National Bank of Malawi plc

2017 Annual Report


Mo626 ice
Mo626 DIGITAL

2017 Annual Report

Banking without breaking your strides


NB
I have just paid my tuition fees right here on campus without going to the bank. No interruption to my studies.
FRENCH
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Contents

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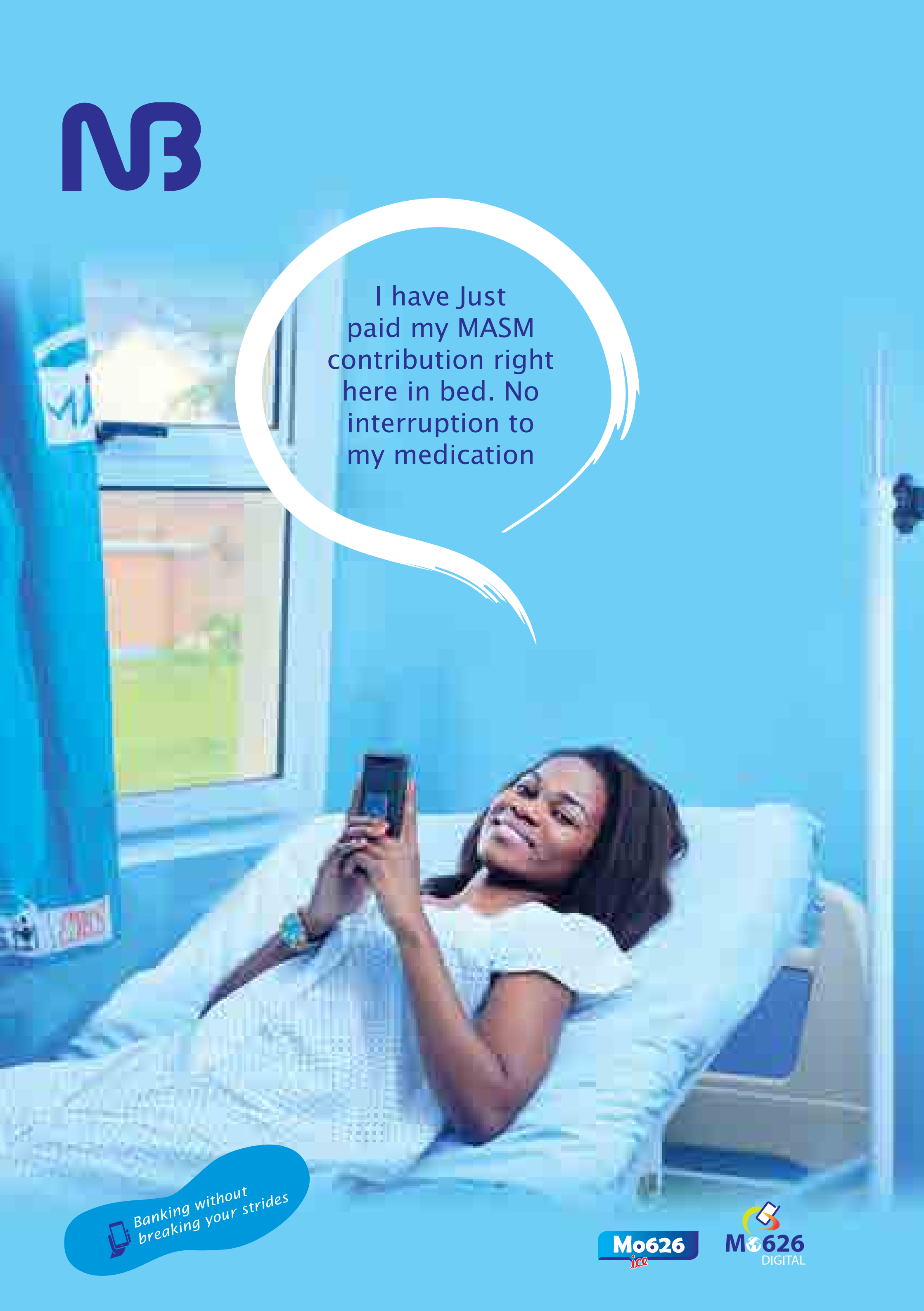

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VISION

To be the most successful financial institution in Malawi with a visible presence in the Southern Africa Region.

MISSION STATEMENT

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

CORE VALUES

Customer Satisfaction

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

Equal Opportunity Employee Recruitment and Development

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

Commitment

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

Integrity and Trust

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

Team Work

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

Corporate Social Responsibility

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

I have just paid our monthly taxes to Malawi Revenue Authority right here in the office without going to the bank. No interruption to my work
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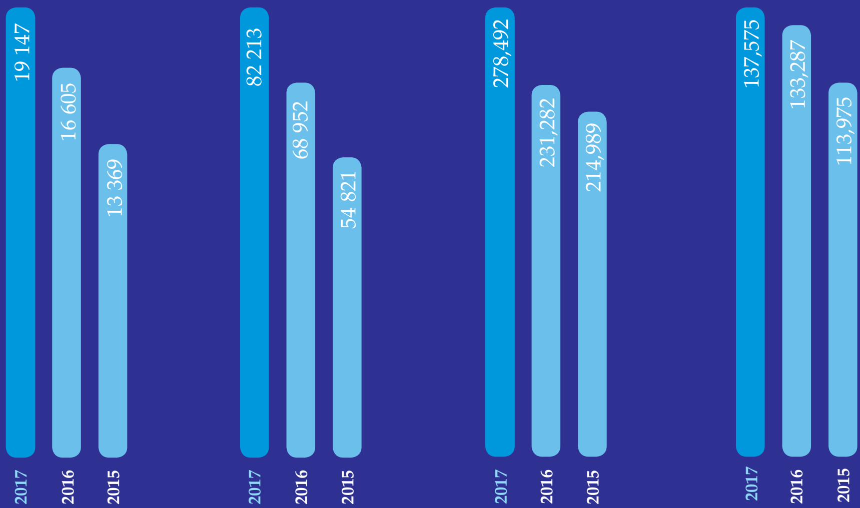
	K'm			
	Profit After Tax	Shareholders Funds	Deposits	Loans and Advances
2015	13 369	54 821	214 989	113 975
2016	16 605	68 952	231 282	133 287
2017	19 147	82 213	278 492	137 575
% Change 2016 vs 2017	15% ↑	19% ↑	20% ↑	3% ↑

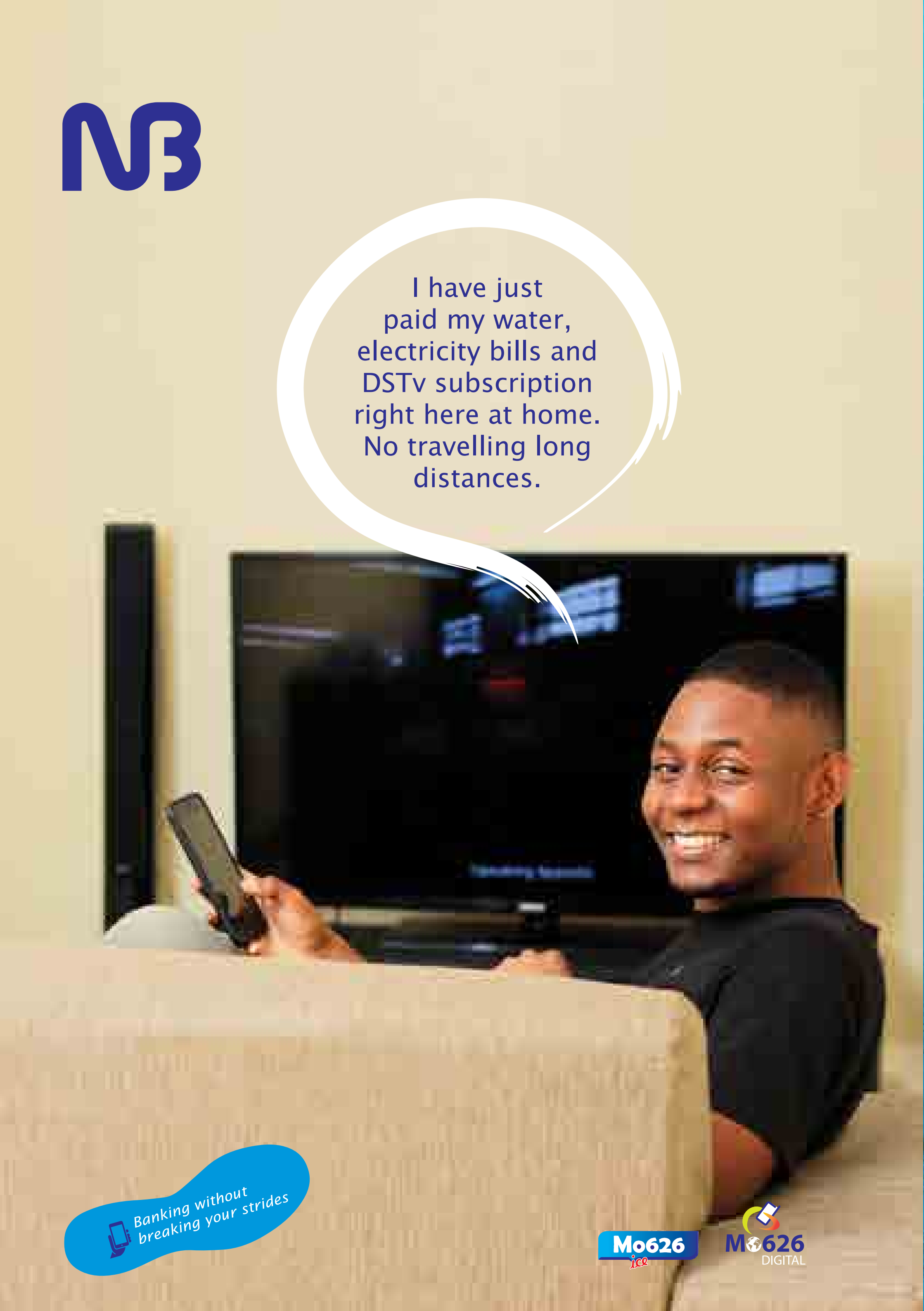


PROFIT AFTER TAX (K'm)

SHAREHOLDERS FUNDS (K'm)

DEPOSITS (K'm)

LOANS AND ADVANCES (K'm)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I have just paid my water, electricity bills and DSTv subscription right here at home. No travelling long distances.
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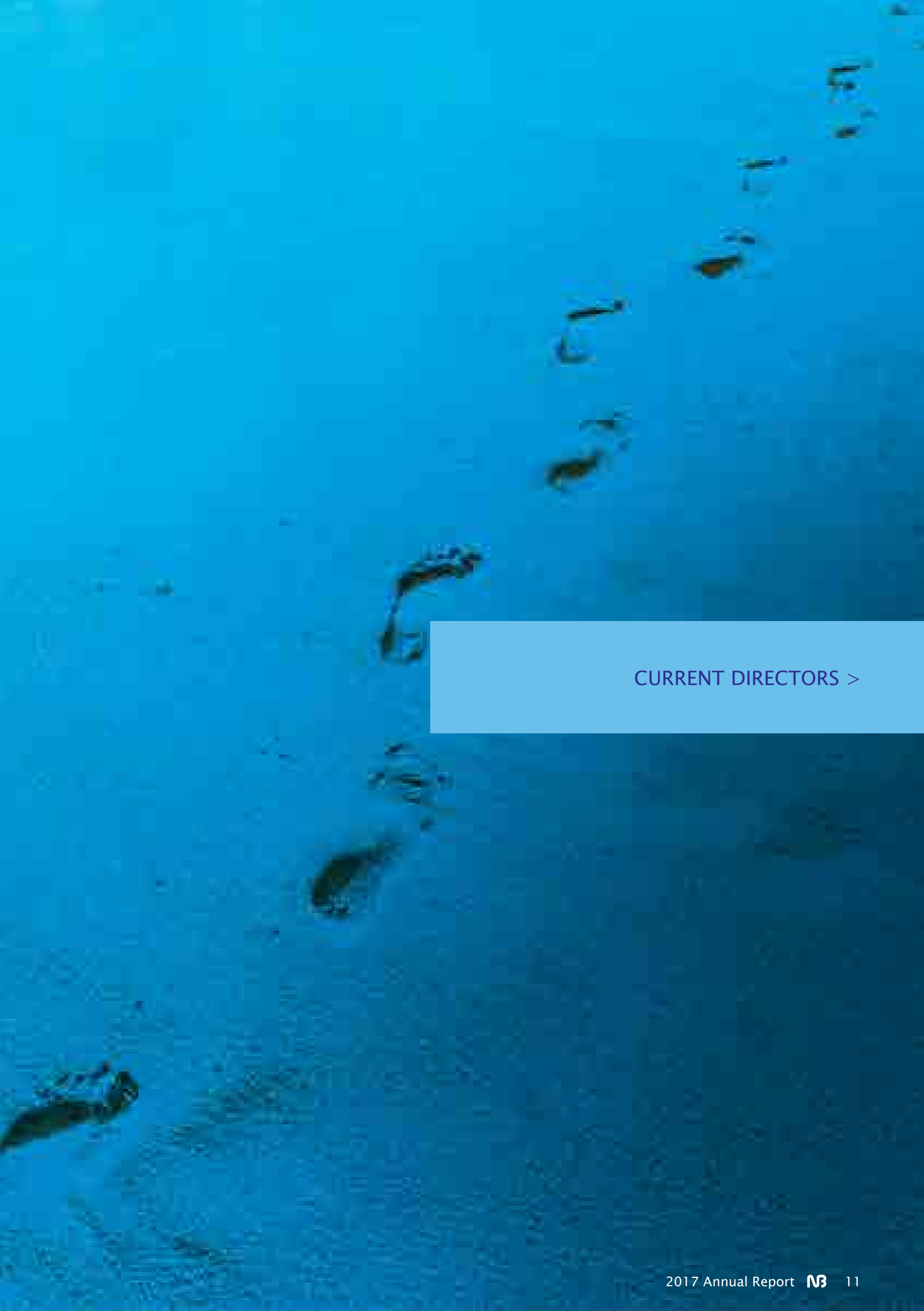


CURRENT DIRECTORS >

Current Directors

SEATED (L–R)

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

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

STANDING (L–R)

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

John Bizwick
B.Soc Sc (Econ), Msc (Econ)
Director

Elias J Kambalame
BA (Econ.)
Director

Raymond Banda
MBA, BSc
Director

SEATED (L-R)

Maria Msiska (Ms)
FCCA, CA (M), B.Com, MBL (UNISA)
Director

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

STANDING (L-R)

James Mhura
MBA, ACMA, B.Acc.
Director

Harold Jiya
B.Com, ACIB, MBA
Director

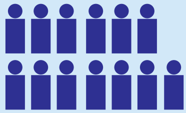
Jim Nsomba
FCCA, CPA, B.Com
Director

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

The directors report a consolidated profit before tax of

K27 550m

(2016: K25 247m) for the year.



13
Directors served in office during the year

The directors have pleasure in presenting the consolidated and separate financial statements of National Bank of Malawi Plc (NBM) for the year ended 31 December 2017.

CAPITAL

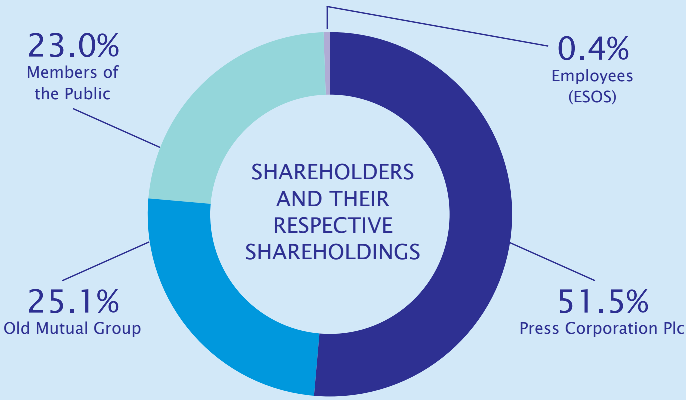
The authorised share capital of the Bank is K500m (2016: K500m) divided into 500,000,000 Ordinary Shares of K1 each. The issued capital is K467m (2016: K467m) divided into 466,931,738 (2016: 466,931,738) fully paid Ordinary Shares of K1 each.

The shareholders and their respective shareholdings are:

	2017 %	2016 %
Press Corporation Plc	51.5	51.5
Old Mutual Group	25.1	25.1
Members of the public	23.0	23.0
Employees (ESOS)	0.4	0.4
	100.0	100.0

PROFIT AND DIVIDENDS

The directors report a consolidated profit before tax of K27 550m (2016: K25 247m) for the year. A final dividend of K4 200m (2016: K3 800m) is proposed for the year. A first interim dividend of K3 315m (2016: K3 007m) was paid to shareholders on 29 September 2017. A second interim dividend of K1 569m (2016: K1 500m) was paid on 23 March, 2018.



DIRECTORS

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

Name	Tenure
Chikaonda, Dr. M A P	Chairman – Up to 14 June 2017
Kambalame, E	All year
Partridge, Dr. G B	All year – Chairman from 15 June 2017
Kawawa, M M	All year
Mafeni, E	All year
Kafoteka, D	All year – Up to August 2017
Kachingwe, M	All year
Mhura, J	All year
Msiska, M	All year
Biziwick, J	All year
Jiya, H	All year
Banda, R	From 19 December 2017
Nsomba, J	From 19 October 2017

DIRECTORS' INTERESTS

The following directors held shares in the Bank as at 31 December 2017:

Partridge, Dr. G B
846 507 (2016: 826 507) Ordinary Shares

Kawawa, M M
113 255 (2016: 113 255) Ordinary Shares

Biziwick, J
2 546 (2016: 2 546) Ordinary Shares

Nsomba, J
758 (2016: 758) Ordinary shares

Jiya, H
2 306 (2016: 2 306) Ordinary Shares

Kachingwe, M
1 935 (2016: 1 935) Ordinary Shares

Msiska, M
20 367 (2016: 20 367) Ordinary Shares

From 2006 to 2010, the Bank made offers of options under the ESOP scheme to Dr. G B Partridge and M M Kawawa amounting to 30 800 and 21 500 Ordinary Shares, respectively. There were no other contracts between the Bank and its directors nor were there any arrangements to enable the directors of the Bank to acquire shares in the Bank.

DIRECTORS' REMUNERATION

Executive directors' remuneration	-	K264m (2016: K547m)
Non-executive directors' fees and other expenses	-	K52m (2016: K64m)

DONATIONS

During the year, the Group made charitable donations of K46m (2016: K31m).

ACTIVITIES

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

Subsidiaries of National Bank of Malawi Plc	**Percentage of control**	**Nature of operations**
NBM Capital Markets Limited	100% (2016: 100%)	Investments and fund management
NBM Securities Limited	100% (2016:100%)	Dormant
National Bank of Malawi Nominees Limited	100% (2016:100%)	Holding of investments as nominee (Dormant)
Stockbrokers Malawi Limited	75% (2016:75%)	Registered stockbroker
NBM Bureau de Change Limited	100% (2016:100%)	Dormant
NBM Pension Administration Limited	100% (2016: 100%)	Pension administration
Indebank Limited	100% (2016: 100%)	Dormant

AREAS OF OPERATION

The Group has 32 (2016: 32) service centres throughout the country. The Bank and its subsidiaries' registered offices and principal places of business are in Blantyre.

AUDITORS

The auditors, Deloitte, have signified their willingness to continue in office and a resolution is to be proposed at the forthcoming Annual General Meeting in relation to their appointment as auditors in respect of the year ending 31 December 2018.

AUDITORS' REMUNERATION

Group Auditor's remuneration including VAT and expenses for the year was K179m (2016: K199m)

Chairman

Director

Date: 29th March 2018

CHAIRMAN'S
REPORT

The Bank has once again shown remarkable resilience in its performance.

Dr George B. Partridge

THE OPERATING ENVIRONMENT

The year started on a positive note with inflation trending downwards from 20% at the beginning of the year and closed at 7.1% in December 2017. Consistent with the inflation trend, the policy rate was reduced three times during the year and commercial banks responded accordingly with downward revisions of base lending rates.

The Malawi Kwacha exchange rates remained fairly stable. The country experienced good weather, boosting production. There was therefore a general sense of optimism that the economy would rebound.

Notwithstanding good agricultural output, economic activity was generally subdued due to low industrial production on account of challenges with power supply. Prices of maize, the main staple food crop crashed, accelerated by the maize export ban which led to low demand for goods and services attributed to low buying power, especially among rural farmers. This adversely affected commodity traders in servicing their debts with the bank owing to low sales proceeds. These developments resulted in reduced demand for certain bank products and a worsening Non-Performing Loans (NPLs) portfolio which necessitated the Bank to make significant provisions.

PERFORMANCE

In spite of the operating environment, I am pleased to report a group profit after tax of K19.15b (2016: K16.60b) representing a 15% increase. This performance is after the Bank made a provision of K5.96b against the loan book. The Statement of Financial Position registered an overall growth of 19%. The

Bank has therefore once again shown remarkable resilience in its performance.

STRATEGY AND PROSPECTS

The economy is forecast to grow at a real GDP rate of about 6% in 2018. The agriculture sector will remain the mainstay for this growth anchored by sound macroeconomic management aimed at sustaining a low inflation and interest rate environment. Downside risks for growth continue to be challenges in power supply and weather related shocks as the economy is dependent on rain-fed agriculture.

The Bank has developed a 5 year Strategic Plan for 2018 to 2022 to consolidate its leadership position in the market. With its in-built flexibility and agility, a strong capital and human resource base, the Bank expects another year of strong performance and is poised to remain on a sustained growth path. Going into the future, the focus will be to delight customers through acceleration of digitalisation of processes and product offerings to drive greater efficiencies and to entrench astute governance and risk management practices.

BOARD OF DIRECTORS

My predecessor, Dr. M.A.P. Chikaonda, and Mr. D. Kafoteka retired from the Board during the year. Mr. J. Nsomba joined the Board in October 2017 to replace Mr. D. Kafoteka who had retired in August 2017. Mr. R. Banda joined the Board in December 2017.

On behalf of the shareholders, and on my own behalf, I would like to welcome the new directors and also thank the directors who have retired from the Board for their valuable contributions and support during their tenure. In particular, let me specifically single out and pay tribute to Dr. M.A.P. Chikaonda who chaired the Bank's board for the past 14 years. We thank him for being an inspirational leader during some of the most challenging and exciting times that the Bank went through and wish him well in his retirement. I also would like to thank fellow directors for their support, dedication and co-operation and look forward to a fruitful working relationship with them in 2018 and beyond.

MANAGEMENT AND STAFF

I would like to express my sincere gratitude to management and staff for their hard work, dedication and commitment during the year for achieving these commendable results. On behalf of my fellow directors and shareholders I wish to convey my heartfelt congratulations to them. As I pledge the Board's unwavering support, I am confident that the Board can count on their commitment to take the Bank to greater heights.

Dr. G.B. Partridge
CHAIRMAN

SENIOR MANAGEMENT >

Senior Management

Front to Back

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

John Mitchell
BSC. (Tech. Edu., MSc (Comp.)
Head, Information Technology

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

Harry Mukaka
BA (Public Admin.), MBA
Head, Treasury & Investment Banking

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

Brian Boby
B.Soc.Sc, MBA
Head, Business Process Management & Administration

Charles Dulira
BA (Public Admin), CTP
Head, Human Resources

Front to Back

Daniel Jere
B.Acc, MBA (Lond., UK), FCMA, CGMA, CA(M)
Head, Internal Audit

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

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

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

Wilkins Mijiga
B.Soc.Sc. (Econ)
Head, Strategy, Marketing & Corporate Affairs

Charles S. Ulaya
B.Acc, CGMA, ACMA, CA (M)
Chief Risk Officer

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

Austin N.D. Musyani
BA (Public Admin.), MPA, MBA
General Manager & Head, Operations

The Bank registered a growth of 15% in the group profit after tax from K16.6b to K19.15b

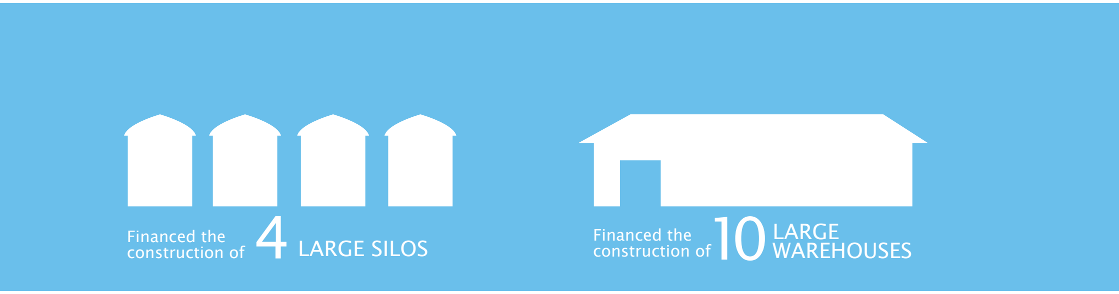
Macfussy Kawawa

PERFORMANCE OVERVIEW

The Bank registered a growth of 15% in the group profit after tax from K16.6b to K19.15b and achieved an overall growth of 19% in the Statement of Financial Position.

Economic developments in the year were generally positive with inflation continuing to trend downwards from 20% at the beginning of the year closing at 7.1% in December 2017. Agricultural production improved following good weather conditions and the exchange rate remained stable. The Banks' lending rates were reduced on a number of occasions following policy rate reductions.

In spite of the above developments, economic activity was generally subdued, as among other factors the country continued to experience prolonged power outages resulting from the inability to generate enough electricity by the main supplier due to low water levels in both the Lake Malawi and the Shire River. The prolonged load shedding affected our customers' production for a greater part of the year which meant reduced volumes for import of raw materials and appetite for credit facilities. Demand for goods and services was also low, attributed to less disposable income especially among rural farmers who did not realize much from their produce as prices for maize and other agricultural commodities crashed. The maize export ban which accelerated the crash in the maize prices also adversely affected commodity traders who have been struggling to service debts with the Bank owing to low sale proceeds.



Consequently there was hardly any growth in the loan book and the Bank made a provision of K5.96b for bad debts as it sought to prudently manage its loan book amidst the difficult economic environment. The Bank equally did not meet its expectations on foreign exchange income due to low volumes, but exceeded its target on money market investments due to excess liquidity occasioned by the low demand for credit products.

WHOLESALE BANKING OPERATIONS

Wholesale Banking Division's core focus is to cater for credit and transactional banking needs of the large corporate and NGO customers. In addition, the division manages various multilateral and government relationships and the financing of the Agricultural sector.

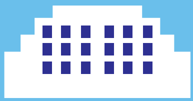
Over the years NBM has been a key contributor in arranging financing facilities for various large scale projects of national interest. In 2017, we financed the construction and erection of 4 large grain silos, the first of a kind in Malawi, and over 10 large warehouses under the joint program with the European Investment Bank to improve the warehouse infrastructure footprint in the country. The program's aim was to ensure private sector led grain storage as part of a long term solution to the vulnerabilities in the economy especially related to commodities supply and marketing, as well as post-harvest losses. The program also made possible the deepening of the warehouse receipts system. Over 90,000 square meters of new grain storage capacity have been facilitated in the year 2017.

We also facilitated construction of a few new upmarket hotels in our cities which are expected to be operational in 2018. The Bank offered flexible terms and conditions during the construction period including extended repayment tenors to ease the finance servicing challenges associated with such large projects.

Going into the future we will continue to diversify the portfolio to ensure adequate safeguards against sectorial exposures.

TREASURY AND INVESTMENT BANKING

Revenue from Treasury operations continued to be negatively affected by the performance and developments in the forex market. The year was characterized by thin trading margins arising from stiff competition among market players due to low supply, and poor performance of the tobacco



Facilitated construction of UPMARKET HOTELS

PERSONAL & BUSINESS BANKING Portfolio grew by 27%

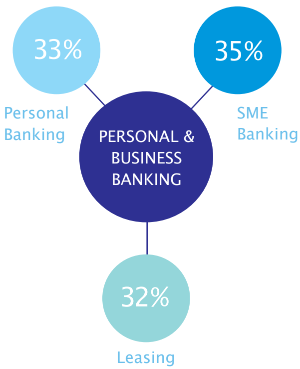
THE PERSONAL BANKING segment grew by 56%

THE BUSINESS LENDING portfolio grew by 26%

market. While the Bank underperformed on the foreign exchange income, it exceeded its target on the money market revenue due to growth in the investments portfolio as a result of the excess liquidity arising from reduced lending and relatively high yields offered on Repos and Treasury Bills.

The stock market had a buoyant performance in the year and this resulted in the Bank's equity portfolio registering a positive return.

PERSONAL AND BUSINESS BANKING OPERATIONS



The Personal and Business Banking lending portfolio comprising of 32% Personal Banking, 35% SME banking and 32% Leasing which grew by 27% overall despite the generally challenging operating environment.

In Personal Banking we continued to focus on establishing long term financing schemes with reputable corporate employers, continuously reviewing our product and service offerings to ensure that they remain relevant and attractive, and providing personalized service through the Premium Banking service offering. Deliberate efforts were also deployed to grow our Civil Servants loan book through a tailor made packaged facility. Consequently the personal banking customer segment grew by 56%.

In the SME Banking space, capacity building and closer interface with our SME customers remained key. Together with our partners, Frankfurt school of Finance and Malawi Revenue Authority, we conducted several training sessions in all the three regions, where SMEs were trained in a number of areas ranging from business management, understanding the financial entities, business banking systems and operations, to the importance of paying tax. The business lending portfolio registered growth of 26%, largely attributed to more effective account relationship management and tailor- made product and service offerings.

The Bank remains a leader in leasing business with a market share of 54% as

at 31st December 2017. In line with our commitment to expose our customers to banking solutions that are commensurate with latest offerings internationally, we successfully migrated to a new leasing system called Leasepac during the year.

CARDS AND E-BANKING SERVICES

During the year the Bank continued to make strides in the areas of cards and electronic banking services. We rolled out the credit card which has been warmly received by the market. In the course of the year we also rolled out NBM FastServe, a banking service conducted through Agents. Customers in remote areas are now able to access some NBM banking services through these agents. So far agents have been identified in all districts, including Likoma Island.

Being a full EMV issuer the Bank embarked on migrating its Electron cards to Classic cards to take advantage of new DDA chip technology for its card-based products. The Bank also rolled out the Mobile app that is made available on smartphone as it pursues its roadmap in providing mobile banking services.

Looking ahead, we plan to roll out integrated services to merchants, introduce social banking as part of our mobile banking enhancement and commence e-commerce acquiring for our merchants. The bank will also be reviewing and improving its internet banking offering.

INFORMATION TECHNOLOGY SYSTEMS

During the course of 2017, we engaged in several IT projects with a view to improving delivery of existing products and services as well as to facilitate introduction of new

products and services. The following are some of the major projects undertaken:

- Upgrade of the core banking system T24 R15 on 1st July 2017. Following the system upgrade, business processes were re-engineered to improve efficiencies.
- Thirteen new ATM sites were commissioned.
- We concluded the Electronic Funds Transfer System (EFTS) Project which enables Corporate and SME customers to post transaction batches such as salaries, payments and collection of premiums by insurance companies in a self-service fashion.
- Migrated the leasing system to a new platform called Leasepac, fully interfaced with the core banking system.
- The NBM Systems were interfaced to MRA tax system to enable customers pay taxes

CUSTOMER SERVICE CHANNEL IMPROVEMENTS

As part of the Bank's drive to improve customer experience through operational efficiency, we successfully aligned and automated several of our key back office processes across the service centre network and head office following the successful upgrade of the core banking system. Operationally, the upgrade achieved a lean back office section supported by automated processes and a leaner staff complement thereby according the Bank the opportunity to relocate staff to customer facing roles in a bid to improve queue management and reduce banking hall congestion during peak periods.

The Bank also successfully embarked on major renovation projects where small service centres located at busy trading and business centres were either renovated or relocated to new premises with more banking hall space in order to improve customer over-the-counter service experience. As key milestones, Balaka Service Centre was in May 2017 successfully relocated to new premises with more than twice the banking hall space. Chichiri Shopping Mall Service Centre was also relocated in January 2018 and upgraded to a stand-alone service centre.

Chichiri Shopping Mall Service Centre was relocated in January 2018 and upgraded to a stand-alone service centre.

Going into 2018, Top Mandala Service Centre will be renovated and enlarged to double its banking hall space while New Liwonde Service Centre whose construction commenced in 2017 is expected to open in the second quarter of 2018. We also intend to construct a new service centre at Dwangwa as we seek to enhance our presence along the lakeshore.

TALENT MANAGEMENT ACTIVITIES

To assess the impact of the Bank's wellness program we undertook wellness audit during the year in which 812 out of 970 employees took part. During the exercise, group sessions were conducted covering the prevention and management of all known lifestyle diseases such as diabetes, high blood pressure, cancer, stroke, arthritis, gout, obesity as well as HIV/AIDS.

The Bank continued to invest in the further education of its employees. Two members of staff left for the United Kingdom where they are pursuing studies for Master of Science in Finance and Investments and Master of Science in Cyber Security, respectively at the University of Bradford. The Bank also continued to offer short - term courses to its employees. A total of 38 courses were conducted at the Learning & Growth Centre attended by 820 employees.

38
COURSES CONDUCTED

820
EMPLOYEES ATTENDED

CORPORATE SOCIAL RESPONSIBILITY ACTIVITIES

As a guiding philosophy National Bank believes that its responsibility goes beyond its' value to the shareholders but also to its customers, employees and the communities within its operating environment. During the year our Corporate Social Investments focused on:

Health

We responded to some critical medical requests for the supply of drugs, equipment and refurbishing of infrastructures from the country's hospitals. Internally we continued to improve the health and quality of life of our staff by provision of free anti-retroviral drugs to those in need.

Education and Scholarships

We extended scholarships to needy and yet intelligent students thereby demonstrating the Bank's emphasis on education to all and created an environment where the underprivileged were given the opportunity to study.

Environment

The Bank continued to engage communities in activities aimed at promoting environmental protection, rehabilitation and restoration, with greater emphasis on encouraging conservation and a culture that will foster a more environmentally conscious and responsible society.

Within the year the Bank also partnered with NGOs that are looking after orphans with provisions for health and education.

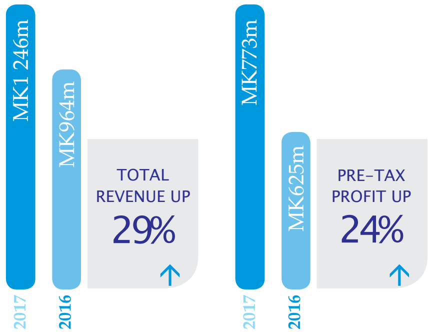
In the end the Bank aims to bring meaningful and sustainable upliftment of the communities in proximity to its areas of operation, and to generate measurable returns on its investments within those communities.

A pictorial focus of the Bank's CSI in the year is on pages 40 to 45.

SUBSIDIARIES AND ASSOCIATES

NBM Capital Markets Limited

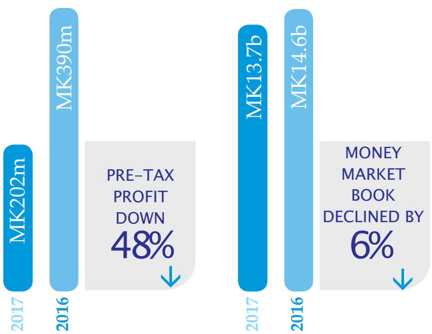
The performance of the company for the year ended 31st December 2017 continued its impressive momentum from 2016. Total revenue was up by 29% at MK1,246m (FY2016:



MK964m) while profit before tax and profit after tax were both up by 24% at MK773m (FY2016: MK625m) and MK540m (MK437m) over prior year.

A system upgrade will be undertaken in 2018 whose objective is to bring about efficiencies in customer service delivery. We envisage that the upgrade will enhance system functionality features that will put the company's service initiatives to customers above the competition.

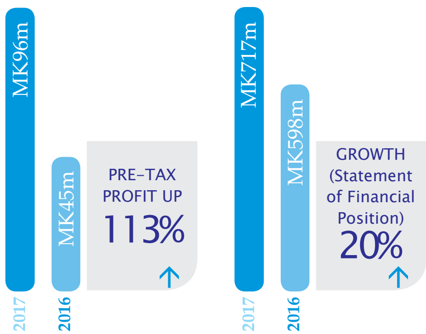
Stockbrokers Malawi Limited



Stockbrokers Malawi, a 75% subsidiary of National Bank of Malawi Plc recorded a pre-tax profit of MK202m compared to MK390m registered in 2016 due to the challenging operating environment that prevailed. Revenue declined to MK395m from MK691m. This was attributed largely to the reduction of margins as interest rates trended downwards and also to a decline in money market book to MK13.7b from MK14.6.

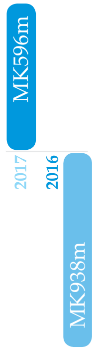
Going forward, management has developed a strategy anchored on customer service, aggressive marketing and cost control.

NBM Pensions Administration Limited (NBM PAL)



The Company registered a Pre-tax profit of K96m for the year 2017 compared to K45m achieved in 2016, up by 113%. The Statement of Financial Position grew by 20% from K598m in 2016 to K717m in 2017. The positive performance was as a result of organic growth of schemes under the portfolio in addition to new business acquired during the year. Assets under Administration grew from K46b in 2016 to K56b. The company will continue to pursue business growth in 2018.

United General Insurance (UGI)



The profit is mainly attributed to the turnaround strategy which the company implemented in response to the loss situation reported in 2016

UGI, the second largest short term insurance company with a market share of 21% registered a profit before tax of K596m compared to a loss of K938m in 2016. The profit is mainly attributed to the turnaround strategy which the company implemented in response to the loss situation reported in 2016, resulting into more effective reinsurance program management, improved business underwritten and reduction in claims costs. Gross Premium Written at K6.3b grew by 19% from prior year.

Shareholders' funds grew by 48% to K1.5b from K1.03b in 2016 and Return on Equity (ROE) was 28% up from -63% in 2016.

Going into the future, the company is strategically positioned for growth and profitability through portfolio diversification and product innovation, with motor insurance remaining a strategic product.

OUTLOOK

The economy is forecasted to continue to grow at real GDP rates in excess of 6% in 2018. The agriculture sector will remain the mainstay for this growth anchored by sound macroeconomic foundation of low inflation and interest rates environment. Downside risks for growth continues to be weather related exogenous shocks as the agriculture sector is still dependent on rain fed crop production coupled with electricity production challenges.

The monetary authorities are on record that they are targeting an inflation outturn of around 5%. More monetary tightening may therefore be expected in 2018 to achieve this target. The upside risk in inflation remains the stickiness in non-food inflation which only declined by 5 percentage points in the year 2017. This upward pressure in non-food inflation is likely to intensify with the approved 24% electricity tariff hike coupled with pressure to increase liquid petroleum product prices with the adoption of more expensive premium environmentally friendly liquid fuel products and the inclusion of Jet –A1 fuel in the Fuel Price Stabilization Fund. The gains accrued in 2017 arising from low food prices are also in danger of being eroded with maize prices that have increased by 40% thus far in 2018 due to expected low harvest as a result of the army worm outbreak and intermittent rainfall which has affected an estimated 645 hectares, according to the Ministry of Agriculture.

In spite of the above, the Bank is well positioned to deal with any challenges and exploit the opportunities that may arise. We envisage a strong performance through our ability to leverage our core strengths and exploiting opportunities in the market that focus on maximizing delivery platforms through digitalisation, customer centricity, streamlining processes for efficiency, talent management and astute governance and risk management practices as guided by the new (2018-2022) strategic plan.

CONCLUSION

I would like to thank the Chairman and the Board of directors for their guidance, support and direction during the year. I convey my gratitude to my senior management team for their outstanding contributions in a year full of challenges. I also express my appreciation to all members of staff for their dedication and call upon them to redouble their efforts in 2018 and beyond.

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

Macfussy M Kawawa
Chief Executive Officer

STAFF ACTIVITIES >

National Bank of Malawi values the contributions which its workforce makes towards the achievement of its corporate objectives. That is why several staff activities were undertaken in the year under review.

Management Conference

Brain writing for the digital future – Management Conference

Recognition Awards

Beijing here we come – NBM Excellence Awardees enjoying their tour of China

Recognition Awards

The Five Excellent employees whose performance broke the frontiers pictured with the CEO

Retirees

Parting on a high note – A farewell to great colleagues

Staff Charity

Lending a helping hand – Where the people are, we are

Sports Activities

High fives to slam dunks – The Mo626 college basketball finals

CORPORATE SOCIAL RESPONSIBILITY ACTIVITIES >

As a leading and highly respected corporate citizen in Malawi, National Bank of Malawi is, on a voluntary basis, actively participating in deserving charitable and social activities.

Our Focus:

- ➔ Health
- ➔ Education
- ➔ Charity and partnerships
- ➔ Community projects
- ➔ Environment
- ➔ Unanticipated natural disasters
- ➔ Economic empowerment

HEALTH

Healthy people are productive hence they are likely to participate in the process of building a prosperous nation.

THE IMPACT

- Providing a safe environment and reducing new infections to TB patients and working personnel at Queen Elizabeth Central Hospital.
- Equipping medical personnel at Mulanje District Hospital to enable them save lives.

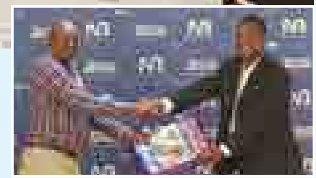
Donation to TB Ward at Queen Elizabeth Central Hospital

Donation of medical equipment at Mulanje District Hospital

THE IMPACT

- Providing potable water to the pupils at Chichiri Primary School and reduce waterborne diseases as well as providing water for cleaning classrooms so that they learn in a clean environment.
- Enabling Ntchisi District Hospital with health and hygiene matters.

Avert malaria to communities and enable them live a healthy life so that they contribute positively to the economy.



Donation for water (borehole) and mosquito nets to Ntchisi District Hospital

A contribution towards cancer medicines to Baylor Medical College

Safe water to our children at Chichiri and Ndirande Primary Schools in Blantyre

EDUCATION

In strategic and sustained investment, education is a platform for a vibrant economy

THE IMPACT

- Making higher education available to all.
- Making college students' research easier through the provision of computers.

Scholarships to university students from Malawi Polytechnic and Mzuzu University

Donation of Computers to Malawi University of Science and Technology

THE IMPACT

- Motivating college students to work hard and prepare them for future challenges.
- Providing conducive learning environment to students at Hoho Community Day Secondary School, especially the girl child who has challenges sitting in class during her menstrual times.

Public Universities Best Student Awards – Malawi University of Science and Technology, University of Malawi and Mzuzu University

Classroom furniture to Njewa in Lilongwe and Hoho Community Day Secondary Schools in Mzimba. Similar donation was also made to Njewa CDSS of Lilongwe

CHARITY & PARTNERSHIPS

"There is not a man of us who does not at times need a helping hand to be stretched out to him, and then shame upon him who will not stretch out the helping hand to his brother".
- Theodore Roosevelt.

THE IMPACT

Supporting the development and care of orphans, to meet their needs and provide them with a better opportunity to reach their full potential and a successful transition into adulthood.

Donation of assorted items to Stephanos in Chileka, Blantyre

Christmas Cheer Programme at Pashello Orphanage and Chiradzulu Distict Hospital

Contribution towards safe motherhood

ENVIRONMENT

The Bank is passionate about making the environment more sustainable because the effects of damaged and degraded environment increases operational risks for businesses.

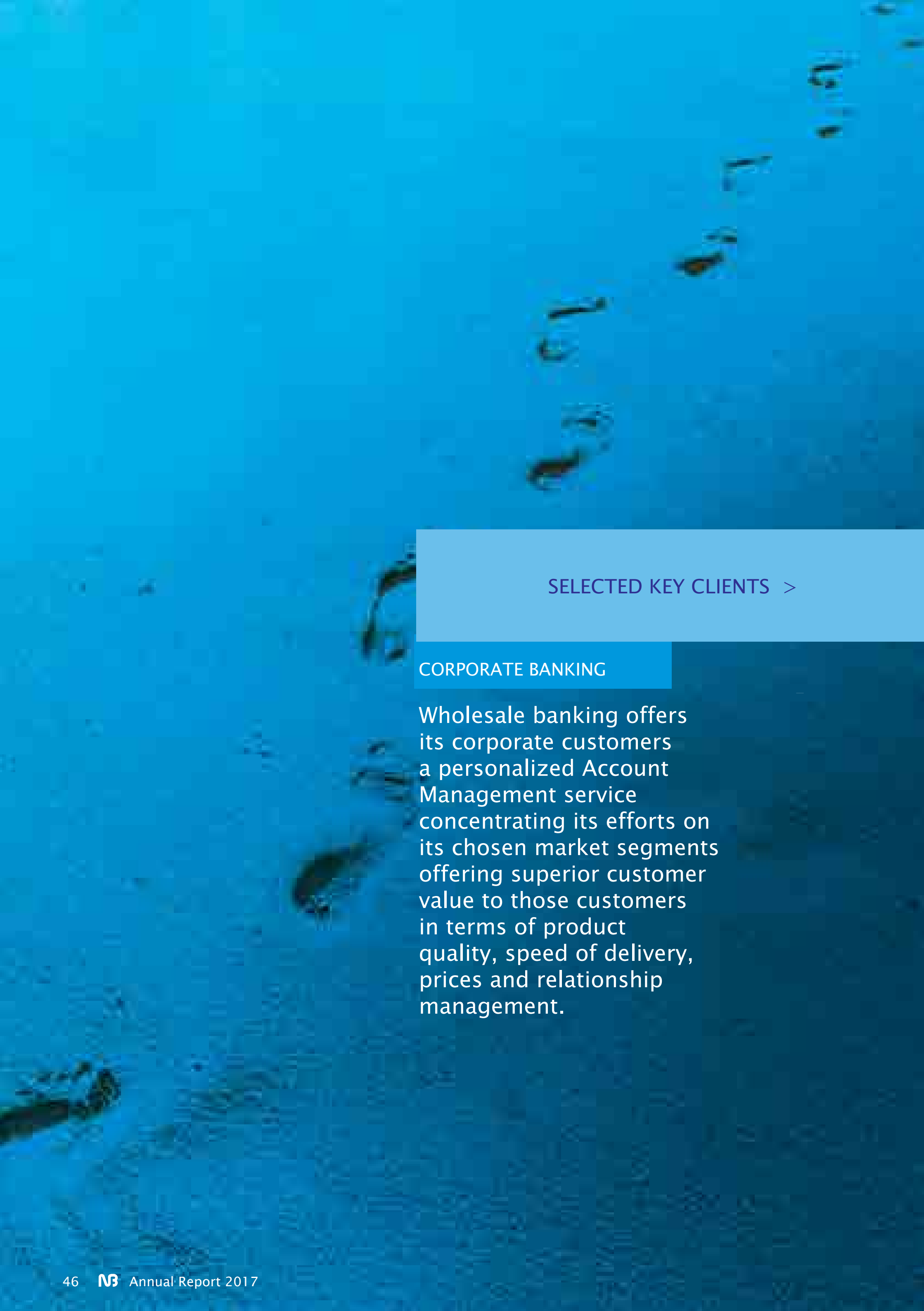
THE IMPACT

Addressing the impact of global warming, deforestation, climate change and indirectly contributing towards solving issues of power blackouts and water challenges.

Over
30,000
trees planted

Go green intiative at 1st Malawi Rifles Battalion

Tree planting within Blantyre Archdiocese

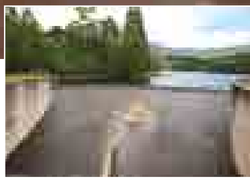


SELECTED KEY CLIENTS >

CORPORATE BANKING

Wholesale banking offers its corporate customers a personalized Account Management service concentrating its efforts on its chosen market segments offering superior customer value to those customers in terms of product quality, speed of delivery, prices and relationship management.

Southern Region Water Board

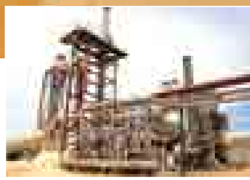


For sustainable provision of portable safe clean water.

CP Feeds Limited

The Agristorage Facility Project under the European Investment Bank is almost complete in addition to their new offices in Kanengo. Their new project in Lilongwe has become one of the landmarks as one flies over the skies of Lilongwe.

Raiply Malawi Limited



Raiply employs circa 1,700 employees and do some CSR (in areas of Health, Education and Sports) in the surrounding Communities. The Board is also in re-afforestation programme in Chikangawa

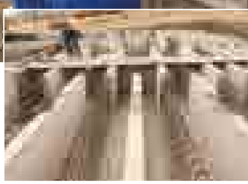
Malawi Fertilizer Company

Have a state of the art factory capable of blending up to 12 elements of fertilizer which is a first of a kind in Malawi.

Kentam Limited

Capacity enhancement of local production hence import substitution and increased local employment

Northern Region Water Board



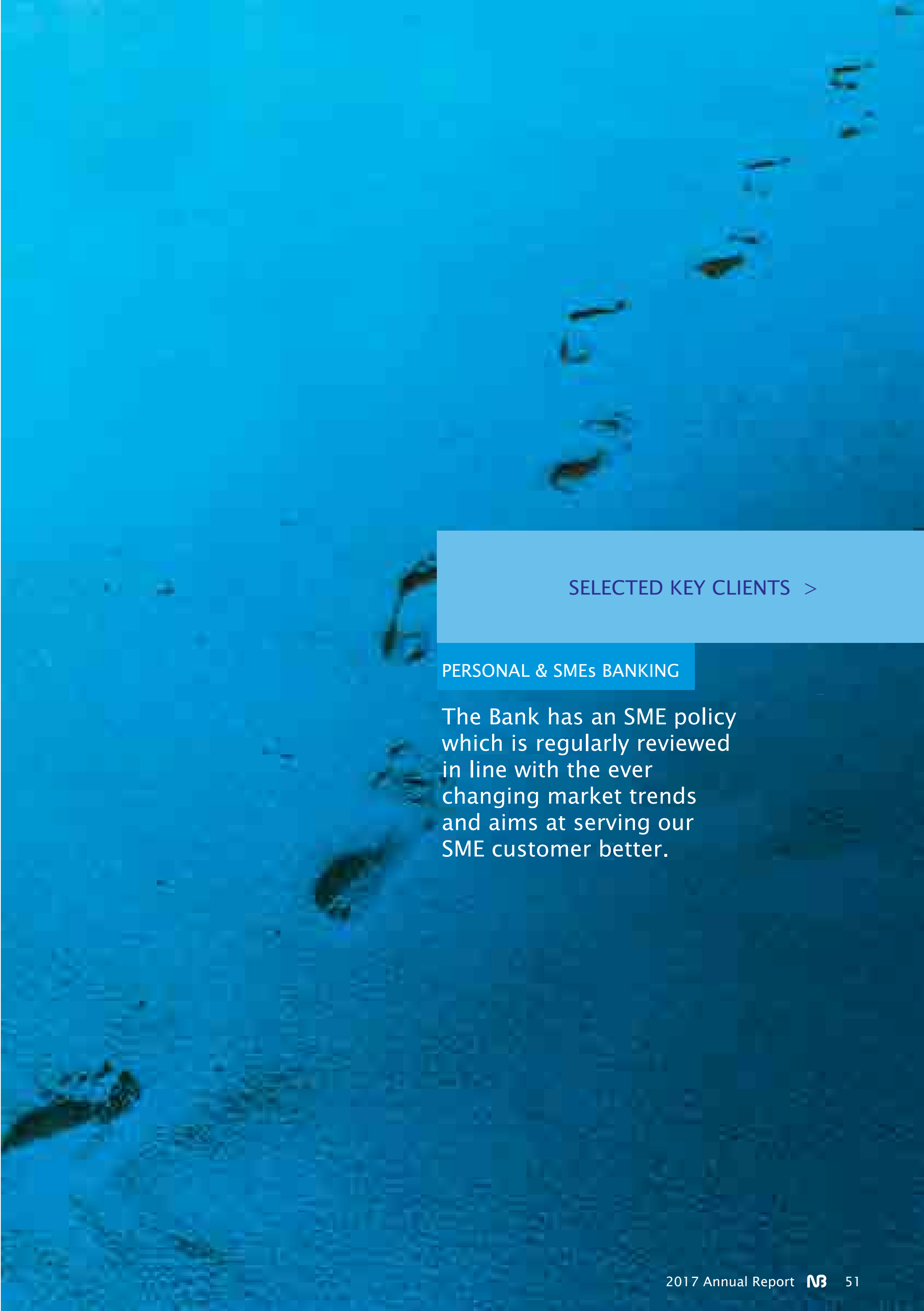
provision of portable water in the Region. Also involved in re-afforestration mostly in areas in which they have water reservoirs.

Siku Group

Sun N Sand Holiday resort, Hippo View in Liwonde are attraction points.

Yusuf Investments

The upcoming five star hotel in Blantyre.

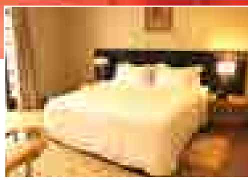


SELECTED KEY CLIENTS >

PERSONAL & SMEs BANKING

The Bank has an SME policy which is regularly reviewed in line with the ever changing market trends and aims at serving our SME customer better.

Serendib Hotels



Affordable accommodation to both local and international guests and promoting tourism through affordable holiday resorts.

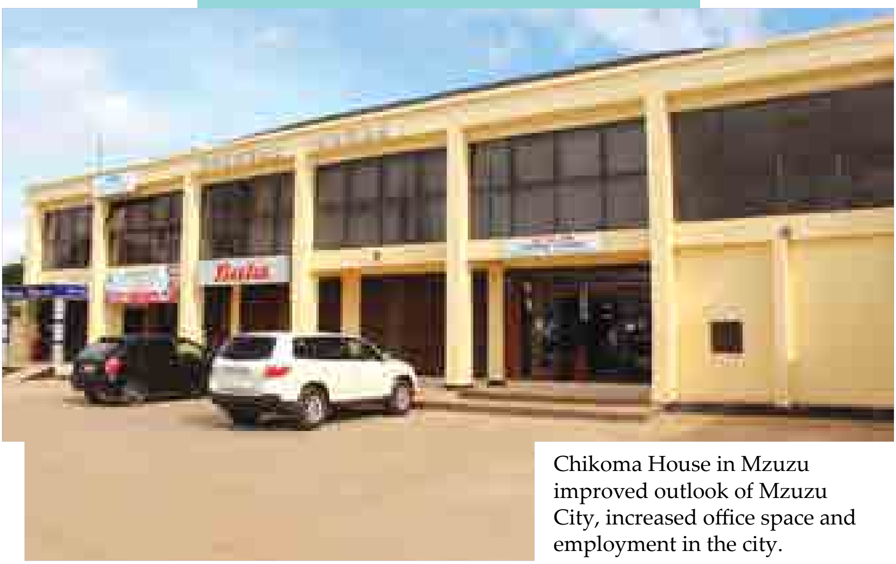
Munorurama International Passenger Transport

For reliable local and international passenger transport

Mobe Investments

Growing Malawi economy through support to the female entrepreneur.

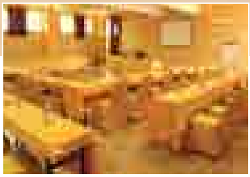
Katoto Filling Station



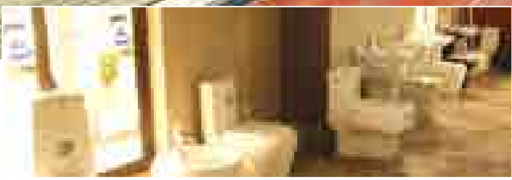
Chikoma House in Mzuzu improved outlook of Mzuzu City, increased office space and employment in the city.

Chikho Hotel in Kasungu

This is to improve tourism industry through supportive infrastructure in a tourist destination for Kasungu National Park.



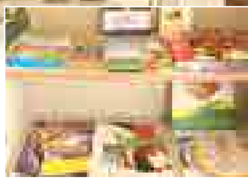
Roofko Steel



Capacity enhancement of local production hence import substitution and increased local employment.

Mercantile International





Improved outlook and office space in Lilongwe.

KU Distributors


Commodity Traders with magnificent warehouses

ECONOMIC REVIEW AND OUTLOOK

ECONOMIC REVIEW 2017

The Malawi economy grew by 4% in 2017 up from 2.7% registered in the previous year. This growth emanated from the agriculture and fisheries sectors which expanded by 6.8% in the year under review.

The above notwithstanding, the tobacco sub-sector slumped in the year registering 45% drop in production from 195.1 million kilograms recorded in 2016 to 106.5 million kilograms. Prices on the other hand recovered from an average US$1.41/ kilogram in 2016 to US$1.99/kilogram, representing a 41% increase. This price recovery was, however, not enough to offset against the impact of the volume slump as the country realized US$212.5million (2016: US$276.3million) in export earnings from the crop down 23% from the previous year.

The inflation trajectory in 2017 was mainly downwards with year on year headline inflation closing at 7.1% (Dec 2016: 20%).

Annual average inflation for 2017 was recorded at 11.5% compared to 21.7% the year before. Consistent monetary policy tightening by the Central Bank to reduce inflationary expectations in 2017 was a major feature coupled with the collapse of food prices.

Declining inflation expectations in 2017 provided an opportunity for the monetary authorities to implement three interest rate cuts in the year, in April (200 basis points) July (400 basis points) and the latest at the end December (200 basis points) in a bid to reduce the cost of borrowing for the private sector. Commercial bank's prime rates therefore reduced from an average of around 30% to around 25% at year end.

The foreign exchange market was somewhat stable compared to recent years with the Malawi Kwacha maintaining value at around MK725/1US$.

The economy is forecasted to continue to grow at real GDP rates in excess of 6% in 2018. The agriculture sector will remain the driver of this growth...

OUTLOOK 2018

The economy is forecasted to continue to grow at real GDP rates in excess of 6% in 2018. The agriculture sector will remain the driver of this growth anchored by sound macroeconomic foundations of low inflation and interest rates environment. Downside risks for growth continues to be weather related exogenous shocks as the agriculture sector is still dependent on rain fed crop production, coupled with electricity production challenges.

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of National Bank plc is pleased to report that during the year ended 31st December 2017 the company has been in full compliance with the highest standards of good corporate governance. This was achieved by following principles of openness, integrity and accountability as set out in the Malawi Corporate Governance Code, The Cadbury Report and the King Reports. This compliance enabled the Bank to have a satisfactory relationship between it and its shareholders, customers, strategic partners, suppliers of various goods and services, regulators and staff.

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

The Bank has adopted the following governance structure:

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

The last Annual General Meeting for the Bank was held on 14th June 2017.

To achieve its function, the Board holds scheduled bi-monthly meetings to scrutinize compliance with policies and achievement of objectives by holding management accountable for its activities and performance. Sometimes it meets to discuss specific urgent issues. The Board delegates some of its compliance monitoring responsibilities to committees of the board namely – Risk; Audit; Appointments, Remuneration & Governance; Credit and the Committee of the Board on Related Parties. Each Committee has specific terms of reference. The Committees' chairpersons report on the proceedings of their committee meetings at the next meeting of the Board. The Board itself met 9 times in the year 2017.

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

The Board is composed of eleven directors, two of whom are executive directors and the rest are non-executive directors. The chairman is chosen from among these directors. In the year 2017, Professor Mathews Chikaonda served as Chairman up to 14th June 2017. From 15th June 2017, the Chairman has been Dr G Partridge.

The non-executive directors hold or have held senior leadership positions in financial services, public and private sectors and have diverse professional backgrounds. As such they provide the Board with a wide composition of skills and experience emanating from the holding of such positions combined with their strength of character, independence of judgement and opinion.

Committees of the Board

Risk Committee

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

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

The Committee meets at least three times a year. In the 2017 financial year, the Committee met 5 times.

Audit Committee

Ms Maria Msiska, an independent director, is the Chairperson of the Audit Committee. The Committee has the overall responsibility for the Bank's system of internal controls and for reviewing its effectiveness and it also exercises the full powers and authority of the Board in accounting and financial reporting matters as guided by its terms of reference. Results of pre-arranged and surprise risk based audits provide the directors with information which assists them to assess the effectiveness of internal controls and management of risks in each business unit.

The Committee meets at least three times a year with the Bank's senior management and the external auditor to review among other things, accounting, auditing, internal controls, financial reporting matters and published financial statements of the Bank. In the 2017 financial year, the Committee met 6 times.

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

Appointments Remuneration and Governance Committee

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

The Committee meets at least three times a year. In the 2017 financial year, the Committee met 5 times.

Credit Committee

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

The Committee monitors the quality of the loan book through review of substandard debt schedules and lists of facilities granted to sensitive customers, related parties and senior management.

The Committee meets as and when there are lending facilities to be considered. In the 2017 financial year, the Committee met 10 times.

Related Parties Committee

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

The Committee is comprised of Independent Members of the Board.

In the 2017 financial year, the Committee met 6 times.

Board Attendance

The directors' board meeting attendance for the 2017 financial year is as follows:

Name	Number of meetings attended	Number of Meetings Eligible to attend	Number of meetings absent
Dr G.B. Partridge	9	9	0
Mr J. Biziwick	23	23	0
Mrs E. Mafeni	12	13	1
Ms M. Msiska	14	15	1
Mr E. Kambalame	28	30	2
Mrs M. Kachingwe	20	22	2
Mr J. Mhura	18	18	0
Mr J. Nsomba	2	2	0
Mr R. Banda	0	0	0
Mr M. Kawawa	41	41	0
Mr H. Jiya	38	41	3
Mr D. Kafoteka (retired from Board in August 2017)	11	12	1

Changes in Board Composition

Mr Damien Kafoteka retired from the Board in August 2017. In the year Mr Jim Somba and Mr Raymond Banda joined the Board in October 2017 and December 2017 respectively.

Code of Ethics

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

Auditor Independence

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

Board Information and Development

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

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS >

For the year ended 31 December 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES
For the year ended 31 December 2017

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

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

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

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

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

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and the Group and of their operating results for the year ended 31 December 2017, so far as concerns the members of the company.

CHAIRMAN:
Dr. G.B. Partridge

DIRECTOR:
M. Msiska

Date: 29th March 2018

Deloitte.

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

Opinion

We have audited the consolidated and separate financial statements of National Bank of Malawi Plc and its subsidiaries ("the Group"), set out on pages 71 to 186 which comprise the consolidated and separate statements of financial position as at 31 December 2017, the consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity, the consolidated and separate statements of cash flows for the year then ended, and the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of the Group as at 31 December 2017, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Companies Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of financial statements in Malawi. We have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Partners: N.T.Uka V.W. Beza C.A Kapenda M.C Mwenelupembe (Mrs.)
Associate of **Deloitte Africa, a Member of Deloitte Touche Tohmatsu Limited**

Key audit matter	How the matter was addressed in the audit
Impairment against loans and advances to customers (consolidated and separate financial statements)	
As disclosed in Note 12, the Bank recognised impairment on loans amounting to K6 billion (2016: K1 billion) against loans and advances balance of K144 billion (2016: K134 billion). This represents the shortfall between the present value of future expected cash flows, discounted at the original effective interest rate, and the carrying value of the advance in respect of loans and advances that exhibit indicators of impairment. Significant judgement is required by the directors in assessing the impairment against loans and advances to customers. The judgements applied in determining the impairment include: • The expected realisable value of the collateral securing the advance; and • Estimates of expected time it will take to realise the value of security on impaired loans. We considered impairment against loans and advances as a key audit matter because of the following: • The determination of impairment uses significant judgements coupled with the fact that compliance with IAS 39 *Financial Instruments Measurements and Recognition* requirements is onerous; and • Economic fundamentals in Malawi together with other factors may impact on the ability of customers to repay loans.	In evaluating the impairment against loans and advances, we assessed the judgements applied by the directors and our procedures included the following: • Considering managements' credit control processes to identify impaired advances and testing of relevant key controls in the process; • Examining on a sample basis the appraised fair value of the collateral securing impaired advances; • Considering the qualitative factors that indicate impairment including the amount in arrears, period in arrears and the financial strength of the borrower; • Assessing the adequacy of the impairment recorded based on the realisable value of collateral and the qualitative factors described above; and • Assessing whether the determination of impairment against loans and advances is inline with IAS 39 *Financial Instruments measurements and recognition.* We found that the judgements applied in determining impairment against loans and advances were appropriate and that the amounts recorded were reasonable and complied with IAS 39 *Financial Instruments measurements and recognition.* We further concluded that the financial statements disclosures in relation to impairment of loans and advances to customers are appropriate.

Key audit matter	How the matter was addressed in the audit
Information Technology (IT) Systems and controls over financial reporting (consolidated and separate financial statements)	
A significant part of the Bank’s operations and financial reporting process is reliant on IT systems with automated processes and controls over the capture, storage and extraction of information. The Bank is dependent on their IT systems to (1) serve customers, (2) support their business processes, (3) ensure complete and accurate processing of financial transactions and (4) support the overall internal control framework. Many of the Bank’s internal controls over financial reporting are dependent upon automated application controls and completeness and integrity of reports generated by the IT-systems. A fundamental components of these controls is ensuring that appropriate user access and change management protocols exist and are being adhered to. These protocols are important because they ensure that access and changes to IT systems and related data are made and authorised in an appropriate manner. The IT environment of the Bank is rather complex with a number of interdependent systems, interfaces and databases. The Bank continues to invest in the improvement of IT systems and processes as well as development of new IT systems and their implementation further add to the complexity of the IT infrastructure. As our audit sought to place a reliance on IT systems and application controls related to financial reporting, a high proportion of the overall audit effort was in this area. Key areas where IT systems were critical in determining accuracy and completeness of account balances were interest income, interest expense, fees and commission income, foreign exchange transactions, classification and suspension of interest on non-performing loans.	We focussed our audit on those IT systems and controls that are significant for the Bank’s financial reporting. As audit procedures over the IT systems and application controls requires specific expertise, we involved our IT audit specialists and Data Analytics team in our audit procedures. We understood and assessed the overall IT control environment and the controls in place which includes controls over access to systems and data, as well as system changes, We tailored our audit approach based on the financial significance of the system and whether there were automated procedures supported by that system. As part of our audit procedures, we identified relevant control activities and evaluated design and determined implementation. We further, determined the need to test operating effectiveness of the control over appropriate access rights and validating that only appropriate users had the ability to create, modify or delete user accounts for the relevant in scope applications. We also tested the operating effectiveness of controls around program changes to establish changes to the system were appropriately authorised and implemented. Additionally, we assessed and tested the design and implementation and operating effectiveness of the application controls embedded in the process relevant to our audit. Using our Data Analytics team, we recomputed on a sample basis, interest income, interest expense, fees and commission income and foreign exchange transactions and compared with income that was computed by the system and recognised in the ledger. We identified some control deficiencies and the conclusion of these findings had no impact on the financial statements.

Key audit matter	How the matter was addressed in the audit
Goodwill impairment assessment (consolidated financial statements)	
In October 2015, the Bank acquired 97.05% shareholding in Indebank Limited. In accordance with IFRS 3, Business Combinations, the Bank determined goodwill arising from acquisition which amounted to K3.9 billion. During the year, NBM assessed goodwill for impairment. We considered this as a key audit matter due to the following: • The significance of the amount; • The judgement and assumptions used in the determination of impairment for goodwill; and • The complexity of the value in use calculation.	We reviewed the accuracy of the value in use calculation as well as the determination of cash flows and the discount factor used. We also checked if the assumptions that were used in determining the future cash flows were reasonable. The results of our assessment indicated that goodwill is not impaired.

Other Information

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

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

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

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

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

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

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

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

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

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

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

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

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

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

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

Chartered Accountants

Madalo Mwenelupembe
Partner

29 March 2018

31 December 2017

	Notes	GROUP 2017 K'm	GROUP 2016 K'm	COMPANY 2017 K'm	COMPANY 2016 K'm
ASSETS					
Cash and funds with Reserve Bank of Malawi	5	27 098	29 774	27 098	29 650
Government of Malawi treasury bills, treasury notes and Reserve Bank of Malawi bonds	6	29 478	25 843	29 478	23 834
Government of Malawi promissory notes	7	48	1 100	48	1 100
Equity investments	8	3 698	1 969	3 698	1 904
Investment in associates	9	487	398	233	233
Investment in subsidiaries	10	-	-	6 623	6 444
Placements with other banks	11	32 052	21 683	32 052	21 683
Loans and advances	12	137 575	133 287	137 575	133 287
Other money market deposits	13	104 195	59 077	78 450	46 882
Other assets	14	7 673	10 545	6 819	9 975
Non-current assets held for sale	15	330	711	330	711
Property and equipment	16	30 970	28 211	27 750	25 329
Intangible assets	17	8 325	6 098	8 226	6 098
Deferred tax	18	6 379	6 846	6 332	6 811
Goodwill	19	3 959	3 959	-	-
Total assets		392 267	329 501	364 712	313 941
LIABILITIES AND EQUITY					
LIABILITIES					
Customer deposits	20	278 492	231 282	254 102	218 069
Amounts due to other banks	21	1 714	14 570	1 714	14 570
Current income tax liabilities	22	2 109	3 184	1 975	2 997
Loans	23	14 185	209	14 185	209
Provisions	24	3 127	2 837	2 919	2 624
Other liabilities	25	9 601	7 874	10 351	8 491
Deferred tax	18	826	593	-	-
Total liabilities		310 054	260 549	285 246	246 960
EQUITY					
CAPITAL AND RESERVES					
Share capital		467	467	467	467
Share premium		613	613	613	613
Loan loss reserve		1 160	708	1 160	708
Revaluation reserve		18 181	15 482	18 158	15 459
Retained earnings		60 486	50 559	59 068	49 734
Equity attributable to equity holders of the parent		80 907	67 829	79 466	66 981
Non-controlling interests		1 306	1 123	-	-
Total equity		82 213	68 952	79 466	66 981
Total equity and liabilities		392 267	329 501	364 712	313 941
Memorandum items					
Letters of credit and guarantees	36	35 241	17 854	35 241	17 854

The financial statements were approved and authorised for issue by the Board of Directors on 29 March 2018 and were signed on its behalf by:

……………………………………………………

……………………………………………..

Chairman: Dr. G.B. Partridge

Director: M. Msiska

Statements of Comprehensive Income

For the year ended 31 December 2017

		GROUP		COMPANY	
	Notes	2017 K'm	2016 K'm	2017 K'm	2016 K'm
Income					
Interest and similar income	28	48 804	46 211	48 416	44 678
Interest expense and similar charges	28	(6 558)	(6 148)	(6 558)	(5 908)
Net interest income	28	42 246	40 063	41 858	38 770
Commission and fee income	29	14 932	13 141	13 301	11 442
Profit from dealing in foreign currencies		3 903	5 381	3 903	5 237
Income from operating leases		1 432	1 211	1 432	1 209
Net gain/(loss) on financial instruments classified as held for trading	8	1 493	(562)	1 493	(562)
Profit on disposal of financial instruments classified as held for trading		537	-	537	-
Share of profits/(loss) of associate		143	(184)	-	-
Dividend income	17	41	421	509	-
Profit on disposal of assets held for sale		59	-	59	-
Properties fair value gains/(loss)	32	316	206	(142)	(181)
Profit on disposal of property and equipment		63	95	43	70
Total income		65 141	59 392	62 905	56 494
Expenditure					
Staff costs	30	16 461	16 010	15 831	14 568
Other operating expenditure	31	16 900	17 352	16 665	16 186
Total expenditure		33 361	33 362	32 496	30 754
Profit before recoveries and impairment losses on loans and advances		31 780	26 030	30 409	25 740
Recoveries on impaired loans and advances	12	1 027	1 017	1 027	925
Impairment losses on loans and advances	12	(5 257)	(1 800)	(5 257)	(1 584)
Profit before tax		27 550	25 247	26 179	25 081
Income tax expense	33	(8 403)	(8 642)	(7 860)	(8 415)
Profit for the year		19 147	16 605	18 319	16 666
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss:					
Surplus on revaluation of properties	32	2 694	1 706	2 694	1 706
Deferred tax on revalued assets	18	129	2 171	129	2 171
Items that may be reclassified subsequently to profit or loss:					
Fair value movement on available for sale assets		-	(11)	-	(11)
Total other comprehensive income		2 823	3 866	2 823	3 866
Total comprehensive income for the year		21 970	20 471	21 142	20 532

For the year ended 31 December 2017

	Notes	GROUP 2017 K'm	GROUP 2016 K'm	COMPANY 2017 K'm	COMPANY 2016 K'm
Profit attributable to:					
Equity holders of the company	34	18 912	16 391	18 319	16 666
Non-controlling interests		235	214	-	-
		19 147	16 605	18 319	16 666
Comprehensive income attributable to:					
Equity holders of the company		21 735	20 257	21 142	20 532
Non-controlling interests		235	214	-	-
		21 970	20 471	21 142	20 532
Earnings per share (K)	34	40.50	35.10		
Diluted earnings per share (K)	34	40.50	35.10		
Dividend per share (K)	35	18.54	13.29		

Statements of Changes in Equity

For the year ended 31 December 2017

GROUP	Share Capital K'm	Share Premium K'm	Loan Loss Reserve K'm	Available For Sale Reserve K'm	Revaluation Reserve K'm	Retained Earnings K'm	Equity Attributable to Equity Holders of the Parent K'm	Non-Controlling Interests K'm	Total K'm
2016									
At beginning of the year	467	613	1 057	11	11 676	39 954	53 778	1 043	54 821
Total comprehensive income	-	-	-	(11)	3 877	16 391	20 257	214	20 471
Transfer of excess depreciation	-	-	-	-	(71)	71	-	-	-
Transfer from loan loss reserve	-	-	(349)	-	-	349	-	-	-
Acquisition of minority interest shares	-	-	-	-	-	-	-	(78)	(78)
Dividend paid to minority shareholders	-	-	-	-	-	-	-	(56)	(56)
2015 Final dividend declared and paid	-	-	-	-	-	(3 199)	(3 199)	-	(3 199)
2016 First interim dividend declared and paid	-	-	-	-	-	(3 007)	(3 007)	-	(3 007)
At end of the year	467	613	708	-	15 482	50 559	67 829	1 123	68 952
2017									
At beginning of the year	467	613	708	-	15 482	50 559	67 829	1 123	68 952
Total comprehensive income	-	-	-	-	2 823	18 912	21 735	235	21 970
Transfer of excess depreciation	-	-	-	-	(124)	124	-	-	-
Transfer from loan loss reserve	-	-	452	-	-	(452)	-	-	-
Dividend paid to minority shareholders	-	-	-	-	-	-	-	(52)	(52)
2016 Final dividend declared and paid	-	-	-	-	-	(5 342)	(5 342)	-	(5 342)
2017 First interim dividend declared and paid	-	-	-	-	-	(3 315)	(3 315)	-	(3 315)
At end of the year	467	613	1 160	-	18 181	60 486	80 907	1 306	82 213

COMPANY	Share Capital K'm	Share Premium K'm	Loan Loss Reserve K'm	Available For Sale Reserve K'm	Revaluation Reserve K'm	Retained Earnings K'm	Total K'm
2016							
At beginning of the year	467	613	1 448	11	11 653	39 007	53 199
Total comprehensive income	-	-	-	(11)	3 877	16 666	20 532
Partial derecognition of investment in Indebank Limited (note 4.3)	-	-	-	-	-	(544)	(544)
Transfer of excess depreciation	-	-	-	-	(71)	71	-
Transfer from loan loss reserve	-	-	(740)	-	-	740	-
2015 Final interim dividend declared and paid	-	-	-	-	-	(3 199)	(3 199)
2016 First interim dividend declared and paid	-	-	-	-	-	(3 007)	(3 007)
At end of the year	467	613	708	-	15 459	49 734	66 981
2017							
At beginning of the year	467	613	708	-	15 459	49 734	66 981
Total comprehensive income	-	-	-	-	2 823	18 319	21 142
Transfer of excess depreciation	-	-	-	-	(124)	124	-
Transfer from loan loss reserve	-	-	452	-	-	(452)	-
2016 Final interim dividend declared and paid	-	-	-	-	-	(5 342)	(5 342)
2017 First interim dividend declared and paid	-	-	-	-	-	(3 315)	(3 315)
At end of the year	467	613	1 160	-	18 158	59 068	79 466

	2017 K'm	2016 K'm
ANALYSIS OF SHARE CAPITAL		
Authorised		
500,000,000 Ordinary Shares of K1 each	500	500
Issued and fully paid		
466,931,738 Ordinary Shares of K1 each	467	467

LOAN LOSS RESERVE

The loan loss reserve (general provision) against risk assets as required by the Reserve Bank of Malawi cannot be offset against the gross value of the assets because IAS 39 Financial Instruments: Recognition and Measurement does not allow general provisions on anticipated future losses to be charged to the statement of comprehensive income. In order to comply with Reserve Bank of Malawi capital adequacy requirements, a non-distributable statutory general reserve is used.

PROPERTY REVALUATION RESERVE

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

For the year ended 31 December 2017

	Notes	GROUP 2017 K'm	GROUP 2016 K'm	COMPANY 2017 K'm	COMPANY 2016 K'm
Cash flows from operating activities					
Profit before tax		27 550	25 247	26 179	25 081
Adjustments for:					
• Depreciation of property and equipment	16	2 391	2 381	2 375	2 216
• Amortisation of intangible assets	17	506	401	498	394
• Profit on disposal of property and equipment		(63)	(95)	(43)	(70)
• Impairment loss on revaluation of property	16	-	137	-	137
• Impairment loss on intangible assets	17	-	294	-	294
• Impairment loss on assest held for sale	15	-	47	-	47
• Profit on disposal of assets held for sale	15	(59)	-	(59)	-
• Gains on disposal of financial instruments classified as held for trading		(536)	-	(536)	-
• Net (gains)/loss on financial instruments classified as held for trading	8	(1 493)	562	(1 493)	562
• Dividend receivable		(17)	(41)	(421)	(509)
• Net fair value (gains)/loss on revaluation of properties	32	(316)	(206)	142	181
• Share of (profits)/loss of associate		(143)	184	-	-
• Movement in customer deposits		47 210	16 293	36 033	22 147
• Movement in other liabilities and provisions		2 017	348	2 155	352
• Movement in loans and advances		(4 288)	(19 312)	(4 288)	(21 234)
• Movement in other assets and investment in associate		3 427	(4 605)	3 476	(4 612)
Cash generated from operations		76 186	21 635	64 018	24 986
Tax paid	22	(8 649)	(6 779)	(8 274)	(6 585)
Net cash flow from operating activities		67 537	14 856	55 744	18 401
Cash flows from investing activities					
(Decrease)Increase in investments with maturity over three months		(2 583)	4 751	(4 592)	7 908
Purchase of property and equipment and intangible assets		(4 985)	(6 082)	(4 939)	(6 024)
Proceeds from disposal of property and equipment		192	417	131	335
Proceeds from disposal of assets held for sale		458	-	458	-
Purchase of equity investments		(1 750)	(77)	(1 750)	(77)
Proceeds from disposal of equity investments		1 514	307	1 449	308
Dividend received		17	41	421	509
Net cash used in investing activities		(7 137)	(643)	(8 822)	2 959
Cash flows from financing activities					
Increase in /(Repayments for) loans		13 976	(3 342)	13 976	(3 336)
Dividends paid		(8 709)	(6 262)	(8 657)	(6 206)
Net cash inflow/(outflow) from financing activities		5 267	(9 604)	5 319	(9 542)
Net increase in cash and cash equivalent		65 667	4 609	52 241	11 818
Cash and cash equivalents transferred from Indebank Limited		-	-	-	5 089
Cash and cash equivalents at beginning of the year		95 964	91 355	83 645	66 738
Cash and cash equivalents at end of the year (note 38)		161 631	95 964	135 886	83 645

1. GENERAL INFORMATION

National Bank of Malawi Group (the Group) provides retail, corporate and investment banking as well as stockbroking, insurance and pension administration services in Malawi. The Group has a network of 32 (2016: 32) service centres.

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

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

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

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

In the current year, the entity has adopted those new and revised Standards and Interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee of the International Accounting Standards Board that are relevant to its operations and are effective for annual reporting periods beginning on 1 January 2017.

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

2.2 Standards and Interpretations in issue, not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2018, and have not been applied in preparing these financial statements. Those which may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

Effective date	Standard, Amendment or Interpretation
Annual periods beginning on or after 1 January 2018	*IFRS 9 Financial Instruments* IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently

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

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

Effective date	Standard, Amendment or Interpretation
	amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include impairment requirements for financial assets and limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. Key requirements of IFRS 9: All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination) in other

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

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

Effective date	Standard, Amendment or interpretation
	comprehensive income, with only dividend income generally recognised in profit or loss; • With regard to the measurement of measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes In other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Changes in fair value attributable to financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss; • In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit losses and changes in those expected credit losses each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised; and • The new general hedge accounting requirements retain the three types of hedge accounting mechanics currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

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

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

Effective date	Standard, Amendment or interpretation
Annual periods beginning on or after 1 January 2018	IFRS 15 *Revenue from Contracts with Customers* IFRS 15 specifies how and when an entity will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition: • Step 1: Identify the contract(s) with a customer; • Step 2: Identify the performance obligations in the contract; • Step 3: Determine the transaction price; • Step 4: Allocate the transaction price to the performance obligations in the contract; and • Step 5: Recognise Revenue when (or as) the entity satisfies a performance obligation. Under IFRS15, an entity recognises Revenue when (or as) a performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. In April 2016, the IASB issued Classifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

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

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

Effective date	Standard, Amendment or interpretation
Annual periods beginning on or after 1 January 2019	IFRS 16 Leases IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guide including IAS 17 Leases and the related interpretations when it becomes effective. IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and corresponding liability have to be recognized for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at present value of the lease payments that are aid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion that will be presented as financing and operating cash flows respectively. In contracts to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by IFRS 16.

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

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

Effective date	Standard, Amendment or interpretation
Annual reporting periods beginning on or after 1 January 2021	IFRS 17 *Insurance Contracts* IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.
Annual periods beginning on or after 1 January 2018	Classification and Measurement of Share-based Payment Transactions Amends IFRS 2 Share-based Payment to clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.
The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018	Annual Improvements to IFRS Standards 2014–2016 Cycle Makes amendments to the following standards: • IFRS 1 - Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose • IAS 28 - Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

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

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

Effective date	Standard, Amendment or interpretation
Annual reporting periods beginning on or after 1 January 2018	IFRIC 22 Foreign Currency Transactions and Advance Consideration The interpretation addresses foreign currency transactions or parts of transactions where: • there is consideration that is denominated or priced in a foreign currency; • the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary. The Interpretations Committee came to the following conclusion: • The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. • If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.
Annual reporting periods beginning on or after 1 January 2019	IFRIC 23 Uncertainty over Income Tax Treatments The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: • Whether tax treatments should be considered collectively; • Assumptions for taxation authorities' examinations; • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and • The effect of changes in facts and circumstances.

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

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

Effective date	Standard, Amendment or interpretation
Annual periods beginning on or after 1 January 2019	Prepayment Features with Negative Compensation (Amendments to IFRS 9) Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.
Annual periods beginning on or after 1 January 2019	Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) Clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The directors anticipate that other than IFRS 9, IFRS 15 and IFRS 16, these Standards and Interpretations in future periods will have no significant impact on the financial statements of the company. IFRS 9 will impact the measurement of financial instruments, IFRS 15 will affect recognition of revenue and IFRS 16 will impact on how an entity will recognise, measure, present and disclose leases. The directors are unable to quantify the impact that adoption of these Standards and Interpretations in future periods will have on the financial statements.

3. ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

The consolidated and separate financial statements have been prepared on the historical cost basis, except for the revaluation of certain non-current assets and financial instruments which are measured at revalued amount or fair value at the end of the reporting period. No other procedures are adopted to reflect the impact on the financial statements of specific price changes or changes in the general level of prices.

3. ACCOUNTING POLICIES (CONTINUED)

Basis of preparation(Continued)

The principal accounting policies of the Group, which are set out below, have been consistently followed in all material respects, unless otherwise stated.

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

3.1 Basis of consolidation

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

a. Subsidiaries

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2017. Subsidiaries are entities over which the Bank has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

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

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

3. ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (Continued)

a. Subsidiaries (Continued)

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

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

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

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

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

3. ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (Continued)

b. Associates

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

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

3.2 *Business combinations*

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

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

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

3. ACCOUNTING POLICIES (CONTINUED)

3.2 Business combinations (Continued)

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

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

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is re-measured at subsequent reporting dates in accordance with IAS 39 *Financial Instruments: Recognition and Measurement, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets*, as appropriate with the corresponding gain or loss being recognised in profit or loss.

3. ACCOUNTING POLICIES (CONTINUED)

3.2 Business combinations (Continued)

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasurable to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss when such treatment would be appropriate if that interest were disposed off.

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

3.3 Goodwill

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

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

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

3. ACCOUNTING POLICIES (CONTINUED)

3. 4 Comparatives

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

3.5 Financial assets

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

i. Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired or incurred principally for the purpose of selling in the short term or if it is part of a portfolio of identified financial investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments.

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

ii. Loans and receivables

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

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

3. ACCOUNTING POLICIES (CONTINUED)

3.5 Financial assets (Continued)

ii. Loans and receivables (Continued)

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

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

iii. Held-to-maturity investments

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

a. those that the Group upon initial recognition designates as at fair value through profit or loss;
b. those that the Group designates as available for sale; and
c. those that meet the definition of loans and receivables.

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

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

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

3. ACCOUNTING POLICIES (CONTINUED)

3.5 Financial assets (Continued)

iv. Available-for-sale investments

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

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

v. Recognition

The Group uses trade date accounting for regular way contracts when recording financial asset transactions. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as 'Assets pledged as collateral', if the transferee has the right to sell or repledge them.

vi. Derecognition

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

Collateral (treasury bills and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are

3. ACCOUNTING POLICIES (CONTINUED)

3.5 Financial assets (Continued)

vi. Derecognition (Continued)

therefore not met. This also applies to certain securitisation transactions in which the Group retains a portion of the risks.

vii. Reclassification of financial assets

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

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

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

3.6 Offsetting financial instruments

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

3.7 Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as

3. ACCOUNTING POLICIES (CONTINUED)

3.7 Sale and repurchase agreements (Continued)

appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest rate method. Securities lent to counterparties are also retained in the financial statements.

3.8 Impairment of financial assets

a. Assets carried at amortised cost

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

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

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

3. ACCOUNTING POLICIES (CONTINUED)

3.8 Impairment of financial assets (Continued)

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

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

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

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

When a loan is uncollectable, it is written off against the related provision for loan

3. ACCOUNTING POLICIES (CONTINUED)

3.8 *Impairment of financial assets (Continued)*

impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

b. <u>Assets carried at fair value</u>

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

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

3.9 *Property, plant and equipment*

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

3. ACCOUNTING POLICIES (CONTINUED)

3.9 *Property, plant and equipment (Continued)*

annually, net of deferred tax, from the revaluation reserve to retained earnings.

Land and buildings comprise mainly service centres and offices.

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

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

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

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

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

Freehold land and capital work in progress are not depreciated.

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

3.10 *Intangible assets*

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

3.11 *Leases*

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

3. ACCOUNTING POLICIES (CONTINUED)

3.10 Leases (Continued)

a. The Group as lessor

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

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

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

b. The Group as lessee

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

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

3.12 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

3. ACCOUNTING POLICIES (CONTINUED)

3.12 Derivative financial instruments (Continued)

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument(i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of comprehensive income.

3.13 Impairment of tangible and intangible assets excluding goodwill and financial assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset

3. ACCOUNTING POLICIES (CONTINUED)

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

(cash-generating unit) in prior years.

A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.14 Non-current assets held for sale

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

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

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

3.15 Provisions

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

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

a. <u>Restructuring</u>

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

b. <u>Onerous contracts</u>

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting

3. ACCOUNTING POLICIES (CONTINUED)

3.15 Provisions (Continued)

b. Onerous contracts (Continued)

its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with the contract.

c. Warranties

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

3.16 Taxation

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

Current tax

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

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which these deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

3. ACCOUNTING POLICIES (CONTINUED)

3.16 *Taxation (Continued)*

Deferred tax (Continued)
the foreseeable future.

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

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

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

3.17 *Cash and cash equivalents*

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

3.18 *Employee benefits*

a. Pension obligations – Defined Contribution Plan

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

A defined contribution plan is a pension plan under which the Group pays fixed

3. ACCOUNTING POLICIES (CONTINUED)

Pension obligations – Defined Contribution Plan (Continued)
contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employment service in the current and prior periods.

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

3.19 Foreign currency translation

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

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

3.20 Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of the liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below:

i. Customer deposits and liabilities to other banks
Customer deposits and liabilities to other banks are recognised initially at fair value,

3. ACCOUNTING POLICIES (CONTINUED)

3.20 Financial liabilities and equity (Continued)

i. Customer deposits and liabilities to other banks (Continued)

being their issue proceeds (fair value of consideration received) net of transaction costs incurred. These are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest rate method.

ii. Other liabilities

Other liabilities are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

iii. Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

3.21 Revenue recognition

Interest income and expense

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

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

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3. ACCOUNTING POLICIES (CONTINUED)

3.21 Revenue recognition (Continued)

Fee and commission income

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

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

Dividend income

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

Premium on foreign exchange deals

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

3.22 Share capital

Share issue costs

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

Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Group's Directors.

Dividends for the year that are declared after the year-end date are dealt with in the subsequent events note.

3. ACCOUNTING POLICIES (CONTINUED)

3.22 Share capital (Continued)

Dividend per share

The calculation of dividend per share is based on the dividends declared during the period divided by the number of ordinary shareholders on the register of shareholders as at year-end.

Earnings per share

The calculation of earnings per share is based on the net profit for the year and the weighted average number of shares in issue throughout the year. Where new equity shares have been issued by way of capitalisation or subdivision, the profit is apportioned over the shares in issue after the capitalisation or subdivision and the corresponding figures for all earlier periods are adjusted accordingly.

3.23 Fiduciary activities

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

4.1 Critical judgements in applying the Group's accounting policies

There were no critical judgements, apart from those involving estimations (note 4.2) that management has made in the process of applying the Group's accounting policies and that have significant effect on the amounts recognised in financial statements.

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

4.2 Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the year-end date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:-

i. <u>Impairment losses on loans and advances</u>

The Group reviews its financial assets to assess impairment at least on a quarterly basis. The impairment evaluation is done both individually and collectively.

The Group assess individually significant loans whether objective evidence of impairment exists for these loans. If there is objective evidence that an impairment loss has been incurred, the amount of loss is calculated as the difference between the loan's carrying amount and the present value of estimated future cash flows. If the Group determines that no objective evidence of impairment exists for individually significant loans, it includes the loan in a group of loans with similar credit characteristics and collectively assess them for impairment.

In the assessment of individual loans, if a borrower's account has remained unpaid for over three months after attaining substandard status and on which collection of repayment in full is highly improbable, provisioning is warranted depending on the estimated recoverable amount of the pledged collateral, if any.

An account attains a sub-standard status when it has recorded two cumulative monthly instalments arrears or for those payable quarterly, biannually or yearly, an instalment has been missed.

In determining the collective loss, the Group makes collective evaluation of impairment by using estimated default rates based on historical loss experience of each group of financial asset.

Key assumptions used:

a. Cash flows arising from collateral realisation crystallise at an average period of 18 months and arise at the end of the 18 months period. Where cash flows are doubtful, they are assumed to be nil;
b. Where there is a borrowing agreement but no collateral in place, expected future cash flows are assumed to be nil;
c. Unsupported guarantees which are not backed by any tangible asset (by companies or individuals except bank guarantees) are assumed to result in nil cash flows; and
d. No cash flows are assumed to arise where there is no repayment agreement i.e. in instances of unsanctioned borrowing for example exceeding authorised overdraft limits.

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

4.2 *Key sources of estimation uncertainty (Continued)*

ii. Held to maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances- for example, selling an insignificant amount close to maturity- it will be required to reclassify the entire class as available for sale.

iii. Valuation of properties

The assumptions and methods of revaluing properties are disclosed in note 16.

iv. Residual values and useful lives of tangible assets

The residual values and useful lives of property and equipment are reviewed and adjusted, if appropriate, at each statement of financial position date to reflect current thinking on their remaining lives in the light of technological change, prospective economic utilisation and physical conditions of the assets concerned as described in note 3.

v. Impairment of goodwill

In determining whether goodwill is impaired, the Group estimates the value in use of the cash-generating unit to which goodwill has been allocated. In calculating the value in use, the Group estimates the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the value in use is less than the carrying amount of goodwill, an impairment loss is recognised.

4.3 *Merger of National Bank of Malawi (NBM) and Indebank Limited*

NBM merged with Indebank Limited effective 1 May 2016. The merger of the two banks also resulted into the transfer of the pensions administration business of Indetrust Limited to National Bank Pensions Administration Limited while the fund management business of the Indetrust Limited was transferred to NBM Capital Markets Limited. The merger of the two banks was approved as a Qualified Reorganisation under Section 70F of the Taxation Act by the Malawi Revenue Authority. As a result, the two banks are considered as one for taxation purposes.

This approved qualified reorganisation was effectively a combination of the two banks. The accounting standard that deals with this type of transaction is IFRS 3 *Business Combinations*. However, IFRS 3 does not apply to a combination of entities or businesses under common control. There is no accounting standard which addresses

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

4.3 Merger of National Bank of Malawi (NBM) and Indebank Limited (Continued)

the treatment of a combination of entities under common control or one which allows merger accounting. The directors believe that the transaction should be accounted for using the principles of merger accounting. The reasons for this position are detailed out below:

- In the framework for Preparation and Presentation of Financial Statements issued by the International Accounting Standards Board the concept of *faithful representation* of information is discussed as "to be reliable, information must represent faithfully the transactions and other events it either purports to represent or could reasonably be expected to represent. Most financial information is subject to some risk of being less than a faithful representation of that which it purports to portray. This is not due to bias, but rather to inherent difficulties either in identifying the transactions and other events to be measured or in devising and applying measurement and presentation techniques that convey the messages that correspond with those transactions and events", and
- The framework also considers the issue of *substance over form* "if information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance.

The directors' objective is to make a faithful representation of the transaction which is in effect a merger of the two banks. The directors believe the two overarching principles of accounting allow an entity to transfer the assets from one company to another at their book values because the economic reality is that the two entities are combining. Accordingly, the transaction was accounted in the Bank and Group financial statements in 2016 as follows:

- Transferring the assets and liabilities of Indebank Limited into the statement of financial position of National Bank of Malawi at their book values;
- The reserves, retained earnings and share capital of Indebank were retained in Indebank pending a formal liquidation process. NBM has not yet decided to transfer the reserves to NBM because the future of Indebank Limited (now a dormant company) is yet to be decided on. Also retained in Indebank Limited books were the investments in its subsidiaries; Indetrust Limited and Indetrust Holdings Limited;
- Immediately after the merger with NBM, the banking licence of Indebank Limited was surrendered to the the Registrar of Financial Institutions (Reserve Bank of Malawi) and therefore Indebank Limited became a dormant company;
- The legal ownership of the assets and liabilities has not been changed as at 31 December 2017 and this has been ignored by using the substance over form override;

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

4.3 Merger of National Bank of Malawi (NBM) and Indebank Limited (Continued)

- The statements of comprehensive income for the two entities were maintained as separate, up to the point of the merger. These have been combined at Group level. As from the date of the merger, Indebank did not have any transactions on its Statement of Comprehensive Income as all operating assets and liabilities were transferred to NBM. All operating costs from the date of the merger were accounted for in NBM records;
- The tax values of Indebank Limited were transferred across at their tax written down values at 1 January 2016 and the relevant tax allowances claimed in the new entity. This treatment complies with the requirements of Section 70F of the Taxation Act on Qualified Reorganisations; and
- The investment in Indebank Limited was partially derecognised in the separate financial statements. Since Indebank Limited has retained its investments in Indetrust Holdings Limited, NBM's investment in Indebank Limited had not been fully derecognised. The remaining value in Indebank Group (NBM's share of net assets for Indebank Limited Group) and goodwill has been reflected in NBM's remaining investment in Indebank Limited. The excess of the initial cost of the investment over the value of the goodwill and the value of the remaining investment in Indebank was adjusted against retained earnings in the separate financial statements as at 31 December 2016.

5. CASH AND FUNDS WITH RESERVE BANK OF MALAWI

	GROUP		COMPANY	
	2017 K'm	**2016 K'm**	**2017 K'm**	**2016 K'm**
Cash	10 959	13 988	10 959	13 871
Balances with the Reserve Bank of Malawi	16 139	15 786	16 139	15 779
Total cash and funds with Reserve Bank of Malawi	27 098	29 774	27 098	29 650

The currency analysis of cash is in note 41e.

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

6. GOVERNMENT OF MALAWI TREASURY BILLS AND TREASURY NOTES

	Average interest rates					
	2017	**2016**				
Government of Malawi treasury bills	20.10%	22.47%	24 670	25 590	24 670	23 581
Government of Malawi treasury notes	18.15%	17.91%	4 808	253	4 808	253
			29 478	25 843	29 478	23 834

The bills and notes are due to mature as follows:

● Within three months	11 021	9 849	11 021	7 840
● Between three months and one year	15 698	15 994	15 698	15 994
● Over one year	2 759	-	2 759	-
	29 478	25 843	29 478	23 834

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

7. GOVERNMENT OF MALAWI PROMISSORY NOTES

	GROUP AND COMPANY			
Promissory notes	**Maturity date**	**Carrying amount K'm**	**Fair value K'm**	**Fair value gain K'm**
2017				
Acquired in 2017	See details below	48	48	-
2016				
Acquired in 2016	11 August 2017	1 100	1 100	-

In 2016, the Bank acquired a promissory note from the market at a cost of K967m. The note had a nominal value of K1 341m and its maturity date was 11 August 2017. The carrying amount as at 31 December 2016 included accrued interest receivable amounting to K133m. Interest income amounting K241m relating to the promissory note has been recognised in the statement of comprehensive income as at 31 December 2017.

During the year, the Bank acquired three additional promissory notes from the market at a total cost of K43m. The cost of each note was K21m, K8m and K14m. The notes have a total nominal value of K53m and their maturity dates are 13 February 2018, 22 February 2018 and 27 September 2018, respectively. The carrying amount includes accrued interest receivable amounting to K5m.

The fair value level has been disclosed under note 40.

8. EQUITY INVESTMENTS

GROUP	2016 K'm	Additions/ (Disposals) K'm	Fair Value Adjustment K'm	2017 K'm	Cost K'm
First Merchant Bank Plc 4 864 790 (2016: 7 759 790) Ordinary shares of K2.50 each at a market value of K67.00 (2016: K17.00) per share	132	(49)	243	326	58
Illovo Sugar (Malawi) Plc 1 000 000 (2016: 83 276) Ordinary shares of K0.02 each at a market value of K240.00 (2016: K160.00) per share	14	206	20	240	220
NICO Holdings Plc 17 300 000 (2016: 14 300 000) Ordinary shares of K0.20 each at a market value of K34.00 (2016: K17.00) per share	243	78	267	588	206
Malawi Property Investment Company Plc 20 400 882 (2016: 19 650 882) Ordinary shares of K0.05 each at a market value of K15.61 (2016: K7.83) per share	153	7	158	318	112
National Investment Trust Plc 6 278 259 (2016: 6 278 259) Ordinary shares of K1.00 each at a market value of K60.06 (2016: K34.00) per share	214	-	163	377	159
NBS Bank Plc 44 959 480 (2016: 12 239 870) Ordinary shares of K0.50 each at a market value of K8.50 (2016: K6.00) per share	69	176	137	382	273
Standard Bank of Malawi Plc 1 000 000 (2016: 1 102 662) Ordinary shares of K1.00 each at market value of K610.00 (2016: K500.00) per share	550	(51)	111	610	186
Sunbird Malawi Plc 4 637 964 (2016: 1 000 000) Ordinary shares of K0.05 each at a market value of K96.00 (2016: K58.50) per share	59	232	154	445	241
Telekom Networks Malawi Plc 28 350 194 (2016: 88 350 194)Ordinary shares of K0.04 each at a market value of K14.50 (2016: K6.05) per share	535	(363)	240	412	58
Total equity investment	1 969	236	1 493	3 698	1 513

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

8. EQUITY INVESTMENTS (CONTINUED)

COMPANY	2016 K'm	Additions/ (Disposals) K'm	Fair Value Adjustment K'm	2017 K'm	Cost K'm
First Merchant Bank Plc 4 864 790 (2016: 7 759 790) Ordinary shares of K2.50 each at a market value of K67.00 (2016: K17.00) per share	132	(49)	243	326	58
Illovo Sugar (Malawi) Plc 1 000 000 (2016: nil) Ordinary shares of K0.02 each at a market value of K240.00 (2016: K160.00) per share	-	220	20	240	220
NICO Holdings Plc 17 300 000 (2016: 14 300 000) Ordinary shares of K0.20 each at a market value of K34.00 (2016: K17.00) per share	243	78	267	588	206
Malawi Property Investment Company Plc 20 400 882 (2016: 19 650 882) Ordinary shares of K0.05 each at a market value of K15.61 (2016: K7.83) per share	153	7	158	318	112
National Investment Trust Plc 6 278 259 (2016: 6 278 259) Ordinary shares of K1.00 each at a market value of K60.06 (2016: K34.00) per share	214	-	163	377	159
NBS Bank Plc 44 959 480 (2016: 12 239 870) Ordinary shares of K0.50 each at a market value of K8.50 (2016: K6.00) per share	69	176	137	382	273
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Sunbird Malawi Plc 4 637 964 (2016: 1 000 000) Ordinary shares of K0.05 each at a market value of K96.00 (2016: K58.50) per share	59	232	154	445	241
Telekom Networks Malawi Plc 28 350 194 (2016: 88 350 194)Ordinary shares of K0.04 each at a market value of K14.50 (2016: K6.05) per share	535	(363)	240	412	58
Total equity investments	1 904	301	1 493	3 698	1 513

The above investments are listed on the Malawi Stock Exchange and are carried at market value. Telekom Networks Malawi Limited is a related party.

8. EQUITY INVESTMENTS (CONTINUED)

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

	GROUP			Fair value
	Level 1	Level 2	Level 3	2016
	K'm	K'm	K'm	K'm
Equity investments in listed companies	1 969	-	-	1 969

	COMPANY			Fair value
	Level 1	Level 2	Level 3	2017
	K'm	K'm	K'm	K'm
Equity investments in listed companies	3 698	-	-	3 698

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

	COMPANY			Fair value
	Level 1	Level 2	Level 3	2016
	K'm	K'm	K'm	K'm
Equity investments in listed companies	1 904	-	-	1 904

				Fair value
	Level 1	Level 2	Level 3	2017
	K'm	K'm	K'm	K'm
Equity investments in listed companies	3 698	-	-	3 698

9. INVESTMENT IN ASSOCIATES

	GROUP		COMPANY	
	2017	2016	2017	2016
	K'm	K'm	K'm	K'm
Purchase consideration	233	233	233	233
Share of accumulated results	254	165	-	-
	487	398	233	233
Assets	6 768	6 342		
Liabilities	(5 435)	(5 301)		
Net assets	1 333	1 041		
Group's share of net assets of associates	413	323		
Total revenue	5 106	3 813		
Total profit/ (loss) for the year	285	(595)		

NBM holds 31% (2015: 31%) of United General Insurance Company Limited's share capital. Its principal place of business and registered office is Michiru House, Victoria Avenue, Blantyre.

10. INVESTMENT IN SUBSIDIARIES

		COMPANY	
	Note	2017 K'm	2016 K'm
Indebank Limited	4.3 & 10.1.4	6 072	6 072
NBM Pensions Administration Limited		429	250
Stockbrokers Malawi Limited		98	98
NBM Bureau de Change Limited		7	7
NBM Capital Markets Limited		17	17
Total investment in subsidiaries		6 623	6 444

NBM, through National Bank Nominees Limited, holds 75% (2016:75%) stake in Stockbrokers Malawi Limited. The Bank also holds 100% (2016: 100%) stake in NBM Bureau de Change Limited, a 100% (2016: 100%) stake in NBM Capital Markets Limited, a 100% (2016: 100%) stake in NBM Pension Administration Limited and a 100% (2016: 97.05%) stake in Indebank Limited. NBM Bureau de Change ceased operations in 2013. Indebank ceased to operate in 2016 and its operating assets and liabilities were transferred to National Bank of Malawi effective 1 May, 2016. The banking licence was consequently surrendered to the Registrar of Financial Institutions (the Reserve Bank of Malawi).

Below is a list of assets and liabilities which were transferred from Indebank in 2016.

	Assets K'm
Cash and Funds with Reserve Bank of Malawi	1 697
Treasury Bills	3 517
Investment in associate	15
Placements with local banks	1 580
Balances with banks abroad	1 812
Loans and advances	2 443
Other assets	460
Deferred tax	395
Income tax receivable	122
Investment property	133
Property and equipment	1 370
Intangible assets	422
Total assets	13 966
Liabilities	
Deposits	11 829
Other liabilities	1 040
Loans	209
Total liabilities	13 078
Net assets	888

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

10. INVESTMENT IN SUBSIDIARIES (CONTINUED)

10.1 Investment in Indebank

Entity	Principal activity	Effective date of acquisition	Interest acquired	Consideration transferred K'm
Indebank Limited	Commercial banking	31 October 2015	97.05%	6 590

Indebank was acquired in 2015 as a growth strategy for NBM. Indebank will strengthen Small and Medium Enterprise business and offer special packages in start ups, project and development finance. The consideration transferred to materialise the acquisition was cash. In August 2016, NBM acquired an additional 2.95% shareholding in Indebank which represented Employee Share Ownership Scheme (ESOS) at a consideration of K26m making Indebank a wholly owned subsidiary of NBM.

10.1.1 Assets acquired and liabilities recognised as at the date of acquisition

	Assets K'm
Cash and Funds with Reserve Bank of Malawi	1 873
Treasury and Reserve Bank of Malawi Bills	2 597
Investment in associate	15
Placements with other banks	4 142
Loans and advances	9 292
Other assets	699
Deferred tax	224
Investment property	133
Property and equipment	4 205
Intangible assets	244
Total assets	23 424
Liabilities	
Deposits	17 565
Current income tax liability	5
Other liabilities	1 503
Deferred tax	616
Loans	123
Total liabilities	19 812
Net assets	3 612

10. INVESTMENT IN SUBSIDIARIES (CONTINUED)

10.1.2 Goodwill arising on acquisition

	K'm	
	2017	**2016**
Consideration transferred	-	26
Non-controlling interest	-	(78)
Goodwill arising on acquisition (note 19)	-	(52)
Cumulative goodwill on the whole acquisition	3 959	3 959

10.1.3 Net cash outflow on acquisition of subsidiary

	Assets K'm
Consideration paid in cash	6 616
Less: cash and cash equivalent balances acquired	(1 873)
Net cash outflow	4 743

10.1.4 Impact of acquisition on the results of the Group

Indebank Limited has not been de-registered as at 31 December 2017 (see note 4.3 and 10.1.5). Its subsidiary, Indetrust (Holdings) Limited (IHL), is still operating properties rental business. Included in the profit for the year is a profit of K404m attributable to the rental business and income for the year includes K566m in respect of same business. Subsquent to year end, the Group agreed to dispose off its investment in IHL (refer to note 26).

10.1.5 Treatment of investment in Indebank in NBM's separate accounts

The investment in Indebank Limited has not been fully derecognised in NBM's separate financial statements because it represents goodwill –K4bn (refer to note 19) and other assets amounting to K2.5 bn including investment in Indetrust Holdings Limited whose assets and liabilities have not been transferred to NBM and the company remains a separate entity. Subsquent to year end, the Group agreed to dispose off its investment in IHL (refer to note 26).

11. PLACEMENTS WITH OTHER BANKS

	GROUP AND COMPANY	
	2017 K'm	**2016 K'm**
Balances due from other banks	32 052	21 683
Total placements with other banks	32 052	21 683

Placements with other banks are denominated in the following currencies:

	Average interest rates		GROUP AND COMPNANY	
	2017	**2016**	**2017**	**2016**
US Dollar denominated	0.50%	0.50%	18 610	9 832
GBP denominated	1.75%	1.75%	2 620	2 114
Euro denominated	0.50%	0.50%	9 625	8 443
ZAR denominated	4.00%	4.00%	1 172	632
Other	0%	0%	25	662
			32 052	21 683

Money market placements with other banks are held to maturity and mature within one month (2016: one month) of the year-end.

12. LOANS AND ADVANCES

	GROUP AND COMPANY	
	2017 K'm	**2016 K'm**
Gross loans and advances	140 227	131 935
Staff loans	3 309	2 443
Total loans and advances	143 536	134 378
Specific provisions	(5 961)	(1 091)
Net loans and advances	137 575	133 287
Due to mature as follows:		
• Within three months	22 529	33 235
• Between three months and one year	59 912	60 931
• After one year and not later than five years	57 222	40 936
Interest in suspense	(2 088)	(724)
	137 575	134 378
Analysis of gross loans by currency		
Malawi Kwacha denominated	80 662	89 705
US Dollar denominated	56 913	44 673
	137 575	134 378

The Malawi Kwacha base lending rate for the Bank as at 31 December 2017 was 25% (2016: 32%) per annum and US Dollar denominated loans carried an average interest rate of 8.74% (2016: 8.83%) per annum.

	GROUP		COMPANY	
	2017 K'm	**2016 K'm**	**2017 K'm**	**2016 K'm**
Movement on specific provisions				
At beginning of the year	1 091	1 711	1 091	1 192
Charged to statements of comprehensive income	5 257	1 800	5 257	1 584
Applied against advances-write offs	(235)	(2 096)	(235)	(1 453)
Recovered	(152)	(324)	(152)	(232)
At end of the year	5 961	1 091	5 961	1 091
Movement on interest in suspense				
At beginning of the year	724	933	724	634
Applied against advances-write offs	(1 398)	(1 122)	(1 398)	(823)
Suspended in the year	2 803	982	2 803	982
Recovered	(41)	(69)	(41)	(69)
At end of the year	2 088	724	2 088	724
Analysis of recoveries				
Specific provisions	152	324	152	232
Interest in suspense	41	69	41	69
Debts previously written off	834	624	834	624
Transferred to statement of comprehensive income	1 027	1 017	1 027	925

12. LOANS AND ADVANCES (CONTINUED)

	GROUP AND COMPANY	
	2017 K'm	2016 K'm
Finance lease receivables		
Gross investment in finance lease receivable:		
• Within three months	135	86
• Between three months and one year	1 375	1 169
• After one year and not later than five years	11 931	12 171
	13 441	13 426
Unearned future income on finance leases	(3 118)	(3 878)
	10 323	9 548
Specific provisions	(6)	(68)
Net investment in finance leases	10 317	9 480
The net investment in finance leases matures as follows:		
• Within three months	78	79
• Between three months and one year	1 032	1 043
• After one year and not later than five years	9 207	8 358
	10 317	9 480

13. OTHER MONEY MARKET DEPOSITS

	GROUP		COMPANY	
	2017 K'm	2016 K'm	2017 K'm	2016 K'm
Money market investments with Reserve Bank of Malawi and other banks	104 195	59 077	78 450	46 882

Money market investments with Reserve Bank of Malawi and other banks are held to maturity and mature within one month (2016: one month) after the year-end. The deposits earned an average interest rate of 20.77% (2016: 27.92%) per annum.

Included under company, is Knil (2016: K9.3bn) relating to money market investment the Bank held through its subsidiary, Stockbrokers Malawi Limited.

14. OTHER ASSETS

	GROUP		COMPANY	
	2017 K'm	2016 K'm	2017 K'm	2016 K'm
Sundry receivables	2 986	3 521	2 132	2 951
Prepayments	669	1 335	669	1 335
Due from local banks	186	703	186	703
Employee benefit subsidy	1 954	2 063	1 954	2 063
Forward contracts	-	3 258	-	3 258
Mastercard accounts	1 303	444	1 303	444
Bulk stock stationery	512	1 066	512	1 066
Other investments	63	61	63	61
Specific provision	-	(1 906)	-	(1 906)
Total other assets	7 673	10 545	6 819	9 975

14. OTHER ASSETS (CONTINUED)

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

15. NON-CURRENT ASSETS HELD FOR SALE

	Freehold land & buildings K'm	Leasehold land & buildings K'm	Investment property K'm	Motor vehicles K'm	Total K'm
GROUP AND COMPANY					
Cost or valuation					
Reclassified as held for sale from property and equipment	321	218	133	218	890
At 31 December 2016	321	218	133	218	890
At 1 January 2017	321	218	133	218	890
Disposals	(154)	(178)	-	(162)	(494)
Reclassified to property and equipment	-	-	-	(56)	(56)
At 31 December 2017	167	40	133	-	340
Accumulated depreciation					
Reclassified as held for sale from other categories	2	27	-	103	132
Impairment loss	-	47	-	-	47
At 31 December 2016	2	74	-	103	179
At 1 January 2017	2	74	-	103	179
Disposals	(2)	(18)	-	(75)	(95)
Reversal of impairment loss on disposal	-	(46)	-	-	(46)
Reclassified to property and equipment	-	-	-	(28)	(28)
At 31 December 2017	-	10	-	-	10
Carrying amount					
At 31 December 2016	319	144	133	115	711
At 31 December 2017	167	30	133	-	330

15. NON-CURRENT ASSETS HELD FOR SALE (CONTINUED)

The non-current assets held for sale related to items which NBM acquired through business combinations with Indebank Limited. After the merger of NBM and Indebank, these items were considered a surplus to NBM requirements, as such the Group has vigorously been looking for a buyer of the items. The impairment loss, in 2016, related to Ex-Indebank Mangochi cottage, Luchenza agency, Mponela agency and Salima agency at total cost of K218m, accumulated depreciation of K21m and at fair value less cost to of K150m. Assets with a total cost of K494m and accumulated depreciation of K95m were disposed off during the reporting period. The total proceeds from disposal amounted to K458m, resulting in a profit after disposal of K59m. The assets disposed included Mangochi cottage, Luchenza agency and Mangochi agency which resulted in the reversal of the K46m impairment loss initially recognised in financial year ended 31 December 2016.

16. PROPERTY AND EQUIPMENT

	Freehold land & buildings K'm	Leasehold land & buildings K'm	Motor vehicles & equipment K'm	Work in progress K'm	Total K'm
GROUP					
Cost or valuation					
At 1 January 2016	17 619	4 267	10 045	529	32 460
Additions	-	-	3 780	465	4 245
Transfer from work in progress	314	270	-	(584)	-
Disposals	-	(190)	(630)	-	(820)
Reclassified as held for sale	(321)	(218)	(218)	-	(757)
Revaluation loss	(198)	(113)	-	-	(311)
Revaluation surplus	1 678	224	-	-	1 902
At 31 December 2016	19 092	4 240	12 977	410	36 719
At 1 January 2017	19 092	4 240	12 977	410	36 719
Additions	-	-	2 003	336	2 339
Transfer from work in progress	278	-	356	(634)	-
Disposals	-	-	(949)	-	(949)
Reclassified from held for sale	-	-	56	-	56
Reclassified to intangibles	-	-	(122)	-	(122)
Write offs	-	-	(225)	-	(225)
Revaluation loss	(235)	-	-	-	(235)
Revaluation surplus	2 277	583	-	-	2 860
At 31 December 2017	21 412	4 823	14 096	112	40 443
Depreciation					
At 1 January 2016	-	190	6 751	-	6 941
Charge for the year	269	261	1 851	-	2 381
Elimination on revaluation	(262)	(59)	-	-	(321)
Elimination on disposal	-	(96)	(402)	-	(498)
Impairment loss	-	134	-	3	137
Reclassified as held for sale	(7)	(22)	(103)	-	(132)
At 31 December 2016	-	408	8 097	3	8 508
At 1 January 2017	-	408	8 097	3	8 508
Charge for the year	314	193	1 884	-	2 391
Elimination on revaluation	(314)	(71)	-	-	(385)
Elimination on disposal	-	-	(820)	-	(820)
Reclassified to intangibles	-	-	(35)	-	(35)
Reclassified from held for sale	-	-	28	-	28
Write offs	-	-	(214)	-	(214)
At 31 December 2017	-	530	8 940	3	9 473
Carrying amount					
At 31 December 2017	21 412	4 293	5 156	109	30 970
At 31 December 2016	19 092	3 832	4 880	407	28 211

16. PROPERTY AND EQUIPMENT (CONTINUED)

	Freehold land & buildings K'm	Leasehold land & buildings K'm	Motor vehicles & equipment K'm	Work in progress K'm	Total K'm
COMPANY					
Cost or valuation					
At 1 January 2016	15 284	3 537	8 977	328	28 126
Additions	-	-	3 842	576	4 418
Transfer from work in progress	314	270	-	(584)	-
Disposals	-	(190)	(468)	-	(658)
Transfer from Indebank	167	799	1 679	91	2 736
Reclassified as held for sale	(321)	(218)	(218)	-	(757)
Revaluation loss	(198)	(113)	-	-	(311)
Revaluation surplus	1 292	224	-	-	1 516
At 31 December 2016	16 538	4 309	13 812	411	35 070
At 1 January 2017	16 538	4 309	13 812	411	35 070
Additions	-	-	1 977	336	2 313
Transfer from work in progress	278	-	356	(634)	-
Disposals	-	-	(919)	-	(919)
Write offs	-	-	(225)	-	(225)
Reclassified from held for sale	-	-	56	-	56
Revaluation loss	(235)	-	-	-	(235)
Revaluation surplus	1 819	583	-	-	2 402
At 31 December 2017	18 400	4 892	15 057	113	38 462
Depreciation					
At 1 January 2016	-	175	6 692	-	6 867
Charge for the year	267	261	1 688	-	2 216
Elimination on revaluation	(262)	(58)	-	-	(320)
Elimination on disposal	-	(96)	(297)	-	(393)
Reclassified as held for sale	(7)	(22)	(103)	-	(132)
Impairment loss	-	134	-	3	137
Transfer from Indebank	2	272	1 092	-	1 366
At 31 December 2016	-	666	9 072	3	9 741
At 1 January 2017	-	666	9 072	3	9 741
Charge for the year	314	193	1 868	-	2 375
Elimination on revaluation	(314)	(71)	-	-	(385)
Elimination on disposal	-	-	(831)	-	(831)
Reclassified from held for sale	-	-	28	-	28
Write offs	-	-	(216)	-	(216)
At 31 December 2017	-	788	9 921	3	10 712
Carrying amount					
At 31 December 2017	18 400	4 104	5 136	110	27 750
At 31 December 2016	16 538	3 643	4 740	408	25 329

16. PROPERTY AND EQUIPMENT (CONTINUED)

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

			2017 K'm	2016 K'm
Freehold	-	at 2017 valuation	21 412	-
	-	at 2016 valuation	-	19 092
Total freehold land and buildings			21 412	19 092
Leasehold	-	at 2017 valuation	4 823	-
	-	at 2016 valuation	-	4 240
Total leasehold land and buildings			4 823	4 240

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

	Related parties K'm	Others K'm	Total K'm
2017			
Motor vehicles	1 590	145	1 735
2016			
Motor vehicles	1 618	249	1 867

Press Corporation Plc, Press Properties Limited, Bottling and Brewing Group Limited, PTC, Ethanol Company Limited, Presscane Limited, Maldeco Fisheries Limited and Malawi Telecommunications Limited are the related parties to whom the Bank leases motor vehicles which were purchased at a cost of K3 124m (2016: K3 340m).

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

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

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

16. PROPERTY AND EQUIPMENT (CONTINUED)

Valuations in 2017

Land and buildings for the Bank were fair valued as at 31 December 2017 by Knight Frank, qualified independent valuers on a current market value basis.

Out of the K3 195m (2016: K2 110m) the Group's gross revaluation surplus, K501m (2016: K404m) was credited to the statement of comprehensive income to reverse decreases in fair values previously charged to the statement of comprehensive income and the balance of K2 694m (2016: K1,706m) was credited to the revaluation reserve through the statement of other comprehensive income (refer note 32).

Details of land and buildings at fair value and information about the fair value hierarchy as at 31 December 2017 are as follows:

	Level 1 K'm	Level 2 K'm	Level 3 K'm	Fair value 2017 K'm
Freehold land and buildings	-	21 412	-	21 412
Leasehold land and buildings	-	4 823	-	4 823

Had land and buildings been carried at historical cost less depreciation and accumulated impairment losses, their carrying value would have been approximately K8 308m (2016: K8 238m).

17. INTANGIBLE ASSETS

	Development costs K'm	Computer software K'm	Work in progress K'm	Total K'm
GROUP				
Cost or valuation				
At 1 January 2016	326	3 757	2 091	6 174
Additions	-	36	1 801	1 837
Transfer from work in progress	-	550	(550)	-
Write offs	-	(47)	-	(47)
At 31 December 2016	326	4 296	3 342	7 964
At 1 January 2017	326	4 296	3 342	7 964
Additions	-	133	2 513	2 646
Transfer from work in progress	-	1 507	(1 507)	-
Reclassified from property and equipment	-	122	-	122
At 31 December 2017	326	6 058	4 348	10 732
Depreciation				
At 1 January 2016	323	848	-	1 171
Charge for the year	1	400	-	401
Impairment loss	-	127	167	294
At 31 December 2016	324	1 375	167	1 866
At 1 January 2017	324	1 375	167	1 866
Charge for the year	2	504	-	506
Reclassified from property and equipment	-	35	-	35
At 31 December 2017	326	1 914	167	2 407
Carrying amounts				
31 December 2017	-	4 144	4 181	8 325
31 December 2016	2	2 921	3 175	6 098

17. INTANGIBLE ASSETS (CONTINUED)

	Development costs K'm	Computer software K'm	Work in progress K'm	Total K'm
COMPANY				
Cost or valuation				
At 1 January 2016	326	3 505	2 091	5 922
Additions	-	36	1 570	1 606
Transfer from work in progress	-	550	(550)	-
Transfer from Indebank	-	375	190	565
Write offs	-	(47)	-	(47)
At 31 December 2016	326	4 419	3 301	8 046
At 1 January 2017	326	4 419	3 301	8 046
Additions	-	133	2 493	2 626
Transfer from work in progress	-	1 507	(1 507)	-
At 31 December 2017	326	6 059	4 287	10 672
Depreciation				
At 1 January 2016	323	841	-	1 164
Charge for the year	1	393	-	394
Transfer from Indebank	-	143	-	143
Impairment loss	-	127	167	294
Write offs	-	(47)	-	(47)
At 31 December 2016	324	1 457	167	1 948
At 1 January 2017	324	1 457	167	1 948
Charge for the year	2	496	-	498
At 31 December 2017	326	1 953	167	2 446
Carrying amounts				
31 December 2017	-	4 106	4 120	8 226
31 December 2016	2	2 962	3 134	6 098

The impairment loss in 2016 related to computer software and systems which were acquired through business combinations with Indebank Limited. Such items were considered not useful in NBM as there were already similar or superior systems. The assets will be written off in 2018. The total cost of the items as at 31 December 2016 was K373m and accumulated depreciation was K79m.

18.1 DEFERRED TAX ASSET

	Opening balance K'm	Charge to profit or loss K'm	Charged to equity K'm	Closing balance K'm
GROUP				
2016				
Accelerated capital allowances	(713)	(439)	-	(1 152)
Revaluation of land and buildings	4 480	54	2 171	6 705
Tax losses	432	77	-	509
Other temporary differences	391	393	-	784
Total deferred tax	4 590	85	2 171	6 846
2017				
Accelerated capital allowances	(1 152)	(439)	-	(1 591)
Revaluation of land and buildings	6 705	44	129	6 878
Tax losses	509	(509)	-	-
Other temporary differences	784	308	-	1 092
Total deferred tax	6 846	(596)	129	6 379

	Opening balance K'm	Transfered from Indebank K'm	Charge to profit or loss K'm	Charged to equity K'm	Closing balance K'm
COMPANY					
2016					
Accelerated capital allowances	(650)	61	(441)	-	(1 030)
Revaluation of land and buildings	4 392	(87)	54	2 171	6 530
Other temporary differences	433	516	362	-	1 311
Total deferred tax	4 175	490	(25)	2 171	6 811
2017					
Accelerated capital allowances	(1 030)	-	861	-	(169)
Revaluation of land and buildings	6 530	-	44	129	6 703
Other temporary differences	1 311	-	(1 513)	-	(202)
Total deferred tax	6 811	-	(608)	129	6 332

18.2 DEFERRED TAX LIABILITY

	Opening balance K'm	Charge to profit or loss K'm	Charged to equity K'm	Closing balance K'm
GROUP				
2016				
Revaluation of land and buildings	589	-	-	589
Other temporary differences	11	(7)	-	4
Total deferred tax	600	(7)	-	593
2017				
Revaluation of land and buildings	589	-	-	589
Other temporary differences	4	233	-	237
Total deferred tax	593	233	-	826

19. GOODWILL

	GROUP	
	2017 K'm	2016 K'm
Balance at beginning of the year	3 959	4 011
Reduction after acquisition completion (note 10.1.2)	-	(52)
Balance at end of the year	3 959	3 959

National Bank of Malawi (NBM) acquired Indebank Limited on 31 October 2015. As at that acquisition date, there were already commitments by NBM to buy the ESOS and discussions were underway to agree the price which was concluded in 2016 at a cost of K26m. In the provisional determination of the goodwill in 2015 no estimate of the cost of the ESOS was factored in and that was incorporated in 2016. The total purchase consideration was K6 616m and the goodwill arising on acquisition of K3 959m (refer to note 10) was recorded as at 31 December 2016.

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

19. GOODWILL (CONTINUED)

Annual test for impairment

The Group determined the recoverable amount of the Cash Generating Unit (WBD) to be K363.6bn based on the value in use model. The value in use was based on discounted future cash flows (using NBM's approved budgeted figures for 2018 and projections covering a 4 year period from 2019) discounted at a weighted average cost of capital of 19.32% (2016: 33.37%).

All forecasts used in the determination of value in use are extracted directly from the Bank's 2017 budget that was presented to the Board of Directors and approved by them.

Cashflow projections during the budget period were based on the same expected gross margins and price inflation through the budget period. The cashflows beyond that five year period have been extrapolated using an average of 15% per annum growth rate which is the projected long term average growth rate for Wholesale Banking Business. The directors believe that any reasonably possible change in the key assumption on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash generating unit.

The carrying amount of the CGU was K148.2bn. As such, in accordance with IAS 36 *Impairment of Assets*, NBM determined that the goodwill was not impaired as at 31 December 2017.

20. CUSTOMER DEPOSITS

	Average interest rates 2017	Average interest rates 2016	GROUP 2017 K'm	GROUP 2016 K'm	COMPANY 2017 K'm	COMPANY 2016 K'm
Analysis by account type:						
Current accounts	0.10%	0.15%	108 338	78 107	108 594	78 183
Foreign currency accounts	0.50%	0.50%	50 101	67 183	50 101	67 183
Savings accounts	6.57%	7.80%	54 008	42 632	54 008	42 632
Deposit accounts	7.67%	10.50 %	41 399	30 071	41 399	30 071
Client funds	20.00%	28.00%	24 646	13 289	-	-
Total customer deposits			278 492	231 282	254 102	218 069
Analysis by interest risk type:						
Interest bearing deposits			264 126	226 035	239 736	212 822
Non-interest bearing deposits			14 366	5 247	14 366	5 247
			278 492	231 282	254 102	218 069

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

Analysis by interest maturity:

	GROUP 2017 K'm	GROUP 2016 K'm	COMPANY 2017 K'm	COMPANY 2016 K'm
Customer deposits are payable as follows:				
● Within three months	276 907	227 973	252 517	214 760
● Between three months and one year	1 585	3 309	1 585	3 309
	278 492	231 282	254 102	218 069
Analysis by sector:				
Agriculture	-	2	-	2
Manufacturing	7 043	11 814	7 043	11 814
Wholesale and retail	24 497	22 077	24 497	22 077
Finance and insurance	25 187	25 197	25 187	25 197
Personal accounts	65 687	49 664	65 687	49 664
Construction	2 661	2 804	2 661	2 804
Electricity gas water and energy	14 948	9 424	14 948	9 424
Transport, storage and communications	10 739	7 335	10 739	7 335
Restaurants and hotels	3 021	1 117	3 021	1 117
Clients funds	24 646	13 289	-	-
Other	100 063	88 559	100 319	88 635
Total	278 492	231 282	254 102	218 069

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

21. AMOUNTS DUE TO OTHER BANKS

	GROUP		COMPANY	
	2017 K'm	**2016 K'm**	**2017 K'm**	**2016 K'm**
Liabilities in Malawi Kwacha	67	11 106	67	11 106
Liabilities in foreign currency	1 470	148	1 470	148
Bills in suspense in foreign currency	177	3 316	177	3 316
Total amounts due to other banks	1 714	14 570	1 714	14 570

22. CURRENT INCOME TAX LIABILITIES

	GROUP 2017 K'm	GROUP 2016 K'm	COMPANY 2017 K'm	COMPANY 2016 K'm
Balance at beginning of the year	3 184	1 229	2 997	1 192
Current charge (note 33)	7 574	8 734	7 252	8 390
Tax paid	(8 649)	(6 779)	(8 274)	(6 585)
Balance at end of the year	2 109	3 184	1 975	2 997

23. LOANS

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

	GROUP 2017 K'm	GROUP 2016 K'm	COMPANY 2017 K'm	COMPANY 2016 K'm
Amounts repayable within one year	61		-	
Amount repayable after one year	14 124		209	
	14 185		209	

23.1 Lines of credit

23.1.1 Malawi Government (denominated in Deutschemark (DM)

The loan is in two parts: Part 1 and Part 2. The two loans, which are unsecured, are for DM5.0m and DM6.6m, respectively. The amounts drawn against specific projects at the year-end are equivalent to DM4.78m and DM6.07m, respectively. Both loans are interest free. The loans are repayable to the Malawi Government in Malawi Kwacha starting in 2034 and 2043, respectively. The Malawi Kwacha value of the loan was set at the time of disbursement. The total carrying amount of the loan as at 31 December 2017 was K105m (2016: K105m).

23.1.2 United States Agency for International Development (USAID)

This is a two-part loan: The first loan, which is unsecured, is for USD1.2m and bears interest at 4% per annum. The Malawi Kwacha value of the loan was set at the time of disbursement. The loan is repayable to the Malawi Government in Malawi Kwacha over a period of 25 years commencing 30 June 1993. The carrying amount of the loan as at 31 December 2017 was K3m (2016: K3m). There is no agreement for the second loan.

23. LOANS (CONTINUED)

23.1 Lines of credit (Continued)

23.1.2 United States Agency for International Development (USAID)(Continued)

However, provision interest has been made at 4% per annum on the assumption that the terms of the first loan apply on the second loan. The carrying amount of the second loan as at 31 December 2017 was K9m (2016:K9m). The loan has not been repaid because the Malawi Government lost documentation relating to the loan and the Group is yet to renegotiate with Malawi Government on a new repayment schedule.

23.1.3 The Transport Sector Revolving Fund

The transport sector revolving fund loan bears interest at 3% per annum. The loan is repayable on such dates as the Government and the Bank shall mutually agree in writing. As at year-end an agreement had not yet been reached. The carrying amount of the loan as at 31 December 2017 was K67m (2016:K67m).

23.1.4 Private Sector Revolving Fund

The private sector revolving fund loan is effectively interest free. However, from 1 July 2004, the Group is obliged to pay an administrative fee pegged at 3% per annum on all sums advanced by Government. The loan is repayable on such a date as the Government and the Bank shall mutually agree in writing. As at reporting date, an agreement had not yet been reached. The carrying amount of the loan as at 31 December 2017 was K25m (2016: K25m).

23.1.5 European Investment Bank (EIB)

In 2016, the Bank signed an agreement for an unsecured line of credit for Euro 30 million Euros joint facility with the European Investment Bank (EIB) to facilitate purchase, construction and extension of warehouses and agristorage assets. The Bank shall pay interest on the outstanding balance at the rate of either (i) 3.381 % in respect of those tranches deemed by the Bank to be in respect of HDI Investments or (ii) 3.471 % for all tranches in respect of Standard Investments. Both rates shall incur interest semi-annually in arrears. The loan is repayable semi-annually. As at 31 December 2017, the Bank drew down USD19.175m and this accrued interest amounting to USD0.085m which is repayable by 30 June 2018.

24. PROVISIONS

	Employee bonus K'm	Tevet levy K'm	Other K'm	Total K'm
GROUP				
2017				
At 1 January 2017	2 087	59	691	2 837
Provisions made during the year	2 366	133	-	2 499
Payments made during the year	(2 087)	(122)	-	(2 209)
At 31 December 2017	2 366	70	691	3 127
2016				
At 1 January 2016	1 705	32	691	2 428
Provisions made during the year	2 087	106	-	2 193
Payments made during the year	(1 705)	(79)	-	(1 784)
At 31 December 2016	2 087	59	691	2 837
COMPANY				
2017				
At 1 January 2017	1 887	46	691	2 624
Provisions made during the year	2 177	127	-	2 304
Payments made during the year	(1 887)	(122)	-	(2 009)
At 31 December 2017	2 177	51	691	2 919
2016				
At 1 January 2016	1 603	27	-	1 630
Provisions made during the year	1 887	98	-	1 985
Transfer from Indebank	-	-	691	691
Payments made during the year	(1 603)	(79)	-	(1 682)
At 31 December 2016	1 887	46	691	2 624

25. OTHER LIABILITIES

	GROUP		COMPANY	
	2017 K'm	2016 K'm	2017 K'm	2016 K'm
Unclaimed balances	637	565	637	565
Bank cheques	2 493	2 403	2 493	2 403
Office accounts	1 156	316	1 156	316
Trade and other payables	1 056	1 846	1 056	1 846
Other tax payables	739	861	739	861
Cash security	761	818	761	818
Cards and other products	2 153	883	2 153	883
Sundry payables	606	182	1 356	799
Total other liabilities	9 601	7 874	10 351	8 491

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

26. POST BALANCE SHEET EVENTS

Subsequent to the reporting period, the NBM Group, which is a majority shareholder in Indetrust (Holdings) Limited (a subsidiary of the dormant Indebank Limited), owning 51%, agreed to sale its total shareholding in the company to Press Corporation Plc. At the date of signing the financial statements, Press Corporation Plc was yet to pay the purchase consideration of the said shares pending the finalisation of the share purchase agreement.

27. PENSION SCHEME

The Pension Fund, which was managed internally up to 31 December 2014, is a fully defined contribution scheme. The contributions of employees and the employer are 5.5% (2016: 5.5%) and 11.0% (2016: 11.0%) of the fund members' basic pensionable salaries, respectively. The amount charged against income during the year was K988m (2016: K948m).

Until 30 June 2014, the Pension Fund operated two accounts: the General Fund and the Death in Service Top Up Fund (Special Fund). The Special Fund was set up at the discretion of the employer to cater for benefit enhancement factors which were removed in compliance with the Pensions Act, 2010. The Special Fund covered two aspects: on death if the accumulated credit was less than 2 years' salary or on retirement if the pension was less than 20% of the exit salary. The Pensions Act, 2010, advocates for a minimum of one times annual salary group life assurance cover for each member. Since July 2012, pursuant to the Act, the Bank has been subscribing for Group Life Assurance Cover for its employees at two times annual salary. The removal of the benefit enhancement factors and the subscription for group life assurance cover rendered the Special Fund redundant, thereby necessitating, among other reasons, the changing of the Fund rules. The new Fund rules were approved by the Reserve Bank of Malawi in 2016. The General Fund represents a reserve from which all other benefits are paid including administration expenses and bonuses.

27. PENSION SCHEME (CONTINUED)

The Pension Fund is a self-accounting Trust whose assets are not available to the National Bank of Malawi Group. The Trustees of the Fund are employees of the Bank. The Bank rents some of the Fund's properties at commercial rates. The Group incurred K284m (2016: K256m) in rentals for such properties during the year.

The Fund was valued by independent actuaries, Alexander Forbes, as at 31 December 2016. As per the actuarial valuation, the General Fund had a deficit of K1 007m (December 2015: surplus of K1 922m) and the Special Fund had a surplus of K763m (December 2015: surplus of K2 121m). According to the report, the special Fund had no liabilities as at 31 December 2016.

In as far as the Special Fund is concerned, the above position was based on the old rules which fell away with the ushering in of new rules that do not require that there be a separate salary under-pin cover and a separate death cover within the Fund. Since this liability fell away, every member's benefit was confirmed by the trustees to have been fully funded as at 1 July 2014 as required by law such that there is no longer a deficit applicable after 30 June 2014. As highlighted above, the actuarial report as at 31 December 2016 has confirmed the non-existence of such deficit. Therefore, no liability nor contingent liability has been recognised in the 2017 annual financial statements. There was no liability nor contingent liability recognised in the 2016 annual financial statements.

28. NET INTEREST INCOME

	GROUP		COMPANY	
	2017 K'm	**2016 K'm**	**2017 K'm**	**2016 K'm**
Interest and similar income				
Interest on loans and advances and bills discounted	25 681	28 431	25 681	28 024
Income from investments	19 713	13 543	19 685	13 319
Income from lease financing	2 776	2 976	2 776	2 976
Interest on placements with other banks	634	1 261	274	359
	48 804	46 211	48 416	44 678
Interest expense and similar charges				
Banks and customers	5 945	5 695	5 945	5 460
Money market loans and repos	613	453	613	448
	6 558	6 148	6 558	5 908
Net interest income	42 246	40 063	41 858	38 770

29. COMMISSION AND FEE INCOME

	GROUP		COMPANY	
	2017 K'm	2016 K'm	2017 K'm	2016 K'm
Commissions	11 014	10 032	9 646	8 721
Arrangement and other fee income	2 877	1 969	2 877	1 947
Other income	1 041	1 140	778	774
Total commission and fee income	14 932	13 141	13 301	11 442

30. STAFF COSTS

	GROUP		COMPANY	
	2017 K'm	2016 K'm	2017 K'm	2016 K'm
Salaries and wages	9 065	7 958	8 797	7 241
Other staff costs	4 040	4 098	3 897	3 648
Staff loans fair value adjustment	-	(27)	-	22
Staff bonus	2 366	2 087	2 177	1 887
Severance pay	2	946	2	946
Pension costs	988	948	958	824
Total staff costs	16 461	16 010	15 831	14 568

31. OTHER OPERATING EXPENDITURE

	GROUP		COMPANY	
	2017 K'm	2016 K'm	2017 K'm	2016 K'm
Recurrent expenditure on premises and equipment	5 820	5 993	5 715	5 578
Depreciation	2 391	2 381	2 375	2 216
Amortisation of intangible assets	506	401	498	394
Legal charges	304	210	302	115
Communication	1 342	1 522	1 334	1 402
Travel, Hotel and meals	765	851	755	802
Office expenses	949	791	933	700
Security	811	767	792	750
Professional fees	458	529	435	515
Card expenses	1 051	847	1 051	847
Customer cash collection expenses	371	26	348	26
Auditor's remuneration including VAT and expenses (2017)	166	150	132	111
Auditor's remuneration including VAT and expenses (2016)	13	49	13	49
Directors' remuneration				
- fees for services as directors	52	64	56	42
- for managerial services	264	547	264	547
Other expenses	1 637	2 224	1 662	2 092
Total other operating expenses	16 900	17 352	16 665	16 186

32. PROPERTIES FAIR VALUE GAINS AND LOSSES

	GROUP		COMPANY	
	2017 K'm	**2016 K'm**	**2017 K'm**	**2016 K'm**
Fair value gains on properties through income statement	501	404	43	17
Fair value loss on properties through income statement	(185)	(198)	(185)	(198)
Net fair value gain/(loss) through income statement	316	206	(142)	(181)
Fair value gains on properties included in other comprehensive income	2 694	1 706	2 694	1 706
Total properties fairvalue gains	3 010	1 912	2 552	1 525

33. INCOME TAX EXPENSE

	GROUP		COMPANY	
	2017 K'm	**2016 K'm**	**2017 K'm**	**2016 K'm**
Income tax (note 22)	7 574	8 734	7 252	8 390
Deferred tax (note 18)	829	(92)	608	25
Total income tax expenses	8 403	8 642	7 860	8 415
Profit before tax	27 550	25 247	26 179	25 081
Reconciliation of rate of tax	%	%	%	%
Standard rate of taxation	30	30	30	30
Permanent differences	1	4	-	4
Effective rate of taxation	31	34	30	34

34. EARNINGS PER SHARE

Basic earnings per share

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

	GROUP	
	2017 K'm	**2016 K'm**
Profit attributable to equity holders of the Company (K'm)	18 912	16 391
Net profit used to determine diluted earnings per share (K'm)	18 912	16 391
Weighted average number of Ordinary Shares in issue (millions)	467	467
Weighted average number of Ordinary Shares for diluted earnings per share (millions)	467	467
Basic earnings per share (expressed in K per share)	40.50	35.10

34. EARNINGS PER SHARE (COTINUED)

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of Ordinary Shares outstanding to assume conversion of all dilutive potential ordinary shares. The Bank has outstanding share options which are dilutive potential ordinary shares. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	GROUP	
	2017 K'm	**2016 K'm**
Profit attributable to equity holders of the Company (K'm)	18 912	16 391
Net profit used to determine diluted earnings per share (K'm)	18 912	16 391
Weighted average number of Ordinary Shares in issue	467	467
Weighted average number of Ordinary Shares for diluted earnings per share (millions)	467	467
Diluted earnings per share (expressed in K per share)	40.50	35.10

35. DIVIDEND PER SHARE

	GROUP AND COMPANY	
	2017 K'm	**2016 K'm**
Final dividend (prior year)	5 342	3 199
First interim dividend (current year)	3 315	3 007
	8 657	6 206
Weighted average number of Ordinary Shares in issue (millions)	467	467
Dividend per share	18.54	13.29

The proposed current year final dividend is K4 200m (2016: K3 800m) representing K8.99 per share (2016: K8.14 per share). A second interim dividend of K1,569m (2016: K1 500m) will be paid on 23 March, 2018.

36. CONTINGENCIES

	GROUP		COMPANY	
	2017 K'm	2016 K'm	2017 K'm	2016 K'm
Letters of credit and guarantees				
Foreign guarantees	1 318	519	1 318	519
Local guarantees and performance bonds	7 707	1 732	7 707	1 732
Letters of credit	26 216	15 603	26 216	15 603
Total letters of credit and guarantees	35 241	17 854	35 241	17 854
Other contingencies				
Legal claims	1 161	1 254	1 161	1 204
Customer funds under management	59 879	22 715	-	-
Total other contingencies	61 040	23 969	1 161	1 204

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

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

Legal claims represent outstanding legal cases against the Group in the ordinary course of business, the outcome of which is uncertain. The amount disclosed represents an estimate of the cost to the Group in the event that legal proceedings find the Group to be in the wrong. In the opinion of the directors the claims are not expected to give rise to a cost to the Group. Legal claims in favour of the Group as at the end of the year were K 3 001m (2016:K3 305m).

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

37. COMMITMENTS

	GROUP AND COMPANY	
	2017 K'm	2016 K'm
Expenditure contracted for but not yet incurred	489	411
Expenditure approved by the Board but not contracted	5 176	5 686
Total commitments	5 665	6 097

These commitments are to be funded from internal resources.

38. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	2017 K'm	2016 K'm	2017 K'm	2016 K'm
Cash and funds with Reserve Bank of Malawi (note 5)	27 098	29 774	27 098	29 650
Placements with other banks (note 11)	32 052	21 683	32 052	21 683
Other money market deposits (note 13)	104 195	59 077	78 450	46 882
Amounts due to other banks (note 21)	(1 714)	(14 570)	(1 714)	(14 570)
Total cash and cash equivalents	161 631	95 964	135 886	83 645

39. FINANCIAL ASSETS AND LIABILITIES

Accounting categories and fair values

	Notes	Held for trading K'm	Held to maturity K'm	Available for sale K'm	Loans and receivables K'm	Amortised cost K'm	Total carrying amount K'm	Fair value K'm
GROUP								
2016								
Assets								
Cash and bank balances with Reserve Bank of Malawi	5	29 774	-	-	-	-	29 774	29 774
Government of Malawi treasury bills, treasury notes and Reserve Bank of Malawi bonds	6	-	25 843	-	-	-	25 843	25 843
Government of Malawi promissory notes	7	-	-	1 100	-	-	1 100	1 100
Equity investments	8	1 969	-	-	-	-	1 969	1 969
Placements with other banks	11	-	-	-	21 683	-	21 683	21 683
Loans and advances to customers	12	-	-	-	133 287	-	133 287	140 067
Other money market deposits	13	-	-	-	59 077	-	59 077	59 077
Other assets		-	-	-	7 147	-	7 147	7 147
Total financial assets		31 743	25 843	1 100	221 194	-	279 880	286 660
Liabilities and equity								
Customer deposits	20	-	-	-	-	231 282	231 282	229 763
Amounts due to other banks	21	-	-	-	-	14 570	14 570	14 570
Loans	23	-	-	-	-	209	209	209
Provisions	24	-	-	-	-	2 146	2 146	2 146
Other liabilities	25	-	-	-	-	6 515	6 515	6 515
Total financial liabilities		-	-	-	-	254 722	254 722	253 203

39. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Accounting categories and fair values (Continued)

	Notes	Held for trading K'm	Held to maturity K'm	Available for sale K'm	Loans and receivables K'm	Amortised cost K'm	Total carrying amount K'm	Fair value K'm
GROUP								
2017								
Assets								
Cash and bank balances with Reserve Bank of Malawi	5	27 098	-	-	-	-	27 098	27 098
Government of Malawi treasury bills, treasury notes and Reserve Bank of Malawi bonds	6	-	29 478	-	-	-	29 478	29 478
Government of Malawi promissory notes	7	-	-	48	-	-	48	48
Equity investments	8	3 698	-	-	-	-	3 698	3 698
Placements with other banks	11	-	-	-	32 052	-	32 052	32 052
Loans and advances to customers	12	-	-	-	137 575	-	137 575	137 575
Other money market deposits	13	-	-	-	104 195	-	104 195	104 195
Other assets		-	-	-	5 050	-	5 050	5 050
Total financial assets		30 796	29 478	48	278 872	-	339 194	339 194
Liabilities and equity								
Customer deposits	20	-	-	-	-	278 492	278 492	278 492
Amounts due to other banks	21	-	-	-	-	1 714	1 714	1 714
Loans	23	-	-	-	-	14 185	14 185	14 185
Provisions	24	-	-	-	-	2 436	2 436	2 436
Other liabilities	25	-	-	-	-	7 100	7 100	7 100
Total financial liabilities		-	-	-	-	303 927	303 927	303 927

39. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Accounting categories and fair values (Continued)

	Notes	Held for trading K'm	Held to maturity K'm	Available for sale K'm	Loans and receivables K'm	Amortised cost K'm	Total carrying amount K'm	Fair value K'm
COMPANY								
2017								
Assets								
Cash and bank balances with Reserve Bank of Malawi	5	27 098	-	-	-	-	27 098	27 098
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	-	29 478	-	-	-	29 478	29 478
Government of Malawi Promissory notes	7	-	-	48	-	-	48	48
Equity investments	8	3 698	-	-	-	-	3 698	3 698
Placements with other banks	11	-	-	-	32 052	-	32 052	32 052
Loans and advances to customers	12	-	-	-	137 575	-	137 575	137 575
Other money market deposits	13	-	-	-	78 450	-	78 450	78 450
Other assets		-	-	-	4 196	-	4 196	4 196
Total financial assets		30 796	29 478	48	252 273	-	312 595	312 595
Liabilities and equity								
Customer deposits	20	-	-	-	-	254 102	254 102	254 102
Amounts due to other banks	21	-	-	-	-	1 714	1 714	1 714
Loans	23	-	-	-	-	14 185	14 185	14 185
Provisions	24	-	-	-	-	2 228	2 228	2 228
Other liabilities	25	-	-	-	-	7 100	7 100	7 100
Total financial liabilities		-	-	-	-	279 329	279 329	279 329

39. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Accounting categories and fair values (Continued)

	Notes	Held for trading K'm	Held to maturity K'm	Available for sale K'm	Loans and receivables K'm	Amortised cost K'm	Total carrying amount K'm	Fair value K'm
COMPANY								
2016								
Assets								
Cash and bank balances with Reserve Bank of Malawi	5	29 650	-	-	-	-	29 650	29 650
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	-	23 834	-	-	-	23 834	23 834
Government of Malawi Promissory notes	7	-	-	1 100	-	-	1 100	1 100
Equity investments	8	1 904	-	-	-	-	1 904	1 904
Placements with other banks	11	-	-	-	21 683	-	21 683	21 683
Loans and advances to customers	12	-	-	-	133 287	-	133 287	140 067
Other money market deposits	13	-	-	-	46 882	-	46 882	46 882
Other assets		-	-	-	6 577	-	6 577	6 577
Total financial assets		31 554	23 834	1 100	208 429	-	264 917	271 697
Liabilities and equity								
Customer deposits	20	-	-	-	-	218 069	218 069	216 550
Amounts due to other banks	21	-	-	-	-	14 570	14 570	14 570
Loans	23	-	-	-	-	209	209	209
Provisions	24	-	-	-	-	1 933	1 933	1 933
Other liabilities	25	-	-	-	-	6 515	6 515	6 515
Total financial liabilities		-	-	-	-	241 296	241 296	239 777

40. FAIR VALUE MEASUREMENTS

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

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

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

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).

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

40.2 Fair value measurements recognised in the statement of financial position

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

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

	GROUP	
	2017 **K'm**	**2016** **K'm**
Financial assets at fair value through profit or loss		
Non-derivative financial assets held for trading		
Level 1	3 698	1 969

	COMPANY	
	2017 **K'm**	**2016** **K'm**
Financial assets at fair value through profit or loss		
Non-derivative financial assets held for trading		
Level 1	3 698	1 904

40. FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

Group **Financial assets/financial liabilities**	**Fair value** **2017** **K'm**	 **2016** **K'm**	**Fair value hierarchy**	**Valuation technique(s) and key input(s)**
Equity investments	3 698	1 969	Level 1	Quoted prices
Malawi Government Promissory notes	48	1 100	Level 2	Discounted cash flows using applicable interest rates and agreed repayment plan
	3 746	3 069		

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

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

41. FINANCIAL RISK MANAGEMENT

a. Introduction and overview

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

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

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

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

a. Introduction and overview (Continued)

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

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

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

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

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

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

At management level, there is the Enterprise Risk Committee (ERCO), which provides a holistic oversight of the risks affecting the Group and the control measures that should be put in place to mitigate the risks and thereby reduce the potential losses. In addition, the other management Committees such as the Asset and Liability Committee (ALCO),

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

a. Introduction and overview (Continued)

Risk management framework (Continued)
Credit Committee and IT Policy Committee (ITPC) are all responsible for developing and monitoring the Group's risk management policies in their specified areas.

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

b. Credit risk

Credit risk arises when customers or counterparties are not able to fulfill their contractual obligations. The Group has a 'three lines of defence' risk management and internal controls structure in mitigation risk exposures namely: Business Units, Risk Division and Internal Audit.

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

Credit risk is the likelihood of financial loss to the Group if customers or counterparties to financial instruments fail to meet their contractual obligations, and arises principally from the Group's loans and advances to customers. Basel II under credit risk does provide two approaches in calculating required capital. These are; the Standardised Approach and the Internal Ratings Based (IRB) approaches. The approaches are more aligned or biased towards the robustness of the internal risk management systems of the banks. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

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

Additionally, there is a Management Credit Committee which is comprised of selected members of senior management. The Management Credit Committee has the responsibility of implementing the credit risk strategy approved by the Board and for formulating and developing policies and procedures for identifying, measuring, monitoring and controlling credit risk in existing as well as new products, activities and procedures in order

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Credit risk (Continued)

Management of credit risk (Continued)

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

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

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

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

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

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

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Credit risk (Continued)

Exposure to credit risk

Maximum exposure to credit risk without taking into account any collateral or other credit enhancements

The table below shows the maximum exposure to credit risk by class of financial instrument. Financial instruments include those instruments defined and recognised under IAS 39 *Financial Instruments: Recognition and Measurement* as well as other financial instruments not recognised. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

Gross maximum exposure

	GROUP		COMPANY	
	2017 K'm	**2016 K'm**	**2017 K'm**	**2016 K'm**
Balances with the Reserve Bank of Malawi	16 139	15 786	16 139	15 779
Government of Malawi treasury bills, treasury notes and Reserve Bank of Malawi bonds	29 478	25 843	29 478	23 834
Government of Malawi Promissory notes	48	1 100	48	1 100
Placements with other banks	32 052	21 683	32 052	21 683
Loans and advances to customers	137 575	133 287	137 575	133 287
Other money market deposits	104 195	59 077	78 450	46 882
Other assets	5 050	7 147	4 196	6 577
Total recognised financial instruments	324 537	263 923	297 938	249 142
Guarantees and performance bonds	9 025	2 251	9 025	2 251
Letters of credit	26 216	15 603	26 216	15 603
Total unrecognised financial instruments	35 241	17 854	35 241	17 854
Total credit exposure	359 778	281 777	333 179	266 996

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Credit risk (Continued)

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

	Carrying Amount K'm	Offset K'm	Net exposure to credit risk K'm
GROUP			
2016			
Balances with the Reserve Bank of Malawi	15 786	-	15 786
Government of Malawi treasury bills, treasury notes and Reserve Bank of Malawi bonds	25 843	-	25 843
Government of Malawi promissory notes	1 100	-	1 100
Placements with other banks	21 683	-	21 683
Loans and advances to customers	133 287	3 314	129 973
Other money market deposits	59 077	-	59 077
Other assets	7 147	-	7 147
	263 923	3 314	260 609
2017			
Balances with the Reserve Bank of Malawi	16 139	-	16 139
Government of Malawi treasury bills, treasury notes and Reserve Bank of Malawi bonds	29 478	-	29 478
Government of Malawi promissory notes	48	-	48
Placements with other banks	32 052	-	32 052
Loans and advances to customers	137 575	8 150	129 425
Other money market deposits	104 195	-	104 195
Other assets	5 050	-	5 050
	324 537	8 150	316 387

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Credit risk (Continued)

	Carrying Amount K'm	Offset K'm	Net exposure to credit risk K'm
COMPANY			
2016			
Balances with the Reserve Bank of Malawi	15 779	-	15 779
Government of Malawi treasury bills, treasury notes and Reserve Bank of Malawi bonds	23 834	-	23 834
Government of Malawi promissory notes	1 100	-	1 100
Placements with other banks	21 683	-	21 683
Loans and advances to customers	133 287	3 314	129 973
Other money market deposits	46 882	-	46 882
Other assets	6 577	-	6 577
	249 142	3 314	245 828
2017			
Balances with the Reserve Bank of Malawi	16 139	-	16 139
Government of Malawi treasury bills, treasury notes and Reserve Bank of Malawi bonds	29 478	-	29 478
Government of Malawi promissory notes	48	-	48
Placements with other banks	32 052	-	32 052
Loans and advances to customers	137 575	8 150	129 425
Other money market deposits	78 450	-	78 450
Other assets	4 196	-	4 196
	297 938	8 150	289 788

The Group's credit risk is primarily attributed to overdraft and other loan facilities extended to its customers. The amounts presented in the statement of financial position are net of provisions for doubtful debts. The specific provision represents allowances for estimated irrecoverable amounts when there is objective evidence that the asset is impaired.

The credit risks on balances with banks, treasury bills, bonds and local registered stocks are limited because the counterparties are institutions with low default risk.

The book is spread over a relatively large number of counterparties and customers.

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Credit risk (Continued)

Credit quality of loans and advances

The credit quality of loans and advances is managed by the Group using internal credit ratings. The analysis below shows the credit quality of the loans and advances based on the Group's credit rating system.

	GROUP AND COMPANY	
	2017 **K'm**	**2016** **K'm**
Individually impaired:		
Grade 9: Impaired	8 041	1 416
Allowance for impairment	(5 961)	(1 091)
Carrying amount	2 080	325
Past due but not impaired:		
Grade 7: Watch list	17 945	25 028
Neither past due nor impaired:		
Grade 1 - 3 Low risk	12 651	8 402
Grade 4 - 6 Fair risk	104 899	99 532
Total carrying amount	137 575	133 287

Impaired loans and advances

Impaired loans and advances are loans and advances for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/advances agreement(s). These loans are graded 9 in the bank's internal credit risk grading system.

Past due but not impaired loans

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

Allowance for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance is a collective impairment provision determined in accordance with IAS 39 *Financial instruments*.

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Credit risk (Continued)

Write-off policy

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

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

GROUP AND COMPANY

	Loans and advances to customers		
	Gross K'm	Allowance for Impairment K'm	Net K'm
GROUP			
2016			
Grade 9: Individually impaired	1 416	(1 091)	325
2017			
Grade 9: Individually impaired	8 041	(5 961)	2 080

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

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Credit risk (Continued)

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

	GROUP		COMPANY	
	2017 K'm	**2016 K'm**	**2017 K'm**	**2016 K'm**
<u>Against individually impaired</u>				
Motor vehicles	133	232	133	232
Commercial property	1 594	283	1 594	283
Residential property	474	176	474	176
	2 201	691	2 201	691
<u>Against the rest of the loan book</u>				
Motor vehicles	15 203	14 451	15 203	14 451
Commercial property	12 673	11 217	12 673	11 217
Residential property	50 978	35 864	50 978	35 864
Cash	8 150	3 314	8 150	3 314
Equities	1 514	11 218	1 514	11 218
Treasury bills	25	25	25	25
Mortgages	9 207	5 504	9 207	5 325
Debentures	24 330	22 181	24 330	22 181
Bank guarantee	1 036	1 036	1 036	1 036
Total	123 116	104 810	123 116	104 631
Grand Total	125 317	105 501	125 317	105 322

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

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Credit risk (Continued)

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

	Loans and advances to customers			
	GROUP		COMPANY	
	2017 K'm	2016 K'm	2017 K'm	2016 K'm
Concentration by sector				
Agriculture	22 663	28 210	22 663	28 210
Finance and insurance	1 951	1 007	1 951	1 007
Manufacturing	28 283	30 654	28 283	30 654
Other	5 046	4 033	5 046	4 033
Transport and communication	3 822	9 128	3 822	9 128
Real estate	1 048	738	1 048	738
Personal	20 966	18 907	20 966	18 907
Wholesale and retail	53 796	40 610	53 796	40 610
	137 575	133 287	137 575	133 287

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

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

c. Liquidity risk

Liquidity Risk is the risk of loss arising from failure to meet obligations as they fall due or to fund increases in assets without incurring unacceptable cost or losses.

Management of liquidity risk
The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group has a Liquidity and Funds Management Policy that provides guidance in the management of liquidity.

The daily management of liquidity is entrusted to the Treasury and Investment Banking Division (TIBD) at Head Office. The TIBD receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

c. Liquidity risk (Continued)

projected cash flows arising from projected future business. The TIBD then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units are funded through deposits from customers. Any short-term fluctuations are funded through treasury activities such as inter-bank facilities, repurchase agreements and others.

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

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

Measurement of liquidity risk

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

	2017	2016
At 31 December	65%	54%
Average of the period	60%	51%
Maximum for the period	67%	54%
Minimum for the period	55%	47%

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

c. Liquidity risk (Continued)

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

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Total K'm	Carrying amount K'm
GROUP						
2016						
Financial assets						
Cash and funds with Reserve Bank of Malawi	29 774	-	-	-	29 774	29 774
Government of Malawi treasury Bills, treasury notes and Reserve Bank of Malawi bonds	-	9 849	15 994	-	25 843	25 843
Government of Malawi promissory notes	1 100	-	-	-	1 100	1 100
Equity investments	-	1 969	-	-	1 969	1 969
Placements with other banks	21 683	-	-	-	21 683	21 683
Loans and advances to customers	21 825	10 955	59 571	40 936	133 287	133 287
Other money markets deposits	59 077	-	-	-	59 077	59 077
Other assets	7 147	-	-	-	7 147	7 147
Total financial assets	140 606	22 773	75 565	40 936	279 880	279 880
Financial liabilities						
Loans	-	-	-	209	209	209
Customer deposits	201 343	26 630	3 309	-	231 282	231 282
Amounts due to other banks	14 570	-	-	-	14 570	14 570
Provisions	-	-	2 146	-	2 146	2 146
Other liabilities	6 515	-	-	-	6 515	6 515
Total financial liabilities	222 428	26 630	5 455	209	254 722	254 722
Contractual liquidity mismatch	**(81 822)**	**(3 857)**	**70 110**	**40 727**	**25 158**	**25 158**
Cumulative mismatch	**(81 822)**	**(85 679)**	**(15 569)**	**25 158**	-	-

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

c. Liquidity risk (Continued)

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Total K'm	Carrying amount K'm
GROUP						
2017						
Financial assets						
Cash and funds with Reserve Bank of Malawi	27 098	-	-	-	27 098	27 098
Government of Malawi treasury Bills, treasury notes and Reserve Bank of Malawi bonds	-	11 021	15 698	2 759	29 478	29 478
Government of Malawi promissory notes	48	-	-	-	48	48
Equity investments	-	3 698	-	-	3 698	3 698
Placements with other banks	32 052	-	-	-	32 052	32 052
Loans and advances to customers	10 338	10 103	59 912	57 222	137 575	137 575
Other money markets deposits	104 195	-	-	-	104 195	104 195
Other assets	5 050	-	-	-	5 050	5 050
Total financial assets	178 781	24 822	75 610	59 981	339 194	339 194
Financial liabilities						
Loans	-	-	61	14 124	14 185	14 185
Customer deposits	237 210	39 697	1 585	-	278 492	278 492
Amounts due to other banks	1 714	-	-	-	1 714	1 714
Provisions	-	-	2 436	-	2 436	2 436
Other liabilities	7 100	-	-	-	7 100	7 100
Total financial liabilities	246 024	39 697	4 082	14 124	303 927	303 927
Contractual liquidity mismatch	**(67 243)**	**(14 875)**	**71 528**	**45 857**	**35 267**	**35 267**
Cumulative mismatch	**(67 243)**	**(82 118)**	**(10 590)**	**35 267**	-	-

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

c. Liquidity risk (Continued)

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Total K'm	Carrying amount K'm
COMPANY						
2016						
Financial assets						
Cash and funds with Reserve Bank of Malawi	29 650	-	-	-	29 650	29 650
Government of Malawi treasury Bills, treasury notes and Reserve Bank of Malawi bonds	-	7 840	15 994	-	23 834	23 834
Government of Malawi promissory notes	1 100	-	-	-	1 100	1 100
Equity investments	-	1 904	-	-	1 904	1 904
Placements with other banks	21 683	-	-	-	21 683	21 683
Loans and advances to customers	21 825	10 955	59 571	40 936	133 287	133 287
Other money markets deposits	46 882	-	-	-	46 882	46 882
Other assets	6 577	-	-	-	6 577	6 577
Total financial assets	127 717	20 699	75 565	40 936	264 917	264 917
Financial liabilities						
Loans	-	-	-	209	209	209
Customer deposits	188 130	26 630	3 309	-	218 069	218 069
Amounts due to other banks	14 570	-	-	-	14 570	14 570
Provisions	-	-	1 933	-	1 933	1 933
Other liabilities	6 515	-	-	-	6 515	6 515
Total financial liabilities	209 215	26 630	5 242	209	241 296	241 296
Contractual liquidity mismatch	**(81 498)**	**(5 931)**	**70 323**	**40 727**	**23 621**	**23 621**
Cumulative mismatch	**(81 498)**	**(87 429)**	**(17 106)**	**23 621**	-	-

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

c. Liquidity risk (Continued)

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Total K'm	Carrying amount K'm
COMPANY						
2017						
Financial assets						
Cash and funds with Reserve Bank of Malawi	27 098	-	-	-	27 098	27 098
Government of Malawi treasury Bills, treasury notes and Reserve Bank of Malawi bonds	-	11 021	15 698	2 759	29 478	29 478
Government of Malawi promissory notes	48	-	-	-	48	48
Equity investments	-	3 698	-	-	3 698	3 698
Placements with other banks	32 052	-	-	-	32 052	32 052
Loans and advances to customers	10 338	10 103	59 912	57 222	137 575	137 575
Other money markets deposits	78 450	-	-	-	78 450	78 450
Other assets	4 196	-	-	-	4 196	4 196
Total financial assets	152 182	24 822	75 610	59 981	312 595	312 595
Financial liabilities						
Loans	-	-	61	14 124	14 185	14 185
Customer deposits	212 820	39 697	1 585	-	254 102	254 102
Amounts due to other banks	1 714	-	-	-	1 714	1 714
Provisions	-	-	2 228	-	2 228	2 228
Other liabilities	7 100	-	-	-	7 100	7 100
Total financial liabilities	221 634	39 697	3 874	14 124	279 329	279 329
Contractual liquidity mismatch	**(69 452)**	**(14 875)**	**71 736**	**45 857**	**33 266**	**33 266**
Cumulative mismatch	**(69 452)**	**(84 327)**	**(12 591)**	**33 266**	**-**	**-**

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

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

d. Market risk

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

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

Management of market risk

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

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

Exposure of interest rate risk: non-trading portfolio

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

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

d. Market risk (Continued)

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

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Non-interest sensitive K'm	Total K'm
GROUP						
2016						
Financial assets						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	29 774	29 774
Government of Malawi T'bills and Reserve Bank of Malawi bonds	-	9 849	15 994	-	-	25 843
Promissory notes	1 100	-	-	-	-	1 100
Equity investments	-	1 969	-	-	-	1 969
Placements with other banks	21 683	-	-	-	-	21 683
Loans and advances to customers	21 825	10 955	59 571	40 936	-	133 287
Other money market deposits	59 077	-	-	-	-	59 077
Other assets	-	-	-	-	7 147	7 147
Total financial assets	103 685	22 773	75 565	40 936	36 921	279 880
Financial liabilities						
Loans	-	-	-	209	-	209
Customer deposits	196 096	26 630	3 309	-	5 247	231 282
Amounts due to other banks	14 570	-	-	-	-	14 570
Provisions	-	-	-	-	2 146	2 146
Other liabilities	-	-	-	-	6 515	6 515
Total financial liabilities	210 666	26 630	3 309	209	13 908	254 722
Interest sensitivity gap	**(106 981)**	**(3 857)**	**72 256**	**40 727**	**23 013**	**25 158**
Cumulative gap	**(106 981)**	**(110 838)**	**(38 582)**	**2 145**	**25 158**	**-**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

d. Market risk (Continued)

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

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Non-interest sensitive K'm	Total K'm
GROUP						
2016						
Impact on profit of an increase in interest rates:						
+1%	(1 070)	(39)	723	407	-	21
+2%	(2 140)	(77)	1 445	815	-	43
+3%	(3 209)	(116)	2 168	1 222	-	65
Impact on profit of a decrease in interest rates:						
-1%	1 070	39	(723)	(407)	-	(21)
-2%	2 140	77	(1 445)	(815)	-	(43)
-3%	3 209	116	(2 168)	(1 222)	-	(65)
GROUP						
2017						
Financial assets						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	27 098	27 098
Government of Malawi T'bills and Reserve Bank of Malawi bonds	-	11 021	15 698	2 759	-	29 478
Promissory notes	48	-	-	-	-	48
Equity investments	-	3 698	-	-	-	3 698
Placements with other banks	32 052	-	-	-	-	32 052
Loans and advances to customers	10 338	10 103	59 912	57 222	-	137 575
Other money market deposits	104 195	-	-	-	-	104 195
Other assets	-	-	-	-	5 050	5 050
Total financial assets	146 633	24 822	75 610	59 981	32 148	339 194
Financial liabilities						
Loans	-	-	61	14 124	-	14 185
Customer deposits	222 844	39 697	1 585	-	14 366	278 492
Amounts due to other banks	1 714	-	-	-	-	1 714
Provisions	-	-	-	-	2 436	2 436
Other liabilities	-	-	-	-	7 100	7 100
Total financial liabilities	224 558	39 697	1 646	14 124	23 902	303 927
Interest sensitivity gap	**(77 925)**	**(14 875)**	**73 964**	**45 857**	**8 246**	**35 267**
Cumulative gap	**(77 925)**	**(92 800)**	**(18 836)**	**27 021**	**35 267**	**-**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

d. Market risk (Continued)

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

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Non-interest sensitive K'm	Total K'm
GROUP						
2017						
Impact on profit of an increase in interest rates:						
+1%	(779)	(149)	740	459	-	271
+2%	(1 558)	(298)	1 480	918	-	542
+3%	(2 337)	(447)	2 220	1 377	-	813
Impact on profit of a decrease in interest rates:						
-1%	779	149	(740)	(459)	-	(271)
-2%	1 558	298	(1 480)	(918)	-	(542)
-3%	2 337	447	(2 220)	(1 377)	-	(813)
COMPANY						
2016						
Financial assets						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	29 650	29 650
Government of Malawi T'bills and Reserve Bank of Malawi bonds	-	7 840	15 994	-	-	23 834
Promissory notes	1 100	-	-	-	-	1 100
Equity investments	-	1 904	-	-	-	1 904
Placements with other banks	21 683	-	-	-	-	21 683
Loans and advances to customers	21 825	10 955	59 571	40 936	-	133 287
Other money market deposits	46 882	-	-	-	-	46 882
Other assets	-	-	-	-	6 577	6 577
Total financial assets	91 490	20 699	75 565	40 936	36 227	264 917
Financial liabilities						
Loans	-	-	-	209	-	209
Customer deposits	182 883	26 630	3 309	-	5 247	218 069
Amounts due to other banks	14 570	-	-	-	-	14 570
Provisions	-	-	-	-	1 933	1 933
Other liabilities	-	-	-	-	6 515	6 515
Total financial liabilities	197 453	26 630	3 309	209	13 695	241 296
Interest sensitivity gap	**(105 963)**	**(5 931)**	**72 256**	**40 727**	**22 532**	**23 621**
Cumulative gap	**(105 963)**	**(111 894)**	**(39 638)**	**1 089**	**23 621**	**-**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

d. Market risk (Continued)

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

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Non-interest sensitive K'm	Total K'm
COMPANY						
2016						
Impact on profit of an increase in interest rates						
+1%	(1 060)	(59)	723	407	-	11
+2%	(2 119)	(119)	1 445	815	-	22
+3%	(3 179)	(178)	2 168	1 222	-	33
Impact on profit of a decrease in interest rates						
-1%	1 060	59	(723)	(407)	-	(11)
-2%	2 119	119	(1 445)	(815)	-	(22)
-3%	3 179	178	(2 168)	(1 222)	-	(33)
COMPANY						
2017						
Financial assets						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	27 098	27 098
Government of Malawi T'bills and Reserve Bank of Malawi bonds	-	11 021	15 698	2 759	-	29 478
Promissory notes	48	-	-	-	-	48
Equity investments	-	3 698	-	-	-	3 698
Placements with other banks	32 052	-	-	-	-	32 052
Loans and advances to customers	10 338	10 103	59 912	57 222	-	137 575
Other money market deposits	78 450	-	-	-	-	78 450
Other assets	-	-	-	-	4 196	4 196
Total financial assets	120 888	24 822	75 610	59 981	31 294	312 595
Financial liabilities						
Loans	-	-	61	14 124	-	14 185
Customer deposits	198 454	39 697	1 585	-	14 366	254 102
Amounts due to other banks	1 714	-	-	-	-	1 714
Provisions	-	-	-	-	2 228	2 228
Other liabilities	-	-	-	-	7 100	7 100
Total financial liabilities	200 168	39 697	1 646	14 124	23 694	279 329
Interest sensitivity gap	**(79 280)**	**(14 875)**	**73 964**	**45 857**	**7 600**	**33 266**
Cumulative gap	**(79 280)**	**(94 155)**	**(20 191)**	**25 666**	**33 266**	**-**
Impact on profit of an increase in interest rates						
+1%	(793)	(149)	740	459	-	257
+2%	(1 586)	(298)	1 480	918	-	514
+3%	(2 379)	(447)	2 220	1 377	-	771
Impact on profit of a decrease in interest rates						
-1%	793	149	(740)	(459)	-	(257)
-2%	1 586	298	(1 480)	(918)	-	(514)
-3%	2 379	447	(2 220)	(1 377)	-	(771)

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

e. Currency risk

The Group had the following significant foreign currency positions:

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
GROUP							
2016							
Financial assets							
Cash and funds with Reserve Bank of Malawi	28 378	1 289	16	26	65	-	29 774
Government of Malawi T'bills and Reserve Bank of Malawi Bonds	25 843	-	-	-	-	-	25 843
Promissory notes	1 100	-	-	-	-	-	1 100
Equity investments	1 969	-	-	-	-	-	1 969
Placements with other banks	-	11 832	114	8 443	632	662	21 683
Loans and advances to customers	88 614	44 673	-	-	-	-	133 287
Other money market deposits	59 077	-	-	-	-	-	59 077
Other assets	7 147	-	-	-	-	-	7 147
Total financial assets	212 128	57 794	130	8 469	697	662	279 880
Financial liabilities							
Loans	209	-	-	-	-	-	209
Customer deposits	166 249	54 247	1 829	8 008	924	25	231 282
Liabilities to other banks	14 558	12	-	-	-	-	14 570
Provisions	2 146	-	-	-	-	-	2 146
Other liabilities	5 216	819	164	35	281	-	6 515
Total financial liabilities	188 278	55 078	1 993	8 043	1 205	25	254 722
Net balance open position	23 850	2 716	(1 863)	426	(508)	637	25 158
Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit	-	(272)	186	(43)	51	64	(14)
Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit	-	272	(186)	43	(51)	(64)	14

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

e. Currency risk (Continued)

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
GROUP							
2017							
Financial assets							
Cash and funds with Reserve Bank of Malawi	26 155	521	86	248	88	-	27 098
Government of Malawi T'bills and Reserve Bank of Malawi Bonds	29 478	-	-	-	-	-	29 478
Promissory notes	48	-	-	-	-	-	48
Equity investments	3 698	-	-		-	-	3 698
Placements with other banks	-	18 610	2 620	9 625	1 172	25	32 052
Loans and advances to customers	80 662	56 913	-	-	-	-	137 575
Other money market deposits	104 195	-	-	-	-	-	104 195
Other assets	5 050	-	-	-	-	-	5 050
Total financial assets	249 286	76 044	2 706	9 873	1 260	25	339 194
Financial liabilities							
Loans	209	13 976	-	-	-	-	14 185
Customer deposits	228 390	38 914	1 614	8 768	804	2	278 492
Liabilities to other banks	249	416	-	-	1 049	-	1 714
Provisions	2 436	-	-	-	-	-	2 436
Other liabilities	5 488	1 068	186	45	313	-	7 100
Total financial liabilities	236 772	54 374	1 800	8 813	2 166	2	303 927
Net balance open position	12 514	21 670	906	1 060	(906)	23	35 267
Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit	-	(2 167)	(91)	(106)	91	(2)	(2 275)
Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit	-	2 167	(91)	106	(91)	2	2 275

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

e. Currency risk (Continued)

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
COMPANY							
2016							
Financial assets							
Cash and funds with Reserve Bank of Malawi	28 254	1 289	16	26	65	-	29 650
Government of Malawi T'bills and Reserve Bank of Malawi Bonds	23 834	-	-	-	-	-	23 834
Promissory notes	1 100	-	-	-	-	-	1 100
Equity investments	1 904	-	-	-	-	-	1 904
Placements with other banks	-	9 832	2 114	8 443	632	662	21 683
Loans and advances to customers	89 232	44 055	-	-	-	-	133 287
Other money market deposits	46 882	-	-	-	-	-	46 882
Other assets	6 577	-	-	-	-	-	6 577
Total financial assets	197 783	55 176	2 130	8 469	697	662	264 917
Financial liabilities							
Loans	209	-	-	-	-	-	209
Customer deposits	153 036	54 247	1 829	8 008	924	25	218 069
Liabilities to other banks	14 558	12	-	-	-	-	14 570
Provisions	1 933	-	-	-	-	-	1 933
Other liabilities	5 216	819	164	35	281	-	6 515
Total financial liabilities	174 952	55 078	1 993	8 043	1 205	25	241 296
Net balance open position	22 831	98	137	426	(508)	637	23 621
Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit	-	(10)	(14)	(43)	51	64	(48)
Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit	-	10	14	43	(51)	(64)	48

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

e. Currency risk (Continued)

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
COMPANY							
2017							
Financial assets							
Cash and funds with Reserve Bank of Malawi	26 155	521	86	248	88	-	27 098
Government of Malawi T'bills and Reserve Bank of Malawi Bonds	29 478	-	-	-	-	-	29 478
Promissory notes	48	-	-	-	-	-	48
Equity investments	3 698	-	-	-	-	-	3 698
Placements with other banks	-	18 610	2 620	9 625	1 172	25	32 052
Loans and advances to customers	80 662	56 913	-	-	-	-	137 575
Other money market deposits	78 450	-	-	-	-	-	78 450
Other assets	4 196	-	-	-	-	-	4 196
Total financial assets	222 687	76 044	2 706	9 873	1 260	25	312 595
Financial liabilities							
Loans	209	13 976	-	-	-	-	14 185
Customer deposits	204 000	38 914	1 614	8 768	804	2	254 102
Liabilities to other banks	249	416	-	-	1 049	-	1 714
Provisions	2 228	-	-	-	-	-	2 228
Other liabilities	5 488	1 068	186	45	313	-	7 100
Total financial liabilities	212 174	54 374	1 800	8 813	2 166	2	279 329
Net balance open position	10 513	21 670	906	1 060	(906)	23	33 266
Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit	-	(2 167)	(91)	(106)	91	(2)	(2 275)
Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit	-	2 167	(91)	106	(91)	2	2 275

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

f. Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business entities.

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

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

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

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

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

g. Compliance risk

The risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, standards, and codes of conduct applicable to its banking activities which regulations imposed by the Reserve Bank of Malawi and other regulatory bodies.

The management of compliance risk has become a distinct discipline within the Group's

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

g. Compliance risk (Continued)

overall risk management framework. Ultimate responsibility for this risk lies with the Board of Directors. A combination of key activities are undertaken to manage the risk such as identifying the regulatory universe and developing compliance programme, training staff and other stakeholders on relevant regulatory requirements, and monitoring compliance.

The Group believes in a corporate culture that emphasises standards of honesty and integrity and in which the Board of Directors and Senior Management lead by example and that it concerns everyone within the Group and that should be viewed as an integral part of the bank's business activities.

With regard to the AML/CFT obligations of the Bank, the Compliance function ensures that the Group has adequate processes and systems to prevent Group's services inaccessible to criminals. The Group has aligned its anti-money laundering policies including Know Your Customer policies, and procedures with country's Financial Crimes legislation and regulations . Further, the Group conducts an AML/CFT Risk Assaessment annually in accordance with Section 21 of Financial Crimes Act, 2017 where a financial institution is required to identify, assess, and understand the level of money laundering and terrorist financing risks for proper mitigation.

Statutory requirements
In accordance with the Section 38 of Banking Act, 2009, the Reserve Bank of Malawi has established the following requirements as at the year-end date:

<u>Liquidity reserve requirement</u>
A Bank is required to maintain a liquidity reserve with the Reserve Bank of Malawi equivalent to no less than 7.5% (2016: 7.5%) of its preceding week's average deposit liabilities including Government deposits. At the end of the year the liquidity reserve for National Bank of Malawi was equivalent to 65% (2016: 54%) of total customer deposits.

<u>Capital adequacy requirement as per Section 10(1) of the Banking Act, 2009</u>
A Bank's available capital is required to be a minimum of 10% of its risk bearing assets and contingent liabilities. At the end of the year the National Bank's available capital was 22% (2016: 19%) of its risk bearing assets and contingent liabilities.

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

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

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

g. Compliance risk (Continued)

Liquidity ratios
At the end of the year, National Bank's liquidity ratio I was 65% (2016: 54%) and liquidity ratio II was 65% (2016: 54%).

h. Capital management

Regulatory capital
The Reserve Bank of Malawi sets and monitors capital requirements for the Group as a whole. Regulatory capital requirement is the minimum amount of capital required by the Reserve Bank of Malawi, which if not maintained will usually require supervisory intervention.

In implementing current capital requirements, the Reserve Bank of Malawi requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The minimum capital ratios under the implemented Basel II are as follows:

- A core (tier 1) capital of not less than 10% of total risk-weighted on statement of financial position assets plus risk-weighted off-statement of financial position items; and
- A total capital (tier 2) of not less than 15% of its total risk-weighted on statement of financial position assets plus risk-weighted off-statement of financial position items.

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

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

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

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

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

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

h. Capital management (Continued)

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

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

	2017 K'm	2016 K'm
Tier 1 capital		
Ordinary share capital	467	467
Share premium	613	613
Retained earnings	51 740	43 612
Unconsolidated investment	(3 459)	(3 369)
Total regulatory (tier 1) capital	49 361	41 323
Supplementary capital		
Loan loss reserve	1 160	708
Revaluation reserve	18 158	15 459
Deferred tax	(6 332)	(6 811)
Unconsolidated investment	(3 459)	(3 369)
Total regulatory (tier 2) capital	58 888	47 310
Risk-weighted assets		
Retail bank, corporate bank and treasury	263 452	254 303
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	22%	19%
Total tier 1 capital expressed as a percentage of risk-weighted assets	19%	16%

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

i. Basel II implementation

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

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

a. Operational Risk	–	Basic Indicator Approach (BIA)
b. Credit Risk	–	Standardized Approach (SA)
c. Market Risk	–	Standardized Approach (SA)

The Group is fully committed to develop its operational risk measurement tools through enhancement of Loss Data Collection which will be escalated to set the foundation for the Bank to finally graduate to Advanced Measurement Approaches in three (3) years' time. To achieve the set plans, the Group has the following; a Basel II implementation gap analysis and an action plan (road map); a steering committee at Senior Management level and a project team for implementation; the Bank also has representatives at the Reserve Bank of Malawi Basel II sub committees; and its continuing to train Basel II to the Group's Directors, management and staff.

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

j. Environmental and social risk

In line with the Group's environmental and social management policy which is also consistent with its own corporate social responsibility (CSR) initiatives, the Group has an obligation to manage the environmental and social impacts that its activities, products and services have on society and to respond strategically to the risks which global environmental and social pressures have on its ability to create sustainable value for its stakeholders.

As a financial services group, it has both direct and indirect impacts on society and the environment. It manages its indirect impact by screening wholesale banking loans to ensure that the customers who borrow from it manage their social and environmental

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

j. Environmental and social risk (Continued)

risks that are associated with their activities. It impacts directly on the environment in its daily business activities through its consumption of energy and other resources, and as such, it has developed systems and processes to reduce its environmental footprint. In addition, it has raised environmental awareness among its stakeholders, particularly its employees and suppliers.

The Group shall not invest in, lend to, or engage in activities that are detrimental to the environment, harmful, or dangerous to people or communities. The environmental and social management system will enable the Group to track and manage environment and social aspects of its operations. It will protect the Group against financial, legal and/or reputational risks arising from activities that are not compliant with sustainable development.

k. Reputational risk policy

Reputation risk is the risk that the Group's reputation is damaged by one or more than one reputation event, as reflected from negative publicity about the Group's business practices, conduct or financial condition.

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

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

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

42. RELATED PARTY TRANSACTIONS

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

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

The Group is controlled by Press Corporation Limited (incorporated in Malawi), which owns 51.5% (2016: 51.5%) of the Ordinary Shares. The Old Mutual Group owns 25.1% (2016: 25.1%) of the Ordinary Shares and the remaining 23.4% (2015: 23.4%) of the Ordinary Shares are widely held by individuals, corporate and institutional investors and are publicly traded on the Malawi Stock Exchange.

42. RELATED PARTY TRANSACTIONS (CONTINUED)

The ultimate holding entity of the Group is Press Trust. Press Trust owns 44.5% (2016: 44.5%) of Press Corporation Limited.

Balances and transactions between the Bank and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

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

GROUP AND COMPANY	**Loans K'm**	**Deposits K'm**	**Net 2017 K'm**	**Net 2016 K'm**
Press Corporation Limited and its subsidiaries	6 584	(3 419)	3 165	(87)
Old Mutual Group	-	(1 912)	(1 912)	(3 357)
Bottling and Brewing Group Limited	-	(25)	(25)	(23)
Limbe Leaf Tobacco Company Limited	7	(505)	(498)	(141)
Press Trust	-	(192)	(192)	(150)
Directors	495	(106)	389	383
Employees	5 321	(545)	4 776	5 688
United General Insurance Limited	-	(66)	(66)	(2)
National Bank of Malawi Pension Fund	-	(252)	(252)	(3)
Total related party balances	12 407	(7 022)	5 385	2 308

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

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

During the year no amount due from a related party was written off against interest in suspense and provision for loan losses. There were no provisions in respect of loans granted to related parties as at the end of the year (2015: nil).

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

42. RELATED PARTY TRANSACTIONS (CONTINUED)

The following transactions were conducted with related parties:

GROUP AND COMPANY	2017 K'm	2016 K'm
Interest receivable		
Press Corporation Limited and its subsidiaries	864	975
Limbe Leaf Tobacco Company Limited	2	622
Directors	6	4
United General Insurance Limited	3	2
Employees	1 369	1 248
Average interest rate (%)	25	34
Operating lease income		
Malawi Telecommunication Limited	261	184
Bottling and Brewing Group Limited	324	429
Interest payable		
Press Corporation Limited and its subsidiaries	-	5
Employees	1 035	988
Purchases		
Press Corporation Limited and its subsidiaries	805	805

	GROUP		COMPANY	
	2017 K'm	2016 K'm	2017 K'm	2016 K'm
Compensation of key management personnel				
Salaries, bonuses and benefits	2 881	2 975	2 751	2 859

No specific share options were offered to key management personnel during the year (2016: nil). No shares were exercised by key management during the year (2016: nil).

43. BUSINESS SEGMENTS

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

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

i. Retail and corporate banking – incorporating, savings, deposits, investment savings products, consumer loans, current accounts, overdrafts, loan and other credit facilities, trade finance and corporate leasing;
ii. Treasury – incorporating financial instruments trading, dealings in foreign currency, stock broking and derivative products; and
iii. Other operations comprising fund management, custodial services and providing training services, none of which constitutes a separately reportable segment.

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

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

43. BUSINESS SEGMENTS (CONTINUED)

	Corporate banking K'm	Retail banking K'm	Treasury K'm	Other K'm	Total K'm
GROUP					
Statement of comprehensive income					
2017					
Total external income	34 392	10 385	26 310	1 782	72 869
Segment result	24 976	7 985	26 310	1 782	61 053
Unallocated expenses	-	-	-	-	(33 503)
Profit before tax	-	-	-	-	27 550
Corporate tax	-	-	-	-	(8 403)
Group profit for the year	-	-	-	-	19 147
Other information					
Depreciation					
Unallocated depreciation	-	-	-	-	2 897
Revaluation surplus on property					
Unallocated fair value gain	-	-	-	-	501
GROUP					
Statement of financial position					
2017					
Assets					
Total consolidated segment assets	99 614	45 387	166 784	80 482	392 267
Liabilities and equity					
Total consolidated segment liabilities and equity	149 993	54 008	66 001	40 052	310 054
Other information					
Unallocated capital additions	-	-	-	-	82 213
Total	-	-	-	-	392 267

43. BUSINESS SEGMENTS (CONTINUED)

	Corporate banking K'm	Retail banking K'm	Treasury K'm	Other K'm	Total K'm
GROUP					
Statement of comprehensive income					
2016					
Total external income	35 954	9 643	19 623	1 534	66 754
Segment result	30 190	7 460	19 623	1 534	58 807
Unallocated expenses	-	-	-	-	(33 560)
Profit before tax	-	-	-	-	25 247
Corporate tax	-	-	-	-	(8 642)
Group profit for the year	-	-	-	-	16 605
Other information					
Depreciation					
Unallocated depreciation	-	-	-	-	2 782
Revaluation surplus					
on property					
Unallocated fair value gain	-	-	-	-	404
GROUP					
Statement of financial position					
2016					
Assets					
Total consolidated segment assets	105 024	39 650	118 466	66 361	329 501
Liabilities and equity					
Total consolidated segment liabilities and equity	106 826	42 632	81 753	29 338	260 549
Other information					
Unallocated capital additions	-	-	-	-	68 952
Total	-	-	-	-	329 501

44. INDEBANK LIMITED

Indebank ceased to operate on 30 April 2016 and its operating assets and liabilities were transferred to National Bank of Malawi effective 1st May, 2016. The banking licence was consequently surrendered to the central bank. Included in the consolidated statement of comprehensive income and consolidated statement of financial position are incomes and expenses and assets and liabilities of Indetrust Holdings Limited (IHL) in which Indebank Limited owns 51% of the investment. The trust is generally in rental business. Subsquent to year end, the Group agreed to dispose off its investment in IHL (refer to note 26).

45. EXCHANGE RATES AND INFLATION

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

	2017	**2016**
Kwacha/GBP	974	891
Kwacha/Rand	59	54
Kwacha/US Dollar	726	725
Kwacha/Euro	865	763
Inflation (%)	7.7	21.7

As at 15 March 2018 the above rates had moved as follows:

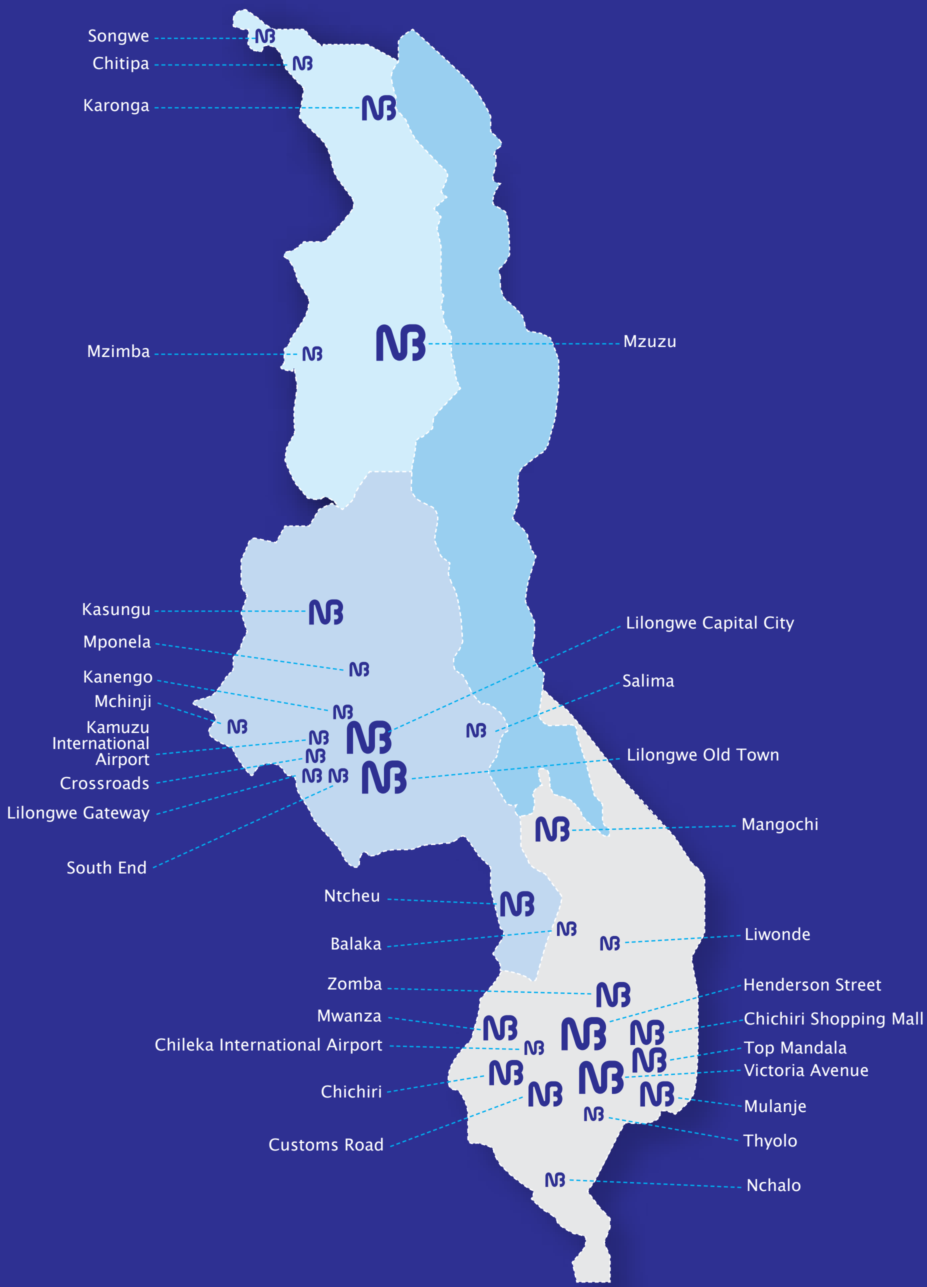
Kwacha/GBP	1 013
Kwacha/Rand	62
Kwacha/US Dollar	726
Kwacha/Euro	897
Rate as at 31 January 2018	8.1%

CORRESPONDENT BANKS

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

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

Map of Malawi – National Bank of Malawi plc Service Centres



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