Centenary Bank

A member of Centenary Group

Basel II

Market Disclosure

June 2023

Table of Contents

1.0 Scope

This report is written in compliance with Pillar III Disclosures under Basel II, to complement the minimum capital adequacy requirements and the supervisory review process conducted by the Reserve Bank of Malawi. It discloses to investors, customers, counterparties and the general public the scope of application of Basel II, capital management, particular risk exposures and risk assessment processes, and hence the capital adequacy of Centenary Bank Limited.

The Financial Services Act section 96 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 or banking group's financial condition, including its capital adequacy position, financial performance, business activities, risk profile and risk management practices.

As part of the Basel II framework, Pillar III – Market Discipline - builds on capital requirements and the supervisory review process by developing a set of disclosures allowing market participants to assess the capital adequacy of the Bank.

This document presents capital structure and adequacy calculations. This report is unaudited but is reviewed by the bank's Internal Audit function to verify accuracy and is reported in billions of Malawi Kwacha, unless otherwise stated.

The report is available on the Bank's website at **www.centenarybank.co.mw.**

1.1 Reporting Entity

Centenary Bank Limited is a registered commercial bank under the Financial Services Act 2010, licensed by the Registrar of Financial Institutions. The Bank was first licensed as New Finance Bank Limited on 13th May 2014 and incorporated on 24th July 2014. It was subsequently licensed to conduct business as MyBucks Banking Corporation Limited on 3rd May 2019. On 6th March 2023, it was granted a license to conduct business as Centenary Bank Limited. Currently it operates 14 branches, 3 micro-finance outlets, and over 250 agency banking outlets. Centenary Bank Limited also operates a Foreign Exchange Bureau with three branches.

Centenary Rural Development Group Limited of Uganda and the Catholic Archdiocese of Lilongwe are 51% and 49% shareholders in Centenary Bank Limited, respectively.
The Bank's Head Office address is Ekistics House, Convention Drive, City Centre, Lilongwe, Malawi (PO Box 31567).

Centenary's business is categorized into Corporate, Retail and Microfinance segments. The Corporate segment serves large businesses, the Retail segment includes loans to individuals and Small and Medium Scale enterprises, while Microfinance disburses Microloans to both consumers and businesses.

1.2 Risk Management Framework

The Bank's Board and Management establish risk management policies to identify and define the risks faced by the Bank, set out appropriate risk limits and controls, and establish processes to ensure adherence to these limits. The Executive Management Committee ("EXCO"), Management Risk and Compliance Committee, Asset and Liability Committee ("ALCO") and Management Credit Committee are among the bodies at Management level which develop, recommend for Board approval and monitor these policies. Add EXCO

A comprehensive annual Internal Capital Adequacy Assessment Process ("ICAAP") is used to understand and quantify material risks the Bank may face. The ICAAP is also used to compare internal capital requirements to regulatory capital requirements in the capital planning process. Capital targets are tied to the ICAAP findings as well as to the regulatory capital requirements. The risk quantification process, including stress testing, serves to model potential risks facing the bank from both strategic and capital requirement perspectives.

Based on risk monitoring, risk probabilities and the identification of any new or escalating risks, capital requirements are assessed at least monthly and any ICAAP findings and material changes to risk are reported periodically to the Board. Risks are monitored and communicated to the Board through its Risk Committee at least quarterly.

2.0 Capital Structure and Adequacy

The Bank's policy is to maintain a capital risk management program which ensures adequate capital to sustain ongoing functioning and future development of the bank, and to meet both regulatory and internal requirements. The Bank recognizes the need to maintain a balance between higher shareholder returns and the security afforded by a sound capital position.

The Bank has committed sources of funding for the required capital from Centenary Rural Development Group Limited of Uganda and the Catholic Archdiocese of Lilongwe. This financial backing insulates the Bank from unexpected events and helps support business growth and strategy.

2.1 Regulatory Capital Position

The Bank's regulatory capital consists of Tier 1 and Tier 2 capital. Tier 1 capital includes Common Share Capital, Retained Earnings, 60% of Year-to-Date Earnings and deducts Deferred Tax and 50% of Unconsolidated Subsidiaries. As at June 30th 2023, the Bank had K17.25 billion of paid-up ordinary shares. Tier 2 capital includes a portion of the Bank's Asset Revaluation Reserves, General Loan Loss Reserves and 50% of Unconsolidated Subsidiaries. It also incorporates a seven-year MWK3.50 billion subordinated debt investment, running from 30th November 2020. In each of the last four years of the subordinated debt tenor, there will be a 20% reduction in the Tier 2 contribution of the debt. The Bank is following all externally and internally imposed capital requirements. Management uses regulatory capital ratios to monitor the capital base. **[Unless otherwise specified, balances are displayed in thousands of Malawi kwacha.]**

Capital Adequacy Ratio as at 30th June, 2023

	30-Jun-22	30-Jun-23	% Change
Paid-up ordinary shares	5,444	6,048	11%
Share premium	9,756,658	17,254,884	77%
Retained profits/(accumulated losses)	-1,043,297	-3,690,075	254%
Current year profits (60%) if loss (100%)	-908,799	555,782	-161%
General reserves	0	0	
Deduct: Goodwill	0	0	
Deduct: 50% Investments in unconsolidated banking & financial subsidiary companies	15,000	15,000	0%
Deduct: Investment in the capital of other banks & financial institutions and significant			
and minority investments in other financial entities.	0	0	
Deduct: Deferred Tax Assets	1,832,937	2,011,317	10%
Total Risk Weighted Assets	71,843,472	88,189,413	23%
TOTAL TIER I CAPITAL	**5,962,070**	**12,100,320**	**103%**
TOTAL TIER I CAPITAL RATIO	**8.30%**	**13.72%**	**65%**
Eligible Subordinated Debt (limited to 50% of total Tier I capital)	2,981,035	3,500,000	17%
Asset Revaluation Reserves, General Loan Loss Reserves, 50% Unconsolidated Subsidiaries	-15,000	-15,000	0%
TOTAL TIER II CAPITAL	**2,966,035**	**3,485,000**	**17%**
TOTAL TIER II CAPITAL RATIO	**4.13%**	**3.95%**	**-4%**
TOTAL CAPITAL	**8,928,104**	**15,585,320**	**75%**
TOTAL CAPITAL RATIO	**12.43%**	**17.67%**	**42%**

3.0 Calculation of Risk-Weighted Assets

The Bank assigns risk weights reflecting different levels of risk to assets that are recognized in the statement of financial position and exposures that are not recognized. Total Risk-Weighted Assets are MWK88.19 billion as at 30th June, 2023. Risk-weighted Assets have three components: Market, Credit and Operational Risks.

The Credit risk component consists of (‘000):

- Exposures to the Malawi Government or RBM weighted at 0%. and, therefore, are excluded from this calculation.
- Exposures to Central Government Departments e.g. Immigration and MRA weighted at 0%. These are excluded from the calculation.
- Exposures to local banks with original contractual maturity of less than three months weighted at 20% (738,340)
- Exposures to banks assigned a Credit Assessment Rating of AAA to AA-, weighted at 20% (320,362)
- Claims to local corporates weighted at 100% (6,988,645).

- Corporates past due exposures weighted at 100% (1,936,150).
- Retail exposures (excluding Overdrafts) not exceeding MK30 Million weighted at 75% (20,624,704)
- Overdrafts and Retail exposures above MK30 Million weighted at 100% (18,229,261).
- Retail past due exposures weighted at 100% (561,679).
- Claims fully secured by residential mortgage (whether owner occupied or not) weighted at 35%(15,148)
- Cash, gold, coins, bullion, foreign notes & coins, statutory reserves with the Reserve Bank of Malawi weighted at 0%. These are therefore excluded from this calculation.
- Cheques in the course of collection weighted at 20% (0)
- Other assets weighted at 100% (8,208,947).
- Off-balance sheet credit substitutes (Guarantees, Letters of credit, Undrawn Overdrafts) weighted at 100% (6,425,753).
- Transaction Related Contingency (Performance Bonds, Stand by L/Cs etc.) weighted at 50% (2,065,412)
- Off-balance sheet undrawn commitments weighted at 50%(632,782)

The Market Risk component consists of:

- Net foreign exchange exposure weighted at 80% (286,926).

The Operational Risk component under the basic indicator approach is 150% of average annual gross income over the last 12 quarters (21,819,809), not factoring in loan loss provisions, operating expenses, extraordinary items or profits/losses from sale of Treasury Investments.

4.0 Credit Risk

Credit Risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. In the case of the Bank, credit risk arises through the Bank's lending to customers and banks.

The bank currently uses the Standardized Approach for the credit portfolio as guided by the Reserve Bank of Malawi (RBM).

Oversight of credit risk management resides with the Board. The Management Credit Committee, under the oversight of the Board, monitors and approves the credit risk management program. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, and industry or sector risk).

The Bank writes off a loan/security balance (and any related allowances for impairment losses) when the Credit Department determines that the loans/securities are uncollectable. 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.

Table: Distribution of Loans and Advances by Sector. (MWK '000s)

Sector	Jun-22	Jun-23	% Change
Agriculture, forestry, fishing, and hunting	834,386	886,937	6%
Mining and quarrying	58,557	3,958	-93%
Manufacturing	1,641,042	1,367,363	-17%
Electricity, gas, water and energy	3,113	3,375	8%
Construction	2,009,782	4,510,004	124%
Wholesale and retail trade	22,961,364	20,403,270	-11%
Restaurants and hotels	543,564	390,480	-28%
Transport, storage and communications	1,816,680	1,144,861	-37%
Financial services	805,122	209,210	-74%
Community, social and personal services	19,801,961	28,142,843	42%
Real estate	121,228	91,227	-25%
Other sectors			
TOTAL	**50,596,799**	**57,153,530**	**13%**

5.0 Allowance for Loan Losses

The Bank maintains an allowance for loan losses (the "allowance") that represents management's probability-weighted estimate of the expected credit losses in the loan portfolio.

This allowance is increased through a provision for loan losses (the "provision") and reduced by net charge-offs.

The Bank adopted IFRS 9 in January, 2018. The allowance for losses is determined using an Expected Credit Loss ("ECL") model. The model uses macroeconomic forecasts across multiple scenarios, factors and forward-looking indicators. Loans are divided into stage 1 (Normal; less than 30 days in arrears), stage 2 (Special Mention; up to 90 days in arrears) and stage 3 (Non-Performing; beyond 90 days in arrears). Unsecured stage three exposures are fully provided for when computing capital adequacy. Collateral offsets provisions of equivalent value for up to 18 months of non-performing status.

Loan Performance (MWK '000s)	Jun-23
Gross Loans and Advances	57,153,530
Non-Performing Loans (NPLs)	3,395,547
IFRS9 Provisions	1,544,378
Non-Performing Loans to Total Loans Ratio	**5.94%**

Loans and Advances to Customers by IFRS 9 Stages (MWK '000s)

IFRS9 Stages	Jun-23
Stage 1	44,704,378
Stage 2	9,053,604
Stage 3	3,395,547
Total Gross Carrying Amount	57,153,530
Less Loan Allowance	1,544,378
Net Carrying Amount	55,609,151

Non-Performing Loans and Loan Loss Provisions by Sector

Sector	Non-Performing Loans	Provisions
Total	3,395,546.95	897,718.05
Agriculture, forestry, fishing, and hunting	212,314.98	209,670.32
Mining and quarrying	3,958.45	
Manufacturing	266.40	10.86
Electricity, gas, water and energy	-	
Construction	1,590.38	29.29
Wholesale and retail trade	2,021,764.40	380,690.64
Restaurants and hotels	3,627.20	
Transport, storage and communications	166,792.52	3.09
Financial services	20,864.74	
Community, social and personal services	964,367.89	307,313.85
Other sectors	-	

6.0 Collateral Valuation and Management

The Bank engages qualified property valuation experts who provide us with the open market values of properties as well as the forced sale values as need be. These valuation figures are the ones we attach to the property collateral securities offered by the borrowers. The Bank applies a haircut on the forced sales value. The Bank conducts property inspection every twelve months on the property pledged by customers to ascertain whether the collateral condition has deteriorated. Currently, the Bank's policy on secured SME and Corporate facilities is to lend a maximum of 70% of collateral forced sale value. As at end-June 2023, 60% of the Bank's lending fell into the secured category, with the majority of unsecured lending consisting of payroll lending to individuals which is deducted at source.

7.0 Credit Concentration Risk

Inherent in the credit portfolio is concentration risk. To mitigate this risk, the Bank developed its Credit Risk Policy and Credit Risk Appetite to ensure an appropriate level of diversification in the portfolio.

Table: Industry distribution of credit exposures. (MWK'000s)

Sector	Exposure	%
Agriculture, forestry, fishing, and hunting	886,937	1.55%
Mining and quarrying	3,958	0.01%
Manufacturing	1,367,363	2.39%
Electricity, gas, water and energy	3,375	0.01%
Construction	4,510,004	7.89%
Wholesale and retail trade	20,403,270	35.70%
Restaurants and hotels	390,480	0.68%
Transport, storage and communications	1,144,861	2.00%
Financial services	209,210	0.37%
Personal loans	28,142,843	49.24%
Real estate	91,227	0.16%
Other sectors	-	0.00%
Total	57,153,530	

8.0 Counterparty Risk

A conservative approach is taken in managing counterparty credit risk exposures by setting internal limits on total exposure and term.

As of 30th June, 2023, the bank had two large credit exposures above 10% of regulatory capital (17.00% and 15.54%, respectively). There is a regulatory ceiling of 25% of regulatory capital that can be extended to a single obligor.

9.0 Securitization Risk

The Bank has no securitization risk as it does not securitize any of its loans and advances portfolios.

10.0 Market Risk

Market Risk is defined as the risk of losses arising from adverse movements in market prices. Normally, the risk stems from all the positions included in a bank's trading book as well as from foreign exchange risk positions on its balance sheet. The Bank does not have any trading book portfolios and, as such, has minimal exposure to market risk. As guided by the Reserve Bank of Malawi the bank uses the Standardized Approach for the banking exposures.

11.0 Operational Risk

Operational Risk is defined as the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events.

To measure its Operational Risk the Bank uses the Basic Indicator Approach and Operational Risk Self-Assessments. As part of this approach, there are regular operational status meetings designed to identify and assess the most significant operational risks and to agree on any additional mitigation steps and controls that may be required. These measures are deemed necessary as the Bank recognizes that any Operational Risk could have a significant impact on the business.

Incident Reports are prepared for actual and potential operational loss events and root cause analysis and tracking of resolution of recommended actions contribute to the strengthening of controls on an ongoing basis. The Bank sets a risk appetite for operational losses and has never previously exceeded it.

12.0 Equity Risk

The Bank has no Equity Risk as it does not hold any equity portfolios.

13.0 Interest Rate Risk

The Bank is exposed to interest rate risk in the banking book through possible rate changes and the resulting mismatch between loans and advances rate and the funding rate. ALCO monitors this potential mismatch, as well as interest rate changes, and reports its findings and recommendations to the Board. Monthly reports assess the bank's level of sensitivity to interest rate shocks.

14.0 Liquidity Risk

Liquidity Risk is the risk that the Bank will not be able to meet financial commitments and obligations when due or may incur significant costs in meeting those obligations. The Bank manages its exposure to short-term and long-term liquidity by ensuring that adequate governance, policies, and procedures are in place to manage cash at all tim.

Long-range planning and forecasting tools are in place to monitor long-term funding needs.

The Bank holds liquid assets in the form of high-quality securities and balances with Malawian commercial banks in order to meet its regulatory obligations, operational needs and to maintain a stock of unencumbered High-Quality Liquid Assets ("HQLA") as a defense against the potential onset of liquidity stress. As at June 30th, 2023 the balance of HQLA was MWK23.95 billion. The Bank's liquidity ratio was 30.29%, exceeding the 25% regulatory minimum.

ALCO monitors both short-term and long-term liquidity needs. A Liquidity Policy and Liquidity Contingency Funding Plan are in place to ensure funding procedures are maintained during a crisis.

15.0 Deposit Concentration Risk

As of 30th June 2023, total deposits were at MWK84 billion, with Term Deposits making up 41% of the deposit base. Savings and Demand deposits were at 15% and 44% of the deposit base, respectively. The Top 20 Depositors were at MWK31 billion (36% of deposits).

16.0 Remuneration

Types of Employees considered Material Risk Takers and Senior Managers

For the purposes of this remuneration policy, Senior Managers and Material Risk Takers have been defined using the Basel II Pillar III disclosure requirements. Senior Managers are defined as those with decision making powers; for example, a member of a senior management committee and holder of a senior management post; able to commit significantly to risk exposures.

Senior Managers:

1. Managing Director
2. Deputy Managing Director
3. Chief Finance Officer
4. Chief Commercial Officer
5. Chief Operating Officer
6. Head of Compliance
7. Head of Risk
8. Head of Retail Banking
9. Head of Corporate Banking
10. Head of Treasury
11. Head of Microfinance
12. Head of Channels
13. Head of International Payments and Trade Finance
14. Head of Credit
15. Head of Operations
16. Head of IT
17. Head of Human Resources
18. Company Secretary & Head of Legal

The bank's Remuneration policy supports the attainment of the corporate vision through the attraction and retention of high caliber personnel.

The bank has an Incentives Policy. The purpose of the policy is to motivate and reward key employees for accomplishing individual performance goals established in accordance with the business targets of the Bank.

The Human Resources Committee of the Board is responsible for the review and approval of the Remuneration and Incentives Policy and updates to the Policy. After every policy review, the Head of Human Resources is required to summarize the sections of the policies which have been updated and send to the Committee for its review and approval.

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