



National Bank of Malawi

Annual  
Report  
2016





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Report  
2016



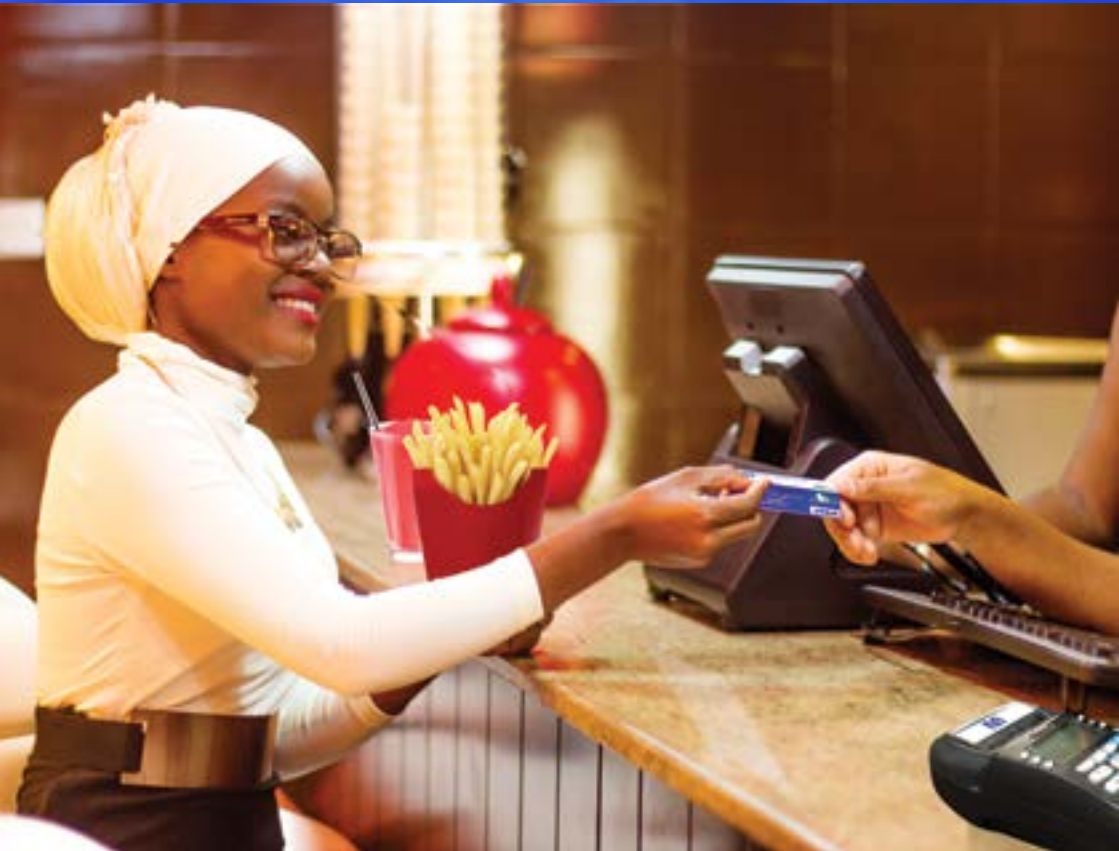
*Feel the bliss of cashless banking*



*Feel the bliss of  
cashless banking*

## NBM VISA CARD & MASTERCARD

Revealing the happy and trendy you as  
you pay for goods and services cashlessly.



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## MyFuel Card

Letting your smile go miles as  
you cashlessly pay for your fuel.





# VISION

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

## MISSION STATEMENT

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

## CORE VALUES

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

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



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

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

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

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

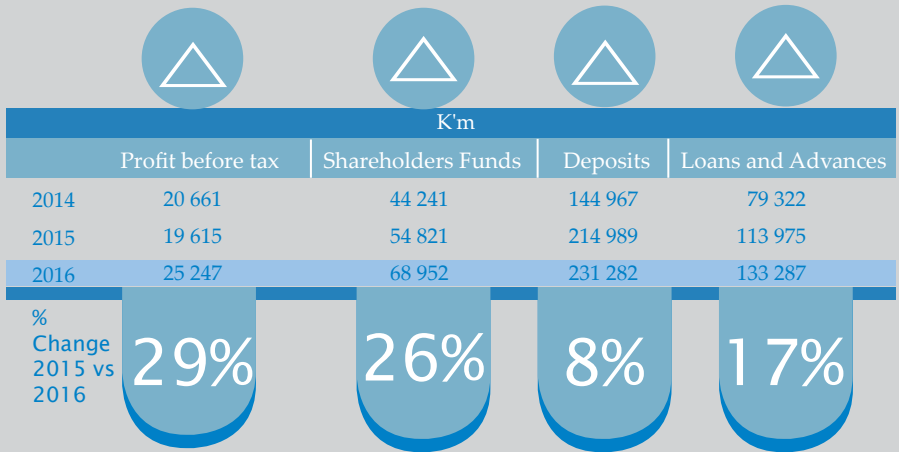


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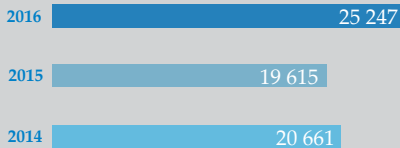
## Mo626*ice*

Making you bask in the happiness of doing banking transactions within your living space around the clock cashlessly.

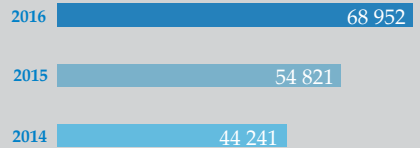




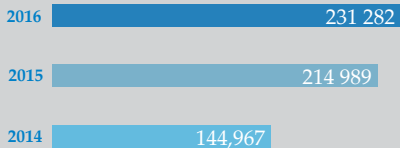
PROFIT BEFORE TAX (K'm)



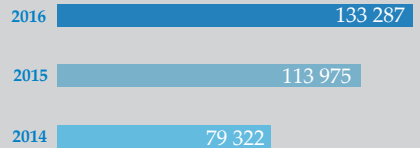
SHAREHOLDERS FUNDS (K'm)



DEPOSITS (K'M)



LOANS AND ADVANCES (K'M)





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## BankNet Online

Making you live in your own happy world as you do banking transactions within your living space around the clock cashlessly.



CURRENT DIRECTORS





FRONT SEATED (L-R)

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

**James Mhura**  
MBA, ACMA, B.Acc.  
DIRECTOR

STANDING (L-R)

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

**Damien Kafoteka**  
FCCA, B.Com  
(Accountancy), CA (M)  
DIRECTOR

**Maria Msiska**  
FCCA, CA (M), B.Com,  
MBL ( UNISA)  
DIRECTOR



## FRONT SEATED (L-R)

**Dr. Mathews A P Chikaonda**  
BA (HONS), MBA, PH.D.  
CHAIRMAN

**John Biziwick**  
B.Soc Sc (Econ),  
Msc (Econ)  
DIRECTOR

**Macfussy M Kawawa**  
B.ACC (HONS), FCCA,  
CA (MW), MBA  
DIRECTOR

## STANDING (L-R)

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

**Zunzo Mitole (Mrs)**  
LLB (Hons), MBA  
COMPANY SECRETARY  
& LEGAL COUNSEL

**Harold Jiya**  
B.Com, ACIB, MBA  
DIRECTOR

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



REPORT OF THE DIRECTORS



The directors report a consolidated profit before tax of K25 247m (2015: K19 615m) for the year.

The directors have pleasure in presenting the Consolidated and Separate Financial Statements of National Bank of Malawi (NBM) for the year ended 31 December 2016.

**CAPITAL**

The authorised share capital of the Bank is K500m (2015: K500m) divided into 500,000,000 Ordinary Shares of K1 each.

The issued capital is K467m (2015: K467m) divided into 466,931,738 (2015: 466,931,738) fully paid Ordinary Shares of K1 each.

The shareholders and their respective shareholdings are:

	2016 %	2015 %
Press Corporation Limited	51.5	51.5
Old Mutual Group	25.1	25.1
Members of the public	23.0	21.6
Employees (ESOS)	0.4	1.8
	100.0	100.0

**PROFIT AND DIVIDENDS**

The directors report a consolidated profit before tax of K25 247m (2015: K19 615m) for the year. A final dividend of K3 800m (2015: K3 200m) is proposed for the year. A first interim dividend of K3 007m (2015: K1 504m) was paid to shareholders on 30 September 2016. A second interim dividend of K1 500m (2015: nil) will be paid on 31st March, 2017.

**DIRECTORS**

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

Name	Tenure
Chikaonda, Dr. M A P	Chairman - All year
Mulipa, P P	Up to July 2016
Kambalame, E	All year
Partridge, Dr. G B	All year
Kawawa, M M	All year
Mafeni, E	All year
Kambalmetore, D J	Up to September 2016
Kafoteka, D	All year
Kachingwe, M	All year
Mhura, J	All year
Msiska, M	From May 2016
Biziwick, J	From September 2016



K31m

Charitable  
donations  
in 2016

## DIRECTORS' INTERESTS

The following directors held shares in the Bank as at 31 December 2016:

Mulipa, P P	20 367 (2015: 20 367) Ordinary Shares
Partridge, Dr. G B	826 507 (2015: 826 507) Ordinary Shares
Kawawa, M M	113 255 (2015: 113 255) Ordinary Shares
Biziwick, J	2 546 Ordinary Shares

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

## DONATIONS

During the year, the Group made charitable donations of K31m (2015: K85m).

## ACTIVITIES

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

**NBM  
TOWERS**

The Bank and its subsidiaries' registered offices and principal places of business are in Blantyre.



Subsidiaries of National Bank of Malawi	Percentage of control	Nature of operations
NBM Capital Markets Limited	100% (2015: 100%)	Investments and fund management
NBM Securities Limited	100% (2015:100%)	Dormant
National Bank of Malawi Nominees Limited	100% (2015:100%)	Holding of investments as nominee (Dormant)
Stockbrokers Malawi Limited	75% (2015:75%)	Registered stockbroker
NBM Bureau de Change Limited	100% (2015:100%)	Dormant
NBM Pension Administration Limited	100% (2015: 100%)	Pension administration
Indebank Limited	100% (2015: 97.05%)	Commercial banking (up to 30 April 2016)

**AREAS OF OPERATION**

The Group has 31 (2015:30) 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 2017.

BY ORDER OF THE BOARD

DIRECTOR  
Dr. G. B. Partridge

DIRECTOR  
M. Msiska

“

I am pleased to announce a group pre-tax profit of K25.2bn (2015: K19.6bn) representing a 29% increase on prior year. ”

Dr Mathews Chikaonda



14%

overall growth has been recorded in the Statement of Financial Position.

## THE OPERATING ENVIRONMENT

The operating environment in 2016 continued to be challenging, characterized by high inflation and a food output deficit following poor weather conditions. The country is expected to record a weak GDP growth rate of 2.5% compared to previous higher projections. Prices for tobacco, the mainstay of the country's export sector, were 19% below those of the previous year, resulting in the crop's export earnings being 18% lower than the previous year. Annual average inflation for 2016 was recorded at 21.7% compared to 21.9% the year before.

The authorities maintained a tight monetary stance through high interest rates. Monetary policy continued to focus on the containment of money supply growth, credit growth, inflation and stabilization of the exchange rate. However, there was some relaxation of monetary policy as a cut in the Policy Rate of 3 percentage points from 27% to 24% was implemented, effective 1st December 2016.

Drought weather conditions resulted in low water levels in Lake Malawi and the Shire River, the major sources of power generation. Consequently the country experienced unprecedented power outages that affected the Bank and its customers. Production was below capacity and uncompetitive compared with imported products, as alternative sources of power increased the operating costs for most of our customers.

The integration of Indebank into National Bank was successfully completed in the middle of the year. This implies that the Group will no longer be carrying the extra overheads of Indebank.

## PERFORMANCE

I am pleased to announce a group pre-tax profit of K25.3bn (2015: K19.6bn) representing a 29% increase on prior year. This is in spite of once off Indebank integration costs totaling K1.76bn incurred in respect of severance pay and impairment of assets that could not be put to alternative use. In addition, Indebank continued to incur unplanned overheads due to delays in obtaining certain

regulatory approvals which resulted in losses amounting to K400m. The Bank has therefore once again shown remarkable resilience in its performance under the circumstances and an overall growth of 14% has been recorded in the Statement of Financial Position.

### STRATEGY AND PROSPECTS

The improved weather conditions in the 2016/17 season are expected to result into a rebound in GDP growth to 5.6% as per official estimates, mainly from increased agricultural output. The current high cost of borrowing and power generation challenges are the main risks to these growth prospects.

Direct budgetary support from the co-operating partners is not expected to resume and it is envisaged that there will be challenges in meeting tax revenue targets emanating from the weakened economy. The fiscal deficit is therefore expected to increase thereby applying more pressure on inflation, interest rates and economic growth prospects. A very tight monetary stance is expected to prevail, resulting in suppressed demand for credit.

The Bank's 5 year Strategic Plan is entering its final year of implementation. A new plan is being developed to take the Bank to the next level. The Bank has built-in flexibility, resources, and agility necessary to continue on a growth path notwithstanding the prevailing operating environment. The Bank is therefore expected to continue to perform well in 2017.

### BOARD OF DIRECTORS

Mr. P. Mulipa and Mr. D. Kambalmetore retired from the Board during the year. Ms. M. Msiska joined the Board in May 2016 to replace Ms. R. Mkandawire who had retired in 2015. Mr. J. Biziwick joined the Board in September 2016 to replace Mr. P. Mulipa while Dr. G. Partridge became a non-executive director when he left National Bank of Malawi in November 2016. Mr H. Jiya, General Manager, Wholesale Banking, has also recently joined the Board as an executive director.

On behalf of the shareholders, and on my own behalf, I would like to welcome the new directors and also thank the directors

# 2017

The Bank is expected to continue to perform well.

who have retired from the Board for their valuable contributions and support during their tenure and wish them well in their new responsibilities. I also wish to thank fellow directors for their support, dedication and co-operation and look forward to a fruitful working relationship with them in 2017 and beyond.



I am grateful to the entire work force for rising up to the challenges that emerged during the year and for achieving these good results.

## MANAGEMENT AND STAFF

Dr. George Partridge who had been the at the helm of the Bank for 10 years left at the end of October, 2016 to take up the position of Group CEO of Press Corporation Limited (PCL), the parent company of the Bank. On behalf of the Shareholders, the Board and on my own behalf, I wish to thank Dr. Partridge for a distinguished career in National Bank, which, under his leadership grew from strength to strength. I wish him all the best in his new challenge at PCL. I also wish to take this opportunity to wish the incoming Acting CEO Mr. Macfussy Kawawa success in the task of steering the Bank to new heights.

I am grateful to the entire work force for rising up to the challenges that emerged during the year and for achieving these good results. On behalf of my fellow directors and shareholders I wish to convey my sincere gratitude and congratulations to them. As I pledge the Board's unwavering support, I am confident that as the Bank faces new challenges, the Board can count on their creativity, dedication and hard work.

A handwritten signature in black ink, appearing to read 'M.A.P. Chikaonda', with a circular stamp or mark to the left.

M.A.P. Chikaonda, PhD  
CHAIRMAN

SENIOR MANAGEMENT





L-R

**Austin N D Musyani**  
BA (Public Admin.), MPA, MBA  
GENERAL MANAGER &  
HEAD, OPERATIONS

**Oswin Kasunda**  
B.Com, MSc(St.Mgt)  
HEAD, PERSONAL &  
BUSINESS BANKING

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

**Zunzo Mitole (Mrs)**  
LLB (Hons), MBA  
COMPANY SECRETARY  
& LEGAL COUNSEL

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

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

**Charles Dulira**  
BA (Public Admin.)  
HEAD, HUMAN RESOURCES

**Harry Mukaka**  
(Public Admin.), MBA  
HEAD, TREASURY &  
INVESTMENT BANKING

**Masauko Katsala**  
B.Com, FCCA, CA(M), MBA  
CHIEF FINANCIAL  
OFFICER



L-R

**Macfussy M Kawawa**  
 B.Acc (Hons), FCCA,  
 CA(M), MBA  
 ACTING CHIEF EXECUTIVE

**Harold Jiya**  
 B.Com, ACIB, MBA  
 GENERAL MANAGER &  
 HEAD, WHOLESALE BANKING

**Tayemu H Masikini**  
 BSc., Post Graduate Diploma in Computing  
 HEAD, ADMINISTRATION

**John Mitchell**  
 BSc, MSc (Computing)  
 HEAD, INFORMATION  
 TECHNOLOGY

**Charles S. Ulaya**  
 B.Acc, ACMA, CA (M)  
 CHIEF RISK OFFICER

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

**Eluphy Salamba**  
 B.Com  
 MSc (LCM)  
 HEAD, CREDIT  
 MANAGEMENT



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cashless banking*

## **NBM EFT** **(Electronic Funds Transfer)**

The safe, reliable and fast way to electronically process Bulk Payments (Multiple Beneficiaries) Including Salary Payments, Allowances and Premiums



“

The Bank registered a 29% growth in the group profit before tax from K19.6b to K25.2b ”

Macfussy Kawawa





The loans and advances grew by a satisfactory 17%

**PERFORMANCE OVERVIEW**

The Bank registered a 29% growth in the group profit before tax from K19.6bn to K25.2bn against a background of a challenging operating environment characterized by high inflation, drought, food shortages and high interest rates. The massive power load shedding that the country experienced had a significant negative effect on the Bank and its customers’ production capacity as well as cost efficiency. This in turn dampened appetite for certain Bank products and services and for some, the ability to service borrowing obligations.

The reported group results are after absorbing pre-integration Indebank losses amounting to K400m as well as once off integration costs in excess of K1.7bn which significantly affected the reported group results. These costs were in respect of staff retrenchments, systems integration and impairment of assets following the rationalization of ex-Indebank service centres.

The loans and advances grew by a satisfactory 17% in a year that saw generally subdued demand for credit facilities owing to low economic activity.

**INDEBANK INTEGRATION**

The full integration of Indebank group into NBM was achieved during the year. The process was smooth and seamless. The Bank first integrated the systems and data of the two banks followed by service centre and head office integration and staff rationalization upon securing all the necessary regulatory approvals. Out of a total of 272 employees in Indebank group, 149, representing 55% joined the NBM group while the remainder got retrenched.

**WHOLESALE BANKING OPERATIONS**

On the Wholesale Banking front, the year 2016 was a very challenging one. Macro-economic conditions were tough and there were various other challenges in the country that negatively impacted business growth generally. In spite of this, the Bank achieved above expected results thanks to the team’s strategic focus and good management of relationships. We delivered positive results on both Interest Income and Fees & Commissions.

The satisfactory bank outturn notwithstanding, the performance of our customers in the trading, service and manufacturing industries was adversely affected by a significant reduction in

domestic demand following two consecutive years of poor harvest due to the changes in weather patterns. This was worsened by dwindling exports to the neighbouring countries due to the prevailing conditions there, and erratic power supply which caused a significant reduction in customers' production capacity. The cumulative effect of these events was a huge threat to business growth and quality of our portfolio which called for very diligent management. We concentrated our new business development efforts on companies in industries that are known to outperform the economy during difficult and turbulent times, mostly in commodity trading. We also pro-actively monitored and managed all our existing customers on the fringes of this turbulence not to slip into distress and therefore resultant bad debts.

Looking ahead, we see growth accelerating as we are on schedule to roll out the Agri-Storage credit line which is supported by the European Investment Bank to the tune of Euro30 million. The facility targets agriculture merchants and is for purposes of providing quality agriculture storage assets across the country. The initiative will be a stepping board for other ancillary business to the bank in warehouse receipts financing and facilitation. This will also go a long way towards reducing post-harvest losses normally registered by smallholder farmers.

### TREASURY AND INVESTMENT BANKING

Revenue from Treasury operations continued to be negatively affected by the performance and developments in the foreign exchange market. The market was characterized by thin trading margins arising largely from regulatory changes on foreign exchange trading and stiff competition due to low supply as donor aid continued to be withheld and poor performance of the tobacco market. While the Bank underperformed on the foreign exchange income, it exceeded its target on the money market revenue due to relatively high yields offered on investments from excess liquidity.

The stock market had largely a bearish performance in the year and this resulted in the Bank's equity portfolio underperforming as most stocks on its portfolio experienced sharp price falls.

### PERSONAL AND BUSINESS BANKING OPERATIONS

The Personal and Business Banking Division which serves individuals, small to medium enterprises and leasing customers registered a 27% growth in the loans and advances portfolio during the year.



We see growth accelerating as we are on schedule to roll out the Euro30 million Agri-Storage credit line

In personal banking, among other initiatives, the Bank enhanced efforts in offering personalized service through the rolling out of a unique value proposition - the Premium Gold Club, which is targeted at middle managers and owners of small to medium enterprises.

### Business Centre



During the year, we opened two business centres in Lilongwe and Blantyre dedicated for serving SMEs

In Business banking, efforts were focused on strengthening the relationships with SMEs through provision of in-class training sessions in business and bank account management. Most of these SMEs were located in the rural areas. The SME relationships were being managed based on industry sectors with the aim of deepening sector knowledge to enable the Bank assess the varying needs of the customers and in turn provide relevant products and services.

During the year, the Bank opened two business centres in Lilongwe and Blantyre dedicated for serving SMEs.

The Division continues to lead in leasing business on the market and the process of installing a new operating system in order to serve the customers better is underway.

### CARDS AND E-BANKING SERVICES

In the course of the year the Bank continued to make strides in the areas of cards and electronic banking services, largely focused on enhancing performance, efficiency, accessibility and security. Key initiatives included upgrade of the internet banking system to a new version, upgrade of the fleet of ATMs with new technology, migration to new DDA technology for card based products and commencement of implementation of the Mobile app that will be made available on smartphone as part of the Bank's roadmap for providing mobile banking services.

The Bank also commenced the piloting of its credit cards offering which will be rolled out in 2017 as well as branchless banking through a network of agents in the districts of Mulanje, Mangochi, Karonga, and Chitipa, as part of its programme to reach out to all sectors of the banking community.

In the immediate future, the Bank plans to roll out its range of credit cards, fully rollout its branchless banking, introduce mobile app and social banking as part of its mobile banking enhancement and start e-commerce acquiring for its merchants.

### INFORMATION TECHNOLOGY SYSTEM

The upgrade of the Bank's core banking system T24 R9 to T24 R15 commenced in earnest in August 2016. The new system is expected to go live in the course of 2017, bringing with it improvements in operational efficiency and quality of information.

### CUSTOMER SERVICE CHANNEL IMPROVEMENTS

The year 2016 saw the implementation of several projects as part of the bank's strategy to combine operational efficiency with competitive customer service delivery. The key deliverables were the decentralization of bulk processing; rolling out of Online Statements to customers with internet and email access thereby offering more value, convenience and security with benefits such as anytime/anywhere access and security.

In a drive to bring self-service channels closer to customers, the Bank increased the ATM network from 94 in 2015 to 108 by December 2016. These included in-lobby ATMs in some major shops.

The acquisition of Indebank saw the introduction of Top Mandala Service Centre as an additional service point which is conveniently located with ample parking space for customer convenience.

### TALENT MANAGEMENT ACTIVITIES

Leadership Skills Development continued to be a major focus in 2016 as a group of twenty junior and middle managers completed their one year leadership development program in June 2016. The intensive leadership development training has provided the Bank with well qualified and trained managers who have the necessary skills and capabilities to drive innovations and efficiencies and also for succession planning purposes. In the course of the year two members of staff commenced post graduate studies in Information Technology and Business Administration respectively in the United Kingdom. Four employees also completed their studies for Master of Business Administration degrees on a part – time basis with the University of Malawi and ESAML.

The Bank also continued to offer short - term courses to its employees at the Learning & Growth Centre covering topics that ranged from routine banking to leadership and performance management.



In a drive to bring self-service channels closer to customers, the Bank increased the ATM network from 94 in 2015 to 108 by December 2016.



...the Bank reached out to a number of communities with different projects...

**CORPORATE SOCIAL RESPONSIBILITY ACTIVITIES**

Whilst having the core purpose of maximising value to its stakeholders, the Bank has a conscience and a culture of social responsibility towards communities. During the year under review the Bank reached out to a number of communities with different projects that were aimed at promoting community empowerment and sustainable development objectives throughout the country.

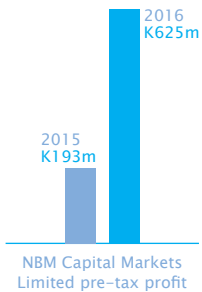
Key among these were:

- Continuation of annual commitment of awarding students from the University of Malawi who achieved noteworthy results in their faculties.
- All around the country, communities were geared up for the tree planting season and the Bank joined the Go Green movement and jointly with the Malawi Defence Force planted trees on Zomba Mountain in order to preserve territorial integrity of Malawi and the beauty of the old capital, Zomba.
- In an effort to ensure that girls go and remain in school, the Bank donated desks and chairs to Catholic University and Nyambadwe Lions Primary School. The desks provide working comfort for the girls.

**SUBSIDIARIES AND ASSOCIATES**

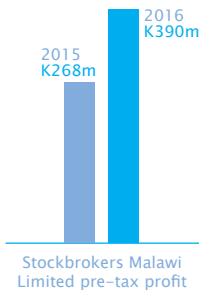
**NBM Capital Markets Limited**

NBM Capital Markets Limited, a wholly owned subsidiary of the Bank posted much better results compared to the previous year. Profit before tax for the year 2016 at K625m was 224% above the 2015 results of K193m. Following the acquisition of Indebank, there has been a significant growth in funds under management resulting from the transfer of the business portfolio of K14b from Indetrust Limited. Post integration with Indebank group the company anticipates further organic growth arising from its continued aggression in marketing activities.



**Stockbrokers Malawi Limited**

Stockbrokers Malawi Limited is a 75% subsidiary of the Bank. The company recorded a pre-tax profit of K390m, 46% higher than the K268m registered in 2015 despite the challenging economic environment. Revenue and the money market book grew by 52% and 37% respectively as a result of more attractive rates in the money market and improvements in customer service and relationship management.



**NBM Pensions Administration Limited (NBM PAL)**

NBM PAL is a wholly owned subsidiary which started operations in 2015. The business picked up in 2016 following new client acquisitions as well as business from Indetrust Limited upon the integration of Indebank group. The company made a pre-tax profit of K45m compared to a pretax loss of K1.3m in 2015. The company is implementing a new pension administration software to enable it compete favourably on the market.

**United General Insurance (UGI)**

UGI is a 31% associate of the Bank. The economic environment in 2016 was very challenging for the company resulting into all performance parameters ending with significant negative indicators. The company registered a loss before tax of K938m compared to a profit before tax of K317 million in 2015.

The Gross Premium Written (GPW) at K5.2 billion only grew by 8% from prior year against inflation of around 20%. A cancellation of K681million worth of business booked in previous years (on account of unpaid premiums) in addition to a 43% growth in claims largely contributed to the dismal performance.

Going forward, management has come up with a turnaround strategy covering the areas of business growth, reinsurance, claims and expenses management. The performance is therefore expected to change for the better in the coming year.

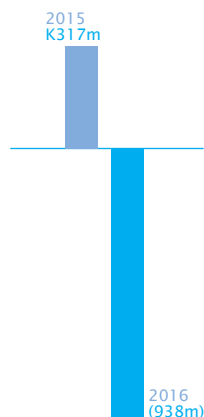
**OUTLOOK**

In 2017, a better performance is expected in Agriculture due to the end of the El Nino and La Nina phenomena effects, subject to the country receiving good rainfall during the growing season. Some improvements are also expected in the manufacturing, retail and wholesale trades which are directly linked with Agriculture. The economy is expected to grow by 5.6%. However, the current high cost of borrowing and electricity production challenges are the main downside risks to these growth prospects. The authorities are expected to continue the tight monetary stance.

As part of the continuing efforts to enhance the performance of IT systems, the upgrade of the Bank's T24 system from Release 9 to Release 15 will be completed during the year. Currently, the project is at a very advanced stage. Once completed, this upgrade is expected to enhance efficiencies in terms of speed of customer service delivery and the quality of information.

**NBM PAL**


The company made a pretax profit of K45m compared to a pretax loss of K1.3m 2015.



United General Insurance Limited profit/(loss) before tax

Electronic Salary Processing (ESP) will by end of the second quarter of 2017 be enhanced to a new more robust electronic processing system with key benefits such as customers' ability to remotely upload salary and Electronic Funds Transfer [EFT] files.

The successful integration of Indebank has positioned the Bank to consolidate its market leadership enhancement of loan book management and attraction and retention of quality critical mass clientele for sustained growth.



The successful integration of Indebank has positioned the Bank to consolidate its market leadership

### CONCLUSION

I would like to thank the Chairman and the Board of directors for their guidance, support and direction during the year. I convey my gratitude to my senior management team for their contributions in a year full of challenges. In particular I take the opportunity to pay tribute to Dr. George Partridge who left the bank at the end of October after leading it for ten years. On behalf of my Senior Management colleagues, the rest of staff and indeed my own, I thank him for being an inspirational leader, mentor, coach and friend. Under his leadership the Bank grew from strength to strength and he will be greatly missed. We wish him well in his new challenge as Group CEO of Press Corporation Limited.

I also express my appreciation to all members of staff for their dedication and hard work and call upon them to redouble their efforts in 2017 and beyond. In particular I thank staff of both NBM and former Indebank for their endurance during the time we were integrating the operations of the two banks.

Finally, I take this opportunity to sincerely thank our customers and our correspondent banks worldwide for their custom, support and trust in our Bank. In a special way I thank the Reserve Bank of Malawi (RBM), Public Private Partnerships Commission (PPPC), the Competition and Fair Trade Commission (CFTC), Ministry of Labour and Manpower Development officials as well as our customers for their patience and unwavering support that made the process of integrating Indebank into the NBM group a great success.



Macfussy Kawawa  
**Acting Chief Executive Officer**



## Staff Activities

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



Management Conference



Extended Management Conference 2016



Staff Training



The T24 upgrade team

Achievement Awards 



Platinum awardees in the Employee Recognition Awards in Dubai together with their spouses

Long Service Awards 



Long service awardees



Wellness



Staff wellness and fitness



Staff Charity



Cheering the sick at Balaka District Hospital



## Corporate Social Responsibility

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

### Our objectives

- To demonstrate leadership as one of Malawi's elite citizens
- To occupy a prominent position in corporate social responsibility activities so as to gain a lot of goodwill from the market in which the Bank operates.
- To alleviate the suffering of the less fortunate in our society
- To contribute to the social and economic development and environmental well being of our community
- To maximize the Bank's visibility in the market in which it operates
- To support and promote the development of entrepreneurs who will in turn contribute to the viability of the national economy

### Our focus

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

Health+

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

K13,3m

The Impact

- Empowered gifted young girls and boys at CHAM colleges who have committed themselves to render a critical service to the nation but were constrained by financial resources.



K5,808,000 CHAM Scholarships



K4m worthy of medical items to Mangochi District Hospital

Through the same sponsorship the Bank alleviated the shortage of qualified health personnel in our hospitals. A total of 19 young men and ladies benefitted under these scholarships.

- The Bank addressed the shortage of critical medical supplies at Mangochi District Hospital
- The annual Christmas Cheer Programme at Balaka and St. Andrews Hospital in Kasungu which brought smiles to the patients in these hospitals.



K3.5m Christmas cheer program in Balaka and Kasungu



Education 

A well-educated nation is a platform for a vibrant economy.



**K21m**

### The Impact

- A creation of excellence in universities where the Bank is running the Best Students Awards programme resulting in improved quality of human capital for our economy.
- To ensure that the girl child goes and remains in school, the Bank provided sets of desks and chairs at Nyambadwe Primary School in Blantyre.
- The Bank alleviated the challenge of students at Catholic University of having to travel long distance at night to access information technology and has in turn afforded them more time to dedicate their time to studies.
- Students at Chaminade Secondary School were given the opportunity, through a donation of computers, to use technology in preparation for their tertiary education.
- For security of both students and infrastructure at Soche Hill Secondary School, the Bank contributed towards the construction of a permanent brick wall.



K6.5m Best Student Awards – UNIMA



K4m worth of desks to Nyambadwe Primary School

**K2.5m** for Soche Hill Secondary School brick wall.



K4m computers to Chaminade Secondary School



K4m donation to Catholic University

Charity & Partnerships 

**K8.5m**

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

**The Impact**

- The Bank cemented its existing relationship with its Corporate Client, SOS Children’s Village in Machinjiri and at the same time provided quality Christmas to the orphans at the Centre
- Bringing back smiles, one at a time, to children born with cleft lips through Operation Smile.
- Blankets and mosquito nets for a better living to disadvantaged groups at Home of Hope in Mchinji.



K2.5m worth of food items to SOS Children’s Village



K2m to Operation Smile



K4m worth of blankets and mosquito nets at Home of Hope in Mchinji

## Environment

# K7.5m

The Bank has a stake in the wellness of its general environment because the effects of damaged and degraded environment increases operational risks for businesses.

### The Impact

The impact of the intervention created a lot of awareness on the tree planting and resulted in many organisations and non-state institutions going into one of the biggest afforestation drives in Malawi.



K4m worth of tree seedlings for Zomba Plateau afforestation



K3.5m worth of tree seedlings towards Blantyre Archdiocese afforestation initiatives





## Selected Key Clients

### CORPORATE BANKING

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

Plem Construction constructed the magnificent Nkhata Bay District Hospital



ZST Investments Crossroads, Blantyre



Shoprite at the Lilongwe Gateway Shopping Mall



Transglobe new Maoni warehouse built in 2016



KFC - Lilongwe



Rab Processors Head Office



Shore Rubber weaving machines



Makandi Tea Estate, Thyolo





## Selected Key Clients

### PERSONAL & SMEs BANKING

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

Design Printers, Lilongwe



Katoto Puma Filling Station



Ecobricks, Blantyre



Takondwa Commodities



Mzuzu Panel Beaters



# 2016 ECONOMIC REVIEW AND OUTLOOK FOR 2017



## Tobacco Export Earnings 2016

195.1m Kgs  
US\$276.39m

## 2015

192.7m Kgs  
US\$337.40m

## DEVELOPMENTS IN 2016

Malawi was severely impacted by late onset on rains followed by erratic and below average rains as a result of the El Niño weather phenomenon which affected most of southern Africa. Agricultural production was therefore negatively affected particularly in the Southern Region and parts of the Central Region. The output for maize, the main staple, thus dropped 14.7% on the back of a 30 percent drop due to flooding and drought experienced in 2015 according to data from the Ministry of Finance and Economic Development.

As a result of the drought and subsequent poor harvest for the second consecutive year, Malawi is expected to record real GDP growth of 2.5%.

Despite the poor weather conditions experienced in the year under review, tobacco was resilient, registering a modest 1 percentage point growth in production over the previous year. In 2016, tobacco production was 195.1 million kilograms (2015: 192.7 million kilograms) which was sold at an average price of US\$1.42 (2015: US\$1.75) earning a total of US\$276.39 million (2015: US\$337.40 million) in export earnings. Average prices and export earnings were thus respectively 19% and 18% down on the previous year.

Inflation trend in 2016 was mainly downwards with year on year headline inflation closing at 20% (Dec 2015: 24.9%) Annual average inflation for 2016 was recorded at 21.7% compared to 21.9% the year before. Consistent monetary policy tightening by the Central Bank and action taken by the Government to contain fiscal pressures emanating from the FISP program combined to reduce inflation in 2016, hence the outcome of domestic prices.

The monetary policy focus in 2016 remained forward looking to contain inflation and protect reserves. The authorities therefore maintained a tight monetary stance which resulted in a downward trend in monetary aggregates. The money supply growth averaged

17.4% in the third quarter of the year from an average of 27.5% the previous quarter, reflecting subdued demand pressures.

On that basis and also to take advantage of declining inflation in the year, the monetary authorities implemented a cut in the bank rate of 3 percentage points from 27% to 24% effective 1st December 2016.

The foreign exchange market was somewhat stable compared to recent years with the Malawi Kwacha marginally depreciating from MK655/US\$1 at the start of the year and closing at MK725/1US\$.

2017

real output is expected to rebound to 5.6% mainly emanating from growth in agriculture production.

#### OUTLOOK FOR 2017

With the improvement in weather conditions and good rains being experienced in 2016/17 growing season, real output is expected to rebound to 5.6% mainly emanating from growth in agriculture production. The authorities are expected to continue with the tight monetary stance. Inflation is also expected to go further down in 2017 which may lead to further reduction in the bank rate. However, the current high cost of borrowing and electricity production challenges, are the main downside risks to growth prospects in the country.

# CORPORATE GOVERNANCE STATEMENT



A robust system of internal controls is maintained by the Board.

National Bank of Malawi has pledged to abide by the highest standards of good corporate governance. This is achieved by following principles of openness, integrity and accountability as set out in the Malawi Corporate Governance Code, The Cadbury Report and the King Reports. The pursuit of good corporate governance enables the Bank to have a satisfactory relationship between it and its shareholders, customers, strategic partners, suppliers of various goods and services, regulators and staff.

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

To achieve its function, the Board convenes bi-monthly to scrutinize compliance with policies and achievement of objectives by holding management accountable for its activities and performance. The Board delegates some its compliance monitoring responsibilities to committees of the board namely – Risk; Audit; Appointments, Remuneration & Governance, Credit Committee and the Committee of the Board on Related Parties in accordance with each committee's specific terms of reference. The Committees' chairpersons report on the proceedings of their committee meetings at the next meeting of the Board. The Board itself met 8 times in the year 2016.

A robust system of internal controls is maintained by the Board. The system gives assurance that the Bank has effective and efficient systems with sound internal financial controls governing all the operations of the Bank in line with best practice. These internal controls are a safeguard for ensuring compliance with laws and regulations. To accomplish this function, the Board supports investments in accounting, financial and risk management systems

that enable the Bank to produce timely reports to its shareholders, the regulatory authorities and members of the general public. Details of the risk management processes that the Bank has embraced are provided in Note 42 to the financial statements.

The Board also has a duty to ensure that efficient management systems and procedures are in place to enable the achievement of the strategy with an appropriate pool of talent and supporting succession plan. The Board has reviewed the Bank's succession plan and considered the available pool of talent and is satisfied with the same.

The Board is composed of ten directors, two of whom are executive directors and the rest are non-executive directors. The chairman is chosen from among these directors.

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



The Board is composed of ten directors, two of whom are executive directors and the rest are non-executive directors.

## COMMITTEES OF THE BOARD

### Risk Committee

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

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

The Committee meets at least four times a year. In the 2016 financial year, the Committee met 5 times.

### Audit Committee

Mrs E Mafeni was the Chairperson of the Audit Committee up to May 2016 when Ms M Msiska took over the position. The Committee has



The Board convenes bi-monthly to scrutinise compliance with policies and achievement of objectives

overall responsibility for the Bank's system of internal controls and for reviewing its effectiveness. 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. Results of pre-arranged and surprise risk based audits provide the directors with information which assists them to assess the effectiveness of internal controls and management of risks in each business unit.

The Committee meets at least four times a year with the Bank's senior management and the external auditor to review among other things, accounting, auditing, internal controls, financial reporting matters and published financial statements of the Bank. In the 2016 financial year, the Committee met 6 times.

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

#### **Appointments, Remuneration and Governance Committee**

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

The Committee meets at least three times a year. In the 2016 financial year, the Committee met 4 times.

#### **Credit Committee**

Mr J Biziwick 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, related parties and senior management.

The Committee meets as and when there are lending facilities to be considered. In the 2016 financial year, the Committee met 7 times.

#### **Board Committee on Related Party**

Mrs M Kachingwe is the Chairperson of the Committee. The Committee considers credit applications in respect of all business entities that are related to the Bank. This ensures that credit facilities to related parties are adequately assessed to hedge against the risks involved. The Committee meets as and when there are lending facilities to related parties to be considered. In the 2016 financial year, the Committee met 6 times.

#### **Changes in Board Composition**

Mr P Mulipa and Mr D Kambalmetore retired from the Board in July 2016 and September 2016, respectively. Ms Maria Msiska and Mr John Biziwick were welcomed to the Board.

#### **Code of Ethics**

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

#### **Auditor Independence**

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

#### **Board Information and Development**

The accountability for making sure that the Board complies with applicable rules and regulations lies with the Company Secretary. The Company secretary ensures that the Board complies with Corporate Governance issues, ensuring that board procedures are followed and are complied with. 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. Directors' training is coordinated by the Company Secretary. The training ensures for efficient discharge of the Board's oversight responsibilities. The Company Secretary also organises board orientation from time to time and conducts board assessment in liaison with the Chairman of the Appointment, Remuneration and Governance Committee of the Board.



The Board supports investments in accounting, financial and risk management systems that enable the Bank to produce timely reports



## CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS



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# STATEMENT OF DIRECTORS' RESPONSIBILITIES

31 December 2016

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

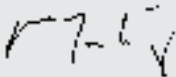
The Act also requires the directors to ensure that the Bank and the Group keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the Bank and the Group and enable them to ensure that the financial statements comply with the Companies Act.

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

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

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

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and the Group and of their operating results for the year ended 31 December 2016, so far as concerns the members of the company.



DIRECTOR:  
Dr. G.B. Partridge



DIRECTOR:  
M. Msiska



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

### Opinion

We have audited the consolidated and separate financial statements of National Bank of Malawi and its subsidiaries ("the Group"), set out on pages 67 to 180, which comprise the consolidated and separate statements of financial position as at 31 December 2016, and the consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of the Group as at 31 December 2016, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Companies Act.

### Basis for Opinion

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

### Key Audit Matters

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

Key audit matter	How the matter was addressed in the audit
<p data-bbox="73 264 516 320">Impairment against loans and advances to customers (consolidated and separate financial statements)</p> <p data-bbox="73 352 516 456">Significant judgement is required by the directors in assessing the impairment against loans and advances to customers. The credit risk policy is disclosed in note 42b.</p> <p data-bbox="73 480 516 703">The impairment amounting to K1.09 billion against loans and advances balance of K134.38 billion as disclosed in note 12 which represents the shortfall between the present value of future expected cash flows, discounted at the original effective interest rate, and the carrying value of the advance in respect of loans and advances that exhibit indicators of impairment.</p> <p data-bbox="73 727 516 783">The judgements applied in determining the impairment include:</p> <ul data-bbox="73 799 516 903" style="list-style-type: none"> <li>• the expected realisable value of the collateral securing the advance; and</li> <li>• the probability that loans and advances will result in loss.</li> </ul> <p data-bbox="73 927 516 1102">Because the determination of impairment uses significant judgements coupled with the fact that compliance with IAS 39 <i>Financial Instruments measurements and recognition</i> requirements is onerous, we considered determining impairment against loans and advances to customers as a key audit matter.</p>	<p data-bbox="516 352 967 456">In evaluating the impairment against loans and advances, we assessed the judgements applied by the directors and our procedures included the following:</p> <ul data-bbox="516 480 967 959" style="list-style-type: none"> <li>• Examining on a sample basis the appraised fair value of the collateral securing impaired advances;</li> <li>• Considering the qualitative factors that indicate impairment including the amount in arrears, period in arrears and the financial strength of the borrower;</li> <li>• Assessing the adequacy of the impairment recorded based on the realisable value of collateral and the qualitative factors described above;</li> <li>• Considering managements' credit control processes to identify impaired advances and testing of relevant key controls in the process; and</li> <li>• We further assessed whether determination of impairment against loans and advances is inline with IAS 39 <i>Financial Instruments measurements and recognition</i>.</li> </ul> <p data-bbox="516 983 967 1206">We found that the judgements applied in determining impairment against loans and advances were appropriate and that the amounts recorded were reasonable and complied with IAS 39 <i>Financial Instruments measurements and recognition</i>. We further concluded that the financial statements disclosures in relation to impairment of loans and advances to customers are appropriate.</p>

Key audit matter	How the matter was addressed in the audit
NBM and Indebank Limited merger (consolidated and separate financial statements)	
<p>NBM and Indebank Limited merged into NBM Bank effective 1 May 2016. The merger of the two banks also resulted in the merger of Indetrust Limited and NBM Pension Fund Administration Limited. The merged entity is NBM Pension Fund Administration Limited.</p> <p>Significant judgement was required by the directors in determining how to account for the merger considering this type of business combination is not covered under the International Financial Reporting Standards. As a result, the merger is considered a key audit matter due to the complexities and judgement arising from the considerations relating to the accounting for the merger.</p>	<p>We involved an accounting specialist to evaluate the merger transaction with particular focus on the directors' accounting treatment of the merger. NBM has disclosed the accounting treatment of the merger on note 4.3 to the financial statements.</p> <p>The treatment includes:</p> <ul style="list-style-type: none"> <li>• Transferring of the assets and liabilities of Indebank Limited into the statement of financial position of National Bank of Malawi at their book values;</li> <li>• All reserves including retained earnings and share capital of Indebank were retained in Indebank pending a formal liquidation process. NBM has not yet decided to transfer the reserves to NBM because the future of Indebank Limited (now a dormant company) is yet to be decided on. Also retained in Indebank books were the investments in its two subsidiaries, Indetrust Holdings Limited and Indetrust Limited;</li> <li>• The statements of comprehensive income for the two entities have been maintained as separate, up to the point of the merger. These have been consolidated at Group level as at 31 December 2016; and</li> <li>• The initial investment in Indebank Limited of K6.6 billion has been partially derecognised in NBM's separate financial statement following the merger as disclosed in note 4.3 and 10.1.5 to the financial statements. Since Indebank Limited has retained its investments in Indetrust Limited and Indetrust Holdings Limited, NBM's investment in Indebank Limited has not been fully derecognised. The remaining value in Indebank Limited (NBM's share of net assets for Indebank Limited Group) and goodwill has been reflected in NBM's remaining investment in Indebank Limited. The excess of the initial cost of the investment over the value of the goodwill and the value of the remaining investment in Indebank has been adjusted against retained earnings in the separate financial statements.</li> </ul> <p>We confirmed the treatment of the merger by assessing the directors' principal assumptions and judgements based on acceptable accounting practice and our experience and knowledge of such transactions.</p>

Key audit matter	How the matter was addressed in the audit
Goodwill impairment assessment (consolidated financial statements)	
<p>In October 2015, NBM acquired 97.05% shareholding in Indebank Limited. In accordance with IFRS3, <i>Business Combinations</i>, NBM determined goodwill arising from acquisition which amounted to K4 billion as reported in note 10. During the year, NBM engaged a consultant to assess goodwill for impairment. Due to the significance of the amount; the judgement and assumptions used in the determination of impairment for goodwill; and also the complexity of the value in use calculation we considered this as a key audit matter.</p>	<p>We involved accounting specialist to review the accuracy of the value in use calculation as well as the determination of cash flows and the discount factor used.</p> <p>We also checked if the assumptions that were used in determining the future cash flows were reasonable.</p> <p>The results of our assessment indicated that goodwill is not impaired. We further concluded that disclosures made in the financial statements in relation to impairment of goodwill are appropriate.</p>

**Other Information**

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

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

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

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

**Responsibilities of the Directors for the Consolidated and Separate Financial Statements**

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

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

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

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

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

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

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

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

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

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



Chartered Accountants

**Madalo Mwenelupembe**  
Partner

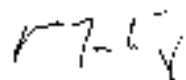
30 March 2017

## STATEMENTS OF FINANCIAL POSITION

31 December 2016

	Notes	GROUP		COMPANY	
		2016 K'm	2015 K'm	2016 K'm	2015 K'm
<b>ASSETS</b>					
Cash and funds with Reserve Bank of Malawi	5	29 774	30 550	29 650	27 570
Government of Malawi treasury bills, treasury notes and Reserve Bank of Malawi bonds	6	25 843	29 409	23 834	27 040
Government of Malawi promissory notes	7	1 100	2 285	1 100	2 285
Equity investments	8	1 969	2 761	1 904	2 697
Investment in associates	9	398	527	233	233
Investment in subsidiaries	10	-	-	6 444	6 904
Placements with other banks	11	21 683	24 129	21 683	18 878
Loans and advances	12	133 287	113 975	133 287	109 610
Other money market deposits	13	59 077	40 023	46 882	23 437
Other assets	14	10 545	5 985	9 975	5 021
Non-current assets held for sale	15	711	-	711	-
Investment properties	16	-	133	-	-
Property, plant and equipment	17	28 211	25 519	25 329	21 259
Intangible assets	18	6 098	5 003	6 098	4 758
Deferred tax	19	6 846	4 590	6 811	4 175
Goodwill	20	3 959	4 011	-	-
<b>Total assets</b>		<b>329 501</b>	<b>288 900</b>	<b>313 941</b>	<b>253 867</b>
<b>LIABILITIES AND EQUITY</b>					
<b>LIABILITIES</b>					
Customer deposits	21	231 282	214 989	218 069	184 093
Amounts due to other banks	22	14 570	3 347	14 570	3 147
Current income tax liabilities	23	3 184	1 229	2 997	1 192
Loans	24	209	3 551	209	3 340
Provisions	25	2 837	2 428	2 624	1 630
Other liabilities	26	7 874	7 935	8 491	7 266
Deferred tax	19	593	600	-	-
<b>Total liabilities</b>		<b>260 549</b>	<b>234 079</b>	<b>246 960</b>	<b>200 668</b>
<b>EQUITY</b>					
<b>CAPITAL AND RESERVES</b>					
Share capital		467	467	467	467
Share premium		613	613	613	613
Loan loss reserve		708	1 057	708	1 448
Available for sale reserve		-	11	-	11
Revaluation reserve		15 482	11 676	15 459	11 653
Retained earnings		50 559	39 954	49 734	39 007
Equity attributable to equity holders of the parent		67 829	53 778	66 981	53 199
Non-controlling interests		1 123	1 043	-	-
<b>Total equity</b>		<b>68 952</b>	<b>54 821</b>	<b>66 981</b>	<b>53 199</b>
<b>Total equity and liabilities</b>		<b>329 501</b>	<b>288 900</b>	<b>313 941</b>	<b>253 867</b>
<b>Memorandum items</b>					
Letters of credit and guarantees	37	17 854	20 635	17 854	20 147

The financial statements were approved and authorised for issue by the Board of Directors on 30 March 2017 and were signed on its behalf by:



Director: Dr. G.B. Partridge



Director: M. Msiska

# STATEMENTS OF COMPREHENSIVE INCOME

For the Year Ended 31 December 2016

	Notes	GROUP		COMPANY	
		2016 K'm	2015 K'm	2016 K'm	2015 K'm
<b>Income</b>					
Interest and similar income	29	46 211	32 758	44 678	32 050
Interest expense and similar charges	29	(6 148)	(4 660)	(5 908)	(4 404)
Net interest income	29	40 063	28 098	38 770	27 646
Commission and fee income	30	13 141	9 878	11 442	8 787
Profit from dealing in foreign currencies		5 381	4 984	5 237	4 919
Income from operating leases		1 211	641	1 209	629
Net (loss)/gain on financial instruments classified as held for trading	8	(562)	75	(562)	67
Share of (loss)/profits of associate		(184)	91	-	-
Dividend income		41	121	509	160
Properties fair value gains/(loss)	33	206	15	(181)	15
Profit on disposal of property, plant and equipment		95	21	70	18
<b>Total income</b>		<b>59 392</b>	<b>43 924</b>	<b>56 494</b>	<b>42 241</b>
<b>Expenditure</b>					
Staff costs	31	16 010	10 967	14 568	10 194
Other operating expenditure	32	17 352	11 526	16 186	10 920
<b>Total expenditure</b>		<b>33 362</b>	<b>22 493</b>	<b>30 754</b>	<b>21 114</b>
Profit before recoveries and impairment losses on loans and advances		26 030	21 431	25 740	21 127
Recoveries on impaired loans and advances	12	1 017	1 564	925	1 345
Impairment losses on loans and advances	12	(1 800)	(3 380)	(1 584)	(2 847)
Profit before tax		25 247	19 615	25 081	19 625
Income tax expense	34	(8 642)	(6 246)	(8 415)	(6 374)
<b>Profit for the year</b>		<b>16 605</b>	<b>13 369</b>	<b>16 666</b>	<b>13 251</b>
<b>Other comprehensive income</b>					
<i>Items that will not be reclassified subsequently to profit or loss:</i>					
Surplus on revaluation of properties	33	1 706	1 383	1 706	1 365
Deferred tax on revalued assets	19	2 171	1 263	2 171	1 243
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Fair value movement on available for sale assets	7	(11)	(191)	(11)	(191)
<b>Total other comprehensive income</b>		<b>3 866</b>	<b>2 455</b>	<b>3 866</b>	<b>2 417</b>
<b>Total comprehensive income for the year</b>		<b>20 471</b>	<b>15 824</b>	<b>20 532</b>	<b>15 668</b>

## STATEMENTS OF COMPREHENSIVE INCOME (CONTINUED)

*For the Year Ended 31 December 2016*

	Notes	GROUP		COMPANY	
		2016 K'm	2015 K'm	2016 K'm	2015 K'm
Profit attributable to:					
Equity holders of the company	35	16 391	13 329	16 666	13 251
Non-controlling interests		214	40	-	-
		<u>16 605</u>	<u>13 369</u>	<u>16 666</u>	<u>13 251</u>
Comprehensive income attributable to:					
Equity holders of the company		20 257	15 769	20 532	15 668
Non-controlling interests		214	55	-	-
		<u>20 471</u>	<u>15 824</u>	<u>20 532</u>	<u>15 668</u>
Earnings per share (K)	35	<u>35.10</u>	<u>28.54</u>		
Diluted earnings per share (K)	35	<u>35.10</u>	<u>28.54</u>		
Dividend per share (K)	36	<u>13.29</u>	<u>13.22</u>		

## STATEMENTS OF CHANGES IN EQUITY

For the Year Ended 31 December 2016

GROUP	Share Capital K'm	Share Premium K'm	Loan Loss Reserve K'm	Available For Sale Reserve K'm	Revaluation Reserve K'm	Retained Earnings K'm	Equity Attributable to Equity Holders of the Parent K'm	Non-Controlling Interests K'm	Total K'm
<b>2015</b>									
At beginning of the year	467	613	1 077	202	9 115	32 708	44 182	59	44 241
Total comprehensive income	-	-	-	(191)	2 631	13 329	15 769	55	15 824
Transfer of excess depreciation	-	-	-	-	(70)	70	-	-	-
Transfer from loan loss reserve	-	-	(20)	-	-	20	-	-	-
Acquired through business combination	-	-	-	-	-	-	-	943	943
Dividend paid to minority shareholders	-	-	-	-	-	-	-	(14)	(14)
2014 Final dividend declared and paid	-	-	-	-	-	(4 669)	(4 669)	-	(4 669)
2015 First interim dividend declared and paid	-	-	-	-	-	(1 504)	(1 504)	-	(1 504)
At end of the year	<u>467</u>	<u>613</u>	<u>1 057</u>	<u>11</u>	<u>11 676</u>	<u>39 954</u>	<u>53 778</u>	<u>1 043</u>	<u>54 821</u>
<b>2016</b>									
At beginning of the year	467	613	1 057	11	11 676	39 954	53 778	1 043	54 821
Total comprehensive income	-	-	-	(11)	3 877	16 391	20 257	214	20 471
Transfer of excess depreciation	-	-	-	-	(71)	71	-	-	-
Transfer from loan loss reserve	-	-	(349)	-	-	349	-	-	-
Acquisition of minority interest shares	-	-	-	-	-	-	-	(78)	(78)
Dividend paid to minority shareholders	-	-	-	-	-	-	-	(56)	(56)
2015 Final dividend declared and paid	-	-	-	-	-	(3 199)	(3 199)	-	(3 199)
2016 First interim dividend declared and paid	-	-	-	-	-	(3 007)	(3 007)	-	(3 007)
At end of the year	<u>467</u>	<u>613</u>	<u>708</u>	<u>-</u>	<u>15 482</u>	<u>50 559</u>	<u>67 829</u>	<u>1 123</u>	<u>68 952</u>

## STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

*For the Year Ended 31 December 2016*

COMPANY	Share Capital K'm	Share Premium K'm	Loan Loss Reserve K'm	Available For Sale Reserve K'm	Revaluation Reserve K'm	Retained Earnings K'm	Total K'm
<b>2015</b>							
As at 1 January 2015	467	613	1 077	202	9 115	32 230	43 704
Total comprehensive income	-	-	-	(191)	2 608	13 251	15 668
Transfer of excess depreciation	-	-	-	-	(70)	70	-
Transfer from loan loss reserve	-	-	371	-	-	(371)	-
2014 Final interim dividend declared and paid	-	-	-	-	-	(4 669)	(4 669)
2015 First interim dividend declared and paid	-	-	-	-	-	(1 504)	(1 504)
As at 31 December 2015	<u>467</u>	<u>613</u>	<u>1 448</u>	<u>11</u>	<u>11 653</u>	<u>39 007</u>	<u>53 199</u>
<b>2016</b>							
As at 1 January 2016	467	613	1 448	11	11 653	39 007	53 199
Total comprehensive income	-	-	-	(11)	3 877	16 666	20 532
Partial derecognition of investment in Indebank Limited (note 4.3)	-	-	-	-	-	(544)	(544)
Transfer of excess depreciation	-	-	-	-	(71)	71	-
Transfer from loan loss reserve	-	-	(740)	-	-	740	-
2015 Final interim dividend declared and paid	-	-	-	-	-	(3 199)	(3 199)
2016 First interim dividend declared and paid	-	-	-	-	-	(3 007)	(3 007)
As at 31 December 2016	<u>467</u>	<u>613</u>	<u>708</u>	<u>-</u>	<u>15 459</u>	<u>49 734</u>	<u>66 981</u>

## STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

For the Year Ended 31 December 2016

	2016 K'm	2015 K'm
<b>ANALYSIS OF SHARE CAPITAL</b>		
<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

### LOAN LOSS RESERVE

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

### PROPERTY REVALUATION RESERVE

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

	Notes	GROUP		COMPANY	
		2016 K'm	2015 K'm	2016 K'm	2015 K'm
<b>Cash flows from operating activities</b>					
Profit before tax		25 247	19 615	25 081	19 625
Adjustments for:					
• Depreciation of property, plant and equipment	17	2 381	1 961	2 216	1 890
• Amortisation of intangible assets	18	401	325	394	318
• Profit on disposal of property, plant and equipment		(95)	(21)	(70)	(18)
• Impairment loss on revaluation of property	17	137	-	137	-
• Impairment loss on intangible assets	18	294	-	294	-
• Impairment loss on assets held for sale	15	47	-	47	-
• Net loss/(gains) on financial instruments classified as held for trading	8	562	(75)	562	(67)
• Dividend receivable		(41)	(121)	(509)	(160)
• Net fair value gain/loss on revaluation of properties	33	(206)	(15)	181	(15)
• Share of loss/(profits) of associate		184	(91)	-	-
• Movement in customer deposits		16 293	52 457	22 147	47 156
• Movement in other liabilities and provisions		348	(214)	352	(51)
• Movement in loans and advances		(19 312)	(25 360)	(21 234)	(30 287)
• Movement in other assets and investment in associate		(4 605)	2 169	(4 612)	2 260
Cash generated from operations		21 635	50 630	24 986	40 651
Tax paid		(6 779)	(6 644)	(6 585)	(6 584)
Net cash flow from operating activities		14 856	43 986	18 401	34 067
<b>Cash flows from investing activities</b>					
Increase in investments with maturity over three months		4 751	904	7 908	750
Increase in investment in subsidiaries and associates		-	(575)	-	(6 782)
Purchase of property, plant and equipment and intangible assets		(6 082)	(3 434)	(6 024)	(3 431)
Proceeds from disposal of property, plant and equipment		417	281	335	299
Purchase of equity investments		(77)	(203)	(77)	(190)
Proceeds from disposal of equity investments		307	-	308	-
Dividend received (note 23)		41	121	509	160
Net cash flow from investing activities		(643)	(2 906)	2 959	(9 194)
<b>Cash flows from financing activities</b>					
Repayments for borrowings		(3 342)	(2 244)	(3 336)	(2 242)
Dividends paid		(6 262)	(6 173)	(6 206)	(6 173)
Net cash outflow from financing activities		(9 604)	(8 417)	(9 542)	(8 415)
<b>Net increase in cash and cash equivalent</b>		<b>4 609</b>	<b>32 663</b>	<b>11 818</b>	<b>16 458</b>
<b>Cash and cash equivalents transferred from Indebank Limited</b>		<b>-</b>	<b>-</b>	<b>5 089</b>	<b>-</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>91 355</b>	<b>58 692</b>	<b>66 738</b>	<b>50 280</b>
<b>Cash and cash equivalents at end of the year (note 39)</b>		<b>95 964</b>	<b>91 355</b>	<b>83 645</b>	<b>66 738</b>

1. GENERAL INFORMATION

National Bank of Malawi Group (the Group) provides retail, corporate and investment banking as well as stockbroking, insurance and pension administration services in Malawi. The Group has a network of 31 (2015:30) 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 Bank 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 2016.

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

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:

Effective date	Standard, Amendment or interpretation
Annual periods beginning on or after 1 January 2018	<p><i>IFRS 9 Financial Instruments</i></p> <p>IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge</p>

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

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

Effective date	Standard, Amendment or interpretation
	<p>accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include impairment requirements for financial assets and limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.</p>
<p>Annual periods beginning on or after 1 January 2018</p>	<p>IFRS 15 <i>Revenue from Contracts with Customers</i></p> <p>IFRS 15 specifies how and when an entity will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.</p>
<p>Annual periods beginning on or after 1 January 2019</p>	<p>IFRS 16 <i>Leases</i></p> <p>IFRS 16 specifies how an entity will recognise, measure, present and disclose leases. The standard requires lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying assets has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.</p>

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

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

Effective date	Standard, Amendment or interpretation
Annual periods beginning on or after 1 January 2017	<p>Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)</p> <p>Amends IAS 12 <i>Income Taxes</i> to clarify the following aspects:</p> <ul style="list-style-type: none"> <li>• Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.</li> <li>• The carrying amount of an asset does not limit the estimation of probable future taxable profits.</li> <li>• Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.</li> <li>• An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.</li> </ul>
Annual periods beginning on or after 1 January 2017	<p>Disclosure Initiative (Amendments to IAS 7)</p> <p>Amends IAS 7 <i>Statement of Cash Flows</i> to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.</p> <p>Classification and Measurement of Share-based Payment Transactions</p> <p>Amends IFRS 2 <i>Share-based Payment</i> to clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.</p> <p>Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4)</p>

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

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

Effective date	Standard, Amendment or interpretation
<p>Overlay approach to be applied when IFRS 9 is first applied. Deferral approach effective for annual periods beginning on or after 1 January 2018 and only available for three years after that date.</p>	<p>Amends IFRS 4 Insurance Contracts provide two options for entities that issue insurance contracts within the scope of IFRS 4:</p> <ul style="list-style-type: none"> <li>• an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach; and</li> <li>• an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.</li> </ul> <p>The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.</p>
<p>Effective for annual periods beginning on or after 1 January 2018</p>	<p>Transfers of Investment Property (Amendments to IAS 40)</p> <p>The amendments to IAS 40 <i>Investment Property</i>:</p> <ul style="list-style-type: none"> <li>• Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management’s intentions for the use of a property by itself does not constitute evidence of a change in use; and</li> <li>• The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.</li> </ul>

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

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

Effective date	Standard, Amendment or interpretation
<p>The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017</p>	<p>Annual Improvements to IFRS Standards 2014–2016 Cycle</p> <p>Makes amendments to the following standards:</p> <ul style="list-style-type: none"> <li>• IFRS 1 - Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose;</li> <li>• IFRS 12 - Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity’s interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations; and</li> <li>• IAS 28 - Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.</li> </ul>

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

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

#### Effective date

Annual reporting periods  
beginning on or after  
1 January 2018

#### Standard, Amendment or interpretation

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

The interpretation addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

The Interpretations Committee came to the following conclusion:

- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

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

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

The directors anticipate that other than IFRS 9, IFRS 15 and IFRS 16, these Standards and Interpretations in future periods will have no significant impact on the financial statements of the Bank. IFRS 9 will impact the measurement of financial instruments whilst IFRS 15 will affect recognition of revenue and IFRS 16 will impact recognition, measurement, presentation and disclosure of leases.

### 3. ACCOUNTING POLICIES

#### Statement of compliance

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

#### Basis of preparation

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

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

#### 3.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries: Stockbrokers Malawi Limited, NBM Capital Markets Limited and Indebank Limited (now dormant) (from the effective date of acquisition). The Group financial statements also incorporate results of associated companies. National Bank of Malawi Nominees Limited, NBM Securities Limited and NBM Bureau de Change Limited are dormant subsidiaries.

##### a. Subsidiaries

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2016. 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.

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.1 Basis of consolidation (Continued)

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

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

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

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

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

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

### **3. ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Basis of consolidation (Continued)**

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 *Business combinations***

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

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.2 *Business combinations (Continued)*

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

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

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

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

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

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.2 *Business combinations (Continued)*

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

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

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

#### 3.3 **Goodwill**

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

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

Goodwill is not amortised but is reviewed for impairment at least annually. For the

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.3 Goodwill (*Continued*)

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

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

#### 3.4 Comparatives

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

#### 3.5 Financial assets

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

##### i. Financial assets at fair value through profit or loss

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

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to the statement of comprehensive income. Gains and losses arising from changes in fair value are included directly in the statement of comprehensive income and are reported as 'Net gains/ (losses) on financial instruments classified as held for trading'. Interest income and expense and dividend income and expenses on financial assets held for trading are included in 'Net interest

3. ACCOUNTING POLICIES (CONTINUED)

3.5 *Financial assets (Continued)*

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

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.

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.5 *Financial assets (Continued)*

##### iii. Held-to-maturity investments (Continued)

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 (that is, if substantially all the risks and rewards have not been transferred, the Group

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.5 *Financial assets (Continued)*

##### vi. Derecognition (Continued)

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.

#### 3.6 *Offsetting financial instruments*

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

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.7 Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest rate method. Securities lent to counterparties are also retained in the financial statements.

#### 3.8 Impairment of financial assets

##### a. Assets carried at amortised cost

The Group assesses at each 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

**3. ACCOUNTING POLICIES (CONTINUED)****3.8 Impairment of financial assets (Continued)**

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

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

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.8 *Impairment of financial assets (Continued)*

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.

#### 3.9 *Property, plant and equipment*

Land and buildings are shown at valuation with subsequent additions at cost, less related depreciation and impairment losses. Revaluations of land and buildings are carried out with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the year-end date, as economic conditions dictate, by independent valuers. The basis of valuation

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.9 *Property, plant and equipment (Continued)*

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.

Land and buildings comprise mainly service centres and offices.

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

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

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

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

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

Freehold land and capital work in progress are not depreciated.

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

#### 3.10 *Intangible assets*

Intangible assets are reported at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over their estimated useful

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.10 Intangible assets (Continued)

lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

#### 3.11 Leases

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

##### a. The Group as lessor

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

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

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

##### b. The Group as lessee

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

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

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.12 *Derivative financial instruments*

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

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

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

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

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

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

### 3. ACCOUNTING POLICIES (CONTINUED)

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

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.

#### 3.14 *Non-current assets held for sale*

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

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

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

#### 3.15 *Provisions*

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

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

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.15 Provisions (Continued)

a. Restructuring

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

b. Onerous contracts

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

c. Warranties

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

#### 3.16 Taxation

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

Current tax

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

Deferred tax

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

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.16 *Taxation (Continued)*

##### Deferred tax (Continued)

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.

#### 3.17 *Cash and cash equivalents*

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

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.18 *Employee benefits*

a. Pension obligations – Defined Contribution Plan

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

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

b. Short-term benefits

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

#### 3.19 *Foreign currency translation*

a. Functional and presentation currency

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

b. Transactions and balances

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

#### 3.20 *Financial liabilities and equity*

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.20 *Financial liabilities and equity (Continued)*

definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of the liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below:

i. Customer deposits and liabilities to other banks

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

ii. Other liabilities

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

iii. Equity instruments

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

#### 3.21 *Revenue recognition*

Interest income and expense

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

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

3. ACCOUNTING POLICIES (CONTINUED)

3.21 *Revenue recognition (Continued)*

Interest income and expense (Continued)

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

Dividend income

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

Premium on foreign exchange deals

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

3.22 *Share capital*

Share issue costs

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

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.22 *Share capital (Continued)*

##### Dividends on ordinary shares

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

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

##### Dividend per share

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

##### Earnings per share

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

#### 3.23 *Fiduciary activities*

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

### 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

4.1 *Critical judgements in applying the Group's accounting policies*

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

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

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

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

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

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

Key assumptions used:

- a. Cash flows arising from collateral realisation crystallise at an average period of 18 months and arise at the end of the 18 months period. Where cash flows are doubtful, they are assumed to be nil;

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

##### 4.2 *Key sources of estimation uncertainty (Continued)*

- b. Where there is a borrowing agreement but no collateral in place, expected future cash flows are assumed to be nil;
- c. Unsupported guarantees which are not backed by any tangible asset (by companies or individuals except bank guarantees) are assumed to result in nil cash flows; and
- d. No cash flows are assumed to arise where there is no repayment agreement i.e. in instances of unsanctioned borrowing for example exceeding authorised overdraft limits.

##### 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 17.

##### 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 statement of financial position date to reflect current thinking on their remaining lives in the light of technological change, prospective economic utilisation and physical conditions of the assets concerned as described in note 3.

##### v. Impairment of goodwill

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

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

NBM merged with Indebank Limited effective 1 May 2016. The merger of the two banks also resulted into the transfer of the pensions administration business of Indetrust Limited to National Bank Pensions Administration Limited while the

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

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

fund management business of the Indetrust Limited was transferred to NBM Capital Markets Limited. The merger of the two banks was approved as a Qualified Reorganisation under Section 70F of the Taxation Act by the Malawi Revenue Authority. As a result, the two banks are considered as one for taxation purposes.

This approved qualified reorganisation was effectively a combination of the two banks. The accounting standard that deals with this type of transaction is IFRS 3 Business Combinations. However, IFRS 3 does not apply to a combination of entities or businesses under common control. There is no accounting standard which addresses the treatment of a combination of entities under common control or one which allows merger accounting. The directors believe that the transaction should be accounted for using the principles of merger accounting. The reasons for this position are detailed out below:

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

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

- Transferring the assets and liabilities of Indebank Limited into the statement of financial position of National Bank of Malawi at their book values;
- The reserves, retained earnings and share capital of Indebank were retained in Indebank pending a formal liquidation process. NBM has not yet decided to transfer the reserves to NBM because the future of Indebank Limited (now a dormant company) is yet to be decided on. Also retained in Indebank Limited

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

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

books were the investments in its subsidiaries; Indetrust Limited and Indetrust Holdings Limited;

- Immediately after the merger with NBM, the banking licence of Indebank Limited was surrendered to the Registrar of Financial Institutions (Reserve Bank of Malawi) and therefore Indebank Limited became a dormant company;
- The legal ownership of the assets and liabilities has not been changed as at 31 December 2016 and this has been ignored by using the substance over form override;
- The statements of comprehensive income for the two entities have been maintained as separate, up to the point of the merger. These have been combined at Group level. As from the date of the merger, Indebank did not have any transactions on its Statement of Comprehensive Income as all operating assets and liabilities were transferred to NBM. All operating costs from the date of the merger were accounted for in NBM record; and
- The tax values of Indebank Limited have been transferred across at their tax written down values at 1 January 2016 and the relevant tax allowances claimed in the new entity. This treatment complies with the requirements of Section 70F of the Taxation Act on Qualified Reorganizations.
- The investment in Indebank Limited has been partially derecognised in the separate financial statements. Since Indebank Limited has retained its investments in Indetrust Holdings Limited, NBM's investment in Indebank Limited has not been fully derecognised. The remaining value in Indebank Group (NBM's share of net assets for Indebank Limited Group) and goodwill has been reflected in NBM's remaining investment in Indebank Limited. The excess of the initial cost of the investment over the value of the goodwill and the value of the remaining investment in Indebank has been adjusted against retained earnings in the separate financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 31 December 2016

### 5. CASH AND FUNDS WITH RESERVE BANK OF MALAWI

	GROUP		COMPANY	
	2016 K'm	2015 K'm	2016 K'm	2015 K'm
Cash	13 988	12 389	13 871	11 387
Balances with the Reserve Bank of Malawi	15 786	18 161	15 779	16 183
Total cash and funds with Reserve Bank of Malawi	<u>29 774</u>	<u>30 550</u>	<u>29 650</u>	<u>27 570</u>

The currency analysis of cash is in note 42e.

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 42e and 42g.

### 6. GOVERNMENT OF MALAWI TREASURY BILLS AND RESERVE BANK OF MALAWI BONDS

	Average interest rates		2016	2015	2016	2015
	2016	2015				
Government of Malawi treasury bills	22.47%	23.3%	25 590	28 592	23 581	26 223
Government of Malawi treasury notes	17.91%	17.91%	253	235	253	235
Reserve Bank of Malawi bonds	9.7%	9.7%	-	582	-	582
			<u>25 843</u>	<u>29 409</u>	<u>23 834</u>	<u>27 040</u>

The bills and bonds are due to mature as follows:

● Within three months	9 849	11 101	7 840	9 893
● Between three months and one year	15 994	18 073	15 994	16 912
● Over one year	-	235	-	235
	<u>25 843</u>	<u>29 409</u>	<u>23 834</u>	<u>27 040</u>

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

## 7. GOVERNMENT OF MALAWI PROMISSORY NOTES

Promissory notes	Maturity date	GROUP AND COMPANY		
		Carrying amount K'm	Fair Fair value K'm	value gain K'm
<b>2016</b>				
Acquired in 2016	11 August 2017	1 100	1 100	-
<b>2015</b>				
Number 3	30 June 2016	2 181	2 192	11
Acquired in 2015	18 February 2016	93	93	-
Total		2 274	2 285	11

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 attracted interest at the rate of the earliest 91 day Treasury bill yield during each quarter plus 2%. Interest of K217m (2015: K1 291m) 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.

In 2015, the Bank acquired a promissory note from the market at a cost of K71m. The note had a nominal value of K96m and its maturity date was 18 February 2016. Interest of K3m has been recognised in the statement of comprehensive income.

During the year, the Bank acquired another promissory note from the market at a cost of K967m. The note has a nominal value of K1 341m and its maturity date is 11 August 2017. The carrying amount includes accrued interest receivable amounting to K133m.

The fair value level has been disclosed under note 41.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 31 December 2016

### 8. EQUITY INVESTMENTS

GROUP	2015 K'm	Additions/ Disposals K'm	Fair Value Adjustment K'm	2016 K'm	Cost K'm
<u>First Merchant Bank Limited</u> 7 759 790 (2015: 7 759 790) Ordinary shares of K2.50 each at a market value of K17.00 (2014: K14.00) per share	109	-	23	132	94
<u>Illovo Sugar (Malawi) Limited</u> 83 276 (2015: 1 531 495) Ordinary shares of K0.02 each at a market value of K160.00 (2015: K230.00) per share	353	(229)	(110)	14	14
<u>NICO Holdings Limited</u> 14 300 000 (2015: 14 300 000) Ordinary shares of K0.20 each at a market value of K17.00 (2015: K28.00) per share	400	-	(157)	243	128
<u>Malawi Property Investment Company Limited</u> 19 650 882 (2015: 9 825 441) Ordinary shares of K0.05 each at a market value of K7.83 (2015: K8.20) per share	80	77	(4)	153	105
<u>National Investment Trust Limited</u> 6 278 259 (2015: 7 278 259) Ordinary shares of K1.00 each at a market value of K34.00 (2015: K55.00) per share	401	(45)	(142)	214	159
<u>NBS Bank Limited</u> 12 239 870 (2015: 16 312 789) Ordinary shares of K0.50 each at a market value of K6.00 (2015: K23.00) per share	375	(33)	(273)	69	160
<u>Standard Bank of Malawi Limited</u> 1 102 662 (2015: 1 102 662) Ordinary shares of K1.00 each at market value of K500.00 (2015: K440.00) per share	489	-	61	550	186
<u>Sunbird Malawi Limited</u> 1 000 000 (2015: 1 000 000) Ordinary shares of K0.05 each at a market value of K58.50 (2015: K23.00) per share	23	-	36	59	9
<u>Telekom Networks Malawi Limited</u> 88 350 194 (2015: 88 350 194) Ordinary shares of K0.04 each at a market value of K6.05 (2015: K6.00) per share	531	-	4	535	203
Total equity investment	2 761	(230)	(562)	1 969	1 058

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

## 8. EQUITY INVESTMENTS (CONTINUED)

COMPANY	2015 K'm	Additions/ Disposals K'm	Fair Value Adjustment K'm	2016 K'm	Cost K'm
<u>First Merchant Bank Limited</u> 7 759 790 (2015: 7 759 790) Ordinary shares of K2.50 each at a market value of K17.00 (2015: K14.00) per share	109	-	23	132	94
<u>Illovo Sugar (Malawi) Limited</u> Nil (2015: 1 470 626) Ordinary shares of K0.02 each at a market value of K160.00 (2015: K230.00) per share	339	(230)	(109)	-	-
<u>NICO Holdings Limited</u> 14 300 000 (2015: 14 300 000) Ordinary shares of K0.20 each at a market value of K17.00 (2015: K28.00) per share	400	-	(157)	243	128
<u>Malawi Property Investment Company Limited</u> 19 650 882 (2015: 9 825 441) Ordinary shares of K0.05 each at a market value of K7.83 (2015: K8.20) per share	80	77	(4)	153	105
<u>National Investment Trust Limited</u> 6 278 259 (2015: 7 278 259) Ordinary shares of K1.00 each at a market value of K34.00 (2015: K55.00) per share	401	(45)	(142)	214	159
<u>NBS Bank Limited</u> 12 239 870 (2015: 16 312 789) Ordinary shares of K0.50 each at a market value of K6.00 (2015: K23.00) per share	375	(33)	(273)	69	160
<u>Standard Bank of Malawi Limited</u> 1 000 000 (2015: 838 155) Ordinary shares of K1.00 each at market value of K500.00 (2015: K440.00) per share	439	-	60	499	186
<u>Sunbird Malawi Limited</u> 1 000 000 (2015: 1 000 000) Ordinary shares of K0.05 each at a market value of K58.50 (2015: K23.00) per share	23	-	36	59	9
<u>Telekom Networks Malawi Limited</u> 88 350 194 (2015: 88 350 194) Ordinary shares of K0.04 each at a market value of K6.05 (2015: K6.00) per share	531	-	4	535	203
Total equity investments	2 697	(231)	(562)	1 904	1 044

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 31 December 2016

### 8. EQUITY INVESTMENTS (CONTINUED)

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

	Level 1 K'm	Level 2 K'm	Level 3 K'm	Fair value 2015 K'm
Equity investments in listed companies	2 761	-	-	2 761

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

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 2015 K'm
Equity investments in listed companies	2 697	-	-	2 697

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

### 9. INVESTMENT IN ASSOCIATES

	GROUP		COMPANY	
	2016 K'm	2015 K'm	2016 K'm	2015 K'm
Purchase consideration	233	123	233	123
Additional investment	-	110	-	110
Share of accumulated results	165	294	-	-
	<u>398</u>	<u>527</u>	<u>233</u>	<u>233</u>
Assets	6 342	5 498		
Liabilities	(5 301)	(3 694)		
Net assets	<u>1 041</u>	<u>1 804</u>		
Group's share of net assets of associates	<u>323</u>	<u>559</u>		
Total revenue	<u>3 813</u>	<u>3 771</u>		
Total (loss)/profit for the year	<u>(595)</u>	<u>199</u>		

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

## 10. INVESTMENT IN SUBSIDIARIES

	Note	COMPANY	
		2016 K'm	2015 K'm
Indebank Limited	4.3& 10.1.5	6 072	6 590
NBM Pensions Administration Limited		250	192
Stockbrokers Malawi Limited		98	98
NBM Bureau de Change Limited		7	7
NBM Capital Markets Limited		17	17
Total investment in subsidiaries		<u>6 444</u>	<u>6 904</u>

NBM, through National Bank Nominees Limited, holds 75% (2015:75%) stake in Stockbrokers Malawi Limited. The Bank also holds 100% (2015: 100%) stake in NBM Bureau de Change Limited, a 100% (2015: 100%) stake in NBM Capital Markets Limited, a 100% (2015: 100%) stake in NBM Pension Administration Limited and a 100% (2015: 97.05%) stake in Indebank Limited. NBM Bureau de Change ceased operations in 2013. Indebank ceased to operate during the year and its operating assets and liabilities were transferred to National Bank of Malawi effective 1 May, 2016. The banking licence was consequently surrendered to the Registrar of Financial Institutions (the Reserve Bank of Malawi).

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 31 December 2016

### 10. INVESTMENT IN SUBSIDIARIES

#### 10.1 Investment in Indebank

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

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

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

	Assets K'm
Cash and Funds with Reserve Bank of Malawi	1 873
Treasury and Reserve Bank of Malawi Bills	2 597
Investment in associate	15
Placements with other Banks	4 142
Loans and advances	9 292
Other assets	699
Deferred tax	224
Investment property	133
Property, plant and equipment	4 205
Intangible assets	<u>244</u>
<b>Total assets</b>	<b><u>23 424</u></b>
<b>Liabilities</b>	
Deposits	17 565
Current income tax liability	5
Other liabilities	1 503
Deferred tax	616
Loans	<u>213</u>
<b>Total liabilities</b>	<b><u>19 902</u></b>
<b>Net assets</b>	<b><u>3 522</u></b>

## 10. INVESTMENT IN SUBSIDIARIES (CONTINUED)

## 10.1.2 Goodwill arising on acquisition

	K'm	
	2016	2015
Consideration transferred	26	6 590
Non-controlling interest	(78)	943
Less: Fair value of identifiable net assets acquired	-	(3 522)
Goodwill arising on acquisition (note 20)	<u>(52)</u>	<u>4 011</u>
Cumulative goodwill on the whole acquisition	<u>3 959</u>	<u>4 011</u>

## 10.1.3 Net cash outflow on acquisition of subsidiary

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

## 10.1.4 Impact of acquisition on the results of the Group

Included in the profit for the year is a loss of K187m attributable to the additional business generated by Indebank Limited and income for the year includes K1 731m in respect of Indebank Limited for the four months period it traded up to 30 April 2016.

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

The investment in Indebank Limited has not been fully derecognised in NBM's separate financial Statement because it represents goodwill –K4bn (refer to note 20) and other assets amounting to K2.1bn including investment in Indetrust Holdings Limited whose assets and liabilities have not been transferred to NBM and the company remains a separate entity.

11. PLACEMENTS WITH OTHER BANKS

	GROUP		COMPANY	
	2016 K'm	2015 K'm	2016 K'm	2015 K'm
Money market placements with other banks	-	3 650	-	-
Balances due from other banks	21 683	20 479	21 683	18 878
Total placements with other banks	21 683	24 129	21 683	18 878

Placements with other banks are denominated in the following currencies:

	Average interest rates		GROUP	
	2016	2015	2016	2015
Malawi Kwacha denominated	-	27.00%	-	5 102
US Dollar denominated	0.50%	0.50%	9 832	6 184
GBP denominated	1.75%	1.75%	2 114	3 283
Euro denominated	0.50%	0.50%	8 443	8 384
ZAR denominated	4.00%	4.00%	632	977
Other	0%	0%	662	199
			21 683	24 129

Money market placements with other banks are held to maturity and mature within one month (2015: one month) of the year end.

## 12. LOANS AND ADVANCES

	GROUP		COMPANY	
	2016 K'm	2015 K'm	2016 K'm	2015 K'm
Gross loans and advances	131 935	113 728	131 935	109 021
Staff loans	2 443	1 958	2 443	1 781
Total loans and advances	134 378	115 686	134 378	110 802
Specific provisions	(1 091)	(1 711)	(1 091)	(1 192)
Net loans and advances	133 287	113 975	133 287	109 610
Due to mature as follows:				
• Within three months	33 235	25 734	33 235	23 519
• Between three months and one year	60 931	51 048	60 931	49 602
• After one year and not later than five years	40 936	39 837	40 936	38 315
Interest in suspense	(724)	(933)	(724)	(634)
	134 378	115 686	134 378	110 802
<b>Analysis of gross loans by currency</b>				
Malawi Kwacha denominated	89 705	75 385	89 705	71 119
US Dollar denominated	44 673	40 301	44 673	39 683
	134 378	115 686	134 378	110 802

The Malawi Kwacha base lending rate for the bank as at 31 December 2016 was 32% (2015: 34.0%) and US Dollar denominated loans carried an average interest rate of 8.83% (2015: 8.97%).

**Movement on specific provisions**

At beginning of the year	1 711	1 831	1 192	1 831
Charged to statements of comprehensive income	1 800	3 380	1 584	2 847
Applied against advances-write offs	(2 096)	(3 134)	(1 453)	(3 339)
Recovered	(324)	(366)	(232)	(147)

At end of the year

	1 091	1 711	1 091	1 192
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**Movement on interest in suspense**

At beginning of the year	933	976	634	976
Applied against advances-write offs	(1 122)	(2 726)	(823)	(2 726)
Suspended in the year	982	2 703	982	2 404
Recovered	(69)	(20)	(69)	(20)

At end of the year

	724	933	724	634
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**Analysis of recoveries**

Specific provisions	324	366	232	147
Interest in suspense	69	20	69	20
Debts previously written off	624	1 178	624	1 178

Transferred to statement of comprehensive income

	1 017	1 564	925	1 345
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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 31 December 2016

### 12. LOANS AND ADVANCES (CONTINUED)

	GROUP AND COMPANY	
	2016 K'm	2015 K'm
<b>Finance lease receivables</b>		
Gross investment in finance lease receivable:		
• Within three months	86	85
• Between three months and one year	1 169	772
• After one year and not later than five years	12 171	11 407
	<u>13 426</u>	<u>12 264</u>
Unearned future income on finance leases	(3 878)	(3 744)
	<u>9 548</u>	<u>8 520</u>
Specific provisions	(68)	(48)
Net investment in finance leases	<u>9 480</u>	<u>8 472</u>
The net investment in finance leases matures as follows:		
• Within three months	79	60
• Between three months and one year	1 043	652
• After one year and not later than five years	8 358	7 760
	<u>9 480</u>	<u>8 472</u>

### 13. OTHER MONEY MARKET DEPOSITS

	GROUP		COMPANY	
	2016 K'm	2015 K'm	2016 K'm	2015 K'm
Money market investments with Reserve Bank of Malawi and other banks	<u>59 077</u>	<u>40 023</u>	<u>46 882</u>	<u>23 437</u>

Money market investments with Reserve Bank of Malawi and other banks are held to maturity and mature within one month (2015: one month) after the year-end. The deposits earned an average interest rate of 27.92% (2015: 25%).

Included under company, is K9.3bn (2015: nil) relating to money market investment the Bank held through its subsidiary, Stockbrokers Malawi Limited.

### 14. OTHER ASSETS

	GROUP		COMPANY	
	2016 K'm	2015 K'm	2016 K'm	2015 K'm
Sundry receivables and prepayments	6 366	5 026	5 796	4 294
Due from local banks	703	1 037	703	982
Employee benefit subsidy	2 063	1 784	2 063	1 607
Forward contracts	3 258	-	3 258	-
Other investments	61	44	61	44
Specific provision	(1 906)	(1 906)	(1 906)	(1 906)
Total other assets	<u>10 545</u>	<u>5 985</u>	<u>9 975</u>	<u>5 021</u>

## 14. OTHER ASSETS (CONTINUED)

**Employee benefit subsidy**

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

## 15. NON-CURRENT ASSETS HELD FOR SALE

	Freehold land & buildings K'm	Leasehold land & buildings K'm	Investment property K'm	Motor vehicles K'm	Total K'm
<b>GROUP AND COMPANY</b>					
<b>Cost or valuation</b>					
Reclassified as held for sale from property, plant and equipment	321	218	133	218	890
At 31 December 2016	321	218	133	218	890
<b>Accumulated depreciation</b>					
Reclassified as held for sale from other categories	2	27	-	103	132
Impairment loss	-	47	-	-	47
At 31 December 2016	2	74	-	103	179
<b>Carrying amount</b>					
At 31 December 2016	319	144	133	115	711

The non-current assets held for sale related to items which NBM acquired through business combinations with Indebank Limited. After the merger of NBM and Indebank, these items were considered a surplus to NBM requirements, as such the Group has vigorously been looking for a buyer of the items. The impairment loss related to Ex-Indebank Mangochi cottage, Luchenza agency, Mponela agency and Salima agency at total cost of K218m, accumulated depreciation of K21m and at fair value less cost to of K150m.

16. INVESTMENT PROPERTIES

	GROUP	
	2016 K'm	2015 K'm
Acquired through business combination	-	133

Investment properties comprised land and a residential property, and gains arising during the year have been accounted for in the statement of comprehensive income in line with IAS 40, *Investment Properties*. During the year, the properties were classified as assets held for sale.

Investment properties were valued at 31 December 2015 by Griffin R.P. Baloyi BSc (Hons), BSoc, MRICS, MSIM an independent chartered surveyor of Griffin Baloyi and Associates. The basis of valuation used was market value assuming continued present usage.

Details of the Group's investment properties and information about the fair value hierarchy as at the year-end are as follows:

	2016		2015	
	Level 2 K'm	Fair Value K'm	Level 2 K'm	Fair Value K'm
Land and residential property	-	-	133	133

## 17. PROPERTY, PLANT AND EQUIPMENT

	Freehold land & buildings K'm	Leasehold land & buildings K'm	Motor vehicles & equipment K'm	Work in progress K'm	Total K'm
<b>GROUP</b>					
<b>Cost or valuation</b>					
At 1 January 2015	13 998	3 243	8 737	165	26 143
Additions	130	15	1 288	697	2 130
Transfer from work in progress	281	82	171	(534)	-
Disposals	-	-	(1 101)	-	(1 101)
Acquired through business combination	2 335	710	950	201	4 196
Revaluation surplus	875	217	-	-	1 092
At 31 December 2015	17 619	4 267	10 045	529	32 460
At 1 January 2016	17 619	4 267	10 045	529	32 460
Additions	-	-	3 780	465	4 245
Transfer from work in progress	314	270	-	(584)	-
Disposals	-	(190)	(630)	-	(820)
Reclassified as held for sale	(321)	(218)	(218)	-	(757)
Revaluation loss	(198)	(113)	-	-	(311)
Revaluation surplus	1 678	224	-	-	1 902
At 31 December 2016	19 092	4 240	12 977	410	36 719
<b>Depreciation</b>					
At 1 January 2015	-	54	6 058	-	6 112
Charge for the year	241	186	1 534	-	1 961
Elimination on revaluation	(241)	(50)	-	-	(291)
Elimination on disposal	-	-	(841)	-	(841)
At 31 December 2015	-	190	6 751	-	6 941
At 1 January 2016	-	190	6 751	-	6 941
Charge for the year	269	261	1 851	-	2 381
Elimination on revaluation	(262)	(59)	-	-	(321)
Elimination on disposal	-	(96)	(402)	-	(498)
Impairment loss	-	134	-	3	137
Reclassified as held for sale	(7)	(22)	(103)	-	(132)
At 31 December 2016	-	408	8 097	3	8 508
<b>Carrying amount</b>					
At 31 December 2016	19 092	3 832	4 880	407	28 211
At 31 December 2015	17 619	4 077	3 294	529	25 519

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 31 December 2016

### 17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold land & buildings K'm	Leasehold land & buildings K'm	Motor vehicles & equipment K'm	Work in progress K'm	Total K'm
<b>COMPANY</b>					
<b>Cost or valuation</b>					
At 1 January 2015	13 998	3 243	8 621	165	26 027
Additions	130	15	1 286	697	2 128
Transfer from work in progress	281	82	171	(534)	-
Disposals	-	-	(1 098)	-	(1 098)
Transfer to NBM Pension Administration Limited	-	-	(3)	-	(3)
Revaluation surplus	875	197	-	-	1 072
At 31 December 2015	15 284	3 537	8 977	328	28 126
At 1 January 2016	15 284	3 537	8 977	328	28 126
Additions	-	-	3 842	576	4 418
Transfer from work in progress	314	270	-	(584)	-
Disposals	-	(190)	(468)	-	(658)
Transfer from Indebank	167	799	1 679	91	2 736
Reclassified as held for sale	(321)	(218)	(218)	-	(757)
Revaluation loss	(198)	(113)	-	-	(311)
Revaluation surplus	1 292	224	-	-	1 516
At 31 December 2016	16 538	4 309	13 812	411	35 070
<b>Depreciation</b>					
At 1 January 2015	-	54	6 035	-	6 089
Charge for the year	241	173	1 476	-	1 890
Elimination on revaluation	(241)	(52)	-	-	(293)
Elimination on disposal	-	-	(817)	-	(817)
Transfer to NBM Pension Administration Limited	-	-	(2)	-	(2)
At 31 December 2015	-	175	6 692	-	6 867
At 1 January 2016	-	175	6 692	-	6 867
Charge for the year	267	261	1 688	-	2 216
Elimination on revaluation	(262)	(58)	-	-	(320)
Elimination on disposal	-	(96)	(297)	-	(393)
Reclassified as held for sale	(7)	(22)	(103)	-	(132)
Impairment loss	-	134	-	3	137
Transfer from Indebank	2	272	1 092	-	1 366
At 31 December 2016	-	666	9 072	3	9 741
<b>Carrying amount</b>					
At 31 December 2016	16 538	3 643	4 740	408	25 329
At 31 December 2015	15 284	3 362	2 285	328	21 259

## 17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

**GROUP****Land and buildings**

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

	2016 K'm	2015 K'm
Freehold - at 2016 valuation	19 092	-
- at 2015 valuation	-	17 619
<b>Total freehold land and buildings</b>	<b>19 092</b>	<b>17 619</b>
Leasehold - at 2016 valuation	4 240	-
- at 2015 valuation	-	4 267
<b>Total leasehold land and buildings</b>	<b>4 240</b>	<b>4 267</b>

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

	Related parties K'm	Others K'm	Total K'm
2016			
Motor vehicles	1 618	249	1 867
2015			
Motor vehicles	271	127	398

Press Corporation Limited, Press Properties Limited, Bottling and Brewing Group Limited, PTC, Ethanol Company Limited, Presscane Limited and Malawi Telecommunications Limited are the related parties to whom the Bank leases motor vehicles which were purchased at a cost of K3 340m (2015: K1 138m).

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

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

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

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Valuations in 2016

Land and buildings for the Bank were fair valued as at 31 December 2016 by Knight Frank, qualified independent valuers on a current market value basis. Land and buildings for Indebank were revalued as at 31 December 2015 by J Kantema BSc (Hons) Land Admin, BSc, MSIM an independent registered chartered valuation surveyor of Real Property and Development Consultants.

Out of the K2 110m (2015: K1 398m) the Group's gross revaluation surplus, K404m (2015: K15m) 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 K1,706m (2015: K383m) was credited to the revaluation reserve through the statement of other comprehensive income (refer note 33).

Details of land and buildings at fair value and information about the fair value hierarchy as at 31 December 2016 are as follows:

	Level 1 K'm	Level 2 K'm	Level 3 K'm	Fair value 2016 K'm
Freehold land and buildings	-	19 092	-	19 092
Leasehold land and buildings	-	4 240	-	4 240

Had land and buildings been carried at historical cost less depreciation and accumulated impairment losses, their carrying value would have been approximately K8 238m (2015: K8 697m).

## 18. INTANGIBLE ASSETS

	Development costs K'm	Computer software K'm	Work in progress K'm	Total K'm
<b>GROUP</b>				
<b>Cost or valuation</b>				
At 1 January 2015	326	1 679	2 613	4 618
Additions	-	235	1 069	1 304
Transfer from work in progress	-	1 591	(1 591)	-
Acquired through business combination	-	252	-	252
At 31 December 2015	326	3 757	2 091	6 174
At 1 January 2016	326	3 757	2 091	6 174
Additions	-	36	1 801	1 837
Transfer from work in progress	-	550	(550)	-
Write offs	-	(47)	-	(47)
At 31 December 2016	326	4 296	3 342	7 964
<b>Depreciation</b>				
At 1 January 2015	322	524	-	846
Charge for the year	1	324	-	325
At 31 December 2015	323	848	-	1 171
At 1 January 2016	323	848	-	1 171
Charge for the year	1	400	-	401
Impairment loss	-	127	167	294
At 31 December 2016	324	1 375	167	1 866
<b>Carrying amounts</b>				
31 December 2016	2	2 921	3 175	6 098
31 December 2015	3	2 909	2 091	5 003

18. INTANGIBLE ASSETS (CONTINUED)

	Development costs K'm	Computer software K'm	Work in progress K'm	Total K'm
<b>COMPANY</b>				
<b>Cost or valuation</b>				
At 1 January 2015	326	1 679	2 613	4 618
Additions	-	235	1 069	1 304
Transfer from work in progress	-	1 591	(1 591)	-
At 31 December 2015	326	3 505	2 091	5 922
At 1 January 2016	326	3 505	2 091	5 922
Additions	-	36	1 570	1 606
Transfer from work in progress	-	550	(550)	-
Transfer from Indebank	-	375	190	565
At 31 December 2016	326	4 466	3 301	8 093
<b>Depreciation</b>				
At 1 January 2015	322	524	-	846
Charge for year	1	317	-	318
At 31 December 2015	323	841	-	1 164
At 1 January 2016	323	841	-	1 164
Charge for the year	1	393	-	394
Transfer from Indebank	-	143	-	143
Impairment loss	-	127	167	294
At 31 December 2016	324	1 504	167	1 995
<b>Carrying amounts</b>				
31 December 2016	2	2 962	3 134	6 098
31 December 2015	3	2 664	2 091	4 758

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

## 19.1 DEFERRED TAX ASSET

	Opening balance K'm	Acquired through business combination K'm	Charge to come K'm	Charged to equity K'm	Closing balance K'm
<b>GROUP</b>					
<b>2015</b>					
Accelerated capital allowances	(351)	(64)	(298)	-	(713)
Revaluation of land and buildings	3 153	70	24	1 233	4 480
Tax losses	-	251	181	-	432
Other temporary differences	620	(33)	(196)	-	391
Total deferred tax	3 422	224	(289)	1 233	4 590
<b>2016</b>					
Accelerated capital allowances	(713)	-	(439)	-	(1 152)
Revaluation of land and buildings	4 480	-	54	2 171	6 705
Tax losses	432	-	77	-	509
Other temporary differences	391	-	393	-	784
Total deferred tax	4 590	-	85	2 171	6 846

	Opening balance K'm	Transferred from Indebank K'm	Charge to come K'm	Charged to equity K'm	Closing balance K'm
<b>COMPANY</b>					
<b>2015</b>					
Accelerated capital allowances	(350)	-	(300)	-	(650)
Revaluation of land and buildings	3 153	-	(4)	1 243	4 392
Other temporary differences	611	-	(178)	-	433
Total deferred tax	3 414	-	(482)	1 243	4 175
<b>2016</b>					
Accelerated capital allowances	(650)	61	(441)	-	(1 030)
Revaluation of land and buildings	4 392	(87)	54	2 171	6 530
Other temporary differences	433	516	362	-	1 311
Total deferred tax	4 175	490	(25)	2 171	6 811

19.2 DEFERRED TAX LIABILITY

	Opening balance K'm	Acquired through business combination K'm	Charge to come K'm	Charged to equity K'm	Closing balance K'm
GROUP					
2015					
Revaluation of fixed assets	-	611	8	(30)	589
Other temporary differences	-	5	6	-	11
Total deferred tax	-	616	14	(30)	600
2016					
Revaluation of fixed assets	589	-	-	-	589
Other temporary differences	11	-	(7)	-	4
Total deferred tax	600	-	(7)	-	593

20. GOODWILL

	GROUP	
	2016 K'm	2015 K'm
Opening balance	4 011	-
Reduction after acquisition completion (note 10.1.2)	(52)	-
Acquisition through business combination	-	4 011
Balance at 31 December 2016	3 959	4 011

National Bank of Malawi (NBM) acquired Indebank Limited on 31 October 2015. As at that acquisition date, there were already commitments by NBM to buy the ESOS and discussions were underway to agree the price which was concluded in 2016 at a cost of K26m. In the provisional determination of the goodwill in 2015 as highlighted below, no estimate of the cost of the ESOS was factored in and that has been incorporated in 2016. The total purchase consideration was K6 616m and the goodwill arising on acquisition of K3 959m (refer to note 10) has been recorded as at 31 December 2016 (2015: K4 011m).

In accordance with IAS 36 *Impairment of Assets* paragraph 84, as at 31 December 2015, a provision goodwill amount of K4 011m was recorded pending the purchase price allocation valuation exercise which was carried out in 2016 and disclosed in the 2016 financial statements. The goodwill balance has been allocated to Wholesale Banking Division (WBD) as a cash generating unit.

## 20. GOODWILL (CONTINUED)

### **Annual test for impairment**

The Group determined the recoverable amount of the Cash Generating Unit (WBD) to be K143.4m based on the value in use model. The value in use was based on discounted future cash flows (using NBM's approved budgeted figures for 2017 and projections covering a 4 year period from 2018) discounted at a weighted average cost of capital of 33.37%.

All forecasts used in the determination of value in use are extracted directly from the Bank's 2016 budget that was presented to the Board of Directors and approved by them.

Cashflow projections during the budget period were based on the same expected gross margins and price inflation through the budget period. The cashflows beyond that five year period have been extrapolated using a steady 20% per annum growth rate which is the projected long term average growth rate for Wholesale Banking Business. The directors believe that any reasonably possible change in the key assumption on which the the recoverable is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash generating unit.

The carrying amount of the CGU was K135.2m. As such, in accordance with IAS 36 Impairment of Assets, NBM determined that the goodwill was not impaired as at 31 December 2016.

21. CUSTOMER DEPOSITS

	GROUP		COMPANY	
	2016 K'm	2015 K'm	2016 K'm	2015 K'm
	<b>Average interest rates</b>			
Analysis by account type:	<b>2016</b>	<b>2015</b>		
Current accounts	0.15%	0.15%	78 107	75 971
Foreign currency accounts	0.50%	0.50%	67 183	62 707
Savings accounts	7.80%	7.80%	42 632	32 986
Deposit accounts	10.50%	10.50 %	30 071	27 403
Client funds	28.00%	22.00%	13 289	15 922
			231 282	214 989
Total customer deposits			218 069	184 093
Analysis by interest risk type:				
Interest bearing deposits			226 035	212 742
Non-interest bearing deposits			5 247	2 247
			231 282	214 989
			218 069	184 093

All interest bearing accounts, excluding deposit accounts, are at floating rates that are adjusted at the Bank's discretion note 42d.

Analysis by interest maturity:

	GROUP		COMPANY	
	2016 K'm	2015 K'm	2016 K'm	2015 K'm
Customer deposits are payable as follows:				
● Within three months	227 973	212 351	214 760	181 846
● Between three months and one year	3 309	2 638	3 309	2 247
	231 282	214 989	218 069	184 093
Analysis by sector:				
Agriculture	2	2 017	2	221
Manufacturing	11 814	9 260	11 814	8 688
Wholesale and retail	22 077	18 834	22 077	17 474
Finance and insurance	25 197	15 888	25 197	13 236
Personal accounts	49 664	64 976	49 664	63 708
Construction	2 804	2 949	2 804	2 026
Electricity gas water and energy	9 424	13 108	9 424	11 438
Transport, storage and communications	7 335	7 785	7 335	6 888
Restaurants and hotels	1 117	1 071	1 117	985
Clients funds	13 289	15 922	-	-
Other	88 559	63 179	88 635	59 429
	231 282	214 989	218 069	184 093
Total	231 282	214 989	218 069	184 093

The currency analysis of customer deposits is included in note 42e.

## 22. AMOUNTS DUE TO OTHER BANKS

	GROUP		COMPANY	
	2016 K'm	2015 K'm	2016 K'm	2015 K'm
Liabilities in Malawi Kwacha	11 106	1 662	11 106	1 462
Liabilities in foreign currency	148	322	148	322
Bills in suspense in foreign currency	3 316	1 363	3 316	1 363
Total amounts due to other banks	14 570	3 347	14 570	3 147

## 23. CURRENT INCOME TAX LIABILITIES

Opening balance	1 229	1 930	1 192	1 884
Current charge (note 34)	8 734	5 943	8 390	5 892
Tax paid	(6 779)	(6 644)	(6 585)	(6 584)
Closing balance	3 184	1 229	2 997	1 192

## 24. LOANS

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

Amounts repayable within one year	-	3 343	-	3 340
Amount repayable after one year	209	208	209	-
	209	3 551	209	3 340

24.1 **Financierings-MaatschappijvoorOntwikkelingsladen (FMO) Loan**

In 2012, the Bank signed an agreement for an unsecured facility of USD20m from Nederlandse Financierings-Maatschappijvoor Ontwikkelingsladen (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 2015 USD20m had been drawn down. Of this amount, USD14.96m had been repaid as per loan agreement leaving an outstanding balance of USD5.04m which has been repaid in full during the year ended 31 December 2016. The interest rate on the outstanding loan balance repaid in 2016 was adjustable quarterly and was at the rate of LIBOR plus 4%.

24.2 **Lines of credit**24.2.1 **Malawi Government (denominated in Deutschemark (DM))**

The loan is two parts: Part 1 and Part 2. The two loans, which are unsecured, are for DM5.0m and DM6.6m, respectively. The amounts drawn against specific projects at the year-end are equivalent to DM4.78m and DM6.07m, respectively. Both loans are interest free. The loans

**24. LOANS (CONTINUED)****24.2 Lines of credit (Continued)****24.2.1 Malawi Government (denominated in Deutschemark (DM))(Continued)**

are repayable to the Malawi Government in Malawi Kwacha starting in 2034 and 2043, respectively. The Malawi Kwacha value of the loan was set at the time of disbursement. The total carrying amount of the loan as at 31 December 2016 was K105m (2015:K105m).

**24.2.2 United States Agency for International Development (USAID)**

This is a two-part loan: The first loan, which is unsecured, is for USD1.2m and bears interest at 4% per annum. The Malawi Kwacha value of the loan was set at the time of disbursement. The loan is repayable to the Malawi Government in Malawi Kwacha over a period of 25 years commencing 30 June 1993. The carrying amount of the loan as at 31 December 2016 was K3m (2015:K3m). There is no agreement for the second loan. However, provision interest has been made at 4% per annum on the assumption that the terms of the first loan apply on the second loan. The carrying amount of the second loan as at 31 December 2016 was K9m (2015:K9m). The loan has not been repaid because the Malawi Government lost documentation relating to the loan and the Group is yet to renegotiate with Malawi Government on a new repayment schedule.

**24.2.3 The Transport Sector Revolving Fund**

The transport sector revolving fund bears interest at 3% per annum. The loan is repayable on such dates as the Government and the Bank shall mutually agree in writing. As at year-end an agreement had not yet been reached. The carrying amount of the loan as at 31 December 2016 was K67m (2015:K67m).

**24.2.4 Private Sector Revolving Fund**

The private sector revolving fund is effectively interest free. However, from 1 July 2004, the Group is obliged to pay an administrative fee pegged at 3% per annum on all sums advanced by Government. The loan is repayable on such a date as the Government and the Bank shall mutually agree in writing. As at reporting date, an agreement had not yet been reached. The carrying amount of the loan as at 31 December 2016 was K25m (2015: K25m).

**24.2.5 European Investment Bank (EIB)**

In 2016, the Bank signed an agreement for an unsecured line of credit for Euro 30 million Euros joint facility with the European Investment Bank (EIB) to facilitate purchase, construction and extension of warehouses and agristorage assets. NBM shall pay interest on the outstanding balance at the rate of either (i) 3.381 % in respect of those tranches deemed by the Bank to be in respect of HDI Investments or (ii) 3.471 % for all tranches in respect of Standard Investments. Both rates shall incur interest semi-annually in arrears. The loan is repayable semi-annually. As at 31 December 2016, the Bank had not drawn down any amount and as such the outstanding balance was nil.

24. LOANS (CONTINUED)

25. PROVISIONS

	Employee bonus K'm	Tevet levy K'm	Other K'm	Total K'm
<b>GROUP</b>				
<b>2016</b>				
At 1 January 2016	1 705	32	691	2 428
Provisions made during the year	2 087	106	-	2 193
Payments made during the year	(1 705)	(79)	-	(1 784)
At 31 December 2016	2 087	59	691	2 837
<b>2015</b>				
At 1 January 2015	2 595	22	-	2 617
Provisions made during the year	1 680	83	691	2 454
Payments made during the year	(2 570)	(73)	-	(2 643)
At 31 December 2015	1 705	32	691	2 428
<b>COMPANY</b>				
<b>2016</b>				
At 1 January 2016	1 603	27	-	1 630
Provisions made during the year	1 887	98	-	1 985
Transfer from Indebank	-	-	691	691
Payments made during the year	(1 603)	(79)	-	(1 682)
At 31 December 2016	1 887	46	691	2 624
<b>2015</b>				
At 1 January 2015	2 532	21	-	2 553
Provisions made during the year	1 603	78	-	1 681
Payments made during the year	(2 532)	(72)	-	(2 604)
At 31 December 2015	1 603	27	-	1 630

26. OTHER LIABILITIES

	GROUP		COMPANY	
	2016 K'm	2015 K'm	2016 K'm	2015 K'm
Unclaimed balances	565	349	565	349
Bank cheques	1 048	433	1 048	433
Office accounts	159	234	159	234
Other liabilities	6 102	6 919	6 719	6 250
Total other liabilities	7 874	7 935	8 491	7 266

The currency analysis of other liabilities is included in note 42(e).

27. POST BALANCE SHEET EVENTS

As at the date of approval of these financial statements, there are no material post balance sheet events requiring adjustment for and/or disclosure in the financial statements.

28. PENSION SCHEME

The Pension Fund, which was managed internally up to 31 December 2014, is a fully defined contribution scheme. The contributions of employees and the employer are 5.5% (2015: 5.5%) and 11% (2015: 11.0%) of the fund members' basic pensionable salaries, respectively. The amount charged against income during the year was K948m (2015: K572m).

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

The Pension Fund is a self-accounting Trust whose assets are not available to the National Bank of Malawi Group. The Trustees of the Fund are employees of the Bank. The Bank rents some of the Fund's properties at commercial rates. The Group incurred K256m (2015: K189m) in rentals for such properties during the year.

## 28. PENSION SCHEME (CONTINUED)

The Fund was valued by independent actuaries, Alexander Forbes, as at 31 December 2015. As per the interim actuarial valuation, the General Fund had a surplus of K1 922m (December 2014: surplus of K2 596m) and the Special Fund had a surplus of K2 121m (December 2014: surplus of K1 830m).

In as far as the Special Fund is concerned, the above position was based on the old rules which fell away with the ushering in of new rules that do not require that there be a separate salary under-pin cover and a separate death cover within the Fund. Since this liability fell away, every member's benefit was confirmed by the trustees to have been fully funded as at 1 July 2014 as required by law such that there is no longer a deficit applicable after 30 June 2014. As highlighted above, the actuarial report as at 31 December 2015 has confirmed the non-existence of such deficit. Therefore, no liability nor contingent liability has been recognised in the 2016 annual financial statements. There was no liability nor contingent liability recognised in the 2015 annual financial statements.

## 29. NET INTEREST INCOME

	GROUP		COMPANY	
	2016 K'm	2015 K'm	2016 K'm	2015 K'm
<b>Interest and similar income</b>				
Interest on loans and advances and bills discounted	28 431	18 238	28 024	17 793
Income from investments	13 543	11 466	13 319	11 381
Income from lease financing	2 976	2 690	2 976	2 690
Interest on placements with other banks	1 261	364	359	186
	<b>46 211</b>	<b>32 758</b>	<b>44 678</b>	<b>32 050</b>
<b>Interest expense and similar charges</b>				
Banks and customers	5 695	4 394	5 460	4 134
Money market loans and repos	453	266	448	270
	<b>6 148</b>	<b>4 660</b>	<b>5 908</b>	<b>4 404</b>
Net interest income	<b>40 063</b>	<b>28 098</b>	<b>38 770</b>	<b>27 646</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 31 December 2016

### 30. COMMISSION AND FEE INCOME

	GROUP		COMPANY	
	2016 K'm	2015 K'm	2016 K'm	2015 K'm
Commissions	10 032	7 431	8 721	6 491
Arrangement and other fee income	1 969	1 583	1 947	1 561
Other income	1 140	864	774	735
<b>Total commission and fee income</b>	<b>13 141</b>	<b>9 878</b>	<b>11 442</b>	<b>8 787</b>

### 31. STAFF COSTS

Salaries and wages	7 958	5 536	7 241	5 146
Other staff costs	4 098	3 113	3 648	2 874
Staff loans fair value adjustment	(27)	31	22	31
Staff bonus	2 087	1 680	1 887	1 603
Severance pay	946	(18)	946	(18)
Pension costs	948	625	824	558
<b>Total staff costs</b>	<b>16 010</b>	<b>10 967</b>	<b>14 568</b>	<b>10 194</b>

### 32. OTHER OPERATING EXPENDITURE

Recurrent expenditure on premises and equipment	5 993	3 850	5 578	3 632
Depreciation	2 381	1 961	2 216	1 890
Amortisation of intangible assets	401	325	394	318
Legal charges	210	119	115	80
Auditor's remuneration including VAT and expenses (2016)	150	95	111	70
Auditor's remuneration including VAT and expenses (2015)	49	-	49	-
Directors' remuneration				
- fees for services as directors	64	47	42	40
- for managerial services	547	437	547	437
Other expenses	7 557	4 692	7 134	4 453
<b>Total other operating expenses</b>	<b>17 352</b>	<b>11 526</b>	<b>16 186</b>	<b>10 920</b>

## 33. PROPERTIES FAIR VALUE GAINS AND LOSSES

	GROUP		COMPANY	
	2016 K'm	2015 K'm	2016 K'm	2015 K'm
Fair value gains on properties through income statement	404	15	17	15
Fair value loss on properties through income statement	(198)	-	(198)	-
Net fair value gain/(loss) through income statement	206	15	(181)	15
Fair value gains on properties included in other comprehensive income	1 706	1 383	1 706	1 365
Total properties fairvalue gains (note 17)	1 912	1 398	1 525	1 380

## 34. INCOME TAX EXPENSE

Income tax (note 23)	8 734	5 943	8 390	5 892
Deferred tax (note 19)	(92)	303	25	482
Total income tax expenses	8 642	6 246	8 415	6 374
Profit before tax	25 247	19 615	25 081	19 625
<u>Reconciliation of rate of tax</u>	%	%	%	%
Standard rate of taxation	30	30	30	30
Permanent differences	4	2	4	2
Effective rate of taxation	34	32	34	32

## 35. 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	
	2016 K'm	2015 K'm
Profit attributable to equity holders of the Company (K'm)	16 391	13 329
Net profit used to determine diluted earnings per share (K'm)	16 391	13 329
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)	35.10	28.54

35. EARNINGS PER SHARE (COTINUED)

**Diluted earnings per share**

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

	GROUP	
	2016 K'm	2015 K'm
Profit attributable to equity holders of the Company (K'm)	16 391	13 329
Net profit used to determine diluted earnings per share (K'm)	16 391	13 329
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)	35.10	28.54

36. DIVIDEND PER SHARE

	GROUP AND COMPANY	
	2016 K'm	2015 K'm
Final dividend (prior year)	3 199	4 669
First interim dividend (current year)	3 007	1 504
	6 206	6 174
Weighted average number of Ordinary Shares in issue (millions)	467	467
Dividend per share	13.29	13.22

The proposed current year final dividend is K3 800m (2015: K3 200m) representing K8.14 per share (2015: K6.85 per share). A second interim dividend of K1,540m (2015: nil) will be paid on 31 March, 2017.

## 37. CONTINGENCIES

	GROUP		COMPANY	
	2016 K'm	2015 K'm	2016 K'm	2015 K'm
<b>Letters of credit and guarantees</b>				
Foreign guarantees	519	297	519	40
Local guarantees and performance bonds	1 732	1 761	1 732	1 543
Letters of credit	<u>15 603</u>	<u>18 577</u>	<u>15 603</u>	<u>18 564</u>
Total letters of credit and guarantees (page 5)	<u>17 854</u>	<u>20 635</u>	<u>17 854</u>	<u>20 147</u>
<b>Other contingencies</b>				
Legal claims	1 254	946	1 204	930
Customer funds under management	<u>22 715</u>	<u>23 068</u>	<u>-</u>	<u>23 068</u>
Total other contingencies	<u>23 969</u>	<u>24 014</u>	<u>1 204</u>	<u>23 998</u>

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

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

Legal claims represent outstanding legal cases against the Group in the ordinary course of business, the outcome of which is uncertain. The amount disclosed represents an estimate of the cost to the Group in the event that legal proceedings find the Group to be in the wrong. In the opinion of the directors the claims are not expected to give rise to a cost to the Group. Legal claims in favour of the Group as at the end of the year were K 3 305m (2015:K2 704m).

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 31 December 2016

### 38. COMMITMENTS

	GROUP		COMPANY	
	2016 K'm	2015 K'm	2016 K'm	2015 K'm
Expenditure contracted for but not yet incurred	411	250	411	250
Expenditure approved by the Board but not contracted	5 686	3 805	5 686	3 294
<b>Total commitments</b>	<b>6 097</b>	<b>4 055</b>	<b>6 097</b>	<b>3 544</b>

### 39. CASH AND CASH EQUIVALENTS

Cash and funds with Reserve Bank of Malawi (note 5)	29 774	30 550	29 650	27 570
Placements with other banks (note 11)	21 683	24 129	21 683	18 878
Other money market deposits (note 13)	59 077	40 023	46 882	23 437
Amounts due to other banks (note 22)	(14 570)	(3 347)	(14 570)	(3 147)
<b>Total cash and cash equivalents</b>	<b>95 964</b>	<b>91 355</b>	<b>83 645</b>	<b>66 738</b>

## 40. 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
<b>GROUP</b>								
<b>2015 Assets</b>								
Cash and bank balances with Reserve Bank of Malawi	5	30 550	-	-	-	-	30 550	30 550
Government of Malawi treasury bills, treasury notes and Reserve Bank of Malawi bonds	6	-	29 409	-	-	-	29 409	29 409
Government of Malawi promissory notes	7	-	-	2 285	-	-	2 285	2 285
Equity investments	8	2 761	-	-	-	-	2 761	2 761
Placements with other banks	11	-	-	-	24 129	-	24 129	24 129
Loans and advances to customers	12	-	-	-	113 975	-	113 975	113 975
Other money market deposits	13	-	-	-	40 023	-	40 023	40 023
Other assets		-	-	-	4 201	-	4 201	4 201
<b>Total financial assets</b>		<b>33 311</b>	<b>29 409</b>	<b>2 285</b>	<b>182 328</b>	<b>-</b>	<b>247 333</b>	<b>247 333</b>
<b>Liabilities and equity</b>								
Customer deposits	21	-	-	-	-	214 989	214 989	214 989
Amounts due to other banks	22	-	-	-	-	3 347	3 347	3 347
Loans	24	-	-	-	-	3 551	3 551	3 551
Provisions	25	-	-	-	-	2 428	2 428	2 428
Other liabilities	26	-	-	-	-	7 935	7 935	7 935
<b>Total financial liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>232 250</b>	<b>232 250</b>	<b>232 250</b>

40. 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
<b>GROUP</b>								
<b>2016 Assets</b>								
Cash and bank balances with Reserve Bank of Malawi	5	29 774	-	-	-	-	29 774	29 774
Government of Malawi treasury bills, treasury notes and Reserve Bank of Malawi bonds	6	-	25 843	-	-	-	25 843	25 843
Government of Malawi promissory notes	7	-	-	1 100	-	-	1 100	1 100
Equity investments	8	1 969	-	-	-	-	1 969	1 969
Placements with other banks	11	-	-	-	21 683	-	21 683	21 683
Loans and advances to customers	12	-	-	-	133 287	-	133 287	140 067
Other money market deposits	13	-	-	-	59 077	-	59 077	59 077
Other assets		-	-	-	8 482	-	8 482	8 482
<b>Total financial assets</b>		<b>31 743</b>	<b>25 843</b>	<b>1 100</b>	<b>222 529</b>	<b>-</b>	<b>281 215</b>	<b>287 995</b>
<b>Liabilities and equity</b>								
Customer deposits	21	-	-	-	-	231 282	231 282	231 282
Amounts due to other banks	22	-	-	-	-	14 570	14 570	14 570
Loans	24	-	-	-	-	209	209	209
Provisions	25	-	-	-	-	2 837	2 837	2 837
Other liabilities	26	-	-	-	-	7 874	7 874	7 874
<b>Total financial liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>256 772</b>	<b>256 772</b>	<b>255 253</b>

40. 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
<b>COMPANY</b>								
<b>2015 Assets</b>								
Cash and bank balances with Reserve Bank of Malawi	5	27 570	-	-	-	-	27 570	27 570
Government of Malawi treasury bills, treasury notes and Reserve Bank of Malawi bonds	6	-	27 040	-	-	-	27 040	27 040
Government of Malawi Promissory notes	7	-	-	2 285	-	-	2 285	2 285
Equity investments	8	2 697	-	-	-	-	2 697	2 697
Placements with other banks	11	-	-	-	18 878	-	18 878	18 878
Loans and advances to customers	12	-	-	-	109 610	-	109 610	109 610
Other money market deposits	13	-	-	-	23 437	-	23 437	23 437
Other assets		-	-	-	3 414	-	3 414	3 414
<b>Total financial assets</b>		<b>30 267</b>	<b>27 040</b>	<b>2 285</b>	<b>155 339</b>	<b>-</b>	<b>214 931</b>	<b>214 931</b>
<b>Liabilities and equity</b>								
Customer deposits	21	-	-	-	-	184 093	184 093	184 093
Amounts due to other banks	22	-	-	-	-	3 147	3 147	3 147
Loans	24	-	-	-	-	3 340	3 340	3 340
Provisions	25	-	-	-	-	1 630	1 630	1 630
Other liabilities	26	-	-	-	-	7 266	7 266	7 266
<b>Total financial liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>199 476</b>	<b>199 476</b>	<b>199 476</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 31 December 2016

## 40. 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
<b>COMPANY</b>								
<b>2016 Assets</b>								
Cash and bank balances with Reserve Bank of Malawi	5	29 650	-	-	-	-	29 650	29 650
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	-	23 834	-	-	-	23 834	23 834
Government of Malawi Promissory notes	7	-	-	1 100	-	-	1 100	1 100
Equity investments	8	1 904	-	-	-	-	1 904	1 904
Placements with other banks	11	-	-	-	21 683	-	21 683	21 683
Loans and advances to customers	12	-	-	-	133 287	-	133 287	140 067
Other money market deposits	13	-	-	-	46 882	-	46 882	46 882
Other assets		-	-	-	7 912	-	7 912	7 912
<b>Total financial assets</b>		<b>31 554</b>	<b>23 834</b>	<b>1 100</b>	<b>209 764</b>	<b>-</b>	<b>266 252</b>	<b>273 032</b>
<b>Liabilities and equity</b>								
Customer deposits	21	-	-	-	-	218 069	218 069	216 550
Amounts due to other banks	22	-	-	-	-	14 570	14 570	14 570
Loans	24	-	-	-	-	209	209	209
Provisions	25	-	-	-	-	2 624	2 624	2 624
Other liabilities	26	-	-	-	-	8 491	8 491	8 491
<b>Total financial liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>243 963</b>	<b>243 963</b>	<b>242 444</b>

41. FAIR VALUE MEASUREMENTS

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

41.1 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.

41.2 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	
	2016 K'm	2015 K'm
<i>Financial assets at fair value through profit or loss</i>		
Non-derivative financial assets held for trading		
Level 1	1 969	2 761

	COMPANY	
	2016 K'm	2015 K'm
<i>Financial assets at fair value through profit or loss</i>		
Non-derivative financial assets held for trading		
Level 1	1 904	2 697

41. FAIR VALUE MEASUREMENTS (CONTINUED)

41.3 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)
	2016	2015		
	K'm	K'm		
Equity investments	1 969	2 761	Level 1	Quoted prices
Malawi Government Promissory notes	1 100	2 285	Level 2	Discounted cash flows using applicable interest rates and agreed repayment plan
	<u>3 069</u>	<u>5 046</u>		

41.4 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.

42. 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 and letters of credit. 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.

## 42. FINANCIAL RISK MANAGEMENT (CONTINUED)

### a. Introduction and overview (Continued)

#### **Risk management framework**

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

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

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

The Board Audit Committee is responsible for conducting an independent check to ensure compliance with the Group's risk management policies, procedures and controls, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Board Risk and Audit Committees are assisted in these functions by the Risk Division and Internal Audit 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 Board Credit Committee is responsible for oversight of the Group's overall credit risk management issues. The committee is responsible for reviewing and approving the Group's credit policies including provisioning, large loan exposures, counter-party lending and dealing lines.

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

At management level, there is the Enterprise Risk Committee (ERCO), which provides a holistic oversight of the risks affecting the Group and the control measures that should

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

a. Introduction and overview (Continued)

**Risk management framework (Continued)**

be put in place to mitigate the risks and thereby reduce the potential losses. In addition, the other management Committees such as the Asset and Liability Committee (ALCO), Credit and IT Policy, are all responsible for developing and monitoring the Group’s risk management policies in their specified areas.

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

b. Credit risk

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

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 IBR 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,

## 42. FINANCIAL RISK MANAGEMENT (CONTINUED)

### b. Credit risk (Continued)

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

#### Management of credit risk

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

Additionally, there is a Management Credit Committee which is comprised of 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 grading in order to categorise exposures according to the degree of risk of potential financial loss and focus management on the attendant risk. The risk grading system helps in determining where impairment provisions may be required against specific credit exposures. The current risk-grading framework consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. Risk grades are subject to regular reviews.

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

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

- i. 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.

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Credit risk (Continued)

**Management of credit risk (Continued)**

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.

**Gross maximum exposure**

	GROUP		COMPANY	
	2016 K'm	2015 K'm	2016 K'm	2015 K'm
Balances with the Reserve Bank of Malawi Government of Malawi treasury bills, treasury notes and Reserve Bank of Malawi bonds	15 786	18 161	15 779	16 183
Government of Malawi Promissory notes	25 843	29 409	23 834	27 040
Placements with other banks	1 100	2 285	1 100	2 285
Loans and advances to customers	21 683	24 129	21 683	18 878
Other money market deposits	133 287	113 975	133 287	109 610
Other assets	59 077	40 023	46 882	23 437
	10 545	5 985	9 975	5 021
<b>Total recognised financial instruments</b>	<b>267 321</b>	<b>233 967</b>	<b>252 540</b>	<b>202 454</b>
Guarantees and performance bonds	2 251	2 058	2 251	1 583
Letters of credit	15 603	18 577	15 603	18 564
<b>Total unrecognised financial instruments</b>	<b>17 854</b>	<b>20 635</b>	<b>17 854</b>	<b>20 147</b>
<b>Total credit exposure</b>	<b>285 175</b>	<b>254 602</b>	<b>270 394</b>	<b>222 601</b>

## 42. FINANCIAL RISK MANAGEMENT (CONTINUED)

## b. Credit risk (Continued)

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

	Carrying Amount K'm	Offset K'm	Net exposure to credit risk K'm
<b>GROUP</b>			
<b>2015</b>			
Balances with the Reserve Bank of Malawi	18 161	-	18 161
Government of Malawi treasury bills, treasury notes and Reserve Bank of Malawi bonds	29 409	-	29 409
Government of Malawi promissory notes	2 285	-	2 285
Placements with other banks	24 129	-	24 129
Loans and advances to customers	113 975	2 937	111 038
Other money market deposits	40 023	-	40 023
Other assets	5 985	-	5 985
	<b>233 967</b>	<b>2 937</b>	<b>231 031</b>
<b>2016</b>			
Balances with the Reserve Bank of Malawi	15 786	-	15 786
Government of Malawi treasury bills, treasury notes and Reserve Bank of Malawi bonds	25 843	-	25 843
Government of Malawi promissory notes	1 100	-	1 100
Placements with other banks	21 683	-	21 683
Loans and advances to customers	133 287	3 314	129 973
Other money market deposits	59 077	-	59 077
Other assets	10 545	-	10 545
	<b>267 321</b>	<b>3 314</b>	<b>264 007</b>

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Credit risk (Continued)

	Carrying Amount K'm	Offset K'm	Net exposure to credit risk K'm
<b>COMPANY</b>			
<b>2015</b>			
Balances with the Reserve Bank of Malawi	16 183	-	16 183
Government of Malawi treasury bills, treasury notes and Reserve Bank of Malawi bonds Government of Malawi promissory notes	27 040	-	27 040
Placements with other banks	2 285	-	2 285
Loans and advances to customers	18 878	-	18 878
Other money market deposits	109 610	2 849	106 761
Other assets	23 437	-	23 437
	5 021	-	5 021
	<u>202 454</u>	<u>2 849</u>	<u>199 605</u>
<b>2016</b>			
Balances with the Reserve Bank of Malawi	15 779	-	15 779
Government of Malawi treasury bills, treasury notes and Reserve Bank of Malawi bonds Government of Malawi promissory notes	23 834	-	23 834
Placements with other banks	1 100	-	1 100
Loans and advances to customers	21 683	-	21 683
Other money market deposits	133 287	3 314	129 973
Other assets	46 882	-	46 882
	9 975	-	9 914
	<u>252 540</u>	<u>3 314</u>	<u>249 226</u>

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.

## 42. FINANCIAL RISK MANAGEMENT (CONTINUED)

## b. Credit risk (Continued)

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

**Credit quality of loans and advances**

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

	GROUP		COMPANY	
	2016 K'm	2015 K'm	2016 K'm	2015 K'm
Individually impaired:				
Grade 9: Impaired	1 416	1 999	1 416	1 999
Allowance for impairment	(1 091)	(1 711)	(1 091)	(1 192)
Carrying amount	325	288	325	807
Past due but not impaired:				
Grade 7: Watch list	25 028	5 041	25 028	4 422
Neither past due nor impaired:				
Grade 1 - 3 Low risk	8 402	21 380	8 402	18 002
Grade 4 - 6 Fair risk	99 532	87 266	99 532	86 379
Total carrying amount	133 287	113 975	133 287	109 610

**Impaired loans and advances**

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

**Past due but not impaired loans**

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

**Allowance for impairment**

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

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Credit risk (Continued)

**Write-off policy**

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

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

	Loans and advances to customers		
	Gross	Allowance for	Net
	K'm	Impairment	K'm
		K'm	
<b>GROUP</b>			
<b>2015</b>			
Grade 9: Individually impaired	1 999	(1 711)	288
<b>2016</b>			
Grade 9: Individually impaired	1 416	(1 091)	325
<b>COMPANY</b>			
<b>2015</b>			
Grade 9: Individually impaired	1 999	(1 192)	807
<b>2016</b>			
Grade 9: Individually impaired	1 416	(1 091)	325

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.

## 42. FINANCIAL RISK MANAGEMENT (CONTINUED)

## b. Credit risk (Continued)

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

	GROUP		COMPANY	
	2016 K'm	2015 K'm	2016 K'm	2015 K'm
<u>Against individually impaired</u>				
Motor vehicles	232	361	232	361
Commercial property	283	452	283	452
Residential property	176	392	176	392
Cash	-	1	-	1
	691	1 206	691	1 206
<u>Against the rest of the loan book</u>				
Motor vehicles	14 451	12 065	14 451	11 485
Commercial property	11 217	9 693	11 217	9 693
Residential property	35 864	30 920	35 864	28 577
Cash	3 314	2 937	3 314	2 849
Equities	11 218	5 488	11 218	5 488
Treasury bills	25	27	25	25
Mortgages	5 504	4 325	5 325	4 325
Bank guarantee	1 036	1 109	1 036	1 036
Total	82 629	66 564	82 629	63 478
Grand Total	83 320	67 770	83 320	64 684

**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.

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Credit risk (Continued)

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

	Loans and advances to customers			
	GROUP		COMPANY	
	2016	2015	2016	2015
	K'm	K'm	K'm	K'm
<b>Concentration by sector</b>				
Agriculture	28 210	22 893	28 210	22 167
Finance and insurance	1 007	797	1 007	797
Manufacturing	30 654	30 576	30 654	29 986
Other	4 033	10 643	4 033	10 037
Transport and communication	9 128	5 441	9 128	4 997
Real estate	738	2 571	738	2 571
Personal	18 907	13 602	18 907	12 494
Wholesale and retail	40 610	27 452	40 610	26 561
	<u>133 287</u>	<u>113 975</u>	<u>133 287</u>	<u>109 610</u>

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

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

c. Liquidity risk

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

**Management of liquidity risk**

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

The daily management of liquidity is entrusted to the Treasury and 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

## 42. FINANCIAL RISK MANAGEMENT (CONTINUED)

## c. Liquidity risk (Continued)

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.

**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:

	2016	2015
At 31 December	54%	54%
Average of the period	51%	65%
Maximum for the period	54%	72%
Minimum for the period	47%	54%

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

c. Liquidity risk (Continued)

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

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Total K'm	Carrying amount K'm
<b>GROUP</b>						
<b>2015</b>						
<b>Financial assets</b>						
Cash and funds with Reserve Bank of Malawi	30 550	-	-	-	30 550	30 550
Government of Malawi treasury bills, treasury notes and Reserve Bank of Malawi bonds	326	10 343	18 505	235	29 409	29 409
Government of Malawi promissory notes	2 285	-	-	-	2 285	2 285
Equity investments	-	2 761	-	-	2 761	2 761
Placements with other banks	24 129	-	-	-	24 129	24 129
Loans and advances to customers	11 191	16 222	50 891	35 671	113 975	113 975
Other money markets deposits	40 023	-	-	-	40 023	40 023
Other assets	5 985	-	-	-	5 985	5 985
<b>Total financial assets</b>	<b>114 489</b>	<b>29 326</b>	<b>69 396</b>	<b>35 906</b>	<b>249 117</b>	<b>249 117</b>
<b>Financial liabilities</b>						
Loans	-	1 125	2 218	208	3 551	3 551
Customer deposits	193 508	18 917	2 560	4	214 989	214 989
Amounts due to other banks	3 347	-	-	-	3 347	3 347
Provisions	-	-	2 428	-	2 428	2 428
Other liabilities	7 935	-	-	-	7 935	7 935
<b>Total financial liabilities</b>	<b>204 790</b>	<b>20 042</b>	<b>7 206</b>	<b>212</b>	<b>232 250</b>	<b>232 250</b>
<b>Contractual liquidity mismatch</b>	<b>(90 301)</b>	<b>9 284</b>	<b>62 190</b>	<b>35 694</b>	<b>16 867</b>	<b>16 867</b>
<b>Cumulative mismatch</b>	<b>(90 301)</b>	<b>(81 017)</b>	<b>(18 827)</b>	<b>16 867</b>	<b>-</b>	<b>-</b>

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

c. Liquidity risk (Continued)

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Total K'm	Carrying amount K'm
<b>GROUP</b>						
<b>2016</b>						
<b>Financial assets</b>						
Cash and funds with Reserve Bank of Malawi	29 774	-	-	-	29 774	29 774
Government of Malawi treasury Bills, treasury notes and Reserve Bank of Malawi bonds	-	9 849	15 994	-	25 843	25 843
Government of Malawi promissory notes	1 100	-	-	-	1 100	1 100
Equity investments	-	1 969	-	-	1 969	1 969
Placements with other banks	21 683	-	-	-	21 683	21 683
Loans and advances to customers	21 825	10 955	59 571	40 936	133 287	133 287
Other money markets deposits	59 077	-	-	-	59 077	59 077
Other assets	10 545	-	-	-	10 545	10 545
<b>Total financial assets</b>	<b>144 004</b>	<b>22 773</b>	<b>75 565</b>	<b>40 936</b>	<b>283 278</b>	<b>283 278</b>
<b>Financial liabilities</b>						
Loans	-	-	-	209	209	209
Customer deposits	201 343	26 630	3 309	-	231 282	231 282
Amounts due to other banks	14 570	-	-	-	14 570	14 570
Provisions	-	-	2 837	-	2 837	2 837
Other liabilities	7 874	-	-	-	7 874	7 874
<b>Total financial liabilities</b>	<b>223 787</b>	<b>26 630</b>	<b>6 146</b>	<b>209</b>	<b>256 772</b>	<b>256 772</b>
<b>Contractual liquidity mismatch</b>	<b>(79 783)</b>	<b>(3 857)</b>	<b>69 419</b>	<b>40 727</b>	<b>26 506</b>	<b>26 506</b>
<b>Cumulative mismatch</b>	<b>(79 783)</b>	<b>(83 640)</b>	<b>(14 221)</b>	<b>26 506</b>	<b>-</b>	<b>-</b>

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

c. Liquidity risk (Continued)

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Total K'm	Carrying amount K'm
<b>COMPANY</b>						
<b>2015</b>						
<b>Financial assets</b>						
Cash and funds with Reserve Bank of Malawi	27 570	-	-	-	27 570	27 570
Government of Malawi treasury Bills, treasury notes and Reserve Bank of Malawi bonds	-	9 893	16 912	235	27 040	27 040
Government of Malawi promissory notes	2 285	-	-	-	2 285	2 285
Equity investments	-	2 697	-	-	2 697	2 697
Placements with other banks	18 878	-	-	-	18 878	18 878
Loans and advances to customers	9 629	16 088	49 445	34 448	109 610	109 610
Other money markets deposits	23 437	-	-	-	23 437	23 437
Other assets	5 021	-	-	-	5 021	5 021
<b>Total financial assets</b>	<b>86 820</b>	<b>28 678</b>	<b>66 357</b>	<b>34 683</b>	<b>216 538</b>	<b>216 538</b>
<b>Financial liabilities</b>						
Loans	-	1 125	2 215	-	3 340	3 340
Customer deposits	163 330	18 590	2 169	4	184 093	184 093
Amounts due to other banks	3 147	-	-	-	3 147	3 147
Provisions	-	-	1 630	-	1 630	1 630
Other liabilities	7 266	-	-	-	7 266	7 266
<b>Total financial liabilities</b>	<b>173 743</b>	<b>19 715</b>	<b>6 014</b>	<b>4</b>	<b>199 476</b>	<b>199 476</b>
<b>Contractual liquidity mismatch</b>	<b>(86 923)</b>	<b>8 963</b>	<b>60 343</b>	<b>34 679</b>	<b>17 062</b>	<b>17 062</b>
<b>Cumulative mismatch</b>	<b>(86 923)</b>	<b>(77 960)</b>	<b>(17 617)</b>	<b>17 062</b>	<b>-</b>	<b>-</b>

## 42. FINANCIAL RISK MANAGEMENT (CONTINUED)

## c. Liquidity risk (Continued)

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Total K'm	Carrying amount K'm
<b>COMPANY</b>						
<b>2016</b>						
<b>Financial assets</b>						
Cash and funds with Reserve Bank of Malawi Government of Malawi treasury Bills, treasury notes and Reserve Bank of Malawi bonds	29 650	-	-	-	29 650	29 650
Government of Malawi promissory notes	-	7 840	15 994	-	23 834	23 834
Equity investments	1 100	-	-	-	1 100	1 100
Placements with other banks	-	1 904	-	-	1 904	1 904
Loans and advances to customers	21 683	-	-	-	21 683	21 683
Other money markets deposits	21 825	10 955	59 571	40 936	133 287	133 287
Other assets	46 882	-	-	-	46 882	46 882
	9 975	-	-	-	9 975	9 975
<b>Total financial assets</b>	<b>131 115</b>	<b>20 699</b>	<b>75 565</b>	<b>40 936</b>	<b>268 315</b>	<b>268 315</b>
<b>Financial liabilities</b>						
Loans	-	-	-	209	209	209
Customer deposits	188 130	26 630	3 309	-	218 069	218 069
Amounts due to other banks	14 570	-	-	-	14 570	14 570
Provisions	-	-	2 624	-	2 624	2 624
Other liabilities	8 491	-	-	-	8 491	8 491
<b>Total financial liabilities</b>	<b>211 191</b>	<b>26 630</b>	<b>5 933</b>	<b>209</b>	<b>243 963</b>	<b>243 963</b>
<b>Contractual liquidity mismatch</b>	<b>(80 076)</b>	<b>(5 931)</b>	<b>69 632</b>	<b>40 727</b>	<b>24 352</b>	<b>24 352</b>
<b>Cumulative mismatch</b>	<b>(80 076)</b>	<b>(86 007)</b>	<b>(16 375)</b>	<b>24 352</b>	<b>-</b>	<b>-</b>

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

**42. FINANCIAL RISK MANAGEMENT (CONTINUED)****d. Market risk**

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

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

**Management of market risk**

The Group separates its exposure to market risk between trading and non-trading portfolios. Basel III'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.

## 42. FINANCIAL RISK MANAGEMENT (CONTINUED)

## d. Market risk (Continued)

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

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Non- interest sensitive K'm	Total K'm
<b>GROUP</b>						
<b>2015</b>						
<b>Financial assets</b>						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	30 550	30 550
Government of Malawi T'bills and Reserve Bank of Malawi bonds	326	10 343	18 505	235	-	29 409
Promissory notes	2 285	-	-	-	-	2 285
Equity investments	-	2 761	-	-	-	2 761
Placements with other banks	24 129	-	-	-	-	24 129
Loans and advances to customers	11 191	16 222	50 891	35 671	-	113 975
Other money market deposits	40 023	-	-	-	-	40 023
Other assets	-	-	-	-	5 985	5 985
<b>Total financial assets</b>	<b>77 954</b>	<b>29 326</b>	<b>69 396</b>	<b>35 906</b>	<b>36 535</b>	<b>249 117</b>
<b>Financial liabilities</b>						
Loans	-	1 125	2 218	208	-	3 551
Customer deposits	191 261	18 917	2 560	4	2 247	214 989
Amounts due to other banks	3 347	-	-	-	-	3 347
Provisions	-	-	-	-	2 428	2 428
Other liabilities	-	-	-	-	7 935	7 935
<b>Total financial liabilities</b>	<b>194 608</b>	<b>20 042</b>	<b>4 778</b>	<b>212</b>	<b>12 610</b>	<b>232 250</b>
<b>Interest sensitivity gap</b>	<b>(116 654)</b>	<b>9 284</b>	<b>64 618</b>	<b>35 694</b>	<b>23 925</b>	<b>16 867</b>
<b>Cumulative gap</b>	<b>(116 654)</b>	<b>(107 370)</b>	<b>(42 752)</b>	<b>(7 058)</b>	<b>16 867</b>	<b>-</b>

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

d. Market risk (Continued)

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

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Non- interest sensitive K'm	Total K'm
<b>GROUP</b>						
<b>2015</b>						
<i>Impact on profit of an increase in interest rates:</i>						
+1%	(1 167)	93	646	357	-	(71)
+2%	(2 333)	186	1 292	714	-	(141)
+3%	(3 501)	279	1 939	1 071	-	(211)
<i>Impact on profit of a decrease in interest rates:</i>						
-1%	1 167	(93)	(646)	(357)	-	71
-2%	2 333	(186)	(1 292)	(714)	-	141
-3%	3 500	(279)	(1 939)	(1 071)	-	211
<b>2016</b>						
<b>Financial assets</b>						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	29 774	29 774
Government of Malawi T'bills and Reserve Bank of Malawi bonds	-	9 849	15 994	-	-	25 843
Promissory notes	1 100	-	-	-	-	1 100
Equity investments	-	1 969	-	-	-	1 969
Placements with other banks	21 683	-	-	-	-	21 683
Loans and advances to customers	21 825	10 955	59 571	40 936	-	133 287
Other money market deposits	59 077	-	-	-	-	59 077
Other assets	-	-	-	-	10 545	10 545
<b>Total financial assets</b>	<b>103 685</b>	<b>22 773</b>	<b>75 565</b>	<b>40 936</b>	<b>40 319</b>	<b>283 278</b>
<b>Financial liabilities</b>						
Loans	-	-	-	209	-	209
Customer deposits	196 096	26 630	3 309	-	5 247	231 282
Amounts due to other banks	14 570	-	-	-	-	14 570
Provisions	-	-	-	-	2 837	2 837
Other liabilities	-	-	-	-	7 874	7 874
<b>Total financial liabilities</b>	<b>210 666</b>	<b>26 630</b>	<b>3 309</b>	<b>209</b>	<b>15 958</b>	<b>256 772</b>
<b>Interest sensitivity gap</b>	<b>(106 981)</b>	<b>(3 857)</b>	<b>72 256</b>	<b>40 727</b>	<b>24 361</b>	<b>26 506</b>
<b>Cumulative gap</b>	<b>(106 981)</b>	<b>(110 838)</b>	<b>(38 582)</b>	<b>2 145</b>	<b>26 506</b>	<b>-</b>

## 42. FINANCIAL RISK MANAGEMENT (CONTINUED)

## d. Market risk (Continued)

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

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Non- interest sensitive K'm	Total K'm
<b>GROUP</b>						
<b>2016</b>						
<i>Impact on profit of an increase in interest rates:</i>						
+1%	(1 070)	(39)	723	407	-	21
+2%	(2 140)	(77)	1 445	815	-	43
+3%	(3 209)	(116)	2 168	1 222	-	65
<i>Impact on profit of a decrease in interest rates:</i>						
-1%	1 070	39	(723)	(407)	-	(21)
-2%	2 140	77	(1 445)	(815)	-	(43)
-3%	3 209	116	(2 168)	(1 222)	-	(65)
<b>COMPANY</b>						
<b>2015</b>						
<b>Financial assets</b>						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	27 570	27 570
Government of Malawi T'bills and Reserve Bank of Malawi bonds	-	9 893	16 912	235	-	27 040
Promissory notes	2 285	-	-	-	-	2 285
Equity investments	-	2 697	-	-	-	2 697
Placements with other banks	18 878	-	-	-	-	18 878
Loans and advances to customers	9 629	16 088	49 445	34 448	-	109 610
Other money market deposits	23 437	-	-	-	-	23 437
Other assets	-	-	-	-	5 021	5 021
<b>Total financial assets</b>	<b>54 229</b>	<b>28 678</b>	<b>66 357</b>	<b>34 683</b>	<b>32 591</b>	<b>216 538</b>
<b>Financial liabilities</b>						
Loans	-	1 125	2 215	-	-	3 340
Customer deposits	161 083	18 590	2 169	4	2 247	184 093
Amounts due to other banks	3 147	-	-	-	-	3 147
Provisions	-	-	-	-	1 630	1 630
Other liabilities	-	-	-	-	7 266	7 266
<b>Total financial liabilities</b>	<b>164 230</b>	<b>19 715</b>	<b>4 384</b>	<b>4</b>	<b>11 143</b>	<b>199 476</b>
<b>Interest sensitivity gap</b>	<b>(110 001)</b>	<b>8 963</b>	<b>61 973</b>	<b>34 679</b>	<b>21 448</b>	<b>17 062</b>
<b>Cumulative gap</b>	<b>(110 001)</b>	<b>(101 038)</b>	<b>(39 065)</b>	<b>(4 386)</b>	<b>17 062</b>	<b>-</b>

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

d. Market risk (Continued)

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

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Non- interest sensitive K'm	Total K'm
<b>COMPANY</b>						
<b>2015</b>						
<i>Impact on profit of an increase in interest rates</i>						
+1%	(1 100)	90	620	347	-	(43)
+2%	(2 200)	179	1 239	694	-	(88)
+3%	(3 300)	269	1 859	1 040	-	(132)
<i>Impact on profit of a decrease in interest rates</i>						
-1%	1 100	(90)	(620)	(347)	-	43
-2%	2 200	(179)	(1 239)	(694)	-	88
-3%	3 300	(269)	(1 859)	(1 040)	-	132
<b>COMPANY</b>						
<b>2016</b>						
Financial assets						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	29 650	29 650
Government of Malawi T-bills and Reserve Bank of Malawi bonds	-	7 840	15 994	-	-	23 834
Promissory notes	1 100	-	-	-	-	1 100
Equity investments	-	1 904	-	-	-	1 904
Placements with other banks	21 683	-	-	-	-	21 683
Loans and advances to customers	21 825	10 955	59 571	40 936	-	133 287
Other money market deposits	46 882	-	-	-	-	46 882
Other assets	-	-	-	-	9 975	9 975
<b>Total financial assets</b>	<b>91 490</b>	<b>20 699</b>	<b>75 565</b>	<b>40 936</b>	<b>39 625</b>	<b>268 315</b>
Financial liabilities						
Loans	-	-	-	209	-	209
Customer deposits	182 883	26 630	3 309	-	5 247	218 069
Amounts due to other banks	14 570	-	-	-	-	14 570
Provisions	-	-	-	-	2 624	2 624
Other liabilities	-	-	-	-	8 491	8 491
<b>Total financial liabilities</b>	<b>197 453</b>	<b>26 630</b>	<b>3 309</b>	<b>209</b>	<b>16 362</b>	<b>243 963</b>
<b>Interest sensitivity gap</b>	<b>(105 963)</b>	<b>(5 931)</b>	<b>72 256</b>	<b>40 727</b>	<b>23 263</b>	<b>24 352</b>
<b>Cumulative gap</b>	<b>(105 963)</b>	<b>(111 894)</b>	<b>(39 638)</b>	<b>1 089</b>	<b>24 352</b>	<b>-</b>
<i>Impact on profit of an increase in interest rates</i>						
+1%	(1 060)	(59)	723	407	-	11
+2%	(2 119)	(119)	1 445	815	-	22
+3%	(3 179)	(178)	2 168	1 222	-	33
<i>Impact on profit of a decrease in interest rates</i>						
-1%	1 060	59	(723)	(407)	-	(11)
-2%	2 119	119	(1 445)	(815)	-	(22)
-3%	3 179	178	(2 168)	(1 222)	-	(33)

## 42. FINANCIAL RISK MANAGEMENT (CONTINUED)

## e. Currency risk

The Group had the following significant foreign currency positions:

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
<b>GROUP</b>							
<b>2015</b>							
<b>Financial assets</b>							
Cash and funds with							
Reserve Bank of Malawi	29 858	500	30	61	101	-	30 550
Government of Malawi T'bills and							
Reserve Bank of Malawi Bonds	29 409	-	-	-	-	-	29 409
Promissory notes	2 285	-	-	-	-	-	2 285
Equity investments	2 761	-	-	-	-	-	2 761
Placements with other banks	5 102	6 184	3 283	8 384	977	199	24 129
Loans and advances to customers	73 674	40 301	-	-	-	-	113 975
Other money market deposits	40 023	-	-	-	-	-	40 023
Other assets	5 985	-	-	-	-	-	5 985
<b>Total financial assets</b>	<b>189 097</b>	<b>46 985</b>	<b>3 313</b>	<b>8 445</b>	<b>1 078</b>	<b>199</b>	<b>249 117</b>
<b>Financial liabilities</b>							
Loans	211	3 340	-	-	-	-	3 551
Customer deposits	154 268	48 699	3 117	8 124	747	34	214 989
Liabilities to other banks	3 347	-	-	-	-	-	3 347
Provisions	2 428	-	-	-	-	-	2 428
Other liabilities	7 935	-	-	-	-	-	7 935
<b>Total financial liabilities</b>	<b>168 189</b>	<b>52 039</b>	<b>3 117</b>	<b>8 124</b>	<b>747</b>	<b>34</b>	<b>232 250</b>
<b>Net balance open position</b>	<b>20 908</b>	<b>(5 054)</b>	<b>196</b>	<b>321</b>	<b>331</b>	<b>165</b>	<b>16 867</b>
<i>Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit</i>	-	505	(20)	(32)	(33)	(17)	403
<i>Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit</i>	-	(505)	20	32	33	17	

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

e. Currency risk (Continued)

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
<b>GROUP</b>							
<b>2016</b>							
<b>Financial assets</b>							
Cash and funds with Reserve Bank of Malawi	28 378	1 289	16	26	65	-	29 774
Government of Malawi T'bills and Reserve Bank of Malawi Bonds	25 843	-	-	-	-	-	25 843
Promissory notes	1 100	-	-	-	-	-	1 100
Equity investments	1 969	-	-	-	-	-	1 969
Placements with other banks	-	11 832	114	8 443	632	662	21 683
Loans and advances to customers	88 614	44 673	-	-	-	-	133 287
Other money market deposits	59 077	-	-	-	-	-	59 077
Other assets	10 545	-	-	-	-	-	10 545
<b>Total financial assets</b>	<b>215 526</b>	<b>57 794</b>	<b>130</b>	<b>8 469</b>	<b>697</b>	<b>662</b>	<b>283 278</b>
<b>Financial liabilities</b>							
Loans	209	-	-	-	-	-	209
Customer deposits	166 249	54 247	1 829	8 008	924	25	231 282
Liabilities to other banks	14 558	12	-	-	-	-	14 570
Provisions	2 837	-	-	-	-	-	2 837
Other liabilities	6 575	819	164	35	281	-	7 874
<b>Total financial liabilities</b>	<b>190 428</b>	<b>55 078</b>	<b>1 993</b>	<b>8 043</b>	<b>1 205</b>	<b>25</b>	<b>256 772</b>
<b>Net balance open position</b>	<b>25 098</b>	<b>716</b>	<b>137</b>	<b>426</b>	<b>(508)</b>	<b>637</b>	<b>26 506</b>
<i>Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit</i>	-	(72)	(14)	(43)	51	64	(14)
<i>Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit</i>	-	72	14	43	(51)	(64)	14

## 42. FINANCIAL RISK MANAGEMENT (CONTINUED)

## e. Currency risk (Continued)

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
<b>COMPANY</b>							
Financial assets							
Cash and funds with							
Reserve Bank of Malawi	26 878	500	31	61	100	-	27 570
Government of Malawi T'bills and							
Reserve Bank of Malawi Bonds	27 040	-	-	-	-	-	27 040
Promissory notes	2 285	-	-	-	-	-	2 285
Equity investments	2 697	-	-	-	-	-	2 697
Placements with other banks	-	6 184	3 268	8 384	970	72	18 878
Loans and advances to customers	69 927	39 683	-	-	-	-	109 610
Other money market deposits	23 437	-	-	-	-	-	23 437
Other assets	5 021	-	-	-	-	-	5 021
<b>Total financial assets</b>	<b>157 285</b>	<b>46 367</b>	<b>3 299</b>	<b>8 445</b>	<b>1 070</b>	<b>72</b>	<b>216 538</b>
<b>Financial liabilities</b>							
Loans							
	-	3 340	-	-	-	-	3 340
Customer deposits	125 521	47 217	2 941	7 634	746	34	184 093
Liabilities to other banks	3 147	-	-	-	-	-	3 147
Provisions	1 630	-	-	-	-	-	1 630
Other liabilities	7 266	-	-	-	-	-	7 266
<b>Total financial liabilities</b>	<b>137 564</b>	<b>50 557</b>	<b>2 941</b>	<b>7 634</b>	<b>747</b>	<b>34</b>	<b>199 476</b>
<b>Net balance open position</b>	<b>19 721</b>	<b>(4 190)</b>	<b>358</b>	<b>811</b>	<b>324</b>	<b>38</b>	<b>17 062</b>
<i>Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit</i>							
	-	419	(36)	(81)	(33)	(4)	265
<i>Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit</i>							
	-	(419)	36	81	33	4	(265)

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

e. Currency risk (Continued)

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
<b>COMPANY</b>							
<b>2016</b>							
<b>Financial assets</b>							
Cash and funds with							
Reserve Bank of Malawi	28 254	1 289	16	26	65	-	29 650
Government of Malawi T'bills and							
Reserve Bank of Malawi Bonds	23 834	-	-	-	-	-	23 834
Promissory notes	1 100	-	-	-	-	-	1 100
Equity investments	1 904	-	-	-	-	-	1 904
Placements with other banks	-	9 832	2 114	8 443	632	662	21 683
Loans and advances to customers	89 232	44 055	-	-	-	-	133 287
Other money market deposits	46 882	-	-	-	-	-	46 882
Other assets	9 975	-	-	-	-	-	9 975
<b>Total financial assets</b>	<b>201 181</b>	<b>55 176</b>	<b>2 130</b>	<b>8 469</b>	<b>697</b>	<b>662</b>	<b>268 315</b>
<b>Financial liabilities</b>							
Loans	209	-	-	-	-	-	209
Customer deposits	153 036	54 247	1 829	8 008	924	25	218 069
Liabilities to other banks	14 558	12	-	-	-	-	14 570
Provisions	2 624	-	-	-	-	-	2 624
Other liabilities	7 192	819	164	35	281	-	8 491
<b>Total financial liabilities</b>	<b>177 619</b>	<b>55 078</b>	<b>1 993</b>	<b>8 043</b>	<b>1 205</b>	<b>25</b>	<b>243 963</b>
<b>Net balance open position</b>	<b>23 562</b>	<b>98</b>	<b>137</b>	<b>426</b>	<b>(508)</b>	<b>637</b>	<b>24 352</b>
<i>Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit</i>	-	(10)	(14)	(43)	51	64	(63)
<i>Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit</i>	-	10	14	43	(51)	(64)	63

## 42. 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 as follows;-Basic Indicator Approach (BIA), Standardised Approach (SA) and Advanced Measurement Approach (AMA).

The Reserve Bank of Malawi prescribed that all banks be on the Basic Indicator Approach during initial adoption of Basel II. Plans are however underway to graduate to the more advanced approaches.

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

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

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

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

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

**42. FINANCIAL RISK MANAGEMENT (CONTINUED)****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 compliance strategy of the bank is crafted with the view to ensuring consistency between the conduct of its business operations and ongoing observance of relevant laws, rules and standards of good market practices to shield itself from legal and regulatory sanction, financial or reputation losses.

With regard to the AML/CFT obligations of the Bank, the Compliance function is duty-bound to ensure that the Group has adequate processes rendering the Group's services inaccessible to criminals, including money launderers and terrorists. To that end, the Bank has a Compliance Officer who ensures that staff is given appropriate training to help them identify suspicious transactions in keeping with legal and regulatory requirements. 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:

**Liquidity reserve requirement**

A Bank is required to maintain a liquidity reserve with the Reserve Bank of Malawi equivalent to no less than 7.5% (2015: 7.5%) of its preceding week's average deposit liabilities including Government deposits. At the end of the year the liquidity reserve for National Bank of Malawi was equivalent to 54% (2015: 54%) of total customer deposits.

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

A Bank's available capital is required to be a minimum of 10% of its risk bearing assets and contingent liabilities. At the end of the year the National Bank's available capital was 19% (2015: 20%) 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:

## 42. FINANCIAL RISK MANAGEMENT (CONTINUED)

### g. Compliance risk (Continued)

#### Statutory requirements (Continued)

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

#### Liquidity ratios

At the end of the year, National Bank's liquidity ratio I was 54% (2015: 54%) and liquidity ratio II was 54% (2015: 54%).

### h. Capital management

#### Regulatory capital

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

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

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

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

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

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

The Board of Directors is responsible for establishing and maintaining at all times an adequate level of capital. The Group's policy is to maintain a strong capital base to

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

**h. Capital management (Continued)**

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.

Except for Indebank as highlighted above, the Group and other individually regulated operations have complied with all externally imposed capital requirements throughout the period.

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

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

	2016 K'm	2015 K'm
<b>Tier 1 capital</b>		
Ordinary share capital	467	467
Share premium	613	613
Retained earnings	43 612	33 707
Unconsolidated investment	(3 369)	(3 591)
<b>Total regulatory (tier 1) capital</b>	<b>41 323</b>	<b>31 196</b>
<b>Supplementary capital</b>		
Loan loss reserve	708	1 448
Available for sale reserve	-	11
Revaluation reserve	15 459	11 653
Deferred tax	(6 811)	-
Unconsolidated investment	(3 369)	(3 591)
<b>Total regulatory (tier 2) capital</b>	<b>47 310</b>	<b>40 717</b>
<b>Risk-weighted assets</b>		
Retail bank corporate bank and treasury	254 303	205 837
<b>Capital ratios</b>		
Total regulatory capital expressed as a percentage of total risk-weighted assets	19%	20%
Total tier 1 capital expressed as a percentage of risk-weighted assets	16%	15%

## 42. FINANCIAL RISK MANAGEMENT (CONTINUED)

### i. **Basel II implementation**

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

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

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

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

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

### j. **Environmental and social risk**

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

As a financial services group, it has both direct and indirect impacts on society and the environment. It manages its indirect impact by screening wholesale banking loans to

### 41. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### i. **Basel II implementation (Continued)**

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

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

#### k. **Reputational risk policy**

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

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

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

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

### 43. 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% (2015: 51.5%) of the Ordinary Shares. The Old Mutual Group owns 25.1% (2015: 25.1%) of the Ordinary Shares and the remaining 23.4% (2015: 23.4%) of the Ordinary Shares are widely held by individuals, corporate and institutional investors and

## 43. RELATED PARTY TRANSACTIONS (CONTINUED)

are publicly traded on the Malawi Stock Exchange.

The ultimate holding entity of the Group is Press Trust. Press Trust owns 44.5% (2015: 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.

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

GROUP AND COMPANY	Loans K'm	Deposits K'm	Net	Net
			2016 K'm	2015 K'm
Press Corporation Limited and its subsidiaries	1 763	(1 850)	(87)	(802)
Old Mutual Group	-	(3 357)	(3 357)	(1 746)
Bottling and Brewing Group Limited	-	(23)	(23)	45
Limbe Leaf Tobacco Company Limited	-	(141)	(141)	(327)
Press Trust	-	(150)	(150)	(4)
Directors	393	(10)	383	321
Employees	6 132	(444)	5 688	3 304
National Bank of Malawi Pension Fund	-	(3)	(3)	(45)
Total related party balances	8 288	(5 978)	2 310	746

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

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

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

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

43. RELATED PARTY TRANSACTIONS (CONTINUED)

The following transactions were conducted with related parties:

GROUP AND COMPANY	2016 K'm	2015 K'm
<b><u>Interest receivable</u></b>		
Press Corporation Limited and its subsidiaries	975	1 092
Limbe Leaf Tobacco Company Limited	622	19
Directors	4	5
employees	1 248	1 041
Average interest rate (%)	34	34
<b><u>Operating lease income</u></b>		
Malawi Telecommunication Limited	184	-
Bottling and Brewing Group Limited	429	520
<b><u>Interest payable</u></b>		
Press Corporation Limited and its subsidiaries	5	148
Employees	988	838
<b><u>Purchases</u></b>		
Press Corporation Limited and its subsidiaries	805	527

	GROUP		COMPANY	
	2016 K'm	2015 K'm	2016 K'm	2015 K'm
<b><u>Compensation of key management personnel</u></b>				
Salaries, bonuses and benefits	2 975	3 164	2 859	2 450

No specific share options were offered to key management personnel during the year (2014: nil).

No shares were exercised by key management during the year (2014: nil).

#### 44. 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 31 December 2016

### 44. BUSINESS SEGMENTS (CONTINUED)

	Corporate banking K'm	Retail banking K'm	Treasury K'm	Other K'm	Total K'm
<b>GROUP</b>					
<b>Statement of comprehensive income</b>					
<b>2016</b>					
Total external income	35 954	9 643	19 623	1 534	66 754
Segment result	30 190	7 460	19 623	1 534	58 807
Unallocated income	-	-	-	-	-
Unallocated expenses	-	-	-	-	(33 560)
Profit before tax	-	-	-	-	25 247
Corporate tax	-	-	-	-	(8 642)
Group profit for the year	-	-	-	-	16 605
<b>Other information</b>					
<b>Depreciation</b>					
Unallocated depreciation	-	-	-	-	2 782
<b>Revaluation surplus on property</b>					
Unallocated fair value gain	-	-	-	-	404
<b>GROUP</b>					
<b>Statement of financial position</b>					
<b>2016</b>					
Segment assets	105 024	39 650	118 466	66 361	329 501
Unallocated assets	-	-	-	-	-
Total consolidated assets	105 024	39 650	118 466	66 361	329 501
<b>Liabilities and equity</b>					
Segment liabilities	106 826	42 632	81 753	29 338	260 549
Unallocated liabilities and equity	-	-	-	-	-
Total consolidated liabilities and equity	106 826	42 632	81 753	29 338	260 549
<b>Other information</b>					
Capital additions	-	-	-	-	-
Unallocated capital additions	-	-	-	-	67 524
Total	-	-	-	-	328 073

## 44. BUSINESS SEGMENTS (CONTINUED)

	Corporate banking K'm	Retail banking K'm	Treasury K'm	Other K'm	Total K'm
<b>GROUP</b>					
<b>Statement of comprehensive income</b>					
<b>2015</b>					
Total external income	25 044	7 078	16 888	1 147	50 157
Segment result	18 273	5 808	16 888	1 147	42 116
Unallocated income	-	-	-	-	-
Unallocated expenses	-	-	-	-	(22 493)
Profit before tax	-	-	-	-	19 615
Corporate tax	-	-	-	-	(6 246)
Group profit for the year	-	-	-	-	13 369
<b>Other information</b>					
<b>Depreciation</b>					
Unallocated depreciation	-	-	-	-	2 286
<b>Revaluation surplus on property</b>					
Unallocated fair value gain	-	-	-	-	15
<b>GROUP</b>					
<b>Statement of financial position</b>					
<b>2015</b>					
Segment assets	86 258	32 306	97 701	72 717	288 982
Unallocated assets	-	-	-	-	-
Total consolidated assets	86 258	32 306	97 701	72 717	288 982
<b>Liabilities and equity</b>					
Segment liabilities	93 504	30 031	63 705	46 789	234 079
Unallocated liabilities and equity	-	-	-	-	-
Total consolidated liabilities and equity	93 504	30 031	63 705	46 789	234 079
<b>Other information</b>					
Capital additions	-	-	-	-	-
Unallocated capital additions	-	-	-	-	54 821
Total	-	-	-	-	288 900

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 31 December 2016

### 45. INDEBANK LIMITED

Indebank ceased to operate on 30 April 2016 and its operating assets and liabilities were transferred to National Bank of Malawi effective 1st May, 2016. The banking licence was consequently surrendered to the central bank.

### 46. 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.

	2016	2015
Kwacha/GBP	891	996
Kwacha/Rand	54	44
Kwacha/US Dollar	725	668
Kwacha/Euro	763	730
Inflation (%)	21.7	24.9

As at 30 March 2017 the above rates had moved as follows:

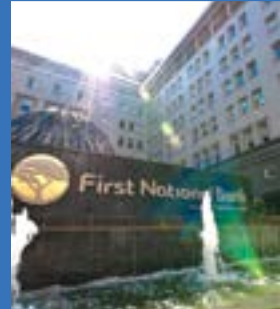
Kwacha/GBP	903
Kwacha/Rand	56
Kwacha/US Dollar	726
Kwacha/Euro	780
Inflation rate as at February 2017	<u>16.1%</u>



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



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



As well as banks in Sweden, Denmark, Swaziland and Mauritius.

MAP OF MALAWI – NATIONAL BANK SERVICE CENTRES



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