



National Bank
of Malawi plc

2018
ANNUAL
REPORT







2018
ANNUAL
REPORT

OPEN DOORS OF POSSIBILITIES

embrace freedom



OPEN DOORS OF POSSIBILITIES

embrace freedom

to have ready credit that helps you pay for goods or services online or at the counter in Malawi and abroad with the

**NBM VISA
CREDIT CARD**



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OPEN DOORS OF POSSIBILITIES
embrace freedom



to make payments
online, POS purchases
and ATM encashments in
Malawi and abroad with

**NBM VISA
DEBIT CARD**





VISION

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

MISSION

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

CORE VALUES

Customer Centred

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

Equal Opportunity Employee Recruitment and Development

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

Employee Commitment

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

Integrity and Trust

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

Team Work

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

Corporate Social Responsibility

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

VALUE PROPOSITION

Reliable and Innovative Financial Solutions that Open Doors of Possibilities



OPEN DOORS OF POSSIBILITIES

embrace freedom

15,965	88,414	294,5
19 147	82 213	278,4
16 605	68 952	231,2

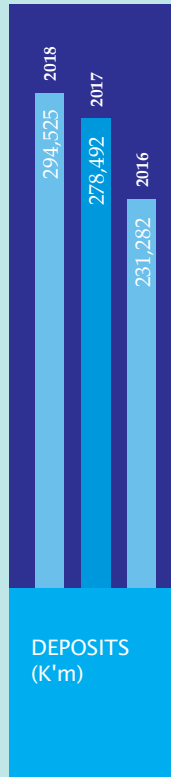
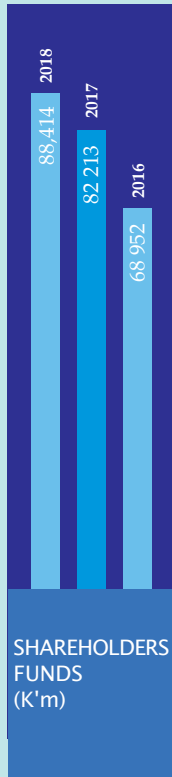
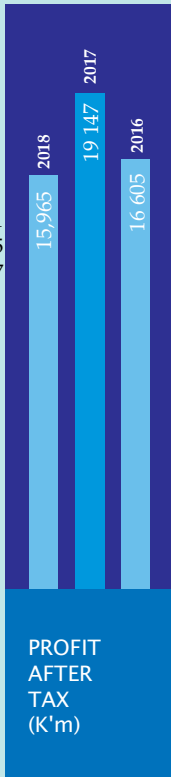
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	K'm			
	Profit After Tax	Shareholders Funds	Deposits	Loans and Advances
2016	16 605	68 952	231 282	133 287
2017	19 147	82 213	278 492	137 575
2018	15 965	88 414	294 525	166 621
	↓	↑	↑	↑
% Change 2017 vs 2018	16.6%	7.5%	5.8%	21%





OUR DIRECTORS,
OUR PRIDE. THEY ARE
DETERMINED TO STEER
THE BANK TO GREATER
HEIGHTS WITH OPEN
DOORS OF POSSIBILITIES



CURRENT DIRECTORS →

Current Directors



STANDING (L-R)

Macfussy M Kawawa (54)
B.ACC (Hons), FCCA,
CA (M), MBA
Director

Elizabeth Mafeni (Mrs) (50)
MBL, FCCA, B.Com
Director

Jim Nsomba (57)
FCCA, CPA, B.Com
Director

Dorothy Ngwira (Mrs) (53)
FCCA, CA (Mw)
Msc (Econ)
Director

John Biziwick (60)
B.Soc Sc (Econ)
Msc (Econ)
Director

James Mhura (42)
MBA, ACMA, B.Acc.
Director



STANDING (R-L)

Dr. George B Partridge (55)
B.Soc Sc (Econ),
Msc (Finance)
FCCA, CA (M)
Chairman

Maureen Kachingwe (Mrs) (52)
LL.B (Hons), MBA
Director

Elias J Kambalame (72)
BA (Econ.)
Director

Zunzo Mitole (Mrs) (44)
LLB (Hons), MBA
**Company Secretary
& Legal Counsel**

Harold Jiya (47)
B.Com, ACIB, MBA
Director

Raymond Banda (51)
MBA, BSc
Director

DIRECTORS' REPORT

The directors have pleasure in presenting the consolidated and separate financial statements of National Bank of Malawi Plc (NBM) for the year ended 31 December 2018.

CAPITAL

The authorised share capital of the Bank is K500m (2017: K500m) divided into 500,000,000 Ordinary Shares of K1 each. The issued capital is K467m (2017: K467m) divided into 466,931,738 (2017: 466,931,738) fully paid Ordinary Shares of K1 each.

The shareholders and their respective shareholdings are:

	2018	2017
	%	%
Press Corporation Plc	51.5	51.5
Old Mutual Group	25.1	25.1
Members of the public	23.0	23.0
Employees (ESOS)	0.4	0.4
	100.0	100.0

PROFIT AND DIVIDENDS

The directors report a consolidated profit before tax of K23 016m (2017: K27 550m) for the year. A final dividend of K3 500m (2017: K4 200m) is proposed for the year. A first interim dividend of K2 498m (2017: K3 315m) was paid to shareholders on 21 September 2018. A second interim dividend of K1 500m (2017: K1 569m) was paid on 01 April 2019.

DIRECTORS

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

Name	Tenure
Partridge, Dr. G B	Chairman-All year
Kambalame, E	All year
Biziwick, J	All year
Mhura, J	All year
Nsomba, J	All year
Banda, R	All year
Mafeni, E	All year
Kachingwe, M	All year
Ngwira, D	From 29 October 2018
Msiska, M	Up to 20 July 2018
Kawawa, M M	All year
Jiya, H	All year

The directors report a consolidated profit before tax of K23 016m (2017: K27 550m) for the year.

DIRECTORS' INTERESTS

The following directors held shares in the Bank as at 31 December 2018:

Partridge, Dr. G B	→	846 507 (2017: 846 507) Ordinary Shares
Kawawa, M M	→	113 255 (2017: 113 255) Ordinary Shares
Biziwick, J	→	2 546 (2017: 2 546) Ordinary Shares
Nsomba, J	→	758 (2017: 758) Ordinary shares
Jiya, H	→	2 306 (2017: 2 306) Ordinary Shares
Kachingwe, M	→	1 935 (2017: 1 935) Ordinary Shares
Ngwira, D	→	0 (2017: 7 128) Ordinary Shares

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

DIRECTORS' REMUNERATION

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

Entity	Non-Executive Directors fees and expenses K'million	Executive Directors fees and expenses K'million	Total K'million
For the year ended 31 December 2018			
National Bank of Malawi Plc	201	546	747
NBM Capital Markets Limited	1	110	111
NBM Securities Limited	-	-	-
National Bank of Malawi Nominees Limited	-	-	-
Stockbrokers Malawi Limited	3	-	3
NBM Bureau de Change Limited	-	-	-
NBM Pension Administration Limited	6	-	6
NBM Development Bank Limited	-	-	-
Total	211	656	867
For the year ended 31 December 2017			
National Bank of Malawi plc	176	454	630
NBM Capital Markets Limited	1	108	109
NBM Securities Limited	-	-	-
National Bank of Malawi Nominees Limited	-	-	-
Stockbrokers Malawi Limited	3	-	3
NBM Bureau de Change Limited	-	-	-
NBM Pension Administration Limited	-	-	-
NBM Development Bank Limited	-	-	-
Total	180	562	742

DIRECTORS' TENURE POLICY

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

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

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

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

CORPORATE GOVERNANCE

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

OVERVIEW OF SUBSIDIARIES

Subsidiaries corporate governance

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

Subsidiaries board of directors

During the year ended 31 December 2018, none of the subsidiaries companies directors has an interest in any material contract relating to the businesses of the subsidiaries.



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

Subsidiary	Directors	Tenure	Directors interest in shares of the subsidiary
NBM Capital Markets Limited	Mr M Kawawa Mr. H Mukaka Mr. B Jere Mr. M Katsala Mrs. M Mulele	All year- Chairman All year All year All year All year- Company secretary	None None None None None
Stockbrokers Malawi Limited	Mr. M Kawawa Mr. H Mukaka Mr. D Kafoteka	All year-Chairman All year From April 2018	None None None
NBM Pension Administration	Mr. O Kasunda Mr. H Jiya Mr. G Munthali Mr. E Namboya Mr P. Lihonga Mrs. Z Mitole	All year-Chairman All year All year All year All year All year	None None None None None None
NBM Development Bank	Mr. M Kawawa Mr. H Jiya Mr. M Katsala	All year- Chairman All year All year	None None None

DONATIONS

During the year, the Group made charitable donations of K59m (2017: K46m).



ACTIVITIES

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

Directors' Report

Subsidiaries of National Bank of Malawi plc	Percentage of control	Nature of operations
NBM Capital Markets Limited	100% (2017: 100%)	Investments and fund management
NBM Securities Limited	100% (2017:100%)	Dormant
National Bank of Malawi Nominees Limited	100% (2017:100%)	Holding of investments as nominee (Dormant)
Stockbrokers Malawi Limited	75% (2017:75%)	Registered stockbroker
NBM Bureau de Change Limited	100% (2017:100%)	Dormant
NBM Pension Administration Limited	100% (2017: 100%)	Pension administration
NBM Development Bank Limited	100% (2017: 100%)	SME and long-term financing

AREAS OF OPERATION

The Group has 32 (2017: 32) service centres throughout the country. The Bank and its subsidiaries' registered offices and principal places of business are in Blantyre.

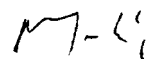
AUDITORS

The auditor, Deloitte, has signified willingness to continue in office and a resolution is to be proposed at the forthcoming Annual General Meeting in relation to their appointment as auditor in respect of the year ending 31 December 2019.


AUDITORS' REMUNERATION

Group Auditor's remuneration including VAT and expenses for the year was K234m (2017: K179m).

BY ORDER OF THE BOARD



Chairman



Director

28 March 2019

Date



CHAIRMAN'S
REPORT

*The Bank registered
a group profit after
tax of K15.97b
(2017: K19.15b)*

THE OPERATING ENVIRONMENT

The country experienced a relatively stable macroeconomic environment. Inflation averaged 9.3% down from 11.6% in 2017. The Malawi Kwacha nominal exchange rate largely remained stable. The authorities continued with their tight monetary policy stance in a bid to sustain the focus towards the attainment of a medium term inflation target of 5% by 2021.

In spite of the generally stable environment, economic activity was for a greater part of the year muted, as among other factors the country continued to experience prolonged power outages which affected customers' productivity and therefore, appetite for credit and other banking facilities.

PERFORMANCE

The Bank registered a group profit after tax of K15.97b from K19.15bn representing a decrease of 16.6% largely due to a subdued loan book in the first half of the year. Non-interest income increased by 11.2%.

The Bank's loan book grew by 21% mostly in the second half of the year mainly from the SME and personal sectors. Customer deposits increased by 5.8%. The Bank achieved a total asset growth of 6.4% in the Statement of Financial Position.

STRATEGY AND PROSPECTS

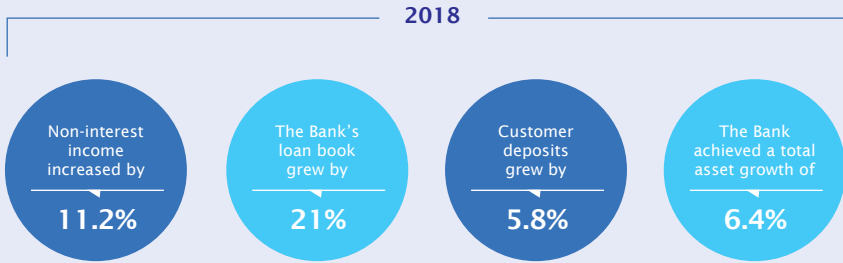
GDP is expected to grow by 5.3% in 2019. The agriculture sector will be the mainstay of this growth, anchored by a stable macroeconomic environment. Downside risks to achieving this growth include an unstable macroeconomic environment it being a tripartite election year as this could undermine effective policy making and



The Board envisages a continuing stable operating environment characterised by low interest rates, a stable currency and some increased commercial activity and therefore an improvement in the Bank's performance

implementation. In addition to the existing power challenges, extensive flooding near the end of the cropping season caused by cyclone Idai, particularly in the southern parts of the country, could affect the initial crop and therefore GDP growth estimates.

The Bank is implementing a strategy



that seeks to embed customer centricity deeply into the culture of the business with digitalization being one of the key pillars in the quest for delighting its customers.

Looking ahead the Board envisages a continuing stable operating environment characterised by low interest rates, a stable currency and some increased commercial activity and therefore an improvement in the Bank's performance through its ability to leverage on its core strengths to address challenges and exploit opportunities in the market.

BOARD OF DIRECTORS

Mrs. Dorothy Ngwira joined the Board in October 2018 to replace Ms. Maria Msiska who had retired in July 2018.


On behalf of the shareholders, and on my own behalf, I would like to welcome Mrs Ngwira on the Board and thank Ms Msiska for her valuable contributions and support

during her tenure. I would also like to thank fellow directors for their counsel, direction, support, dedication and co-operation and look forward to a fruitful working relationship with them in 2019 and beyond.

MANAGEMENT AND STAFF

I would like to express my sincere gratitude to management and staff for their hard work, dedication and commitment during the year. On behalf of my fellow directors and shareholders I pledge the Board's unwavering support as they work towards reversing the current trend of performance. I am confident that the Board can count on their commitment to take the Bank to greater heights.

Dr. G.B. Partridge
CHAIRMAN



OUR MANAGEMENT,
OUR PRIDE. THEY ARE
PASSIONATE TO OFFER
RELIABLE AND INNOVATIVE
FINANCIAL SOLUTIONS
THAT OPEN DOORS
OF POSSIBILITIES



SENIOR MANAGEMENT →



STANDING (L-R)

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

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

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

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

Charles Dulira
BA, CTP , MBA
Head, Human
Resources

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

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

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



STANDING (R-L)

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

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

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

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

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

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

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

Treasury &
Investment
Banking

Wholesale
Banking
Operations

Personal &
Business Banking
Operations

Cards &
e-Banking
Services

Customer
Service Channel
Improvements

Information
Technology
Systems

Talent
Management
Activities

Subsidiaries
& Associates

Corporate
Social
Responsibility
Activities

A man with glasses, wearing a dark blue suit, a light blue patterned tie, and a white shirt, stands smiling in a modern office hallway. The hallway has a polished floor and glass walls. In the background, another person is visible near a reception desk. The man is standing in front of a glass door with a large 'NB' logo on it. The overall lighting is bright and professional.

CHIEF EXECUTIVE
OFFICER'S STATEMENT

The Bank achieved an overall growth of 6.4% in the Statement of Financial Position.

2018

The Bank registered a group profit after tax of

K15.97b

Non-interest income increased by

11.2%

The Bank's loan book grew by

21%

Customer deposits increased by

5.8%

PERFORMANCE OVERVIEW

The Bank registered a group profit after tax of K15.97b from K19.15b representing a decrease of 16.6% due to lower than expected Net interest earnings on account of slow loan book especially in the first half of the year. Non-interest income however, increased by 11.2%. The Bank's loan book grew by 21% largely in the second half of the year mainly from the SME and personal sectors. Customer deposits increased by 5.8% and the Bank achieved a total asset growth of 6.4% in the Statement of Financial Position.

The macroeconomic environment was generally stable. This notwithstanding, economic activity was for a greater part of the year generally subdued, as among other factors the country continued to experience prolonged power outages resulting from the inability to generate enough electricity by the main supplier due to low water levels in both the Lake Malawi and the Shire River. The prolonged load shedding that affected

our customers' production meant reduced volumes for import of raw materials and appetite for credit and other banking facilities. Poor agricultural production in other parts of the country exacerbated the position due to reduced purchasing power by agriculture-dependent rural masses.

WHOLESALE BANKING OPERATIONS

Wholesale banking serves the Banks' key customers by providing holistic and tailored financial solutions for their business needs. Within the relationship management teams that act as the single point of contact for all the clients we have specialists in loan syndications, project finance and structured trade finance to develop suitable financial solutions that fulfil specific needs of clients.

During the year we provided several structured finance products which included forward contracts for warehouse receipts financing and profit sharing transactions. During the year some of our customers

2018

SME banking and leasing registered a remarkable growth of

48%

The Bank has maintained its leadership position in leasing business with a market share of 65% as at 31st December 2018 after registering a portfolio growth of 55% over the previous year.

concluded the construction of warehouses and silos under the EURO 30 million EIB agrostorage finance facility and added 200,000 metric tons of new grain storage capacity for the country.

TREASURY AND INVESTMENT BANKING

Treasury Division's overall performance was buoyed by better revenues from Money Market investments due to increased volumes invested as a result of the excess liquidity arising from a stagnant lending book. This performance was achieved despite the market experiencing comparatively subdued investment yields in the year.

There was an improvement in the foreign exchange income, though marginally below expectation, due to among other things improved performance of the tobacco market that resulted in increased proceeds and enhanced relationship management initiatives that increased business volumes. The stock market continued to be resilient

in the year resulting in the Bank's equity portfolio registering a positive return.

PERSONAL AND BUSINESS BANKING OPERATIONS

Personal and Business Banking customers range from individuals, small businesses to leasing customers. The total lending portfolio comprising of almost equal proportions of personal banking, SME banking and leasing, registered a remarkable growth of 48%. This performance is attributed to the customer centric business model which helped the Bank to effectively engage with customers and develop products and service offerings that address their unique needs.

In Personal Banking, the focus was on building and strengthening long term relationships with reputable corporate employers, growing the civil servants loan book and providing personalized service through the Premium Banking service

Chief Executive Officer's Statement

offering, which resulted in the portfolio growth of 49%.

In SME Banking, capacity building, understanding our customer needs and developing deep sector knowledge were key. The Bank provided in-class training in business management skills to women entrepreneurs in all the three regions of Malawi. Through appropriate customer segmentation matched with appropriate product and service offering and more focused relationship management the SME portfolio grew by 40% over the previous year.

The Bank has maintained its leadership position in leasing business with a market share of 65% as at 31st December 2018 after registering a portfolio growth of 55% over the previous year.

Going forward we will strive to remain relevant to our customers by continuously reviewing our product and service offering to ensure that our solutions are responsive to the ever changing needs of our customers and are commensurate with leading offerings in the developed markets.

CARDS AND e-BANKING SERVICES

During the course of the year, the Bank continued to make strides in the areas of cards and electronic banking services. Transactions handled through cards and electronic banking channels accounted for 87% (2017: 85%) of the total transactions processed in the Bank. The Bank rolled out inter-connections that made possible money transfers to any mobile wallet held by TNM

Mpamba and Airtel Money. The Bank continued offering banking service through Agents (NBM FastServe). So far branchless banking agents are in most key areas of the country and in all districts. Customers in these rural areas continue to access the NBM banking service from these agents.

Being a full EMV issuer, the Bank finalized migrating its electron cards to classic cards to take advantage of new DDA chip technology for its card-based products.

Looking ahead, the bank plans to roll out integrated services to merchants/introduce and commence e-commerce acquiring for its merchants, extend contactless onto debit cards, and rollout improved services in mobile services that will see introduction of the mobile wallet and mobile payments.

INFORMATION TECHNOLOGY SYSTEMS

During the course of 2018, we engaged in several IT projects and activities with a view to improving delivery of existing products and services as well as to facilitate introduction of new ones.

Work was undertaken and completed to develop a new customer channels interfacing system with a view to enhancing and improving flexibility in interfacing to service provider systems. Following this, the bank is now able to easily integrate with Mobile Money providers, educational institutions that have computerized financial systems as well as being able to offer payment for the DSTV Box Office Product. To comply with new Reserve Bank

of Malawi (RBM) reporting requirements for Cross border Foreign exchange transactions, the Bank developed and implemented the Cross Border Foreign Exchange Reporting System (CFERS) well ahead of peers on the market.

CUSTOMER SERVICE CHANNEL IMPROVEMENTS

As part of the Bank's ongoing initiative to improve over-the-counter customer experience, refurbishment and construction works on our Top Mandala and the new Liwonde Service Centres were completed in July, 2018 and October 2018, respectively. The two service centres now offer spacious parking and banking hall space and have been fitted with modern banking facilities. Refurbishment of Zomba Service Centre,

which will include a new Platinum Banking Suite for offering superior personalized service and private offices for SME and corporate banking customers commenced in October, 2018 and will be completed in the second quarter of 2019.

The Bank also embarked on a long term project of enhancing its brand visibility and footprint in strategic areas of the country. Construction of the new Dwangwa Service Centre commenced in November, 2018 and will be completed in the third quarter of 2019.

The new service centre will compliment Salima Service Centre to significantly improve banking services accessibility along the lakeshore area.





TALENT MANAGEMENT ACTIVITIES

The Learning & Growth Centre launched an E-Leadership in Financial Inclusion training program in collaboration with Gateway Academy from the United States of America that is affiliated to Strathmore Business School. Ten managers enrolled and successfully completed five weeks of intensive work. The e-learning program proved to be cost effective.

The Bank conducted a bank wide skills audit to among other objectives, ascertain the skills and competency base of the employees and develop a long term Skills Development Strategy. This will enable the Bank to have well knowledgeable, qualified and skilled employees that can serve customers better and implement the corporate objectives as per the current Strategic Plan.

CORPORATE SOCIAL RESPONSIBILITY ACTIVITIES

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

Education

In realizing that a well-educated nation is a platform for a vibrant economy, the Bank made several donations to the Education sector. The focus under education went to universities, colleges and secondary schools in form of Best Student Awards, Scholarships and provision of classroom furniture.

Health

Healthy people are productive hence they are likely to participate in the process of building a wealthy nation. To this end, the Bank addressed some critical medical requests for the supply of drugs, equipment and refurbishing of infrastructure at some of the country's hospitals. During the year, the Bank rehabilitated Bwaila hospital in the Capital City and provided assorted medical drugs and equipment to Palliative care Malawi who distributed same to district hospitals across the country.

Go Green Campaign

In its third year of the Go Green Campaign, the Bank continued its tree planting exercise.

During the year the Malawi Defense Force and the Catholic Women Organisation (CWO) extended the planting of the trees to include Kasungu, Dedza, Thyolo and Phalombe districts.

Charity

The Bank also continued with its Christmas Cheer Program during the year by visiting and cheering the sick and orphans in some district hospitals and orphanages. In addition, the Bank also fed the street children in the Capital City, Lilongwe by giving them a rare Christmas lunch.

The pictorial focus of these investments is on pages 40 through 45.

SUBSIDIARIES AND ASSOCIATES

NBM Capital Markets Limited

NBM Capital Markets Limited, a wholly owned subsidiary of the Bank posted a profit before tax of K588m (2017: K773m) representing a 24% decrease. This was attributed to squeezed margins on both interest and investment management fees.

Going forward, the Company is expected to return to the growth path by growing its pension fund management and other business volumes to compensate for the dwindling margins.

Stockbrokers Malawi Limited

Stockbrokers Malawi Limited, a 75% subsidiary of National Bank of Malawi Plc. recorded a pre-tax profit of K357m compared to K202m registered in 2017 representing 77% increase. Revenue increased to K688m

from K395m. This was largely attributed to a bullish stock market. The company will continue to pursue business growth in 2019.

NBM Pensions Administration Limited (NBM PAL)

The Company registered a 32% growth in Pre-tax profit to K127m for the year 2018 from K96m achieved in 2017. The positive performance was as a result of organic growth of schemes under the portfolio in addition to new business acquired during the year. The pension portfolio grew from K62b to K69b.

The company invested in a new ICT Platform, through which it is now able to better serve its clientele. 2019 looks promising as focus will be on recruitment of significant new accounts.

United General Insurance (UGI)

UGI underwent recapitalization in 2018. Consequently, the Bank's stake in the company increased from 31% to 47%. During the early part of the year, the business growth drive was restricted and this resulted into a marginal growth of 8%. The Gross Premium Written (GPW) stood at K6.2b against prior year's K5.8b (Restated). The revenue was also affected by cancellation of K454m of uncollectable premiums. The company registered a decline in Profit before tax to K534m against prior year's K1b (Restated).

Upon completion of the recapitalization process, management devised a five-year strategic plan aimed at occupying a prominent leadership position in the general insurance sector. Among other initiatives

the company has embarked on providing Value Plus insurance solutions built on the power of technology.

NBM Development Bank

This is a wholly owned subsidiary of the Bank which was formerly Indebank. This is being revived to offer long term financing to the SME sector. License for the subsidiary, policies and procedures, and the necessary waivers were obtained in preparation for commencement of operations in 2019. Recruitment of the key personnel was at an advanced stage as at the end of 2018.

OUTLOOK

The economy is expected to grow at real GDP rate of about 5.3% in 2019. The agriculture sector will remain the mainstay for this growth anchored by sound macroeconomic foundation of low inflation and interest rates environment and a stable currency.

Downside risks for growth continues to be weather related exogenous shocks as the agriculture sector is still dependent on rain fed crop production, coupled with electricity production challenges.

The Bank is poised to leverage on its core strengths to exploit opportunities that the above described environment is going to present.

CONCLUSION


I wish to thank the Chairman and the Board of directors for their guidance, support and direction during the year. My gratitude also goes to my senior management team and all members of staff for their dedication and call upon them to redouble their efforts in 2019 and beyond.

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



Macfussy M Kawawa
Chief Executive Officer

STAFF ACTIVITIES →
CSI ACTIVITIES →
SELECTED KEY CLIENTS →



OUR EMPLOYEES, OUR
PRIDE. THEY HOLD THE
KEYS THAT HELP OUR
CUSTOMERS OPEN DOORS
OF POSSIBILITIES TO THE
BENEFIT OF US ALL AND
THE NATION AT LARGE



A conference to review the Bank's strategy - Extended Management Conference




Recognising long serving members of staff through awards



Cheering the sick at Rumphi District Hospital



Celebrating new born babies at Liwonde Hospital



OUR SOCIETY, OUR
PRIDE. THEY HOLD THE
KEYS THAT HELP US OPEN
DOORS OF POSSIBILITIES
TO THE SUCCESS OF
BOTH OF US

EDUCATION



^ Best Student Awards presented to University of Malawi (UNIMA) students



< Best Student Awards and scholarships presented to Mzuni students

^ Best Student Awards presented to Malawi University of Science and Technology (MUST) students



^ Scholarships disbursement to the Polytechnic, a constituent college of the University of Malawi



^ Best Student Awards presented to Lilongwe University of Agriculture and Natural Resources (LUANAR) students

EDUCATION

THE IMPACT

Provision of resources and materials to improve education standards in the country



^
Donation of 130 desk/chair sets and sanitary wear to Karonga CCAP Girls Secondary School

>
A donation of assorted items to Namikasi Secondary School where a girls' hostel was gutted down by fire



^
A donation of 152 desk/chair sets to Luntha Community Day Secondary School in Zomba. Similar donation were made to Magawa CDSS in Mchinji and Nkhotakota Secondary School.

ENVIRONMENT



◀ Mr Kawawa happy to have done his part by planting a tree in the 2018-2019 planting season...



^...so too Col. Sayenda of Cobbe Barracks, Zomba



◀ The Chief Executive Officer of Zomba City Council Mr Dyson Jangiya also took turn to plant a tree at Chungalume Barracks



◀ Girls from Chungalume Primary school preparing their future by planting trees



^ A parade by men and women in uniform, each carrying a tree to conserve the environment



^ Spouses of the officers were not left behind as they too joined the parade and planted trees to make Chungalume Barracks beautiful

ENVIRONMENT

THE IMPACT

Tree planting exercise to address issues of climate change.



Leading by example, His Grace the Archbishop of Blantyre Archdiocese Thomas Luke Msusa planting tree...



...the same was true with National Bank of Malawi plc, as the General Manager & Head of Wholesale Banking Mr Harold Jiya led NBM staff in planting trees.



The Catholic Women Organisation members had their turn too



The Mayor of the Municipality of Luchenza took his turn and planted M'bawa tree



NBM staff and pupils from Luchenza in a tree planting exercise



CHARITY & PARTNERSHIPS



Cheering the street kids at Chisomo Children's Home in Lilongwe



Cheering the War Veterans at the War Memorial home in Zomba



Cheering the sick at Rumphi District Hospital



Celebrating new born babies at Liwonde Hospital

THE IMPACT

Enhancing the spirit of sharing during festive season and recognising war veterans

HEALTH

THE IMPACT

Health facilities to meet the demands of different patients.




Donation of theatre bed and lamp to Bwaila Hospital in Lilongwe to enable safe delivery of complicated maternal cases



Donation of assorted medicines for distribution to some health facilities in the country



Donation towards Nation Publications Limited Mothers' Fun Run for purchasing medical equipment for Ntchisi District Hospital



OUR CLIENTS, OUR
PRIDE. THEY HOLD THE
KEYS THAT HELP US OPEN
DOORS OF POSSIBILITIES
TO THE GROWTH OF
BOTH OF US AND THE
ENTIRE NATION

CORPORATE BANKING



EGENCO - The Energy Generating Company



Plascon - Providers of quality paints in the country

Selected Key Clients

CORPORATE BANKING



Lilongwe Dairy - Supplying dairy products in Malawi



Tahit - Constructing better roads in Malawi

CORPORATE BANKING



Claim - Providing books for both young and the old



Automotive Products Limited

Selected Key Clients

PERSONAL & SMEs BANKING



Almeida



Arkay Plastics - Providing plastic products for home and industrial use

PERSONAL & SMEs BANKING



Difference Construction - Building blocks for a better Malawi



GIMTECH Construction

Selected Key Clients

PERSONAL & SMEs BANKING



Atsikana Paulendo



Chisapi Schools

PERSONAL & SMEs BANKING



Ori Meats



Popat Wholesalers



2018 ECONOMIC REVIEW AND OUTLOOK FOR 2019

2018 ECONOMIC REVIEW

The country experienced a relatively stable macroeconomic environment in 2018, with inflation averaging 9.3% down from 11.6% in 2017. The Malawi Kwacha nominal exchange rate largely remained stable in 2018 as the movement was still within the indicative rates brackets that have prevailed since mid 2016. This was in spite of pressures emanating from effects of normal market patterns that peaked at levels that have not been experienced since mid 2016. Delays and shortages commenced soon after the closure of the 2018 tobacco market season which was relatively shorter but the currency was still resilient and only started depreciating albeit marginally towards the end of November 2018.

Gross Official Reserves for the year varied between \$763.88mn (3.65 months import cover) mid July 2018 and \$634.23mn (3.05 months) in May 2018, as the highest and lowest, respectively.

The authorities continued with their tight monetary policy stance in a bid to sustain the focus towards the attainment of a medium term inflation target of 5% by 2021

OUTLOOK FOR 2019

The economy is expected to grow at real GDP rate of 5.3% in 2019 as per the authorities. The agriculture sector will remain the mainstay for this growth anchored by low inflation and interest rates. Downside risks to achieving this growth include macroeconomic instability associated with tripartite general election in the year which could undermine effective policy making and implementation. In addition to the existing power challenges, extensive flooding near the end of the cropping season caused by Cyclone Idai, particularly in the southern parts of the country, could affect the initial crop and therefore GDP growth estimates.

The authorities have embarked on a new forward looking monetary policy framework that is expected to align the inflation projections and ensuing targets such that interest rate structure policy was changed accordingly. They also have introduced new Foreign Exchange Trading guidelines that are expected to boost transparent price discovery by encouraging interbank trading on the market and this is expected to moderate the foreign exchange price volatility.



CORPORATE GOVERNANCE STATEMENT

The Board of Directors of National Bank plc is pleased to report that during the year ended 31st December 2018 the company has been in compliance with the highest standards of good corporate governance. This was achieved by following principles of openness, integrity and accountability as set out in the Malawi Corporate Governance Code, The Cadbury Report and the King Reports. This compliance enabled the Bank to have a satisfactory relationship between it and its shareholders, customers, strategic partners, suppliers of various goods and services, regulators and staff.

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

The Bank has the following governance structure:

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

The Annual General Meeting for the Bank was held on 8th June 2018.

To achieve its function, the Board has scheduled bi-monthly meetings to scrutinize compliance with policies and achievement of objectives by holding management accountable for its activities and performance. Sometimes it meets to discuss specific urgent issues. The Board delegates some of its compliance monitoring responsibilities to committees of the Board namely – Risk, Audit, Appointments, Remuneration & Governance, Credit Committee and the Committee of the Board on Related Parties. Each Committee has specific terms of reference. The Committees' chairpersons report on the proceedings of their committee meetings at the next meeting of the Board. The Board itself met 8 times in the year 2018.

The Board maintains a robust system of internal controls. The system gives assurance that the Bank has effective and efficient systems with sound internal financial controls governing all the operations of the Bank in line with best practice. These internal controls are a safeguard for ensuring compliance with laws and regulations. To accomplish this function, the Board supports investments in accounting, financial and risk management systems that enable the Bank to produce timely reports to its shareholders,

the regulatory authorities and members of the general public.

The Board is composed of eleven directors, two of whom are executive directors and the rest are non-executive directors. The chairman is chosen from among these directors. The Chairman in the year 2018 was Dr George Partridge.

The non-executive directors provide valuable leadership as they hold or have held senior leadership positions in financial services, public and private sectors and have diverse professional background. As such they provide the board with a wide composition of skills and experience emanating from the holding of such positions combined with

their strength of character, independence of judgement and opinion.

Board Meetings

Directors are expected to attend all board meetings. By virtue of Article 62 (f) of the Bank’s Articles of Association, the office of a director who has been absent for six consecutive months without the permission of the directors for meetings held during that period, shall be vacated upon the directors resolving so to do. In the 2018 financial year, no director was absent for six consecutive months without the permission of the directors during that period. The directors’ board meeting attendance for the 2018 financial year was as follows:

Name	Jan 25	March 30	Special 24 April	May 31	8 June AGM	July 26	Sept 27	Nov 29
Mr. G. B Partridge	✓	✓	✓	✓	✓	✓	✓	✓
Mr. E. J. Kambalame	✓	✓	✓	✓	✓	✓	✓	✓
Mrs. E. Mafeni	-	✓	✓	✓	✓	✓	✓	✓
Mr. J Nsomba	✓	-	✓	✓	✓	✓	✓	-
Mr R Banda	-	✓	✓	-	✓	✓	✓	✓
Mr. J. Bizwick	✓	✓	✓	✓	✓	-	✓	✓
Mr. J. Mhura	✓	✓	✓	-	-	✓	✓	✓
Mrs. M. Kachingwe	✓	✓	✓	✓	✓	✓	✓	-
Ms Msiska*	✓	✓	-	✓	✓	N/A	N/A	N/A
Mrs D. Ngwira★	N/A	N/A	N/A	N/A	N/A	N/A	N/A	✓
Mr. M. Kawawa	✓	✓	✓	✓	✓	-	✓	✓
Mr. H. Jiya	✓	✓	✓	✓	✓	✓	✓	✓

Key	
✓ = Attended	
- = Apology	
* = Served as Director up to 31st May 2018	
★ = Served as Director from 29th October 2018	

Note: The above key applies to all the Committees

COMMITTEES OF THE BOARD

Risk Committee

Mrs M Kachingwe, an independent director, is the Chairperson of the Board Risk Committee which is responsible for the strategic risk management of the Bank as delegated by the Board. The full membership of the Committee comprises:

Mrs M. Kachingwe	-	Chairperson
Mr J. Mhura	-	Member
Mr R. Banda	-	Member

The Committee provides the crucial oversight

Name	Jan 17	March 23	May 25	July 16	Sept 14	Nov 23
Mrs. M. Kachingwe	✓	✓	✓	✓	✓	✓
Mr. J Mhura	✓	✓	✓	✓	✓	✓
Mr R Banda	✓	✓	✓	✓	✓	✓

Audit Committee

Mrs Maria Msiska, an independent director, was the Chairperson of the Audit Committee until her resignation in May 2018. The current Chairperson is Mrs Dorothy Ngwira, an independent director who joined the Board in October 2018 following the departure of Mrs Maria Msiska. The Committee has the overall responsibility for the Bank's system of internal controls and for reviewing its effectiveness and it 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

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

The Committee meets at least four times a year. In the 2018 financial year, the Committee met 6 times. The attendance of meetings during the year was as follows:

business unit. The full membership of the Committee comprises:

Mrs D. Ngwira	-	Chairperson
Mrs E. Mafeni	-	Member
Mr J. NSomba	-	Member

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

The Committee meets at least four times a year with the Bank's senior management and the external auditor to review among other things, accounting, auditing, internal controls, financial reporting matters and published financial statements of the Bank. In the 2018 financial year, the Committee

met 6 times. Attendance was as follows:

Name	January 19	March 22	May 25	July 23	Sept 14	Nov 26
Mrs. E. Mafeni	✓	✓	✓	✓	✓	✓
Mr. J. Nsomba	✓	✓	✓	✓	✓	-
Mrs. M Msiska	✓	✓	✓	N/A	N/A	

Appointments, Remuneration and Governance Committee

Mr E.J. Kambalame, an independent director, is the Chairman of this Committee which is responsible for board nominations and vetting, succession planning for directors, and also good governance practices. The Committee also ensures that the Bank’s human resources are best utilised, and that members of staff are remunerated commensurate to their responsibilities and effectiveness. The Committee also conducts board self - assessment which enables it

to prepare for appropriate training for board members and assists with succession planning. Membership of the Committee comprises:

Mr E.J. Kambalame	-	Chairman
Mr J. Biziwick	-	Member
Mr J. Mhura	-	Member

The Committee meets at least three times a year. In the 2018 financial year, the Committee met 6 times. The attendance for the year was as follows:

Name	March 21	April 13	May 24	July 17	Sept 14	Nov 12
Mr. E. J. Kambalame	✓	✓	✓	✓	✓	✓
Mr J. Biziwick	✓	✓	✓	✓	✓	✓
Mr J Mhura	✓	✓	✓	✓	✓	✓

Credit Committee

The Committee is chaired by Mr John Biziwick, an independent director. The Committee considers credit applications that are above management limit in line with the Bank’s Authorities Schedule approved by the Board. It also reviews credit policies, the quality of the Bank’s direct and contingent lending, the mix of industry concentration within agreed parameters, and dealing lines. The Committee monitors the quality of the loan book through review of substandard

debt schedules and lists of facilities granted to sensitive customers, related parties and senior management. Membership of the Committee comprises:

Mr J. Biziwick	-	Chairman
Mr E. J Kambalame	-	Member

The Committee meets as and when there are lending facilities to be considered. In the 2018 financial year, the Committee met 8 times. The attendance for 2018 was as follows:

Name	Feb 16	March 20	May 24	July 9	July 17	Aug 28	Nov 12	Dec 11
Mr. E. J. Kambalame	✓	✓	✓	✓	✓	✓	✓	✓
Mr. J Bizizwick	✓	✓	✓	✓	✓	✓	✓	✓

Related Parties Committee

Mrs Maureen Kachingwe is the Chairperson of the Committee. The Committee is charged with the responsibility of considering Credit Applications from Companies and Individuals related to the Bank to ensure that all transactions are conducted at arm’s length. The Committee is comprised of

Independent Members of the Board. Full membership of the Committee comprises:

Mrs M. Kachingwe	-	Chairperson
Mr E.J. Kambalame	-	Member

In the 2018 financial year, the Committee met 7 times. Attendance of the meetings was as follows:

Name	Jan 26	Feb 16	March 21	May 21	July 16	Sept 14	Dec
Mr. E. J. Kambalame	✓	✓	✓	✓	✓	✓	✓
Mrs. M. Msiska	✓	-	✓		N/A	N/A	N/A
Mrs. M. Kachingwe	-	✓	-	✓	✓	✓	✓

Changes in Board Composition

Mrs Maria Msiska resigned from the Board in May 2018. Mrs Dorothy Ngwira joined the Board in October 2018.

for making sure that the Board complies with applicable rules and regulations. The Company Secretary ensures that the Board complies with Corporate Governance regulations and requirements, ensuring that board procedures are followed and are complied with. All the directors have access to the 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 also coordinates Directors’ training with the aim of ensuring efficient discharge of the Board’s oversight responsibilities. The Company Secretary organises board orientation from time to time and conducts board self - assessment in liaison with the Chairman of the Appointment, Remuneration and Governance Committee of the Board.

Code of Ethics

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

Board Information and Development

The Company Secretary is accountable



CONSOLIDATED & SEPARATE
FINANCIAL STATEMENTS →

STATEMENT OF DIRECTORS' RESPONSIBILITIES

For the year ended 31 December 2018

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

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

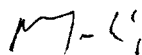
In preparing the financial statements, the directors accept responsibility for ensuring the following:

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

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

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and the Group and of their operating results for the year ended 31 December 2018, so far as concerns the members of the company.

BY ORDER OF THE BOARD



Chairman:



Director:

Date: 28 March 2019

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

Opinion

We have audited the consolidated and separate financial statements of National Bank of Malawi Plc and its subsidiaries ("the Group"), set out on pages 69 to 199 which comprise the consolidated and separate statements of financial position as at 31 December 2018, and the consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of the Group as at 31 December 2018, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Companies Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of financial statements in Malawi. We have fulfilled our 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 year. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters (Continued)

Key audit matter	How the matter was addressed in the audit
<p data-bbox="76 272 505 323">Adoption of <i>IFRS 9 Financial Instruments</i> and impairment of loans and advances to customers (consolidated and separate financial statements)</p> <p data-bbox="76 349 505 448">The International Accounting Standards Board (IASB) issued <i>IFRS 9 Financial Instruments</i> which replaces <i>IAS 39 Financial Instruments: Recognition and Measurement</i>.</p> <p data-bbox="76 464 505 587">Effective 1 January 2018, the Bank has adopted IFRS 9. As permitted by IFRS 9, the requirements have been applied retrospectively without restating comparatives.</p> <p data-bbox="76 603 505 778">Differences between previously reported carrying amounts and new carrying amounts of financial instruments as of 31 December 2017 and 1 January 2018 amounting to K3.4 billion has been recognised in the opening retained earnings net of deferred tax.</p> <p data-bbox="76 794 505 1118">The key changes arising from adoption of IFRS 9 are that the Bank's credit losses are now based on expected losses rather than on incurred losses, and the change in the classification and measurement of the Bank's financial assets and liabilities, which are detailed in notes 2 and 3 to the financial statements. There were no significant changes arising from the adoption of the hedge accounting requirements of IFRS 9 because the Bank does not apply hedge accounting for its financial assets and financial liabilities.</p> <p data-bbox="76 1134 505 1233">We considered adoption of <i>IFRS 9 Financial Instruments</i> and impairment of loans and advances as a key audit matter because of the following:</p> <ul data-bbox="76 1249 505 1465" style="list-style-type: none"> <li data-bbox="76 1249 505 1374">• <i>IFRS 9 Financial Instruments</i> is a new standard that is complex and requires expert knowledge, judgement and use of modelling approaches; and <li data-bbox="76 1390 505 1465">• <i>IFRS 9 Financial Instruments</i> has been implemented for the 2018 financial reporting period for the first time. 	<p data-bbox="505 349 968 448">With respect to classification and measurement of financial assets and financial liabilities, our audit procedures comprised the following:</p> <ul data-bbox="505 464 968 799" style="list-style-type: none"> <li data-bbox="505 464 968 603">• We evaluated the Bank's IFRS 9 based classification and measurement of financial assets and financial liabilities policy against the requirements of IFRS 9; and <li data-bbox="505 619 968 799">• We obtained an understanding and checked the Bank's business model assessment and the test on the contractual cash flows, which give rise to cash flows that are 'solely payments of principal and interest' [SPPI test] performed by management. <p data-bbox="505 815 968 895">With respect to impairment methodology, our audit procedures comprised the following:</p> <ul data-bbox="505 911 968 1465" style="list-style-type: none"> <li data-bbox="505 911 968 986">• We evaluated the Bank's IFRS 9 based impairment provisioning policy against the requirements of IFRS 9; <li data-bbox="505 1002 968 1177">• With the involvement of our Credit Specialists and Accounting Technical Teams, we evaluated the methodology that the Bank has used for determinations of Expected Credit Losses (ECL) against the requirements of IFRS 9; <li data-bbox="505 1193 968 1268">• For a sample of exposures, we checked the appropriateness of the Bank's staging; <li data-bbox="505 1284 968 1406">• We checked and understood the key data sources and assumptions for data used in the ECL models (the Models) used by the Bank to determine impairment provisions; <li data-bbox="505 1422 968 1465">• We assessed assumptions used in the determination of ECL for reasonability;

Key Audit Matters (Continued)

Key audit matter	How the matter was addressed in the audit
<p data-bbox="151 272 834 323">Adoption of <i>IFRS 9 Financial Instruments</i> and impairment of loans and advances to customers (consolidated and separate financial statements)</p> <p data-bbox="151 352 552 646">As at 31 December 2018, the gross loans and advances to customers were K173 billion against which an impairment provision of K6.6 billion was recorded. This is disclosed in note 12 to the financial statements. The impairment provision policy is presented in accounting policies in note 3 to the financial statements. Key areas of judgement are disclosed in note 4 (Critical judgements in applying the Group's accounting policies) to the financial statements</p>	<ul data-bbox="602 352 1020 746" style="list-style-type: none"> • For a sample of exposures, we checked the appropriateness of determining Exposure at Default, Probability of Default (PD) and Loss Given Default (LGD) used in the ECL calculations. • We recomputed ECL and compared with amounts recognised by the Bank; • On a sample basis, we checked the completeness and accuracy of the data that was used in the ECL calculation loans and advances as of 31 December 2018 and 1 January 2018; and • We checked the appropriateness of the opening balance adjustments. <p data-bbox="602 759 1014 981">We assessed the financial statement disclosures arising on adoption of IFRS 9 to determine if they were in accordance with the requirements of the Standard. Refer to the accounting policies, critical accounting estimates and judgements, disclosures of loans and advances and credit risk management in notes 2, 3, 4 and 12 to the financial statements.</p> <p data-bbox="602 999 1014 1246">We found that the modelling approach and methods applied in determining ECLs were appropriate and that the amounts recorded were reasonable and complied with IFRS 9. We further concluded that the financial statements disclosures in relation to impairment of loans and advances to customers are appropriate and that the adoption of IFRS 9 was in line with the requirements.</p>

Key Audit Matters (Continued)

Key audit matter	How the matter was addressed in the audit
Goodwill impairment assessment (consolidated financial statements)	
<p>In October 2015, the Bank acquired 97.05% shareholding in Indebank Limited. In accordance with IFRS 3, Business Combinations, the Bank determined goodwill arising from acquisition which amounted to K4 billion. During the year, NBM assessed goodwill for impairment. We considered this as a key audit matter due to the following:</p> <ul style="list-style-type: none"> • The significance of the amount; • The judgement and assumptions used in the determination of impairment for goodwill; • The complexity of the value in use calculation; and • Indebank is now dormant and the remaining active subsidiary of Indebank, Indetrust Holdings Limited was disposed in the year 2018. 	<p>We reviewed the accuracy of the value in use calculation as well as the discount factor used.</p> <p>We also checked if the assumptions that were used in determining the future cash flows were reasonable.</p> <p>The results of our assessment indicated that goodwill is not impaired and should continue to be recognised.</p>

Other Information

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

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

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

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

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

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

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

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

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

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

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

Independent Auditor's Report (Continued)

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The logo for Deloitte, featuring the word "Deloitte" in a stylized, handwritten-style font.

Chartered Accountants

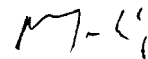
Nkondola Uka

Partner

3 April 2019

	Notes	GROUP		COMPANY	
		2018	2017	2018	2017
		K'm	K'm	K'm	K'm
ASSETS					
Cash and funds with Reserve Bank of Malawi	5	25 023	27 098	25 267	27 098
Government of Malawi treasury bills and treasury notes	6	96 403	29 478	82 315	29 478
Government of Malawi promissory notes	7	1 441	48	1 441	48
Equity investments	8	3 891	3 698	3 891	3 698
Investment in associates	9	1 336	487	992	233
Investment in subsidiaries	10	-	-	6 444	6 623
Placements with other banks	11	22 899	32 052	22 899	32 052
Loans and advances	12	166 621	137 575	166 621	137 575
Other money market deposits	13	40 314	104 195	26 426	78 450
Other assets	14	9 761	7 673	9 178	6 819
Non-current assets held for sale	15	-	330	-	330
Property and equipment	16	29 380	30 970	29 296	27 750
Intangible assets	17	8 436	8 325	8 320	8 226
Deferred tax	18	7 866	6 379	7 827	6 332
Goodwill	19	3 959	3 959	-	-
Total assets		417 330	392 267	390 917	364 712
LIABILITIES AND EQUITY					
LIABILITIES					
Customer deposits	20	294 525	278 492	271 026	254 102
Amounts due to other banks	21	1 414	1 714	1 414	1 714
Current income tax liabilities	22	874	2 109	685	1 975
Loans	23	19 428	14 185	19 428	14 185
Provisions	24	1 933	3 127	1 735	2 919
Other liabilities	25	10 733	9 601	10 322	10 351
Deferred tax	18	9	826	-	-
Total liabilities		328 916	310 054	304 610	285 246
EQUITY					
CAPITAL AND RESERVES					
Share capital		467	467	467	467
Share premium		613	613	613	613
Loan loss reserve		-	1 160	-	1 160
Revaluation reserve		19 845	18 181	21 156	18 158
Retained earnings		67 391	60 486	64 071	59 068
Equity attributable to equity holders of the parent		88 316	80 907	86 307	79 466
Non-controlling interests		98	1 306	-	-
Total equity		88 414	82 213	86 307	79 466
Total equity and liabilities		417 330	392 267	390 917	364 712
Memorandum items					
Letters of credit and guarantees	36	35 799	35 241	35 799	35 241

The financial statements were approved and authorised for issue by the Board of Directors on 28 March 2019 and were signed on its behalf by:



Director



Director

Statements of Comprehensive Income

For the year ended 31 December 2018

	Notes	GROUP		COMPANY	
		2018 K'm	2017 K'm	2018 K'm	2017 K'm
Income					
Interest and similar income	28	47 079	51 681	46 604	51 293
Interest expense and similar charges	28	(6 315)	(6 558)	(6 335)	(6 558)
Net interest income	28	40 764	45 123	40 269	44 735
Commission and other income	29	14 130	12 055	12 405	10 424
Profit from dealing in foreign currencies		4 645	3 903	4 645	3 903
Income from operating leases		834	1 432	834	1 432
Net gain on financial instruments classified as held for trading	8	796	1 493	796	1 493
Profit on disposal of financial instruments classified as held for trading		120	537	120	537
Share of profits of associate		254	143	-	-
Net gains on modified and restructured loans		522	-	522	-
Dividend income		114	17	617	421
Profit on disposal of assets held for sale		115	59	115	59
Properties fair value (loss)/gains	32	(150)	316	(150)	(142)
Profit on disposal of Indetrust Holdings Limited	44	719	-	-	-
Profit on disposal of property and equipment		156	63	156	43
Total income		63 019	65 141	60 329	62 905
Expenditure					
Staff costs	30	17 231	16 461	16 572	15 831
Other operating expenditure	31	20 802	16 900	20 098	16 665
Total expenditure		38 033	33 361	36 670	32 496
Profit before net impairment on financial assets		24 986	31 780	23 659	30 409
Recoveries on impaired loans and advances	12	626	1 027	626	1 027
Impairment losses on financial assets	12&14	(2 596)	(5 257)	(2 576)	(5 257)
Profit before tax		23 016	27 550	21 709	26 179
Income tax expense	33	(7 051)	(8 403)	(6 403)	(7 860)
Profit for the year		15 965	19 147	15 306	18 319
Other comprehensive income					
<i>Items that will not be reclassified subsequently to profit or loss:</i>					
Surplus on revaluation of properties	32	2 509	2 694	2 509	2 694
Deferred tax on revalued assets	18	641	129	641	129
Total other comprehensive income		3 150	2 823	3 150	2 823
Total comprehensive income for the year		19 115	21 970	18 456	21 142

Statements of Comprehensive Income (Continued)

For the year ended 31 December 2018

	<u>Notes</u>	GROUP		COMPANY	
		2018	2017	2018	2017
		K'm	K'm	K'm	K'm
Profit attributable to:					
Equity holders of the company	34	15 881	18 912	15 306	18 319
Non-controlling interests		84	235	-	-
		<u>15 965</u>	<u>19 147</u>	<u>15 306</u>	<u>18 319</u>
Comprehensive income attributable to:					
Equity holders of the company		19 031	21 735	18 456	21 142
Non-controlling interests		84	235	-	-
		<u>19 115</u>	<u>21 970</u>	<u>18 456</u>	<u>21 142</u>
Earnings per share (K)	34	<u>34.01</u>	<u>40.50</u>		
Diluted earnings per share (K)	34	<u>34.01</u>	<u>40.50</u>		
Dividend per share (K)	35	<u>17.55</u>	<u>18.54</u>		

Statements of Changes in Equity

For the year ended 31 December 2018

GROUP	Share Capital	Share Premium	Share	Loan	Revalua	Retained	Attributable	Non-	Total
	K'm	K'm	Loss Reserve	tion Reserve	Earnings	to Equity Holders Parent	Controlling Interests	K'm	K'm
2017									
At beginning of the year	467	613	708	15 482	50 559	67 829	1 123	68 952	
Total comprehensive income	-	-	-	2 823	18 912	21 735	235	21 970	
Transfer of excess depreciation	-	-	-	(124)	124	-	-	-	
Transfer from loan loss reserve	-	-	452	-	(452)	-	-	-	
Dividend paid to minority shareholders	-	-	-	-	-	-	(52)	(52)	
2016 Final dividend declared and paid	-	-	-	-	(5 342)	(5 342)	-	(5 342)	
2017 First interim dividend declared and paid	-	-	-	-	(3 315)	(3 315)	-	(3 315)	
At end of the year	467	613	1 160	18 181	60 486	80 907	1 306	82 213	
2018									
At beginning of the year as previously stated	467	613	1 160	18 181	60 486	80 907	1 306	82 213	
Transition adjustment on adoption of IFRS 9 at 1 January 2018	-	-	-	-	(4 886)	(4 886)	-	(4 886)	
Deferred tax on transition adjustment	-	-	-	-	1 466	1 466	-	1 466	
Transfer from loan loss reserve	-	-	(1 160)	-	1 160	-	-	-	
At beginning of the year as restated	467	613	-	18 181	58 226	77 487	1 306	78 793	
Total comprehensive income	-	-	-	3 150	15 881	19 031	84	19 115	
Elimination on disposal of subsidiary	-	-	-	(1 334)	1 334	-	(1 250)	(1 250)	
Minority interest eliminated on disposal of subsidiary	-	-	-	-	(7)	(7)	7	-	
Transfer of excess depreciation	-	-	-	(152)	152	-	(49)	(49)	
Dividend paid to minority shareholders	-	-	-	-	(5 697)	(5 697)	-	(5 697)	
2017 Final dividend declared and paid	-	-	-	-	(2 498)	(2 498)	-	(2 498)	
2018 First interim dividend declared and paid	-	-	-	-	-	-	-	-	
At end of the year	467	613	-	19 845	67 391	88 316	98	88 414	

Statements of Changes in Equity (Continued)

For the year ended 31 December 2018

COMPANY	Share Capital K'm	Share Premium K'm	Loan Loss Reserve K'm	Revaluation Reserve K'm	Retained Earnings K'm	Total K'm
2017						
At beginning of the year	467	613	708	15 459	49 734	66 981
Total comprehensive income	-	-	-	2 823	18 319	21 142
Transfer of excess depreciation	-	-	-	(124)	124	-
Transfer from loan loss reserve	-	-	452	-	(452)	-
2016 Final interim dividend declared and paid	-	-	-	-	(5 342)	(5 342)
2017 First interim dividend declared and paid	-	-	-	-	(3 315)	(3 315)
At end of the year	467	613	1 160	18 158	59 068	79 466
2018						
At beginning of the year as previously stated	467	613	1 160	18 158	59 068	79 466
Transition adjustment on adoption of IFRS 9 at 1 January 2018	-	-	-	-	(4 886)	(4 886)
Deferred tax on transition adjustment	-	-	-	-	1 466	1 466
Transfer from loan loss reserve	-	-	(1 160)	-	1 160	-
At the beginning of the year as restated	467	613	-	18 158	56 808	76 046
Total comprehensive income	-	-	-	3 150	15 306	18 456
Transfer of excess depreciation	-	-	-	(152)	152	-
2016 Final interim dividend declared and paid	-	-	-	-	(5 697)	(5 697)
2017 First interim dividend declared and paid	-	-	-	-	(2 498)	(2 498)
At end of the year	467	613	-	21 156	64 071	86 307

Statements of Changes in Equity (Continued)

For the year ended 31 December 2018

	2018	2017
	K'm	K'm
ANALYSIS OF SHARE CAPITAL		
Authorised		
500,000,000 Ordinary Shares of K1 each	500	500
Issued and fully paid		
466,931,738 Ordinary Shares of K1 each	467	467

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

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

PROPERTY REVALUATION RESERVE

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

Statements of Cashflows

For the year ended 31 December 2018

	Notes	GROUP		COMPANY	
		2018 K'm	2017 K'm	2018 K'm	2017 K'm
Cash flows from operating activities					
Profit before tax		23 016	27 550	21 709	26 179
Adjustments for:					
• Depreciation of property and equipment	16	2 407	2 391	2 389	2 375
• Amortisation of intangible assets	17	955	506	944	498
• Profit on disposal of property and equipment		(156)	(63)	(156)	(43)
• Profit on disposal of Indetrust Holdings Limited	44	(719)	-	-	-
• Impairment loss on intangible assets	17&31	503	-	503	-
• Profit on disposal of assets held for sale	15	(115)	(59)	(115)	(59)
• Gains on disposal of financial instruments classified as held for trading		(120)	(536)	(120)	(536)
• Net (gains)/loss on financial instruments classified as held for trading	8	(796)	(1 493)	(796)	(1 493)
• Dividend receivable		(114)	(17)	(617)	(421)
• Net fair value (gains)/loss on revaluation of properties	32	150	(316)	150	142
• Share of (profits)/loss of associate		(254)	(143)	-	-
• Net gains on modified and restructured loans		(522)	-	(522)	-
• Movement in customer deposits		16 033	47 210	16 924	36 033
• Movement in other liabilities and provisions		(62)	2 017	(1 213)	2 155
• Movement in loans and advances		(33 410)	(4 288)	(33 410)	(4 288)
• Movement in other assets		(2 050)	3 427	(2 200)	3 476
Cash generated from operations		4 746	76 186	3 470	64 018
Tax paid	22	(7 662)	(8 649)	(7 081)	(8 274)
Net cash flow from operating activities		(2 916)	67 537	(3 611)	55 744
Cash flows from investing activities					
Increase in investments with maturity over three months		(68 318)	(2 583)	(54 230)	(4 592)
Purchase of property and equipment and intangible assets		(4 163)	(4 985)	(4 072)	(4 939)
Increase in investment in subsidiaries and associates	9	(759)	-	(759)	-
Proceeds from disposal of property and equipment		1 111	192	1 111	131
Proceeds from disposal of assets held for sale		445	458	445	458
Purchase of equity investments		(335)	(1 750)	(335)	(1 750)
Proceeds from disposal of equity investments		3 013	1 514	1 078	1 449
Dividend received		114	17	617	421
Net cash used in investing activities		(68 892)	(7 137)	(56 145)	(8 822)
Cash flows from financing activities					
Increase in loans		5 243	13 976	5 243	13 976
Dividends paid		(8 244)	(8 709)	(8 195)	(8 657)
Net cash (outflow)/ inflow from financing activities		(3 001)	5 267	(2 952)	5 319
Net (decrease)/increase in cash and cash equivalent					
Cash and cash equivalents at beginning of the year		(74 809)	65 667	(62 708)	52 241
		161 631	95 964	135 886	83 645
Cash and cash equivalents at end of the year (note 38)		86 822	161 631	73 178	135 886

1. General information

National Bank of Malawi Plc Group (the Group) provides retail, corporate and investment banking as well as stockbroking, insurance and pension administration services in Malawi. The Group has a network of 32 (2017: 32) service centres.

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

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

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

2. Adoption of new and revised International Financial Reporting Standards

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

In the current year, the Group has adopted those new and revised Standards and Interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee of the International Accounting Standards Board that are relevant to its operations and are effective for annual reporting periods beginning on or after 1 January 2018.

The Group has adopted 2 key reporting standards that are relevant to operations across the group. These being IFRS 9 *Financial instruments* and IFRS 15 *Revenue from contracts with customers*. IFRS 15 had no significant effect whereas IFRS 9 has resulted in significant effect on financial instruments classification and measurement.

The accounting policies applied in the preparation of the financial statements are consistent with the most recent financial statements for the year ended 31 December 2017 except for the current adoption of IFRS9 Financial Instruments, and IFRS15 Revenue from contracts with customers) detailed below.

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

IFRS15- Revenue from contracts with customers

IFRS15 establishes a framework for determining when and how much revenue is recognised. Under IFRS15, revenue is recognised when the customer obtains control of goods or services. It replaces IAS18 Revenue and the related interpretations.

There has been no significant change to the timing and value of revenue recognised from the existing policies. Therefore the Group has adopted IFRS15 from the date of initial application.

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)

Adoption of IFRS 9

The Group has adopted IFRS 9 *Financial Instruments* issued in July 2014 with a date of mandatory application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. The entire combined contracts are designated as at Fair Value Through Profit and Loss. For an explanation of how the Group classifies financial assets under IFRS 9, refer to Note 3.20 Accounting policies – Classification and measurement of financial instruments under IFRS 9.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

Financial liabilities previously measured at amortised cost under IAS 39 have been classified and measured under IFRS 9 at amortised cost using effective interest rate method. There has been no change in the classification and measurement of financial liabilities on the adoption of IFRS 9.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Key changes in the Group's accounting policy for impairment of financial assets are listed below:

The Group applies a three-stage approach to measuring expected credit losses

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)

(ECL) on financial assets carried at amortised cost and debt instruments classified as FVOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk (SICR) since initial recognition, the portion of ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a SICR since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

For an explanation of how the Group applies the impairment requirements of IFRS 9, refer Note 3.20 Accounting policies – Classification and measurement of financial instruments under IFRS 9.

Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedge instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- (a) Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- (b) The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
 - The determination of the business model within which a financial asset is held;

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)

- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

Impact of Adopting IFRS 9

The impact of this change in accounting policy as at 1 January 2018 has been to decrease retained earnings by K3.4 billion (this is net after deferred tax).

The adoption of IFRS 9 did not result in any change in the Group's business models for the financial instruments such that measurement of the assets remained the same. Thus the financial instruments were classified from an IAS 39 group to an equivalent class under IFRS 9. There was no impact on classification and measurement of financial instruments due to adoption of IFRS 9.

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 2019, and have not been applied in preparing these financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

Effective date	Standard, Amendment or Interpretation
Annual periods beginning on or after 1 January 2019	<p>IFRS 16 Leases</p> <p>IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guide including IAS 17 Leases and the related interpretations when it becomes effective.</p> <p>IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and corresponding liability have to be recognized for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.</p>

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

2.2 Standards and Interpretations in issue, not yet effective (Continued)

	<p>The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion that will be presented as financing and operating cash flows respectively.</p> <p>In contracts to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.</p> <p>Furthermore, extensive disclosures are required by IFRS 16.</p> <p>Preliminary group assessment of the impact of the adoption of the new standard is expected to be finalised before 30 June 2019.</p>
Annual reporting periods beginning on or after 1 January 2019	IFRIC 23 Uncertainty over Income Tax Treatments.
Annual periods beginning on or after 1 January 2019	Prepayment Features with Negative Compensation (Amendments to IFRS 9).
Annual periods beginning on or after 1 January 2019	Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

2.2 Standards and Interpretations in issue, not yet effective (Continued)

Annual periods beginning on or after 1 January 2019	Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).
Annual periods beginning on or after 1 January 2020	Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.
Annual reporting periods beginning on or after 1 January 2020	Definition of Material (Amendments to IAS 1 and IAS 8).
Annual reporting periods beginning on or after 1 January 2021	IFRS 17 <i>Insurance Contracts</i> .

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

3. Accounting policies

Statement of compliance

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

Basis of preparation

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

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

3. ACCOUNTING POLICIES (CONTINUED)

3.1 *Basis of consolidation*

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

(a) Subsidiaries

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2018. Subsidiaries are entities over which the Bank has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

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

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

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

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

3. ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (Continued)

(a) Subsidiaries (Continued)

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

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

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

(b) Associates

Associated companies are those entities in which the Group has long-term interest of 20% or more of the voting power of the investee and has significant influence, but not control, over the financial and operating policies. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The Group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associates, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associates.

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

3. ACCOUNTING POLICIES (CONTINUED)

3.2 Business combinations

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

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

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

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

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

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from

3. ACCOUNTING POLICIES (CONTINUED)

3.2 Business combinations(Continued)

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

3. ACCOUNTING POLICIES (CONTINUED)

3.3 Goodwill (Continued)

annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

3.4 Comparatives

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

3.5 Financial instruments

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

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

Financial assets

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

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

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.

3. ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (Continued)

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

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

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

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

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

(i) Amortised cost and effective interest method

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

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

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

3. ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (Continued)

- (i) Amortised cost and effective interest method (Continued)
amortised cost of a financial asset before adjusting for any loss allowance.

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

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

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

Interest income is recognised in profit or loss and is included in the "Interest income" line item (note 28).

- (ii) Equity instruments designated as at FVTOCI

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

A financial asset is held for trading if:

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

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

Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and

3. ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (Continued)

(ii) Equity instruments designated as at FVTOCI (Continued)

accumulated in the investments revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

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

(iii) Financial assets at FVTPL

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

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

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

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

Impairment of financial assets

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

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

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

3. ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (Continued)

Impairment of financial assets (Continued)

from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) Significant increase in credit risk

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

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

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

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

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial

3. ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (Continued)

(i) Significant increase in credit risk (Continued)

instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

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

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

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

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

(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

3. ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (Continued)

(iii) Credit-impaired financial assets (Continued)

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

iv) Write-off policy

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

Measurement and recognition of expected credit losses

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

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

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

3. ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (Continued)

Measurement and recognition of expected credit losses (Continued)

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

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

Reclassifications

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

Modification and derecognition of financial assets

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

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

3. ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (Continued)

Modification and derecognition of financial assets (Continued)

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

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

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

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

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

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

3. ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (Continued)

Modification and derecognition of financial assets (Continued)

Where a modification does not lead to derecognition the Group calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset. The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

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

3. ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (Continued)

Financial liabilities (Continued)

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

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

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

3. ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (Continued)

Financial liabilities at FVTPL (Continued)

derecognition of the financial liability.

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

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

Financial liabilities measured subsequently at amortised cost

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

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

Financial guarantee contract liabilities

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

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

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

Financial guarantee contract liabilities

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the 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

3. ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (Continued)

Financial guarantee contract liabilities (Continued)

recognised in profit or loss for financial liabilities that are not part of a designated hedging relationship.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Accounting policies applied to financial instruments prior to 1 January 2018

Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition depending on the nature and purpose of the financial assets.

i. Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired or incurred principally for the purpose of selling in the short term or if it is part of a portfolio of identified financial investments that are managed together and for which there is

3. ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (Continued)

i. Financial assets at fair value through profit or loss (Continued)

evidence of a recent actual pattern of short-term profit taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments.

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to the statement of comprehensive income. Gains and losses arising from changes in fair value are included directly in the statement of comprehensive income and are reported as 'Net gains/ (losses) on financial instruments classified as held for trading'. Interest income and expense and dividend income and expenses on financial assets held for trading are included in 'Net interest income' or 'Dividend income', respectively. The instruments are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- (a) those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss;
- (b) those that the Group upon initial recognition designates as available for sale; or
- (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Loans and receivables are reported in the statement of financial position as loans and advances to banks or customers or as investment securities. Interest on loans is included in the statement of comprehensive income and is reported as 'Interest and similar income'. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the statement of comprehensive income as 'Loan impairment charges'.

iii. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity other than:

- (a) those that the Group upon initial recognition designates as at fair value

3. ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (Continued)

iii. Held-to-maturity investments (Continued)

through profit or loss;

(b) those that the Group designates as available for sale; and

(c) those that meet the definition of loans and receivables.

Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Interest on held-to-maturity investments is included in the statement of comprehensive income and reported as 'interest income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognised in the statement of comprehensive income as 'net gains/ (losses) on investment securities'. Held-to maturity investments are: Reserve Bank of Malawi Bonds; Malawi Government Treasury Bills; and Local Registered Stocks.

iv. Available-for-sale investments

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised as other comprehensive income in the statement of comprehensive income, except for impairment losses and foreign exchange gains and losses which are recognised in profit or loss, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised as other comprehensive income in the statement of comprehensive income is recognised as profit or loss in the statement of comprehensive income. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the statement of comprehensive income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income in 'Dividend income' when the Group's right to receive payment is established.

v. Recognition

The Group uses trade date accounting for regular way contracts when recording financial asset transactions. Financial assets that are transferred

3. ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (Continued)

v Recognition (Continued)

to a third party but do not qualify for derecognition are presented in the statement of financial position as 'Assets pledged as collateral', if the transferee has the right to sell or repledge them.

vi Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Group tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Collateral (treasury bills and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a portion of the risks.

vii Reclassification of financial assets

The Group may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near-term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

On reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives are re-assessed and, if necessary, separately accounted for.

3. ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (Continued)

Impairment of financial assets

a. Assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of events that have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

1. Significant financial difficulty of the issuer or obligor;
2. A breach of contract, such as a default or delinquency in interest or principal payments;
3. 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;
4. It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
5. The disappearance of an active market for that financial asset because of financial difficulties; and
6. 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:
 7. Adverse changes in the payment status of borrowers in the group; and
 8. National or local economic conditions that correlate with defaults on the assets in the group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows

3. ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (Continued)

a. Assets carried at amortised cost (Continued)

(excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating),

3. ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (Continued)

- a. Assets carried at amortised cost (Continued)
the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.
- b. Assets carried at fair value
The Group assesses at each year-end date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of comprehensive income.

Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

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

3. ACCOUNTING POLICIES (CONTINUED)

3.6 Sale and repurchase agreements (Continued)

3.7 *Property and equipment (Continued)*

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

Land and buildings comprise mainly service centres and offices.

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

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

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

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

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

Freehold land and capital work in progress are not depreciated.

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

3.8 *Intangible assets*

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

3.9 *Leases*

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

3. ACCOUNTING POLICIES (CONTINUED)

3.9 Leases (Continued)

3.9 Leases (Continued)

(a) The Group as lessor

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

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

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

(b) The Group as lessee

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

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

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

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

3. ACCOUNTING POLICIES (CONTINUED)

3.6 Sale and repurchase agreements

3.10 *Impairment of tangible and intangible assets excluding goodwill and financial assets (Continued)*

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.

¹Where 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 *Non-current assets held for sale*

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

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

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

3.12 *Provisions*

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

3. ACCOUNTING POLICIES (CONTINUED)

3.12 Provisions (Continued)

3.12 Provisions (Continued)

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

(a) Restructuring

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

(b) Onerous contracts

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

(c) Warranties

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

3.13 Taxation

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

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

3. ACCOUNTING POLICIES (CONTINUED)

3.13 Taxation (Continued)

Deferred tax (Continued)

than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

Current and deferred tax for the period

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

3.14 *Cash and cash equivalents*

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

3.15 *Employee benefits*

(a) Pension obligations – Defined Contribution Plan

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

3. ACCOUNTING POLICIES (CONTINUED)

3.15 Employee benefits (Continued)

(a) Pension obligations – Defined Contribution Plan (Continued)

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

(b) Short-term benefits

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

3.16 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

3.17 Revenue recognition

Interest income and expense

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

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

3. ACCOUNTING POLICIES (CONTINUED)

3.17 Revenue recognition (Continued)

Interest income and expense (Continued)

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

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

Fee and commission income

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

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

Dividend income

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

Premium on foreign exchange deals

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

3.18 *Share capital*

Share issue costs

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

3. ACCOUNTING POLICIES (CONTINUED)

3.18 Share capital (Continued)

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 issued by way of capitalisation or subdivision, the profit is apportioned over the shares in issue after the capitalisation or subdivision and the corresponding figures for all earlier periods are adjusted accordingly.

3.19 *Fiduciary activities*

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

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

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

The Group applies the following business models:-

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

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

- a. The Group classifies its financial assets in the following measurement categories:
 - Amortised cost;
 - Fair value through the profit or loss (FVTPL); or
 - Fair value through other comprehensive income (FVOCI)

3. ACCOUNTING POLICIES (CONTINUED)

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

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

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 	1. Loans and advances to customers; 2. Placements with other banks; 3. Government Securities; 4. Loan commitments and letters of credit issued; 5. Financial guarantee contracts issued; 6. Staff loans;

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

3. ACCOUNTING POLICIES (CONTINUED)

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

Categories	Business Model Criterion	Assets classified under this category
Amortised cost (Lending / customer financing activity)	<ul style="list-style-type: none"> • 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 	7. Debt investment securities.
FVOCI (Investing activity)	Must meet all of the following: <ul style="list-style-type: none"> • Investing either to: <ol style="list-style-type: none"> a. Maximise total return by collecting contractual cash flows or selling b. Manage the interest rate or liquidity risk of the entity by holding or selling • Not held for sale 	None
FVPL (Held for sale/ trading activity)	Must meet either of the following: <ul style="list-style-type: none"> • Held for sale • Actively managed and monitored internally on a fair value basis 	1. Equity investments

Reclassification

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

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

Impairment and methodology

Overview of the ECL principles

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

3. ACCOUNTING POLICIES (CONTINUED)

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

Overview of the ECL principles (Continued)

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:

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.

3. ACCOUNTING POLICIES (CONTINUED)

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

The calculation of ECLs (Continued)

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.

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

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

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

The mechanics of the ECL method are summarised below:

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

3. ACCOUNTING POLICIES (CONTINUED)

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

The calculation of ECLs (Continued)

- 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

3. ACCOUNTING POLICIES (CONTINUED)

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

Incorporation of forward-looking information (Continued)

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

Macroeconomic model

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

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

Sensitivity Analysis

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

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

Low risk assets

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

1. Malawi Government Securities
2. Interbank Placements
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

3. ACCOUNTING POLICIES (CONTINUED)

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

Low risk assets (Continued)

fulfil their contractual cash flow obligations.

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

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

4. Critical accounting judgments and key sources of estimation uncertainty

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

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

4.1 Critical judgements in applying the Group's accounting policies

Critical judgements made by the directors during the current period which would have a material impact on the financial statements relate to the recoverability of loans and advances to customers. The credit risk management policies are outlined in note 41 (b) below.

4.1.1 Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (please see financial assets sections of note 3). The 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

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

4.1 Critical judgements in applying the Group's accounting policies (Continued)

4.1.2 Significant increase in credit risk (Continued)

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

4.1.3 Models and assumptions used

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

4.2.1 Useful lives and residual values of property and equipment

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

4.2.2 Impairment losses on loans and advances

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

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

Key assumptions used:

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

3. ACCOUNTING POLICIES (CONTINUED)

4.1 Critical judgements in applying the Group's accounting policies (Continued)

4.2.2 Impairment losses on loans and advances (Continued)

- d) No cash flows are assumed to arise where there is no repayment agreement and no security and repayments are erratic or unpredictable.

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

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

4.2.4 Probability of Default (PD)

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

4.2.5 Loss Given Default (LGD)

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

4.2.6 Fair value measurement and valuation process

In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available, the Group uses valuation models to determine the fair value of its financial instruments. Refer to note 40 for more details on fair value measurement.

4.2.7 Determination of life of revolving credit facilities

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

5. CASH AND FUNDS WITH RESERVE BANK OF MALAWI

	GROUP		COMPANY	
	2018 K'm	2017 K'm	2018 K'm	2017 K'm
Cash	14 190	10 959	14 434	10 959
Balances with the Reserve				
Bank of Malawi	10 833	16 139	10 833	16 139
Total cash and funds with Reserve				
Bank of Malawi	25 023	27 098	25 267	27 098

The currency analysis of cash is in note 41e.

Balances held at Reserve Bank of Malawi which are denominated in Malawi Kwacha and United States Dollars are non-interest bearing and regulated as disclosed in note 41e and 41g.

6. GOVERNMENT OF MALAWI TREASURY BILLS AND TREASURY NOTES

	Average interest rates		GROUP		COMPANY	
	2018	2017	2018 K'm	2017 K'm	2018 K'm	2017 K'm
Government of Malawi treasury bills	13.11%	20.10%	83 175	24 670	69 087	24 670
Government of Malawi treasury notes	13.00%	18.15%	13 236	4 808	13 236	4 808
Expected credit losses			(8)	-	(8)	-
			96 403	29 478	82 315	29 478

The bills and notes are due to mature as follows:

• Within three months	33 590	11 021	19 502	11 021
• Between three months and one year	52 323	15 698	52 323	15 698
• Over one year	10 490	2 759	10 490	2 759
	96 403	29 478	82 315	29 478

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

7. GOVERNMENT OF MALAWI PROMISSORY NOTES

Promissory notes	Maturity date	GROUP AND COMPANY		
		Carrying amount K'm	Fair value K'm	Fair value gain K'm
2018				
Acquired in 2018	See details below	1 441	1 441	-
2017				
Acquired in 2017	See details below	48	48	-

In 2017, the Bank acquired three promissory notes from the market at a total cost of K43m. The cost of each note was K21m, K8m and K14m. The notes have a total minimal value of K53m and their maturity dates were 13 February 2018, 22 February 2018 and 27 September 2018, respectively. The carrying amount as at 31 December 2017 included accrued interest receivable amount to K5m. Interest income amounting to K5m relating to the three promissory notes has been recognised in the statement of comprehensive income as at 31 December 2017.

During the year 2018, the Bank acquired three additional promissory notes from the market at a total cost of K1 382m. The cost of each note was K93m, K93m and K1 196m. The notes have a total nominal value of K1 525m and their maturity dates are 23 March 2019, 23 March 2019 and 4 April 2019, respectively. The carrying amount as at 31 December 2018 includes accrued interest receivable amounting to K59m.

The Group assessed the expected credit losses on promissory notes and noted that they were insignificant. As such, they have not been reported in the financial statements.

The fair value level has been disclosed under note 40.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

8. EQUITY INVESTMENTS

GROUP AND COMPANY	2017	Additions/	Fair	2018	Cost
	K'm	(disposals) K'm	value adjustment K'm	K'm	K'm
First Merchant Bank Plc Nil (2017: 4 864 790) Ordinary shares of K2.50 each at a market value of K100.00 (2017: K67.00) per share	326	(326)	-	-	-
Illovo Sugar (Malawi) Plc 1 300 000 (2017: 1 000 000) Ordinary shares of K0.02 each at a market value of K200.00 (2017: K240.00) per share	240	72	(52)	260	292
NICO Holdings Plc 17 260 560 (2017: 17 300 000) Ordinary shares of K0.20 each at a market value of K43.00 (2017: K34.00) per share	588	(1)	155	742	205
Malawi Property Investment Company Plc 29 442 280 (2017: 20 400 882) Ordinary shares of K0.05 each at a market value of K13.20 (2017: K15.61) per share	318	130	(59)	389	239
National Investment Trust Plc 6 478 259 (2017: 6 278 259) Ordinary shares of K1.00 each at a market value of K75.00 (2017: K60.06) per share	377	17	92	486	146
NBS Bank Plc 38 105 714 (2017: 44 959 480) Ordinary shares of K0.50 each at a market value of K10.00 (2017: K8.50) per share	382	(58)	57	381	213
Standard Bank of Malawi Plc 100 000 (2017: 1 000 000) Ordinary shares of K1.00 each at market value	610	(549)	6	67	18
Sunbird Malawi Plc 4 637 964 (2017: 4 637 964) Ordinary shares of K0.05 each at a market value of K145.00 (2017: K96.00) per share	445	-	228	673	241
Telekom Networks Malawi Plc 31 892 000 (2017: 28 350 194) Ordinary shares of K0.04 each at a market value of K28.00 (2017: K14.50) per share	412	112	369	893	170
Total equity investment	3 698	(603)	796	3 891	1 524

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

8. EQUITY INVESTMENTS (CONTINUED)

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

GROUP AND COMPANY				
	Level 1	Level 2	Level 3	Fair value
	K'm	K'm	K'm	2017
Equity investments in listed companies	3 698	-	-	3 698
	Level 1	Level 2	Level 3	Fair value
	K'm	K'm	K'm	2018
Equity investments in listed companies	3 891	-	-	3 891
	GROUP		COMPANY	
	2018	2017	2018	2017
	K'm	K'm	K'm	K'm
9. INVESTMENT IN ASSOCIATES				
Purchase consideration	233	233	233	233
Additional consideration	759	-	759	-
Share of accumulated results	344	254	-	-
	1 336	487	992	233
Assets	7 030	6 768		
Liabilities	(4 350)	(5 435)		
Net assets	2 680	1 333		
Group's share of net assets of associates	1 260	413		
Total revenue	5 318	5 106		
Total profit/ (loss) for the year	483	285		

The Bank holds 47% (2017:31%) of United General Insurance Company Limited's share capital. Its principal place of business and registered office is Michiru House, Victoria Avenue, Blantyre.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

10. INVESTMENT IN SUBSIDIARIES

	COMPANY	
	2018	2017
	K'm	K'm
10. INVESTMENT IN SUBSIDIARIES		
NBM Development Bank Limited	6 072	6 072
NBM Pensions Administration Limited	250	429
Stockbrokers Malawi Limited	98	98
NBM Bureau de Change Limited	7	7
NBM Capital Markets Limited	17	17
Total investment in subsidiaries	<u>6 444</u>	<u>6 623</u>

NBM, through National Bank Nominees Limited, holds 75% (2017:75%) stake in Stockbrokers Malawi Limited. The Bank also holds 100% (2017: 100%) stake in NBM Bureau de Change Limited, a 100% (2017: 100%) stake in NBM Capital Markets Limited, a 100% (2017: 100%) stake in NBM Pension Administration Limited and a 100% (2017: 100%) stake in NBM Development Bank (formerly Indebank Limited). NBM Bureau de Change ceased operations in 2013. Indebank ceased to operate in 2016 and its operating assets and liabilities were transferred to National Bank of Malawi effective 1 May 2016. The banking licence was consequently surrendered to the Registrar of Financial Institutions (the Reserve Bank of Malawi). During the year, the Bank was granted a provisional licence to operate an SME and long term financing business through Indebank now named NBM Development Bank Limited.

	GROUP AND COMPANY	
	2018	2017
	K'm	K'm
11. PLACEMENTS WITH OTHER BANKS		
Balances due from other banks	22 902	32 502
Expected credit losses	(3)	-
Total placements with other banks	<u>22 899</u>	<u>32 052</u>

Placements with other banks are denominated in the following currencies:

	Average interest rates		GROUP AND COMPANY	
	2018	2017	2018	2017
			K'm	K'm
US Dollar denominated	0.50%	0.50%	13 827	18 610
GBP denominated	1.75%	1.75%	3 351	2 620
Euro denominated	0.50%	0.50%	4 775	9 625
ZAR denominated	4.00%	4.00%	918	1 172
Other	0%	0%	28	25
			<u>22 899</u>	<u>32 052</u>

Money market placements with other banks are held to maturity and mature within one month (2017: one month) of the year-end.

12. LOANS AND ADVANCES

	GROUP AND COMPANY	
	2018	2017
	K'm	K'm
12. LOANS AND ADVANCES		
Gross loans and advances	169 436	140 227
Staff loans	3 737	3 309
Total loans and advances	173 173	143 536
Impairment provisions	(6 552)	(5 961)
Net loans and advances	166 621	137 575
Due to mature as follows:		
• Within three months	31 719	22 529
• Between three months and one year	62 350	59 912
• After one year and not later than five years	73 104	57 222
Interest in suspense	(552)	(2 088)
	166 621	137 575
Analysis of net loans by currency		
Malawi Kwacha denominated	106 545	80 662
US Dollar denominated	60 076	56 913
	166 621	137 575

The Malawi Kwacha base lending rate for the Bank as at 31 December 2018 was 23% (2017: 25%) per annum and US Dollar denominated loans carried an average interest rate of 8.44% (2017: 8.74%) per annum.

	GROUP & COMPANY	
	2018	2017
	K'm	K'm
Movement on interest in suspense		
At beginning of the year	2 088	724
Applied against advances-write offs	(3 615)	(1 398)
Adjustment on adoption of IFRS9	(2 088)	-
Suspended in the year	4 181	2 803
Recovered	(14)	(41)
At end of the year	552	2 088
Analysis of recoveries		
Provisions	3	152
Interest in suspense	14	41
Debts previously written off	609	834
Transferred to statement of comprehensive income	626	1 027

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

12. LOANS AND ADVANCES (CONTINUED)

	GROUP AND COMPANY	
	2018	2017
	K'm	K'm
Finance lease receivables		
Gross investment in finance lease receivable:		
• Within three months	198	135
• Between three months and one year	1 585	1 375
• After one year and not later than five years	24 792	11 931
	26 575	13 441
Unearned future income on finance leases	(8 513)	(3 118)
	18 062	10 323
Impairment provision	(248)	(6)
Net investment in finance leases	17 814	10 317
The net investment in finance leases matures as follows:		
• Within three months	198	78
• Between three months and one year	1 585	1 032
• After one year and not later than five years	16 031	9 207
	17 814	10 317

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 3.5 years (The maximum is 5 years and the minimum 2 years). The average effective interest rate for the reporting period ended 31 December 2018 was 25% (2017: 25%).

12. LOANS AND ADVANCES (CONTINUED)

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

	31 December 2018	31 December 2018	31 December 2017	31 December 2017
Days past due	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
	K'm	K'm	K'm	K'm
0-29 days	158 526	3 477	121 536	4 985
30-90 days	6 460	589	17 488	1 324
91-180 days	900	159	3 176	399
181-360 days	7 004	2 236	1 184	201
More than 360 days	283	91	152	65
Total	173 173	6 552	143 536	6 974

Restructured loans

Loans with a total carrying amounting of K5 466m were restructured (modified) during the period. Their total fair value after restructuring was K5 988m resulting into a net fair value gain of K522m which has been recognised in the income statement.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

12. LOANS AND ADVANCES (CONTINUED)

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

Loss allowance – Loans and advances to customers at amortised cost	Stage 1	Stage 2	Stage 3	IAS 39 Provision	Total
	K'm	K'm	K'm	K'm	K'm
Loss allowance as at 31 December 2017	-	-	-	5 961	5 961
Reversal of IAS 39 Provision	-	-	-	(5 961)	(5 961)
Restatement of the prior year (from loans, advances and undrawn commitments)	3 914	398	1 788	-	6 100
Restatement of the prior year (from off balance sheet assets)	874	-	-	-	874
Changes in the loss allowance					
– Transfer to stage 1	531	(31)	(500)	-	-
– Transfer to stage 2	(123)	130	(7)	-	-
– Transfer to stage 3	(167)	(10)	177	-	-
– Write-offs	-	-	(2 350)	-	(2 350)
Recoveries	-	-	(3)	-	(3)
– Charge to income statement	378	452	1 746	-	2 576
Changes in loss allowance for off balance sheet assets	(645)	-	-	-	(645)
New financial assets originated or purchased	-	-	-	-	-
Financial assets that have been derecognised	-	-	-	-	-
Closing Balance	4 762	939	851	-	6 552

13. OTHER MONEY MARKET DEPOSITS

	GROUP		COMPANY	
	2018	2017	2018	2017
	K'm	K'm	K'm	K'm
Money market investments with Reserve Bank of Malawi and other banks	40 317	104 195	26 429	78 450
Expected credit losses	(3)	-	(3)	-
	40 314	104 195	26 426	78 450

Money market investments with Reserve Bank of Malawi and other banks are held to maturity and mature within one month (2017: one month) after the year-end. The deposits earned an average interest rate of 15.00% (2017: 20.77%) per annum.

	GROUP		COMPANY	
	2018	2017	2018	2017
	K'm	K'm	K'm	K'm
14. OTHER ASSETS				
Sundry receivables	682	1 273	169	398
Office accounts	1 273	1 734	1 273	1 734
Prepayments	737	669	626	669
Due from local banks	1 803	186	1 803	186
Employee benefit subsidy	1 992	1 954	1 992	1 954
Mastercard accounts	967	1 303	967	1 303
Bulk stock stationery	302	512	302	512
Other investments	89	63	89	63
Customs and excise tax receivable	1 957	-	1 957	-
Expected credit losses	(41)	(21)	-	-
Total other assets	9 761	7 673	9 178	6 819

Employee benefit subsidy

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

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

15. NON-CURRENT ASSETS HELD FOR SALE

	Free- hold land & build- ings K'm	Lease- hold land & build- ings K'm	Invest- ment prop- erty K'm	Motor vehic- les K'm	Total K'm
Group and company					
Cost or valuation					
At 1 January 2017	321	218	133	218	890
Disposals	(154)	(178)	-	(162)	(494)
Reclassified to property and equipment	-	-	-	(56)	(56)
At 31 December 2017	167	40	133	-	340
At 1 January 2018	167	40	133	-	340
Disposals	(167)	(40)	(133)	-	(340)
At 31 December 2018	-	-	-	-	-
Accumulated depreciation					
At 1 January 2017	2	74	-	103	179
Disposals	(2)	(18)	-	(75)	(95)
Reversal of impairment loss on disposal	-	(46)	-	-	(46)
Reclassified to property and equipment	-	-	-	(28)	(28)
At 31 December 2017	-	10	-	-	10
At 1 January 2018	-	10	-	-	10
Disposals	-	(10)	-	-	(10)
At 31 December 2018	-	-	-	-	-
Carrying amount					
At 31 December 2017	167	30	133	-	330
At 31 December 2018	-	-	-	-	-

The non-current assets held for sale related to items which NBM acquired through business combinations with Indebank Limited. After the merger of NBM and Indebank, these items were considered a surplus to NBM requirements, as such; the Group has vigorously been looking for a buyer of the items. Assets with a total cost of K340m and accumulated depreciation of K10m were disposed off during the reporting period. The total proceeds from disposal amounted to K445m, resulting in a profit after disposal of K115m. The assets disposed were Salima Agency, Lilongwe Branch and Nyambadwe properties.

16. PROPERTY AND EQUIPMENT

	Free- hold land & build- ings K'm	Lease- hold land & build- ings K'm	Motor veh- icles K'm	Work in progress K'm	Total K'm
GROUP					
Cost or valuation					
At 1 January 2017	19 092	4 240	12 977	410	36 719
Additions	-	-	2 003	336	2 339
Transfer from work in progress	278	-	356	(634)	-
Disposals	-	-	(949)	-	(949)
Reclassified from held for sale	-	-	56	-	56
Reclassified to intangibles	-	-	(122)	-	(122)
Write offs	-	-	(225)	-	(225)
Revaluation loss	(235)	-	-	-	(235)
Revaluation surplus	2 277	583	-	-	2 860
At 31 December 2017	21 412	4 823	14 096	112	40 443
At 1 January 2018	21 412	4 823	14 096	112	40 443
Additions	-	-	1 974	620	2 594
Transfer from work in progress	361	340	-	(701)	-
Disposals	(3 011)	(169)	(1 772)	-	(4 952)
Revaluation loss	(201)	-	-	-	(201)
Revaluation surplus	1 666	458	-	-	2 124
At 31 December 2018	20 227	5 452	14 298	31	40 008
Depreciation					
At 1 January 2017	-	408	8 097	3	8 508
Charge for the year	314	193	1 884	-	2 391
Elimination on revaluation	(314)	(71)	-	-	(385)
Elimination on disposal	-	-	(820)	-	(820)
Reclassified to intangibles	-	-	(35)	-	(35)
Reclassified from held for sale	-	-	28	-	28
Write offs	-	-	(214)	-	(214)
At 31 December 2017	-	530	8 940	3	9 473
At 1 January 2018	-	530	8 940	3	9 473
Charge for the year	349	196	1 862	-	2 407
Elimination on revaluation	(349)	(86)	-	-	(435)
Elimination on disposal	-	-	(817)	-	(817)
At 31 December 2018	-	640	9 985	3	10 628
Carrying amount					
At 31 December 2018	20 227	4 812	4 313	28	29 380
At 31 December 2017	21 412	4 293	5 156	109	30 970

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

16. PROPERTY AND EQUIPMENT (CONTINUED)

	Free- hold land & build- ings K'm	Lease- hold land & build- ings K'm	Motor vehic- les and eq- uipment K'm	Work in pro- gress K'm	Total K'm
COMPANY					
Cost or valuation					
At 1 January 2017	16 538	4 309	13 812	411	35 070
Additions	-	-	1 977	336	2 313
Transfer from work in progress	278	-	356	(634)	-
Disposals	-	-	(919)	-	(919)
Write offs	-	-	(225)	-	(225)
Reclassified from held for sale	-	-	56	-	56
Revaluation loss	(235)	-	-	-	(235)
Revaluation surplus	1 819	583	-	-	2 402
At 31 December 2017	18 400	4 892	15 057	113	38 462
At January 2018	18 400	4 892	15 057	113	38 462
Additions	-	-	1 911	620	2 531
Transfer from work in progress	361	340	-	(701)	-
Disposals	-	-	(1 758)	-	(1 758)
Revaluation loss	(201)	-	-	-	(201)
Revaluation surplus	1 667	458	-	-	2 125
At 31 December 2018	20 227	5 690	15 210	32	41 159
Depreciation					
At 1 January 2017	-	666	9 072	3	9 741
Charge for the year	314	193	1 868	-	2 375
Elimination on revaluation	(314)	(71)	-	-	(385)
Elimination on disposal	-	-	(831)	-	(831)
Reclassified from held for sale	-	-	28	-	28
Write offs	-	-	(216)	-	(216)
At 31 December 2017	-	788	9 921	3	10 712
At 1 January 2018	-	788	9 921	3	10 712
Charge for the year	349	196	1 844	-	2 389
Elimination on revaluation	(349)	(86)	-	-	(435)
Elimination on disposal	-	-	(803)	-	(803)
At 31 December 2018	-	898	10 962	3	11 863
Carrying amount					
At 31 December 2018	20 227	4 792	4 248	29	29 296
At 31 December 2017	18 400	4 104	5 136	110	27 750

16. PROPERTY AND EQUIPMENT (CONTINUED)

GROUP**Land and buildings**

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

		GROUP	
		2018	2017
		K'm	K'm
Freehold	- at 2018 valuation	20 227	-
	- at 2017 valuation	-	21 412
Total freehold land and buildings		<u>20 227</u>	<u>21 412</u>
Leasehold	- at 2018 valuation	5 452	-
	- at 2017 valuation	-	4 823
Total leasehold land and buildings		<u>5 452</u>	<u>4 823</u>

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

2018	Related parties	Others	Total
	K'm	K'm	K'm
Motor vehicles	925	331	1 256
2017	Related parties	Others	Total
	K'm	K'm	K'm
Motor vehicles	1 590	145	1 735

Press Corporation Plc, Press Properties Limited, Bottling and Brewing Group Limited, PTC, Ethanol Company Limited, Presscane Limited, Maldeco Fisheries Limited, Open Connect Limited and Malawi Telecommunications Limited are the related parties to whom the Bank leases motor vehicles which were purchased at a cost of K3 115m (2017: K3 124m).

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

16. PROPERTY AND EQUIPMENT (CONTINUED)

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

Freehold buildings - useful economic lives as determined by professional valuers
Leasehold property - lower of period of lease and useful economic lives as determined by professional valuers

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 2018

Land and buildings for the Bank were fair valued as at 31 December 2018 by Don Whayo, BSc (Est. Man), Dip (Urb Man), BA, MRICS, MSIM of Knight Frank, qualified independent valuers on a current market value basis.

Out of the K2 560m (2017: K3 195m) the Group's gross revaluation surplus, K51m (2017: K501m) was credited to the statement of comprehensive income to reverse decreases in fair values previously charged to the statement of comprehensive income and the balance of K2 509m (2017: K2 694m) 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 2018 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair value</u>
	<u>K'm</u>	<u>K'm</u>	<u>K'm</u>	<u>2018</u>
				<u>K'm</u>
Freehold land and buildings	-	20 227	-	20 227
Leasehold land and buildings	-	5 452	-	5 452

Had land and buildings been carried at historical cost less depreciation and accumulated impairment losses, their carrying value would have been approximately K8 454m (2017: K8 308m).

17. INTANGIBLE ASSETS

	Devel- opment costs K'm	Com- puter software K'm	Work in progress K'm	Total K'm
GROUP				
Cost or valuation				
At 1 January 2017	326	4 296	3 342	7 964
Additions	-	133	2 513	2 646
Transfer from work in progress	-	1 507	(1 507)	-
Reclassified from property and equipment	-	122	-	122
At 31 December 2017	326	6 058	4 348	10 732
At 1 January 2018	326	6 058	4 348	10 732
Additions	-	28	1 541	1 569
Transfer from work in progress	-	4 342	(4 342)	-
Impairment provision	-	(664)	-	(664)
Write offs	(61)	(179)	(167)	(407)
At 31 December 2018	265	9 585	1 380	11 230
Depreciation				
At 1 January 2017	324	1 375	167	1 866
Charge for the year	2	504	-	506
Reclassified from property and equipment	-	35	-	35
At 31 December 2017	326	1 914	167	2 407
At 1 January 2018	326	1 914	167	2 407
Charge for the year	-	955	-	955
Impairment provision	-	(161)	-	(161)
Write offs	(61)	(179)	(167)	(407)
At 31 December 2018	265	2 529	-	2 794
Carrying amounts				
31 December 2018	-	7 056	1 380	8 436
31 December 2017	-	4 144	4 181	8 325

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

17. INTANGIBLE ASSETS (CONTINUED)

	Develop- ment costs K'm	Com- puter software K'm	Work in progress K'm	Total K'm
COMPANY				
Cost or valuation				
At 1 January 2017	326	4 419	3 301	8 046
Additions	-	133	2 493	2 626
Transfer from work in progress	-	1 507	(1 507)	-
At 31 December 2017	326	6 059	4 287	10 672
At 1 January 2018	326	6 059	4 287	10 672
Additions	-	-	1 541	1 541
Transfer from work in progress	-	4 292	(4 292)	-
Impairment provision	-	(664)	-	(664)
Write offs	(61)	(179)	(167)	(407)
At 31 December 2018	265	9 508	1 369	11 142
Depreciation				
At 1 January 2017	324	1 457	167	1 948
Charge for the year	2	496	-	498
At 31 December 2017	326	1 953	167	2 446
At 1 January 2018	326	1 953	167	2 446
Charge for the year	-	944	-	944
Impairment provision	-	(161)	-	(161)
Write offs	(61)	(179)	(167)	(407)
At 31 December 2018	265	2 557	-	2 822
Carrying amounts				
31 December 2018	-	6 951	1 369	8 320
31 December 2017	-	4 106	4 120	8 226

The write off relates to computer software that were fully amortized, the licences expired and the Bank is no longer deriving any value from them. The total cost and accumulated depreciation of the assets as at 31 December 2018 was K407m.

The impairment loss relates to computer software and systems which are not being fully utilised by the Group due to operability limitations. The assets will be written off in 2019. The total cost of the items as at 31 December 2018 was K1 328m and accumulated depreciation was K161m.

18.1 DEFERRED TAX ASSET

	Opening balance K'm	Charge to profit or loss K'm	Charged to equity K'm	Closing balance K'm
GROUP				
2017				
Accelerated capital allowances	(1 152)	(439)	-	(1 591)
Revaluation of land and buildings	6 705	44	129	6 878
Tax losses	509	(509)	-	-
Other temporary differences	784	308	-	1 092
Total deferred tax	6 846	(596)	129	6 379
2018				
Accelerated capital allowances	(1 591)	(113)	-	(1 704)
Revaluation of land and buildings	6 878	45	641	7 564
Expected credit losses	-	(235)	1 466	1 231
Other temporary differences	1 092	(321)	-	771
Total deferred tax	6 379	(624)	2 107	7 866
COMPANY				
2017				
Accelerated capital allowances	(1 030)	861	-	(169)
Revaluation of land and buildings	6 530	44	129	6 703
Other temporary differences	1 311	(1 513)	-	(202)
Total deferred tax	6 811	(608)	129	6 332
2018				
Accelerated capital allowances	(169)	(115)	-	(284)
Revaluation of land and buildings	6 703	45	641	7 389
Expected credit losses	-	(235)	1 466	1 231
Other temporary differences	(202)	(307)	-	(509)
Total deferred tax	6 332	(612)	2 107	7 827

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

18.2 DEFERRED TAX LIABILITY

	Opening balance	On Dispo- sal	Charge to profit or loss	Charged to equity	Closing balance
	K'm	K'm	K'm	K'm	K'm
GROUP					
2017					
Revaluation of land and buildings	589	-	-	-	589
Other temporary differences	4	-	233	-	237
Total deferred tax	593	-	233	-	826
2018					
Revaluation of land and buildings	589	(589)	-	-	-
Other temporary differences	237	(232)	4	-	9
Total deferred tax	826	(821)	4	-	9

19. GOODWILL

	GROUP	
	2018	2017
	K'm	K'm
Balance at beginning of the year	3 959	3 959
Balance at end of the year	3 959	3 959

National Bank of Malawi (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. During the year, the Group converted the Ex-Indebank to NBM Development Bank to be undertake long term financing business. The Bank is expected to be operational by the end of March 2019.

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

Annual test for impairment

The Group determined the recoverable amount of the Cash Generating Unit (WBD) to be K279bn 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 2019 and projections covering a 4 year period from 2020) discounted at a weighted average cost of capital of 15.72% (2017: 19.32%).

19. GOODWILL (CONTINUED)

All forecasts used in the determination of value in use are extracted directly from the Bank's 2019 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 12% per annum growth rate, which is the projected long-term average growth rate for Wholesale Banking Business. The directors believe that any reasonably possible change in the key assumption on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

The carrying amount of the CGUs was K167bn. As such, in accordance with IAS 36 *Impairment of Assets*, NBM determined that the goodwill was not impaired as at 31 December 2018.

20. CUSTOMER DEPOSITS

	GROUP		COMPANY	
	2018	2017	2018	2017
	K'm	K'm	K'm	K'm
	Average interest rates			
Analysis by account type:	2018	2017		
Current accounts	0.10%	0.10%	101 357	108 338
Foreign currency accounts	0.50%	0.50%	66 737	50 101
Savings accounts	6.10%	6.57%	65 373	54 008
Deposit accounts	7.16%	7.67%	34 218	41 399
Client funds	20.00%	20.00%	26 840	24 646
Total customer deposits			294 525	278 492
Analysis by interest risk type:				
Interest bearing deposits			275 934	264 126
Non-interest bearing deposits			18 591	14 366
			294 525	278 492

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

20. CUSTOMER DEPOSITS (CONTINUED)

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

Analysis by interest maturity:	GROUP		COMPANY	
	2018	2017	2018	2017
	K'm	K'm	K'm	K'm
Customer deposits are payable as follows:				
• Within three months	292 969	276 907	269 470	252 517
• Between three months and one year	1 556	1 585	1 556	1 585
	<u>294 525</u>	<u>278 492</u>	<u>271 026</u>	<u>254 102</u>
Analysis by sector:				
Agriculture	10 620	-	10 620	-
Manufacturing	19 042	7 043	19 042	7 043
Wholesale and retail	30 750	24 497	30 750	24 497
Finance and insurance	11 224	25 187	14 004	25 187
Personal accounts	69 265	65 687	69 265	65 687
Construction	9 479	2 661	9 479	2 661
Electricity gas water and energy	4 839	14 948	4 839	14 948
Transport, storage and communications	7 621	10 739	7 621	10 739
Restaurants and hotels	2 829	3 021	2 829	3 021
Clients funds	26 840	24 646	-	-
Other	102 016	100 063	102 577	100 319
Total	<u>294 525</u>	<u>278 492</u>	<u>271 026</u>	<u>254 102</u>

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

21. AMOUNTS DUE TO OTHER BANKS

Liabilities in Malawi Kwacha	191	67	191	67
Liabilities in foreign currency	1 089	1 470	1 089	1 470
Bills in suspense in foreign currency	134	177	134	177
Total amounts due to other banks	<u>1 414</u>	<u>1 714</u>	<u>1 414</u>	<u>1 714</u>

22. CURRENT INCOME TAX LIABILITIES

Balance at beginning of the year	2 109	3 184	1 975	2 997
Current charge (note 33)	6 427	7 574	5 791	7 252
Taxpaid	(7 662)	(8 649)	(7 081)	(8 274)
Balance at end of the year	<u>874</u>	<u>2 109</u>	<u>685</u>	<u>1 975</u>

23. LOANS

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

	GROUP AND COMPANY	
	2018	2017
	K'm	K'm
Amounts repayable within one year	3 301	61
Amount repayable after one year	16 127	14 124
	<u>19 428</u>	<u>14 185</u>

23.1 Lines of credit

23.1.1 Malawi Government (denominated in Deutschemark (DM))

The loan is in two parts: Part 1 and Part 2. The two loans, which are unsecured, are for DM5.0m and DM6.6m, respectively. The amounts drawn against specific projects at the year-end are equivalent to DM4.78m and DM6.07m, respectively. Both loans are interest free. The loans are repayable to the Malawi Government in Malawi Kwacha starting in 2034 and 2043, respectively. The Malawi Kwacha value of the loan was set at the time of disbursement. The total carrying amount of the loan as at 31 December 2018 was K105m (2017: K105m).

23.1.2 United States Agency for International Development (USAID)

This is a two-part loan: The first loan, which is unsecured, is for USD1.2m and bears interest at 4% per annum. The Malawi Kwacha value of the loan was set at the time of disbursement. The loan is repayable to the Malawi Government in Malawi Kwacha over a period of 25 years commencing 30 June 1993. The carrying amount of the loan as at 31 December 2018 was K3m (2017: 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 2018 was K9m (2017: K9m). The loan has not been repaid because the Malawi Government lost documentation relating to the loan and the Group is yet to renegotiate with Malawi Government on a new repayment schedule.

23.1.3 The Transport Sector Revolving Fund

The transport sector revolving fund loan bears interest at 3% per annum. The loan is repayable on such dates as the Government and the Bank shall mutually agree in writing. As at year-end an agreement had not yet been reached. The carrying amount of the loan as at 31 December 2018 was K67m (2017:K67m).

23.1.4 Private Sector Revolving Fund

The private sector revolving fund loan is effectively interest free. However, from 1 July 2004, the Group is obliged to pay an administrative fee pegged at

23. LOANS (CONTINUED)

23.1.4 Private Sector Revolving Fund (Continued)

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 2018 was K25m (2017: K25m).

23.1.5 European Investment Bank (EIB)

In 2016, the Bank signed an agreement for an unsecured line of credit for Euro 30 million Euros joint facility with the European Investment Bank (EIB) to facilitate purchase, construction and extension of warehouses and agristorage assets. The Bank shall pay interest on the outstanding balance at the rate of either (i) 3.381 % in respect of those tranches deemed by the Bank to be in respect of HDI Investments or (ii) 3.471 % for all tranches in respect of Standard Investments. Both rates shall incur interest semi-annually in arrears. The loan is repayable semi-annually. As at 31 December 2018, the Bank drew down USD29.142m and made repayments amounting to USD2.94m. The carrying amount includes accrued interest amounting to USD0.13m which is repayable by 30 June 2019.

24. PROVISIONS

	Employee bonus K'm	Tevet levy K'm	Other K'm	Total K'm
GROUP				
2018				
At 1 January 2018	2 366	70	691	3 127
Provisions made during the year	1 824	178	-	2 002
Transferred to other payables	-	-	(691)	(691)
Payments made during the year	(2 366)	(139)	-	(2 505)
At 31 December 2018	1 824	109	-	1 933
2017				
At 1 January 2017	2 087	59	691	2 837
Provisions made during the year	2 366	133	-	2 499
Payments made during the year	(2 087)	(122)	-	(2 209)
At 31 December 2017	2 366	70	691	3 127
COMPANY				
2018				
At 1 January 2018	2 177	51	691	2 919
Provisions made during the year	1 651	172	-	1 823
Transferred to other payables	-	-	(691)	(691)
Payments made during the year	(2 177)	(139)	-	(2 316)
At 31 December 2018	1 651	84	-	1 735
2017				
At 1 January 2017	1 887	46	691	2 624
Provisions made during the year	2 177	127	-	2 304
Payments made during the year	(1 887)	(122)	-	(2 009)
At 31 December 2017	2 177	51	691	2 919

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

25. OTHER LIABILITIES

	GROUP		COMPANY	
	2018	2017	2018	2017
	K'm	K'm	K'm	K'm
Unclaimed balances	712	637	712	637
Deferred income	905	537	905	537
Bank cheque	2 345	2 493	2 345	2 493
Office accounts	1 566	1 156	1 566	1 156
Trade and other payables	1 451	1 056	733	1 056
Other tax payables	1 173	739	1 173	739
Cash security	724	761	724	761
Cards and other products	1 020	2 153	1 020	2 153
Transfer from provisions	691	-	691	-
Sundry payables	146	69	453	819
Total other liabilities	10 733	9 601	10 322	10 351

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

26. POST BALANCE SHEET EVENTS

Subsequent to the reporting period, NBM applied for a full licence to operate Small and Medium Enterprises and long term financing business through NBM Development Bank Limited. A provisional licence had already been granted during the reporting period and the Bank is expected to commence operations after 31 March 2019.

Subsequent to the reporting date, the Reserve Bank of Malawi revised its policy rate downwards from 16% to 14.9% and the Bank consequently revised its lending rates from a range of 23% to 33% to a range of 14.9% to 25.9%.

27. PENSION SCHEME

The Pension Fund, which was managed internally up to 31 December 2014, is a fully defined contribution scheme. The contributions of employees and the employer are 5.5% (2017: 5.5%) and 11% (2017: 11.0%) of the fund members' basic pensionable salaries, respectively. The amount charged against income during the year was K1 088m (2017: K988m).

Until 30 June 2014, the Pension Fund operated two accounts: the General Fund and the Death in Service Top Up Fund (Special Fund). The Special Fund was set up at the

27. PENSION SCHEME (CONTINUED)

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

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 K340m (2017: K284m) in rentals for such properties during the year.

The Fund was valued by independent actuaries, Alexander Forbes, as at 31 December 2017. As per the actuarial valuation, the General Fund had a surplus of K2 164m (December 2016: deficit of K1 007m) and the Special Fund had a surplus of K805m (December 2016: surplus of K763m). According to the report, the special Fund had no liabilities as at 31 December 2016.

In as far as the Special Fund is concerned, the above position was based on the old rules which fell away with the ushering in of new rules that do not require that there be a separate salary under-pin cover and a separate death cover within the Fund. Since this liability fell away, every member's benefit was confirmed by the trustees to have been fully funded as at 1 July 2014 as required by law such that there is no longer a deficit applicable after 30 June 2014. As highlighted above, the actuarial report as at 31 December 2017 has confirmed the non-existence of such deficit. Therefore, no liability nor contingent liability has been recognised in the 2018 annual financial statements. There was no liability nor contingent liability recognised in the 2017 annual financial statements.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

28. NET INTEREST INCOME

	GROUP		COMPANY	
	2018	2017	2018	2017
	K'm	K'm	K'm	K'm
Interest and similar income				
Interest on loans and advances and bills discounted	24 307	25 681	24 307	25 681
Income from investments	15 255	19 713	15 255	19 685
Income from lease financing	3 614	2 776	3 614	2 776
Interest on placements with other banks	806	634	331	274
Arrangement and other fee income	3 097	2 877	3 097	2 877
	47 079	51 681	46 604	51 293
Interest expense and similar charges				
Banks and customers	6 075	5 945	6 095	5 945
Money market loans and repos	240	613	240	613
	6 315	6 558	6 335	6 558
Net interest income	40 764	45 123	40 269	44 735

Reclassification

In order to comply with IFRS which requires that loan fees should be included in the Effective Interest Rate (EIR), and disclosed as part of interest income, the Bank has reclassified arrangement and other loan fee income amounting to K3.1 billion (2017: K2.9 billion) from note 29 below for Commission and fee income to note 28 for Net interest income. In previous years, these amounts were incorrectly disclosed as commission and fee income.

29. COMMISSION AND FEE INCOME

	GROUP		COMPANY	
	2018	2017	2018	2017
	K'm	K'm	K'm	K'm
Commissions	13 029	11 014	11 547	9 646
Other income	1 101	1 041	858	778
Total commission and fee income	14 130	12 055	12 405	10 424

30. STAFF COSTS

Salaries and wages	9 964	9 065	9 671	8 797
Other staff costs	4 319	4 040	4 156	3 897
Staff loans fair value adjustment	42	-	42	-
Staff bonus	1 824	2 366	1 651	2 177
Severance pay	-	2	-	2
Pension costs	1 082	988	1 052	958
Total staff costs	17 231	16 461	16 572	15 831

31. OTHER OPERATING EXPENDITURE

	GROUP		COMPANY	
	2018	2017	2018	2017
	K'm	K'm	K'm	K'm
Recurrent expenditure on premises and equipment	6 097	5 820	5 990	5 715
Depreciation	2 407	2 391	2 389	2 375
Amortisation of intangible assets	955	506	944	498
Impairment of intangible assets	503	-	503	-
Legal charges	179	304	177	302
Communication	1 385	1 342	1 371	1 334
Travel, Hotel and meals	837	765	824	755
Office expenses	1 160	1 057	1 124	1 040

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

31. OTHER OPERATING EXPENDITURE (CONTINUED)

	GROUP		COMPANY	
	2018	2017	2018	2017
	K'm	K'm	K'm	K'm
Security	896	811	884	792
Professional fees	932	458	904	435
Card expenses	1 659	1 051	1 659	1 051
Foreign bank loan charges	36	48	36	48
Agent bank charges	98	92	100	92
Reserve Bank of Malawi Supervisory fees and inspection charges	74	100	71	100
Customer cash collection expenses	49	23	49	23
Write off of system balances	1 052	371	1 052	347
SMS Banking expenses	504	264	504	264
Auditor's remuneration including VAT and expenses (2018)	234	166	200	132
Auditor's remuneration including VAT and expenses (2017)	-	13	-	13
Directors' remuneration				
- fees for services as directors	73	52	64	56
- for managerial services	316	264	316	264
Board expenses	139	124	137	124
Other expenses	1 217	878	800	905
Total other operating expenses	20 802	16 900	20 098	16 665
32. PROPERTIES FAIR VALUE GAINS AND LOSSES				
Fair value gains on properties through income statement	51	501	51	43
Fair value loss on properties through income statement	(201)	(185)	(201)	(185)
Net fair value gain/(loss) through income statement	(150)	316	(150)	(142)
Fair value gains on properties included in other comprehensive income	2 509	2 694	2 509	2 694
Total properties fairvalue gains	2 359	3 010	2 359	2 552

33. INCOME TAX EXPENSE

	GROUP		COMPANY	
	2018	2017	2018	2017
	K'm	K'm	K'm	K'm
Income tax (note 22)	6 427	7 574	5 791	7 252
Deferred tax (note 18)	624	829	612	608
Total income tax expenses	7 051	8 403	6 403	7 860
Profit before tax	23 016	27 550	21 709	26 179
Reconciliation of rate of tax	%	%	%	%
Standard rate of taxation	30	30	30	30
Permanent differences	1	1	-	(1)
Effective rate of taxation	31	31	30	29

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	
	2018	2017
Profit attributable to equity holders of the Company (K'm)	15 881	18 912
Net profit used to determine diluted earnings per share (K'm)	15 881	18 912
Weighted average number of Ordinary Shares in issue (millions)	467	467
Weighted average number of Ordinary Shares for diluted earnings per share (millions)	467	467
Basic earnings per share (expressed in K per share)	34.01	40.50

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

34. 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 outstanding share options which are dilutive potential ordinary shares. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	GROUP	
	2018	2017
Profit attributable to equity holders of the Company (K'm)	15 881	18 912
Net profit used to determine diluted earnings per share (K'm)	15 881	18 912
Weighted average number of Ordinary Shares in issue	467	467
Weighted average number of Ordinary Shares for diluted earnings per share (millions)	467	467
Diluted earnings per share (expressed in K per share)	34.01	40.50

	GROUP AND COMPANY	
	2018	2017
	K'm	K'm
Final dividend (prior year)	5 697	5 342
First interim dividend (current year)	2 498	3 315
	8 195	8 657
Weighted average number of Ordinary Shares in issue (millions)	467	467
Dividend per share	17.55	18.54

35. DIVIDEND PER SHARE

Final dividend (prior year)	5 697	5 342
First interim dividend (current year)	2 498	3 315
	8 195	8 657
Weighted average number of Ordinary Shares in issue (millions)	467	467
Dividend per share	17.55	18.54

34. DIVIDEND PER SHARE (CONTINUED)

The proposed current year final dividend is K3 500m (2017: K4 200m) representing K7 per share (2017: K8.99 per share). A second interim dividend of K1 500m (2017: K1,569m) will be paid on 01 April, 2019.

36. CONTINGENCIES

	GROUP		COMPANY	
	2018	2017	2018	2017
	K'm	K'm	K'm	K'm
Letters of credit and guarantees				
Foreign guarantees	1 237	1 318	1 237	1 318
Local guarantees and performance bonds	5 842	7 707	5 842	7 707
Letters of credit	28 720	26 216	28 720	26 216
Total letters of credit and guarantees	35 799	35 241	35 799	35 241
Other contingencies				
Legal claims	1 247	1 161	1 245	1 161
Tax and penalties	783	-	783	-
Customer funds under management	54 605	59 879	-	-
Total other contingencies	56 635	61 040	2 028	1 161

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

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

Legal claims represent outstanding legal cases against the Group in the ordinary course of business, the outcome of which is uncertain. The amount disclosed represents an estimate of the cost to the Group in the event that legal proceedings find the Group to be in the wrong. In the opinion of the directors, the claims are not expected to give rise to a cost to the Group. Legal claims in favour of the Group as at the end of the year were K5 255m (2017:K3 001m).

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

37. COMMITMENTS

	GROUP AND COMPANY	
	2018	2017
	K'm	K'm
Expenditure contracted for but not yet incurred	654	489
Expenditure approved by the Board but not contracted	4 019	5 176
Total commitments	4 673	5 665

These commitments are to be funded from internal resources.

38. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	2018	2017	2018	2017
	K'm	K'm	K'm	K'm
Cash and funds with Reserve Bank of Malawi (note 5)	25 023	27 098	25 267	27 098
Placements with other banks (note 11)	22 899	32 052	22 899	32 052
Other money market deposits (note 13)	40 314	104 195	26 426	78 450
Amounts due to other banks (note 21)	(1 414)	(1 714)	(1 414)	(1 714)
Total cash and cash equivalents	86 822	161 631	73 178	135 886

39. FINANCIAL ASSETS AND LIABILITIES

Accounting categories and fair values

	Notes	Held for trading	Held to maturity	Available for sale	Loans and receivables	Amortised cost	Total carrying amount	Fair value
		K'm	K'm	K'm	K'm	K'm	K'm	K'm
GROUP								
2017								
Assets								
Cash and bank balances with Reserve Bank of Malawi	5	27 098	-	-	-	-	27 098	27 098
Government of Malawi treasury bills, treasury notes and Reserve Bank of Malawi bonds	6	-	29 478	-	-	-	29 478	29 478
Government of Malawi promissory notes	7	-	-	48	-	-	48	48
Equity investments	8	3 698	-	-	-	-	3 698	3 698
Placements with other banks	11	-	-	-	32 052	-	32 052	32 052
Loans and advances to customers	12	-	-	-	137 575	-	137 575	137 575
Other money market deposits	13	-	-	-	104 195	-	104 195	104 195
Other assets(Restated)		-	-	-	1 305	-	1 305	1305
Total financial assets		30 796	29 478	48	275 127	-	335 449	335 449
Liabilities and equity								
Customer deposits	20	-	-	-	-	278 492	278 492	278 492
Amounts due to other banks	21	-	-	-	-	1 714	1 714	1 714
Loans	23	-	-	-	-	14 185	14 185	14 185
Provisions	24	-	-	-	-	2 436	2 436	2 436
Other liabilities(Restated)	25	-	-	-	-	1 831	1 831	1 831
Total financial liabilities		-	-	-	-	298 658	298 658	298 658
Restatement of other assets and other liabilities								
Other assets and other liabilities have been restated to eliminate assets and liabilities that were erroneously classified as financial instruments.								

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

39. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Accounting categories and fair values (Continued)

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

39. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Accounting categories and fair values (Continued)

	Notes	Held for trading	Held to maturity	Available for sale	Loans and receivables	Amortised cost	Total carrying amount	Fair value
		K'm	K'm	K'm	K'm	K'm	K'm	K'm
COMPANY								
2017								
Assets								
Cash and bank balances with Reserve Bank of Malawi	5	27 098	-	-	-	-	27 098	27 098
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	-	29 478	-	-	-	29 478	29 478
Government of Malawi Promissory notes	7	-	-	48	-	-	48	48
Equity investments	8	3 698	-	-	-	-	3 698	3 698
Placements with other banks	11	-	-	-	32 052	-	32 052	32 052
Loans and advances to customers	12	-	-	-	137 575	-	137 575	137 575
Other money market deposits	13	-	-	-	78 450	-	78 450	78 450
Other assets(Restated)		-	-	-	526	-	526	526
Total financial assets		30 796	29 478	48	248 603	-	308 925	308 925
Liabilities and equity								
Customer deposits	20	-	-	-	-	254 102	254 102	254 102
Amounts due to other banks	21	-	-	-	-	1 714	1 714	1 714
Loans	23	-	-	-	-	14 185	14 185	14 185
Provisions	24	-	-	-	-	2 228	2 228	2 228
Other liabilities(Restated)	25	-	-	-	-	1 368	1 368	1 368
Total financial liabilities		-	-	-	-	273 597	273 597	273 597
Restatement of other assets and other liabilities								
Other assets and other liabilities have been restated to eliminate assets and liabilities that were erroneously classified as financial instruments.								

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

39. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Accounting categories and fair values (Continued)

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

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

40.2 Fair value measurements recognised in the statement of financial position

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

40. FAIR VALUE MEASUREMENTS

Fair value measurements recognised in the statement of financial position (Continued)

	GROUP & COMPANY	
	2018	2017
	K'm	K'm
<i>Financial assets at fair value through profit or loss</i>		
Non-derivative financial assets held for trading		
Level 1	3 891	3 698

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).

Group	Financial assets/financial liabilities	Fair value		Fair value hierarchy	Valuation technique(s) and key input(s)
		2018	2017		
		K'm	K'm		
	Equity investments	3 891	3 698	Level 1	Quoted prices
	Malawi Government Promissory notes	1 441	48	Level 2	Discounted cash flows using applicable interest rates and agreed repayment plan agreed
		5 332	3 746		

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

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 maintain an appropriate system of internal controls to ensure that these risks are managed within the agreed parameters. The Board delegates risk related responsibilities to five Board committees namely; the Risk Committee, the Credit Committee, the Audit Committee, the Appointments, Remuneration and Governance Committee, and the Related Parties Committee. The Board Committees comprise of a non-executive membership only and they report regularly to the Board on their activities.

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

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

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Introduction and overview (Continued)

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

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

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

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

b) Credit risk

Credit risk arises when customers or counterparties are not able to fulfill 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

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of credit risk

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

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

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

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

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

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

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

are implemented through appropriate procedures, monitored and periodically revised to take into account changing internal and external circumstances.

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

Significant increase in credit risk

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

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

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

Internal credit risk ratings

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

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

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

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

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

The Nature & Extent of Credit Risk

The Group's exposure as at 31 December 2018 was at K173 173m with Non Performing Loans (NPL) standing at 4.07% while in 2017, the bank closed the year with a loan book worth K143 536m with NPL ratio of 7.76%. With default rate declining from the previous reporting period and the Group's enhanced recoveries, the credit risk management, it is expected to reduce further in 2019.

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 utilization of granted limit

The Bank closed 2018 with utilized overdrafts of K48 426m against limits of K59 401m representing 81.52% of the total limits compared to the utilized limits of K57 136m against limits of K110 422m in December 2017 representing 51.74% of the total limits. The increase in limits utilisation is as a result of liquidity squeeze in the market. The utilized ratio is expected to increase further in 2019 due to new measures that have been put in place to ensure customers use up the commitments.

Forbearances (both requested and granted)

There are no significant forbearances in the reporting period.

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

Changes in business, financial and economic conditions;

The business condition was stable in the reporting period due to stability of the economy driven by stable exchange rates and single digit inflation rate. The inflation rate is expected to decline in 2019 due to recent reduction in fuel price which are a cost driver for many commodities.

Credit rating information supplied by external rating agencies;

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

Loans and advances to customers at amortised cost categorised per sector

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

	Loans and advances to customers GROUP & COMPANY	
	2018	2017
	K'm	K'm
Concentration by sector		
Agriculture	27 957	22 663
Finance and insurance	4 850	1 951
Manufacturing	28 581	28 283
Other	23 555	5 046
Transport and communication	5 005	3 822
Real estate	1 662	1 048
Personal	27 813	20 966
Wholesale and retail	47 198	53 796
	<u>166 621</u>	<u>137 575</u>

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

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

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

Loans and advances to customers at amortised cost categorised by Stages

	2018	2017
Stage	K'm	K'm
Stage 1	161 601	132 418
Stage 2	5 871	6 085
Stage 3	5 701	5 033
Total Gross Carrying Amount	173 173	143 536
Loss Allowance	(6 552)	(5 961)
Carrying amount	166 621	137 575

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.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

Gross maximum exposure	GROUP		COMPANY	
	2018	2017	2018	2017
	K'm	K'm	K'm	K'm
Balances with the Reserve Bank of Malawi Government of Malawi treasury bills, treasury notes and Reserve Bank of Malawi bonds	10 833	16 139	10 833	16 139
Government of Malawi Promissory notes	96 403	29 478	82 315	29 478
Placements with other banks	1 441	48	1 441	48
Loans and advances to customers	22 899	32 052	22 899	32 052
Other money market deposits	166 621	137 575	166 621	137 575
Other assets (2017 Restated)	40 314	104 195	26 426	78 450
	2 782	1 305	2 151	526
Total recognised financial instruments	341 293	320 792	312 686	294 268
Guarantees and performance bonds	7 079	9 025	7 079	9 025
Letters of credit	28 720	26 216	28 720	26 216
Total unrecognised financial instruments	35 799	35 241	35 799	35 241
Total credit exposure	377 092	356 033	348 485	329 509

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:

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

GROUP	Carrying Amount	Offset	Net exposure to credit risk
	K'm	K'm	K'm
2017			
Balances with the Reserve Bank of Malawi Government of Malawi treasury bills, treasury notes and Reserve Bank of Malawi bonds	16 139	-	16 139
Government of Malawi promissory notes	29 478	-	29 478
Placements with other banks	48	-	48
Loans and advances to customers	32 052	-	32 052
Other money market deposits	137 575	8 150	129 425
Other assets (<i>Restated</i>)	104 195	-	104 195
	1 305	-	1 305
	<u>320 792</u>	<u>8 150</u>	<u>312 642</u>
2018			
Balances with the Reserve Bank of Malawi Government of Malawi treasury bills, treasury notes and Reserve Bank of Malawi bonds	10 833	-	10 833
Government of Malawi promissory notes	96 403	-	96 403
Placements with other banks	1 441	-	1 441
Loans and advances to customers	22 899	-	22 899
Other money market deposits	166 621	7 325	159 296
Other assets	40 314	-	40 314
	2 782	-	2 782
	<u>341 293</u>	<u>7 325</u>	<u>333 968</u>
COMPANY			
2017			
Balances with the Reserve Bank of Malawi Government of Malawi treasury bills, treasury notes and Reserve Bank of Malawi bonds	16 139	-	16 139
Government of Malawi promissory notes	29 478	-	29 478
Placements with other banks	48	-	48
Loans and advances to customers	32 052	-	32 052
Other money market deposits	137 575	8 150	129 425
Other assets (<i>Restated</i>)	78 450	-	78 450
	526	-	526
	<u>294 268</u>	<u>8 150</u>	<u>286 118</u>
2018			
Balances with the Reserve Bank of Malawi Government of Malawi treasury bills, treasury notes and Reserve Bank of Malawi bonds	10 833	-	10 833
Government of Malawi promissory notes	82 315	-	82 315
Placements with other banks	1 441	-	1 441
Loans and advances to customers	22 899	-	22 899
Other money market deposits	166 621	7 325	159 296
Other assets	26 426	-	26 426
	2 151	-	2 151
	<u>312 686</u>	<u>7 325</u>	<u>305 361</u>

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) 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 AND COMPANY	
	2018	2017
	K'm	K'm
Individually impaired:		
Grade 9: Impaired	6 462	8 041
Grade 8: Impaired	741	3 372
Past due but not impaired:		
Grade 7: Watch list	7 305	14 573
Neither past due nor impaired:		
Grade 1 - 3 Low risk	25 356	12 651
Grade 4 - 6 Fair risk	133 309	104 899
Impairment provision	(6 552)	(5 961)
Total carrying amount	166 621	137 575

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

31 December 2018	GROUP AND COMPANY	
	Gross amount	Provision
	K'm	K'm
Risk Grade		
Grade 9: Impaired	6 462	2 327
Grade 8: Impaired	741	159
Grade 7: Watch list	7 305	755
Grade 4 - 6 Fair risk	133 309	2 635
Grade 1 - 3 Low risk	25 356	447
Total Gross carrying amount	173 173	6 323

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

The impairment provision of K6 323m excludes an off balance sheet assets provision amounting to K229m.

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 IFRS9 as discussed under note 3.5.

Write-off policy

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

During the period under review, the Group wrote off K2 350m (2017: K1 398m. Refer to note 12 above. The whole amounts written off are subject to enforcement activity by the Group to recover.

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

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

Write-off policy (Continued)

	GROUP & COMPANY	
	2018	2017
	K'm	K'm
Against individually impaired		
Motor vehicles	462	133
Commercial property	2 501	1 594
Residential property	1 010	474
Equities	1	-
Cash	25	-
	<u>3 999</u>	<u>2 201</u>
Against the rest of the loan book		
Motor vehicles	21 695	15 203
Commercial property	11 241	12 673
Residential property	71 803	50 978
Cash	7 300	8 150
Equities	22 419	1 514
Treasury bills	18	25
Mortgages	9 440	9 207
Debentures	24 825	24 330
Bank guarantee	168	1 036
	<u>168 909</u>	<u>123 116</u>
Total		
	<u>172 908</u>	<u>125 317</u>

Collateral repossessed

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

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

Collateral repossessed (Continued)

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	
	2018 K'm	2017 K'm
Concentration by sector		
Agriculture	27 957	22 663
Finance and insurance	4 850	1 951
Manufacturing	28 581	28 283
Other	23 555	5 046
Transport and communication	5 005	3 822
Real estate	1 662	1 048
Personal	27 813	20 966
Wholesale and retail	47 198	53 796
	<u>166 621</u>	<u>137 575</u>

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

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

c) **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

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Liquidity risk (Continued)

inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units are funded through deposits from customers. Any short-term fluctuations are funded through treasury activities such as inter-bank facilities, repurchase agreements and others.

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

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

Measurement of liquidity risk

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

	2018	2017
At 31 December	57%	65%
Average of the period	58%	60%
Maximum for the period	64%	67%
Minimum for the period	52%	55%

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

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Liquidity risk (Continued)

GROUP	Less than	1 - 3	3 - 12	Over	Total	Carrying
	1 month	months	months	1 year		
	K'm	K'm	K'm	K'm	K'm	K'm
2017						
Financial assets						
Cash and funds with Reserve Bank of Malawi	27 098	-	-	-	27 098	27 098
Government of Malawi treasury Bills, treasury notes and Reserve Bank of Malawi bonds	-	11 021	15 698	2 759	29 478	29 478
Government of Malawi promissory notes	48	-	-	-	48	48
Equity investments	-	3 698	-	-	3 698	3 698
Placements with other banks	32 052	-	-	-	32 052	32 052
Loans and advances to customers	10 338	10 103	59 912	57 222	137 575	137 575
Other money markets deposits	104 195	-	-	-	104 195	104 195
Other assets (<i>Restated</i>)	1 305	-	-	-	1 305	1 305
Total financial assets	175 036	24 822	75 610	59 981	335 449	335 449
Financial liabilities						
Loans	-	-	61	14 124	14 185	14 185
Customer deposits	237 210	39 697	1 585	-	278 492	278 492
Amounts due to other banks	1 714	-	-	-	1 714	1 714
Provisions	-	-	2 436	-	2 436	2 436
Other liabilities (<i>Restated</i>)	1 831	-	-	-	1 831	1 831
Total financial liabilities	240 755	39 697	4 082	14 124	298 658	298 658
Contractual liquidity mismatch	(65 719)	(14 875)	71 528	45 857	36 791	36 791
Cumulative mismatch	(65 719)	(80 594)	(9 066)	36 791	-	-

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Liquidity risk (Continued)

GROUP	Less than	1 - 3	3 - 12	Over	Total	Carrying amount
	1 month	months	months	1 year		
	K'm	K'm	K'm	K'm	K'm	K'm
2018						
Financial assets						
Cash and funds with Reserve Bank of Malawi	25 023	-	-	-	25 023	25 023
Government of Malawi treasury Reserve Bank of Malawi bonds	-	33 590	52 323	10 490	96 403	96 403
Government of Malawi promissory notes	1 441	-	-	-	1 441	1 441
Equity investments	-	3 891	-	-	3 891	3 891
Placements with other banks	22 899	-	-	-	22 899	22 899
Loans and advances to customers	16 958	14 209	62 350	73 104	166 621	166 621
Other money markets deposits	40 314	-	-	-	40 314	40 314
Other assets	2 782	-	-	-	2 782	2 782
Total financial assets	109 417	51 690	114 673	83 594	359 374	359 374
Financial liabilities						
Loans	-	-	3 301	16 127	19 428	19 428
Customer deposits	257 682	35 287	1 556	-	294 525	294 525
Amounts due to other banks	1 414	-	-	-	1 414	1 414
Provisions	-	-	1 933	-	1 933	1 933
Other liabilities	1 526	-	-	-	1 526	1 526
Total financial liabilities	260 622	35 287	6 790	16 127	318 826	318 826
Contractual liquidity mismatch	(151 205)	16 403	107 883	67 467	40 548	40 548
Cumulative mismatch	(151 205)	(134 802)	(26 919)	40 548	-	-

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Liquidity risk (Continued)

COMPANY	Less than	1 - 3	3 - 12	Over	Total	Carrying amount
	1 month	months	months	1 year		
	K'm	K'm	K'm	K'm	K'm	K'm
2017						
Financial assets						
Cash and funds with Reserve Bank of Malawi	27 098	-	-	-	27 098	27 098
Government of Malawi treasury Bills, treasury notes and Reserve Bank of Malawi bonds	-	11 021	15 698	2 759	29 478	29 478
Government of Malawi promissory notes	48	-	-	-	48	48
Equity investments	-	3 698	-	-	3 698	3 698
Placements with other banks	32 052	-	-	-	32 052	32 052
Loans and advances to customers	10 338	10 103	59 912	57 222	137 575	137 575
Other money markets deposits	78 450	-	-	-	78 450	78 450
Other assets(Restated)	526	-	-	-	526	526
Total financial assets	148 512	24 822	75 610	59 981	308 925	308 925
Financial liabilities						
Loans	-	-	61	14 124	14 185	14 185
Customer deposits	212 820	39 697	1 585	-	254 102	254 102
Amounts due to other banks	1 714	-	-	-	1 714	1 714
Provisions	-	-	2 228	-	2 228	2 228
Other liabilities(Restated)	1 368	-	-	-	1 368	1 368
Total financial liabilities	215 902	39 697	3 874	14 124	273 597	273 597
Contractual liquidity mismatch	(67 390)	(14 875)	71 736	45 857	35 328	35 328
Cumulative mismatch	(67 390)	(82 265)	(10 529)	35 328	-	-

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Liquidity risk (Continued)

COMPANY	Less than	1 - 3	3 - 12	Over	Total	Carrying amount
	1 month	months	months	1 year		
	K'm	K'm	K'm	K'm	K'm	K'm
2018						
Financial assets						
Cash and funds with Reserve Bank of Malawi Government of Malawi treasury Bills, treasury notes and Reserve Bank of Malawi bonds Government of Malawi promissory notes	25 267	-	-	-	25 267	25 267
Equity investments	-	3 891	-	-	3 891	3 891
Placements with other banks	22 899	-	-	-	22 899	22 899
Loans and advances to customers	16 958	14 209	62 350	73 104	166 621	166 621
Other money markets deposits	26 426	-	-	-	26 426	26 426
Other assets	2 151	-	-	-	2 151	2 151
Total financial assets	95 142	37 602	114 673	83 594	331 011	331 011
Financial liabilities						
Loans	-	-	3 301	16 127	19 428	19 428
Customer deposits	234 183	35 287	1 556	-	271 026	271 026
Amounts due to other banks	1 414	-	-	-	1 414	1 414
Provisions	-	-	1 735	-	1 735	1 735
Other liabilities	959	-	-	-	959	959
Total financial liabilities	236 556	35 287	6 592	16 127	294 562	294 562
Contractual liquidity mismatch	(141 414)	2 315	108 081	67 467	36 449	36 449
Cumulative mismatch	(141 414)	(139 099)	(31 018)	36 449	-	-

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

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) **Market risk**

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

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

Management of market risk

The Group separates its exposure to market risk between trading and non-trading portfolios. Basel II's market risk standardised approach has pre-specified and standardised methods for all the four types of risks covered: Interest rate risk, equity risk, exchange rate risk and commodity risk. The accord specifically states that eligible capital can only be calculated after the bank has calculated minimum capital requirement for credit risk and also operational risks then only can it be established how much Tier I and Tier II capital is available to support market risk. The Group's trading portfolios mainly are held by the Treasury and Financial Institutions Division, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in ALCO. TIBD is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to day review of their implementation.

Exposure of interest rate risk: non-trading portfolio

The principal risk to which non-trading portfolio are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by TIBD its day-to-day monitoring activities. The table below summarises the exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by earlier of contractual re-pricing or maturity dates.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Market risk (Continued)

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

GROUP	Less than	1 - 3	3 - 12	Over	Non	Total
	1 month	months	months	1 year	interest	
	K'm	K'm	K'm	K'm	K'm	K'm
2017						
Financial assets						
Cash and funds with						
Reserve Bank of Malawi	-	-	-	-	27 098	27 098
Government of Malawi T'bills and						
Reserve Bank of Malawi bonds	-	11 021	15 698	2 759	-	29 478
Promissory notes	48	-	-	-	-	48
Equity investments	-	-	-	-	3 698	3 698
Placements with other banks	32 052	-	-	-	-	32 052
Loans and advances to						
customers	10 338	10 103	59 912	57 222	-	137 575
Other money market deposits	104 195	-	-	-	-	104 195
Other assets(Restated)	-	-	-	-	1 305	1 305
Total financial assets	146 633	21 124	75 610	59 981	32 101	335 449
Financial liabilities						
Loans	-	-	61	14 124	-	14 185
Customer deposits	222 844	39 697	1 585	-	14 366	278 492
Amounts due to other banks	1 714	-	-	-	-	1 714
Provisions	-	-	-	-	2 436	2 436
Other liabilities(Restated)	-	-	-	-	1 831	1 831
Total financial liabilities	224 558	39 697	1 646	14 124	18 633	298 658
Interest sensitivity gap	(77 925)	(18 573)	73 964	45 857	13 468	36 791
Cumulative gap	(77 925)	(96 498)	(22 534)	23 323	36 791	-

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Market risk (Continued)

	Less than 1 month	1 - 3 months	3 - 12 months	Over 1 year	Non interest sensitive	Total
	K'm	K'm	K'm	K'm	K'm	K'm
2017						
<i>Impact on profit of an increase in interest rates:</i>						
+1%	(779)	(186)	740	459	-	234
+2%	(1 558)	(372)	1 480	918	-	468
+3%	(2 337)	(558)	2 220	1 377	-	702
<i>Impact on profit of a decrease in interest rates:</i>						
-1%	779	186	(740)	(459)	-	(234)
-2%	1 558	372	(1 480)	(918)	-	(468)
-3%	2 337	558	(2 220)	(1 377)	-	(702)
GROUP						
2018						
Financial assets						
Cash and funds with						
Reserve Bank of Malawi	-	-	-	-	25 023	25 023
Government of Malawi T'bills and						
Reserve Bank of Malawi bonds	-	33 590	52 323	10 490	-	96 403
Promissory notes	1 441	-	-	-	-	1 441
Equity investments	-	-	-	-	3 891	3 891
Placements with other banks	22 899	-	-	-	-	22 899
Loans and advances to						
customers	16 958	14 209	62 350	73 104	-	166 621
Other money market deposits	40 314	-	-	-	-	40 314
Other assets	-	-	-	-	2 782	2 782
Total financial assets	81 612	47 799	114 673	83 594	31 696	359 374
Financial liabilities						
Loans	-	-	3 301	16 127	-	19 428
Customer deposits	239 091	35 287	1 556	-	18 591	294 525
Amounts due to other banks	1 414	-	-	-	-	1 414
Provisions	-	-	-	-	1 933	1 933
Other liabilities	-	-	-	-	1 526	1 526
Total financial liabilities	240 505	35 287	4 857	16 127	22 050	318 826
Interest sensitivity gap	(158 893)	12 512	109 816	67 467	9 646	40 548
Cumulative gap	(158 893)	(146 381)	(36 565)	30 902	40 548	-

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Market risk (Continued)

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

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Non interest sensitive K'm	Total K'm
2018						
<i>Impact on profit of an increase in interest rates:</i>						
+1%	(1 589)	125	1 098	675	-	309
+2%	(3 178)	250	2 196	1 350	-	618
+3%	(4 767)	375	3 294	2 025	-	927
<i>Impact on profit of a decrease in interest rates:</i>						
-1%	1 589	(125)	(1 098)	(675)	-	(309)
-2%	3 178	(250)	(2 196)	(1 350)	-	(618)
-3%	4 767	(375)	(3 294)	(2 025)	-	(927)
COMPANY						
2017						
Financial assets						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	27 098	27 098
Government of Malawi T'bills and Reserve Bank of Malawi bonds	-	11 021	15 698	2 759	-	29 478
Promissory notes	48	-	-	-	-	48
Equity investments	-	-	-	-	3 698	3 698
Placements with other banks	32 052	-	-	-	-	32 052
Loans and advances to customers	10 338	10 103	59 912	57 222	-	137 575
Other money market deposits	78 450	-	-	-	-	78 450
Other assets	-	-	-	-	526	526
Total financial assets	120 888	21 124	75 610	59 981	31 322	308 925
Financial liabilities						
Loans	-	-	61	14 124	-	14 185
Customer deposits	198 454	39 697	1 585	-	14 366	254 102
Amounts due to other banks	1 714	-	-	-	-	1 714
Provisions	-	-	-	-	2 228	2 228
Other liabilities	-	-	-	-	1 368	1 368
Total financial liabilities	200 168	39 697	1 646	14 124	17 962	273 597
Interest sensitivity gap	(79 280)	(18 573)	73 964	45 857	13 360	35 328
Cumulative gap	(79 280)	(97 853)	(23 889)	21 968	35 328	-

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Market risk (Continued)

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

COMPANY	Less than	1 - 3	3 - 12	Over	Non	Total
	1 month	months	months	1 year	interest	
	K'm	K'm	K'm	K'm	sensitive	
					K'm	K'm
2017						
<i>Impact on profit of an increase in interest rates</i>						
+1%	(793)	(186)	740	459	-	220
+2%	(1 586)	(372)	1 480	918	-	440
+3%	(2 379)	(558)	2 220	1 377	-	660
<i>Impact on profit of a decrease in interest rates</i>						
-1%	793	186	(740)	(459)	-	(220)
-2%	1 586	372	(1 480)	(918)	-	(440)
-3%	2 379	558	(2 220)	(1 377)	-	(660)
2018						
Financial assets						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	25 267	25 267
Government of Malawi T'bills and Reserve Bank of Malawi bonds	-	19 502	52 323	10 490	-	82 315
Promissory notes	1 441	-	-	-	-	1 441
Equity investments	-	-	-	-	3 891	3 891
Placements with other banks	22 899	-	-	-	-	22 899
Loans and advances to customers	16 958	14 209	62 350	73 104	-	166 621
Other money market deposits	26 426	-	-	-	-	26 426
Other assets	-	-	-	-	2 151	2 151
Total financial assets	67 724	33 711	114 673	83 594	31 309	331 011
Financial liabilities						
Loans	-	-	3 301	16 127	-	19 428
Customer deposits	215 592	35 287	1 556	-	18 591	271 026
Amounts due to other banks	1 414	-	-	-	-	1 414
Provisions	-	-	-	-	1 735	1 735
Other liabilities	-	-	-	-	959	959
Total financial liabilities	217 006	35 287	4 857	16 127	21 285	294 562
Interest sensitivity gap	(149 282)	(1 576)	109 816	67 467	10 024	36 449
Cumulative gap	(149 282)	(150 858)	(41 042)	26 425	36 449	-

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Market risk (Continued)

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

COMPANY	Less than	1 - 3	3 - 12	Over	Non	Total
	1 month	months	months	1 year	interest sensitive	
	K'm	K'm	K'm	K'm	K'm	K'm
2018						
<i>Impact on profit of an increase in interest rates:</i>						
+1%	(1 493)	(16)	1 098	675	-	264
+2%	(2 986)	(32)	2 196	1 350	-	528
+3%	(4 479)	(48)	3 294	2 025	-	792
<i>Impact on profit of a decrease in interest rates:</i>						
-1%	1 493	16	(1 098)	(675)	-	(264)
-2%	2 986	32	(2 196)	(1 350)	-	(528)
-3%	4 479	48	(3 294)	(2 025)	-	(792)

e) Currency risk

The Group had the following significant foreign currency positions:

GROUP	MK	USD	GBP	EURO	ZAR	OTHER	TOTAL
	K'm	K'm	K'm	K'm	K'm	K'm	K'm
2017							
Financial assets							
Cash and funds with Reserve Bank of Malawi	26 155	521	86	248	88	-	27 098
Government of Malawi T'bills and Reserve Bank of Malawi Bonds	29 478	-	-	-	-	-	29 478
Promissory notes	48	-	-	-	-	-	48
Equity investments	3 698	-	-	-	-	-	3 698
Placements with other banks	-	18 610	2 620	9 625	1 172	25	32 052
Loans and advances to customers	80 662	56 913	-	-	-	-	137 575
Other money market deposits	104 195	-	-	-	-	-	104 195
Other assets <i>(Restated)</i>	1 305	-	-	-	-	-	1 305
Total financial assets	245 541	76 044	2 706	9 873	1 260	253	335 449
Financial liabilities							
Loans	209	13 976	-	-	-	-	14 185
Customer deposits	228 390	38 914	1 614	8 768	804	2	278 492
Liabilities to other banks	249	416	-	-	1 049	-	1 714
Provisions	2 436	-	-	-	-	-	2 436
Other liabilities <i>(Restated)</i>	1 831	-	-	-	-	-	1 831
Total financial liabilities	233 115	54 306	1 614	8 768	1 853	2	298 658
Net balance open position	12 426	22 738	1 092	1 105	(593)	23	36 791
<i>Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit</i>	-	(2 274)	(109)	(111)	59	(2)	(2 437)
<i>Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit</i>	-	2 274	109	111	(59)	2	2 437

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Currency risk (Continued)

GROUP	MK	USD	GBP	EURO	ZAR	OTHER	TOTAL
	K'm	K'm	K'm	K'm	K'm	K'm	K'm
2018							
Financial assets							
Cash and funds with Reserve Bank of Malawi	24 093	801	12	23	94	-	25 023
Government of Malawi T'bills and Reserve Bank of Malawi Bonds	96 403	-	-	-	-	-	96 403
Promissory notes	1 441	-	-	-	-	-	1 441
Equity investments	3 891	-	-	-	-	-	3 891
Placements with other banks	-	13 827	3 351	4 775	918	28	22 899
Loans and advances to customers	106 545	60 076	-	-	-	-	166 621
Other money market deposits	40 314	-	-	-	-	-	40 314
Other assets	2 782	-	-	-	-	-	2 782
Total financial assets	275 469	74 704	3 363	4 798	1 012	28	359 374
Financial liabilities							
Loans	209	19 219	-	-	-	-	19 428
Customer deposits	224 465	61 919	3 245	4 706	190	-	294 525
Liabilities to other banks	373	342	-	-	699	-	1 414
Provisions	1 933	-	-	-	-	-	1 933
Other liabilities	1 526	-	-	-	-	-	1 526
Total financial liabilities	228 506	81 480	3 245	4 706	889	-	318 826
Net balance open position	46 963	(6 776)	118	92	123	28	40 548
<i>Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit</i>	-	678	(12)	(9)	(12)	(2)	643
<i>Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit</i>	-	(678)	12	9	12	2	(643)

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Currency risk (Continued)

COMPANY	MK	USD	GBP	EURO	ZAR	OTHER	TOTAL
	K'm	K'm	K'm	K'm	K'm	K'm	K'm
2017							
Financial assets							
Cash and funds with Reserve Bank of Malawi	26 155	521	86	248	88	-	27 098
Government of Malawi T'bills and Reserve Bank of Malawi Bonds	29 478	-	-	-	-	-	29 478
Promissory notes	48	-	-	-	-	-	48
Equity investments	3 698	-	-	-	-	-	3 698
Placements with other banks	-	18 610	2 620	9 625	1 172	25	32 052
Loans and advances to customers	80 662	56 913	-	-	-	-	137 575
Other money market deposits	78 450	-	-	-	-	-	78 450
Other assets	526	-	-	-	-	-	526
Total financial assets	219 017	76 044	2 706	9 873	1 260	25	308 925
Financial liabilities							
Loans	209	13 976	-	-	-	-	14 185
Customer deposits	204 000	38 914	1 614	8 768	804	2	254 102
Liabilities to other banks	249	416	-	-	1 049	-	1 714
Provisions	2 228	-	-	-	-	-	2 228
Other liabilities	1 368	-	-	-	-	-	1 368
Total financial liabilities	208 054	54 306	1 614	8 768	1 853	2	273 597
Net balance open position	10 963	22 738	1 092	1 105	(593)	23	35 328
<i>Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit</i>	-	(2 274)	(109)	(111)	59	(2)	(2 437)
<i>Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit</i>	-	2 274	109	111	(59)	2	2 437

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Currency risk (Continued)

COMPANY	MK	USD	GBP	EURO	ZAR	OTHER	TOTAL
	K'm	K'm	K'm	K'm	K'm	K'm	K'm
2018							
Financial assets							
Cash and funds with							
Reserve Bank of Malawi	24 337	801	12	23	94	-	25 267
Government of Malawi T'bills and							
Reserve Bank of Malawi Bonds	82 315	-	-	-	-	-	82 315
Promissory notes	1 441	-	-	-	-	-	1 441
Equity investments	3 891	-	-	-	-	-	3 891
Placements with other banks	-	13 827	3 351	4 775	918	28	22 899
Loans and advances to customers	106 545	60 076	-	-	-	-	166 621
Other money market deposits	26 426	-	-	-	-	-	26 426
Other assets	2 151	-	-	-	-	-	2 151
Total financial assets	247 106	74 704	3 363	4 798	1 012	28	331 011
Financial liabilities							
Loans	209	19 219	-	-	-	-	19 428
Customer deposits	200 966	61 919	3 245	4 706	190	-	271 026
Liabilities to other banks	373	342	-	-	699	-	1 414
Provisions	1 735	-	-	-	-	-	1 735
Other liabilities	959	-	-	-	-	-	959
Total financial liabilities	204 242	81 480	3 245	4 706	889	-	294 562
Net balance open position	42 864	(6 776)	118	92	123	28	36 449
<i>Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit</i>	-	678	(12)	(9)	(12)	(2)	643
<i>Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit</i>	-	(678)	12	9	12	2	(643)

f) 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.

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

f) Operational risk (Continued)

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

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

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

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

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

g) 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 which 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

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

g) Compliance risk (Continued)

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 inaccessible 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

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

A Bank is required to maintain a liquidity reserve with the Reserve Bank of Malawi equivalent to no less than 7.5% (2017: 7.5%) of its preceding week's average deposit liabilities including Government deposits. At the end of the year, the liquidity reserve for National Bank of Malawi was equivalent to 57% (2017: 65%) of total customer deposits.

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

A Bank's available capital is required to be a minimum of 10% of its risk bearing assets and contingent liabilities. The Bank complied with the requirement throughout the reporting period.

Prudential aspects of bank liquidity

As a complement to the Section 38 of the Banking Act, 2009, the Reserve Bank of Malawi had issued the following guidelines on the management of liquidity as at the year-end date:

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

Liquidity ratios

At the end of the year, National Bank's liquidity ratio I was 57% (2017: 65%) and liquidity ratio II was 57% (2017: 65%).

h) **Capital management****Regulatory capital**

The Reserve Bank of Malawi sets and monitors capital requirements for the Group as a whole. Regulatory capital requirement is the minimum amount of capital

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

h) Capital management (Continued)

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 10% of total risk-weighted on statement of financial position assets plus risk-weighted off-statement of financial position items; and
- A total capital (tier 2) of not less than 15% of its total risk-weighted on statement of financial position assets plus risk-weighted off-statement of financial position items.

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

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

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

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

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

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

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

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

h) Capital management (Continued)

	2018 K'm	2017 K'm
Tier 1 capital		
Ordinary share capital	467	467
Share premium	613	613
Retained earnings	61 369	51 740
Unconsolidated investment	(3 763)	(3 459)
Total regulatory (tier 1) capital	58 686	49 361
Supplementary capital		
Loan loss reserve	-	1 160
Revaluation reserve	21 156	18 158
Deferred tax	(7 599)	(6 332)
Unconsolidated investment	(3 763)	(3 459)
Total regulatory (tier 2) capital	68 480	58 888
Risk-weighted assets		
Retail bank, corporate bank and treasury	339 067	263 452
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	20%	22%
Total tier 1 capital expressed as a percentage of risk-weighted assets	17%	19%

i) **Basel II implementation**

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

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

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

i) Basel II implementation (Continued)

- a. Operational Risk – Basic Indicator Approach (BIA)
- b. Credit Risk – Standardized Approach (SA)
- c. 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 Advanced Measurement Approaches in three (3) years' time. To achieve the set plans, the Group has the following; a Basel II implementation gap analysis and an action plan (road map); a steering committee at Senior Management level and a project team for implementation; the Bank also has representatives at the Reserve Bank of Malawi Basel II sub committees; and its continuing to train Basel II to the Group's Directors, management and staff.

Going forward, the Group continues to assess the Basel II approaches and their impact on its capital position to arrive at an appropriately calibrated total level of risk-weighted assets, qualifying capital and leverage ratio, and factor them into its strategic business plans. In the year under review, the Group capital ratios were all above the prescribed minimum requirements under Basel II for the Reserve Bank of Malawi of 10% and 15% for tier I and tier II ratios, respectively. Further, the ratios are above the 2014 set risk appetite for the Group for capital ratios of the range of 10% to 15% for tier I and 15% to 17.5 % for tier II.

j) 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 wholesale banking loans to ensure that the customers who borrow from it manage their social and environmental risks that are associated with their activities. It impacts directly on the environment in its daily business activities through its consumption of energy and other resources, and as such, it has developed systems and processes to reduce its environmental footprint. In addition, it has raised environmental awareness among its stakeholders, particularly its employees and suppliers.

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.

k) Reputational risk policy

Reputation risk is the risk that the Group's reputation is damaged by one or more

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

i) Reputational risk policy (Continued)

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 market place 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% (2017: 51.5%) of the Ordinary Shares. The Old Mutual Group owns 25.1% (2017: 25.1%) of the Ordinary Shares and the remaining 23.4% (2017: 23.4%) of the Ordinary Shares are widely held by individuals, corporate and institutional investors and are publicly traded on the Malawi Stock Exchange.

The ultimate holding entity of the Group is Press Trust. Press Trust owns 44.5% (2017: 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.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

42. RELATED PARTY TRANSACTIONS (CONTINUED)

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

GROUP AND COMPANY	Loans		Net	Net
	Deposits		2018	2017
	K'm	K'm	K'm	K'm
Press Corporation Plc and its subsidiaries	5 961	(1 469)	4 492	3 165
Old Mutual Group	-	(2 360)	(2 360)	(1 912)
Bottling and Brewing Group Limited	-	(69)	(69)	(25)
Limbe Leaf Tobacco Company Limited	-	(83)	(83)	(498)
Press Trust	-	(362)	(362)	(192)
Directors	487	(52)	435	389
Employees	5 728	(506)	5 222	4 776
United General Insurance Limited	-	(102)	(102)	(66)
National Bank of Malawi Pension Fund	-	(230)	(230)	(252)
Total related party balances	12 176	(5 233)	6 943	5 385

Bottling and Brewing Group Limited and Limbe Leaf Tobacco Company Limited are associates of Press Corporation Plc.

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

During the year, no amount due from a related party was written off against interest in suspense and provision for loan losses. There were no provisions in respect of loans granted to related parties as at the end of the year (2017: nil).

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

42. RELATED PARTY TRANSACTIONS (CONTINUED)

The following transactions were conducted with related parties:

GROUP AND COMPANY	2018	2017
	K'm	K'm
Interest receivable		
Press Corporation Plc and its subsidiaries	1 415	864
Limbe Leaf Tobacco Company Limited	-	2
Directors	7	6
United General Insurance Limited	-	3
Employees	1 265	1 369
Average interest rate (%)	23	25
Operating lease income		
Malawi Telecommunication Limited	29	261
Bottling and Brewing Group Limited	211	324
Interest payable		
Press Corporation Plc and its subsidiaries	78	-
Old Mutual Group	7	-
Employees	923	1 035
Purchases		
Press Corporation Plc and its subsidiaries	912	805

	GROUP		COMPANY	
	2018	2017	2018	2017
	K'm	K'm	K'm	K'm
Compensation of key management personnel				
Salaries, bonuses and benefits	2 982	2 881	2 982	2 751

No specific share options were offered to key management personnel during the year (2017: nil). No shares were exercised by key management during the year (2017: 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;

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

43. BUSINESS SEGMENTS (CONTINUED)

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

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

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

	Corporate banking	Retail banking	Treasury	Other	Total
	K'm	K'm	K'm	K'm	K'm
Group					
Statement of comprehensive income					
2018					
Total external income	34 216	11 806	21 631	2 456	70 109
Segment result	27 668	9 444	21 631	2 456	61 199
Unallocated expenses	-	-	-	-	(38 183)
Profit before tax	-	-	-	-	23 016
Corporate tax	-	-	-	-	(7 051)
Group profit for the year	-	-	-	-	15 965
Other information					
Depreciation					
Unallocated depreciation	-	-	-	-	3 362
Revaluation surplus on property					
Unallocated fair value gain	-	-	-	-	51

43. BUSINESS SEGMENTS (CONTINUED)

	Corporate banking K'm	Retail banking K'm	Treasury K'm	Other K'm	Total K'm
Group					
Statement of financial position					
2018					
Assets					
Total consolidated segment assets	112 353	64 785	155 331	84 633	417 102
Liabilities and equity					
Total consolidated segment liabilities and equity	138 916	65 373	87 549	36 940	328 688
Other information					
Unallocated capital additions	-	-	-	-	88 414
Total	-	-	-	-	417 102
Group					
Statement of comprehensive income					
2017					
Total external income	34 392	10 385	26 310	1 782	72 869
Segment result	24 976	7 985	26 310	1 782	61 053
Unallocated expenses	-	-	-	-	(33 503)
Profit before tax	-	-	-	-	27 550
Corporate tax	-	-	-	-	(8 403)
Group profit for the year	-	-	-	-	19 147
Other information Depreciation					
Unallocated depreciation	-	-	-	-	2 897
Revaluation surplus on property					
Unallocated fair value gain	-	-	-	-	501

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

43. BUSINESS SEGMENTS (CONTINUED)

	Corporate banking K'm	Retail banking K'm	Treasury K'm	Other K'm	Total K'm
Group					
Statement of financial position					
2017					
Assets					
Total consolidated segment assets	99 614	45 387	166 784	80 482	392 267
Liabilities and equity					
Total consolidated segment liabilities and equity	149 993	54 008	66 001	40 052	310 054
Other information					
Unallocated capital additions	-	-	-	-	82 213
Total	-	-	-	-	392 267

44. INDEBANK LIMITED

The Group applied for a licence to convert Indebank Limited into a development bank to trade as NBM Development Bank Limited. The Reserve Bank of Malawi granted the Group a provisional licence to that effect and the Development Bank is expected to commence trading in SME and long-time financing business by the end of March 2019. An application and a payment for a full licence was made after financial statements reporting date.

During the reporting period, the Group sold its shareholding in Indetrust Holdings Limited to Press Corporation plc. The selling price was K1,935m and resulted in disposal profit of K719m which has been recognized in the statement of comprehensive income.

45. EXCHANGE RATES AND INFLATION

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

45. EXCHANGE RATES AND INFLATION (CONTINUED)

	2018	2017
Kwacha/GBP	919	974
Kwacha/Rand	49	59
Kwacha/US Dollar	743	726
Kwacha/Euro	826	865
Inflation (%)	9.2	7.7

As at 15 March 2019 the above rates had moved as follows:

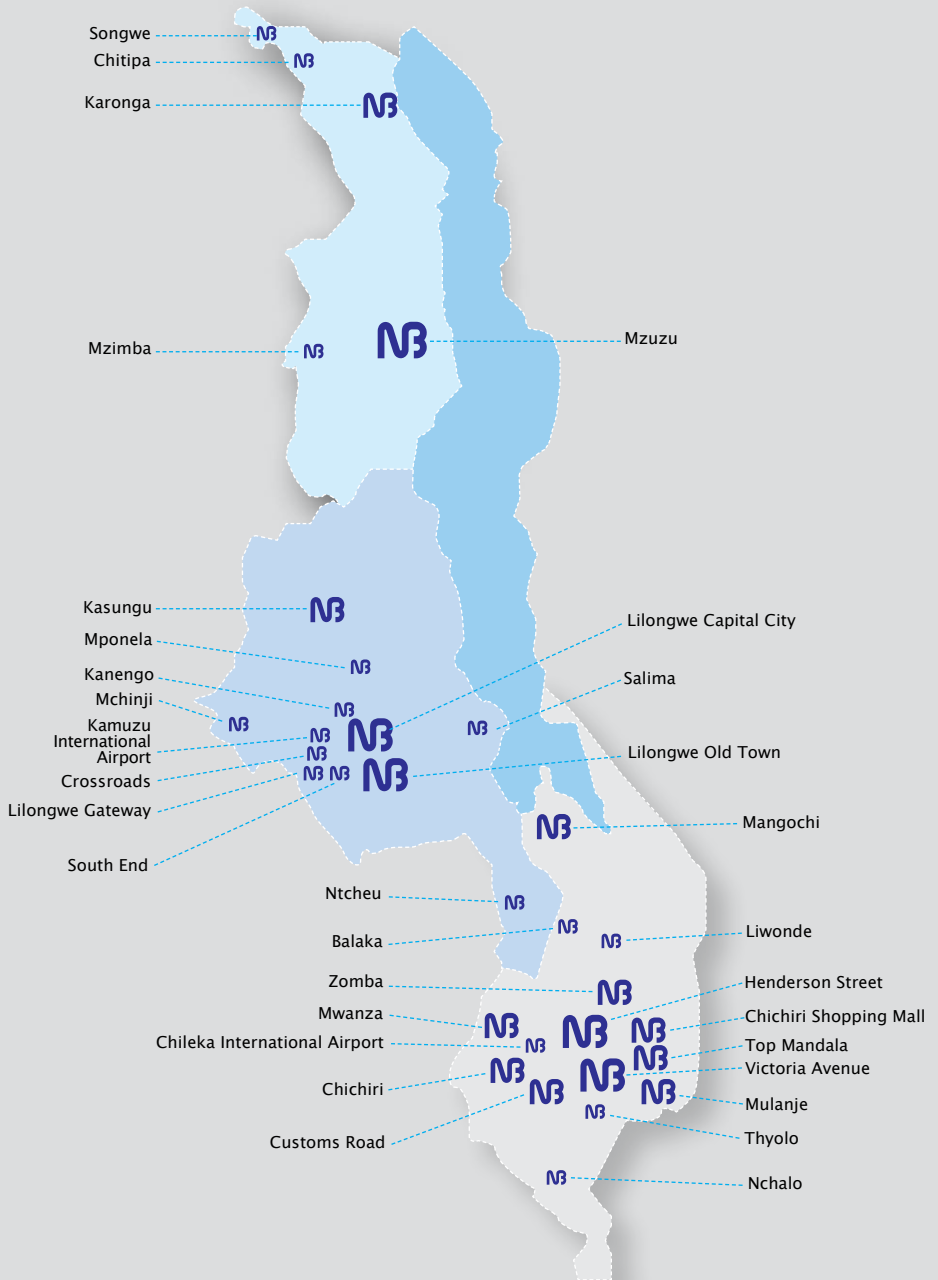
Kwacha/GBP	966.75
Kwacha/Rand	50.48
Kwacha/US Dollar	730.88
Kwacha/Euro	<u>826.87</u>
Inflation rate (%) (January 2019)	<u>8.8</u>

CORRESPONDENT BANKS

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

- > Citibank, New York
- > Citibank, London
- > Crown Agents Bank, London
- > Deutsche Bank AG, Frankfurt
- > Deutsche Bank AG, London
- > Deutsche Bank Trust Company Americas, New York
- > ABSA Bank, Johannesburg
- > First National Bank, Johannesburg
- > Standard Bank, Johannesburg
- > Commerz Bank, Frankfurt
- > Bank of China, Beijing

Map of Malawi – National Bank of Malawi plc Service Centres



National Bank of Malawi plc Head Office and Major Service Centres

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