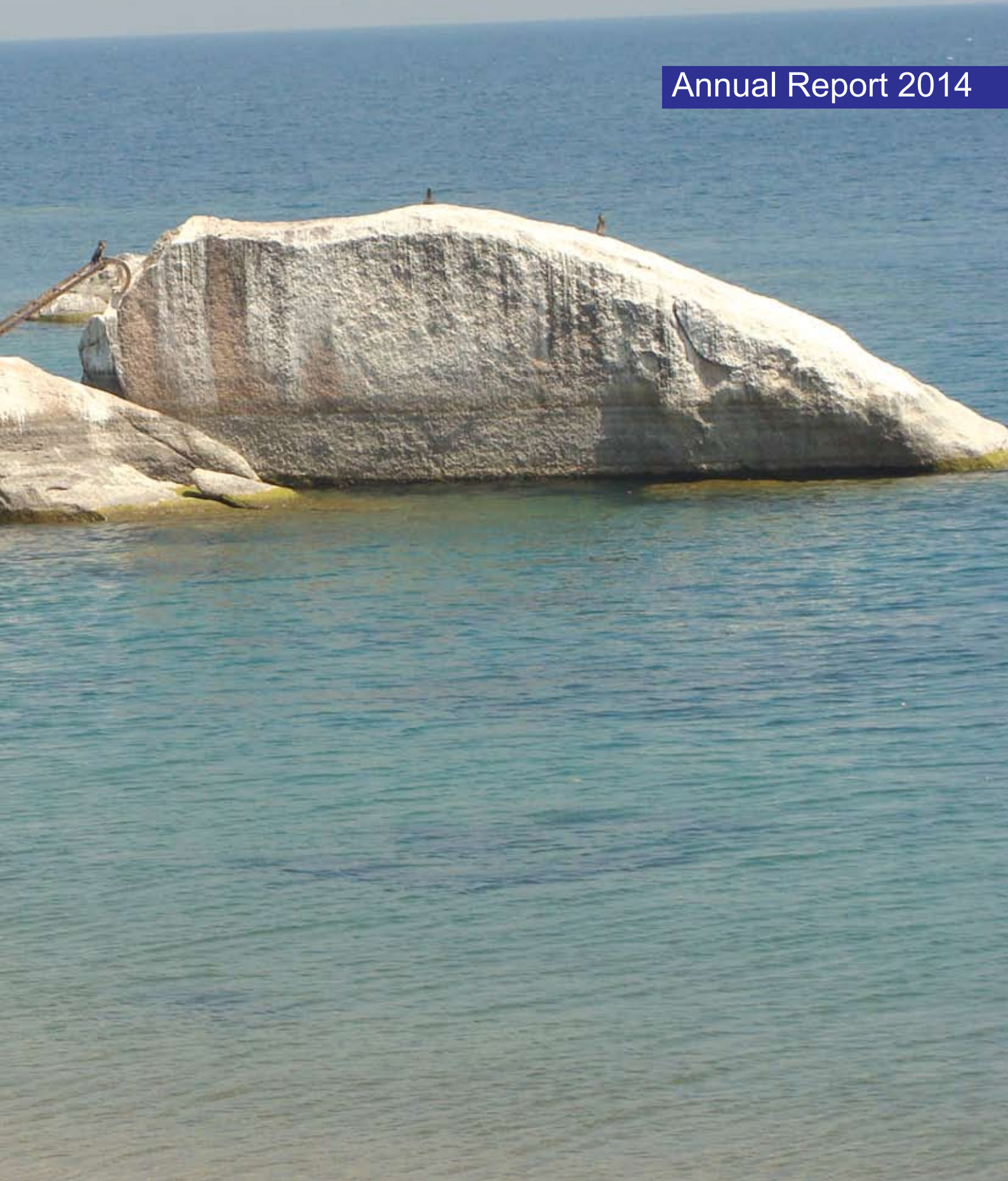




National Bank of Malawi

Annual Report 2014







National Bank of Malawi

Annual Report 2014



Cover photo: Breath-taking view of Cape Maclear
in Mangochi – Photograph by Bright Kumwenda

The Bank of the Nation

Today, National Bank of Malawi is the leading Bank in Malawi with a network of over 30 service centres and over 80 Auto Teller Machines (ATMs) that accept Visa cards, providing the Bank's customers 24/7 access to their accounts. To facilitate payment and make Malawi a cashless society, the Bank has installed over 500 Point of Sale Devices (POS) with leading merchant shops, hotels, restaurants, hospitals and lodges. The devices accept all Visa branded cards. The Bank also has a robust and exceptionally customer-friendly internet banking service, BankNet Online that has been proven to be safe, secure, versatile and of world class standard. It is available to both corporate as well as personal customers.



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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.

Teamwork

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

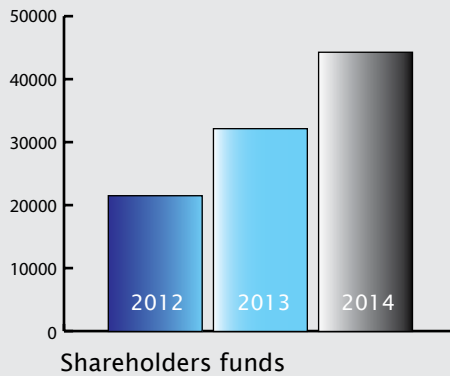
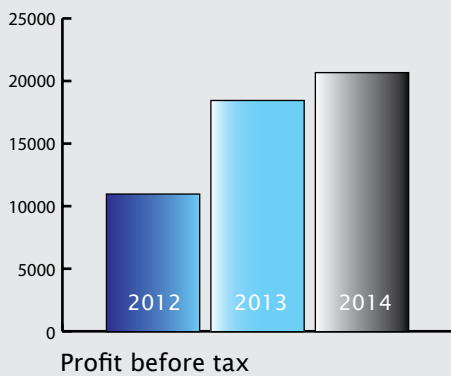
As a good corporate citizen, National Bank of Malawi will actively participate in deserving charitable and social activities.



Group Financial Highlights

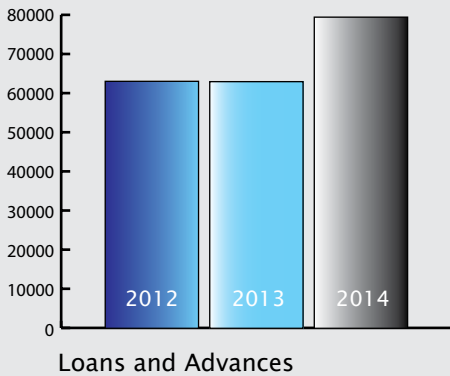
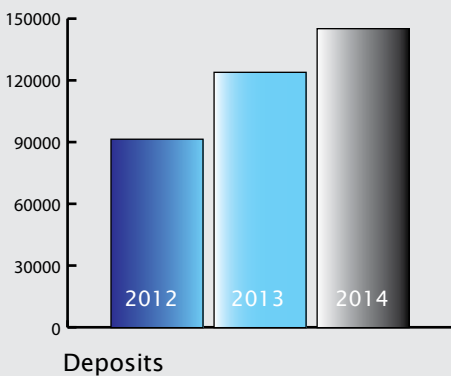
	K'm 2012	K'm 2013	K'm 2014	% Change 2014 vs 2013
Profit before tax	11,005	18,446	20,661	12%
Shareholders Funds	21,567	32,163	44,241	38%
Deposits	91,501	123,855	144,967	17%
Loans and Advances	63,001	62,918	79,322	26%

K20,661 Million
 Profit before tax increased by **12%**
 (K18,446 million in 2013)



K44,241 Million
 Shareholders funds up **38%**
 (K32,163 million in 2013)

K144,967 Million
 Deposits increased by **17%**
 (K123,855 million in 2013)



K79,322 Million
 Loans and Advances up **26%**
 (K62,918 million in 2013)



The source of National Bank of Malawi's success is the versatility of its Board which has a professional, well-experienced and qualified team of two executive and nine non executive directors, management and staff whose main belief is in its mission and core values.

The Bank of the Nation



Current Directors





Seated (L - R)

Zunzo Mitole (Mrs) (41)
LLB (Hons) (Mw)
**COMPANY SECRETARY
AND LEGAL COUNSEL**

Elias J Kambalame (68)
BA (Econ.)
DIRECTOR

Macfussy M Kawawa (50)
B.Acc (Hons), FCCA, CA (Mw), MBA
DIRECTOR

Maureen Kachingwe (48)
LL.B (Hons), MBA
DIRECTOR

Standing (L - R)

Donald J Kambalame (63)
FCCA, ACIS, CA (Mw)
DIRECTOR

Elizabeth Mafeni (Mrs) (46)
MBL, FCCA, B.Com.
Director
DIRECTOR

Damien Kafoteka (50)
FCCA, B.com (Accountancy),
CA (Mw)
DIRECTOR

George B Partridge (51)
B.Soc.Sc. (Econ), Msc (Finance),
FCCA, CA (Mw)
DIRECTOR



Dr Mathews A P Chikaonda (60)
BA (Hons) Economics & Finance,
MBA (Finance), PhD (Finance)
DIRECTOR

Rosemary Mkandawire (56)
ACCA, FCCA
DIRECTOR

Chris A Kapanga (55)
ACII, MBA, Chartered Insurer
DIRECTOR

Pius P Mulipa (61)
Dip. (Mgt), BA, MSc (Mgt)
DIRECTOR



The directors report a consolidated profit before tax of K20,661m (2013: K18,446m) for the year.

The directors have pleasure in presenting the Consolidated and Separate Financial Statements of National Bank of Malawi for the year ended 31 December 2014.

CAPITAL

The authorised share capital of the Bank is K500m (2013: K500m) divided into 500,000,000 Ordinary Shares of K1 each. The issued capital is K467m (2013: K467m) divided into 466,931,738 (2013: 466,931,738) fully paid Ordinary Shares of K1 each.

The shareholders and their respective shareholdings are:

	2014 %	2013 %
Press Corporation Limited	51.5	51.5
Old Mutual Group	24.9	24.9
Members of the public	21.8	21.8
Employees (ESOP)	1.8	1.8
	100.0	100.0

PROFIT AND DIVIDENDS

The directors report a consolidated profit before tax of K20,661m (2013: K18,446m) for the year. A final dividend of K4,670m (2013: K2,900m) is proposed for the year. An interim dividend of K2,498m (2013: K1,998m and K1,401m) was paid to shareholders on 5 September 2014.

DIRECTORS

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

Chikaonda, Dr. M A P	All year
Mulipa, P P	All year
Kambalame, E	All year
Partridge, G B	All year
Kawawa, M M	All year
Kapanga C	All year
Mafeni, E	All year
Mkandawire, R	All year
Kambalmetore, D J	All year
Kafoteka, D	All year
Kachingwe, M	From October 2014

DIRECTORS' INTERESTS

The following directors held shares in the Bank as at 31 December 2014:

Mulipa, P P	20,367 (2013: 20,367) Ordinary Shares
Partridge, G B	768,874 (2013: 639,634) Ordinary Shares
Kawawa, M M	113,255 (2013: 113,255) Ordinary Shares

From 2006 to 2010, the Bank made offers of options under the ESOP scheme to 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.

DONATIONS

During the year, the Bank made charitable donations of K59m (2013: K19m).

ACTIVITIES

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

Subsidiaries of National Bank of Malawi	Percentage of control	Nature of operations
NBM Capital Markets Limited	100% (2013: 100%)	Investments and Fund Management
NBM Securities Limited	100% (2013:100%)	Dormant
National Bank of Malawi Nominees Limited	100% (2013:100%)	Holding of investments as nominee (Dormant)
Stockbrokers Malawi Limited	75% (2013: 75%)	Registered Stockbroker
NBM Bureau de Change Limited	100% (2013: 100%)	Bureau de Change (Dormant)

AREAS OF OPERATION

The Bank has 30 (2013: 30) 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 2015.

BY ORDER OF THE BOARD

Mrs Z. E. Mitole
Company Secretary



Chairman's Report to Shareholders



Dr Mathews Chikaonda

I am pleased to announce a Group profit after tax of K14.529b, compared with K12.706b earned in 2013, representing an increase of 14.3%.

THE OPERATING ENVIRONMENT

The business environment in the first half of 2014 was challenging. Just like in most election years, the atmosphere was characterised by a wait-and-see attitude by investors in the run-up to the tripartite general elections of May 2014. This considerably slowed down economic activity and demand for banking products and services was not spared. After the election fever dissipated, business activity began to increase, which resulted in recording of some growth in the second half of the year.

PERFORMANCE

I am pleased to announce a Group profit after tax of K14.529b compared with K12.706b earned in 2013, representing an increase of 14.3%.

Against the background of a difficult first half of the year, the Bank recorded satisfactory growth in the second half following a start of a return to normality as the new government settled in and the 2014/2015 fiscal budget got passed by Parliament.

STRATEGY AND PROSPECTS

As will be read in the Economic Review section of this Annual Report, at the projected GDP growth rate of 5.8% in 2015, the economic outlook is generally positive, though growth will marginally be lower than the 6.3% recorded in 2014. This is on account of reduced agricultural output due to flooding and drought in some parts of the country.

Save for the effects of floods and drought, we expect some stability in the macroeconomic environment. Inflation is expected to continue its steady downward trend and the exchange rate is expected to stabilise against a backdrop of a favourable import cover of nearly four months. The downward trend in inflation should signal prospects for reduction in interest rates.

The directors have ensured that the Bank has strategies in place and that the Bank is adequately resourced to address any challenges that any shocks in the economic environment may pose, and

exploit any opportunities that may come its way. I am, therefore, confident that 2015 will be a year of continued growth for the Bank.

BOARD OF DIRECTORS

Mrs Maureen Kachingwe joined the Board in the course of the year as an independent director as a way of further strengthening the Bank's governance structure. I take this opportunity to extend a warm welcome to Mrs Kachingwe to the Board.

On behalf of the shareholders and my own, I thank all directors for their support and cooperation during the year.

MANAGEMENT AND STAFF

I take this opportunity to sincerely thank management and staff whose skills and effort have made it possible for the Bank to compete successfully and post these commendable results.



M. A. P. Chikaonda, PhD
CHAIRMAN



Senior Management





Seated (L – R)

Charles Dulira (46)
 BA (Public Administration)
HEAD, HUMAN RESOURCES

Eluphy Salamba (47)
 B.Com (Business Admin), MSc (LCM)
HEAD, CREDIT MANAGEMENT

Austin N D Musyani [56]
 BA (Public Admin.), MPA, MBA.
HEAD, CUSTOMER SERVICE

Standing (L – R)

Harold Jiya (44)
 B. Com, ACIB, MBA
HEAD, WHOLESALE BANKING

Oswin Kasunda (48)
 B.Com, Msc (St.Mgt)
HEAD, PERSONAL AND BUSINESS BANKING

Macfussy M Kawawa (50)
 B.Acc (Hons), FCCA, CA (Mw), MBA
GENERAL MANAGER & CHIEF FINANCIAL OFFICER

Charles S Ulaya (39)
 ACMA, CGMA
HEAD, RISK

Daniel Jere (41)
 B.Acc, ACMA, CGMA, CA(Mw)
HEAD, INTERNAL AUDIT

Harry Mukaka (47)
 BA (Public Admin.), MBA
HEAD, TREASURY AND INVESTMENT INSTITUTIONS



Brian Boby (50)
 B.Soc.Sc., MBA
**HEAD, BUSINESS PROCESS
 MANAGEMENT**

Zunzo Mitole (Mrs) (41)
 LLB (Hons) (Mw)
**COMPANY SECRETARY
 AND LEGAL COUNSEL**

Tayemu H Masikini (57)
 Post Graduate Diploma in Com-
 puting, BSc.
HEAD, ADMINISTRATION

Wilkins G. Mijiga (43)
 B.Soc.Sc. (Econ)
**HEAD, STRATEGY, MARKETING
 AND CORPORATE AFFAIRS**

William Kaunda (45)
 BSc, MSc (Bus Mgt)
**HEAD, CARDS AND
 e-BANKING**

George B Partridge (51)
 B.Soc.Sc. (Econ), MSc (Finance),
 FCCA, CA (Mw)
CHIEF EXECUTIVE

John Mitchell (50)
 BSc. (Technical Education),
 MSc (Computing)
HEAD, INFORMATION TECHNOLOGY



The Bank registered satisfactory growth in profit before tax of 12% from K18.45b to K20.67b against a background of an unsatisfactory operating environment.

The Bank of the Nation



Chief Executive Officer's Statement



Mr George Partridge

The Personal and Business Banking lending portfolio which comprises of leasing, personal and SME Banking registered a growth of 39%.

PERFORMANCE OVERVIEW

The Bank registered satisfactory growth in profit before tax of 12% from K18.45b to K20.67b against a background of an unsatisfactory operating environment.

The operating business environment in the first half of 2014 was characterised by relatively low business activity arising from the anxieties associated with the May 20 tripartite general elections. Tight monetary policy pursued by the Reserve Bank of Malawi with the specific stated aims of containing inflation, constraining demand for foreign exchange and credit meant that interest rates were kept at very high levels throughout the period.

This high cost of borrowing had the adverse effect of dampening demand for credit and an array of other bank products and the risk of non-performing loans commensurately increased. In addition, government inability to pay its suppliers heightened this risk. Management therefore took deliberate steps to manage the growth of its lending book consistent with the increased risk of bad debts.

Businesses however started to show increased levels of activity in the second half of the year following the conclusion of the election process. Consequently, the loan book registered a growth of 26% while deposits grew by 16.6% by the year end.

The non-performing loans ratio of 5.65% at the year-end showed a moderate deterioration of the quality of the loan book when compared with 3.80% recorded in 2013. However, when compared with industry levels with an average of 15.4%, the loan book was better managed than the industry.

WHOLESALE BANKING

The various interventions by the monetary

authorities and the Bank's own deliberate policies as alluded to above resulted in negative real average growth in lending notwithstanding the increase noted over the last quarter of the year as business activity increased.

In order to promote financial inclusion, the Bank continued providing facilities to smallholder farmers' clubs contracted to major tobacco merchants. This has improved access to credit and outreach to rural Malawian farmers who would not ordinarily access credit. This segment performed poorly mainly due to depressed tobacco prices and weather related conditions which affected output and quality. This had a significant weighting in the negative tilt that is being reported in the Bank's non-performing portfolio.

We have since revamped our risk management procedures in this particular segment to improve the quality of the loan book. We have gone further to embrace modern environmental risk management practices towards sustainable banking. We expect the results of these interventions to manifest positively in 2015 and beyond.

TREASURY & INVESTMENT BANKING

Revenue from treasury operations continued to be one of the major sources of income for the Bank. Despite the suspension of a programme with the IMF which left many bilateral donors withholding aid, there was still a satisfactory flow of foreign exchange such that the Bank's foreign exchange earnings' budget was met. However, continued donor aid suspension and likely poor tobacco crop as a result of the recent floods the country has experienced may negatively affect the supply of forex and corresponding incomes from this source in 2015.

On the money market front, the restricted growth in lending levels which resulted in excess liquidity for the Bank for the larger part of the year meant more funds than planned were invested in short term investments. Consequently, money market income exceeded budget. The restructuring of the Liquidity Reserve Requirement (LRR) compliance regime in the last quarter of 2014 significantly raised the effective amount kept for the purpose such that it will result in less availability of excess funds for the money markets.

The equities desk performed reasonably well and the stock market appears to have stabilised.

PERSONAL AND BUSINESS BANKING

The Personal and Business Banking lending portfolio which comprises of leasing, personal and SME Banking registered a growth of 39%. This increase should be seen in the context of a low base. Our main focus in the year under review was to grow market share of the SME customer segment by leveraging on the supply chain for those customers supplying to corporate clients through cross selling, offering packaged solutions and improving service turnaround. In addition, the personal banking space capitalised on the usage of electronic platforms available in the Bank.

Our focus in 2015 will be on building a customer-centric business model to ensure sustainable business growth.

CARDS AND E-BANKING SERVICES

During the course of the year, the Bank continued to make strides in the areas of cards and electronic banking services. We upgraded our mobile phone banking system (Mo626ice) by advancing the channel to new frontiers of e-payments. The Bank also expanded its ATM network

with addition of new ATM service points in strategic areas away from Service Centre premises. The POS network also expanded to areas spanning across various industries ranging from tourism, hospitality, retail and travel to health care. This growth bears testimony that payments is a key growth area in the Malawi market.

The Bank started introducing MasterCard products. The first to be introduced was the MasterCard Multi-Currency Cash Passport which is a dual currency card that replaces the single currency Visa branded Cash Passport. Launch of other MasterCard branded products and services is planned for 2015.

The Bank also introduced the prepaid Myfuel+ card, a fuel card run in partnership with Puma Energy Malawi Ltd.

CUSTOMER SERVICE CHANNEL IMPROVEMENTS

As part of the Bank's initiative to enhance its frontline service delivery, the old South End Service Centre was relocated to more spacious premises equipped with modern and spacious banking facilities to cater for customers around the busy Lilongwe Old Town catchment area. Under a similar initiative, Mangochi and Salima Service Centres will be undergoing refurbishment in 2015 aimed at increasing the banking hall space and adding other specialised facilities.

Work on the new MPICO Gateway Shopping Mall Service Centre in Lilongwe commenced towards the end of the year and will be completed before the end of the third quarter of 2015. This new service centre is aimed at enriching the shopping experience of our customers at the mall through various highly modern self-service channels and a spacious banking hall.

The Bank is currently in the process of upgrading its cheque processing software

The Bank started introducing MasterCard products. The first to be introduced was the MasterCard Multi-Currency Cash Passport which is a dual currency card...

A new Employee Recognition and Rewards Scheme was rolled out in 2014 aimed at... recognising and rewarding employees for their achievements and contributions...

to facilitate instant cheque processing by cashiers across the Bank's service centre network. This project will also involve tactical redeployment of resources from the Bank's central processing centres to the service centre network as part of our strategy to reduce banking hall queues as we concentrate our best resources where our systems and people interface with customers.

CORPORATE SOCIAL INVESTMENTS

The Bank's corporate social investment initiatives aim at ensuring that communities we operate in are socially and economically empowered and that solutions provided are sustainable. In executing these initiatives, the Bank deliberately partners with its clients who are experts in particular fields with the view to exploit synergies as they offer practical models of addressing community priorities.

In this regard, the Bank continued to provide nursing scholarship programmes to the health sector, various annual awards to selected universities, provision of learning equipment, rehabilitation of education, health and social facilities. We also continued with the five year sponsorship of the establishment and delivery of a Masters' degree in Commercial Law delivered by the Faculty of Law at Chancellor College, a constituent college of the University of Malawi.

TALENT MANAGEMENT

A new Employee Recognition and Rewards Scheme was rolled out in 2014 aimed at providing a system of publicly recognising and rewarding employees for their achievements and contributions in attaining the Bank's business objectives. This comprises various awards to deserving candidates and includes sending selected employees with their spouses on fully funded overseas experiences.

Several wellness activities focusing on healthy diets, sports, aerobics and exercises were introduced for members of staff. The fruits of these initiatives aimed at improving employees' health started to show through reduction in medical scheme expenses as well as in general improvement in the productivity levels of staff.

Staff continued to excel in their professional and academic studies. Four members of staff successfully completed master's degrees, one member of staff qualified as a chartered accountant while twentythree other employees successfully completed various professional banking courses. Deliberate interventions in key areas included offering two postgraduate scholarships at master's degree level in the United Kingdom in information technology and risk management.

In the period under review, a total of 66 short-term banking courses were conducted at our own Learning & Growth Centre covering diverse areas of general banking.

SUBSIDIARIES AND ASSOCIATES

Stockbrokers Malawi Limited

The company recorded a pre-tax profit of K134.01 million compared to K130.8 million recorded in 2013.

Revenue and the money market book grew by 45% and 44%, respectively, as a result of intensive client deal solicitation. However, the overall result was adversely affected by provisions against suspected fraudulent share transfers to the tune of K42m.

NBM Capital Markets Limited

Having commenced operations in 2013, NBM Capital Markets Limited's performance has grown consistently. Profit after tax has increased from

MK39.5m in 2013 to MK165.3m in 2014. Similarly, the statement of Financial Position has grown from MK1.2bn in 2013 to MK3.2bn in 2014 while assets under management have grown to over MK25.2bn from MK18bn in 2013.

United General Insurance (UGI)

The company recorded satisfactory performance in spite of the adverse economic environment prevailing in 2014. Pre-tax profit grew by 26% from K295 million in 2013 to K373 million. This performance was largely driven by prudent underwriting.

OUTLOOK

Going into 2015, the economy is expected to register continued growth albeit at a slower pace than in the year under review. Growth prospects will largely be affected by reduction in agricultural output as a result of floods and drought in certain parts of the country.

The consistent application of a tight monetary policy regime, the reduction of oil prices and the appreciation of the local currency is expected to lead to the reduction of inflation and interest rates in the second half of the year. Demand for banking products is expected to remain dampened in the first half of the year as a consequence of the high cost of borrowing with prospects of an improvement following the possibility of reduction of interest rates in the second half.

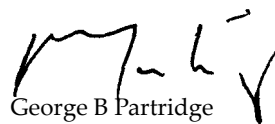
On balance, we still foresee challenges in the operating environment in 2015. The Bank's continued growth will be dependent on its ability to leverage on its core strengths and exploiting opportunities in the market that focus on maximising value delivery to customers through efficient systems and process optimisation; good governance and risk management; customer-centricity and

product innovation supported by talent management.

CONCLUSION

I would like to thank the Chairman and the Board of directors for their guidance, support and direction during the year. I also convey my gratitude to my senior management colleagues for their commitment and 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 2015 and beyond.

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



George B Partridge
CHIEF EXECUTIVE OFFICER

Going into 2015, the economy is expected to register continued growth albeit at a slower pace than in the year under review.

Customer Service Delivery Channels

Service Centre counter



Mo626*ice* —
Mobile banking product



VISA Point Of Sale (POS) device



Moneycard Auto Teller Machine (ATM)



BankNet Online — An internet banking product





National Bank of Malawi
provides a working environment
that promotes staff motivation,
advancement, wellness,
fitness and other
social activities.

The Bank of the Nation



Staff Activities





Healthy employees are a source of a healthy business. Health Day at the Bank



Management at the end of the 2014 Strategic Review Conference



Taking time off to interact with small to medium enterprise customers



Annual pensioners Christmas luncheon



The best performers and gold winners in the Employee Recognition and Rewards Scheme



Learning and Growth Centre where members of staff are trained in various disciplines to meet customers' expectations.

Charity work: Sharing with the sick, orphans and other underprivileged



Staff presented gifts to patients during festive season. Here staff admiring newly born twins





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

The Bank of the Nation



Corporate Social Responsibility Activities





Sponsorship for the establishment and delivery of LLM in Commercial Law at Chancellor College to address shortages of specialised lawyers in commercial courts



The first graduates in the sponsored LLM in Commercial Law

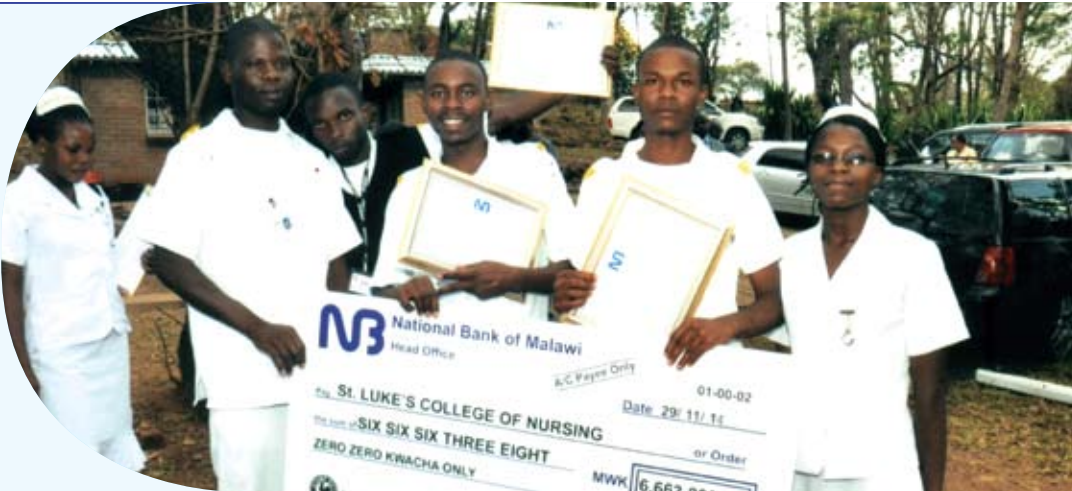




Promoting academic excellence at Mzuzu University and University of Malawi



Disability is not inability. Skills tools to assist deaf students to become self-reliant
— Embangweni School for the Deaf



Addressing shortage of health workers by training more nurses and clinicians throughout the country



For laboratory equipment at Mzuzu University



Partners in business



National Bank of Malawi plays a strategic role in the development of Malawi through financing both large corporates and SMEs.



Selected Key Clients



Selected Key Clients



Grand Palace Hotel: The new magnificent hotel in Mzuzu





Crossroads Hotel under construction in Blantyre

Farmers World Limited



Selected Key Clients



CEAR, Liwonde-Nacala Railway Line





Crown Pharmaceuticals Limited: The home for your healthier life.

Total Land Care: Changing the lives of rural communities against the impact of climate change.





Carbon Dioxide and Allied Products (Private) Limited : Your everyday solution



ECONOMIC DEVELOPMENTS IN 2104

The manufacturing sector registered capacity utilisation of about 73% up from 36% in the previous year. However, the withdrawal of donor aid in the wake of the cashgate affair meant recourse to domestic financing and over expenditure, which exerted significant pressure on the exchange rate with expected pass through effects on inflation.

Tobacco production in the year under review was at 191 million kilogrammes, representing a 13% increase on the previous season. Average prices at 188 cents (214 cents in 2013) per kilogramme were depressed due to world excess supply, especially for flue cured tobacco.

2014 also saw the temporary closure of Kayelekera Uranium mine by Paladin Africa Limited against a background of plummeting world prices with resultant effects on export earnings.

On the political front, the country conducted its first ever tripartite elections in May 2014. The Democratic Progressive Party (DPP) emerged the winner with Professor Peter Mutharika being elected president defeating the incumbent president Dr. Joyce Banda of the People's Party.

However, the new government did not come with the goodwill of the country's donors due to the cashgate scandal as alluded to above. The withdrawal of donor aid put immense pressure on the government budget as a significant portion was being financed by treasury bills and Ways and Means. As a result, inflation remained stubbornly high averaging 23.8% (27.3% in 2013). The high inflation environment effectively curtailed any chances of a downward revision of interest rates with the monetary policy authorities maintaining the Policy and Lombard rates at 25% and 27%, respectively.

The Malawi Kwacha depreciated considerably, reaching MK520 to the US Dollar before appreciating in the last quarter, closing at MK476 to the US Dollar as speculative forces on the Kwacha somewhat abated due to availability of foreign exchange injected through international borrowing.

OUTLOOK FOR 2015

Real GDP growth for 2015 is expected to be 5.8%, lower than the 6.3 % recorded in 2014 due to flooding and drought in some parts of the country.

Although donor confidence and the trickling in of associated funding are yet to resume upon government improving its financial management systems, tobacco related inflows should help strengthen the country's forex position.

The economy is therefore expected to register continued growth albeit at a slower pace than 2014. Tight monetary policy and the plummeting of world fuel prices are expected to lead to the reduction of inflation to around 15% by mid-2015, likely to be followed up by a reduction in interest rates.

Real GDP growth for 2015 is expected to be 5.8%, lower than the 6.3 % recorded in 2014 due to flooding and drought in some parts of the country.

Corporate Governance Statement

The Bank's Board has a strong contingent of eleven directors composed of two executive and nine non-executive directors.

The Board of National Bank of Malawi is committed to good corporate governance which it achieves by following principles of openness, integrity and accountability as set out in the Malawi Corporate Governance Code, The Cadbury Report and the King Reports. An effective and satisfactory relationship between the shareholders, customers, strategic partners, suppliers of various goods and services, regulators and staff is therefore achieved as a result of subscribing to these principles.

In performing its oversight role, the Board sets the strategic objectives and performance criteria of the Bank, determines investment policies, and delegates the detailed planning and implementation of these objectives to management in accordance with appropriate parameters.

The Board monitors compliance with policies and achievement of objectives by holding management accountable for its activities through bi-monthly Board meetings at which performance is reported. The Board delegates some of its compliance monitoring responsibilities to committees of the board namely – Risk; Audit; Appointments, Remuneration & Governance and Credit. There is also a newly created Committee of the Board on Related Parties which as the name suggests, deals with all related party transactions. Each Committee has its own specific terms of reference issued by the Board, which are in the custody of the Company Secretary. Each Committee chairperson reports on the proceedings of his committee at the next meeting of the Board.

The directors are responsible for maintaining a system of internal controls, which provides reasonable 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. The internal controls ensure that there is compliance with laws and regulations. To achieve this, 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. Details of the risk management processes that the Bank has embraced are provided in Note 38 to the financial statements.

The Bank's Board has a strong contingent of eleven directors composed of two executive and nine non-executive directors. The chairman is chosen from among these directors.

All the Bank's non-executive directors hold or have held senior leadership positions in financial services, public and private sectors. The wide composition of skills and experience emanating from the holding of such positions contributes to their strength of character, independence of judgement and opinion. This means that no individual or group has unfettered powers and control or unequal access to information.

COMMITTEES OF THE BOARD

Risk Committee

Mr. D. J. Kambalometore, an independent director, is the Chairman of the Board Risk Committee. The Committee is responsible for the strategic risk management of the Bank as delegated by the Board.

Through this committee the Board provides the necessary oversight and direction in relation to current and potential future risk exposures and future risk strategy. In fulfilling its task, the Committee reviews risk management

reports covering credit, market, liquidity and operational risks among other reports provided by the Risk Division of the Bank. The Committee also monitors the Bank's compliance with Basel II requirements.

The Committee meets at least three times a year.

Audit Committee

Ms R. Mkandawire, an independent director, is the Chairperson of the Audit Committee. The Committee has overall responsibility for the Bank's system of internal controls and for reviewing its effectiveness. 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 also exercises the full powers and authority of the Board in accounting and financial reporting matters as guided by its terms of reference.

The Audit 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.

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 the Appointments, Remuneration and Governance Committee which is responsible for board nominations and vetting and also good governance practices. The Committee also ensures that the Bank has a robust succession plan,

that the Bank's human resources are best utilised, and that members of staff are remunerated commensurate to their responsibilities and effectiveness.

The Committee meets at least three times a year.

Related Parties Committee

Mrs Maurine Kachingwe, an independent director, is the Chairperson of the committee. The Committee meets on need basis to consider credit applications and other matters concerning related parties.

Credit Committee

Mr P.P. Mulipa is the Chairman of the Committee. The committee considers credit applications that are above management limit in line with the Bank's Authorities Schedule approved by the Board. It also reviews credit policies, the quality of the Bank's direct and contingent lending, the mix of industry concentration within agreed parameters, counterparty lending 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.

The Committee meets frequently, on a need basis.

Ethics

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

Auditor Independence

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

Board Information and Development

The responsibility of advising the Board on all governance issues, ensuring that board procedures are followed and applicable rules and regulations are complied with lies with the Company Secretary. All the directors have access to advice and services of the Company Secretary either as individuals or as committees, with the stewardship of the Chairman of the Board. The Company Secretary also coordinates directors' training for efficient discharge of the Board's oversight responsibilities and organises board orientation from time to time.



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, so far as concerns the members of the company.



Consolidated & Separate Financial Statements

For the year ended 31st December 2014

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Statement of Directors' Responsibilities

The Companies Act, 1984, 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, 1984.

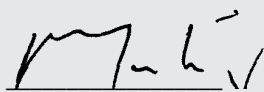
In preparing the financial statements the directors accept responsibility for ensuring the following:

- 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.

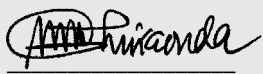
The directors also accept responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and the Group and to maintain adequate systems of internal controls to prevent and detect fraud and other irregularities.

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, so far as concerns the members of the company.

DIRECTOR:


Mr. G.B. Partridge

CHAIRMAN:


Dr M.A.P Chikaonda



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

We have audited the consolidated and separate financial statements of National Bank of Malawi and its subsidiaries (the Group) as set out on pages 52 to 118, which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The Group's directors are responsible for preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in a manner required by the Companies Act, 1984 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank and the Group as of 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in accordance with the provisions of the Companies Act, 1984, so far as concerns the members of the company.

30 March 2015

Statements of financial position


31 December 2014

	Notes	GROUP		COMPANY	
		2014 K'm	2013 K'm	2014 K'm	2013 K'm
ASSETS					
Cash and funds with Reserve Bank of Malawi	5	28 992	18 830	28 992	18 854
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	23 523	8 209	23 523	8 209
Government of Malawi promissory notes	7	6 552	10 765	6 552	10 765
Equity investments	8	2 483	1 577	2 440	1 476
Investment in associates	9	454	380	233	233
Investment in subsidiaries	10	-	-	122	142
Placements with other banks	11	26 516	33 784	26 516	33 784
Loans and advances	12	79 322	62 918	79 322	62 929
Other money market deposits	13	8 412	13 039	-	8 514
Other assets	14	24 934	12 738	24 849	12 656
Property, plant and equipment	15	19 984	17 650	19 891	17 619
Intangible assets	16	3 819	2 912	3 819	2 912
Deferred tax	17	3 422	2 500	3 414	2 499
Total assets		228 413	185 302	219 673	180 592
LIABILITIES AND EQUITY					
LIABILITIES					
Customer deposits	18	144 967	123 855	136 937	119 481
Amounts due to other banks	19	5 228	212	5 228	212
Current income tax liabilities	20	1 930	1 740	1 884	1 743
Loans	21	5 582	8 348	5 582	8 348
Provisions	22	2 617	1 975	2 553	1 953
Other liabilities	23	23 848	17 009	23 785	16 932
Total liabilities		184 172	153 139	175 969	148 669
EQUITY					
Capital and reserves					
Share capital		467	467	467	467
Share premium		613	613	613	613
Loan loss reserve		1 077	-	1 077	-
Available for sale reserve		202	183	202	183
Revaluation reserve		9 115	6 230	9 115	6 230
Retained earnings		32 708	24 624	32 230	24 430
Equity attributable to equity holders of the parent		44 182	32 117	43 704	31 923
Non-controlling interests		59	46	-	-
Total equity		44 241	32 163	43 704	31 923
Total equity and liabilities		228 413	185 302	219 673	180 592
Memorandum items					
Contingencies-guarantees and performance bonds	33	1 138	1 692	1 138	1 692

The financial statements were approved and authorised for issue by the Board of Directors on 26 March 2015 and were signed on its behalf by:



 Chairman: Dr M.A.P. Chikaonda



 Director: Mr. G.B. Partridge

	Notes	GROUP		COMPANY	
		2014 K'm	2013 K'm	2014 K'm	2013 K'm
Income					
Interest and similar income	25	25 473	25 008	25 408	24 982
Interest expense and similar charges	25	(3 773)	(5 290)	(3 773)	(5 290)
Net interest income	25	21 700	19 718	21 635	19 692
Commission and fee income	26	7 432	6 269	6 775	5 943
Profit from dealing in foreign currencies		7 915	6 089	7 915	6 059
Income from operating leases		666	684	666	684
Net gains on financial instruments classified as held for trading	8	686	646	683	646
Profit on disposal of equity investments		6	36	-	18
Share of profits of associate		97	80	-	-
Dividend income		104	43	135	42
Properties fair value gain	29	616	406	616	406
Profit on disposal of property, plant and equipment		65	69	57	69
Total income		39 287	34 040	38 482	33 559
Expenditure					
Staff costs	27	8 026	7 734	7 838	7 591
Other operating expenditure	28	9 930	7 644	9 751	7 533
Total expenditure		17 956	15 378	17 589	15 124
Profit before recoveries and impairment losses on loans and advances		21 331	18 662	20 893	18 435
Recoveries on impaired loans and advances	12	1 344	512	1 344	512
Impairment losses on loans and advances	12	(2 014)	(728)	(2 014)	(728)
Profit before tax		20 661	18 446	20 223	18 219
Income tax expense	30	(6 132)	(5 740)	(6 002)	(5 678)
Profit for the year		14 529	12 706	14 221	12 541
Other comprehensive income					
<i>Items that will not be reclassified subsequently to profit or loss</i>					
Surplus on revaluation of properties	29	1 901	898	1 901	898
Deferred tax on revalued assets	17	1 033	1 706	1 033	1 706
<i>Items that may be reclassified subsequently to profit or loss</i>					
Fair value movement on available for sale assets	7	19	183	19	183
Total other comprehensive income		2 953	2 787	2 953	2 787
Total comprehensive income for the year		17 482	15 493	17 174	15 328
Profit attributable to:					
Equity holders of the company	31	14 505	12 679	14 221	12 541
Non-controlling interests		24	27	-	-
		14 529	12 706	14 221	12 541
Comprehensive income attributable to:					
Equity holders of the company		17 458	15 466	17 174	15 328
Non-controlling interests		24	27	-	-
		17 482	15 493	17 174	15 328
Earnings per share (K)	31	<u>31.06</u>	<u>27.15</u>		
Diluted earnings per share (K)	31	<u>31.06</u>	<u>27.15</u>		
Dividend per share (K)	32	<u>11.55</u>	<u>10.49</u>		

Statements of changes in equity

For the year ended 31 December 2014

	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
GROUP									
2013									
As at 1 January 2013	467	613	632	-	3 785	16 051	21 548	19	21 567
Total comprehensive income	-	-	-	183	2 604	12 679	15 466	27	15 493
Transfer on disposal of PPE	-	-	-	-	(11)	11	-	-	-
Transfer of excess depreciation	-	-	-	-	(148)	148	-	-	-
Transfer to loan loss reserve	-	-	(632)	-	-	632	-	-	-
2012 final dividend proposed and paid	-	-	-	-	-	(1 498)	(1 498)	-	(1 498)
2013 first interim dividend proposed and paid	-	-	-	-	-	(1 998)	(1 998)	-	(1 998)
2013 second interim dividend proposed and unpaid (note 24)	-	-	-	-	-	(1 401)	(1 401)	-	(1 401)
As at 31 December 2013	467	613	-	183	6 230	24 624	32 117	46	32 163
2014									
As at 1 January 2014	467	613	-	183	6 230	24 624	32 117	46	32 163
Total comprehensive income	-	-	-	19	2 934	14 505	17 458	24	17 482
Transfer of excess depreciation	-	-	-	-	(49)	49	-	-	-
Transfer to loan loss reserve	-	-	1 077	-	-	(1 077)	-	-	-
Dividend paid to minority shareholders	-	-	-	-	-	-	-	(11)	(11)
2013 Final dividend proposed and paid	-	-	-	-	-	(2 895)	(2 895)	-	(2 895)
2014 First interim dividend proposed and paid	-	-	-	-	-	(2 498)	(2 498)	-	(2 498)
As at 31 December 2014	467	613	1 077	202	9 115	32 708	44 182	59	44 241

Statements of changes in equity (Continued)
For the year ended 31 December 2014

	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
COMPANY							
2013							
As at 1 January 2013	467	613	632	-	3 785	15 995	21 492
Total comprehensive income	-	-	-	183	2 604	12 541	15 328
Transfer on disposal of PPE	-	-	-	-	(11)	11	-
Transfer of excess depreciation	-	-	-	-	(148)	148	-
Transfer from loan loss reserve	-	-	(632)	-	-	632	-
2012 final dividend proposed and paid	-	-	-	-	-	(1 498)	(1 498)
2013 first interim dividend proposed and paid	-	-	-	-	-	(1 998)	(1 998)
2013 second interim dividend proposed and unpaid (note 23)	-	-	-	-	-	(1 401)	(1 401)
As at 31 December 2013	467	613	-	183	6 230	24 430	31 923
2014							
As at 1 January 2014	467	613	-	183	6 230	24 430	31 923
Total comprehensive income	-	-	-	19	2 934	14 221	17 174
Transfer of excess depreciation	-	-	-	-	(49)	49	-
Transfer to loan loss reserve	-	-	1 077	-	-	(1 077)	-
2013 Final interim dividend proposed and paid	-	-	-	-	-	(2 895)	(2 895)
2014 First interim dividend proposed and paid	-	-	-	-	-	(2 498)	(2 498)
As at 31 December 2014	467	613	1 077	202	9 115	32 230	43 704

Statements of changes in equity (Continued)

For the year ended 31 December 2014

	2014 K'm	2013 K'm
ANALYSIS OF SHARE CAPITAL		
<u>Authorised</u>		
500,000,000 Ordinary Shares of K1 each	500	500
<u>Issued and fully paid</u>		
466,931,738 Ordinary Shares of K1 each	467	467

	GROUP & COMPANY	
	2014 K'm	2013 K'm
LOAN LOSS RESERVE		
1% general provision	803	-
16.67% additional quarterly provision	274	-
Loan loss reserve	1 077	-

The 1% general provision against risk assets and 16.67% additional quarterly provision against non performing secured lending, 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.

	GROUP		COMPANY	
	2014 K'm	2013 K'm	2014 K'm	2013 K'm
Cash flows from operating activities				
Profit before tax	20 661	18 446	20 223	18 219
Adjustments for:				
• Depreciation	2 056	1 732	2 045	1 721
• Profit on disposal of property plant and equipment	(65)	(69)	(57)	(69)
• Gain on disposal of equity investments	(6)	(36)	-	(18)
• Net gains on financial instruments classified as held for trading	(686)	(646)	(683)	(646)
• Dividend receivable	(104)	(43)	(135)	(42)
• Net fair value gain on revaluation of properties	(616)	(396)	(616)	(406)
• Share of profits of associate	(97)	(80)	-	-
• Increase in customer deposits	21 112	36 375	17 456	31 968
• Increase in other liabilities and provisions	7 481	2 422	7 453	2 385
• (Increase)/decrease in loans and advances	(16 404)	83	(16 393)	72
• Increase in other assets	(12 013)	(4 012)	(12 131)	(4 130)
Cash generated from operations	21 319	53 776	17 161	49 054
Taxation paid	(5 831)	(4 930)	(5 743)	(4 898)
Net cash flow from operating activities	15 488	48 846	11 418	44 156
Cash flows from investing activities				
Increase in investments with maturity over three months	(11 175)	(10 983)	(11 101)	(10 743)
Purchase of property plant and equipment	(3 628)	(3 600)	(3 543)	(3 594)
Proceeds from disposal of property plant and equipment	918	117	900	117
Purchase of equity investments	(310)	(154)	(310)	(154)
Proceeds from disposal of equity investments	24	50	-	50
Dividends received	104	43	135	42
Net cash flow from investing activities	(14 067)	(14 527)	(13 919)	(14 282)
Cash flows from financing activities				
(Repayments)/proceeds from borrowings	(2 766)	4 953	(2 766)	4 953
Dividends paid	(5 404)	(3 496)	(5 393)	(3 496)
Net cash used in /(from) financing activities	(8 170)	1 457	(8 159)	1 457
Net (decrease)/increase in cash and cash equivalents	(6 749)	35 776	(10 660)	31 331
Cash and cash equivalents at beginning of the year	65 441	29 665	60 940	29 609
Cash and cash equivalents at end of the year (note 35)	58 692	65 441	50 280	60 940

Notes to the financial statements

31 December 2014

1. General information

National Bank of Malawi Group (the Group) provides retail, corporate and investment banking as well as stockbroking and insurance services in Malawi. The Group has a network of 30 (2013: 30) 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 Group has adopted those new and revised Standards and Interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee of the International Accounting Standards Board that are relevant to its operations and are effective for annual reporting periods beginning on 1 January 2014.

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

2.2 Standards and Interpretations in issue, not yet effective

At the date of authorisation of these financial statements, the following relevant Standards and Interpretations were in issue but not yet effective:

Pronouncement	Issued	Effective date
IFRS 2 Share Based Payments <ul style="list-style-type: none"> Amendments resulting to <i>Annual Improvements 2010-2012 Cycle</i> (Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition') 	December 2013	Annual periods beginning on or after 1 July 2014
IFRS 3 Business Combinations <ul style="list-style-type: none"> Amendments resulting to <i>Annual Improvements 2010-2012 Cycle</i> (Requires fair value measurement for contingent consideration at each reporting date) Annual Improvements 2011-2013 Cycle (Clarifies exclusion from its scope the accounting for the formation of a joint arrangement) 	December 2013	Annual periods beginning on or after 1 July 2014
IFRS 5 Non-current Assets Held and Discontinued Operation <ul style="list-style-type: none"> Amendments resulting from <i>Annual Improvements 2012-2014 Cycle</i> (Clarifies the reclassification of an asset from held for sale to held for distribution or vice versa.) 	September 2014	Annual periods beginning on or after 1 July 2016
IFRS 7 Financial Instrument; Disclosure <ul style="list-style-type: none"> Amendments resulting from <i>Annual Improvements 2012-2014</i> (Clarifies on offsetting disclosures.) 	September 2014	Annual periods beginning on or after 1 July 2016

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

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

Pronouncement	Issued	Effective date
IFRS 8 Operating Segments <ul style="list-style-type: none"> Amendments resulting to Annual Improvements 2010-2012 Cycle (Requires disclosure of the judgments made by management) 	December 2013	Annual periods beginning on or after 1 July 2014
IFRS 9 Financial Instrument: Disclosures <ul style="list-style-type: none"> Contains accounting requirements for financial instruments, replacing IAS 39 <i>Financial Instruments: Recognition and Measurement</i> 	November 2013	Annual periods beginning on or after 1 January 2018
IFRS 10 Consolidated Financial Statements <ul style="list-style-type: none"> Clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture. 	September 2014	Annual period beginning on or after 1 January 2016
<ul style="list-style-type: none"> Consolidation exception for investment entities 	December 2014	Annual period beginning on or after 1 January 2016
IFRS 11 Joint Arrangements <ul style="list-style-type: none"> Requires an acquirer of an interest in a joint operation in which the activity constitutes a business to apply all of the business combination accounting principles and disclose information required by IFRSs for business combination. 	May 2014	Annual periods beginning on or after 1 January 2016
IFRS 12 Disclosure of Interests in Other Entities <ul style="list-style-type: none"> Consolidation exception for investment entities 	December 2014	Annual period beginning on or after 1 January 2016
IFRS 13 Fair Value Measurement <ul style="list-style-type: none"> Amendments resulting from <i>Annual Improvements 2010-2012 Cycle</i> (Clarifies measurement of certain short-term receivables and payables on an undiscounted basis) 	December 2013	Annual periods beginning on or after 1 July 2014
<ul style="list-style-type: none"> Annual Improvements 2011-2013 Cycle (Clarifies scope of the portfolio exception in paragraph 52) 	December 2013	Annual periods beginning on or after 1 July 2014
IFRS 15 Revenue from Contracts with Customers <ul style="list-style-type: none"> Provides a single, principles based five-step model to be applied to all contracts with customers 	May 2014	Applicable to an entity's first annual IFRS Financial statements for a period beginning on or after 1 January 2017

Notes to the financial statements (Continued)

31 December 2014

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

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

Pronouncement	Issued	Effective date
<p>IAS 1 Presentation of Financial Statements</p> <ul style="list-style-type: none"> Amendments resulting from <i>Annual Improvements 2012-2014 (Amendments to address perceived impediments to preparers exercising their judgments in presenting their Financial reports)</i> 	September 2014	Annual periods beginning on or after 1 July 2016
<p>IAS 16 Property, Plant and Equipment</p> <ul style="list-style-type: none"> Amendments resulting from <i>Annual Improvements 2010-2012 Cycle</i> (proportionate restatement of accumulated depreciation on revaluation) Amends the definition of a bearer plant and requires biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with this standard 	December 2013 June 2014	Annual periods beginning on or after 1 July 2014 Annual periods beginning on or after 1 January 2016
<p>IAS 19 Employee Benefits</p> <ul style="list-style-type: none"> Amendments clarifies the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. Amendments resulting from <i>Annual Improvements 2012-2014 (Clarifies high quality bonds used in estimating the discount rate)</i> 	November 2013 September 2014	Annual periods beginning on or after 1 July 2014 Annual periods beginning on or after 1 July 2016
<p>IAS 24 Related Party Disclosures</p> <ul style="list-style-type: none"> Amendments resulting from <i>Annual Improvements 2010-2012 Cycle</i> (management entities) 	December 2013	Annual periods beginning on or after 1 July 2014
<p>IAS 27 Separate Financial Statements</p> <ul style="list-style-type: none"> Amends to permit investments in subsidiaries, joint ventures and associate to be optionally accounted for using the equity method. 	August 2014	Annual periods beginning on or after 1 January 2016
<p>IAS 28 Investment in Associate and Joint Ventures</p> <ul style="list-style-type: none"> Clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture. Consolidation exception for investment entities 	September 2014 December 2014	Annual period beginning on or after 1 January 2016 Annual period beginning on or after 1 January 2016

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

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

Pronouncement	Issued	Effective date
IAS 34 Interim Financial Reporting <ul style="list-style-type: none"> Amendments resulting from <i>Annual Improvements 2012-2014 (Clarifies the meaning of 'elsewhere in the interim report' and require a cross reference.)</i> 	September 2014	Annual periods beginning on or after 1 July 2016
IAS 38 Intangible Assets <ul style="list-style-type: none"> Amendments resulting <i>Annual Improvements 2010-2012 Cycle</i> (proportionate restatement of accumulated depreciation on revaluation) 	December 2013	Annual periods beginning on or after 1 July 2014
IAS 40 Investment Property <ul style="list-style-type: none"> Amendments resulting from <i>Annual Improvements 2011-2013 Cycle</i> (interrelationship between IFRS 3 and IAS 40) 	December 2013	Annual periods beginning on or after 1 July 2014
IAS 41 Agriculture <ul style="list-style-type: none"> Clarifies that produce growing on bearer plants remains within the scope of IAS 41 	June 2014	Annual periods beginning on or after 1 January 2016

The directors anticipate that other than IFRS 9, these Standards and Interpretations in future periods will have no significant impact on the financial statements of the group. IFRS 9 will impact the measurement of financial instruments.

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. No other procedures are adopted to reflect the impact on the financial statements of specific price changes or changes in the general level of prices. The principal accounting policies of the Group, which are set out below, have been consistently followed in all material respects, unless otherwise stated.

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

3.1 Basis of consolidation

The consolidated financial statements incorporate the financial

statements of the Group and its subsidiaries, Stockbrokers Malawi Limited, NBM Capital Markets Limited and NBM Bureau de Change Limited. The Group financial statements also incorporate results of associated companies.

National Bank of Malawi Nominees Limited and NBM Securities Limited are dormant subsidiaries and are not consolidated.

a. Subsidiaries

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2014. 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.

3. Accounting policies (Continued)

3.1 Basis of consolidation (Continued)

a. Subsidiaries (Continued)

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

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

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

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into 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 of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interest of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of

non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

b. Associates

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

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

3.2 Comparatives

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

3.3 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.

3. Accounting policies (Continued)

3.3 Financial assets (Continued)

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

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 entity upon initial recognition designates as at fair value through profit or loss;
- b. those that the Group upon initial recognition designates as available for sale; or
- c. those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

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

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

iii. Held-to-maturity investments

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

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

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

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

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

iv. Available-for-sale investments

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

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

v. Recognition

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

3. Accounting policies (Continued)

3.3 Financial assets (Continued)

vi. Derecognition (Continued)

(that is, if substantially all the risks and rewards have not been transferred, the Group tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

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

vii. Reclassification of financial assets

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

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

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

3.4 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.

3.5 Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included

in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest rate method. Securities lent to counterparties are also retained in the financial statements.

3.6 Impairment of financial assets

a. Assets carried at amortised cost

The Group assesses at each year-end 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)

3.6 Impairment of financial assets (Continued)

a. Assets carried at amortised cost (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 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. Assets carried at fair value

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

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

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

3. Accounting policies (Continued)

3.7 Property, plant and equipment (Continued)

Land and buildings comprise mainly service centres and offices.

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

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

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

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

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

Freehold land and capital work in progress are not depreciated.

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

3.8 Intangible assets

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

3.9 Leases

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

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 so as 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 so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

b. The Group as lessee

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

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

3.10 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.

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. Accounting policies (Continued)

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

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

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

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

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

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

3.12 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.

3.13 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. Restructuring

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

b. Onerous contracts

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

c. Warranties

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

3.14 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.

3. Accounting policies (Continued)

a. Assets carried at amortised cost (Continued)

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 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.

3.15 *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.

3.16 *Employee benefits*

a. Pension obligations – Defined Contribution Plan

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

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

b. Short-term benefits

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

3.17 *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.

3.18 *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

3. Accounting policies (Continued)

3.18 Financial liabilities and equity (Continued)

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, 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.

3.19 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.

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

Dividend income

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

Premium on foreign exchange deals

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

3.20 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 Company's Directors.

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

Dividend per share

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

Earnings per share

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

3.21 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 entity's accounting policies and that have significant effect on the amounts recognised in financial statements.

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. Impairment losses on loans and advances

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

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

Key assumptions used:

- a. Cash flows arising from repayment agreement are aggregated over yearly intervals and assumed to arise at the end of the period;
- b. Where there is an agreement but no security in place and cash flows in the subsequent years are doubtful, total future estimated cash flows are assumed to be nil;
- c. Unsupported guarantees are assumed to result in nil cash flows;
- d. No cash flows are assumed to arise where there is no repayment agreement and no security and repayments are erratic or unpredictable; and
- e. Cash flows arising from security realisation have been assumed to arise at the end of the calendar year in which they are expected.

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 15.

iv. Residual values and useful lives of tangible assets

The residual values and useful lives of property, plant and equipment are reviewed and adjusted, if appropriate, at each 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.

	GROUP		COMPANY	
	2014 K'm	2013 K'm	2014 K'm	2013 K'm
5. Cash and funds with Reserve Bank of Malawi				
Cash	8 535	6 597	8 535	6 621
Balances with the Reserve Bank of Malawi	20 457	12 233	20 457	12 233
Total cash and funds with Reserve Bank of Malawi	28 992	18 830	28 992	18 854

The currency analysis of cash is in note 38(e).

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 38(e) and 38(g).

	GROUP		COMPANY	
	2014 K'm	2013 K'm	2014 K'm	2013 K'm
6. Government of Malawi treasury bills and Reserve Bank of Malawi bonds				
	Average interest rates			
	2014	2013		
Government of Malawi treasury bills	21.0%	23.6%	22 209	4 891
Reserve Bank of Malawi bonds	9.7%	15.4%	1 314	3 318
			23 523	8 209
The bills and bonds are due to mature as follows:				
• Within three months			9 351	2 152
• Between three months and one year			13 602	4 809
• Over one year			570	1 248
			23 523	8 209

Government of Malawi treasury bills and Reserve Bank of Malawi bonds are denominated in Malawi Kwacha and are held to maturity.

7. Government of Malawi promissory notes

2013		Carrying amount K'm	Fair value K'm	Fair value gain K'm
Promissory notes	Maturity date			
Number 1	30 June 2014	2 116	2 135	19
Number 2	30 June 2015	4 233	4 302	69
Number 3	30 June 2016	4 233	4 328	95
Total		10 582	10 765	183
2014				
Number 2	30 June 2015	2 117	2 703	586
Number 3	30 June 2016	4 233	3 849	(384)
Total		6 350	6 552	202

Notes to the financial statements (Continued)

31 December 2014

7. Government of Malawi promissory notes (Continued)

In February 2013, the Government of Malawi issued promissory notes to settle its indebtedness in respect of Government Guaranteed loans in the market including interest. The total exposure of the Bank at that date was K16.9 billion. The Bank accepted the promissory notes to settle the Government Guaranteed loans effective 1 February 2013. The notes attract interest at the rate of the earliest 91 day Treasury bill yield during each quarter plus 2%. Interest of K2,116m (2013: K4,143m) has been recognised in the statement of comprehensive income. During 2013, the Bank sold the certificate maturing in 2017 representing 25% of the whole investment. This resulted in the remaining promissory notes being re-categorised as available

for sale assets. The carrying value of the closing book was K6,350m (2013: K10,582m). The investment has been presented at fair value which has been determined by computing the net present value of the future cash flows using the effective interest rate method. This fair value presentation results in a K19m (2013: K183m) increase in value when compared with the carrying value which has been recognised in other comprehensive income in accordance with IAS 39. The cumulative fair value increase is K202m.

The fair value level has been disclosed under note 37.

8. Equity investments

GROUP – 2014	2013 K'm	Additions/ (disposals) K'm	Fair value adjustment K'm	2014 K'm	Cost K'm
<u>First Merchant Bank Limited</u> 5 259 790 (2013: 7 209 720) Ordinary shares of K2.50 each at a market value of K18.96 (2013: K15.00) per share	78	1	21	100	46
<u>Illovo Sugar (Malawi) Limited</u> 1 470 626 (2013: 1 597 386) Ordinary shares of K0.02 each at a market value of K294.20 (2013: K287.00) per share	458	(37)	12	433	167
<u>NICO Holdings Limited</u> 14 300 000 (2013: 10 000 000) Ordinary shares of K0.20 each at a market value of K32.50 (2013: K17.80) per share	178	94	192	464	128
<u>Malawi Property Investment Company Limited</u> 8 588 580 (2013: 8 532 748) Ordinary shares of K0.05 each at a market value of K4.02 (2013: K2.00) per share	17	-	17	34	28
<u>National Investment Trust Limited</u> 6 358 565 (2013: 6 312 345) Ordinary shares of K1.00 each at a market value of K41.50 (2013: K29.50) per share	186	2	76	264	144
<u>NBS Bank Limited</u> 15 501 550 (2013: 9 736 953) Ordinary shares of K0.50 each at a market value of K27.00 (2012: K61.00) per share	156	95	168	419	202
<u>Standard Bank of Malawi Limited</u> 940 817 (2013: 901 686) Ordinary shares of K1.00 each at market value of K425.00 (2013: K400.00) per share	360	(15)	54	399	115
<u>Sunbird Malawi Limited</u> 1 000 000 (2013: 1 000 000) Ordinary shares of K0.05 each at a market value of K8.00 (2012: K7.00) per share	7	-	1	8	9
<u>Telekom Networks Malawi Limited</u> 88 350 194 (2013: 63 345 512) Ordinary shares of K0.04 each at a market value of K4.09 (2013: K2.14) per share	137	80	145	362	203
Total equity investments	1 577	220	686	2 483	1 042

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

8. Equity investments (Continued)

COMPANY – 2014	2013 K'm	Additions/ (disposals) K'm	Fair value adjustment K'm	2014 K'm	Cost K'm
<u>First Merchant Bank Limited</u> 5,259,790 (2013: 7 209 720) Ordinary shares of K2.50 each at a market value of K18.96 (2013: K15.00) per share	78	1	21	100	46
<u>Illovo Sugar (Malawi) Limited</u> 1 470 626 (2013: 1 470 626) Ordinary shares of K0.02 each at a market value of K294.20 (2013: K287.00) per share	421	-	12	433	167
<u>NICO Holdings Limited</u> 14 300 000 (2013: 10 000 000) Ordinary shares of K0.20 each at a market value of K32.50 (2013: K17.80) per share	178	94	192	464	128
<u>Malawi Property Investment Company Limited</u> 8 588 580 (2013: 8 532 748) Ordinary shares of K0.05 each at a market value of K4.02 (2013: K2.00) per share	17	-	17	34	28
<u>National Investment Trust Limited</u> 6 358 565 (2013: 6 312 345) Ordinary shares of K1.00 each at a market value of K41.50 (2013: K29.50) per share	186	2	76	264	144
<u>NBS Bank Limited</u> 15 501 550 (2013: 9 736 953) Ordinary shares of K0.50 each at a market value of K27.00 (2012: K61.00) per share	156	95	168	419	202
<u>Standard Bank of Malawi Limited</u> 838 155 (2013: 740 929) Ordinary shares of K1.00 each at market value of K425.00 (2013: K400.00) per share	296	9	51	356	74
<u>Sunbird Malawi Limited</u> 1 000 000 (2013: 1 000 000) Ordinary shares of K0.05 each at a market value of K8.00 (2012: K7.00) per share	7	-	1	8	9
<u>Telekom Networks Malawi Limited</u> 88 350 194 (2013: 63 345 512) Ordinary shares of K0.04 each at a market value of K4.09 (2013: K2.14) per share	137	80	145	362	203
Total equity investments	1 476	281	683	2 440	1 001

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

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:

	Level 1 K'm	Level 2 K'm	Level 3 K'm	Fair value 2014 K'm
Equity investments in listed companies	2 440	-	-	2 440

	Level 1 K'm	Level 2 K'm	Level 3 K'm	Fair value 2013 K'm
Equity investments in listed companies	1 476	-	-	1 476

Notes to the financial statements (Continued)

31 December 2014

	GROUP		COMPANY	
	2014 K'm	2013 K'm	2014 K'm	2013 K'm
9. Investment in associates				
Purchase consideration	123	123	123	123
Additional investment	110	110	110	110
Share of accumulated results	221	147	-	-
	<u>454</u>	<u>380</u>	<u>233</u>	<u>233</u>
Assets	4 862	3 197		
Liabilities	(3 312)	(1 923)		
Net assets	<u>1 550</u>	<u>1 274</u>		
Group's share of net assets of associates	<u>403</u>	<u>331</u>		
Total revenue	<u>3 426</u>	<u>2 604</u>		
Total profit for the period	<u>286</u>	<u>272</u>		

The Bank holds 26% (2013: 26%) of United General Insurance Limited share capital. The additional investment of K110m was in preference share capital and therefore did not affect the percentage of ordinary shares held by the Company.

10. Investment in subsidiaries

	COMPANY	
	2014 K'm	2013 K'm
Stockbrokers Malawi Limited	98	98
NBM Bureau de Change Limited	7	27
National Bank Capital Markets Limited	17	17
Total investment in subsidiaries	<u>122</u>	<u>142</u>

The Bank, through National Bank Nominees Limited, holds 75% (2013: 75%) stake in Stockbrokers Malawi Limited. The Bank also holds a 100% (2013: 100%) stake in NBM Bureau de Change Limited and a 100% (2013: 100%) stake in NBM Capital Markets Limited. NBM Bureau de Change ceased operations in October 2013.

	GROUP AND COMPANY	
	2014 K'm	2013 K'm
11. Placements with other banks		
Money market placements with other banks	2 771	8 663
Balances due from other banks	23 745	25 121
Total placements with other banks	26 516	33 784
Placements with other banks are denominated in the following currencies:		
	Average interest rates	
	2014	2013
Malawi Kwacha denominated	24.19%	n/a
US Dollar denominated	0.50%	0.50%
GBP denominated	1.75%	1.75%
Euro denominated	0.50%	0.50%
ZAR denominated	4.00%	4.00%
Other	-	-
	925	-
	18 331	25 996
	3 979	4 161
	976	3 098
	557	322
	1 748	212
	26 516	33 784

Money market placements with other banks are held to maturity and mature within one month (2013: one month) of the year end.

	GROUP		COMPANY	
	2014 K'm	2013 K'm	2014 K'm	2013 K'm
12. Loans and advances				
Gross loans and advances	79 838	61 838	79 838	61 849
Staff loans	1 315	2 508	1 315	2 508
Total loans and advances	81 153	64 346	81 153	64 347
Specific provisions	(1 831)	(1 428)	(1 831)	(1 428)
Net loans and advances	79 322	62 918	79 322	62 929
Due to mature as follows:				
• Within three months	8 384	21 927	8 384	21 938
• Between three months and one year	36 487	19 905	36 487	19 905
• After one year and not later than five years	37 258	23 051	37 258	23 051
• Interest in suspense	(976)	(537)	(976)	(537)
	81 153	64 346	81 153	64 357
Analysis of gross loans by currency				
Malawi Kwacha denominated	58 293	50 566	58 293	50 577
US Dollar denominated	22 860	13 780	22 860	13 780
	81 153	64 346	81 153	64 357

The Malawi Kwacha base lending rate for the bank as at 31 December 2014 was 37% (2013: 40.0%) and US Dollar denominated loans carried an average interest rate of 9.0% (2013: 8.8%).

Notes to the financial statements (Continued)

31 December 2014

	GROUP		COMPANY	
	2014 K'm	2013 K'm	2014 K'm	2013 K'm
12. Loans and advances (Continued)				
Movement on specific provisions				
At beginning of the year	1 428	950	1 428	950
Applied against advances	(303)	(381)	(303)	(381)
Charged to statements of comprehensive income	2 014	728	2 014	728
Staff loans fair value adjustment	(999)	239	(999)	239
Recovered	(309)	(108)	(309)	(108)
At end of the year	1 831	1 428	1 831	1 428
Movement on interest in suspense				
At beginning of the year	537	221	537	221
Applied against advances	(1 404)	(408)	(1 404)	(408)
Suspended in the year	2 062	752	2 062	752
Recovered	(219)	(28)	(219)	(28)
At end of the year	976	537	976	537
Analysis of recoveries				
Specific provisions	309	108	309	108
Interest in suspense	219	28	219	28
Debts previously written off	816	376	816	376
Transferred to statement of comprehensive income	1 344	512	1 344	512

	GROUP AND COMPANY	
	2014 K'm	2013 K'm
Finance lease receivables		
Gross investment in finance lease receivable:		
• Within three months	73	87
• Between three months and one year	486	785
• After one year and not later than five years	11 576	6 466
	12 135	7 338
Unearned future income on finance leases	(4 212)	(2 302)
	7 923	5 036
Specific provisions	(128)	(89)
Net investment in finance leases	7 795	4 947
The net investment in finance leases matures as follows:		
• Within three months	70	80
• Between three months and one year	437	683
• After one year and not later than five years	7 288	4 184
	7 795	4 947

	GROUP		COMPANY	
	2014 K'm	2013 K'm	2014 K'm	2013 K'm
13. Other money market deposits				
Balances with discount houses	8 412	13 039	-	8 514
Balances with discount houses are held to maturity and mature within one month (2013: one month) after the year-end. The deposits earned an average interest rate of 24.0% (2013: 24.7%).				
14. Other assets				
Letters of credit	17 391	9 860	17 391	9 860
Sundry receivables and prepayments	4 127	2 913	4 042	2 831
Due from local banks	3 976	1 095	3 976	1 095
Employee benefit subsidy	1 304	-	1 304	-
Other investments	42	42	42	42
Specific provision	(1 906)	(1 172)	(1 906)	(1 172)
Total other assets	24 934	12 738	24 849	12 656

In accordance with IAS 19 Employee Benefits, the fair value adjustment of staff loans is required to be recognized as an asset representing future employee benefit to be expensed as and when the employees render their services. In previous years, the adjustment was being recognised immediately in profit and loss. In the current year, the correction (refer note 27) has resulted in a reversal of K1 billion (K239m and K450m were recognised in profit or loss in 2013 and 2012, respectively, and the remaining balance was expensed in the years prior to 2012), and the recognition of an employee benefit subsidy asset (K1.3 billion) which will be amortised over the term of the loans. Staff loans balance which has been shown on note 12, is net of the employee subsidy. Prior year comparatives have not been restated as the amounts were deemed not to be material.

Notes to the financial statements (Continued)

31 December 2014

	Freehold land and buildings K'm	Leasehold land and buildings K'm	Motor vehicles and equipment K'm	Work in progress K'm	Total K'm
15. Property, plant and equipment					
COMPANY					
COST OR VALUATION					
At 1 January 2013	10 309	2 117	6 690	186	19 302
Additions	394	65	1 874	322	2 655
Transfer from work in progress	-	60	-	(60)	-
Disposals	-	(11)	(255)	-	(266)
Revaluation surplus	1 043	129	-	-	1 172
At 1 January 2014	11 746	2 360	8 309	448	22 863
Additions	108	-	1 867	481	2 456
Transfer from work in progress	192	543	29	(764)	-
Disposals	(11)	-	(1 555)	-	(1 555)
Transfer from NBM Bureau	-	-	5	-	5
Write offs	-	-	(50)	-	(50)
Revaluation surplus	1 952	340	-	-	2 292
At 31 December 2014	13 998	3 243	8 605	165	26 011
DEPRECIATION					
At 1 January 2013	-	-	3 981	-	3 981
Charge for the year	121	12	1 480	-	1 613
Elimination on revaluation	(121)	(11)	-	-	(132)
Elimination on disposal	-	(1)	(217)	-	(218)
At 1 January 2014	-	-	5 244	-	5 244
Charge for the year	184	95	1 586	-	1 865
Elimination on revaluation	(184)	(41)	-	-	(225)
Elimination on disposal	-	-	(717)	-	(717)
Elimination on write offs	-	-	(48)	-	(48)
At 31 December 2013	-	54	6 065	-	6 119
CARRYING AMOUNT					
At 31 December 2014	13 998	3 189	2 540	165	19 891
At 31 December 2013	11 746	2 360	3 065	448	17 619

	2014 K'm	2013 K'm
15. Property, plant and equipment (Continued)		
Carrying amount - GROUP		
Total property plant and equipment	19 984	17 650
Land and buildings		
Cost or valuation at end of the year (excluding capital work in progress) comprises the following:		
Freehold - at 2014 valuation	13 998	-
- at 2013 valuation	-	11 746
Total freehold land and buildings	13 998	11 746
Leasehold - at 2014 valuation	3 243	-
- at 2013 valuation	-	2 360
Total leasehold land and buildings	3 243	2 360

Included in the property plant and equipment in subsidiary companies are motor vehicles and office equipment with a gross value of K92m (2013: K59m).

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

	Related parties K'm	Others K'm	2014 K'm	2013 K'm
Motor vehicles	445	50	495	498

Bottling and Brewing Group Limited are related parties to whom the Bank is leasing out motor vehicles which were purchased at a cost of K1,895m (2013: K1,599m) respectively.

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	-	4 years

The register of land and buildings is open for inspection at the registered office of the Bank.

15. Property, plant and equipment (Continued)

Valuations in 2014

Land and buildings were fair valued as at 31 December 2014 by Knight Frank, qualified independent valuers. The valuation of the Business Centre and Office Complex resulted in a fair value gain of K714m. Out of the K2,517m total revaluation surplus, K616m 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 K1,901m was credited to the revaluation reserve through the statement of other comprehensive income (refer note 29). The basis of the valuations was current market value.

Details of the land and buildings at fair value and information about the fair value hierarchy as at 31 December 2014 are as follows:

	Level 1 K'm	Level 2 K'm	Level 3 K'm	Fair value 2014 K'm
Freehold land and buildings	-	13 998	-	13 998
Leasehold land and buildings	-	3 189	-	3 189

Had land and buildings been carried at historical cost less depreciation and accumulated impairment losses, their carrying value would have been approximately K8 890m (2013: K9 120m).

	Development costs K'm	Computer software K'm	Work in progress K'm	Total K'm
16. Intangible assets				
COMPANY AND GROUP				
COST OR VALUATION				
At 1 January 2013	326	1 378	900	2 604
Additions	-	132	807	939
At 1 January 2014	326	1 510	1 707	3 543
Additions	-	-	1 087	1 087
Transfer from work in progress	-	181	(181)	-
Write offs	-	(3)	-	(3)
At 31 December 2014	326	1 688	2 613	4 627
DEPRECIATION				
At 1 January 2013	318	204	-	522
Charge for the year	2	107	-	109
At 1 January 2014	320	311	-	631
Charge for the year	2	178	-	180
Write offs	-	(3)	-	(3)
At 31 December 2014	322	486	-	808
CARRYING AMOUNTS				
31 December 2014	4	1 202	2 613	3 819
31 December 2013	6	1 199	1 707	2 912

	Opening balance K'm	Charge to income K'm	Charged to equity K'm	Closing balance K'm
17. Deferred tax				
GROUP				
2013				
Accelerated capital allowances	(421)	(54)	-	(475)
Revaluation of fixed assets	721	(122)	1 706	2 305
Other temporary differences	834	(164)	-	670
Total deferred tax	1 134	(340)	1 706	2 500
2014				
Accelerated capital allowances	(475)	124	-	(351)
Revaluation of fixed assets	2 305	(185)	1 033	3 153
Other temporary differences	670	(50)	-	620
Total deferred tax	2 500	(111)	1 033	3 422
COMPANY				
2013				
Accelerated capital allowances	(421)	(55)	-	(476)
Revaluation of fixed assets	721	(122)	1 706	2 305
Other temporary differences	834	(164)	-	670
Total deferred tax	1 134	(341)	1 706	2 499
2014				
Accelerated capital allowances	(476)	126	-	(350)
Revaluation of fixed assets	2 305	(185)	1 033	3 153
Other temporary differences	670	(59)	-	611
Total deferred tax	2 499	(118)	1 033	3 414

Notes to the financial statements (Continued)

31 December 2014

	GROUP		COMPANY	
	2014 K'm	2013 K'm	2014 K'm	2013 K'm
18. Customer deposits				
	Average interest rates			
	2014	2013		
Analysis by account type:				
Current accounts	0.57%	0.67%	55 237	41 916
Foreign currency accounts	0.50%	0.50%	40 871	41 873
Savings accounts	7.84%	9.00%	23 711	17 555
Deposit accounts	14.08%	15.64%	17 635	18 085
Client funds	14.08%	15.64%	7 513	4 426
			-	-
Total customer deposits			144 967	123 855
			136 937	119 481
Analysis by interest risk type:				
Interest bearing deposits			143 771	121 599
Non-interest bearing deposits			1 196	2 256
			144 967	123 855
			136 937	119 481
All interest bearing accounts, excluding deposit accounts, are at floating rates that are adjusted at the Bank's discretion (note 38(d)).				
Analysis by interest maturity:				
Customer deposits are payable as follows:				
• Within three months			142 298	121 460
• Between three months and one year			2 669	2 395
			144 967	123 855
			136 937	119 481
Analysis by sector:				
Agriculture			187	4 999
Manufacturing			5 764	3 549
Wholesale and retail			13 613	9 178
Finance and insurance			9 161	5 799
Personal accounts			35 884	63 011
Construction			1 673	2 554
Electricity gas water and energy			5 277	10 063
Transport storage and communications			4 626	5 018
Restaurant and hotels			688	1 150
Client funds			7 513	4 426
Other			60 581	14 108
			-	-
Total			144 967	123 855
			136 937	119 481

The currency analysis of customer deposits is included in note 38(e).

	GROUP AND COMPANY	
	2014	2013
	K'm	K'm
19. Amounts due to other banks		
Liabilities in Malawi Kwacha	5 037	38
Liabilities in foreign currency	136	46
Bills in suspense in foreign currency	55	128
Total amounts due to other banks	5 228	212

	GROUP		COMPANY	
	2014	2013	2014	2013
	K'm	K'm	K'm	K'm
20. Current income tax liabilities				
Opening balance	1 740	1 303	1 743	1 304
Current charge	6 021	5 400	5 884	5 337
Tax paid	(5 831)	(4 930)	(5 743)	(4 898)
Prior period over provision	-	(33)	-	-
Closing balance	1 930	1 740	1 884	1 743

21. Loans

In 2012, the Bank signed an agreement for an unsecured facility of USD20m from Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (FMO) of the Netherlands for the purpose of on lending to exporting US Dollar earning small and medium-sized enterprises in sectors other than tobacco. As at 31 December 2014 USD20m had been drawn down. Of this amount, USD8.3m had been repaid as per loan agreement leaving an outstanding balance of USD11.7m which is repayable over the next two years. The interest rate on the outstanding loan balance is adjustable quarterly and is at the rate of LIBOR plus 4%.

	GROUP AND COMPANY	
	2014	2013
	K'm	K'm
Amounts repayable within one year	3 203	2 783
Amount repayable after one year	2 379	5 565
	5 582	8 348

Notes to the financial statements (Continued)

31 December 2014

	Employee bonus K'm	Tevet levy K'm	Total K'm
22. Provisions			
GROUP			
2014			
At 1 January 2014	1 953	22	1 975
Provisions made during the year	2 581	59	2 640
Payments made during the year	(1 939)	(59)	(1 998)
At 31 December 2014	2 595	22	2 617
2013			
At 1 January 2013	1 757	15	1 772
Provisions made during the year	2 515	46	2 561
Payments made during the year	(2 319)	(39)	(2 358)
At 31 December 2013	1 953	22	1 975
COMPANY			
2014			
At 1 January 2014	1 931	22	1 953
Provisions made during the year	2 506	58	2 564
Payments made during the year	(1 905)	(59)	(1 964)
At 31 December 2014	2 532	21	2 553
2013			
At 1 January 2013	1 750	15	1 765
Provisions made during the year	2 493	46	2 539
Payments made during the year	(2 312)	(39)	(2 351)
At 31 December 2013	1 931	22	1 953

	GROUP		COMPANY	
	2014 K'm	2013 K'm	2014 K'm	2013 K'm
23. Other liabilities				
Letters of credit	17 426	9 860	17 426	9 860
Unclaimed balances	396	1 157	396	1 157
Bank cheques	1 059	502	1 059	502
Office accounts	326	293	326	293
Dividends payable	-	1 401	-	1 401
Other liabilities	4 641	3 796	4 578	3 719
Total other liabilities	23 848	17 009	23 785	16 932

The currency analysis of other liabilities is included in note 38(e).

24. Pension scheme

The pension fund, which is managed internally, is a fully defined contribution scheme. The respective contributions of employees and the employer are 5.5% (2013: 5.5%) and 11.0% (2013: 11.0%) of the fund members' basic pensionable salaries, respectively. The amount charged against income during the year was K558m (2013: K523m).

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 are yet to be approved by the Reserve Bank of Malawi. The General Fund represents a reserve from which all other benefits are paid including administration expenses and bonuses.

The Pension Fund is a self-accounting Trust whose assets are not available to the 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 K155m (2013: K130m) in rentals for such properties during the year.

The Fund was valued by independent actuaries, Alexander Forbes, as 31 December 2013. As per the actuarial valuation, the General Fund had a surplus of K1 903m and the Special Fund had a deficit of K4 391m.

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. The directors are also of the opinion that following these changes the actuarial valuation report as at 31 December 2014 will confirm the falling away of the deficit on the Special Fund. However, pending the new actuarial report that should among other matters guide the trustees on how the idle funds remaining in the Special Fund may be utilised, the net deficit of K2 488m on the two funds has been disclosed as a contingent liability in note 33.

	GROUP		COMPANY	
	2014 K'm	2013 K'm	2014 K'm	2013 K'm
Interest and similar income				
Interest on loans and advances and bills discounted	16 966	16 958	16 970	16 974
Income from investments	6 030	5 733	6 028	5 730
Income from lease financing	2 253	1 862	2 253	1 862
Interest on placements with other banks	224	455	157	416
	25 473	25 008	25 408	24 982
Interest expense and similar charges				
Banks and customers	3 436	3 787	3 436	3 787
Money market loans and repos	337	1 503	337	1 503
	3 773	5 290	3 773	5 290
Net interest income	21 700	19 718	21 635	19 692

Notes to the financial statements (Continued)

31 December 2014

26. Commission and fee income

	GROUP		COMPANY	
	2014 K'm	2013 K'm	2014 K'm	2013 K'm
Commissions	5 304	4 332	4 655	4 008
Arrangement and other fee income	1 576	1 305	1 576	1 305
Premium on foreign exchange dealings	-	163	-	163
Other income	552	469	544	467
Total commission and fee income	7 432	6 269	6 775	5 943

27. Staff costs

Salaries and wages	4 209	3 457	4 141	3 385
Other staff costs	1 615	992	1 578	952
Staff loans fair value adjustment (note 14)	(999)	239	(999)	239
Staff bonus	2 581	2 515	2 506	2 493
Severance pay	62	5	62	5
Pension costs	558	523	550	514
Contract gratuity expense	-	3	-	3
Total staff costs	8 026	7 734	7 838	7 591

28. Other operating expenditure

Other costs	4 376	3 007	4 238	2 945
Recurrent expenditure on premises and equipment	3 055	2 578	3 041	2 554
Depreciation	1 876	1 623	1 864	1 612
Amortisation of intangible assets	180	109	180	10
Legal charges	61	72	61	71
Auditor's remuneration including VAT and expenses	77	67	64	56
Directors' remuneration:				
- fees for services as directors	28	17	26	15
- for managerial services	277	171	277	171
Total other operating expenditure	9 930	7 644	9 751	7 533

29. Properties fair value gains

Fair value gains on Business Centre and Office Complex	714	388	714	388
Fair value gains on other properties	(98)	18	(98)	18
Total fair value gains through statement of comprehensive income	616	406	616	406
Fair value gains on properties included in other comprehensive income	1 901	898	1 901	898
Total properties fair value gains (note 15)	2 517	1 304	2 517	1 304

	GROUP		COMPANY	
	2014 K'm	2013 K'm	2014 K'm	2013 K'm
30. Income tax expense				
Income tax	6 021	5 400	5 884	5 337
Deferred tax	111	340	118	341
Total income tax expense	6 132	5 740	6 002	5 678
Reconciliation of rate of tax	%	%	%	%
Standard rate of taxation	30	30	30	30
Permanent differences	-	1	-	1
Effective rate of taxation	30	31	30	31

31. 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	
	2014	2013
Profit attributable to equity holders of the Company (K'millions)	14 505	12 679
Net profit used to determine diluted earnings per share (K' millions)	14 505	12 679
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)	31.06	27.15

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	
	2014	2013
Profit attributable to equity holders of the Company (K'millions)	14 505	12 679
Net profit used to determine diluted earnings per share (K'millions)	14 505	12 679
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)	31.06	27.15

Notes to the financial statements (Continued)

31 December 2014

	GROUP AND COMPANY	
	2014 K'm	2013 K'm
32. Dividend per share		
Final dividend (prior year)	2 895	1 498
First interim dividend (current year)	2 498	1 998
Second interim dividend (current year)	-	1 401
	<u>5 393</u>	<u>4 897</u>
Weighted average number of Ordinary Shares in issue (millions)	<u>467</u>	<u>467</u>
Dividend per share	<u>11.55</u>	<u>10.49</u>

The proposed current year final dividend is K4 700m (2013: K2 900m) representing K10.06 per share (2013: K6.21 per share).

33. Contingencies

Guarantees

Foreign guarantees	52	213
Local guarantees and performance bonds	1 086	1 479
Total contingencies from guarantees	<u>1 138</u>	<u>1 692</u>

Other contingencies

Legal claims	847	828
Net deficit on NBM Pension Fund (note 24)	2 488	-

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 K472m (2013: 428m).

Refer to note 24 for details of the contingency relating to the net deficit on NBM Pension Fund.

	GROUP		COMPANY	
	2014 K'm	2013 K'm	2014 K'm	2013 K'm
34. Commitments				
Expenditure contracted for but not yet incurred	186	823	186	823
Expenditure approved by the Board but not contracted	1 699	3 047	1 699	3 047
Total commitments	<u>1 855</u>	<u>3 870</u>	<u>1 855</u>	<u>3 870</u>
35. Cash and cash equivalents				
Cash and funds with Reserve Bank of Malawi (note 5)	28 992	18 830	28 992	18 854
Placements with other banks (note 11)	26 516	33 784	26 516	33 784
Other money market deposits (note 13)	8 412	13 039	-	8 514
Amounts due to other banks	(5 228)	(212)	(5 228)	(212)
Total cash and cash equivalents	<u>58 692</u>	<u>65 441</u>	<u>50 280</u>	<u>60 940</u>

36. 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								
2013								
Assets								
Cash and bank balances with Reserve Bank of Malawi	5	18 830	-	-	-	-	18 830	18 830
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	-	8 209	-	-	-	8 209	8 209
Government of Malawi promissory notes	7	-	-	10 765	-	-	10 765	10 765
Equity investments	8	1 577	-	-	-	-	1 577	1 577
Placements with other banks	11	-	-	-	33 784	-	33 784	33 784
Loans and advances to customers	12	-	-	-	62 918	-	62 918	62 918
Other money market deposits	13	-	-	-	13 039	-	13 039	13 039
Other assets	14	-	-	-	12 738	-	12 738	12 738
Total financial assets		20 407	8 209	10 765	122 479	-	161 860	161 860
Liabilities and equity								
Long-term borrowing		-	-	-	-	8 348	8 348	8 348
Customer deposits	18	-	-	-	-	123 855	123 855	123 855
Amounts due to other banks		-	-	-	-	212	212	212
Provisions	22	-	-	-	-	1 975	1 975	1 975
Other liabilities	23	-	-	-	-	17 009	17 009	17 009
Total financial liabilities		-	-	-	-	151 399	151 399	151 399
GROUP								
2014								
Assets								
Cash and bank balances with Reserve Bank of Malawi	5	28 992	-	-	-	-	28 992	28 992
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	-	23 523	-	-	-	23 523	23 523
Government of Malawi promissory notes	7	-	-	6 552	-	-	6 552	6 552
Equity investments	8	2 483	-	-	-	-	2 383	2 483
Placements with other banks	11	-	-	-	26 516	-	26 516	26 516
Loans and advances to customers	12	-	-	-	79 322	-	79 322	79 322
Other money market deposits	13	-	-	-	8 412	-	8 412	8 412
Other assets	14	-	-	-	24 934	-	24 934	24 934
Total financial assets		31 475	23 523	6 552	139 184	-	200 634	200 634
Liabilities and equity								
Long-term borrowing		-	-	-	-	5 582	5 582	5 582
Customer deposits	18	-	-	-	-	144 967	144 967	144 967
Amounts due to other banks		-	-	-	-	5 228	5 228	5 228
Provisions	22	-	-	-	-	2 617	2 617	2 617
Other liabilities	23	-	-	-	-	23 848	23 848	23 848
Total financial liabilities		-	-	-	-	182 242	182 242	182 242

Notes to the financial statements (Continued)

31 December 2014

36. 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								
2013								
Assets								
Cash and bank balances with Reserve Bank of Malawi	5	18 854	-	-	-	-	18 854	18 854
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	-	8 209	-	-	-	8 209	8 209
Government of Malawi Promissory notes	7	-	-	10 765	-	-	10 765	10 765
Equity investments	8	1 476	-	-	-	-	1 476	1 476
Placements with other banks	11	-	-	-	33 784	-	33 784	33 784
Loans and advances to customers	12	-	-	-	62 929	-	62 929	62 929
Other money market deposits	13	-	-	-	8 613	-	8 613	8 613
Other assets	14	-	-	-	12 656	-	12 656	12 656
Total financial assets		20 330	8 209	10 765	117 982	-	157 286	157 286
Liabilities and equity								
Long term borrowing		-	-	-	-	8 348	8 348	8 348
Customer deposits	18	-	-	-	-	119 481	119 481	119 481
Amounts due to other banks		-	-	-	-	212	212	212
Provisions	22	-	-	-	-	1 953	1 953	1 953
Other liabilities	23	-	-	-	-	16 932	16 932	16 932
Total financial liabilities		-	-	-	-	146 926	146 926	146 926
COMPANY								
2014								
Assets								
Cash and bank balances with Reserve Bank of Malawi	5	28 992	-	-	-	-	28 992	28 992
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	-	23 523	-	-	-	23 523	23 523
Government of Malawi Promissory notes	7	-	-	6 552	-	-	6 552	6 552
Equity investments	8	2 440	-	-	-	-	2 440	2 440
Placements with other banks	11	-	-	-	26 516	-	26 516	26 516
Loans and advances to customers	12	-	-	-	79 322	-	79 322	79 322
Other assets	14	-	-	-	24 849	-	24 849	24 849
Total financial assets		31 432	23 523	6 552	130 687	-	192 194	192 194
Liabilities and equity								
Long term borrowing		-	-	-	-	5 582	5 582	5 582
Customer deposits	18	-	-	-	-	136 937	136 937	136 937
Amounts due to other banks		-	-	-	-	5 228	5 228	5 228
Provisions	22	-	-	-	-	2 553	2 553	2 553
Other liabilities	23	-	-	-	-	23 785	23 785	23 785
Total financial liabilities		-	-	-	-	174 085	174 085	174 085

37. Fair value measurements

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

37.1 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.

37.2 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	
	2014 K'm	2013 K'm
Financial assets at fair value through profit or loss Non-derivative financial assets held for trading Level 1	2 483	1 577

	COMPANY	
	2014 K'm	2013 K'm
Financial assets at fair value through profit or loss Non-derivative financial assets held for trading Level 1	2 440	1 476

37. Fair value measurements (Continued)

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

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

Group

Financial assets/financial liabilities	Fair value		Fair value hierarchy	Valuation technique(s) and key input(s)
	2014 K'm	2013 K'm		
Equity investments	2 483	1 577	Level 1	Quoted prices
Malawi Government Promissory notes	6 552	10 765	Level 2	Discounted cash flows using applicable interest rates and agreed repayment plan
	<u>9 035</u>	<u>12 342</u>		

37.4 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 recognized in the consolidated financial statements approximate their fair values.

	2014		2013	
	Carrying amount K'm	Fair value K'm	Carrying amount K'm	Fair value K'm
Group				
Financial assets				
<i>Held to maturity</i>				
Government of Malawi Treasury Bills	23 523	23 523	8 209	8 209
<i>Loan and receivables</i>				
Placement with other banks	26 516	26 516	33 784	33 784
Loans and advances to customers	79 322	79 322	62 918	62 918
Other money market deposits	8 412	8 412	13 039	13 039
Other assets	24 934	24 934	12 738	12 738
Total	<u>162 707</u>	<u>162 707</u>	<u>130 688</u>	<u>130 688</u>
Financial liabilities				
<i>Financial liabilities held at amortised cost</i>				
Long term borrowing	5 582	5 582	8 348	8 348
Customer deposits	144 967	144 967	123 855	123 885
Amounts due to other banks	5 228	5 228	212	212
Provisions	2 617	2 617	1 975	1 975
Other liabilities	23 848	23 848	17 009	17 009
Total	<u>182 242</u>	<u>182 242</u>	<u>151 399</u>	<u>151 399</u>

37. Fair value measurements (Continued)

37.4 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) (Continued)

	2014		2013	
	Carrying amount K'm	Fair value K'm	Carrying amount K'm	Fair value K'm
Company				
Financial assets				
<i>Held to maturity</i>				
Government of Malawi Treasury Bills	23 523	23 523	8 209	8 209
<i>Loan and receivables</i>				
Placement with other banks	26 516	26 516	33 784	33 784
Loans and advances to customers	79 322	79 322	62 929	62 918
Other money market deposits	-	-	8 514	8 514
Other assets	24 849	24 849	12 656	12 656
Total	154 210	154 210	126 092	126 092
Financial liabilities				
<i>Financial liabilities held at amortised cost</i>				
Long term borrowing	5 582	5 582	8 348	8 348
Customer deposits	136 937	136 937	119 481	119 481
Amounts due to other banks	5 228	5 228	212	212
Provisions	2 553	2 553	1 953	1 953
Other liabilities	23 785	23 785	16 932	16 932
Total	174 085	174 085	146 926	146 926

	Fair value hierarchy - 2014		
	Level 1 K'm	Level 2 K'm	Total K'm
Group			
Financial assets			
<i>Held to Maturity</i>			
Government of Malawi Treasury Bills	-	23 523	23 523
<i>Loan and receivables</i>			
Placement with other banks	26 516	-	26 516
Loans and advances to customers	-	79 322	79 322
Other money market deposits	-	8 412	8 412
Other assets	-	24 934	24 934
Total	26 516	136 191	162 707
Financial liabilities			
<i>Financial liabilities held at amortised cost</i>			
Long term borrowing	-	5 582	5 582
Customer deposits	-	144 967	144 967
Amounts due to other Banks	-	5 228	5 228
Provisions	-	2 617	2 617
Other liabilities	-	23 848	23 848
Total	-	182 242	182 242

Notes to the financial statements (Continued)

31 December 2014

37. Fair value measurements (Continued)

37.4 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) (Continued)

	Fair value hierarchy - 2013		
	Level 1 K'm	Level 2 K'm	Total K'm
Group			
Financial assets			
<i>Held to Maturity</i>			
Government of Malawi Treasury Bills	-	8 209	8 209
<i>Loan and receivables</i>			
Placement with other banks	33 784	-	33 784
Loans and advances to customers	-	62 918	62 918
Other money market deposits	-	13 039	13 039
Other assets	-	12 738	12 738
Total	33 784	96 904	130 688
Financial liabilities			
<i>Financial liabilities held at amortised cost</i>			
Long term borrowing	-	8 348	8 348
Customer deposits	-	123 855	123 855
Amounts due to other Banks	-	212	212
Provisions	-	1 975	1 975
Other liabilities	-	17 009	17 009
Total	-	151 399	151 399

	Fair value hierarchy - 2014		
	Level 1 K'm	Level 2 K'm	Total K'm
Company			
Financial assets			
<i>Held to Maturity</i>			
Government of Malawi Treasury Bills	-	23 523	23 523
<i>Loan and receivables</i>			
Placement with other banks	26 516	-	26 516
Loans and advances to customers	-	79 322	79 322
Other assets	-	24 849	24 849
Total	26 516	127 694	154 210
Financial liabilities			
<i>Financial liabilities held at amortised cost</i>			
Long term borrowing	-	5 582	5 582
Customer deposits	-	136 937	136 937
Amounts due to other Banks	-	5 228	5 228
Provisions	-	2 553	2 553
Other liabilities	-	23 785	23 785
Total	-	174 085	174 085

37. Fair value measurements (Continued)

37.4 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) (Continued)

	Fair value hierarchy - 2013		
	Level 1 K'm	Level 2 K'm	Total K'm
Company			
Financial assets			
<i>Held to Maturity</i>			
Government of Malawi Treasury Bills	-	8 209	8 209
<i>Loan and receivables</i>			
Placement with other banks	33 784	-	33 784
Loans and advances to customers	-	62 929	62 929
Other money market deposits	-	8 514	8 514
Other assets	-	12 656	12 656
Total	33 784	92 308	126 092
Financial liabilities			
<i>Financial liabilities held at amortised cost</i>			
Long term borrowing	-	8 348	8 348
Customer deposits	-	119 481	119 481
Amounts due to other Banks	-	212	212
Provisions	-	1 953	1 953
Other liabilities	-	16 932	16 932
Total	-	146 926	146 926

38. 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 Bank obtains deposits from customers and invests the funds in different assets. Some of the financial assets include securities and loans to both commercial and retail borrowers. These are either on balance sheet or off balance sheet. Off balance sheet include guarantees and other commitments such as performance bonds. The Group is exposed to various risks arising from its transactions in financial instruments. These include credit risk, liquidity risk, market risk and currency risk. This section details the Risk governance structure and the overall process the Group has adopted to identify, measure, monitor and control these risks.

Risk management framework

The Group's main approach to risk management is to optimize the risk-reward trade-off and ensuring that it does not engage in business in a manner that unnecessarily imposes risk upon itself, nor does it absorb risk that can be transferred to other participants. The Board has overall responsibility for ensuring that risks are adequately identified, measured, monitored and managed. The Board develops the risk appetite and risk tolerance limits appropriate to the Group's strategy and requires that management maintain appropriate system of internal controls to ensure that these risks are managed within the agreed parameters. The Board delegates risk related responsibilities to four Board committees; the Risk Committee, the Credit Committee, the Audit Committee and the Appointments and Remuneration Committee.

The Board Risk Committee (BRC) has the overall responsibility for the risk management of the Bank. The BRC reviews and assesses the capital adequacy of the Group, effectiveness of the risk management control and ensuring that the Basel Capital Accord requirements are met as championed by the Reserve Bank of Malawi (RBM).

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

38. Financial risk management (Continued)**a. Introduction and overview (Continued)****Risk management framework (Continued)**

The Enterprise Risk Committee (ERCO) provides an integrated approach to the management of all risks of the Group at senior management level. Risk Division bears the responsibility on a day to day basis of providing independent risk control and management of operational, market, credit, information technology (IT), liquidity and compliance risks. In addition, the other management Committees such as the Asset and Liability Committee (ALCO), Credit, Operational Risk and IT Policy, are all responsible for developing and monitoring the Bank's risk management policies in their specified areas.

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

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

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

First line of defence	Second line of defence	Third line of defence
This includes the Business Unit management	Risk management function including compliance	Internal Audit
Identifies, assesses, evaluates, measures and controls risk exposures through the day-to-day activities of the business by appropriate internal controls within the overall control environment.	Sets frameworks within the parameters set by the Board. Provides independent oversight of the first line of defence.	Provides independent assessment of the adequacy and effectiveness of the overall design and operation of the frameworks and thereby providing the overall assurance.
Reports to management	Reports to management and Board Risk Committee	Reports to Board Audit Committee

b. Credit risk

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 three approaches in calculating required capital. These are; the Standardised Approach and the Internal Ratings Based (IRB) approaches. The IRB approach is further divided into two, the Foundation IRB approach and the Advanced IRB approach. The approaches are more aligned or biased towards the robustness of the internal risk management systems of the banks. The Reserve Bank of Malawi has prescribed that all banks be on the Standardised Approach on this initial adoption of Basel II. 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.

38. Financial risk management (Continued)**b. Credit risk (Continued)****Management of credit risk (Continued)**

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

It also oversees development, maintenance and review of the Group's risk gradings 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. Formulating credit policies and procedures as a general guide to lending in order to maintain credit risk exposure within acceptable parameters and in compliance with the Bank's risk strategy, legal, regulatory and statutory requirements;
- ii. Overseeing the granting and administration of credit i.e. assessment, approval, sanctioning, security perfection, monitoring, review, classification etc.;
- iii. Managing exposures to ensure aggregate credit commitments be they in form of single borrowers or counter parties, a group of connected counter parties, are maintained within acceptable concentration vis-à-vis the Bank's capital;
- iv. Monitoring compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types; and
- v. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Each Business Unit (BU) is required to implement the Bank's credit policies and procedures, within delegated credit approval authorities. Each business unit has a Head or Manager who is accountable for all credit related matters and reports as appropriate to Credit Management Division or the Credit Committee through Credit Management Division. Regular audits of business units and Credit processes are undertaken by the Internal Audit Division.

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.

38. Financial risk management (Continued)

b. Credit risk (Continued)

Gross maximum exposure

	GROUP		COMPANY	
	2014 K'm	2013 K'm	2014 K'm	2013 K'm
Balances with the Reserve Bank of Malawi	20 457	12 233	20 457	12 233
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	23 523	8 209	23 523	8 209
Government of Malawi Promissory notes	6 552	10 765	6 552	10 765
Placements with other banks	26 516	33 784	26 516	33 784
Loans and advances to customers	79 322	62 918	79 322	62 929
Other money market deposits	8 412	13 039	-	8 514
Other assets	24 934	12 738	24 849	12 656
Total recognised financial instruments	189 716	153 686	181 219	149 090
Guarantees and performance bonds	1 138	1 692	1 138	1 692
Loan commitments and other credit facilities	17 391	8 457	17 391	8 457
Total unrecognised financial instruments	18 529	10 149	18 529	10 149
Total credit exposure	208 245	163 835	199 748	159 239

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:

GROUP

	Carrying Amount K'm	Offset K'm	Net exposure to credit risk K'm
2013			
Balances with the Reserve Bank of Malawi	12 233	-	12 233
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	8 209	-	8 209
Government of Malawi promissory notes	10 765	-	10 765
Placements with other banks	33 784	-	33 784
Loans and advances to customers	62 918	-	62 918
Other money market deposits	13 039	-	13 039
Other assets	12 738	-	12 738
	153 686	-	153 686
2014			
Balances with the Reserve Bank of Malawi	20 457	-	20 457
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	23 523	-	23 523
Government of Malawi promissory notes	6 552	-	6 552
Placements with other banks	26 516	-	26 516
Loans and advances to customers	79 322	-	79 322
Other money market deposits	8 412	-	8 412
Other assets	24 934	-	24 934
	189 716	-	189 716

38. Financial risk management (Continued)**b. Credit risk (Continued)****COMPANY**

	Carrying Amount K'm	Offset K'm	Net exposure to credit risk K'm
2013			
Balances with the Reserve Bank of Malawi	12 233	-	12 233
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	8 209	-	8 209
Government of Malawi promissory notes	10 765	-	10 765
Placements with other banks	33 784	-	33 784
Loans and advances to customers	62 929	-	62 929
Other money market deposits	8 514	-	8 514
Other assets	12 656	-	12 656
	149 090	-	149 090
2014			
Balances with the Reserve Bank of Malawi	20 457	-	20 457
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	23 523	-	23 523
Government of Malawi promissory notes	6 552	-	6 552
Placements with other banks	26 516	-	26 516
Loans and advances to customers	79 322	-	79 322
Other assets	24 849	-	24 849
	181 219	-	181 219

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

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

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

Credit quality of loans and advances

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

38. Financial risk management (Continued)**b. Credit risk (Continued)**

	GROUP		COMPANY	
	2014 K'm	2013 K'm	2014 K'm	2013 K'm
Individually impaired:				
Grade 8: Impaired	971	1 712	971	1 712
Grade 9: Impaired	3 738	747	3 738	747
Gross amount	4 709	2 459	4 709	2 459
Allowance for impairment	(1 831)	(1 428)	(1 831)	(1 428)
Carrying amount	2 878	1 031	2 878	1 031
Past due but not impaired:				
Grade 7: Watch list	3 055	1 696	3 055	1 696
Neither past due nor impaired:				
Grade 1 – 3 Low risk	14 947	13 717	14 947	13 717
Grade 4 – 6 Fair risk	60 273	46 474	60 273	46 485
Total carrying amount	81 153	62 918	81 153	62 929

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 8 to 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 are a specific loss component that relates to individual significant exposures.

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.

38. Financial risk management (Continued)

b. Credit risk (Continued)

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		
	Gross K'm	Loans and advances to customers Allowance for Impairment K'm	Net K'm
2013			
Grade 8: Individually impaired	1 712	(681)	1 031
Grade 9: Individually impaired	747	(747)	-
Total	2 459	(1 428)	1 031
2014			
Grade 8: Individually impaired	971	-	971
Grade 9: Individually impaired	3 738	(1 831)	1 907
Total	4 709	(1 831)	2 878

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.

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

	GROUP AND COMPANY	
	2014 K'm	2013 K'm
<u>Against individually impaired</u>		
Motor vehicles	368	347
Commercial property	1 586	13
Residential property	701	557
Total	2 655	917
<u>Against the rest of the loan book</u>		
Motor vehicles	13 426	6 830
Commercial property	8 951	9 413
Residential property	25 107	20 395
Cash	2 467	3 374
Equities	4 196	228
Treasury Bills	25	41
Mortgages over farmland	3 841	3 186
Bank guarantees	142	302
Total	58 155	43 769
Grand total	60 810	44 686

38. Financial risk management (Continued)**b. Credit risk (Continued)****Collateral repossessed**

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

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	
	2014 K'm	2013 K'm	2014 K'm	2013 K'm
Concentration by sector				
Agriculture	16 433	10 434	16 433	10 434
Finance and Insurance	501	2 931	501	2 942
Manufacturing	20 270	13 738	20 270	13 738
Other	12 111	6 113	12 111	6 113
Transport and communication	-	6 464	-	6 464
Real estate	-	1 810	-	1 810
Personal	11 238	6 457	11 238	6 457
Wholesale and Retail	18 769	14 971	18 769	14 971
	79 322	62 918	79 322	62 929

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 that the Group will encounter difficulty in meeting obligations from its financial liabilities.

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 daily management of liquidity is entrusted to the Treasury and Financial Institutions Division (TFID) at Head Office. The TFID receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The TFID 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 TFID 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.

38. Financial risk management (Continued)

c. Liquidity Risk (Continued)

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:

	2014	2013
At 31 December	62%	66%
Average of the period	62%	60%
Maximum for the period	65%	66%
Minimum for the period	59%	54%

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

GROUP

	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
At 31 December 2013						
Financial assets						
Cash and funds with Reserve Bank of Malawi	18 830	-	-	-	18 830	18 830
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	2 152	-	4 809	1 248	8 209	8 209
Government of Malawi promissory notes	10 765	-	-	-	10 765	10 765
Equity investments	-	1 577	-	-	1 577	1 577
Placements with other banks	33 784	-	-	-	33 784	33 784
Loans and advances to customers	11 894	10 167	19 905	22 379	64 346	62 918
Other money markets deposits	13 039	-	-	-	13 039	13 039
Other assets	12 698	-	-	40	12 738	12 738
Total financial assets	103 163	11 744	24 714	23 667	163 288	161 860
Financial liabilities						
Long term borrowing	-	696	2 087	5 565	8 348	8 348
Customer deposits	117 428	4 065	2 189	174	123 855	123 855
Amounts due to other banks	212	-	-	-	212	212
Provisions	-	-	1 975	-	1 975	1 975
Other liabilities	17 009	-	-	-	17 009	17 009
Total financial liabilities	134 649	4 761	4 276	5 739	151 399	151 399
Contractual liquidity mismatch	(31 486)	6 984	18 463	17 928	11 889	10 461
Cumulative mismatch	(31 486)	(24 503)	(6 039)	11 889	-	-

Included in group balances are gross assets/liabilities and equity for the subsidiary company with carrying amounts totaling K171.9m (before elimination of group balances). As such, the separate analyses of the above are not materially different from the group analyses.

38. Financial risk management (Continued)

c. Liquidity Risk (Continued)

GROUP

	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
At 31 December 2014						
Financial assets						
Cash and funds with Reserve Bank of Malawi	28 992	-	-	-	28 992	28 992
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	-	9 351	13 601	571	23 523	23 523
Government of Malawi promissory notes	6 552	-	-	-	6 552	6 552
Equity investments	-	2 483	-	-	2 483	2 483
Placements with other banks	26 516	-	-	-	26 516	26 516
Loans and advances to customers	3 807	5 719	36 487	33 309	79 322	79 322
Other money markets deposits	8 412	-	-	-	8 412	8 412
Other assets	24 894	-	-	40	24 934	24 934
Total financial assets	99 173	17 553	50 088	33 920	200 734	200 734
Financial liabilities						
Long term borrowing	-	824	2 379	2 379	5 582	5 582
Customer deposits	130 259	12 039	2 650	19	144 967	144 967
Amounts due to other banks	5 228	-	-	-	5 228	5 228
Provisions	-	-	2 617	-	2 617	2 617
Other liabilities	7 980	10 698	5 170	-	23 848	23 848
Total financial liabilities	143 467	23 561	12 816	2 398	182 242	182 242
Contractual liquidity mismatch	(44 294)	(6 008)	37 272	31 552	18 492	18 492
Cumulative mismatch	(44 294)	(50 303)	(13 030)	18 492	-	-

Included in group balances are gross assets/liabilities and equity for subsidiary companies with carrying amounts totaling K753.9m (before elimination of group balances). As such, the separate analyses of the above are not materially different from the group analyses.

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

d. Market risk

Basel II defines market risk as risk of losses in and off-balance-sheet positions arising from movements in market prices. This covers firstly risks in the trading book for interest rate related instruments and equities and secondly foreign exchange risk and commodities risk throughout the bank. Two approaches under market risk are allowed; - the Standardised Approach and the Internal Models Approach. The Reserve Bank of Malawi has prescribed that all banks be on the Standardised Approach on this initial adoption of Basel II. The objective of market risk management is to manage and control risk exposures within acceptable parameters, while optimising the return on risk.

38. Financial risk management (Continued)**d. Market risk** (Continued)**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. Treasury and Financial Institutions Division is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to day review of their implementation.

Exposure of interest rate risk: non-trading portfolio

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

Notes to the financial statements (Continued)

31 December 2014

38. Financial risk management (Continued)

d. Market risk (Continued)

Exposure to 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:

GROUP

	Less than 1 month K'm	1-3 months K'm	3-12 months K'm	Non- Over 1 year K'm	interest sensitive K'm	Total K'm
2013						
Financial assets						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	18 830	18 830
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	2 152	-	4 809	1 248	-	8 209
Government of Malawi - Promissory notes	10 765	-	-	-	-	10 765
Equity investments	-	1 577	-	-	-	1 577
Placements with other banks	33 784	-	-	-	-	33 784
Loans and advances to customers	10 467	10 167	19 905	22 379	-	62 918
Other money market deposits	13 039	-	-	-	-	13 039
Other assets	-	-	-	-	12 738	12 738
Total financial assets	70 207	11 744	24 714	23 627	31 568	161 860
Financial liabilities						
Long term borrowing	-	696	2 087	5 565	-	8 348
Customer deposits	115 172	4 065	2 189	173	2 256	123 855
Amounts due to other banks	212	-	-	-	-	212
Provisions	-	-	-	-	1 975	1 975
Other liabilities	-	-	-	-	17 009	17 009
Total financial liabilities	115 384	4 760	4 276	5 739	21 240	151 399
Interest sensitivity gap	(45 177)	6 983	20 438	17 889	10 328	10 461
Cumulative gap	(45 177)	(38 193)	(17 755)	133	10 461	-
<i>Impact on profit of an increase in interest rates</i>						
+1%	(452)	70	204	179	-	1
+2%	(904)	140	408	358	-	2
+3%	(1 356)	210	612	537	-	3
<i>Impact on profit of a decrease in interest rates</i>						
-1%	452	(70)	(204)	(179)	-	(1)
-2%	904	(140)	(408)	(358)	-	(2)
-3%	1 356	(210)	(612)	(537)	-	(3)

Included in group balances are gross assets/liabilities and equity for the subsidiary company with carrying amounts totaling K171.9m (before elimination of group balances). As such, the separate analyses of the above are not materially different from the group analyses.

38. Financial risk management (Continued)**d. Market risk (Continued)****Exposure to interest rate risk: non-trading portfolio (Continued)****GROUP**

	Less than 1 month K'm	1-3 months K'm	3-12 months K'm	Non- Over 1 year K'm	interest sensitive K'm	Total K'm
2014						
Financial assets						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	28 992	28 992
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	-	9 351	13 601	571	-	23 523
Government of Malawi - Promissory notes	6 552	-	-	-	-	6 552
Equity investments	-	2 483	-	-	-	2 483
Placements with other banks	26 516	-	-	-	-	26 516
Loans and advances to customers	3 807	5 719	36 487	33 309	-	79 322
Other money market deposits	8 412	-	-	-	-	8 412
Other assets	-	-	-	-	24 934	24 934
Total financial assets	45 287	17 553	50 088	33 880	53 926	200 734
Financial liabilities						
Long term borrowing	-	824	2 379	2 379	-	5 582
Customer deposits	129 063	12 039	2 650	19	1 196	144 967
Amounts due to other banks	5 228	-	-	-	-	5 228
Provisions	-	-	-	-	2 617	2 617
Other liabilities	-	-	-	-	23 848	23 848
Total financial liabilities	134 291	12 863	5 029	2 398	27 662	181 718
Interest sensitivity gap	(89 004)	4 690	45 059	31 482	26 264	18 492
Cumulative gap	(89 004)	(84 314)	(39 255)	(7 773)	18 492	-
<i>Impact on profit of an increase in interest rates</i>						
+1%	(890)	47	451	315	-	1
+2%	(1 780)	94	902	630	-	2
+3%	(2 670)	141	1 353	945	-	3
<i>Impact on profit of a decrease in interest rates</i>						
-1%	890	(47)	(451)	(315)	-	(1)
-2%	1 780	(94)	(902)	(630)	-	(2)
-3%	2 670	(141)	(1 353)	(945)	-	(3)

Included in group balances are gross assets/liabilities and equity for the subsidiary company with carrying amounts totaling K753.9m (before elimination of group balances). As such the separate analyses of the above are not materially different from the group analyses.

38. Financial risk management (Continued)

e. Currency Risk

The Group had the following significant foreign currency positions:

GROUP

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
2013							
Financial assets							
Cash and funds with Reserve Bank of Malawi	11 706	5 178	738	1 141	56	11	18 830
Government of Malawi Treasury Bills and Reserve Bank of Malawi Bonds	8 209	-	-	-	-	-	8 209
Government of Malawi-Promissory notes	10 765	-	-	-	-	-	10 765
Equity investments	1 577	-	-	-	-	-	1 577
Placements with other banks	-	25 996	4 161	3 093	322	212	33 784
Loans and advances to customer	48 931	13 987	1	-	-	-	62 918
Other money market deposits	13 039	-	-	-	-	-	13 039
Other assets	2 878	9 102	-	494	112	152	12 738
Total financial assets	97 105	54 263	4 900	4 728	490	375	161 861
Financial liabilities							
Loans and borrowings	-	8 348	-	-	-	-	8 348
Customer deposits	81 925	33 253	4 652	3 746	230	50	123 855
Liabilities to other banks	166	46	-	-	-	-	212
Provisions	1 975	-	-	-	-	-	1 975
Other liabilities	6 160	9 723	125	519	328	153	17 009
Total financial liabilities	90 227	51 370	4 777	4 265	558	203	151 399
Net balance open position	6 878	2 893	123	463	(68)	172	10 461
<i>Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit</i>	-	(289)	(12)	(46)	7	(17)	(357)
<i>Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit</i>	-	289	12	46	(7)	17	357

Included in group balances are gross assets/liabilities and equity for the subsidiary company with carrying amounts totaling K171.9m (before elimination of group balances). As such, the separate analyses of the above are not materially different from the group analyses.

38. Financial risk management (Continued)

e. Currency Risk (Continued)

GROUP

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
2014							
Financial assets							
Cash and funds with Reserve Bank of Malawi	27 954	949	22	30	26	11	28 992
Government of Malawi Treasury Bills and Reserve Bank of Malawi Bonds	23 523	-	-	-	-	-	23 523
Government of Malawi-Promissory notes	6 552	-	-	-	-	-	6 552
Equity investments	2 483	-	-	-	-	-	2 483
Placements with other banks	925	18 330	3 979	976	557	1 748	26 516
Loans and advances to customer	56 461	22 860	-	-	-	-	79 322
Other money market deposits	8 412	-	-	-	-	-	8 412
Other assets	7 543	16 400	-	805	186	-	24 934
Total financial assets	133 854	58 539	4 001	1 811	770	1 759	200 734
Financial liabilities							
Loans and borrowings	-	5 582	-	-	-	-	5 582
Customer deposits	104 034	34 707	3 585	2 273	332	36	144 967
Liabilities to other banks	5 209	19	-	-	-	-	5 228
Provisions	2 617	-	-	-	-	-	2 617
Other liabilities	6 204	16 517	134	805	186	2	23 848
Total financial liabilities	118 064	56 826	3 718	3 079	518	38	182 242
Net balance open position	16 313	1 714	282	(1 267)	252	1 721	19 016
<i>Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit</i>	-	(171)	(28)	127	(25)	(172)	(269)
<i>Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit</i>	-	171	28	(127)	25	172	269

Included in group balances are gross assets/liabilities and equity for the subsidiary company with carrying amounts totaling K753.9m (before elimination of group balances). As such, the separate analyses of the above are not materially different from the group analyses.

38. 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.

Basel II provides three ways in which a bank can compute operational risk charge which are dependent on the Operational risk exposures. These are; - the Basic Indicator Approach (BIA), the Standardised Approach (SA) and the Alternate Standardised Approach (ASA). The Reserve Bank of Malawi has prescribed that all banks be on the Basic Indicator Approach on this initial adoption of Basel II. 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 management of Operational Risk Committee and Board Risk Committee and senior management of the Group.

g. Compliance risk

The risk of non-compliance with any statutory requirements of central or local government, including regulations imposed by the Reserve Bank of Malawi and other regulatory bodies.

The management of compliance risk has become a distinct discipline within the Group's overall risk management framework. Ultimate responsibility for this risk lies with the Board of Directors. A combination of key activities are undertaken to manage the risk such as identifying the regulatory universe and developing compliance management plans, training staff and other stakeholders on relevant regulatory requirements, and monitoring compliance. The Group has a dedicated Compliance Officer who consults the country's Financial Intelligence Unit on money laundering and anti-terrorist financing matters.

Money laundering control and occupational health and safety (including aspects of environment risk management) are managed within the compliance function and there are increasingly onerous legislative requirements being imposed in both areas. The Group has adopted anti-money laundering policies including Know Your Customer policies, and procedures, and adheres to the country's anti-money laundering legislation and Reserve Bank of Malawi regulations and directives.

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:

38. Financial risk management (Continued)**g. Compliance risk (Continued)****Statutory requirements (Continued)**Liquidity reserve requirement

The Bank is required to maintain a liquidity reserve with the Reserve Bank of Malawi equivalent to no less than 15.5% of total customer deposits. At the end of the year the liquidity reserve was equivalent to 61.31% (2013: 65.69%) of total customer deposits.

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

The 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 Bank's available capital was 21.9% (2013: 18.3%) of its risk bearing assets and contingent liabilities.

Prudential aspects of bank liquidity

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

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

Liquidity ratios

At the end of the year, the Bank's liquidity ratio I was 61.50% (2013: 65.9%) and liquidity ratio II was 61.3% (2013: 65.7%).

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 so as 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 individually regulated operations have complied with all externally imposed capital requirements throughout the period.

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

38. Financial risk management (Continued)**h. Capital management (Continued)**

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

	2014 K'm	2013 K'm
Tier 1 capital		
Ordinary share capital	467	467
Share premium	613	613
Retained earnings	26 542	19 414
Unconsolidated investments	(371)	(390)
Total regulatory (tier 1) capital	27 251	20 103
Supplementary capital		
Loan loss reserve	1 077	-
Available for sale reserve	202	183
Revaluation reserve	9 115	6 230
Total regulatory (tier 2) capital	37 645	26 516
Risk-weighted assets		
Retail bank corporate bank and treasury	170 788	144 555
Total risk-weighted assets	170 788	144 555
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	22%	18%
Total tier 1 capital expressed as a percentage of risk-weighted assets	16%	14%

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:

- Operational Risk – Basic Indicator Approach (BIA)
- Credit Risk – Standardized Approach (SA)
- 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.

38. Financial risk management (Continued)

j. Environmental and social risk

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

As a financial services group, it has both direct and indirect impacts on society and the environment. It manages its indirect impact by screening wholesale banking loans to ensure that the customers who borrow from it manage their social and environmental risks that are associated with their activities. It impacts directly on the environment in its daily business activities through its consumption of energy and other resources, and as such it has developed systems and processes to reduce its environmental footprint. In addition, it has raised environmental awareness among its stakeholders, particularly its employees and suppliers.

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

k. Reputational Risk Policy

In the year under review, the Group adopted the Reputational Risk Policy to guide and management at all levels the conduct of business and hence safeguard the Group's reputation as established by the Board and senior management.

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 therefore aim 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.

39. 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% (2013: 51.5%) of the Ordinary Shares. The Old Mutual Group owns 24.9% (2013: 24.9%) of the Ordinary Shares and the remaining 23.6% (2013: 23.6%) of the Ordinary Shares are widely held by individuals, corporate and institutional investors and are publicly traded on the Malawi Stock Exchange.

The ultimate holding entity of the Group is Press Trust. Press Trust owns 44.5% (2013: 44.5%) of Press Corporation Limited.

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.

39. Related party transactions (Continued)

Net outstanding balances as at 31 December 2014 with the shareholders and other related parties are as follows:

GROUP AND COMPANY

	Loans K'm	Deposits K'm	Net 2014 K'm	Net 2013 K'm
Press Corporation Limited and its subsidiaries	5 234	(2 033)	3 202	4 604
Old Mutual Group	-	(40)	(40)	(129)
Bottling and Brewing Group Limited	56	(24)	32	2 339
Limbe Leaf Tobacco Company Limited	543	(106)	437	(58)
Press Trust	-	-	-	(1)
Directors	197	(8)	189	34
Employees	2 727	(286)	2 441	2 399
National Bank of Malawi Pension Fund	-	(22)	(22)	(55)
Total related party balances	8 757	(2 519)	6 239	9 133

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 (2013: nil).

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

	GROUP AND COMPANY	
	2014 K'm	2013 K'm
Interest receivable		
Press Corporation Limited and its subsidiaries	1 587	2 584
Limbe Leaf Tobacco Company Limited	4	16
Directors	4	24
Employees	900	860
Average interest rate (%)	37	35
Operating lease income		
Malawi Telecommunication Limited	7	54
Bottling and Brewing Group Limited	598	529
Interest payable		
Press Corporation Limited and its subsidiaries	175	1
Old Mutual Group	-	13
Employees	728	18
Purchases		
Press Corporation Limited and its subsidiaries	304	327

	GROUP		COMPANY	
	2014 K'm	2013 K'm	2014 K'm	2013 K'm
Compensation of key management personnel				
Salaries bonus and benefits	1 828	730	1 782	698

No specific share options were offered to key management personnel during the year 31 December 2014 (2013: Nil). No shares were exercised by key management during the year ended 31 December 2014 (2013: Nil).

40. 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.

40. 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					
2014					
Total external income	21 081	7 003	14 861	1 458	44 403
Segment result	16 375	5 923	14 861	1 458	38 617
Unallocated income	-	-	-	-	-
Unallocated expenses	-	-	-	-	(17 956)
Profit before tax	-	-	-	-	20 661
Corporate tax	-	-	-	-	(6 132)
Group profit for the year	-	-	-	-	14 529
Other information					
Depreciation					
Unallocated depreciation	-	-	-	-	2 056
Revaluation surplus on property					
Unallocated fair value gain	-	-	-	-	616
Group					
Statement of financial position					
2014					
Segment assets	61 530	24 730	79 885	62 268	228 413
Unallocated assets	-	-	-	-	-
Total consolidated assets	61 530	24 730	79 885	62 268	228 413
Liabilities and equity					
Segment liabilities	72 356	23 711	46 099	42 006	184 172
Unallocated liabilities and equity	-	-	-	-	-
Total consolidated liabilities and equity	72 356	23 711	46 099	42 006	184 172
Other information					
Capital additions	-	-	-	-	-
Unallocated capital additions	-	-	-	-	44 241
Total	-	-	-	-	228 413

40. 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					
2013					
Total external income	19 727	4 369	14 162	1 072	39 330
Segment result	16 304	3 241	13 424	856	33 825
Unallocated income	-	-	-	-	-
Unallocated expenses	-	-	-	-	(15 380)
Profit before tax	-	-	-	-	18 446
Corporate tax	-	-	-	-	(5 740)
Group profit for the year	-	-	-	-	12 706
Other information					
Depreciation					
Unallocated depreciation	-	-	-	-	1 732
Revaluation surplus on property					
Unallocated fair value gain	-	-	-	-	406
Group					
Statement of financial position					
2013					
Segment assets	36 930	15 976	81 646	50 750	185 302
Unallocated assets	-	-	-	-	-
Total consolidated assets	36 930	15 976	81 646	50 750	185 302
Liabilities and equity					
Segment liabilities	59 450	17 555	50 434	25 700	153 139
Unallocated liabilities and equity	-	-	-	-	-
Total consolidated liabilities and equity	59 450	17 555	50 434	25 700	153 139
Other information					
Capital additions	-	-	-	-	-
Unallocated capital additions	-	-	-	-	32 163
Total	-	-	-	-	185 302

Notes to the financial statements (Continued)

31 December 2014

41. 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.

	2014	2013
Kwacha/GBP	779	742
Kwacha/Rand	44	45
Kwacha/US Dollar	495	449
Kwacha/Euro	603	625
Inflation (%) (December)	23.3	23.5

As at the date of approval of the financial statements, the above noted exchange rates had moved as follows:

Kwacha/GBP	635
Kwacha/Rand	37
Kwacha/US Dollar	435
Kwacha/Euro	<u>476</u>



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



Citibank, New York



Standard Chartered Bank, London



Deutsche Bank AG, Frankfurt

Deutsche Bank Trust Company Americas, New York (New)



ABSA Bank, Johannesburg

First National Bank, Johannesburg

Standard Bank, Johannesburg

Standard Chartered Bank, Tokyo

Bank of Montreal, Canada

Union Bank of Switzerland - Zurich

Commerz Bank, Frankfurt

Credit Suisse, Zurich

Bank of China, Beijing

As well as banks in India, Sweden, Denmark, Australia, Swaziland, Botswana, Kenya, and Zambia.

Map of Malawi – National Bank Service Centres



HEAD OFFICE and SERVICE CENTRES

HEAD OFFICE

(Chief Executive: George Partridge)
 P O Box 945, Blantyre,
 Tel: 01 820622, Fax: 01 820 321
 email: chiefexec@natbankmw.com
 Website: <http://www.natbank.co.mw>
 SWIFT: NBMAMWMW

HENDERSON STREET SERVICE CENTRE

(Manager: Jarvis Nkango)
 P O Box 102, Blantyre
 Tel: 01 821 000, Fax: 01 824 014
 SWIFT: NBMAMWMW001
 Email: hendersonstreet@natbankmw.com

VICTORIA AVENUE SERVICE CENTRE

(Manager: Moses Ganiza)
 P.O. Box 947
 Blantyre
 Tel: 01820199, Fax: 01 820 965
 SWIFT: NBMAMWMW002
 email: vicavenue@natbankmw.com

CHICHIRI SERVICE CENTRE

(Manager: Selwyn Mwanza)
 P.O. Box 30365
 Chichiri
 Blantyre 3
 Tel: 01870900, Fax: 01 871 168
 SWIFT: NBMAMWMW003
 email: chichiri@natbankmw.com

CUSTOMS ROAD SERVICE CENTRE

(Manager: Edith Sokosa (Mrs))
 P.O. Box 5045
 Limbe
 Tel: 01840133, Fax: 01 844 603
 SWIFT: NBMAMWMW004
 email: customs@natbankmw.com

ZOMBA SERVICE CENTRE

(Manager: Thom Chimkowola)
 P.O. Box 13
 Zomba
 Tel: 01524788, Fax: 01 524 749
 SWIFT: NBMAMWMW006
 email: zomba@natbankmw.com

CAPITAL CITY SERVICE CENTRE

(Manager: Charles Sawasawa)
 P.O. Box 30317
 Capital City
 Lilongwe 3
 Tel: 01770322, Fax: 01 774 979
 SWIFT: NBMAMWMW007
 email: capitalcity@natbankmw.com

LILONGWE SERVICE CENTRE

(Manager: George Nyirenda)
 P.O Box 123
 Lilongwe
 Tel: 01757016, Fax: 01 752 940
 SWIFT: NBMAMWMW008
 email: lilongwe@natbankmw.com

MZUZU SERVICE CENTRE

(Manager: Brian Chirwa)
 P.O Box 20
 Mzuzu
 Tel: 01 312 500/765/766, Fax: 01 312 467
 SWIFT: NBMAMWMW009
 email: mzuzu@natbankmw.com

MANGOCHI SERVICE CENTRE

(Manager: Eric Mdala)
 P.O Box 43
 Mangochi
 Tel: 01594322, Fax: 01 594 595
 SWIFT: NBMAMWMW010
 email: mangochi@natbankmw.com

KARONGA SERVICE CENTRE

(Manager: Franklin Banda)
 P.O Box 95
 Karonga
 Tel : 01362223, Fax: 01362431
 SWIFT: NBMAMWMW011
 email: karonga@natbankmw.com

KASUNGU SERVICE CENTRE

(Manager: Leonard Siula)
 P.O. Box 228
 Kasungu
 Tel: 01253224, Fax: 01253692
 SWIFT: NBMAMWMW012
 email: kasungu@natbankmw.com

MULANJE SERVICE CENTRE

(Manager: Liviness Mabedi (Mrs))
 Private Bag 19
 Mulanje
 Tel: 01466288, Fax: 01466406
 SWIFT: NBMAMWMW014
 email: mulanje@natbankmw.com

SOUTH END SERVICE CENTRE

(Manager: Nyembezi Matambo (Mrs))
 P O Box 236
 Lilongwe
 Tel.: 01727188, Fax: 01724242
 SWIFT: NBMAMWMW
 Email: southend@natbankmw.com

Copies of this report
may be obtained from
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NBM Towers
7 Henderson Street
P.O. Box 945
Blantyre

Tel: (265) 1 824 330 / (265) 1 820 622

Fax: (265) 1 820 606

Email: chiefexec@natbankmw.com

The report is also available on:

Website: www.natbank.co.mw

