NBS Bank
Your Caring Bank
A member of the NICO Group

# NBS BANK MARKET DISCLOSURE REPORT

AS AT 31st DECEMBER 2025

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# 1 EXECUTIVE SUMMARY

The Market Disclosure report is a regulatory report which is prepared and submitted to the Reserve Bank of Malawi (RBM) biannually. The Market Disclosure Report is mandated by the Reserve Bank of Malawi guidelines on Market Disclosure under Basel II, Pillar III. The primary objective and relevance of the public disclosure policy of NBS Bank is to maintain transparency that is adequate to enable operators and the public to make informed decisions as well as to ensure public confidence in the Bank.

NBS bank is a listed company on the Malawi Stock Exchange with Nico Holdings PLC as the ultimate shareholder with a 51.0 percent shareholding.

In terms of risk management, the Bank has a robust capital and risk management governance structure with responsibility residing at all levels within the bank starting with the Board and Management Executive Committee and filtering down to each business manager and risk specialist. The Bank's capital management model strives to maintain an adequate capital base to cover risks inherent in the business through growth of organic capital, cautious growth of Risk weighted assets, management of dividends payment, and intense growth of low capital consuming but highly profitable transactions. By end of year 2025, the bank held healthy capital levels with Tier 1 Capital at 27.07% and Total Capital at 29.92% which satisfied both internal and regulatory limits on capital. The growth of capital is mainly attributed to the bank's ability to make monthly profits which are above budget.

The Bank has a comprehensive stress testing and scenario analysis framework and regularly conducts stress testing with an objective to assess the effect of possible unexpected events on the Bank's base case projections, including the regulatory capital requirements, resources, and adequacy of capital buffers. Material risks for each unit and for the bank are maintained in a Risk register for tracking and ease of risk management. Material risk for the bank includes Market Risk, Human Capital risk, Credit risk, Strategic risk, Regulatory changes, Cyber-attacks, and potential of black swans. Emerging risks identified by the bank include Sovereign debt risk.

The bank showed resilience throughout the year despite operating in a challenging economic environment which was largely dominated by unstable foreign exchange rates, rising inflation, volatile interest rates, unfavorable weather conditions, change of government, and regulatory changes, among others. In terms of performance, PAT stood at MK148.9bn, from an asset book ofMK1.54 trillion, a growing loan book sitting at MK349.9bn, and a robust Money Market book at around MK1 trillion. Customers' deposits also continued to grow and closed the period at Mk1.04 trillion. The bank was also an outstanding performer on the stock market with a market capitalization of Mk2.496 trillion.

The Bank will continue to remain steadfast in its efforts to monitor any significant developments and changes in the economy such as monetary policy adjustments, declining interest rates on Money market securities, inflation, possibility of government debt restructuring, reduced appetite for borrowing by government, new regulations, and/or any external policies whose effects may spillover to the Malawian economy at large. Management recognizes that maintaining and continually enhancing the Bank's risk management capabilities will be critical to ensure that the bank's financial and strategic objectives are achieved despite existing economic challenges.

# 1.1 INTRODUCTION

Section 96 of the Financial Services Act 2010 relating to banks and banking groups operating in Malawi requires disclosure to the public of reliable, relevant, and timely qualitative and quantitative information that enables users of that information, amongst other things, to make an accurate assessment of a bank and banking group's financial condition, including its capital adequacy position, financial performance, business activities, risk profile and risk management practices.

The requirements of the Act are aligned with International Financial Reporting Standards (IFRS) but significantly extend the public disclosure requirements, in terms of content and frequency, relating to a bank and banking group's risk profile, risk management and capital management.

The Market Disclosure Report is mandated by the Reserve Bank of Malawi guidelines on Market Disclosure under Basel II Pillar III. The Directive also requires that the group shall have in place a formal board approved policy relating to public disclosure and specifies minimum requirements that are to be incorporated in its content.

The primary objective and relevance of the public disclosure policy of NBS Bank is to maintain transparency that is adequate to enable investors and the public to make informed decisions as well as ensure public confidence in the Bank.

Accordingly, this report provides extended disclosure, specifically covering risks and capital management. In this document the "Group" or the "Bank" means NBS Bank plc.

## 2 CORPORATE PROFILE

NBS Bank plc was incorporated as a limited company on 14th March 2003 and was registered under the Banking Act 1989 on 1st March 2004. It started its commercial banking on 1st July 2004. The Bank's predecessor institution, the New Building Society, was formed following the amalgamation of the Central African Building Society, Commonwealth Century Building Society and First Building Society. It was incorporated under the Building Societies Act on 7th February 1964. The Bank was listed on the Malawi Stock Exchange on 25th June 2007. The objective was to raise capital to invest in its infrastructure by refurbishing service centers and upgrading the Bank's information technology systems to offer more convenient and efficient services to customers.

*The table below outlines NBS Bank PLC shareholding structure as of 31st December 2025:*

| NBS BANK PLC TOP 10 SHAREHOLDING | 31st December 2025 |
|---|---|
| NAME OF SHAREHOLDER | % |
| NICO HOLDINGS PLC | 51.00 |
| PUBLIC SERVICE PENSION FUND | 7.15 |
| NICO LIFE DEPOSIT ADMINISTRATION FUND | 4.74 |
| J & J NSAMALA TRUST | 2.27 |
| THE NATIONAL INVESTMENT TRUST | 2.10 |
| MUFWIRI TRUST | 1.75 |
| STANDARD BANK PENSION FUND | 1.72 |
| OLD MUTUAL LIFE ASSURANCE COMPANY (MALAWI) LTD | 1.06 |
| NBM PENSION FUND | 1.06 |
| HARDWARE SHOPPING CENTRE | 0.95 |
| REST OF SHAREHOLDERS | 26.18 |
| | 100.00 |

*Table 1: NBS Bank Plc Shareholding Structure as of 31st December 2025*

As at 31st December 2025, the Bank's top four shareholders were Nico Holdings PLC at 51.00%, Public Shareholding at 26.18%, Public Service Pension Fund at 7.15%, and Nico Life Deposit Administration Fund at 4.74%.

NBS Bank's Mission is "To provide superior banking services and deliver value to its customers, employees, shareholders, and all other stakeholders", as such, the Bank boasts of having probably the best footprint in Malawi. It has online-real-time Service Centers strategically located across the country. In addition, the Bank offers ATM, Agency banking, workplace banking, Internet banking, Mobile banking (Eazy mobile 322, Eazy App, Eazy Wallet, Eazy Online Personal and Corporate), Pay-By-Link, and Whatsapp banking services to give its customers additional service delivery platforms and create convenience. Furthermore, it is integrated with mobile network companies to offer electronic wallets to the customers.

NBS Bank plc does lending business with its customers in all segments which are Retail/Consumer Markets, Small and Medium Enterprises (SMEs)/Business banking, and Corporate segments. Loans and Advances are mostly funded by demand deposits, short-term institutional funding and foreign currency loans from development focused external financial institutions. Further, the Bank has significantly invested in Money Market Instruments to maximize its revenues and provide adequate value to its stakeholders.

In terms of innovation, a clearly defined strategy guides the daily activities of the Bank. The Bank seeks to sustain competitive advantage based on its wide network presence, Bank Pafupi offering (Agency Banking), continuous innovation and roll out of new improved products, knowledge and experience of the Retail banking segment whilst taking advantage of opportunities in Corporate & Investment Banking, Food and Agriculture, SME segments and government business.

Executing this strategy of innovation to meet the needs of the day translates directly into the ability to help customers satisfy their unique banking requirements. The Bank's view on competition is ambitious and aggressive, driven and determined, enthusiastic and energetic, cultivating the opportunity to compete. The Bank thrives on challenges, viewing them as an opportunity to provide solutions for its customers and achieve great success. As a cohesive team, the Bank works together to routinely excite its customers, surpass expectations, and meaningfully contribute to the country's development agenda including the achievement of the Sustainable Development Goals (SDGs).

The Bank continued to execute its growth strategy with a strong focus on the Retail, SME, Food & Agriculture, and public sectors. The overarching strategic objective remains to establish the Bank as a digitally driven transactional partner for all clients, underpinned by a deep understanding of customer needs. This strategic distinction is reinforced by an intrapreneurial culture, a robust risk management framework, a client centric approach, and the ability to remain agile, flexible, and innovative. During the year, the Bank made further progress in consolidating gains from its repositioned product offering and customer-centric business model, with a continued emphasis on driving financial inclusion.

Beyond technology, the Bank remains committed to investing in its people, recognizing this as a key driver of growth and long-term business sustainability. In the year, the first cohort of women employees graduated from the "Women in Excellence Program" which was launched to equip women in leadership roles symbolizing the Bank's commitment to diversity, inclusion, and excellence in leadership.

Risk management and regulatory compliance remain strategic priorities, with ongoing measures in place to mitigate cybercrime risks and ensure full adherence to KYC requirements. The Bank continues to strengthen its internal control environment, which has contributed to a sustained reduction in operational losses over the years.

In 2024, the Bank successfully implemented a new core banking system called ORACLE Flexcube to replace Temenos T24. The Bank successfully implemented the new system in the third quarter of 2024. The Bank has embarked on a digital transformation journey aimed at automation of routine processes and offering bestin class services to the clients in all segments.

## 2.1 Basis for consolidation

Consolidation of all entities for accounting purposes is in accordance with International Financial Reporting Standards (IFRS) and for regulatory purposes is in accordance with Basel requirements, the Banking Act, the Financial Services Act, and accompanying regulations.

Equity Investment

The bank has moderately invested in equity as below:

- NATSWITCH Limited
- The Bank invested MK111.0 million in National Switch Limited Company.
- Swift Limited
- The Bank invested MK19.7million in Swift Limited as shares in the company.
- NBS Forex Bureau Limited: The Bank holds 100% shareholding in the NBS Forex Bureau, thus, a total of MK300.0 million investment. The bureau now fully operational.

## 2.2 Capital Transferability

Subject to appropriate motivation and approval by the Board and other authorities, no significant restrictions exist on the transfer of funds and regulatory capital within the Banking Group. The transfer of funds and regulatory capital within the Group is conducted after due consideration has been given to the appropriateness of each action.

# 3 CAPITAL MANAGEMENT

NBS Bank Plc recognizes the need to have an adequate capital base which is resilient to economic and other shocks. The primary purpose of the capital held by the Bank is to absorb unexpected losses. All expected losses are factored in the price of various products of the Bank. As such, the Board of the Bank ensures that capital levels respond to the changing risks in the business environment. A bank that can withstand extreme adverse economic shocks is considered safe by both the regulator and the investing public. The Bank's capital management model strives to maintain an adequate capital base to cover risks inherent in the business.

The Bank's management continues to deploy measures to preserve and grow Capital by ensuring achievement of high performance including the following measures:

- Capital preservation actions.

- Optimizing risk weighted assets
- Distributing or syndicating low and non-profitable transactions to reduce risk-weighted assets
- Delaying growth of non-current asset expenditure
- Delaying declaration and payment of dividends
- Capital raising
- Cost reduction and revenue growth to improve profitability.
- Raising Tier 1 and tier 2 capital from the market.

## 3.1 Governance

The Board is ultimately responsible for Capital Management of the Bank. This responsibility is delegated to the Chief Finance Officer (CFO) through the Chief Executive Officer (CEO).

## 3.2 Objectives

The Bank's capital management function is designed to ensure that regulatory requirements are always met and that the Bank and its principal subsidiary are capitalized in line with the Bank's risk appetite and target ratios, both of which are approved by the Board. The adequacy of the Bank's capital is monitored using, among other measures, the regulations and ratios established by the RBM in accordance with the Basel capital adequacy framework. The Capital Adequacy policy objectives at NBS Bank Plc are:

A. T o ensure that the Bank has adequate capital to absorb unexpected losses.

A. To protect the interests of depositors, creditors, and the public interest in general.

B. To ensure the Bank maintains capital standards that are recognised internationally and locally by the regulator.

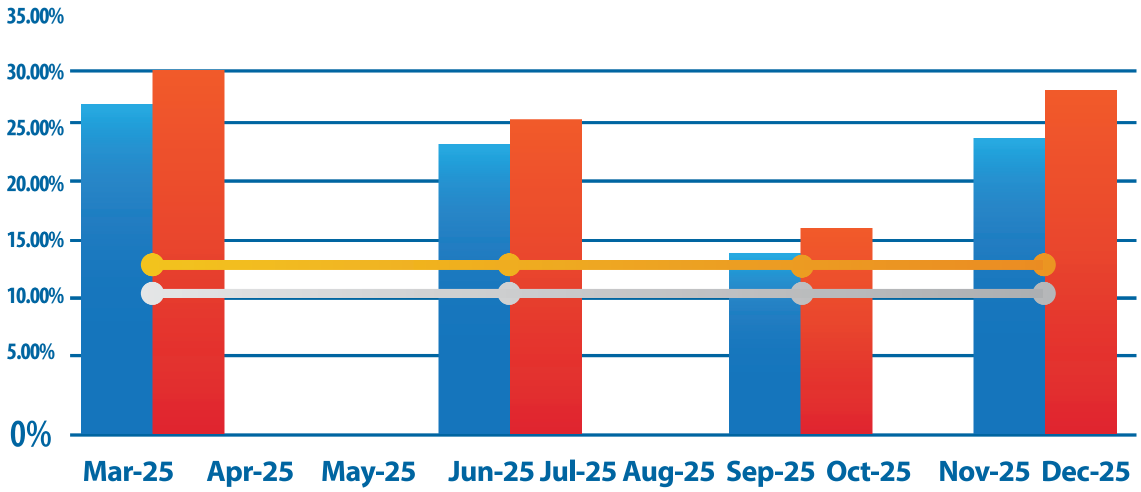
C. To promote self-discipline in the management of the Bank.

## 3.3 Capital Position

The Reserve Bank of Malawi under the Basel regime is permitted to prescribe bank-specific Tier 1 capital to be maintained by each bank given its significance in the domestic economy. NBS bank's risk appetite on capital adequacy is in the form of a capital adequacy ratio of ≥15% on Tier 1 capital and ≥18% on Total Capital.

The graph below illustrates the capital adequacy trend for the year 2025:

**Capital Ratios Trend H1 2025**




| | Mar-25 | Jun-25 | Sep-25 | Dec-25 |
|---|---|---|---|---|
| Tier 1 Ratios | 24.08% | 21.83% | 16.66% | 27.07% |
| Total Capital Ratios | 29.62% | 26.17% | 20.14% | 29.92% |
| Tier 1 limit | 15% | 15% | 15% | 15% |
| Total Capital limit | 18% | 18% | 18% | 18% |

*Graph 1: Capital Adequacy Ratio Trend for 2025*

The above trend shows that the bank was well capitalized throughout the year 2025 with Tier 1 and Total Capital ratios hovering above the prescribed regulatory limits of ≥ 15% and ≥18% respectively. Capital growth is mainly on the back of the bank's ability to retain above budget profits after tax (PAT) and cautious management of the levels and mix of risk weighted assets. As at end of year 2025, the Bank's capital ratios were sitting above the internal appetite for capital adequacy with a Tier 1 Capital ratio of 27.07%and Total Capital ratio of 29.92%, respectively.

The Bank will continue to focus on ensuring that it remains compliant with regulatory capital rules under Basel III regulations. The bank also strives to create a balance between capital adequacy and return.

## 3.4 Capital Measurement

To assess its capital adequacy requirements in accordance with RBM requirements, the Bank adopted the Standardized Approach for the measurement of its Credit Risk, Market Risk, and Operational Risk. This measurement aligns with Base III guideline

*Table 2. NBS Bank Plc capital supply computation for December 2025 (MK '000)*

| Tier I Capital | Dec-23 | Dec-24 |
|---|---|---|
| Paid-up ordinary shares | 1,455,291 | 1,455,291 |
| Share premium | 12,104,183 | 12,104,183 |
| Retained profits/ (accumulated losses) | 58,199,262 | 75,692,810 |
| Current year profits | 150,421,707 | 43,450,610 |
| General Reserves | (918,555) | (124,525) |
| **Sub-Total** | **221,261,889** | **132,578,369** |
| Deduct: Regulatory adjustment applied to CET 1 Capital | 464,420 | 490,648 |
| Deduct: AT1 Deficit | 0 | 0 |
| **Net Total Tier I Capital** | **221,616,309** | **132,087,720** |
| **Tier II Capital** | | |
| Eligible Subordinated Debt (Limited to 50% of Tier 1 capi- | 22,306,904 | 26,283,233 |
| General Loan Loss Reserves | 622,394 | 0 |
| Instruments issued by the bank that are eligible as Tier II Capital | 0 | 0 |
| Sub-Total | 22,929,298 | 26,283,233 |
| **Total Qualifying Capital** | **244,555,507** | 158,370,953 |
| Tier 1 Capital Ratio | 27.07% | 21.83% |
| Total Capital Ratio | 29.92% | 26.17% |

## 3.5 Internal Capital Adequacy Assessment Process (ICAAP)

In line with Basel requirements and regulatory guidelines, the Bank conducts the Internal Capital Adequacy Assessment Process (ICAAP) annually and conducts a review of the same semi-annually.

The Bank's ICAAP is formalized and approved by the Board. The Bank's policy is to maintain a strong capital base to absorb unexpected losses, maintain investor, regulator, creditor, and market confidence and to sustain future development of the business. Capital adequacy is based on the greater of internally determined capital by the Bank and regulatory capital requirements, including an appropriate capital buffer in line with the target ranges set by the Board.

The impact of the level of capital on shareholders' returns is also recognized and the Bank acknowledges the need to maintain a balance between the higher returns that might be possible with higher risk and the advantages and security afforded by a sound capital position.

The capital level derived through ICAAP reflects the capital to be held for risks as assessed by management through scenario stress testing instead of the regulatory capital which is derived by a prescribed formula by RBM.

The bank closed the year 2025 with a healthy Tier 1 capital ratio of 27.07%. Bank continues to implement and monitor strategies to ensure that the required capital thresholds, including the planned capital buffers, are achieved.

## 4 RISK GOVERNANCE

### 4.1 Objectives

Effective Capital and Risk management is fundamental to the business activities of the Bank. While the Bank remains committed to increasing shareholder value by developing and growing the business within the board-determined risk appetite, the Bank is mindful about achieving this objective in line with the interests of all stakeholders.

The Bank seeks to achieve an appropriate balance between risk and reward in business and continues to build and enhance the risk management capabilities that assist in delivering the growth plans in a controlled environment.

Risk management is at the core of the operating structure of the Bank. The Bank seeks to limit adverse variations in earnings and capital by managing risk exposures within agreed levels of risk appetite. The risk management approach includes minimizing undue concentrations of exposure, limiting potential losses from stress events, and ensuring the continued adequacy of all our financial resources.

The Bank's risk management processes have continued to evolve overtime to remain effective in the management of both current and emerging risks despite the existence of challenging economic conditions characterized by:

- A persistently weak export base which has worsened with the introduction of tariffs on exports in other jurisdictions such as the USA - Affecting the Kwacha's stability against the major currencies coupled with imbalances of demand and supply of foreign currency due to the widening trade deficit.
- Weather shocks – Changes in weather patterns and extreme weather conditions, impacting infrastructure development, livelihoods, and agricultural production.
- High government debt levels - Create a future obligation for the government to repay the debt plus interest. Threat of Sovereign debt default has capital implications on the bank if the risk crystalizes.
- High population growth rates - May reduce the country's ability to allocate resources to more productive activities.
- Reliance on foreign aid coupled with the recent withdrawal of U.S. aid.
- Volatile macroeconomic environment, for instance, high interest rates and rising inflation.
- Rising cost of living. – which may affect client's capacity to settle their obligations.

However, the Bank's Executive management remained closely involved in important risk management initiatives, which have focused particularly on preserving appropriate levels of liquidity, capital, and effectively managing the risk portfolios.

Responsibility and accountability for risk management resides at all levels within the Bank, from the Board down through the organization to each business manager and risk champion. Risks are controlled at the level of individual exposures and at portfolio level, as well as in aggregate across all businesses and risk types.

The Bank applies the three lines of defense model as below to effectively manage risks:

i. First Line of Defense – Business Unit Management

ii. Second Line of Defense – Risk Management Function and Compliance Function

iii. Third Line of Defense – Internal Audit Function

### 4.2 Risk Appetite Framework

Risk appetite is an articulation and allocation of the risk capacity or quantum of risk the Bank is willing to accept in pursuit of its strategy, duly set and monitored by the Executive Management Committee (EXCO) and the Board, and integrated into the Bank's strategy, business, risk, and capital plans. The Bank measures and expresses risk appetite qualitatively and in terms of quantitative risk metrics. Qualitatively, the Bank expresses risk appetite in terms of policies, processes, procedures, statements, and controls designed to limit risks that may or may not be quantified. The Bank's risk appetite statement is reviewed annually to remain relevant to the dynamic business environment.

### 4.3 Board and Management Responsibilities

The business of banking is fundamentally about managing risk. The Bank embraces best practices in corporate governance and has board committees that comply with the requirements of the Code of Corporate Practices and Conduct. Responsibility for risk management resides at all levels within the Bank in line with the ERM philosophy, starting with the Board and Management Executive Committee and filtering down to each business manager and risk specialist. The most influential role-players in the risk management framework are detailed below:

A. The Board is responsible for annually approving the Risk Appetite Statement. The Bank's risk appetite framework is embedded in key decision-making processes and supports the implementation of the 5-year strategy. The risk appetite has been translated into risk limits. Adherence to these limits is monitored and reported to produce a risk-reward profile for the Bank. So far in 2025, the board and management continue to make efforts to enhance the Bank's risk, compliance, and capital management processes. Throughout the first half of the year, the bank operated within the board-approved risk appetite except for a few areas where breaches were registered, condoned, and efforts to regularize employed. The Risk appetite is continuously reviewed to align with strategy, regulatory environment, business growth and business environment. The bank's performance was able to sustain the capital requirements and was able to meet the regulatory capital adequacy ratios.

B. The Board Risk Committee assists the Board on matters relating to risk and capital management and ensures compliance with the requirements of the banking legislation regarding risk and capital management. The committee determines and recommends the bank's risk appetite to the board and then reviews and monitors the bank's risk profile against the risk appetite, quarterly. The committee also approves control frameworks for various material risks and assists in determining capital and liquidity target ranges and monitoring the Bank's capital and liquidity levels. The detailed responsibilities of the Risk Committee as per the Risk Management Policy are as follows:

- Ensuring compliance with requirements of the Banking Act.
- Ensuring adherence to regulatory provisions including the Reserve Bank of Malawi guidelines and Malawi Stock Exchange listing requirements.
- Determining the overall risk management policy for the Bank and setting policies of risk management for NBS Bank.
- Advising executive management on highly sensitive or major strategic issues, such as mergers or acquisitions.
- Reviewing quarterly reports on the bank's enterprise-wide risk profile (including

credit, market, liquidity, Information Technology, operational, legal and liquidity risks).

• Examining and reporting to the Board on the public issues facing the bank and, where necessary, recommend policies in respect of such issues.

• To exercise all the powers of the Board, subject to the limitations prescribed by the Banking Act and such other limitations as the Board may determine from time to time.

C. The Chief Executive Officer is appointed by the Board to manage the Bank's business within an acceptable risk profile, while delivering the approved strategy that leads to the delivery of long-term objectives.

D. From a risk management perspective, the Chief Executive appoints and delegates the Head of Risk, who heads the independent Risk function and has overall day-to-day accountability for risk management in the Bank. The Risk Function is responsible for ensuring that an integrated and effective risk management framework is maintained throughout the Bank. The Head of Risk has direct and unfettered access to the Chairman of the Board Risk Committee and the Chairman of the Board.

E. Risk management responsibilities are laid out in both the Risk Management Policy and the Risk Management Framework.

# 5 STRESS TESTING

## 5.1 The Bank's Approach to Stress Testing

NBS Bank has a comprehensive stress testing and scenario analysis framework which is used, inter alia, to stress its base case projections to assess the adequacy of the Bank's capital levels, capital buffers and target ratios. The framework is an integral part of the Internal Capital Adequacy Assessment Process (ICAAP) and Capital and Risk Management Processes. Stress tests are used to proactively manage the risk profile, capital planning and management, strategic business planning and setting of capital buffers.

Stress Testing and Scenario Analysis (STSA) assesses and reveals the resilience of NBS Bank to plausible extreme events. It also lends insight into the Bank's stability and vulnerability to extreme events. The main objective of the stress testing exercise is to assess the effect of possible unexpected events on the Bank's base case projections, including the regulatory capital requirements, resources, and adequacy of capital buffers. Executive management considers the outcomes of stress testing on earnings and capital adequacy in determining an appropriate risk appetite, to ensure that these remain above the bank's minimum capital requirements. Management reviews the outcomes of stress tests and, where necessary, determines appropriate mitigating actions to minimize and manage the risks induced by potential stresses. Stress tests are regularly discussed with regulators at least twice a year.

The bank conducts stress testing in two-fold; firstly, under Normal Stress shocks and secondly under Extreme Stress shocks where the shock levels are deliberately set very high to test the bank's resilience to extreme risk events.

The Bank can implement reverse stress testing to complement the overarching stress testing program. Reverse stress testing identifies those scenarios that could prevent the bank from meeting its financial and strategic objectives and serves to inform what management action should be taken to mitigate this risk. These tests are a useful risk management tool as they assist in testing assumptions about business strategy, capital planning and contingency planning.

# 6 MATERIAL RISKS

NBS Bank Plc is primarily in the business of commercial banking guided by the laws of Malawi. The Bank is committed to effectively managing Reputational, Operational, Market, Credit, Liquidity, Compliance, Information Technology, Cyber security, Strategic, Climate risk and other risks in the context of the Bank's business strategies and with a view to achieving a balance between acceptable levels of risk and reward. The risk management policy objectives at NBS Bank Plc are:

A. Sound Corporate Governance

B. Governance that provides enough Board and management oversight and is adaptable to the growth of the Bank.

C. Effective credit risk management

D. Robust credit and delegated authority policies for underwriting models, personal, business, and corporate lending.

E. Appropriate Treasury management

F. Maintenance of liquidity and capital effectiveness to ensure adequate cash flow and to support asset and liability management in line with prudential regulatory guidelines.

G. Management of Information and Communications Technology (ICT) risks

H. Effective use of ICT systems is critical to meet key regulatory reporting requirements over data privacy and ICT security to support continuity of business processes. Cyber security risks are a key component of the ICT risks.

I. Compliance with laws, regulations, processes procedures and internal policies

J. Ensuring that all functions of the business are compliant with applicable laws, regulations, regulatory guidelines, and internal policies.

K. New product review processes

L. Appropriate review processes to confirm compliance with regulations and alignment with risk appetite and business strategy.

M. Effectiveness of financial controls

N. Controls over management information, regulatory and statutory financial reporting to ensure continuity and accuracy of information generated from IT systems.

O. Cyber security Risk

P. The Bank has implemented a coordinated set of initiatives to strengthen its overall cybersecurity risk posture by addressing key control gaps and improving resilience across people, process, and technology. These initiatives include

i. Enhancing data protection through the rollout of website cookie consent management, third party due diligence questionnaires, and the ongoing deployment of Oracle Data Safe, alongside plans for implementing Data Loss Prevention and a Group AI Policy along with the NICO Group

ii. Improving continuous vulnerability and threat management through the implementation of CTM360 a continuous threat and exposure management tool to monitor as far as the dark web,and Rapid7 InsightVM a vulnerability assessment and management solution, supported by regular penetration testing and tracked remediation

iii. strengthening governance and service provider management by embedding security assessments into the standard change management workflow

iv. reducing endpoint risk by proactively migrating the environment to Windows 11 ahead of Windows 10 end of life support ensuring any future vulnerabilities that may arise are totally avoided.

Collectively, these actions have demonstrated a proactive, risk based approach focused on regulatory compliance, attack surface reduction, improved visibility, and continuous improvement of the Bank's cybersecurity posture maturity.

i. Human Capital Risk

The bank recognizes the risk of loss of talent to competitors and has established staff remuneration reviews and introduced leadership courses for key staff aside from a robust succession plan. Further, the bank is focusing on developing staff and upskilling to match the size of the Bank and support future exponential growth. In the year, the first cohort of women employees graduated from the "Women in Excellence Program" which was launched to equip women in leadership roles symbolizing the Bank's commitment to diversity, inclusion, and excellence in leadership. Another group of leaders were enrolled in the Stellenbosch Management Development Program.

j. Sound Strategic Risk management

The bank is steadfast and on the lookout for likely changes that may affect strategy implementation and achievement of key performance indicators such as changes in the monetary policy, government policy, regulatory oversight, developments in the USA on foreign policy with the new regime, and unpredictable macro-economic environment.

k. Environmental and social risks

NBS bank has embraced ESG and integration into the Bank's operations is in progress. The Bank expects to integrate ESG principles and climate risk management in its decision-making processes, risk assessment, and long-term strategic planning. The Bank is building climate-aware credit policies, defining ESG targets and metrics with clear timelines, and embedding ESG factors in lending, advisory, and non-lending processes. The Bank has developed its first 10 year ESG Strategy aimed at reducing the bank's carbon footprint, promoting sustainable operations, respect human rights in its dealings and unlock green funding.

## 6.1. Current Set of Material Risks

Risk identification consists of determining which risks are likely to affect the Bank and documenting the characteristics of each. Risk communication involves bringing risk

*Table 3 below outlines the current set of material risks that are summarized in the Bank's Corporate strategy:*

**RISK AND CONTROL**

| Risk Type | Description | Mitigation |
|---|---|---|
| **Market Risk** | Unstable economic environment mainly characterized by high inflation, volatile interest rates, imbalances between forex demand and supply, widening gap of FX rates between official and parallel markets, sovereign debt restructuring risks, and increased market speculation of foreign currency rate adjustment. | Closely monitor Foreign Currency Net Open Position to be within limit to minimize losses in case of exchange rate adjustments.<br>Regular stress testing of key requirements. |
| **Human Capital** | The risk of loss of talent and its likely impact persists. Human capital Risk is the risk associated with inadequacies in human capital and the management of human resources, policies and processes resulting in the inability to attract, manage, motivate, develop, and retain competent resources with concomitant negative impact on the achievement of strategic objectives.<br>Remuneration remains a challenge in the current environment where staff are being impacted by consistent rising of prices of basic needs and high cost of living. | Results from recent Employee satisfaction survey showed improvement with a rating of 74% from 71% in the previous period<br>Key staff have been exposed to leadership courses to prepare them for higher roles.<br>NBS culture launched in Q1 2025 and implementation of the action map is underway. |
| **Credit Risk** | Macroeconomic factors such as declining interest rates may have a bearing on the bank's revenue streams. Foreign policy relating to withdrawal of funding of USAID programs has led to job losses and closure of USA funded organizations with potential of significant exposures being downgraded as non-performing. Change of government has come with new reforms that may impact the bank | Regular interactions with authorities for policy direction; regular stress testing of the Credit book to assess possible impact and action plans.<br>Aggressively monitor credit exposures for early detection to ensure timely restructure of the transactions and support the customers to recover.<br>Grow loan book extensively to maximize income generation. |

| | | |
|---|---|---|
| **Sovereign Debt Risk** | Risk of sovereign debt default. Although the likelihood of the risk materializing is low, its impact is high due to the bank's high exposure to government instruments. The impact may range from deposit flight, capital erosion, interest income loss, heightened credit risk, and general economic slowdown.<br>The government has showed intention to restructure public debt by buying back its outstanding bonds or securities prior to their maturity which could affect expected return on Bank's investment. | Moderate dividends payout ratio; Restructure tenor profile of Government securities; portfolio diversification; accelerate profit growth; employ CASA driven strategy to reduce cost of funding by riding on the lowrate environment; review Liquidity Contingency Plan (LCP), and regular stress testing; and raising provisions for the risk. |
| **Strategic Risk** | Likely changes in the monetary policy, government policy, regulatory oversight, developments in the USA on foreign policy with the new regime, and unpredictable macro-economic environment impacting set strategy implementation and achievement of key performance indicators. | Continuous environmental scan, forecasting, and strategy reviews to adapt to the environment. |
| **Regu latory changes** | The regulatory environment continues to be tight especially around foreign currency management, consumer protection and fair treatment. Compliance to the new regulations will have financial and reputational impact on the bank. Further we anticipate instruction of many other regulations and directives as authorities attempt to arrest the current economic imbalances including changes in monetary policy. Likely impact of regulatory changes is potential loss in revenue from FX trading and losses from penalties in the event of non-compliance to new laws. | More staff awareness to avert penalties that may arise from non-compliance due to lack of knowledge.<br><br>Aggressive efforts to operationalize gazetted directives |
| **Cyber Attacks** | Risks of attack of the Bank's systems and network by cyber criminals | Improved system penetration controls, Continuous review and Cyber security awareness; insurance in place; regular penetration tests to strengthen security |
| **Black Swans** | Emergence of black swans (catastrophic business conditions or natural disasters never experienced before) that would affect the business significantly resulting in failure to realise set strategic goalss | Robust Business Continuity Management,<br>proactive risk management practices in place |
| **Inter- nal and External Policies** | Geopolitical factors such as wars between Russia and Ukraine, Israel and Iran, and the trade war between USA and China, including other radical foreign policy changes have potential to impact the Malawian economy and the bank, in particular. For example, the current wars may affect oil pricing and availability.<br>New government reforms have potential to impact the bank in terms of government appetite for loans/borrowing, potential for default, and government deposit flight considering the bank's strategy aligns with appetite for government business. | Full time ALCO oversight of the bank's liquidity.<br>Proactive thorough analysis of external developments on the Geopolitical scene.<br>Diversification of funding sources and partners in business dealings. |

# 7 CREDIT RISK

## 7.1 Introduction

Credit risk refers to the probability of incurring losses arising from a deterioration in the credit quality of borrowers or counterparties. Within the Bank's portfolio, such losses may result from outright default due to a customer's or counterparty's inability or unwillingness to fulfill financial obligations. These obligations may relate to loans and advances, financial transactions with other institutions, or investment securities.

## 7.2 Credit Risk Governance

The Bank manages credit risk through a structured framework that includes formulating credit policies, identifying credit risks, assessing, and evaluating the risks, defining workflows, and implementing structures that support achievement of the Bank's strategic objectives. In managing credit risk, the Bank regulates credit management mandate levels, quantify risk of losses, implements measures to mitigate credit losses, and set aside capital for such risks in accordance with Basel II requirements. The bank has incorporated Environmental, Social, and Governance (ESG) requirements throughout the Credit process starting from Credit origination where a client is screened against ESG requirements upon which a scoring is allocated against the particular client. Below is the Bank's Credit Governance structure implemented to provide methodical credit assessments and evaluation systems. At each level of governancestructure there are checklists and credit control systems in place to independently challenge and control the quality of credit proposals and reinforce the integrity of the Bank's lending processes and decisions:


The Bank's Credit Risk Management framework includes comprehensive Credit policies, some of which are tailored to exposures involving related parties or high-profile borrowers, designed to manage/address specific risks inherent in such specific borrower categories. These policy documents are therefore formulated with a view to managing the identified credit risks, facilitate monitoring credit activities and ensuring that quality in the credit exposures is managed and regulated to expected standards.

## 7.3 NBS Bank Risk Measurement and Methodology

The Bank's Credit Risk measurement framework and methodology is designed with the objective of complying with Basel II requirements and International Financial Reporting Standards (IFRS). The framework ensures it provides adequate assessment of the Bank's credit portfolio for actual asset impairments in line with IFRS.

Basel II requirements create international standards for banking regulators to control how much capital buffers banks need to put aside to guard against the potential Credit risks banks face from time to time. The objective is therefore to safeguard against insolvency and economic instability relative to the risks they assume. In alignment with these objectives, the Bank complied with Basel II guidelines and local regulations.

## 7.4 NBS bank Credit Risk Rating

The Bank employs a structured credit scoring system to derive the risk rating scale for all credit exposures. The Bank's credit rating system is called Credit Quest and assigns risk grades using range from PN1 to PN9 for consumer lending and from BN1 to BN9 for Business lending. In both rating scales PN1/BN1 represents the lowest credit risk whilst PN9/BN9 represents the highest credit risk. The system utilizes a combination of quantitative data and qualitative factors to arrive at an objective and consistent rating for each counterparty. All credit applications must be evaluated through this rating system. The assigned rating directly influences the pricing of credit facilities, ensuring that the cost of credit appropriately reflects the borrower's expected risk profile. Credit risk is continuously monitored and reassessed throughout the life cycle of each approved credit facility to ensure that any changes in a borrower's creditworthiness are promptly identified and addre The Bank's Credit Risk Management framework includes comprehensive Credit policies, some of which are tailored to exposures involving related parties or high-profile borrowers, designed to manage/address specific risks inherent in such specific borrower categories. These policy documents are therefore formulated with a view to managing the identified credit risks, facilitate monitoring

In line with Central Bank guidelines and established credit risk management best practices, the Bank currently applies an internal rating model as part of its credit underwriting process. For the credit risk weighted assets, the Bank charges a 100% risk weight to all corporate exposures, as corporate clients in the country do not possess external credit ratings from recognized rating agencies. For all other credit asset classes, the Bank applies the risk weights prescribed by the Reserve Bank of Malawi (RBM).

## 7.5. Debt Restructuring

The Bank closely monitors restructured credit facilities to assess their post-restructuring performance to take timely and appropriate action should the portfolio continue to deteriorate under renegotiated terms and conditions. Performance is gauged against the expected targets of the new terms and conditions and as guided by applicable regulatory directives. During the period under review, the Bank recorded a significant number of restructures as customers were adversely affected by macroeconomic pressures, including currency devaluation, persistent foreign exchange shortages, and broader economic underperformance.

## 7.6. Credit Risk Management

To mitigate credit risk, the Bank largely considers extending credit facilities that are collateral backed. The Board of Directors has delegated responsibility for the management of credit risk to its Credit Committee. The Credit Department is responsible for day-to-day management and comprehensive oversight of the credit risk, including:

- Developing credit policies in consultation with the business units, covering collateral requirements, credit assessment standards, risk grading and reporting, documentation and legal procedures and compliance with regulatory and statutory requirements.
- Reviewing and assessing credit risk for all credit proposals to ensure alignment with the Bank's risk appetite and regulatory requirements.
- Managing concentration risk by monitoring and limiting exposures to each counterparty, sectors, industries, and geographical regions.
- Monitoring compliance of business units with approved exposure limits, including those applicable to specific industries and product categories. Regular reports on portfolio quality are submitted to the Credit Committee, and corrective actions are taken where necessary.
- Providing technical advice, guidance and specialist skills to business units to promote sound credit risk management practices and ensure consistent application of credit policies across the Bank.

## 7.7. Securitization

Securitization transactions used as part of the Bank's credit portfolio are primarily focused on the funding strategy to provide added flexibility in mitigating structural liquidity risk and diversifying the funding base. Planned securitization transactions, market appetite and potential marketing and placement strategies are governed by a delegated mandate from the Board to ALCO and assessed with the assistance of the Management Credit Committee.

Traditional securitizations are defined as transactions where the Bank transfers a pool of assets that it owns to a special purpose entity on an arm's length basis.

Synthetic securitizations are defined as transactions where the Bank transfers only the credit risk associated with an underlying pool of assets, using credit-linked notes or credit derivatives, whilst retaining legal ownership of the pool of assets.

To date, the Bank has not undertaken securitization of any of its assets. However, the strategy may be pursued in times of severe liquidity stress. With such a strategy in place, credit risk transfer and capital relief will be factored in when deciding the economic merits of each new securitization issue. In accordance with IFRS 9, any gains or losses arising from asset sales will be recognized and accounted for appropriately. Furthermore, the Bank will calculate appropriate capital charges in respect to the risk assumed, through the provision of liquidity facilities and retained exposures, as per the Basel II securitization framework.

The Bank therefore has not incurred any losses relating to securitization within the period under review.

## 7.8. Counterparty Economic Capital

Economic capital calculations generally utilize the Basel II Current Exposure Method (CEM) results as input in the determination of credit economic capital. In terms of active management of counterparty credit risk there is continued emphasis on the use of credit risk mitigation strategies, such as netting and collateralization of exposures.

## 7.9. Counterparty Credit Limits

NBS Bank applies the Basel II Current Exposure Method (CEM) for counterparty credit risk. The Board of Directors reviews major policy guidelines, growth strategy, exposure limits (for sectors, product, individual company and group) and the Bank's overall credit risk management strategies. Credit Policies are regularly updated to cope with the changing global, regional, environmental, and domestic economic scenarios.

Reserve Bank of Malawi's guidelines are followed in determining Single Borrower/Large Loan exposure limit. The Bank maintains a disciplined approach to lending by watchfully avoiding name lending and ensuring that all credit decisions are based solely on sound business considerations and thorough due diligence. For every credit facility, the Bank conducts a comprehensive assessment that includes evaluating the viability of the business, analyzing cash flows, determining credit requirements, assessing the adequacy of security provided, and thoroughly evaluating the associated risk levels. This ensures that all credit decisions are professional, objective, and aligned with the Bank's risk appetite and regulatory standards.

## 7.10. Breakdown of Credit Exposures by Various Categories

credit activities and ensuring that quality in the credit exposures is managed and regulated to expected standards.

## 7.5 NBS Bank Risk Measurement and Methodology

The Bank's Credit Risk measurement framework and methodology is designed with the objective of complying with Basel II requirements and International Financial Reporting Standards (IFRS). The framework ensures it provides adequate assessment of the Bank's credit portfolio for actual asset impairments in line with IFRS.

Basel II requirements create international standards for banking regulators to control how much capital buffers banks need to put aside to guard against the potential Credit risks banks face from time to time. The objective is therefore to safeguard against insolvency and economic instability relative to the risks they assume. In alignment with these objectives, the Bank complied with Basel II guidelines and local regulations.

## 7.6 NBS bank Credit Risk Rating

The Bank employs a structured credit scoring system to derive the risk rating scale for all credit exposures. The Bank's credit rating system is called Credit Quest and assigns risk grades using range from PN1 to PN9 for consumer lending and from BN1 to BN9 for Business lending. In both rating scales PN1/BN1 represents the lowest credit risk whilst PN9/BN9 represents the highest credit risk. The system utilizes a combination of quantitative data and qualitative factors to arrive at an objective and consistent rating for each counterparty. All credit applications must be evaluated through this rating system. The assigned rating directly influences the pricing of credit facilities, ensuring that the cost of credit appropriately reflects the borrower's expected risk profile. Credit risk is continuously monitored and reassessed throughout the life cycle of each approved credit facility to ensure that any changes in a borrower's creditworthiness are promptly identified and addressed.ssed.

### Table 4: Internal Rating

| **Business Credit Facility Ratings** | | |
|---|---|---|
| **Scores** | **Ratings** | **Remarks** |
| 90 -100 Points | PN1 | Excellent |
| 80 - 89 Points | PN2 | Excellent |
| 70 - 79 Points | PN3 | Good |
| 60 - 69 Points | PN4 | Good |
| 40 -59 Points | PN5 | Good |
| 25 -39 Points | PN6 | Good |
| 24 or less | PN7 | Bad |
| 24 or less, unresolved security issues, non-acceptance of offer letters | PN8 | Bad |
| Account where provision has been made | PN9 | Very Bad |
| **Business Credit Facility Ratings** | | |
| **Scores** | **Ratings** | **Remarks** |
| 90-100 points | BN1 | Excellent |
| 80-89 points | BN2 | Excellent |
| 65-79 points | BN3 | Good |
| 50-64 points | BN4 | Good |
| 35-49 points | BN5 | Good |
| 20-34 points | BN6 | Good |
| 19 or less | BN7 | Bad |
| **Personal Credit Facility Ratings** | | |
| Account where performance is so poor that interest has been placed into suspense, but provision has not been made | PN8 | Bad |
| Account where full provision has been made or is estimated to be necessary before the end of the year | PN9 | Very Bad |

## 7.11. Loans and Advances by Product

Table 5: Loans and Advances by Product as of 31st December 2025

| Product Type | |
|---|---|
| Personal Loan | 131,390,983 |
| Corporate Loan | 113,049,155 |
| Corporate Loan - FCY | 47,730,448 |
| Current | 17,697,477 |
| NBS Staff Personal Loan | 8,695,428 |
| SME Loans | 8,414,629 |
| NBS General Purpose Staff Loan | 4,371,225 |
| Asset Finance | 4,152,770 |
| Residential Mortgage | 3,221,286 |
| Group Scheme Personal Loan | 2,933,124 |
| New Residential Mortgage | 2,226,576 |
| Fines SME Loans (ZAYELA) | 992,837 |
| NBS Senior Management Staff Asset Finance Loan | 957,646 |
| SME Order Finance | 687,162 |
| NBS Staff Mortgage Loan | 654,086 |
| Eazy PayDay Loan | 594,780 |
| NBS EX- Staff Personal Loan | 507,955 |
| Corporate Asset Finance | 492,441 |
| Retail SME Loan | 269,587 |
| Commercial Mortgage | 254,801 |
| NBS Staff Asset Finance Loan | 217,774 |
| Agribusiness Loans | 138,419 |
| Cash Secured Loan | 105,126 |
| | |
| SME Invoice Discounting | 63,045 |
| NBS Staff Payday Loan | 62,458 |
| Insurance Premium Retail | 36,491 |
| Corporate Insurance Premium | 15,918 |
| Retail Asset Financing | 92 |
| **Grand Total** | **349,932,817** |

### 7.12. Loans and Advances by Sector

*Table 6: Loans and Advances by Sector*

| Sector | December 2025 (MK'000) | % per Sector |
|---|---|---|
| 1. Agriculture, forestry, fishing and hunting | 42,368,091 | 11.47% |
| 2. Mining and quarying | - | 0.00% |
| 3. Manufacturing | 48,567,059 | 13.15% |
| 4. Electricity, gas, water and energy | 49,860,420 | 13.50% |
| 5. Construction | 4,774,379 | 1.29% |
| 6. Wholesale and retail trade | 5,919,234 | 1.60% |
| 7. Restaurants and hotels | 18,573,010 | 5.03% 0.45% |
| 8. Transport, storage and communications | 1,674,026 | 1.64% |
| 9. Financial services | 6,046,443 | 51.57% |
| 10. Community, social and personal services | 171,021,888 | 0.31% |
| 11. Real estate | 1,129,168 | 0.00% |
| 12. Other sectors | 0 | 100.00% |
| **Grand Total** | **349,932,817** | **100.00%** |

### 7.13. Net Classified Loans

*Table 7: Net Classified Loans*

| | December 2025 (MK'000) |
|---|---|
| **Net Classified Loans and Advances** | **344,315,953** |

### 7.14. Loans by Contractual Maturity Distribution

*Table 8: Loans and Advances by Contractual Maturity Distribution*

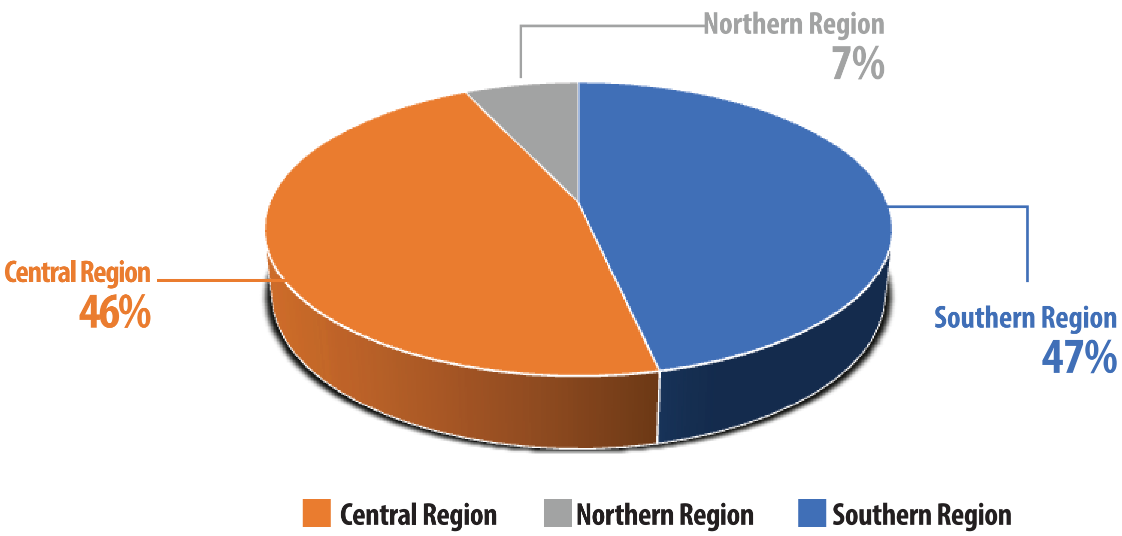
| | 3 Months | 4-6 Months | 7-12 Months | > 12 Months | Total |
|---|---|---|---|---|---|
| Overdrafts | 7,424,086 | 7,792,163 | 2,481,228 | | 17,697,477 |
| Fixed Term Loans | 16,235,448 | 35,930,699 | 22,090,905 | 203,891,990 | 278,149,042 |
| Mortgage Loans | 8,683 | | 7,165 | 6,340,901 | 6,356,749 |
| Foreign Loans | 9,257,559 | | | 38,472,889 | 47,730,448 |
| **Total** | **32,925,775** | **43,722,862** | **24,579,299** | **248,705,781** | **349,932,817** |

**Table 9: Loan Distribution by Geographical Location**

*Below chart shows percentage distribution of the loan portfolio by region:*

| Region | Exposure by Region |
|---|---|
| Central Region | 161,668,958.98 |
| Northern Region | 24,365,239.52 |
| Southern Region | 163,898,618.49 |
| **Grand Total** | **349,932,817.00** |

## LOAN DISTRIBUTION BY REGION




*7.16. Credit risk Weight Assets*

*Table 10: Credit Risk weighted assets*

| December 2025 (MK'000) | |
|---|---|
| Total Credit Risk RWAs | 370,644,740 |
| **Capital Charges (10% minimum)** | 37,067,474 |

**7.17. Summary of Write-Offs, Recoveries and Provisions**

*Table 11: Summary of Write-offs, Recoveries, and Provisions*

| | A | B |
|---|---|---|
| Balance of specific provisions at beginning of period | 13,176,245 | |
| Recoveries (Write-offs) | Write-offs | Recoveries |
| a. Government | - | - |
| b. Public sector enterprises | - | - |

| | | |
|---|---|---|
| c. Multilateral development banks | - | - |
| d. Claims to banks | - | - |
| e. Security Firms | - | - |
| f. Corporates | - | - |
| g. Retail | 3,061,725 | - |
| h. Residential mortgage | - | - |
| i. Commercial real estate | - | - |
| j. High risk categories | - | - |
| k. Forex Loans | - | - |
| Other | - | - |
| Total write-offs and recoveries | 3,061,725 | - |
| Net recoveries (Write-offs) | - | 3,061,725 |
| Provisions made current period | - | 8,007,651 |
| **Balance at end of period** | **-** | **18,122,170** |

### *7.18. Loan Portfolio Growth*

The Bank's loan portfolio has grown by 41.0% from K248.1 billion in December 2024 position to K349.9 billion in December 2025. Looking ahead, the Bank anticipates continued strong growth in the loan book, with projections indicating that the portfolio may reach approximately K600 billion in 2026. This expected growth is supported by a robust credit pipeline and is aligned with the Bank's strategic ambition under the 10X Strategy.

### *7.19. Collateral Valuation and Management*

The valuation and management of collateral across all business units of the Bank are governed by the Bank's Credit Policy. All collaterals are valued at the time credit facility is granted and revised thereafter on a need basis during the life of the exposures, usually as part of the periodic facility review process. These reviews include assessment of the security structure and covenants to ensure that good and valid title is retained over collateral held.

Collateral valuations in respect of mortgage portfolios are updated on case-by-case basis where necessary. Frequent inspections are conducted in the case of motor vehicles, especially on facilities appearing on the Bank's Watch List. Some securities are valued using desktop valuation techniques and these are regularly back tested with physical valuations.

Where credit reassessment is required or in case of default, all items of collateral are immediately revalued. In such instances a physical inspection by an expert valuer is conducted. This process ensures that an appropriate assessment for impairment is conducted in a timely manner.

## 8 MARKET RISK

### *8.1. Introduction*

Market risk is the risk that NBS Bank's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, foreign exchange rates, equity prices, and credit spreads. Market risk mainly arises from trading activities and equity investments. The Bank's Market risk comprises three main areas:

- **Interest Rate Risk in the Banking Book (IRRBB),** which arises from re-pricing and/or maturity mismatches between on and off-balance sheet components across all the business clusters. This is the non-traded interest rate risk which is covered separately in section 10.
- **Foreign exchange rate risk** results from exposure to changes in spot prices, forward prices, and volatilities of currencies.
- **Equity risk** in the banking book results from exposure to changes in the price and volatility of individual equities and equity indices.

### *8.2. Framework and Governance*

The Board grants general authority to take on market risk exposure to the Board Risk Committee, which delegates this authority to ALCO. ALCO sets market risk standards which are approved by the Board Risk Committee to ensure that the measurement, reporting, monitoring, and management of market risk across the group follows a common governance framework. There are two types of limits.

- **Level I** - Limits and triggers (for example overall net open (exposure) are approved by the Board as recommended by the ALCO.

- **Level II** - Limits and triggers (for example, Dealer limits) are set by the Treasury function in line with market risk functions under delegated authority. These limits are, however, approved by ALCO.

The market risk function in the Risk Management Division is independent of trading operations. It is responsible for identifying, measuring, monitoring, and reporting market risks as outlined in the market risk framework and various board approved policies.

Exposures and excesses are monitored and reported by the business line and group management which are then reported monthly to ALCO and quarterly to group Board Risk Committees. Where breaches in limits and triggers occur, incident reports are raised to appropriate authorities and recommendations are made for remedial actions to be taken in line with approved market risk appetite

Measurement

The techniques used to measure, and control market risk include:

- Stress testing, Scenario Analysis, and Sensitivity Analysis
- Trading Profit Analysis
- Risk Limits
- Value at Risk (VAR)

## *8.3. Market Risk Stress Testing*

Stress testing provides an indication of the potential losses that could occur in extreme market conditions. The stress tests carried out by the Bank generally hinges on the foreign currency position that the Bank undertakes and effect on margins and revenues in the event of changes in market rates repricing. The Bank includes individual market risk factor testing, combinations of market factors pertaining to economic variables that affect the foreign currency position, mainly the interaction between interest rates and the exchange rate. The Bank also stresses yields based on changing interest rates on the market.

Currently, the bank applies a stress shock of up to 50% appreciation/depreciation for foreign currency risk and applies up to 10% increase/decrease for Interest Rate risk of which the bank managed to retain a Tier 1 Capital of above 10% regulatory limit under these stress conditions in each month of the year 2025.

## *8.4. Risk Limits*

Risk limits are set and reviewed at least annually to control NBS Bank's trading activities in line with the defined risk appetite of the Bank. Criteria for setting risk limits include relevant market analysis, market liquidity, business strategy and best practice. Trading risk limits include foreign exchange position limits, Trading book size limit, interest rate mismatch and settlement limits.

## *8.5. Net open Overall Exposure*

The bank monitors its daily exposure on various trading currencies that it deals in against macroeconomic developments as a way of anticipating any unfavorable exchange rate movements. Foreign exchange management policy, as approved by the board, clearly stipulates the limit that the Bank can take as a position and the number of days a position can be left unmatched. The bank's risk appetite is set atUS$2.0 million for a short position and at US$5 million for a long position. As at year end 2025, the bank closed with a short FX NOP of USD 0.193 million, an equivalent of Mk337.8 million.

*Table 12: Net Open Position*

| 31st December 2025 | | |
|---|---|---|
| **Overall Net Open Position (USD)** | **Status** | **Appetite (mn)** |
| $0.193Mn | Short | $2.00 million for short position and $5 million for long position (and the regulatory 10% of capital) |

## *8.6. Settlement Limits*

The Bank recognizes settlement risk with various counterparties, as such the Board sets out limits concerning the amount of foreign currency that is with its trading partners and the number of days the FX can remain unsettled. The counterparty limits are revised annually or as and when the need arises.

## *8.7. Equity Risk in the Banking Book*

NBS Bank Plc is not an investment bank and does not maintain proprietary positions in equity investments.

The Bank has so far invested MK111.0 million in National Switch Company. The entity is private, hence valued at cost price or book value.

The Bank holds an equity stake of MK19.7million in Swift Limited. The shares are allocated to participants in the swift system of international payments once they have reached a certain level of transaction volume. The investment is carried at cost.

The bank, however, owns 100 percent stock of shares in NBS Forex Bureau Limited with a total investment of MK300.0 million. The bureau resumed business operations in the year 2023 and has so far a network of 3 branches located in KIA, Lilongwe, and Blantyre with total staff of 10 employees. The bureau is committed to professional and leadership development efforts with the Bureau General Manager enrolled to an Management Development program at Stellenbosch University, South Africa. As at end 2025 financial year, the Bureau achieved a profit after tax (PAT) of MK 1.5 billion, reflecting strong operational and financial performance.

NBS Bank is one of the outstanding performers on the stock market with a market capitalization of MK2,497 trillion, about 7.97% of the Malawi Stock Exchange Equity Market. The bank's share price is at around MK857.87 as at 27th February 2026. NBS has a total volume of 2.9 billion shares in issue and paid a total dividend of MK10.9 per share as at 27th February 2026.

## *8.8. Market Risk Weighted assets – Standardised Approach*

Market risk weighted assets, and the corresponding capital demand varied as the year progressed due to growth of the Trading book.

*Table 13: Market Risk Weighted Assets*

| 31st December 2025 | |
|---|---|
| **Foreign Currency Risk** | **Group and Company ('000)** |
| General Market Risk | |
| Overall short position | 123,298 |
| Overall long position | 339,123 |
| Greater of the two above | 339,123 |
| Risk weight | 8% |
| FX Risk | 27,130 |
| Total Market Risk Capital charge | 11,005,850 |
| Conversion Factor | 10 |
| Calibrated Risk Weighted Assets | 110,058,497 |

# 9 OPERATIONAL RISK

## 9.1. Introduction

ISO 31000 defines operational risk as the potential loss from ineffective or failed internal processes, people, systems, or external events. These events can disrupt the flow of NBS Bank operations. The Bank's approach to managing operational risk is to adopt fit-for-purpose operational risk practices that assist business line management in understanding their inherent risk and reducing their risk profile in line with the group's risk tolerance, while maximising their operational performance and efficiency.

## 9.2. Responsibility and Approach to Operational Risk Management

Executive management defines the operational risk appetite at a business unit and Bank level. This operational risk appetite is the amount and type of risk the Bank is willing to take to achieve its goals. It supports effective decision making and is central to embedding risk management in business decisions and reporting.

The objective in managing operational risk is to establish sound control practices to increase the efficiency and effectiveness of the group's resources, minimise losses and utilise opportunities. The Bank manages Operational risk using Standardized Measurement Approach (SMA) which is a methodology of assessing operational risk as per the Basel III accord. The SMA methodology is based on three components:

A. Business Indicator (BI), which is a financial statement-based proxy for operational risk.
B. The Business Indicator Component (BIC), which is calculated by multiplying the Business Indicator (BI) by a set of regulatory determined marginal coefficients.
C. The Internal Loss Multiplier (ILM), which is a scaling factor that is based on a bank's average historical losses and the Business Indicator Component (BIC).

In accordance with leading practice, our comprehensive risk management approach involves identifying, assessing, managing, mitigating, monitoring and measuring the risks associated with our operations. The Bank's operational risk framework defines the minimum requirements for operational risk management and is supported by specific policies and procedures. The operational risk management function within the Risk Management Division is independent from business line management and work in partnership as the second line of defence. Their role is to monitor, manage and report on risks to ensure operational risk exposure remains within the stated risk appetite as mandated by management and the Board. The Risk Management Function is also responsible for developing and implementing the operational risk management framework and for promoting and communicating sound risk management practices across the Bank. Business unit line management, as the first line of defence, is ultimately responsible for managing risks that arise and providing information to the Risk Manager regarding emerging risks in their respective spaces.

## 9.3. Managing Operational Risk

Independent monitoring of operational risk is conducted within the Bank's Risk Division, including business continuity management, legal, information risk services, forensic services, and operational risk governance. Operational risk management forms part of the day-to-day responsibilities of management at all levels. Qualitative and quantitative methodologies and tools are applied to identify and assess operational risks and to provide management with information for determining appropriate mitigating measures.

These tools include:

- A loss database of operational risk events categorized according to the Basel II business lines and operational risk event types.
- A Risk and Control Self-Assessment (RCSA) process to analyze business activities and identify operational risks that could affect the achievement of business objectives. An effective risk and control self-assessment process is a key component of developing a risk profile and understanding the residual risk; and
- Key risk indicators (KRI's) which are used to manage operational risk on an ongoing basis. Key risk indicators contribute to an assessment of the operational risk profile. The main purpose is to assist management in managing risk by providing an early-warning indicator of potential risk exposures and/or a potential breakdown of controls.

## 9.4. Business Continuity Management

Business continuity management (BCM) is an integral component of the Bank's risk management framework. The various business units are continually exposed to deployment of updated methodologies as well as testing and training to ensure increased capability to deal with interruptions to business. This is achieved through active assessment of the changing business environment, reference to and incorporation of updated and emerging best practice standards worldwide, pre-planned simulation and desktop assessments and interrogation of identified risks and threats to the operational continuity of the bank.

Contingency and recovery plans for core services, key systems and priority business processes have been developed and are revisited as part of existing management processes to ensure that continuity strategies and plans remain relevant. The bank's business continuity strategy is structured to ensure strong central monitoring and reporting and decentralized execution and is supported by an entrenched governance process. The bank continues to ensure that business continuity is managed in an effective manner through a framework of policies, procedures, and tools to identify, assess, monitor, control and report such risks.

The Bank has a Business Continuity Plan (BCP) in place which aims at minimising the impact of a disaster on its business operations by implementing measures to prevent damage. The BCP also ensures to the greatest extent possible, continuity of the Bank's crucial business operations to serve its customers even in times of disaster. The Bank tests its BCP for relevance and practice following an approved testing program.

Part of the bank's Business Continuity Plan is aimed at addressing the loss of key staff which may affect the bank's business operations. The bank has a clear succession plan in place for key positions, especially top management, and as an example to show its effectiveness, is when the BCP was invoked at the time when the bank's previous CEO left in April 2025 prompting the Deputy CEO to immediately fill the vacant position.

## 9.5. Operational Risk Weighted Assets – Standardised MeasuremenApproach (SMA)

## Operational Risk Weighted Assets

| | December 2025- Group and Company ('000) |
|---|---|
| Business Indicator | 216,830,276 |
| Business Indicator Component (BIC) | 32,524,541.44 |
| Loss Component | 2,531,065 |
| Internal Loss Multiplier | 1.00 |
| Operational Risk Capital | 32,524,541 |
| Calibrated Risk-Weighted Amount (SMA) | 325,245,414 |

# 10 INTEREST RATE RISK IN THE BANKING BOOK

### *10.1. Introduction*

Interest rate risk is the current or prospective risk to earnings and capital arising from adverse movements in interest rates. Excessive interest rate risk can pose a significant threat to the bank's earnings and capital base. The bank limits this risk through net interest sensitivity limits and managing net interest spreads within appetite.

NBS Bank's objective for management of interest rate risk in the banking book is to ensure potential impact of rate movements are minimized. However, while mismatches exist, practically and from experience, the funding side is relatively stable.

### *10.2. Assumptions*

Interest rate risk in the banking book arises from mismatches between the future yield of assets and their funding cost. Assets and Liability Committee (ALCO) monitor the interest rate movement on a regular basis. Repricing gaps are arrived at by placing assets and liabilities into times buckets based on their repricing characteristics.

### *10.3. Measurement*

Basel III requires banks to measure IRRBB and hold capital commensurate with it. The assessment of IRRBB considers both the earnings and economic value perspective of interest rate risk. The Bank uses sensitivity analysis to ascertain the impact on income or the economic value of equity is usually calculated by applying a notional interest rate shock of, say, 400 basis points. The method recommended in the Basel II paper on "Principles for the Management and Supervision of Interest Rate Risk" involves obtaining variables such as maturity/re-pricing dates, coupon rates, frequency, principal amount for each asset/liability and determining the longs and shorts in each time band before applying factors indicated in the Basel tables. The analysis takes account of embedded optionality such as loan prepayments and accounts where the account behavior differs from the contractual position. An Asset and Liability Management Model is used to work around forward-looking dynamic scenarios to assist in developing optimal hedging strategies on a risk-adjusted return basis.

Desired changes to the interest rate risk profile are achieved through the restructuring of on-balance sheet repricing or maturity profiles, or through other hedging strategies.

# 11 ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) AND CLIMATE RISK

In Q4 2024, the Reserve Bank of Malawi introduced initial guidelines on management of environmental and climate financial risk which are critical for sustainable banking and investment. The guidelines cover two risk classes in the financial system: Physical risks and Transition risk. Physical risks include acute and chronic climate impacts with damage to infrastructure, property, capital, agriculture, and health. Acute risks include floods, storms, cyclones, droughts, heatwaves, and wildfires, with immediate damage.

Events such as Cyclone Idai in 2019 and Cyclone Freddy in 2023 caused broad infrastructure destruction, agricultural losses, and economic disruption. On the other hand, chronic risks involve water level rise around Lake Malawi, shifting rainfall with water stress and lower yields, rising temperatures affecting health and biodiversity, and ecosystem degradation including soil erosion and deforestation. These trends erode collateral values and borrower capacity in both the short term and the long term. The guidance also flags transition risk from the global transition to a low carbon economy and rising expectations from ESG-focused stakeholders. As such, banks are expected to integrate ESG and climate factors into governance, strategy, capital planning, credit underwriting, and stress testing to align with international practice and prepare for future rules.

In 2025, NBS Bank Plc completed a climate risk assessment to understand exposures and impacts on the credit portfolio, physical infrastructure, and clients. The findings informed an ongoing review of the ESG Policy and the Environmental and Social Management System to keep both frameworks resilient and adaptive. The Bank began developing an Environmental and Climate Financial Risk Management Framework. The framework starts with early identification and qualitative assessment of physical and transitional risks across the lending portfolio with focus on high-risk sectors such as agriculture, energy, infrastructure, and SMEs. Insights from this work guide scenario-based stress tests to estimate expected credit losses, capital needs, and liquidity needs. As analyses mature, the results will refine capital buffers, adjust risk appetite, and steer strategic priorities under stronger governance. In parallel, the Bank is building climate-aware credit policies, defining ESG targets and metrics with clear timelines, and embedding ESG factors in lending, advisory, and non-lending processes. Furthermore, the Bank is actively producing climate-related disclosures aligned with emerging regulatory expectations and international best practices. To support effective implementation, NBS Bank Plc has invested, and will continue to invest, in staff training and capacity building across all organizational levels. While committed to advancing sustainable banking practices and improving transparency in sustainability reporting, the Bank continues to navigate the challenge of balancing financial viability with the conventional banking needs of its diverse client base.

## 12 CONCLUSION

The Bank continues to be resilient in its performance despite the current economic challenges that have the potential to disrupt business operations. The Bank will continue to remain steadfast in its efforts to monitor any significant developments and changes in the economy which may take the form of monetary or fiscal policy changes, new regulations, and/or any external policies and proactively mitigate subsequent risks.

Management recognizes that maintaining and continually enhancing the Bank's risk management capabilities will be critical to ensure that the bank's financial and strategic objectives are achieved within approved levels of risk appetite.

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