochi regions.

EXTERNAL
IMPACT



Final payment of K20m towards the NBM plc Malawi University of Science and Technology Endowment Fund account valued at K60m



Following a five-year hiatus, the Bank hosted an Inspire Greatness Golf tournament in at Lilongwe Golf Club with 126 golfers in attendance (including the former (deceased) Vice President Rt Honourable Saulos Klaus Chilima)



Disbursement of funds and monitoring of works in the three forests adopted by NBM plc in Mangochi, Dedza and Chitipa. K100mn was initially approved by the Board towards this project which is being implemented through the Department of Forestry

EXTERNAL
IMPACT



Innovation Jam in Collaboration with ICT Association of Malawi (ICTAM). In November 2023, NBM plc renewed its partnership with ICTAM for the provision of technological advancement through the NBM plc Innovation Jam valued at K115m per annum.



Mo626 College Basketball – In 2023, NBM plc initiated the fourth edition of Mo626 Basketball towards which K150m was invested to finance games and prizes and foster engagement with the Bank's youthful customer segment

EXTERNAL
IMPACT



Community Outreach Through the 12 Days of Christmas Initiative valued at K70 million

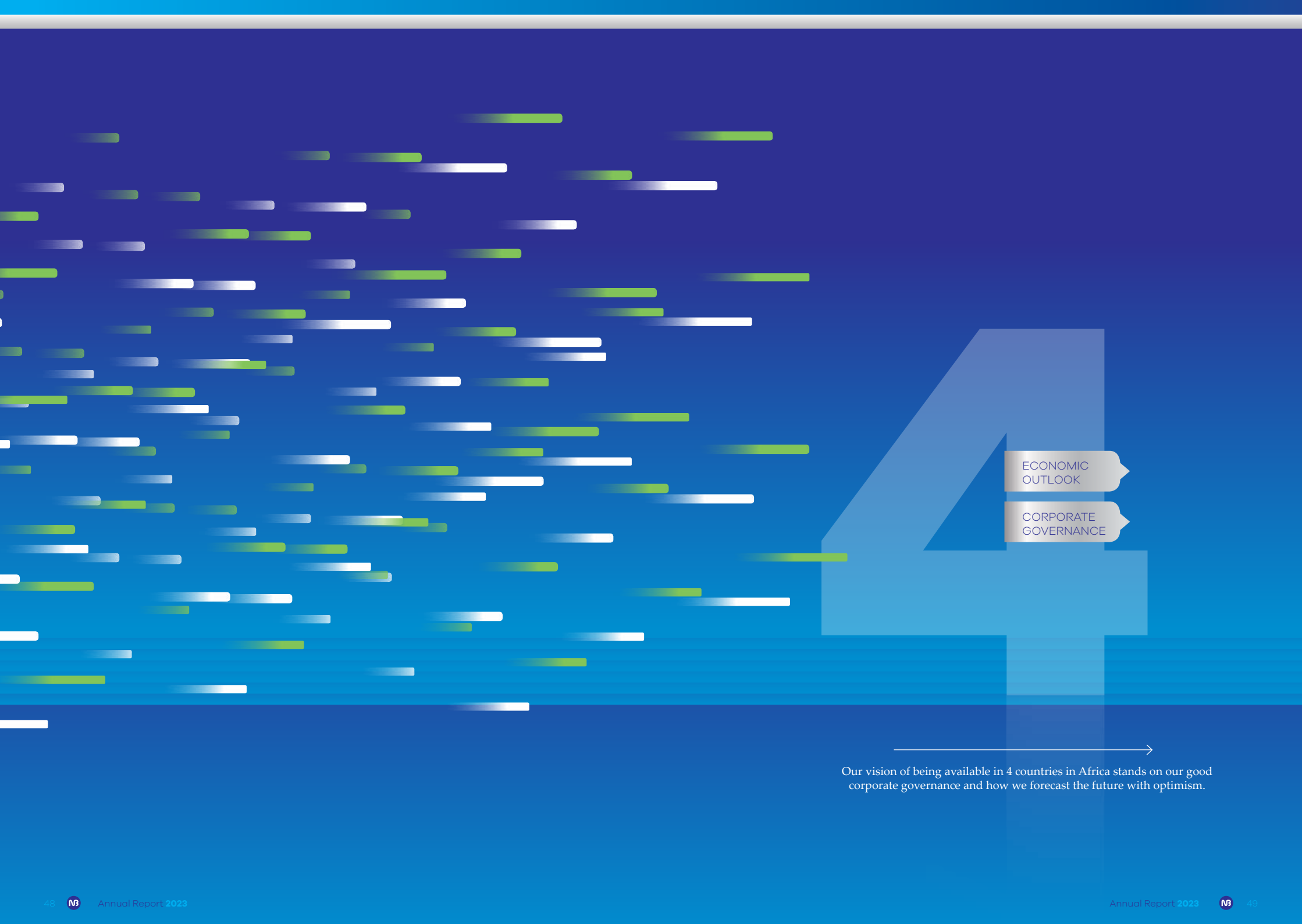


STAKEHOLDER
IMPACT



Inaugural Stakeholder Engagement Forum in May 2023. Aligned with its strategic goal of becoming the leading digitalized bank in Malawi, this hybrid forum experienced significant physical and online attendance





ECONOMIC
OUTLOOK

CORPORATE
GOVERNANCE

→
Our vision of being available in 4 countries in Africa stands on our good corporate governance and how we forecast the future with optimism.



Real GDP Growth

Real GDP growth for 2023 was recorded at 1.5%, compared to a growth rate of 1.1% in 2022. The growth is anchored by positive prospects in utilities, manufacturing, and wholesale and retail trade sectors which grew by 5.1%, 1.0%, and 0.6% in 2023, from contractions of 2.8%, 1.9% and 2.1%, respectively in 2022. Downside risks to the growth included the prevailing high inflation as well as continued foreign exchange supply challenges. On the upside, the resumption of the IMF-supported ECF program is expected to unlock foreign exchange inflows going into 2024, which will in turn support importation of raw materials and promote economic activity.

Inflation

The year 2023 was characterized by elevated inflation with prices accelerating from an average headline inflation of 26.5% in the first quarter of 2023 to average headline inflation of 28.4% in the second quarter. Inflation pressures intensified again during the fourth quarter of 2023. Notably, the average headline inflation for the fourth quarter of 2023 was recorded at 31.5%, from 28.2% during the preceding quarter. The acceleration in inflation emanated from the pass-through effects of the 44.0% exchange rate re-alignment in the first week of November 2023 and the subsequent adjustment in energy prices. Food inflation increased to an average of 39.9%

in the fourth quarter of 2023 from an average of 38.5% in the previous quarter. During the same period, non-food inflation increased to an average of 20.9% from an average of 16.4%.

Overall, annual average inflation was recorded at 28.8% in 2023 from an annual average of 21% the previous year.

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 44% exchange rate realignment between the official and parallel market exchange rates effected in November 2023. The Malawi Kwacha closed 2023 trading at MK1700/1US\$.

Outlook for 2024

According to the Ministry of Finance and Economic Development, economic growth is projected to pick up to 3.2% in 2024, from 1.5 percent in 2023, supported by an increase in public investment and recovery in mining and quarrying, manufacturing, information and communication, financial and insurance, and education sectors. The positive outlook is, however, clouded by El Niño-induced weather conditions, and a highly uncertain global economic and geopolitical environment.

Inflation, on the other hand, is likely to remain elevated in 2024 due to the anticipated low maize product associated with the unfavourable weather conditions coupled with the uncertainty caused by geopolitical environment. On the macroeconomic front, upside risks will remain high due to lagged effects of exchange rate re-alignment, higher maize prices owing to the anticipated lower maize production as well as worsening inflation expectations. These factors have shifted the inflation path upwards and point to an even tighter monetary policy environment with an elevated Policy Rate of around 26% at the turn of the year in 2024.



The Board of Directors of National Bank of Malawi plc wishes to report that during the year ended 31st December 2023, the Company was in full compliance with the standards of good corporate governance. The Company followed principles of openness, integrity and accountability as set out in the Malawi Corporate Governance Code, the Cadbury Report, and the King Reports in order to meet the standards. Consequently, the Company had a cordial relationship with its shareholders, customers, strategic partners, suppliers of various goods and services, regulators, and staff.



The Company has enshrined principles of good governance by dividing the responsibilities between the Board and Executive Management in its Board Charter. The Charter further fosters the Board's oversight role by setting the strategic objectives and performance criteria of the Company, determining investment policies whilst the detailed planning and implementation of these objectives and policies is delegated to Management in accordance with appropriate restrictions.

Annual General Meeting

The Company held its Annual General Meeting (AGM) on 20th July 2023. It was a hybrid AGM where some shareholders attended physically whilst others attended virtually. Shareholders who attended virtually were allowed to raise questions and vote before the meeting. The meeting was attended by 20 shareholders in person whilst 168 attended by proxy.

The Board

The Board has seven Committees to which it delegates some of its compliance monitoring

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

responsibilities. These Committees are Risk, Audit, Appointments Remuneration & Governance, IT Projects Oversight, Investments, Credit, and 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 Company to have effective and efficient systems with sound internal financial controls governing all its operations in line with best practice. These internal controls provide a safeguard for 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 for 2023 was Mr Jimmy Lipunga. The Company has a good mix of Directors as they have diverse professional backgrounds and hold or have held senior leadership positions in the financial services, public and private sectors. As a result, the Board gets contribution from 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 held normal quarterly meetings in 2023 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 met 6 times in the year 2023.

Name of Committee	Functions	Chairperson	Number of Meetings in 2023
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	5
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. 	Mrs. Dorothy Ngwira	6

Name of Committee	Functions	Chairperson	Number of Meetings in 2023
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	8
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	4
Credit Committee	<ul style="list-style-type: none"> - Consider credit applications that are above management limit in line with the Company's Authorities Schedule approved by the Board. - Review credit policies, the quality of the Company'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	5

Name of Committee	Functions	Chairperson	Number of Meetings in 2023
Related Parties Committee	<ul style="list-style-type: none"> - Consider credit applications from Companies and Individuals related to the Company to ensure that all transactions are conducted at arm's length. 	Mr. Macleod Nkhoma	4
Investments Committee	<ul style="list-style-type: none"> - to support and advise the Board in fulfilling its governance responsibilities over green fields, mergers, acquisitions and divestiture undertakings of the Company in line with all applicable laws, legislation, directives of the Reserve Bank of Malawi and the Malawi Stock Exchange 	Dr Bernadette Malunga	3

Meeting Attendance

The Directors' Board and Committee meeting attendance for the 2023 financial year is shown below: .

Directors Board Meetings Attendance – 2023

Main Board

Name	Jan. 27	March 31	Special April 5	Special May 25	August 30	Nov. 30
Mr. Lipunga	✓	✓	✓	✓	✓	✓
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	✓	✓	✓	✓	✓	✓

Board Credit Committee

Name	Jan. 11	May 10	Aug. 22	Oct 10	Dec. 14
Mr. M Nkhoma	✓	✓	✓	✓	✓
Dr. L. Chithambo	✓	✓	✓	✓	✓
Dr. B. Malunga	✓	✓	✓	✓	✓

Board Committee on Related Parties

Name	Jan. 11	May 10	June 13	Dec. 14
Mrs. B. Nyirenda	✓	✓	✓	✓
Mr. M. Nkhoma	✓	✓	✓	✓
Dr. B. Malunga	✓	✓	✓	✓

Board Audit Committee

Name	Feb. 15	March 27	May 18	August 9	Aug. 28	Nov. 24
Mr. J. Nsomba	✓	✓	✓	✓	✓	✓
Mrs. D. Ngwira	✓	✓	✓	✓	✓	✓
Ms. M. Mbeye	✓	✓	✓	✓	✓	✓

Board Risk Committee

Name	Feb. 16	May 18	August 9	Nov. 7	Nov. 20
Mr. J Mhura	✓	✓	✓	✓	✓
Mr R Banda	✓	✓	✓	✓	✓
Mr. C. Mzengereza	✓	✓	✓	✓	✓

Board Appointment and Remuneration Committee

Name	Feb. 13	March 28	Special April 4	May 22	August 8	Nov. 21
Mr. J Mhura	✓	✓	✓	✓	✓	✓
Mr. C. Mzengereza	✓	✓	✓	✓	✓	✓
Dr. L. Chithambo	✓	✓	✓	✓	✓	✓

Board It Projects Oversight Committee

Name	Feb. 13	May 9	August 8	Nov 20
Mr. R. Banda	✓	✓	✓	✓
Mrs. B. Nyirenda	✓	✓	✓	✓
Dr. B. Malunga	✓	✓	✓	✓

Board Investments Committee

Name	August 2	Nov. 23	Dec. 18
Mr. M. Nkhoma	✓	✓	✓
Dr. L. Chithambo	✓	✓	✓
Dr. B. Malunga	✓	✓	✓

Code of Ethics

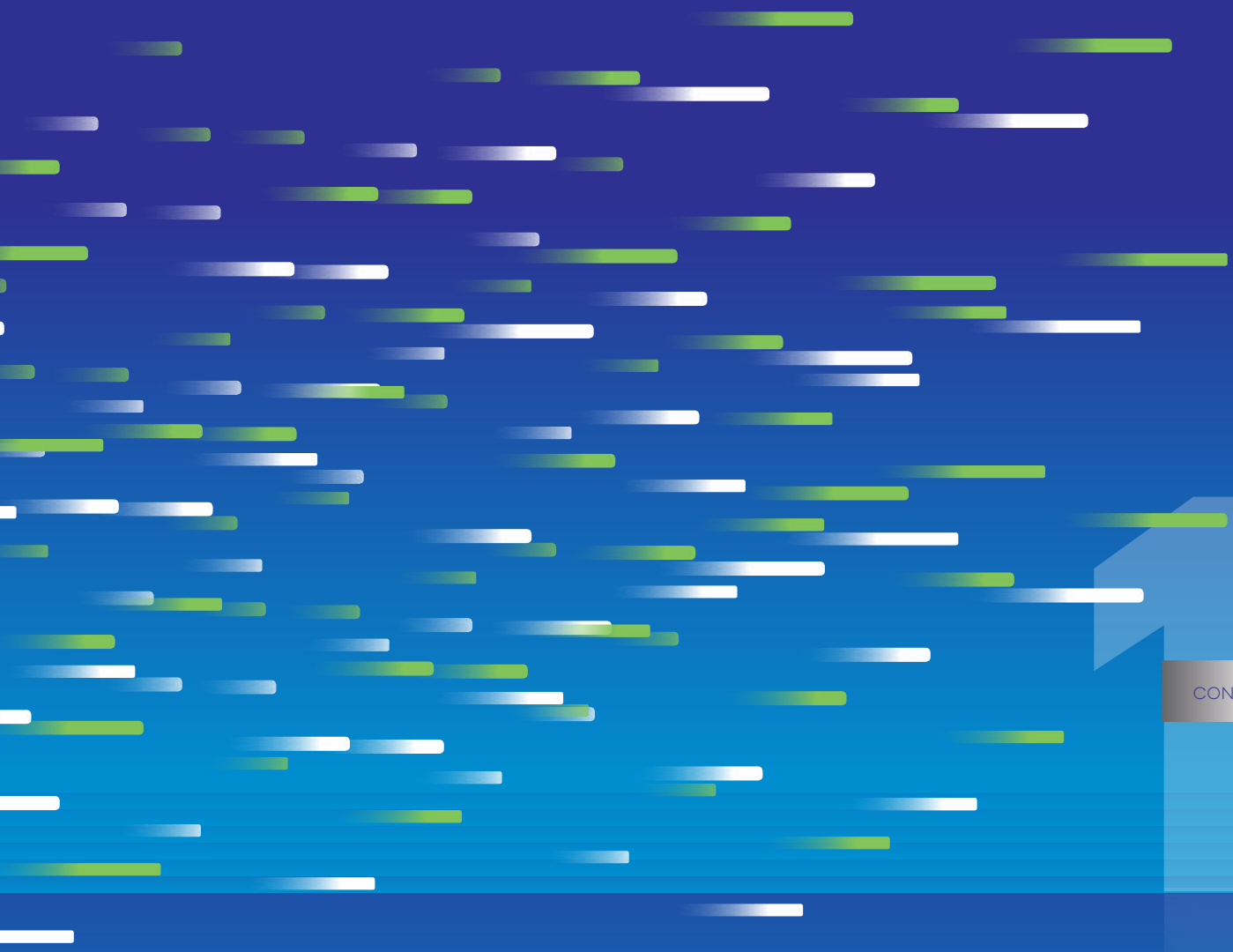
The Company has adopted and strictly enforces the Code of Ethics which reaffirms its commitment to fair dealing and integrity in the conduct of its business and ensures that business is conducted morally, honestly, fairly, legally and in a transparent manner.

Auditor Independence

The Board is satisfied that no aspect of the work of the external auditor has been impaired. This is due to the systems that the Company has in place for ensuring independence, integrity, competence, and professionalism of auditors. The Annual General Meeting of 2023 appointed Ernst & Young as external auditors for the Company replacing Deloitte.

Board Information and Development

One responsibility of the Company Secretary is to ensure 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 Company Secretary further coordinates the periodic training of the Company's Directors to 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 2023, the Company Secretary organised training for Directors on Cyber Security, Anti-Money Laundering, Environmental, Social and Governance (ESG), and Bank Governance. One director attended training on Bank Governance at Saiid Business School in London, in the course of the year.



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CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS



Our 2023 financial performance is a positive step to catalyze us to achieving profit after tax of USD100m in five years time.

The Companies Act, 2013 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, 2013. In preparing the consolidated and separate financial statements, the directors accept responsibility for ensuring the following:

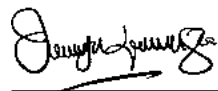
- Maintenance of proper accounting records that correctly record and explain the transactions of the Bank and Group;
- Selection of suitable Material accounting policies and applying them consistently;
- Making judgements and estimates that are reasonable and prudent;
- Compliance with applicable Accounting Standards when preparing financial statements subject to any material departures being disclosed and explained in the financial statements; and
- Preparation of financial statements on a going concern basis unless it is inappropriate to presume that the Bank 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.

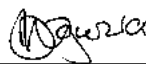
The directors also confirm that they have complied with the Companies (Corporate Governance) regulations 2016 with respect to corporate governance.

The directors are of the opinion that the consolidated and separate financial statements give a true and fair view of the state of the financial affairs of the Group and the Bank of their operating results for the year ended 31 December 2023, so far as concerns the members of the Group.

By Order Of The Board



Director (Lipunga, J. (Mr))
28 February 2024



Director (Ngwira, D (Mrs))
28 February 2024



Chartered Accountants (Malawi)

Apex House
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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 ("the Group") set out on pages 66 to 180 which comprise the consolidated and separate statements of financial position as at 31 December 2023, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year ended 31 December 2023, and notes to the consolidated and separate financial statements, including material accounting policy information.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and Company as at 31 December 2023, 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 (IFRS) and the requirements of the Companies Act, 2013.

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 the report. We are independent of the Group and Company in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* and other independence requirements applicable to performing audits of financial statements in Malawi. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. The matter noted below was 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 the matter. For the key audit matter noted below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report, including in relation to the key audit matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated and separate financial statements.

Key Audit Matters (Continued)

The Key Audit Matter applies to the audit of the consolidated and separate financial statements.

Level	Key audit matter
National Bank of Malawi plc National Bank of Malawi Group	Expected credit losses The disclosures associated with Credit Risk are set out in the consolidated and separate financial statements in the following notes: <ul style="list-style-type: none"> • Note 3.5 – <i>Measurement and recognition of Expected Credit Losses</i> • Note 3.19 - <i>Classification and measurement of financial instruments under IFRS 9</i> • Note 11 - <i>Loans and advances</i> • Note 41(c) - <i>Credit risk</i>
Valuation of expected credit losses on loans and advances	How the matter was addressed in the audit
<p>We identified the audit of expected credit losses (ECL) as a key audit matter considering the following:</p> <ul style="list-style-type: none"> • National Bank of Malawi Group's loan and advances at K405.9 billion represent 31.9% of total assets and the associated impairment provisions for expected credit losses of K12.7 billion are material to the consolidated financial statements. • The high degree of estimation uncertainty, significant judgements and assumptions applied in estimating the ECL on loans and advances to customers. • High volume of data extracted from the system to the end user computing tool. This increases the risk around accuracy and completeness of data used to create assumptions and operate the ECL model. • The Significant portion of ECL is calculated on a modelled basis. The development and execution of the model requires significant management judgement, including estimation of the probability of default (PD); exposure at default (EAD) and loss given default (LGD) model parameters. Significant increases in credit risk (SICR) are assessed based on the current risk of default of an account relative to its risk of default at origination. This assessment incorporates judgement and estimation by management, including impact of external factors. 	<p>Our response to the key audit matter included performing the following audit procedures:</p> <ul style="list-style-type: none"> • We obtained an understanding of the Group's policies and procedures, including controls in place around determination of expected credit losses. We confirmed our understanding of the design and the operating effectiveness of the key controls over the processes of credit assessment, loan classification and loan impairment assessment including the oversight role of those charged with governance in the determination, accounting and reporting of expected credit losses. • We carried out procedures to ensure the data being used in the models is complete, accurate, and that assumptions used are reasonable and supportable. • Our internal specialists reviewed the models used to process data and the alignment of these models to the 'methodology' and recalibrations approved for use by the Group. • We assessed the input assumptions applied within the PD, EAD and LGD models (including forward looking information) for compliance with the requirements of IFRS 9 – Financial Instruments ("IFRS 9"). In addition, our procedures included assessing the appropriateness of the models through reperformance and validation procedures. • We obtained an understanding of the relevant internal controls relating to the approval of credit facilities, subsequent monitoring and remediation of exposures, key system reconciliations and collateral management.

Key Audit Matters (Continued)

Valuation of expected credit losses on loans and advances	How the matter was addressed in the audit
<p>In particular we have focussed on the following areas of significant judgement:</p> <p>Determination of expected credit losses require consideration of multiple forward-looking macro-economic factors, including consideration of observable relationships between these factors and Non-Performing Loans (NPL) in the past projected into the future. The key factors considered by the bank include inflation, Gross Domestic Product (GDP), interest rates, fuel prices, and historical correlations between these inputs against the NPL rate.</p> <p>Calculation of expected losses utilizes models that utilize collateral reports from valuers, legal experts and credit specialists.</p> <p>Extensive disclosures are required in the financial statements in order to allow users of the financial statements to understand the additional level of judgement applied by management, this included additional disclosure with regards to management adjustments and sensitivity analyses. Due to the extensive nature of these disclosures which are non-routine and very specific to the environmental conditions, this required significant audit effort to assess the reasonability and compliance with International Financial Reporting Standards (IFRS).</p> <p>There are prudential requirements to be complied with in determination of expected credit losses for compliance reporting. Management has to consider these requirements and customize their models accordingly, including treatment of differences between the two reporting frameworks.</p>	<ul style="list-style-type: none"> • Evaluated the appropriateness of the Significant Increase in Credit Risk (SICR) criteria used by assessing reasonableness of qualitative staging decisions such as the borrower's financial performance and accuracy of quantitative staging criteria based on days past due. <p>We have assessed the appropriateness of the macro-economic forecasts and scenario weightings by benchmarking these against external evidence and economic data. Our internal specialists reviewed the correlation between probabilities of default and external macro-economic factors using historical data and results thereof, including reviewing the appropriateness of the statistical methodologies used to project these relationships in the future.</p> <p>For collateral held, we inspected legal agreements and supporting documentation to confirm the existence and legal right to collateral. The collateral valuation techniques applied by management were benchmarked to the market practice and values compared to market achievable disposal values on the market.</p> <p>We reviewed the additional disclosures related to adequacy and appropriateness in accordance with the requirements of IFRS 7- <i>Financial Instruments: Disclosures</i>.</p> <p>We reviewed the prudential models and assessed their compliance to the <i>Asset Classification Directive</i> of 2018. We also reviewed adjustments made in reconciliation of this directive to IFRS 9 Financial Instruments for accuracy and completeness.</p>

Other Information

The directors are responsible for the other information. The other information comprises the directors' report and the directors statement of responsibilities for the year ended 31 December 2023. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 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 and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2013; 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 Company's and 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 and Company or to cease operations, or have no realistic alternative but to do so.

Other matter

The consolidated and separate financial statements of National Bank of Malawi plc for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those statements on 13 April 2023.

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 skepticism 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

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

- that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Company's internal control.
- Evaluate the appropriateness of Material 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 and Company'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 and/or the Company 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities within the Group and its business activities to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

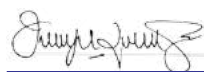


Chartered Accountants (Malawi)
Chiwemi Chihana
Registered Practicing Accountant

22 March 2024

	Notes	GROUP		COMPANY	
		2023 K'm	2022 K'm	2023 K'm	2022 K'm
ASSETS					
Cash and funds with Central Banks	5&39	76,755	64,650	54,007	53,604
Placements with other banks	6&39	136,197	83,515	135,155	83,302
Other money market deposits	7&39	150,516	169,277	43,758	-
Other assets	8	32,636	16,580	25,923	11,408
Income tax receivable	21.2	-	16	-	-
Equity investments	9	9,803	6,892	9,803	6,892
Government securities	10	380,397	345,939	341,895	309,930
Loans and advances to customers	11	405,860	310,440	321,929	262,768
Investment in associates	12	892	918	992	992
Investment in subsidiaries	13	-	-	18,170	15,641
Property and equipment	14	57,107	44,936	55,352	44,338
Intangible assets	15	12,033	9,496	11,648	9,268
Right-of-use assets	16	3,638	4,946	9	792
Deferred tax assets	17	2,203	11,785	-	9,348
Goodwill	18	3,959	3,959	-	-
Total assets		1,271,996	1,073,349	1,018,641	808,283
Liabilities and Equity					
Liabilities					
Customer deposits	19	969,413	809,562	752,542	568,644
Amounts due to other banks	20	13,982	35,640	8,237	27,959
Current income tax liabilities	21	19,008	7,712	18,030	7,189
Loans	22	12,447	11,108	4,587	8,105
Provisions	23	6,255	6,391	6,003	5,966
Other liabilities	24	32,823	22,261	27,715	19,351
Lease liabilities	25	5,227	6,849	578	1,838
Deferred tax liabilities	17	5,067	2	5,067	-
Total liabilities		1,064,222	899,525	822,759	639,052
Equity					
Capital and Reserves					
Share capital		467	467	467	467
Share premium		613	613	613	613
Regulatory reserves		962	-	-	-
Revaluation reserves		28,573	35,498	29,884	36,809
Foreign currency translation reserves		7,151	2,566	-	-
Retained earnings		168,709	133,036	164,918	131,342
Equity attributable to equity holders of the parent		206,475	172,180	195,882	169,231
Non-controlling interests		1,299	1,644	-	-
Total equity		207,774	173,824	195,882	169,231
Total liabilities and equity		1,271,996	1,073,349	1,018,641	808,283
Memorandum items					
Letters of credit and guarantees	36	32,448	29,376	32,448	29,376

These consolidated and separate financial statements were approved and authorised for issue by the Board of Directors on 28 February 2024 and were signed on its behalf by:



Director (Lipunga, J (Mr))



Director (Ngwira, D (Mrs))

	Notes	GROUP		COMPANY	
		2023 K'm	2022 K'm	2023 K'm	2022 K'm
Income					
Interest and similar income	28	158,129	111,984	141,456	99,662
Interest expense and similar charges	28	(26,683)	(13,111)	(23,174)	(10,775)
Net interest income	28	131,446	98,873	118,282	88,887
Commission and fee income	29	49,682	32,376	40,860	26,654
Profit from dealing in foreign currencies		25,533	12,804	25,287	12,642
Income from operating leases		30	156	30	156
Net gain on financial instruments classified as held through profit and loss	9	5,346	931	5,346	931
Profit/(Loss) on disposal of financial instruments classified as held through profit and loss		2,986	(163)	2,986	(163)
Share of loss of associate		(26)	(1,042)	-	-
Net profit / (loss) on modified and restructured loans	11	102	(126)	102	(126)
Dividend income		323	202	1,336	731
Properties fair value gain	32	130	93	130	93
Profit on disposal of plant and equipment		207	1	139	1
Total income		215,759	144,105	194,498	129,806
Expenditure					
Staff costs	30	(42,303)	(34,059)	(32,972)	(26,479)
Depreciation and amortization	14&15	(5,735)	(4,502)	(5,231)	(4,201)
Other operating expenditure	31	(40,347)	(32,186)	(33,073)	(26,907)
Total expenditure		(88,385)	(70,747)	(71,276)	(57,587)
Profit before net impairment on financial assets		127,374	73,358	123,222	72,219
Recoveries on impaired loans and advances	11	3,955	2,146	2,677	1,783
Impairment losses on financial assets	11	(11,200)	(6,141)	(10,779)	(2,785)
Profit before tax		120,129	69,363	115,120	71,217
Income tax expense	33	(48,170)	(23,419)	(45,934)	(22,082)
Profit for the year		71,959	45,944	69,186	49,135
Other comprehensive(loss)/ income					
<i>Items that will not be reclassified subsequently to profit or loss:</i>					
Surplus on revaluation of properties	32	6,965	3,696	6,965	3,696
Deferred tax (charge)/credit	17	(13,527)	2,032	(13,527)	2,032
Total other comprehensive(loss)/ income		(6,562)	5,728	(6,562)	5,728
Total comprehensive income for the year		65,397	51,672	62,624	54,863
Profit attributable to:					
Equity holders of the parent	34	72,245	47,474	69,186	49,135
Non-controlling interests		(286)	(1,530)	-	-
		71,959	45,944	69,186	49,135
Comprehensive income attributable to:					
Equity holders of the Company		65,683	53,202	62,624	54,863
Non-controlling interests		(286)	(1,530)	-	-
		65,397	51,672	62,624	54,863
Earnings per share					
Attributable to equity shareholders of the parent for the year:					
Earnings per share (K)	34	154.70	101.66	148.17	105.23
Diluted earnings per share (K)	34	154.70	101.66	148.17	105.23

Consolidated and Separate Statements of Changes in Equity

For the year ended 31 December 2023

GROUP	Share capital K'm	Share premium K'm	Regulatory reserves K'm	Revaluation reserves K'm	Foreign currency translation reserves K'm	Retained earnings K'm	Equity attributable to equity holders of the parent K'm	Non-controlling interests K'm	Total K'm
2023									
At beginning of the year	467	613	-	35,498	2,566	133,036	172,180	1,644	173,824
Total comprehensive income	-	-	-	(6,562)	-	72,245	65,683	(286)	65,397
Transfer of excess depreciation	-	-	-	(363)	-	363	-	-	-
Transfer from retained earnings	-	-	962	-	-	(962)	-	-	-
Translation differences	-	-	-	-	4,585	-	4,585	-	4,585
Dividend paid to minority shareholders	-	-	-	-	-	-	-	(59)	(59)
2022 Second interim dividend declared and paid	-	-	-	-	-	(10,002)	(10,002)	-	(10,002)
2022 Final dividend declared and paid	-	-	-	-	-	(14,998)	(14,998)	-	(14,998)
2023 First interim dividends declared and paid	-	-	-	-	-	(10,973)	(10,973)	-	(10,973)
At end of the year	467	613	962	28,573	7,151	168,709	206,475	1,299	207,774
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

Regulatory reserves

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.

Foreign Currency Translation Reserve (FCTR)

FCTR represents the accumulated gain or loss resulting from the translation of financial statements denominated in a foreign currency into the Group's reporting currency.

Consolidated and Separate Statements of Changes in Equity (Continued)

For the year ended 31 December 2023

COMPANY	Share capital K'm	Share premium K'm	Revaluation reserves K'm	Retained earnings K'm	Total K'm
2023					
At beginning of the year	467	613	36,809	131,342	169,231
Total comprehensive income	-	-	(6,562)	69,186	62,624
Transfer of excess depreciation	-	-	(363)	363	-
2022 Second interim dividend declared and paid	-	-	-	(10,002)	(10,002)
2022 Final interim dividend declared and paid	-	-	-	(14,998)	(14,998)
2023 First interim dividend declared and paid	-	-	-	(10,973)	(10,973)
At end of the year	467	613	29,884	164,918	195,882
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	-
2021 Final interim dividend declared and paid	-	-	-	(18,005)	(18,005)
2022 First interim dividend declared and paid	-	-	-	(8,003)	(8,003)
At end of the year	467	613	36,809	131,342	169,231

Analysis of Share Capital

Authorised
500,000,000 Ordinary Shares of K1 each

Issued and fully paid

466,931,738 Ordinary Shares of K1 each

	2023 K'm	2022 K'm
Authorised	500	500
Issued and fully paid	467	467

Property Revaluation Reserves

The property revaluation reserves relate 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.

	Note	GROUP		COMPANY	
		2023 K'm	2022 K'm	2023 K'm	2022 K'm
Cash flows from operating activities					
Profit before tax		120,129	69,363	115,120	71,217
Adjustments for:					
Depreciation of property and equipment	14	4,322	3,146	3,894	2,913
Amortisation of intangible assets	15	1,413	1,356	1,337	1,288
Amortization of right-of-use assets	16	1,421	1,347	790	787
Interest on lease liability	25	976	1,035	225	417
Interest payable on loans	22 & 28	440	404	225	354
Profit on disposal of property and equipment		(207)	(1)	(139)	(1)
Write off of property and equipment	14 & 31	7	4	7	4
Movement in impairment losses on financial assets		11,200	6,141	10,779	2,785
(Gains)/ losses on disposal of financial instruments classified as held through profit and loss		(2,986)	163	(2,986)	163
Net gains on financial instruments classified as held through profit and loss	9	(5,346)	(931)	(5,346)	(931)
Dividend received		(323)	(202)	(1,336)	(731)
Net fair value gains on revaluation of properties	32	(130)	(93)	(130)	(93)
Share of loss of associate		26	1,042	-	-
Net (gain) /loss on modified and restructured loans	11	(102)	126	(102)	126
Operating cashflows before working capital movements		130,840	82,900	122,338	78,298
Movement in customer deposits		159,851	251,317	183,898	112,232
Movement in investments		14,846	(2,174)	17,338	6,173
Movement in liabilities to other banks		(21,658)	(16,037)	(19,722)	(21,551)
Movement in other liabilities and provisions		8,804	5,230	7,141	3,332
Movement in loans and advances to customers		(106,620)	(75,697)	(69,940)	(55,233)
Movement in other assets		(9,707)	(5,504)	(13,144)	(3,301)
Cash generated from operations		176,356	240,035	227,909	119,950
Tax paid	21.1 & 21.2	(35,770)	(18,511)	(34,205)	(18,350)
Net cash flow from operating activities		140,586	221,524	193,704	101,600
Cash flows from investing activities					
Gross receipts from investments		168,868	242,384	168,868	242,384
Gross payments for investments		(218,171)	(275,107)	(218,171)	(275,107)
Purchase of property and equipment	14	(9,805)	(4,299)	(7,909)	(3,958)
Purchase of intangible assets	15	(3,959)	(1,429)	(3,726)	(1,414)
Proceeds from disposal of property and equipment		607	51	228	51
Purchase of equity investments		-	(1,258)	-	(1,258)
Proceeds from disposal of equity investments		5,421	529	5,421	529
Dividend received		323	202	1,336	731
Net cash used in investing activities		(56,716)	(38,927)	(53,953)	(38,042)

	Note	GROUP		COMPANY	
		2023 K'm	2022 K'm	2023 K'm	2022 K'm
Cash flows from financing activities					
Increase in investments in subsidiaries and associates*		-	-	(2,529)	(3,612)
Increase in loans**	22	5,000	3,000	-	-
Payment of interest on loans**	22	(614)	(417)	(559)	(417)
Repayment of loans**	22	(3,487)	(2,475)	(3,184)	(2,428)
Interest paid on lease liabilities**	25	(976)	(1,035)	(225)	(417)
Repayments of lease liabilities**	25	(1,735)	(999)	(1,267)	(774)
Dividends paid to minority interest***	35	(59)	(37)	-	-
Dividends paid***	35	(35,973)	(26,008)	(35,973)	(26,008)
Net cash outflow from financing activities		(37,844)	(27,971)	(43,737)	(33,656)
Net increase in cash and cash equivalent		46,026	154,626	96,014	29,902
Cash and cash equivalents at beginning of the year		317,442	162,816	136,906	107,004
Cash and cash equivalents at end of the year	38	363,468	317,442	232,920	136,906
Additional information on operational cash flows from interest and dividends					
Interest received		79,114	51,752	64,520	41,026
Interest paid		(26,683)	(13,111)	(23,174)	(10,775)

Notes

To enhance the disclosures for the readers of the financial statements:

* In the prior year, the increase in investment in subsidiaries and associates was included under investing activities. In the current year, the increase in investment in subsidiaries and associates is now under financing activities.

** In the prior year, the increase in principal and interest repayment on the loan and the principal and interest repayment on the lease liability were aggregated. In the current year, these have been split to show the principal separately from the interest repayment.

*** In the prior year, the dividend paid included both the total amount to equity holders and non-controlling interest. In the current year, the dividends paid to minority interest was separately disclosed from dividend paid to equity holders.

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, investment and fund management, insurance and pension administration services in Malawi and Tanzania. The Group has a network of 50 (2022: 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.

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 2023.

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2023	<p>IFRS 17 Insurance Contracts</p> <p>IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.</p> <p>IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.</p> <p>The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.</p> <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

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

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

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2023	<p>Amendments to IFRS 17 (Continued)</p> <ul style="list-style-type: none"> • 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 <p>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</p> <p>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</p>
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. The amendments have had an impact on the Group's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Group's financial statements.</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 Material 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>

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	Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) 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.

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 2024 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. New and amended standards and interpretations that are issued but not yet effective will not have a material impact on the Bank's consolidated financial statements.

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2024	Classification of Liabilities as Current or Non-Current and Non-current Liabilities with Covenants (Amendments to IAS 1) The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.
Annual reporting periods beginning on or after 1 January 2024	Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) 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.
Annual reporting periods beginning on or after 1 January 2025	Lack of exchangeability – Amendments to IAS 21 The amendment specifies how to assess whether a currency is exchangeable and how to determine a spot exchange rate if it is not.
Annual reporting periods beginning on or after 1 January 2024	Disclosures: Supplier Finance Arrangements -Amendments to IAS 7 and IFRS The amendment brings additional disclosure requirements and clarifications in respect of "supplier finance arrangements."

3. Material accounting policies

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

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 Material 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 Material 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.

The consolidated and separate financial statements are presented in Malawi Kwacha (K) and all values are rounded to the nearest million Kwacha, except when otherwise indicated.

The Group has prepared its consolidated and separate financial statement on the basis that it will continue to operate as a going concern.

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 2023. 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

3. Material accounting policies (Continued)

3.1. Basis of consolidation (Continued)

(a) Subsidiaries (Continued)

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.

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 Material accounting policies in line with the Group's Material accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and

Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

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

(b) Associates

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

3. Material accounting policies (Continued)

3.1. Basis of consolidation (Continued)

(b) Associates (Continued)

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

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

3.2. Business combinations

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

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

deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income taxes and IAS 19 Employee benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquired or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share based payment at the acquisition date and;
- assets (disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

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

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

3. Material accounting policies (Continued)
3.2. Business combinations (Continued)

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

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

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

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

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

3.3. Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

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

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

3. Material accounting policies (Continued)
3.3. Goodwill (Continued)

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 changes in the current year.

3.5. Financial instruments

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

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

Financial assets

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

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

Classification of financial assets

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

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

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.

3. Material accounting policies (Continued)
3.5. Financial instruments (Continued)

Financial assets (Continued)

- 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). Receivables are initially measured at fair value and subsequently at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.
- i. Amortised cost and effective interest method

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

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

For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

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

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

3. Material accounting policies (Continued)
3.5. Financial instruments (Continued)

Financial assets (Continued)

i. Amortised cost and effective interest method (Continued)

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 28).

ii. Debt instruments classified as at FVTOCI

Debt instruments classified as at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these corporate bonds as a result of foreign exchange gains and losses (see below), impairment gains or losses (see below), and interest income calculated using the effective interest method (see (i) above) are recognised in profit or loss. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these instruments had been measured at amortised cost. All other changes in the carrying amount of these corporate bonds are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss. There were no debt instruments at FVTOCI during the year or as at the year end (2022: Nil)

iii. Equity instruments designated as at FVTOCI

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

A financial asset is held for trading if:

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

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

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

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

3. Material accounting policies (Continued)
3.5. Financial instruments (Continued)

Financial assets (Continued)

iv. 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

3. Material accounting policies (Continued)
3.5. Financial instruments (Continued)

Financial assets (Continued)

i. Significant increase in credit risk (Continued)

organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

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

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

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

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

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

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

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

3. Material accounting policies (Continued)
3.5. Financial instruments (Continued)

Financial assets (Continued)

i. Significant increase in credit risk (Continued)

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

ii. Definition of default

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

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

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

iii. Credit-impaired financial assets

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

3. Material accounting policies (Continued)
3.5. Financial instruments (Continued)

Financial assets (Continued)

Measurement and recognition of expected credit losses (Continued)

date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted using the approximated original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16 Leases.

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

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.

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

3. **Material accounting policies** (Continued)
3.5. **Financial instruments** (Continued)

Financial assets (Continued)

Modification and derecognition of financial assets

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 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 significantly since initial recognition by comparing:

- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with result in derecognition, the Group determines if the financial asset's credit risk has increased
- 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

3. **Material accounting policies** (Continued)
3.5. **Financial instruments** (Continued)

Financial assets (Continued)

Modification and derecognition of financial assets (Continued)

cash flows taking into account the Group's previous experience of similar forbearance action, as well as various behavioral indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on forbore loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behavior following modification leading to a reversal of the previous significant increase in credit risk.

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

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

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

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

3. **Material accounting policies** (Continued)
3.5. **Financial instruments** (Continued)

Financial liabilities and equity (Continued)

Financial liabilities

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

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

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

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

3. **Material accounting policies** (Continued)
3.5. **Financial instruments** (Continued)

Financial liabilities and equity (Continued)

Financial liabilities at FVTPL (Continued)

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 41.

Financial liabilities measured subsequently at amortised cost

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

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

Financial guarantee contract liabilities

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

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

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

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

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

Derecognition of financial liabilities

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

3. Material accounting policies (Continued)
3.5. Financial instruments (Continued)

Financial liabilities and equity (Continued)

Financial liabilities at FVTPL (Continued)

Derecognition of financial liabilities (Continued)

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

Offsetting of financial instruments

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

3.6. Sale and repurchase agreements

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

3.7. Property and equipment

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

Land and buildings comprise mainly service centers and offices.

3. Material accounting policies (Continued)
3.7. Property and equipment (Continued)

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

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

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

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

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

Freehold land and capital work in progress are not depreciated.

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

3.8. Intangible assets

Intangible assets are reported at cost less accumulated amortisation and impairment losses. All the Group's intangible assets have finite useful lives. Intangible assets comprise mainly of software. The useful life for each software is determined by the software license agreement. These vary from four (4) to fifteen (15) years. Residual value for each software is determined to be zero. 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:

- 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

3. Material accounting policies (Continued)
3.8. Intangible assets (Continued)

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

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

3.9. Leases

Group as a lessee

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

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

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

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

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

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

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

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

3. Material accounting policies (Continued)
3.9. Leases (Continued)

Group as a lessee (Continued)

- 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 2023. 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.

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.

3. Material accounting policies (Continued)

3.9. Leases (Continued)

The Group as lessor

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.

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. Provisions

A provision is recognised in the statement of financial position when the Group has a present legal

3. Material accounting policies (Continued)

3.11. Provisions

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.

3.12. Taxation

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

Current tax

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

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.

3. Material accounting policies (Continued)

3.12. Taxation (Continued)

Deferred tax (Continued)

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.

3.13. 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.

3.14. 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.

3. Material accounting policies (Continued)

3.14. Employee benefits (Continued)

(b) Short-term benefits

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

3.15. 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.

3.16. Revenue recognition

Interest income and expense

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

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

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

Fee and commission income

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

3. Material accounting policies (Continued)

3.16. Revenue recognition (Continued)

Fee and commission income (Continued)

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

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time apportion basis. Asset management fees related to investment funds are recognised reliably 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.

3.17. 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 average number of shares in issue throughout the year. Where new equity shares have been

3. Material accounting policies (Continued)

3.17. Share capital (Continued)

Earnings per share (Continued)

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.

3.18. 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.

3.19. 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).

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

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

d. Contractual cash flows that are SPPI are consistent with the basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to the basic lending arrangement, such as exposure to changes

3. **Material accounting policies** (Continued)

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

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 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"> Loans and advances to customers; Placements with other banks; Government Securities; Loan commitments and letters of credit issued; Financial guarantee contracts issued; Staff loans; 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"> Maximise total return by collecting contractual cash flows or selling; 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"> Equity investments

3. **Material accounting policies** (Continued)

3.19. **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:

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

Impairment and methodology

Overview of the ECL principles

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

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

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

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

The calculation of ECLs

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

3. Material accounting policies (Continued)

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

The calculation of ECLs (Continued)

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

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

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

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

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

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

With the exception of overdrafts, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Group has the legal right to call it earlier. Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method are summarised below:

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

3. Material accounting policies (Continued)

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

The calculation of ECLs (Continued)

- 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.

Incorporation of forward-looking information

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

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

3. Material accounting policies (Continued)

3.19. Classification and measurement of financial instruments under IFRS 9 (Continued) Incorporation of forward-looking information (Continued)

Macroeconomic model

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

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.

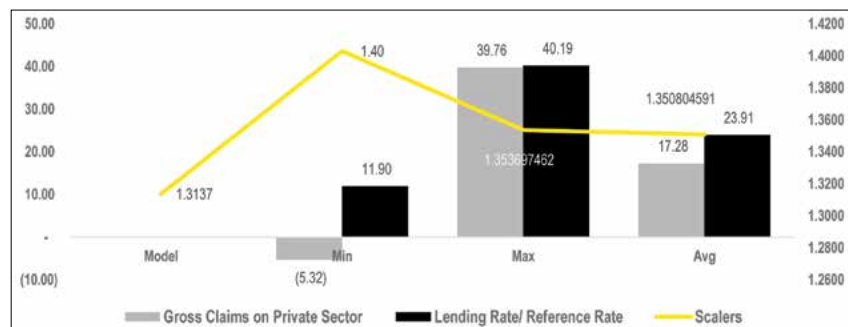
Sensitivity Analysis

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. The extreme case sensitivity analysis was created by taking and the maximum and the minimum values as observed in history.

Sensitivity analysis as at 31 December 2023

Scaler sensitivity analysis

Several macroeconomic factors were assessed for their impact on the Expected Credit Losses. Each different macro-economic scenario was derived from the history going back to January 2014 that were sourced from the Reserve Bank of Malawi. Two Macro-Economic factor made it to the final model and the table and the graph below show the scaler sensitivity analysis and the potential impact should those variables take extreme values as once observed in the 10-year history. The model was enhanced during the year 2023 and the FLI model was changed. This therefore resulted in the change in sensitivity analysis output.



3. Material accounting policies (Continued)

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

	ECL Changes Based on Extreme cases			
	Model (K'm)	Minimum (K'm)	Maximum (K'm)	Average (K'm)
Exposure	334,631	334,631	334,631	334,631
Coverage ratio with scaler	3.23	3.32	3.27	3.27
ECL Value	10,797	11,120	10,955	10,945
ECL Extreme Case Changes		323	158	148

Sensitivity analysis as at 31 December 2022

The FLI model base scaler 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. 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
Gross monetary claims on private sector (t-9)	-0.202	0.044	-4.611	0.00
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.

3. Material accounting policies (Continued)

3.19. Classification and measurement of financial instruments under IFRS 9 (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	-

- 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.

Low risk assets

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

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

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

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

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

4. Critical accounting judgments and key sources of estimation uncertainty

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

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

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

4.1. Critical judgements in applying the Group's Material 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.

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

4.2. Key sources of estimation uncertainty (Continued)

4.2.2. Impairment losses on loans and advances

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

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

Key assumptions used:

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

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

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

4.2.4. Incorporating collateral and applying haircuts to market values of securities

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

4.2.5. Probability of Default (PD)

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

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

4.2. Key sources of estimation uncertainty (Continued)

4.2.6. Loss Given Default (LGD)

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

4.2.7. Fair value measurement and valuation process

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

5. Cash and funds with Central Banks

	Group		Company	
	2023 K' m	2022 K' m	2023 K' m	2022 K' m
Cash	36,141	30,465	29,367	26,001
Balances with Central Banks	40,616	34,188	24,642	27,606
Expected credit losses	(2)	(3)	(2)	(3)
Total cash and funds with Central Banks	76,755	64,650	54,007	53,604

The currency analysis of cash is in note 41f.

Balances with Central Banks represent minimum LRR amount. However, there are no restrictions on the excess amount with the Central Bank over and above the LRR.

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 41f and 41h.

6. Placement with other Banks

	Group		Company	
	2023 K' m	2022 K' m	2023 K' m	2022 K' m
Balances with other banks	136,211	83,523	135,169	83,310
Expected credit losses	(14)	(8)	(14)	(8)
Total cash placement with other Banks	136,197	83,515	135,155	83,302

Placements with other banks are denominated in the following currencies:

	Average interest rates		Group		Company	
	2023	2022	2023 K' m	2022 K' m	2023 K' m	2022 K' m
US Dollar denominated	5.01%	0.50%	107,574	67,865	106,532	67,652
GBP denominated	1.75%	1.75%	9,927	4,803	9,927	4,803
Euro denominated	3.80%	0.50%	16,766	9,332	16,766	9,332
ZAR denominated	8.10%	4.00%	1,929	1,500	1,929	1,500
Other			1	15	1	15
			136,197	83,515	135,155	83,302

Money market placements with other banks are held to maturity and mature within three months (2022: three months) of the year-end.

7. Other money market deposits

	Group		Company	
	2023 K' m	2022 K' m	2023 K' m	2022 K' m
Money market investments with Central Banks and other banks	150,520	169,277	43,762	-
Expected credit losses	(4)	-	(4)	-
	150,516	169,277	43,758	-

Money market investments with the Reserve Bank of Malawi, Bank of Tanzania and other banks are held to maturity and mature within one month (2022: one month) after the year-end. The deposits earned an average interest rate of 19% (2022: 13%) per annum.

8. Other assets

	Group		Company	
	2023 K' m	2022 K' m	2023 K' m	2022 K' m
Sundry expenses	226	966	219	568
Office accounts	10,038	10,012	3,409	5,627
Prepayments	3,910	2,876	3,825	2,487
Due from local banks	15,824	318	15,824	318
Employee benefit subsidy	2,179	1,517	2,179	1,517
Operating inventories	312	705	312	705
Other investments	228	186	228	186
Expected credit losses on other assets	(81)	-	(73)	-
Total other assets	32,636	16,580	25,923	11,408

8. Other assets (Continued)

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.

Due from local banks

Amounts due from local banks relate to settlements account balance with other banks in Malawi in favour of the NBM Group.

Expected Credit Losses(ECL) on other assets

The Group assessed the other assets for impairment. There were impairments recognised in the financial statements.

The ECL mainly relate to old visa cards transactions whose recoverability is doubtful. However, management is still pursuing recovery.

9. Equity investments

GROUP AND COMPANY	2022 K'm	Additions/ (disposals) K'm	Fair value adjustment K'm	2023 K'm	Cost K'm
2023					
Illovo Sugar (Malawi) plc 1,012,368 (2022: 3,615,930) Ordinary shares of K0.02 each at a market value of K1 260.03 (2022: K540.00) per share	1,953	(1,406)	729	1,276	547
NICO Holdings plc 16,941,054 (2022: 17,048,832) Ordinary shares of K0.20 each at a market value of K150.40 (2022: K60.00) per share	1,023	(7)	1,532	2,548	373
Malawi Property Investment Company plc 24,119,431 (2022: 34,119,431) Ordinary shares of K0.05 each at a market value of K15.00 (2022: K20.64) per share	704	(206)	(136)	362	119
National Investment Trust plc 4,000,000 (2022: 6,663,759) Ordinary shares of K1.00 each at a market value of K409.99 (2022: K124.99) per share	833	(333)	1,140	1,640	500
NBS Bank plc 10,000,000 (2022: 15,000,000) Ordinary shares of K0.50 each at a market value of K114.90 (2022: K34.00) per share	510	(170)	809	1,149	170
Standard Bank of Malawi plc 100,000 (2022: 101,900) Ordinary shares of K1.00 each at market value of K3 950.00 (2022: K2 000) per share	204	(4)	195	395	184
FDH Bank of Malawi plc 5,000,000 (2022: 5,000,000) Ordinary shares of K1.00 each at market value of K70.00 (2022:17.37) per share	87	-	263	350	70
Sunbird Malawi plc 5,637,964 (2022: 5,637,964) Ordinary shares of K0.05 each at a market value of K191.07 (2022: K92.06) per share	519	-	558	1,077	359
Telekom Networks Malawi plc 22,435,090 (2022: 32,435,090) Ordinary shares of K0.04 each at a market value of K18.70 (2022: K14.00) per share	454	(139)	105	420	300
FMB Capital Holdings plc 631,854 (2022: 631,854) Ordinary shares of K1.00 each at a market value of K315.00 (2022: 110.00) per share	70	-	129	199	37
Airtel Malawi plc 6,457,827 (2022: 9,457,827) Ordinary shares of K1.00 each at a market value of K60.00 (2022: K56.64) per share	535	(170)	22	387	52
Total equity investment	6,892	(2,435)	5,346	9,803	2 711

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

9. Equity investments (Continued)

GROUP AND COMPANY	2021 K'm	Additions/ (disposals) K'm	Fair value adjustment K'm	2022 K'm	Cost K'm
2022					
Illovo Sugar (Malawi) plc 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
NICO Holdings plc 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
Malawi Property Investment Company plc 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
National Investment Trust plc 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
NBS Bank plc 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
Standard Bank of Malawi plc 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
FDH Bank of Malawi plc 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
Sunbird Malawi plc 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
Telekom Networks Malawi plc 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
FMB Capital Holdings plc 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
Airtel Malawi plc 9,457,827 (2021: 10,238,934) 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.

9. Equity investments (Continued)

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

	Group and Company			Fair value
	Level 1	Level 2	Level 3	2023
	K' m	K' m	K' m	K' m
Equity investments in listed companies	9,803	-	-	9,803

	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

10. Government securities

	Average interest rates		Group		Company	
	2023	2022	2023	2022	2023	2022
			K' m	K' m	K' m	K' m
Government securities						
- Treasury Bills	17.85%	14.51%	95,339	127,907	74,843	102,484
Government securities						
- Treasury Notes	22.50%	18.15%	267,461	207,817	267,086	207,477
Government securities						
- Bonds	11.62%	11.62%		17,631	10,246	-
Expected credit losses			(34)	(31)	(34)	(31)
			380,397	345,939	341,895	309,930
The Government securities are due to matures as follows:						
Within three months			96,171	74,433	57,669	48,670
Between three months and one year			105,846	114,130	105,846	114,130
Over one year			178,380	157,376	178,380	147,130
			380,397	345,939	341,895	309,930

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.

11. Loans and advances

	Group		Company	
	2023	2022	2023	2022
	K' m	K' m	K' m	K' m
Gross loans and advances	409,607	311,295	327,212	262,844
Staff loans	8,916	7,655	5,244	5,517
Total loans and advances	418,523	318,950	332,456	268,361
Impairment provisions	(12,663)	(8,610)	(10,527)	(5,593)
Net loans and advances	405,860	310,440	321,929	262,768

11. Loans and advances (Continued)

Due to mature as follows:

	Group		Company	
	2023	2022	2023	2022
	K' m	K' m	K' m	K' m
Within three months	48,315	31,824	44,136	27,522
Between three months and one year	79,354	75,911	64,243	60,641
Over one year	280,820	205,079	216,173	176,975
Interest in suspense	(2,629)	(2,374)	(2,623)	(2,370)
	405,860	310,440	321,929	262,768

Analysis of net loans by currency

	2023	2022	2023	2022
	K' m	K' m	K' m	K' m
Malawi Kwacha denominated	73,038	43,091	-	-
Tanzania shillings denominated	91,892	51,940	91,827	51,921
US Dollar denominated	405,860	310,440	321,929	262,768

The Malawi Kwacha average lending rate for the Bank's loans and advances as at 31 December 2023 was 33.50% (2022: 25.44%) per annum, the US Dollar denominated loans carried an average interest rate of 7.49% (2022: 7.98%) per annum and the Tanzanian shilling denominated loans were at an average interest rate of 19.07% (2022: 23.22%).

	Group		Company	
	2023	2022	2023	2022
	K' m	K' m	K' m	K' m
Movement on interest in suspense				
At beginning of the year	2,374	2,645	2,370	2,645
Applied against advances	-	(2,063)	-	(2,063)
Suspended in the year	255	1,792	253	1,788
Recovered	-	-	-	-
At end of the year	2,629	2,374	2,623	2,370
Recoveries on impaired loans and advances				
Debts previously written off	3,955	1,783	2,677	1,783
Provision	-	363	-	-
Total recoveries recognised in income statement	3,955	2,146	2,677	1,783

	Group and Company	
	2023	2022
	K' m	K' m
Finance lease receivables		
Gross investment in finance lease receivable:		
Within three months	283	391
Between three months and one year	1,941	1,644
After one year and not later than five years	35,603	25,383
	37,827	27,418
Unearned future income on finance leases	(11,550)	(7,409)
	26,277	20,009
Impairment provision	(919)	(755)
Net investment in finance leases	25,358	19,254

11. Loans and advances (Continued)

Finance lease receivables (Continued)

The net investment in finance leases matures as follows:

Within three months	240	389
Between three months and one year	1,331	1,507
After one year and not later than five years	23,787	17,358
	25,358	19,254

Group and Company

	2023	2022
	K' m	K' m
	240	389
	1,331	1,507
	23,787	17,358
	25,358	19,254

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 2023 was 28.72% (2022: 23.1%). All leases are in Malawi kwacha.

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

Group

Group	31-Dec-22		31-Dec-23	
	Gross carrying amount K' m	Loss allowance K' m	Gross carrying amount K' m	Loss allowance K' m
Days past due				
0-29 days				
20-90 days	250,411	2,970	350,696	5,385
91-180 days	20,988	416	18,094	338
191-360 days	32,581	2,652	11,023	2,311
More than 360 days	4,982	1,215	33,282	3,775
Total	9,988	1,257	5,428	854
	318,950	8,510	418,523	12,663

Company

0-29 days				
20-90 days	209,376	1,530	282,994	4,255
91-180 days	19,362	304	7,149	300
191-360 days	31,612	2,254	8,873	2,113
More than 360 days	3,319	668	30,895	3,431
Total	4,692	837	2,545	428
	268,361	5,593	332,456	10,527

Restructured loans and modifications

During the year, loans with a total carrying amounting of K1 474m (2022: K42 074m) were restructured (modified). Their total fair value after restructuring was K1 519m (2022: K41 496m) resulting into a net fair value gain of K45m (2022: net loss of K578m) 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 Nil (2022: K33 970m) and their fair value was Nil (2022: K33 670m) resulting in a net modification loss amounting to Nil (2022: net loss of K300m). 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.

11. Loans and advances (Continued)

Restructured loans and modifications (Continued)

The Group has also recognised a net gain of K57m (2022: net gain K452m) relating to amortization of the gains and losses on loans that were modified in 2018, 2019, 2020, 2021, 2022 and 2023.

The net gain recognised in the statement of income for the year ended 31 December 2023 is therefore K102m (2022: net loss K126m).

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

Group

At 31 December 2023

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 2023	4,554	596	3,360	8,510
Changes in the loss allowance				
Transfer to stage 1	38	(16)	(22)	-
Transfer to stage 2	(135)	137	(2)	-
Transfer to stage 3	(102)	(210)	312	-
Write offs	-	-	-	-
Charge to income statement	1,647	80	3,763	5,490
Changes in loss allowance for off balance sheet assets	(4)	(9)	(122)	(135)
New financial assets originated	798	8	195	1,001
Financial assets that have been de-recognised	(768)	(247)	(1,188)	(2,203)
Closing balance	6,028	339	6,296	12,663

The consolidated charge to the statement of comprehensive income of K11,200m includes loans and advances written down during the year amounting to K5,831m and net impairment losses of investments and other assets amounting to K14m (Notes 5, 6, 7, 8 and 10).

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 10).

11. Loans and advances (Continued)

Restructured loans and modifications (Continued)

Company

At 31 December 2023

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 2023	2,639	195	2,759	5,593
Changes in the loss allowance				
Transfer to stage 1	13	(10)	(3)	-
Transfer to stage 2	(117)	119	(2)	-
Transfer to stage 3	(26)	(109)	135	-
Charge to income statement	1,631	75	3,363	5,069
Changes in loss allowance for off balance sheet assets	(4)	(9)	(122)	(135)
Closing balance	4,136	261	6,130	10,527

The Bank's charge to statement of comprehensive income of K10,779m includes loans and advances written down during the year amounting to K5,831m and net impairment losses of investments and other assets amounting to K14m (Notes 5, 6, 7, 8 and 10).

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 10).

12. Investment in associates

	Group		Company	
	2023 K' m	2022 K' m	2023 K' m	2022 K' m
Purchase consideration	992	992	992	992
Share of accumulated results	(100)	(74)	-	-
	892	918	992	992
Assets	15,009	12,674		
Liabilities	(11,353)	(11,175)		
Net assets	3,656	1,499		
Group's share of net assets of associates	1,718	705		

12. Investment in associates (Continued)

	Group	
	2023 K' m	2022 K' m
Total revenue	6,351	5,659
Loss before tax for the year	(475)	(2,218)
Loss after tax for the year	(56)	(1,675)

The Bank holds 47% (2022: 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.

13. Investment in subsidiaries

	Company	
	2023 K' m	2022 K' m
NBM Development Bank Limited	7,572	7,572
NBM Pensions Administration Limited	250	250
Stockbrokers Malawi Limited	98	98
NBM Bureau de Change Limited	7	7
Akiba Commercial Bank Plc	10,226	7,697
NB Capital Markets Limited	17	17
Total investments in subsidiaries	18,170	15,641

NBM, through National Bank Nominees Limited, holds 75% (2022: 75%) stake in Stockbrokers Malawi Limited. The Bank also holds 100% (2022: 100%) stake in NBM Bureau de Change Limited, a 100% (2022: 100%) stake in NBM Capital Markets Limited, a 100% (2022: 100%) stake in NBM Pension Administration Limited and a 100% (2022: 100%) stake in NBM Development Bank and a 60.48% (2022: 60.48%) shareholding in Akiba Commercial Bank plc of Tanzania. NBM Bureau de Change ceased operations in 2013.

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

13.1. Akiba Commercial Bank plc

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%.

13.1.1. 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

13. Investment in subsidiaries (Continued)

13.1.1. Fair value of assets acquired and liabilities recognised as at the date of acquisition (Continued)

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

13.1.2. 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.

13.1.3. Impact of acquisition on the results of the Group

Included in the profit for the year is a loss of K989m (2022: loss of K4 072m) attributable to the additional business generated by Akiba Commercial Bank plc. Income for the year includes K16 220m (2022: K13 081m) in respect of Akiba Commercial Bank plc.

14. 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 2023	29,508	1,088	27,321	45	66,962
Additions	-	-	9,215	590	9,805
Transfer from work in progress	-	481	154	(635)	-
Disposals	-	-	(1,452)	-	(1,452)
Write-offs	-	-	(132)	-	(132)
Revaluation surplus	5,227	1,129	-	-	6,356
At 31 December 2023	34,735	11,698	35,106	-	81,539

14. 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
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
Depreciation					
1 January 2023	-	2,968	19,058	-	22,026
Charge for the year	598	251	3,473	-	4,322
Elimination on revaluation	(598)	(141)	-	-	(739)
Elimination on disposal	-	-	(1,052)	-	(1,052)
Write-offs	-	-	(125)	-	(125)
At 31 December 2023	-	3,078	21,354	-	24,432
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
Carrying amount					
At 31 December 2023	34,735	8,620	13,752	-	57,107
At 31 December 2022	29,508	7,120	8,263	45	44,936
Company					
Cost or valuation					
At 1 January 2023	29,508	8,133	24,023	45	61,709
Additions	-	-	7,319	590	7,909
Transfer from work in progress	-	481	154	(635)	-
Disposals	-	-	(517)	-	(517)
Write-offs	-	-	(132)	-	(132)
Revaluation surplus	5,227	1,129	-	-	6,356
At 31 December 2023	34,735	9,743	30,847	-	75,325

14. 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
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 between 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
Depreciation					
1 January 2023	-	1,163	16,208	-	17,371
Charge for the year	598	178	3,118	-	3,894
Elimination on revaluation	(598)	(141)	-	-	(739)
Elimination on disposal	-	-	(428)	-	(428)
Write-offs	-	-	(125)	-	(125)
At 31 December 2023	-	1,200	18,773	-	191,973
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
Carrying amount					
At 31 December 2023	34,755	8,543	12,074	-	55,352
At 31 December 2022	29,508	6,970	7,815	45	44,338

Group

Land and buildings

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

		Group	
		2023 K' m	2022 K' m
Freehold	at 2023 valuation	34,735	-
	at 2022 valuation	-	29,508
Total freehold land and buildings		34,735	29,508
Leasehold	at 2023 valuation	11,698	-
	at 2022 valuation	-	10,088
Total freehold land and buildings		11,698	10,088

14. Property and Equipment (Continued)

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

	Related parties K' m	Others K' m	Total K' m
2023			
Motor vehicles	-	210	210
2022			
Motor vehicles	-	156	156

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 2023

Land and buildings for the Bank were fair valued as at 31 December 2023 by Desmond N Namangale, MSc. IPM, B.Sc. Land (Est.) Mgt. MSIM of Knight Frank, qualified independent valuer on a current market value basis.

Out of the K7 095m (2022: K3 789m) the Group's gross revaluation surplus, K130m (2022: K93m) 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 K6 965m (2022: K3 696m) was credited to the revaluation reserve through the statement of other comprehensive income (refer note 32).

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

	Level 1 K' m	Level 2 K' m	Level 3 K' m	Fair value 2023 K' m
Freehold land and buildings	-	34,735	-	34,735
Leasehold land and buildings	-	11,698	-	11,698
	Level 1 K' m	Level 2 K' m	Level 3 K' m	Fair value 2022 K' m
Freehold land and buildings	-	29,508	-	29,508
Leasehold land and buildings	-	10,088	-	10,088

14. Property and Equipment (Continued)

Had land and buildings been carried at historical cost less depreciation and accumulated impairment losses, their carrying value would have been approximately K8 268m (2022: K8 502m).

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.

15. Intangible assets

	Computer Software K'm	Work in progress K'm	Total K'm
Group			
Cost of valuation			
At 1 January 2023	15,250	2,265	17,515
Additions	233	3,726	,959
Transfer from work in progress	771	(771)	-
Transfer to expenses	-	(9)	(9)
Write-offs	(75)	-	(75)
At 31 December 2023	16,179	5,211	21,390
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 expenses	-	(1)	(1)
Write-offs	(169)	-	(169)
At 31 December 2022	15,250	2,265	17,515
Amortization			
At 1 January 2023	8,019	-	8,019
Charge for the year	1,413	-	1,413
Write-offs	(75)	-	(75)
At 31 December 2023	9,357	-	9,357
At 1 January 2022	6,832	-	6,832
Charge for the year	1,356	-	1,356
Write-offs	(169)	-	(169)
At 31 December 2022	8,019	-	8,019
Carrying amounts			
31 December 2023	6,822	5,211	12,033
31 December 2022	7,231	2,265	9,496

15. Intangible assets (Continued)

Company

Cost of valuation

	Computer Software K' m	Work in progress K' m	Total K' m
At 1 January 2023	3,814	2,255	16,609
Additions	-	3,726	3,726
Transfer from work in progress	771	(771)	-
Transfer to expenses	-	(9)	(9)
Write-offs	(75)	-	(75)
At 31 December 2023	14,510	5,201	19,711
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 expenses	-	(1)	(1)
Write-offs	(169)	-	(169)
At 31 December 2022	13,814	2,255	16,069
Amortisation			
At 1 January 2023	6,801	-	6,801
Charge for the year	1,337	-	1,337
Write-offs	(75)	-	(75)
At 31 December 2023	8,063	-	8,063
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
Carrying amounts			
31 December 2023	6,447	5,201	11,648
31 December 2022	7,013	2,255	9,268

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 during the year amounting to K75m relates to Risk manual automation (K10m) and Know Your Client (K65m) softwares which were acquired in 2015. The systems are no longer required by the Group and were fully amortized. The write off amounting to K169m in the year 2022 related to FLEXCUBE 10.5 version computer software that was acquired from Inderbank in 2016. The system was no longer required by the Group and its licence expired. The asset was fully amortised.

16. Right-of-use assets

Group	K'm
Cost or valuation	
At 1 January 2023	10,245
Right of use asset remeasurement	106
Additions	7
At 31 December 2023	10,358
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	10,245
Amortisation	
At 1 January 2023	5,299
Charge for the year	1,421
At 31 December 2023	6,720
At 1 January 2022	3,891
Write-offs	61
Charge for the year	1,347
At 31 December 2022	5,299
31 December 2023	3,638
31 December 2022	4,946
Company	
Cost of valuation	
At 1 January 2023	3,783
Addition	7
At 31 December 2023	3,790
At 1 January 2022	3,774
Addition	9
At 31 December 2022	3,783
Amortization	
At 1 January 2023	2,991
Charge for the year	790
At 31 December 2023	3,781
At 1 January 2022	2,204
Charge for the year	787
At 31 December 2022	2,991
Carrying amounts	
31 December 2023	9
31 December 2022	792

16. Right-of-use assets (Continued)

The Group enters into agreements 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 10 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 etcetera. Based on the assessment, there were no indicators of impairment. As such no impairment loss has been recognised on Right-of-use assets.

17. Deferred tax

17.1. Deferred tax asset

	Opening balance K'm	Transferred to deferred tax liability K'm	Charge to profit or loss K'm	Charged to equity K'm	Closing balance K'm
Deferred tax asset					
Group					
2023					
Accelerated capital allowances	(1,424)	2,337	(2,049)	-	(1,136)
Revaluation of land and buildings	11,073	2,542	1,130	(13,527)	1,218
Tax losses*	1,452	-	-	-	1,452
Other temporary differences	684	188	(203)	-	669
Total deferred tax	11,785	5,067	(1,122)	(13,527)	2,203
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

*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.

17. Deferred tax (Continued)

	Opening balance	Transferred to deferred tax liability K'm	Charge to profit or loss K'm	Charged to equity K'm	Closing balance K'm
Company					
2023					
Accelerated capital allowances	(256)	2,337	(2,018)	-	63
Revaluation of land and buildings	10,898	2,542	1,130	(13,527)	1,043
Other temporary differences	(1,294)	188	(1,840)	-	(1,106)
Total deferred tax	9,348	5,067	(888)	(13,527)	-
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

17.2. Deferred tax liability

	Opening balance	Transferred from deferred tax assets K'm	Charged to profit and loss K'm	Charged to equity K'm	Closing balance K'm
Accelerated capital allowances	-	2,337	-	-	2,337
Revaluation of land and buildings	-	2,542	-	-	2,542
Other temporary differences	2	188	(2)	-	188
Total deferred tax	2	5,067	(2)	-	5,067
2022					
Other temporary differences	-	-	2	-	2
Total deferred tax	-	-	2	-	2
Company					
2023					
Accelerated capital allowances	-	2,337	-	-	2,337
Revaluation of land and buildings	-	2,542	-	-	2,542
Other temporary differences	-	188	-	-	188
Total deferred tax	-	5,067	-	-	5,067

18. Goodwill

	2023 K'm	2022 K'm
Balance at beginning of the year	3,959	3,959
Balance at end of the year	3,959	3,959

18. Goodwill (Continued)

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 K35 252m (2022: K43 780m) 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 2024 and projections covering a 4 year period from 2025) discounted at a weighted average cost of capital of 49.09% (2022: 40.23%).

All forecasts used in the determination of value in use are extracted directly from the Bank's 2024 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 K6 828m (2022: K9 800m). As such, in accordance with IAS 36 Impairment of Assets, NBM determined that the goodwill was not impaired as at 31 December 2023.

19. Customer deposits

Average interest rates	Group		Company			
	2023	2022	2023 K'm	2022 K'm	2023 K'm	2022 K'm
Analysis by account type:						
Current accounts	0.00%	0.00%	268,382	260,902	253,718	247,814
Foreign currency accounts	0.50%	0.50%	163,647	97,227	159,706	97,033
Savings accounts	7.10%	7.10%	198,639	148,324	161,842	124,279
Deposit accounts	7.50%	7.50%	212,522	116,920	177,276	99,518
Client funds	19.00%	14.00%	126,223	186,189	-	-
Total customer deposits			969,413	809,562	752,542	568,644
Analysis by interest risk type:						
Interest bearing deposits			701,031	548,660	498,824	320,830
Non-interest bearing deposits			268,382	260,902	253,718	247,814
			969,413	809,562	752,542	568,644

19. Customer deposits (Continued)

All interest bearing accounts, excluding deposit accounts, are at floating rates that are adjusted at the Bank's discretion, refer to note 41e.

Analysis by interest maturity:
Customer deposits are payable as follows:

	Group		Company	
	2023 K' m	2022 K' m	2023 K' m	2022 K' m
Within three months	935,581	786,799	734,047	555,418
Between three months and one year	30,440	20,910	18,495	13,226
Over one year	3,392	1,853	-	-
Total	969,413	809,562	752,542	568,644
Analysis by sector:				
Agriculture	22,840	148,874	22,466	148,794
Manufacturing	59,203	52,352	59,056	52,333
Wholesale and retail	156,565	91,197	106,393	86,427
Finance and insurance	89,685	22,912	89,641	21,501
Personal accounts	365,199	194,860	345,852	147,161
Construction	24,898	15,895	24,042	15,895
Electricity, gas, water and energy	21,207	34,573	21,023	34,528
Transport and storage	38,482	31,653	24,485	0,991
Restaurants and hotels	7,525	4,515	7,274	4,450
Mining and quarrying	32,261	18,784	32,261	18,784
Real estate	6,121	4,293	6,121	4,293
Clients Funds	126,223	186,189	-	-
Other	19,204	3,465	3,928	3,487
Total	969,413	809,562	752,542	568,644

The currency analysis of customer deposits is included in note 41f.

20. Amounts due to other banks

Liabilities in Malawi Kwacha	2,676	27,331	2,676	27,331
Liabilities in foreign currency	9,015	8,164	3,270	483
Bills in suspense in foreign currency	2,291	145	2,291	145
Total amounts due to other banks	13,982	35,640	8,237	27,959

21. Current income tax

21.1. Current income tax liabilities

Balance at beginning of the year	7,712	4,901	7,189	4,789
Current charge (note 35)	47,050	21,266	45,046	20,750
Tax paid	(35,754)	(18,455)	(34,205)	(18,350)
Balance at end of the year	19,008	7,712	18,030	7,189

21. Current income tax (Continued)

21.2. Current income tax receivable

	Group	
	2023 K'm	2022 K'm
Opening balance	16	839
Charge for the year	-	(767)
Payments made during the year	(16)	(56)
Total	-	16

22. Loans

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

Opening balance	11,108	10,596	8,105	10,596
Additions	5,000	3,000	-	-
Accrued interest	440	404	225	354
Interest paid*	(614)	(417)	(559)	(417)
Principal paid*	(3,487)	(2,475)	(3,184)	(2,428)
Total	12,447	11,108	4,587	8,105

* In the prior year, the principal and interest repayment on the loan were aggregated. In the current year, these have been split to show the principal separately from the interest repayment.

22.1. Lines of credit

22.1.1. Malawi Government (denominated in Deutschemark (DM))

The loan is in two parts: Part 1 and Part 2. The two loans, which are unsecured, are for DM5.0m and DM6.6m, respectively. The amounts drawn against specific projects at the year-end are equivalent to DM4.78m and DM6.07m, respectively. Both loans are interest free. The loans are repayable to the Malawi Government in Malawi Kwacha starting in 2034 and 2043, respectively. The Malawi Kwacha value of the loan was set at the time of disbursement. The total carrying amount of the loan as at 31 December 2023 was K105m (2022: K105m).

22.1.2. 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 2023 was K3m (2022: 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 2023 was K9m (2022: K9m). The Group is yet to renegotiate with Malawi Government on a new repayment schedule for the second loan.

22. Loans (Continued)

22.1.3. 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 2023 was K67m (2022: K67m).

22.1.4. 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 2023 was K25m (2022: K25m).

22.1.5. 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 Agri storage 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 2023, the Bank drew down USD29 142m (2022: USD29 142m) and made total repayments amounting to USD26.5m (2022: USD22.9m). The carrying amount includes accrued interest amounting to USD0.01m (2022: USD0.03m) which is repayable by 30 June 2024. The carrying amount of the loan as at 31 December 2023 was K4 378m (2022: K7 896m).

22.1.6. Reserve Bank of Malawi Loan

In 2022, NBM Development Bank Limited (NBM DBL) 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 2023 interest amounting to K81m (2022: K50m) was accrued and K357m (2022: K48m) was made towards repayments. The carrying amount of the loan as at 31 December 2023 was therefore K2 726m (2022: K3 002m).

During the year, NBM DBL drew an additional K5 000m under the same terms as the previous loan. The new facility expires on 28 February 2033. The interest accrued on the loan totalled K134m. No repayments have been made yet towards the loan. The carrying amount of the loan as at 31 December 2023 was therefore K5 134m.

23. Provisions

Group

2023

	Employee bonus K'm	Tevet levy K'm	Total K'm
At 1 January 2023	6,189	202	6,391
Provisions made during the year	6,013	286	6,299
Payments made during the year	(6,189)	(246)	(6,435)
At 31 December 2023	6,013	242	6,255

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

Company

2023

At 1 January 2023	5,772	194	5,966
Provisions made during the year	5,772	275	6,047
Payments made during the year	(5,772)	(238)	(6,010)
At 31 December 2023	5,772	231	6,003

2022

At 1 January 2022	5,772	7	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

24. Other liabilities

	Group		Company	
	2023 K'm	2022 K'm	2023 K'm	2022 K'm
Unclaimed balances	1,56	1,603	1,567	1,603
Deferred income	2,359	2,126	1,194	1,496
Bank cheque	3,058	2,278	3,058	2,278
Office accounts	9,342	5,010	9,341	4,683
Trade and other payables	5,398	3,846	3,298	2,902
Other tax payables	5,054	2,394	3,674	1,713
Cash security	22	24	22	24
Cards and other products	5,454	4,609	5,454	4,609
Sundry payables	569	371	107	43
Total Liabilities	32,823	22,261	27,715	19,351

25. Lease liability

	Group		Company	
	2023 K'm	2022 K'm	2023 K'm	2022 K'm
Opening lease liability as at 1 January	6,849	790	1,838	2,603
Additions	7	9	7	9
Interest on lease	976	1,035	225	417
Lease liability interest paid	(976)	(1,035)	(225)	(417)
Lease liability principal paid	(1,735)	(999)	(1,267)	(774)
Lease liability adjustment	(106)	(61)	(61)	-
Closing balance as at 31 December	5,227	6,849	578	1,838

In the prior year, the principal and interest repayment on the lease liability were aggregated. In the current year, these have been split to show the principal separately from the interest repayment.

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 16). 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 711m (2022: K2 034m) payments, K1 735m (2022: K999m) were towards settlement of the lease liability (principal) and K976m (2022: K1 035m) for payment of the interest on lease liability.

The maturity profiles for the lease payments are as follows:

	Group		Company	
	2023	2022	2023	2022
Year 1	1,086	3,174	3	2,102
Year 2	1,097	1,086	3	3
Year 3	1,108	1,097	3	3
Year 4	1,116	1,108	-	3
Year 5	1,127	1,116	-	-
Year 6	1,138	1,127	-	-
Year 7	1,150	1,138	-	-
Year 8	1,161	1,150	-	-
Year 9	-	1,161	-	-
Total lease payments	8,983	12,157	9	2,111

The currency analysis of other liabilities is included in note 41(f).

26. Subsequent events

Policy rate change

The Reserve Bank of Malawi's Monetary Policy Committee (MPC) met on 31 January and 1 February 2024. Based on an assessment of the macroeconomic situation and outlook, the MPC decided to increase the Policy rate by 200 basis points to 26.0 percent from 24.0 percent. Headline inflation increased from 34.5% to 35% in January 2024 and dropped to 33.5% in February 2024. The Malawi Kwacha devalued by 3% against major foreign currencies in March 2024.

These events will impact results for the year ending 31 December 2024.

Dividend

The directors proposes a second interim dividend of K14 000m (2022: K10 000m) to be declared in February 2024 and will be paid in April 2024. Further, a final dividend of K23 000m (2022: K15 000m) is proposed for the year. These dividends will be accounted for in the financial statements for the year ending 31 December 2024.

27. Pension scheme

The Group operates a fully defined contribution pension scheme for its employees. The contributions of employees and the employer are 5.5% (2022: 5.5%) and 11.0% (2022: 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 639m (2022: K2 114m).

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 K585m (2022: K509m) in rentals for such properties during the year.

The Fund was valued by independent actuaries, Alexander Forbes, as at 31 December 2022. As per the actuarial valuation, the General Fund had a surplus of K8 932m (December 2010: surplus of K2 376m) and the Special Fund had a surplus of K295m (December 2021: surplus of K410m). According to the report, the special Fund had no liabilities as at 31 December 2022.

28. Net interest income

Interest and similar income

	Group		Company	
	2023 K'm	2022 K'm	2023 K'm	2022 K'm
Interest on loans and advances and bills discounted	74,454	50,205	61,667	40,373
Income from investments	65,842	50,756	63,769	49,169
Income from lease financing	4,900	3,546	4,900	3,546
Interest on placements with other banks	4,660	1,547	2,853	653
Arrangement and other fee income	8,273	5,930	8,267	5,921
	158,129	111,984	141,456	99,662

28. Net interest income (Continued)

Interest expense and similar charges

	Group		Company	
	2023 K'm	2022 K'm	2023 K'm	2022 K'm
Banks and customers	22,731	10,378	19,996	8,693
Interest on Foreign Bank loan	225	354	225	354
Interest on Reserve Bank of Malawi loan	215	50	-	-
Money market loans and repos	3,512	1,969	2,953	1,728
	26,683	13,111	23,174	10,775
Net interest income	131,446	98,873	118,282	88,887

*Interest income and expense is calculated using Effective Interest Rate (EIR) method.

29. Commission and fee income

	Group		Company	
	2023 K'm	2022 K'm	2023 K'm	2022 K'm
Commissions	45,933	30,087	37,688	24,570
Other income	3,749	2,289	3,172	2,084
Total commission and fee income	49,682	32,376	40,860	26,654

30. Staff costs

	Group		Company	
	2023 K'm	2022 K'm	2023 K'm	2022 K'm
Salaries and wages	26,814	20,704	18,883	14,474
Other staff costs	6,772	5,030	6,289	4,613
Staff loans fair value adjustment	65	22	65	22
Staff bonus	6,013	6,189	5,772	5,772
Pension costs	2,639	2,114	1,963	1,598
Total staff costs	42,303	34,059	32,972	26,479

31. Other operating expenditure

Recurrent expenditure on premises and equipment	11,812	9,581	10,361	8,455
Amortisation of Right of Use assets	1,421	1,347	790	787
Interest expense on lease liability	976	1,035	225	417
Write-off of plant and equipment	7	4	7	4
Legal charges	578	501	216	287
Communication	3,101	2,707	3,010	2,629
Travel, hotel and meals	1,503	1,081	1,249	920
Office expenses	3,398	2,272	1,964	1,512
Security and insurance	3,225	2,119	2,321	1,458
Professional fees	1,434	1,470	1,360	1,438
Card expenses	5,894	3,361	5,844	3,321
Agent bank charges	714	481	569	361
Reserve Bank of Malawi supervisory fees and inspection charges	247	167	242	167
Customer cash collection expenses	52	57	52	57
Miscellaneous expenses	(476)	1,263	(476)	1,338
SMS Banking expenses	1,507	1,078	1,367	929

31. Other operating expenditure (Continued)

	Group		Company	
	2023 K'm	2022 K'm	2023 K'm	2022 K'm
Auditor's remuneration including VAT and expenses	736	549	518	351
Directors' remuneration - fees for services as directors - for managerial services	359	279	161	130
Board expenses	949	892	789	745
Other expenses	324	232	297	199
	2,586	1,710	2,207	1,403
Total other operating expenses	40,347	32,186	33,073	26,907

32. Properties fair value gains and losses

	Group and Company	
	2023 K'm	2022 K'm
Fair value gains properties through income statement	130	93
Fair value gains on properties included in other comprehensive income	6,965	3,696
Total properties fair value gains	7,095	3,789

33. Income tax expense

	Group		Company	
	2023 K'm	2022 K'm	2023 K'm	2022 K'm
Income tax (note 21)	47,050	22,033	45,046	20,750
Deferred tax (note 17)	1,120	1,386	88	1,332
Total income tax expenses	48,170	23,419	45,934	22,082
Profit before tax	129,129	69,363	115,120	71,217
Reconciliation of rate of tax	%	%	%	%
Standard rate of taxation	30	30	30	30
Permanent differences	10	4	10	1
Effective rate of taxation	40	34	40	31

34. Earnings per share

Basic earnings per share

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

	Group		Company	
	2023	2022	2023	2022
Profit attributable to equity holders of the Company (K'm)	72,245	47,474	69,186	49,135
Net profit used to determine diluted earnings per share(K'm)	72,245	47,474	69,186	49,135
Weighted average number of Ordinary Shares in issue	467	467	467	467
Weighted average number of Ordinary Shares for diluted earnings per share (millions)	467	467	467	467
Diluted earnings per share (expressed in K per share)	154.70	101.66	148.17	105.23

34. Earnings per share (Continued)

Basic earnings per share (Continued)

Diluted earnings per share

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

35. Dividend per share

	Group and Company	
	2023	2022
	K'm	K'm
Second interim dividend (prior year)	10,002	-
Final dividend (prior year)	14,998	18,005
First interim dividend (current year)	10,973	8,003
	35,973	26,008
Weighted average number of Ordinary Shares in issue (millions)	467	467
Dividend per share	77.03	55.69

The proposed current year final dividend is K23,000m (2022: K15,000m) representing K49.25 per share (2022: K32.12 per share). A second interim dividend of K14,000m (2022: K10,000m) will be paid in April 2024.

36. Contingencies

	Group		Company	
	2023	2022	2023	2022
	K'm	K'm	K'm	K'm
Letter credit and guarantees				
Foreign guarantees	1,532	644	1,532	644
Local guarantees and performance bonds	6,764	7,184	6,764	7,184
Letters of credit	24,152	21,548	24,152	21,548
Total Letters of credit and guarantees	32,448	29,376	32,448	29,376
Other contingencies				
Legal claims	1,208	3,495	1,229	3,495
Tax dispute	2,229	787	-	-
Customer funds under management	184,844	177,215	-	-
Total other contingencies	188,281	181,497	1,229	3,495

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 K2,229m (2022: K787m).

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.

36. Contingencies (Continued)

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 K6,660m (2022: K6,709m).

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.

37. Commitments

	Group		Company	
	2023	2022	2023	2022
	K'm	K'm	K'm	K'm
Expenditure contracted for but not yet incurred	4,714	2,573	3,818	2,176
Expenditure approved by the Board but not contracted	6,739	6,853	6,739	6,853
Total commitments	11,453	9,426	10,557	9,029

These commitments are to be funded from internal resources.

38. Cash and cash equivalents

	Group		Company	
	2023	2022	2023	2022
	K'm	K'm	K'm	K'm
Cash and funds with central banks (note 5)	76,755	64,650	54,007	53,604
Placements with other banks (note 6)	136,197	83,515	135,155	83,302
Other money market deposits (note 7)	150,516	169,277	43,758	-
Total cash and cash equivalent	363,467	317,442	232,920	136,906

39. Financial assets and liabilities

Accounting categories and fair values

Notes	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost	Total carrying amount	Fair value
Group 2023					
Assets					
Cash and bank balances with Central banks	5	76,755	-	76,755	76,755
Placements with other banks	6	-	136,197	136,197	136,197
Government securities	10	-	380,397	380,397	380,397
Equity investments	9	9,803	-	9,803	9,803
Loans and advances	11	-	405,860	405,860	405,860

39. Financial assets and liabilities (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
Other money market deposits	7	-	-	150,516	150,516	150,516
Other assets		-	-	20,662	20,662	20,662
Total financial assets		86,558	- 1,093,632	1,180,190	1,180,190	1,180,190
Liabilities and equity						
Customer deposits	20	-	-	969,413	969,413	969,413
Amounts due to other banks	21	-	-	13,982	13,982	13,982
Loans	23	-	-	12,447	12,447	12,447
Provisions	24	-	-	6,255	6,255	6,255
Other liabilities		-	-	1,950	1,950	1,950
Lease liability	26	-	-	5,227	5,227	5,227
Total financial liabilities		-	- 1,009,274	1,009,274	1,009,274	1,009,274

Group 2022	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
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

39. Financial assets and liabilities (Continued)

Company 2023	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
Assets						
Cash and bank balances with Central Banks	5	54,007	-	-	54,007	54,007
Placements with other banks	6	-	-	135,155	135,155	135,155
Government securities	11	-	-	341,895	341,895	341,895
Equity investments	9	9,803	-	-	9,895	9,895
Loans and advances	12	-	-	321,929	321,929	321,929
Other assets		-	-	16,200	16,200	16,200
Total financial assets		63,810	-	858,927	922,747	922,747

Company 2022	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
Liabilities and equity						
Customer deposits	20	-	-	752,542	752,542	752,542
Amounts due to other banks	21	-	-	8,237	8,237	8,237
Loans	23	-	-	4,587	4,587	4,587
Provisions	24	-	-	6,003	6,003	6,003
Other liabilities		-	-	869	869	869
Lease liability	26	-	-	578	578	578
Total financial liabilities		-	-	772,816	772,816	772,816

Company 2022	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
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

Company 2022	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
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

40. Fair value measurements

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

40.1. 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.

40.2. Fair value measurements recognized in the statement of financial position

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

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

Group and Company

	2023	2022
	K'm	K'm
<i>Financial assets at fair value through profit or loss</i>		
Non-derivative financial assets held for trading		
Level 1	9,803	6,892

40.3. 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).

40. Fair value measurements (Continued)

40.3. Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis (Continued)

Group

Financial assets/financial liabilities	Fair value		Fair value hierarchy	Valuation technique (s) and key inputs(s)
	2023	2022		
	K'm	K'm		
Equity investments	9,803	6,982	Level 1	quoted prices

40.4. 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.

41. 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

41. Financial risk management (Continued)

a) Introduction and overview (Continued)

Risk management framework (Continued)

Committee, the Credit Committee, the Audit Committee, the Appointments, Remuneration and Governance Committee, Related Parties Committee, IT Projects Oversight Committee and the Investments Committee. The Board Committees comprise of a non-executive membership only and they report regularly to the main Board on their activities.

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

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

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

The Board Appointments, Remuneration and Governance Committee is responsible for nominations and vetting of director appointments, good governance practices, ensuring that the Group has a robust succession plan, that the Group's human resources are best utilised, and that members of staff are remunerated commensurately with their responsibilities and effectiveness. The Board Related Parties Committee is responsible for considering credit applications from Companies and Individuals related to the Bank to ensure that all transactions are conducted at arm's length.

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

The Board Investments Committee is responsible for supporting and advising the Board in fulfilling its governance responsibilities over Greenfields, mergers, acquisitions and divestiture undertakings of National Bank of Malawi Plc in line with all applicable laws, legislation, directives of the Reserve Bank of Malawi and the Malawi Stock Exchange.

41. Financial risk management (Continued)

a) Introduction and overview (Continued)

Risk management framework (Continued)

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

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

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

First line of defense	Second line of defense	Third line of defense
Business Unit management.	Risk management function including compliance.	Internal Audit
Assesses, evaluates, measures and controls risk exposures through the day-to-day activities of the business within the framework set by the second line of defence.	Sets frameworks within the parameters set by the Board. Provides independent oversight of the first line of defence.	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.

41. Financial risk management (Continued)
a) Introduction and overview (Continued)

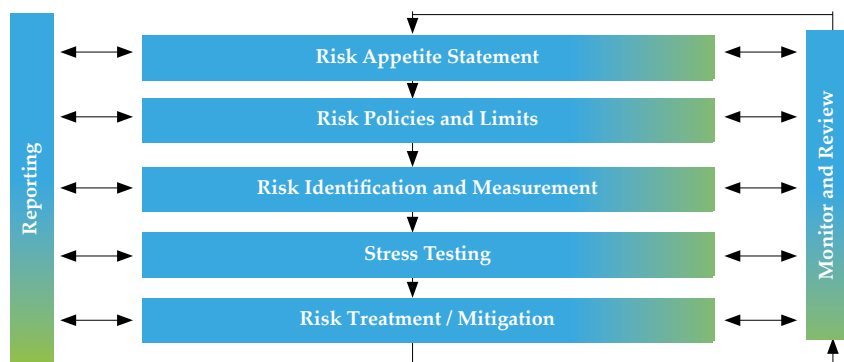
Risk Management Philosophy

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

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 Risk** – In 2024, inflationary pressures are expected to persist, particularly during the lean season, due to depleted food stocks in many households. This demand for food supplies is anticipated to contribute to the upward trend in food inflation. Furthermore, the impact of El Niño on rainfall patterns in specific districts may result in insufficient rains and delays in the distribution of the Affordable Inputs Program (AIP), potentially affecting food security and contributing to increased food inflation. The global petroleum supply and prices may experience heightened volatility, influenced by OPEC+ output cuts and concerns related to the Israel-Hamas conflict. This volatility could potentially impact local pricing dynamics of petroleum products in the country. The continuation of fiscal discipline tied to the Extended Credit Facility (ECF) provision, along with recent currency devaluation, has imposed constraints on importing essential goods such as food, fuel, and raw materials. Based on these factors, it is expected that headline inflation will remain elevated in 2024, with an approximate average of 25.1%.
- ii. In Tanzania, inflationary pressures are expected to persist, due to depreciation in the

41. Financial risk management (Continued)
b) Current and Emerging Risks (Continued)

- value of the local currency and increase in prices of import goods and services. Further businesses may face difficulties in importing essential goods and raw materials which may lead to production disruptions, price increases and overall economic slowdown impacting both foreign investments and economic growth.
- iii. **Climate and Environmental risk** – Over the next decade, global attention on risk perceptions is primarily centred around climate and environmental risks, identified as the least-prepared-for challenges worldwide. The existing gap between the scientifically required measures for achieving net-zero goals and the currently feasible political actions underscores the significant challenge in effectively addressing climate change. Compounding this challenge are escalating demands on resources from both the public and private sectors, driven by concurrent crises, which are expected to expedite the speed and scale of mitigation efforts in the coming years. Simultaneously, inadequate progress in providing necessary adaptation support to communities and countries already grappling with climate change impacts is a pressing concern, particularly for vulnerable nations like Malawi and Tanzania. Without substantial policy changes and increased investment, the interlinked dynamics of climate change impacts, biodiversity loss, food security, and natural resource consumption are poised to accelerate ecosystem collapse. In response to these challenges, Akiba Commercial Bank (ACB) has developed and implemented a Climate Risk Policy and framework. This framework serves as a guide for the bank in managing such risks and mitigating their impact. Additionally, the Group has embraced an Environmental, Social, and Governance (ESG) Framework and policy, which will be implemented across the entire group.
- iv. **Political risk** – As Malawi approaches the campaign year in 2024, gearing up for presidential and legislative elections in 2025, the incumbent President is likely to focus on implementing conciliatory policies to secure support from the Malawian population, with the goal of enhancing his chances of re-election. Malawi is expected to maintain a general sense of security but grapple with political instability stemming from a deeply divided political landscape. The current government faces challenges including high inflation, effects of the 44% currency devaluation, and relatively weak economic growth, resulting in widespread dissatisfaction among Malawians. The political dynamics leading up to the elections suggest a complex landscape with potential implications for governance and policy implementation. The lack of robust parliamentary support, especially for austerity measures, is expected to complicate policy implementation. In the short term, we anticipate the continuation of high social spending to alleviate the impact of inflation and currency devaluation. However, the recent extended credit facility (ECF) agreement with the International Monetary Fund (IMF) imposes policy conditions that the government cannot overlook. Consequently, there is an expectation that the government will consider reducing or withdrawing subsidies on essential goods as commodity prices decrease, aiming to enhance the efficiency of public spending. In Tanzania, the political environment remains stable, with the Chama Cha Mapinduzi (CCM) party maintaining its dominant position.
- v. **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

41. Financial risk management (Continued)
b) Current and Emerging Risks (Continued)

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.

- vi. **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 2023 Akiba has made a loss after tax of K989m (2022: K4,072m) which was mainly due significant increases in provisions for loans and tax. However, the performance is expected to turn around in 2024.

c) Credit risk

Credit risk arises when customers or counterparties are not able to fulfil their contractual obligations. The Group has a 'three lines of defence' risk management and internal controls structure in mitigation risk exposures namely:

Business Units, Risk Division and Internal Audit

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

Credit risk is the likelihood of financial loss to the Group if customers or counterparties to financial instruments fail to meet their contractual obligations and arises principally from the Group's loans and advances to customers. Basel II under credit risk does provide two approaches in calculating required capital.

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

Management of credit risk

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

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

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

Management of credit risk (Continued)

quality of the Bank's credit portfolio. The committee is also responsible for establishing the authorisation structure for the approval and renewal of credit facilities.

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

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

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

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

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

Significant increase in credit risk

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

41. Financial risk management (Continued)

c) Credit risk (Continued)

Management of credit risk (Continued)

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

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

Internal credit risk ratings

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

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

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

41. Financial risk management (Continued)

c) Credit risk (Continued)

Internal credit risk ratings (Continued)

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

The Nature & Extent of Credit Risk

The Group's exposure as at 31 December 2023 was at K418 523m (2022: K318 950m) with Non-Performing Loans (NPL) standing at 11.92% (2022: 13.75%). The Bank's separate exposure as at 31 December 2023 was at K332 456m (2022: K268 361m) with Non-Performing Loans (NPL) standing at 13.03% (2022: 14.76%).

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 2023 with utilised overdrafts of K14 207m (2022: K29 337m) against limits of K90 355m (2022: K58 279m) representing 15.72% (2022: 50.34%) of the total limits. The Bank closed 2023 with utilized overdrafts of K14 019m (2022: K28 533m) against limits of K89 065 (2022: K57 278m) representing 15.74% (2022: 49.81%) 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 41 b) (i) the Economic risk remained high in 2023 as a result of weather-related shocks, oil price volatilities and the 44% devaluation of the Malawi kwacha among several factors. The Group remained resilient to these shocks, and it 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.

41. Financial risk management (Continued)

c) Credit risk (Continued)

Credit rating information supplied by external rating agencies; (Continued)

Loans and advances to customers at amortised cost categorised per sector

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

	Loans and advances to customers			
	Group		Company	
	2023	2022	2023	2022
	K'm	K'm	K'm	K'm
Concentration by sector				
Agriculture, forestry, fishing and hunting	59,989	36,047	56,759	34,330
Mining and quarrying	1,863	2,192	1,863	2,192
Manufacturing	41,277	2,822	39,787	27,561
Electricity, gas, water and energy	18,839	18,711	18,497	18,350
Construction	6,629	4,881	5,635	4,881
Wholesale and retail trade	68,381	62,193	27,054	30,826
Restaurants and hotels	40,644	30,118	37,074	29,075
Transport, storage and communications	25,705	21,670	21,460	19,192
Financial services	11,098	8,879	11,098	8,858
Community and social services	18,662	10,738	12,534	8,894
Real estate	6,970	6,987	6,970	6,983
Personal	105,803	79,796	83,198	71,626
	405,860	310,440	321,929	262,768

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

	2023	2022
	K'm	K'm
Stage		
Stage 1	358,883	254,757
Stage 2	9,758	20,346
Stage 3	49,882	43,847
Total Gross Carrying Amount	418,523	318,950
Loss allowance	(12,663)	(8,510)
Carrying amount	405,860	310,440

41. Financial risk management (Continued)

c) Credit risk (Continued)

Credit rating information supplied by external rating agencies; (Continued)

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

	2023	2022
	K'm	K'm
Stage		
Stage 1	281,994	209,376
Stage 2	7,149	19,362
Stage 3	43,313	39,623
Total Gross Carrying Amount	332,456	268,361
Loss allowance	(10,527)	5,593
Carrying amount	321,929	262,768

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

	2023	2022	2023	2022
	K'm	K'm	K'm	K'm
Balances with the Central Banks	40,614	34,185	24,640	27,603
Placements with other banks	136,197	83,515	135,155	83,302
Government securities	380,397	345,939	341,895	309,930
Loans and advances	405,860	310,440	321,929	262,768
Other money market deposits	150,516	169,277	43,758	-
Other assets	20,662	5,573	16,200	878
Total recognized financial instruments	1,134,246	948,929	882,577	684,481
Guarantees and performance bonds	8,296	7,828	8,296	7,828
Letters of credit	24,152	21,548	24,152	21,548
Total unrecognised financial instruments	32,448	29,376	32,448	29,376
Total credit exposure	1,166,694	978,305	916,025	713,857

41. Financial risk management (Continued)

c) Credit risk (Continued)

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

	Carrying amount K'm	Offset K'm	Net exposure to credit risk K'm
Group			
2023			
Balances with Central banks	40,614	-	40,614
Placements with other banks	136,197	-	136,197
Government securities	380,397	-	380,397
Loans and payables	405,860	(19,940)	385,920
Other money market deposits	150,516	-	150,516
Other assets	20,662	-	20,662
	1,134,246	(19,940)	1,114,306
2022			
Balances with Central banks	34,185	-	34,185
Placements with other banks	83,515	-	83,515
Government securities	345,939	-	345,939
Loans and payables	310,440	(8,758)	301,682
Other money market deposits	169,277	-	169,277
Other assets	5,573	-	5,573
	948,929	(8,758)	940,171
Company			
2023			
Balances with Central banks	24,640	-	24,640
Placements with other banks	135,155	-	135,155
Government securities	341,895	-	341,895
Loans and payables	321,929	(13,036)	308,893
Other money market deposits	43,758	-	43,758
Other assets	16,200	-	16,200
	883,577	(13,036)	114,306
2022			
Balances with Central banks	27,603	-	34,185
Placements with other banks	83,302	-	83,515
Government securities	309,930	-	345,939
Loans and payables	262,768	(5,350)	257,418
Other assets	878	-	169,277
	684,481	(5,350)	679,131

41. 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	
	2023 K'm	2022 K'm	2023 K'm	2022 K'm
Individually impaired:				
Grade 9: Impaired	39,710	11,682	34,440	8,011
Grade 8: Impaired	10,172	32,165	8,873	31,612
Past due but not impaired:				
Grade 7: Impaired	9,758	20,346	7,149	19,362
Neither past due not impaired:				
Grade 1: Impaired	81,659	53,090	15,765	8,303
Grade 4: Impaired	277,224	201,667	266,229	201,073
Impairment provision	(12,663)	(8,510)	(10,527)	(5,593)
Total net carrying amount	405,860	310,440	321,929	262,768

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 2023				
Risk grade				
Grade 9: Impaired	39,710	4,628	34,440	3,858
Grade 8 Impaired	10,172	2,305	8,873	2,113
Grade 7: Watch list	9,758	320	7,149	300
Grade 4 - 6: Fair risk	277,224	3,649	266,229	3,466
Grade 1: Low risk	81,659	1,465	15,765	494
Total gross carrying amount	418,523	12,367	332,456	10,231
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: Low risk	53,090	1,04	8,303	162
Total gross carrying amount	318,950	8,037	268,361	5,120

41. Financial risk management (Continued)

c) Credit risk (Continued)

The Group's impairment provision of K12,367m (2022: K8,037m) excludes provision for off-balance sheet assets and unutilized limits amounting to K296m (2022: K473m). The Bank's impairment provision of K10,231m (2022: K5,120m) excludes provision for off-balance sheet assets and unutilized limits amounting to K296m (2022: K473m).

The current year total carrying amount includes K73,104m (2022: K43,111m) and K10,827m (2022: K4,561m) loans and advances extended by Akiba Commercial Bank plc and NBM Development Bank respectively. The provision related to Akiba Commercial Bank plc amounted K1,974m (2022: K1,747m) while for NBM Development Bank Limited amounted to K162m (2022: K60m) 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 K5,831m (2022: K6,318m) out of which K5 831m (2022: K3,711m) has been charged to the statement of comprehensive income and nil (2022: K2,607m) has been written off against provisions. Refer to note 11. 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.

41. Financial risk management (Continued)

c) Credit risk (Continued)

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

	Group		Company	
	2023	2022	2023	2022
Against individually impaired				
Motor vehicles	5,339	2,837	4,299	1,602
Commercial property	23,009	19,612	213,325	17,767
Residential property	17,099	14,709	2,683	7,934
Business chattels and stocks	147	-	-	-
Cash	1,093	17	1,089	-
	46,687	37,175	30,396	27,303
Against the set of the loan book				
Motor vehicles and machinery	33,574	39,398	23,569	33,348
Commercial property	139,853	91,533	112,345	71,669
Residential property	141,832	107,362	36,326	40,553
Cash	18,847	8741	11947	5450
Treasury bills	4,422	-	4,211	-
Business chattels and stocks	3,481	-	-	-
Government guarantees	12,600	12,600	12,600	12,600
Total	354,609	259,634	200,998	163,520
Total	401,296	296,809	231,394	190,823

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.

41. **Financial risk management** (Continued)
d) **Liquidity risk** (Continued)

Management of liquidity risk (Continued)

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.

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:

	2023	2022
At 31 December	51%	48%
Average of the period	49%	45%
Maximum for the period	52%	49%
Minimum for the period	46%	41%

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

	Less than 1 months K'm	1-3 months K'm	3-12 months K'm	Over 1 year K'm	Total K'm	Carrying amount K'm
Group						
2023						
Financial assets						
Cash and funds with Central banks	76,755	-	-	-	76,755	76,755
Placement with other banks	135,155	1,042	-	-	136,197	136,197
Government securities	-	96,171	105,846	178,380	380,397	380,397
Equity investments	-	9,803	-	-	9,803	9,803
Loans and advances	21,769	23,917	79,354	280,820	405,860	405,860
Other money markets deposits	150,516	-	-	-	150,516	150,516
Other assets	20,662	-	-	-	20,662	20,662
Total financial assets	404,857	130,933	185,200	459,200	1,180,190	1,180,190
Financial liabilities						
Loans	-	-	6,552	5,895	12,447	12,447
Customer deposits	769,183	166,398	30,440	3,392	969,413	969,413
Amount due to other banks	13,982	-	-	-	13,982	13,982
Provisions	-	-	6,255	-	6,255	6,255
Other liabilities	1,950	-	-	-	1,950	1,950
Lease liability	-	-	578	4,649	5,227	5,227
Total financial liabilities	785,115	166,398	43,825	13,936	1,009,274	1,009,274
Contractual liquidity mismatch	(380,258)	(35,465)	141,375	445,264	170,916	170,916
Cumulative mismatch	(380,258)	(415,723)	(274,348)	170,916	-	-

41. **Financial risk management** (Continued)
d) **Liquidity risk** (Continued)
Management of liquidity risk (Continued)

	Less than 1 months K'm	1-3 months K'm	3-12 months K'm	Over 1 year K'm	Total K'm	Carrying amount K'm
Group						
2022						
Financial assets						
Cash and funds with						
Central banks	64,650	-	-	-	64,650	64,650
Placement 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
Amount 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	-	-
Company						
2023						
Financial assets						
Cash and funds with						
Central banks	54,007	-	-	-	54,007	54,007
Placement with other banks	135,155	-	-	-	135,155	135,155
Government securities	-	57,699	105,846	178,380	341,895	341,895
Equity investments	-	9,803	-	-	9,803	9,803
Loans and advances	19,607	21,906	64,243	216,173	321,929	321,929
Other money markets deposits	43,758	-	-	-	43,758	43,758
Other assets	16,200	-	-	-	16,200	16,200
Total financial assets	268,727	89,378	170,089	394,553	922,747	922,747
Financial liabilities						
Loans	-	-	4,587	-	4,587	4,587
Customer deposits	576,097	157,950	18,495	-	752,542	752,542
Amount due to other banks	8,237	-	-	-	8,237	8,237
Provisions	-	-	6,003	-	6,003	6,003
Other liabilities	869	-	-	-	869	869
Lease liability	-	-	578	-	578	578
Total financial liabilities	585,203	157,950	29,663	-	772,816	772,816
Contractual liquidity mismatch	(316,476)	(68,572)	140,426	394,553	149,931	149,931
Cumulative mismatch	(316,476)	(385,048)	(244,622)	149,931	-	-

41. Financial risk management (Continued)

d) Liquidity risk (Continued)

Management of liquidity risk (Continued)

Company	Less than 1 months 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
Amount 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)	(12,603)	148,445	321,296	104,097	104,097
Cumulative mismatch	(352,041)	(365,644)	(217,199)	104,097	-	-

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

e) Market risk

Market risk is the risk of loss arising from adverse movements in interest rates, exchange rates and prices associated with positions which are able to be fair valued on the balance sheet on a frequent basis in both the banking and trading books of the Group.

Basel recommends two approaches in the management of market risk. These are the Standardised Approach and the Internal Models Approach. The Reserve Bank of Malawi however prescribed that all banks be on the Standardised Approach during the adoption of Basel II in 2014. The objective of market risk management is to manage and control risk exposures within acceptable parameters, while optimising the return on risk. The Group has a Market Risk Framework that guides the overall management of market risk.

Management of market risk

The Group separates its exposure to market risk between trading and non-trading portfolios. Basel II's market risk standardised approach has pre-specified and standardised methods for all the four types of risks covered: Interest rate risk, equity risk, exchange rate risk and commodity

41. Financial risk management (Continued)

e) Market risk (Continued)

Management of market risk (Continued)

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 months K'm	1-3 months K'm	3-12 months K'm	Over 1 year K'm	Non interest Total K'm	Total K'm
2023						
Financial assets						
Cash and funds with:						
Central banks	-	-	-	-	76,755	76,755
Placements with other banks	135,155	1,042	-	-	-	136,197
Government securities	-	96,171	105,846	178,380	-	380,397
Equity investments	-	-	-	-	9,803	9,803
Loans and advances	21,769	23,917	79,354	280,820	-	405,860
Other money market deposits	150,516	-	-	-	-	150,516
Other assets	-	-	-	-	20,662	20,662
Total financial assets	307,440	121,130	185,200	459,200	107,220	1,180,190
Financial liabilities						
Loans	-	-	6,552	5,895	-	12,447
Customer deposits	500,801	166,398	30,440	3,392	268,382	969,413
Amount due to other banks	13,982	-	-	-	-	13,982
Provisions	-	-	-	-	6,255	6,255
Other liabilities	-	-	-	-	1,950	1,950
Lease liability	-	-	578	4,649	-	5,227
Total financial liabilities	514,783	166,398	37,570	13,936	276,857	1,009,274
interest sensitivity gap	(207,343)	(45,268)	147,630	445,264	(169,367)	170,916
Cumulative gap	(207,343)	(252,611)	(104,981)	340,283	170,916	-

41. Financial risk management (Continued)

e) Market risk (Continued)

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

	Less than 1 months K'm	1-3 months K'm	3-12 months K'm	Over 1 year K'm	Non interest Total K'm	Total K'm
Group						
2023						
Impact on profit of an increase in interest rates:						
+1%	(2,073)	(453)	1,476	4,453	-	3,404
+2%	(4,146)	(906)	2,952	8,906	-	6,808
+3%	(6,219)	(1,359)	4,428	13,359	-	10,212
Impact on profit of a decrease in interest rates:						
+1%	2,073	453	(1,476)	(4,453)	-	(3,403)
+2%	4,146	906	(2,952)	(8,906)	-	(6,808)
+3%	6,219	1,359	(4,428)	(13,359)	-	(10,212)
Group						
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	1,843	256,167	809,562
Amount 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	-
2022						
Impact on profit of an increase in interest rates:						
+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
Impact on profit of a decrease in interest rates:						
+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)

41. Financial risk management (Continued)

e) Market risk (Continued)

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

	Less than 1 months K'm	1-3 months K'm	3-12 months K'm	Over 1 year K'm	Non interest Total K'm	Total K'm
Company						
2023						
Financial assets						
Cash and funds with:						
Central banks	-	-	-	-	54,007	54,007
Placements with other banks	135,155	-	-	-	-	135,155
Government securities	-	57,669	105,846	178,380	-	341,895
Equity investments	-	-	-	-	9,803	9,803
Loans and advances	19,607	21,096	64,243	216,173	-	321,929
Other money market deposits	43,758	-	-	-	-	16,200
Other assets	-	-	-	-	16,200	922,747
Total financial assets	198,520	79,575	170,089	394,553	80,010	986,286
Financial liabilities						
Loans	-	-	4,587	-	-	4,587
Customer deposits	322,379	157,950	18,495	-	253,718	752,542
Amount due to other banks	8,237	-	-	-	-	8,237
Provisions	-	-	-	-	6,003	6,003
Other liabilities	-	-	-	-	869	869
Lease liability	-	-	578	-	-	578
Total financial liabilities	330,616	157,090	23,660	-	260,590	722,816
Interest sensitivity gap	(132,096)	(78,375)	146,429	394,553	(180,580)	149,931
Cumulative gap	(132,096)	(210,471)	(64,042)	330,511	149,931	-
Impact on profit of an increase in interest rates:						
+1%	(1,321)	(784)	1,464	3,945	-	3,304
+2%	(2,642)	(1,568)	2,928	7,890	-	6,608
+3%	(3,963)	(2,352)	4,392	11,835	-	9,912
Impact on profit of a decrease in interest rates:						
+1%	1,321	784	(1,464)	(3,945)	-	(3,304)
+2%	2,642	1,568	(2,928)	(7,890)	-	(6,608)
+3%	2,963	2,353	(4,392)	(11,835)	-	(9,912)
Company						
2022						
Financial assets						
Cash and funds with:						
Central banks	-	-	-	-	53,604	53,604
Placements with other banks	83,302	-	-	-	-	83,302
Government securities	-	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

41. Financial risk management (Continued)

e) Market risk (Continued)

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

	Less than 1 months K'm	1-3 months K'm	3-12 months K'm	Non Over 1 year K'm	interest Total K'm	Total K'm
Company 2022						
Financial liabilities						
Loans	-	-	5,296	2,809	-	8,105
Customer deposits	221	85,960	13,226	-	247,814	568,644
Amount 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	-
Impact on profit of an increase in interest rates:						
+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
Impact on profit of a decrease in interest rates:						
-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)

f) Currency risk

The Group had the following significant foreign currency positions:

Group 2023	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	Other K'm	Total K'm
Financial assets							
Cash and funds with:							
Central banks	53,682	3,163	33	95	27	19,755	76,755
Placements with other banks	-	107,574	9,927	16,766	1,929	1	136,197
Government securities	354,544	-	-	-	-	25,853	380,397
Equity investments	9,803	-	-	-	-	-	9,803
Loans and advances	240,930	91,892	-	-	-	73,078	405,860
Other money market deposits	150,516	-	-	-	-	-	150,860
Other assets	16,383	-	-	103	-	4,176	20,662
Total financial assets	825,858	202,629	9,960	16,964	1,956	123,823	1,180,190
Financial liabilities							
Loans	8,069	4,378	-	-	850	-	12,447
Customer deposits	672,084	170,810	9,478	16,688	1,295	99,503	969,413
Liabilities to other banks	596	6,335	-	-	-	5,756	13,982
Provisions	6,255	-	-	-	-	-	6,255
Other liabilities	997	-	-	-	-	953	1,950
Lease liability	578	-	-	-	-	4,649	5,227
Total financial liabilities	688,579	181,523	9,478	16,688	2,145	110,861	1,009,274
Net balance open position	137,279	21,106	482	276	(189)	11,962	170,916

41. Financial risk management (Continued)

f) Currency risk (Continued)

Group 2023	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	Other K'm	Total K'm
Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit	-	(2,111)	(48)	(28)	19	(1,196)	(3,364)
Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit	-	2,111	48	28	(19)	1,196	3,364
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	9,332	15	83,515
Government securities	327,822	-	-	-	-	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	-	-	-	-	0	169,277
Other assets	3,841	-	-	-	-	1,732	5,573
Total financial assets	776,246	121,620	9,673	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	-	56,808	809,562
Liabilities to other banks	19,517	8,247	-	59	1,104	7,622	35,640
Provisions	6,391	-	-	-	195	-	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	-	-	-	70,731	872,658
Net balance open position	106,301	4,743	4,409	1,299	1,299	1,683	113,628
Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit	-	(474)	(41)	(28)	(22)	(168)	(733)
Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit	-	474	41	28	22	168	733

41. Financial risk management (Continued)

f) Currency risk (Continued)

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

Company	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	Other K'm	Total K'm
2023							
Financial assets							
Cash and funds with:							
Central banks	53,690	187	26	77	27	-	54,007
Placements with							
other banks	-	106,532	9,927	16,766	1,929	1	135,155
Government securities	341,895	-	-	-	-	-	341,895
Equity investments	9,803	-	-	-	-	-	9,803
Loans and advances	230,102	91,827	-	-	-	-	321,929
Other money market deposits	43,758	-	-	-	-	-	43,758
Other assets	16,097	-	-	103	-	-	16,200
Total financial assets	695,345	198,546	9,953	16,946	1,956	-	922,747
Financial liabilities							
Loans	209	4,378	-	-	-	-	4,587
Customer deposits	560,319	165,303	9,477	16,593	850	-	752,542
Liabilities to other banks	596	6,335	-	-	1,295	11	8,237
Provisions	6,003	-	-	-	-	-	6,003
Other liabilities	869	-	-	-	-	-	869
Lease liability	578	-	-	-	-	-	578
Total financial liabilities	568,574	9,477	9,477	16,593	2,145	11	772,816
Net balance open position	126,771	22,530	476	353	(189)	(10)	149,931
Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit							
	-	(2,253)	(48)	(35)	19	1	(2,316)
Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit							
	-	2,253	48	35	(19)	(1)	2,316
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	209,930	-	-	-	-	-	309,930
Equity investments	6,892	-	-	-	-	-	6,892
Loans and advances	210,847	51,192	-	-	-	-	262,768
Other assets	878	-	-	-	-	-	878
Total financial assets	581,742	119,954	4,811	9,340	1,512	15	717,374

41. 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 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	-	1,838
Net balance open position	98,808	4,640	403	18	213	-	104,097
Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit							
	-	(464)	(40)	(2)	(21)	(2)	(529)
Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit							
	-	464	40	2	21	2	529

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

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

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;

41. Financial risk management (Continued)

g) Operational risk (Continued)

- 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:

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

The Bank complied with the requirement throughout the reporting period.

41. Financial risk management (Continued)

h) Compliance risk (Continued)

Statutory requirements-National Bank of Malawi (Continued)

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

The clear threat to capital adequacy from 2020 onwards is the implementation of the directive on Supervision of Domestic Systemically Important Banks by Reserve Bank of Malawi which requires 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 requires 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 24% (2022: 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 51% (2022: 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 (unaudited) 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.

41. Financial risk management (Continued)
i) Capital management (Continued)

Regulatory capital-National Bank of Malawi (Continued)

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

The Board of Directors is responsible for establishing and maintaining at all times an adequate level of capital. The Group's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a lower gearing position. The Group and other individually regulated operations have complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Group's management of capital during the period. NBM's regulatory capital position at 31 December was as follows:

	2023 K'm	2022 K'm
Tier 1 capital		
Ordinary share capital	467	467
Share premium	613	613
Retained earnings	164,918	131,342
Unconsolidated investment	(9,695)	(8,410)
Total regulatory (tier 1) capital	156,303	124,012
Supplementary capital		
Revaluation reserve	29,884	36,809
Deferred tax	-	(9,348)
Unconsolidated investment	(9,695)	(8,410)
Total regulatory (tier 2) capital	176,492	143,063
Risk-weighted assets		
Retail bank, corporate bank and treasury	732,701	532,728
Capital ratios		
Total regulatory capital expressed as a percentage of risk-weighted assets	24%	27%
Total tier 1 capital expressed as a percentage of risk-weighted assets	21%	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 of Malawi is in full compliance with the revised minimum capital requirement.

Akiba Commercial Bank Capital management

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

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

41. Financial risk management (Continued)
i) Capital management (Continued)

Akiba Commercial Bank Capital management (Continued)

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 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 conversation 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.

41. Financial risk management (Continued)

i) Capital management (Continued)

Akiba Commercial Bank Capital management (Continued)

The table below summarizes the composition of regulatory capital and the ratios of the Bank for the year ended 31 December 2023 and year ended 31 December 2022. In 2023 the Bank was compliant to minimum core capital required by regulator of TZS 15 billion and capital adequacy ratios of 12.5% and 14.5% for tier 1 and Tier 2 respectively.

	2023 TZS;m	2022 TZS;m
Tier 1		
Share capital	27,797	27,297
Share premium	2,432	2,432
Preference shares	11,623	5,960
Retained earnings	(19,215)	(15,276)
Deferred charges	(6,387)	(6,864)
Prepaid expenses	(1,191)	(817)
Others (Advance towards capital)	-	-
Total qualifying Tier 1 capital	15,059	12,732
Tier 2		
Allowance supplementary capital	-	930
Total qualifying Tier 2 capital	-	930
Total regulatory capital (Tier 1 & Tier 2)	15,059	14,592
Risk-weighted assets		
On-balance sheet	107,679	112,389
Off-balance sheet	368	523
Operation risk	11,671	11,648
Market risk	65	134
Total risk-weighted assets, operational and market risk	119,783	124,694
	Bank's ratio 2023	Bank's ratio 2022
Tier 1 capital (BOT minimum 12.5%)	12.57%	10.61%
Tier 1 + Tier 2 (BOT minimum 14.5%)	12.57%	11.36%

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.

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.

41. Financial risk management (Continued)

j) Basel II implementation (Continued)

Akiba Commercial Bank Capital management (Continued)

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 2023 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.

41. Financial risk management (Continued)

1) Reputational risk policy

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

The Group has a Reputational Risk Policy that provides guidance in the management of reputational risk at all levels. The Group therefore aims at; building reputation capital and earning the goodwill of key stakeholders by communicating proper and positive information to the marketplace and also identifying risk events as being either specific or systemic as this will determine the course of corrective action.

42. 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% (2022: 51.5%) of the Ordinary Shares. The Old Mutual Group owns 21.5% (2022: 22.0%) of the Ordinary Shares and the remaining 27.0% (2022: 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% (2022: 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:

	Loans	Deposits	Net 2023	Net 2022
	K'm	K'm	K'm	K'm
Press Corporation plc and its subsidiaries	7,420	(20,323)	(12,903)	(2,013)
Old Mutual Group	-	(26,873)	(26,873)	(3,712)
Limbe Leaf Tobacco Company Limited	-	(228)	(228)	(166)
Puma Energy Malawi Limited	1	(3,310)	(3,309)	(555)
Macsteel Limited	906	(17)	889	907
Press Trust	-	(52)	(52)	(53)
Press Agriculture Limited	-	(10)	(10)	-
Malawi Property Investment Company Limited	444	-	444	-
Sunbird Tourism Limited	-	(688)	(688)	-
Directors	304	(187)	117	119

42. Related party transactions (Continued)

	Loans	Deposits	Net 2023	Net 2022
	K'm	K'm	K'm	K'm
Employees	11,095	(1,775)	9,320	6,796
Lifco Group	-	(93)	(93)	(85)
Open Connect Limited	8,838	(262)	8,576	6,120
United General Insurance Limited	90	(10)	80	23
NBM Capital Markets Limited	-	(100)	(100)	(19)
NBM Pension unrestricted Fund	-	(142)	(142)	-
NBM Pension Administration Limited	-	(775)	(775)	(182)
Total related party balance	29,098	(54,845)	(25,747)	7,180

Limbe Leaf Tobacco Company Limited, Macsteel Limited and Puma Malawi Limited are associates of Press Corporation plc.

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

During the year, no amount due from a related party was written off against interest in suspense and provision for loan losses. There were no provisions in respect of loans granted to related parties as at the end of the year (2022: 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:

	2023	2022
	K'm	K'm
Interest receivable		
Press Corporation Plc and its subsidiaries	1,282	1,010
Directors	4	2
Puma Energy Malawi Limited	22	27
Open Connect Limited	1,938	801
Mpico Limited	73	-
Macsteel limited	71	38
United General Insurance Limited	27	2
Employees	1,792	1,223
Average interest rate (%)	30%	22%
Interest payable		
Press Corporation Plc and its subsidiaries	586	1
Open Connect Limited	3	4
Limbe Leaf Tobacco Limited	9	7
Employees	1,011	848
Purchases		
Press Corporation Plc and its subsidiaries	2,015	1,828
Puma Energy Malawi Limited	337	281

42. Related party transactions (Continued)

	2023 K'm	2022 K'm
Commission income		
Press Corporation Plc and its subsidiaries	405	321
Limbe Leaf Tobacco Company Limited	16	5
Lifco Group	-	1
Old Mutual Group	7	3
Open Connect Limited	1	-
Macsteel Limited	2	-
Puma Energy Malawi Limited	4	-
Press Trust	2	-
Sunbird Hotels and Resorts	1	1
Trade payables		
Press Corporation Plc and its subsidiaries	634	730

	Group		Company	
	2023 K'm	2022 K'm	2023 K'm	2022 K'm
Compensation of key management personnel				
Salaries, bonuses and benefits	6,040	5,876	4,404	4,737

No specific share options were offered to key management personnel during the year (2022: nil). No shares were exercised by key management during the year (2022: nil).

43. 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. There is no single external customer whose transactions with the Group earns the Group revenues amounting to 10 per cent or more of the Group's total revenues.

43. 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					
2023					
Total external income	98,728	38,557	104,726	4,386	246,397
Segment result	69,257	30,145	104,726	4,386	208,514
Unallocated expenses	-	-	-	-	(88,385)
Profit before tax	-	-	-	-	120,129
Corporate tax	-	-	-	-	(48,170)
Group profit for the year	-	-	-	-	71,959
Other information					
Unallocated depreciation	-	-	-	-	5,735
Revaluation surplus on property					
Unallocated fair value gain	-	-	-	-	130
Statement of financial position					
2023					
Total consolidated segment assets	227,449	201,934	632,184	210,429	1,271,996
Liabilities and equity					
Total consolidated segment liabilities and equity	430,994	161,842	180,389	290,997	1,064,222
Other information					
Unallocated capital additions	-	-	-	-	207,774
Total	-	-	-	-	1,271,996
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					
Unallocated depreciation	-	-	-	-	4,502
Revaluation surplus on property					
Unallocated fair value gain	-	-	-	-	93

43. Business segments (Continued)

Group
Statement of financial position
2022

Total consolidated segment assets

Liabilities and equity

Total consolidated segment liabilities and equity

Other information

Unallocated capital additions

Total

	Corporate banking K'm	Retail banking K'm	Treasury K'm	Other K'm	Total K'm
Total consolidated segment assets	168,833	161,487	612,450	130,579	1,073,349
Total consolidated segment liabilities and equity	347,332	124,279	136,100	291,814	899,525
Unallocated capital additions	-	-	-	-	173,834
Total	-	-	-	-	1,073,349

43. Business segments (Continued)

Summarized Statement of Financial Position 2023 for each company

	National Bank K'm	Stock Brokers K'm	NBM Bureau K'm	NBM Capital K'm	NBM Pal K'm	NBM Develop K'm	Akiba K'm	Adjust- Ment K'm	Conso- Lidated K'm
Total assets	1 018 641	13 532	7	108 513	944	13 937	141 785	(25 363)	1 271 966
Total equity	195 882	940	(3)	4 752	762	5 295	17 539	(17 393)	207 774
Total liabilities	822 759	12 592	10	103 761	182	8 642	124 246	(7 970)	1 064 222
Total equity and liabilities	1 018 641	13 532	7	108 513	944	13 937	141 785	(23 363)	1 271 996

Summarized Statement of comprehensive income 2023 for each company

Total net income	194 498	1 070	-	5 642	801	1 922	12 926	(1 100)	215 759
Total Expenses	(71 276)	(470)	-	(783)	(631)	(644)	(14 640)	59	(88 385)
Net impairment provisions	(8 102)	-	-	-	-	(102)	959	-	(7 245)
Profit before Tax	115 120	600	-	4 859	170	1 176	(755)	(1 041)	120 129
Income tax expense	(45 934)	(182)	-	(1 459)	(55)	(306)	(234)	-	(48 170)
Profit after tax	69 186	418	-	3 400	115	870	(989)	(1 041)	71 959

Summarized Statement of Financial Position 2022 for each company

Total assets	808 283	18 520	7	171 906	827	7 731	83 444	(17 369)	1 073 349
Total equity	169 231	758	(3)	2 102	731	4 426	8 679	(12 100)	173 824
Total liabilities	639 052	17 762	10	169 804	96	3 305	74 765	(5 269)	899 525
Total equity and liabilities	808 283	18 520	7	171 906	827	7 731	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	945	10 794	(1 601)	144 105
Total Expenses	(57 587)	(386)	-	(891)	(414)	(447)	(11 052)	30	(70 747)
Net impairment provisions	(1 002)	-	-	-	-	(31)	(2 962)	-	(3 995)
Profit before Tax	71 217	457	-	1 770	243	467	(3 220)	(1 571)	69 363
Income tax expense	(22 082)	(139)	-	(537)	(75)	(138)	(852)	404	(23 419)
Profit after tax	49 135	318	-	1 233	168	329	(4 072)	(1 167)	45 944

44. 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.

	2023	2022
Kwacha/GBP	2,214	1,287
Kwacha/Rand	94	63
Kwacha/US Dollar	1,683	1,036
Kwacha/Euro	1,919	1,137
Inflation rate (%)	30.0	25.4

As at 22 March 2024 the above rates had moved as follows:

Kwacha/GBP	2,204
Kwacha/Rand	91
Kwacha/US Dollar	1,683
Kwacha/Euro	1,884
Inflation rate (%) (February 2024)	33.5

CORRESPONDENT BANKS



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

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

