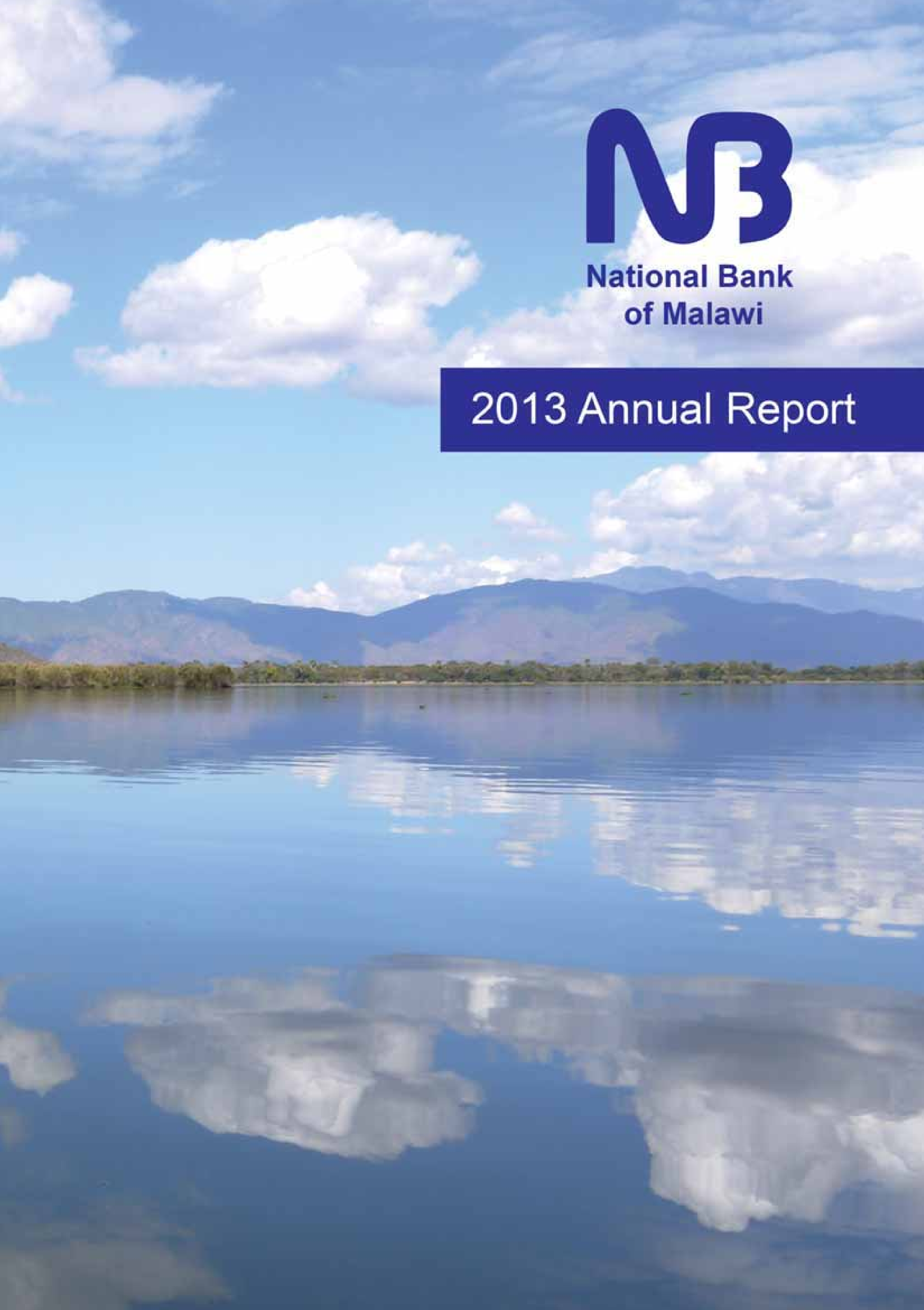
National Bank of Malawi

2013 Annual Report



National Bank of Malawi

FiestaSave Account

The best solution for those who love to see their wealth grow.

CONTENTS

National Bank of Malawi

National Bank Scholarships

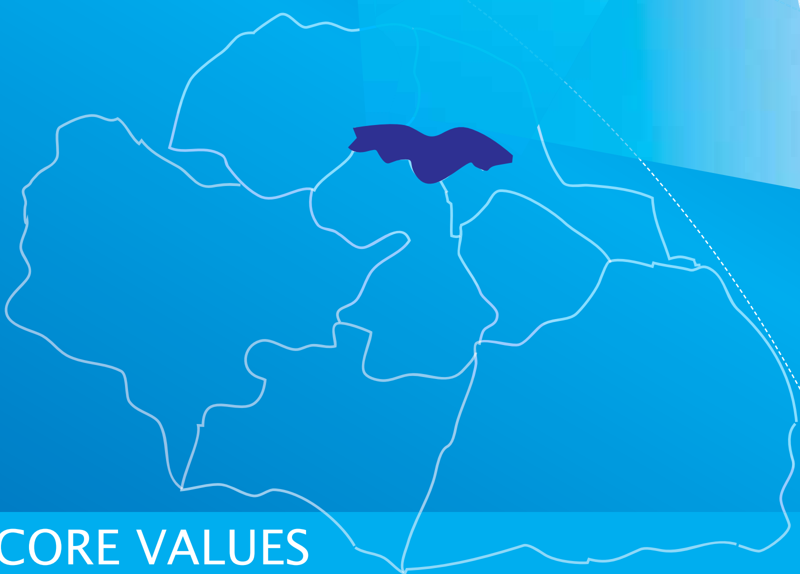
Helping build an educated and productive citizenry.

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.

National Bank of Malawi

Personal Vehicle Loans

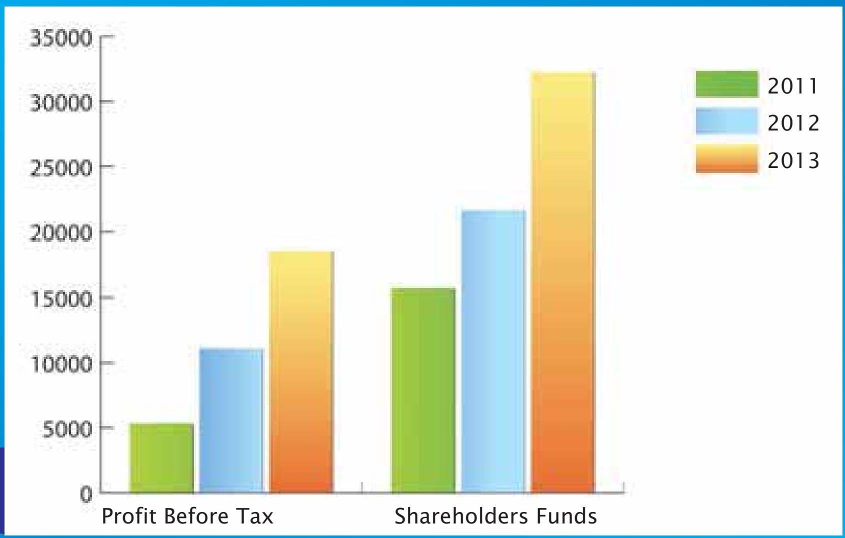
Making you own your dream car with ease.

www.natbank.co.mw
Call Centre: 01 831 485

The Bank of the Nation

GROUP FINANCIAL HIGHLIGHTS

	K'm 2011	K'm 2012	K'm 2013	% Change 2013 vs 2012
Proft before tax	5,236	11,005	18,446	68%
Shareholders Funds	15,703	21,567	32,163	49%
Deposits	68,606	91,501	123,855	35%
Loans and Advances	46,573	63,001	62,918	-0.1%

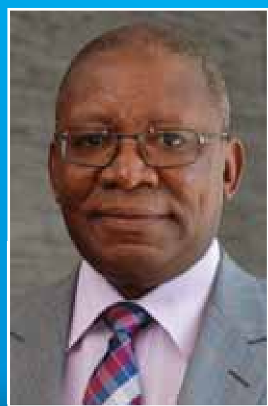


CURRENT DIRECTORS

Damien Kafoteka (49)
FCCA, B.com (Accountancy), CPA(Mw)
DIRECTOR

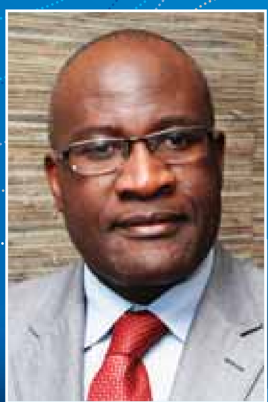
Don Kambalametore (62)
ACCA, ACIS, FCCA, Diploma in Advanced Corporate Management
DIRECTOR

Rosemary Mkandawire (Ms) (55)
ACCA, FCCA
DIRECTOR



Christopher Kapanga (54)
ACII., MBA, Chartered Insurer
DIRECTOR

George B. Partridge (50)
B.Soc. Sc. (Econ), MSc. (Finance), FCCA, CPA
DIRECTOR



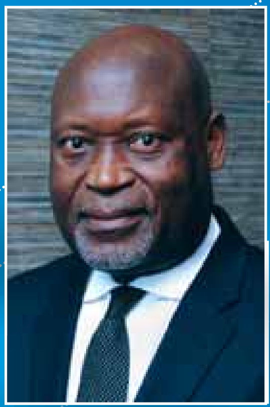
Macfussy M Kawawa (49)
B.Acc (Hons), FCCA, CPA (Mw), MBA
DIRECTOR

Zunzo Mitole (Mrs) (40)
LLB (Hons) (MW)
ACTING COMPANY SECRETARY AND LEGAL COUNSEL

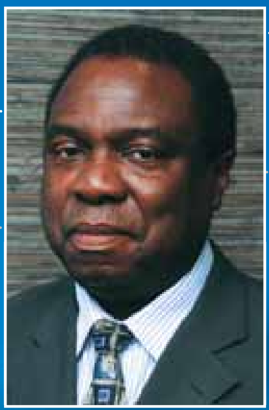
CURRENT DIRECTORS

Elias J. Kambalame (67)
BA (Econ)
DIRECTOR

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



Pius P. Mulipa (60)
Dip. (Mgt), BA, Msc (Mgt)
DIRECTOR



Dr. Mathews A. P. Chikaonda (59)
BA (Hons), MBA, Ph.D.
CHAIRMAN

"I take this opportunity to extend a warm welcome to the new directors and to thank my fellow directors for their valuable contributions, support and cooperation during 2013."
- Mathews A.P. Chikaonda, Ph.D, Chairman

The Board of Directors

The directors have pleasure in presenting the Consolidated and Separate Financial Statements of National Bank of Malawi for the year ended 31 December 2013.

CAPITAL

The authorised share capital of the Bank is K500m (2012: K500m) divided into 500,000,000 Ordinary Shares of K1 each. The issued capital is K467m (2012: K467m) divided into 466,931,738 (2012: 466,931,738) fully paid Ordinary Shares of K1 each.

The shareholders and their respective shareholdings are:

	2013 %	2012 %
Press Corporation Limited	51.5	51.5
Old Mutual Group	24.9	24.5
Members of the public	21.8	22.2
Employees (ESOP)	1.8	1.8
	100.0	100.0

PROFIT AND DIVIDENDS

The directors report a consolidated profit before tax of K18,446m (2012: K11,005m) for the year. A final dividend of K2,900m (2012: K1,500m) is proposed for the year. Two interim dividends of K1,998m and K1,401m (2012: K1,134m and K1,200m) were paid to shareholders on 9 September 2013 and 10 January 2014, respectively.

DIRECTORS

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

Chikaonda, Dr. M A P	All year
Mulipa, P P	All year
Kambalame, E	All year
Partridge, G B	All year
Kawawa, M M	All year
Kapanga, C	All year
Mafeni, E	All year
Mkandawire, R	From July 2013
Kambalametore, D J	From July 2013
Kafoteka, D	From November 2013

DIRECTORS' INTERESTS

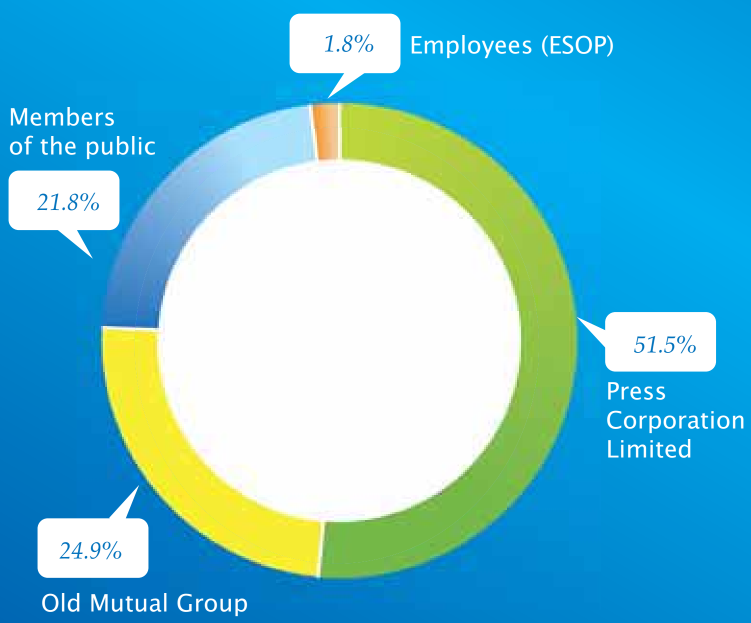
The following directors held shares in the Bank as at 31 December 2013:

Mulipa, P P	20,367 (2012: 20,367) Ordinary Shares
Partridge, G B	639,634 (2012: 639,634) Ordinary Shares
Kawawa, M M	113,255 (2012: 113,255) Ordinary Shares

2013 Profit before Tax

The directors report a consolidated profit before tax of ***K18,446m*** *(2012: K11,005m) for the year.*

NBM Shareholders



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

DONATIONS

During the year, the Bank made charitable donations of K29m (2012: K32m).

ACTIVITIES

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

Subsidiaries of National Bank of Malawi	Percentage of control	Nature of operations
NBM Capital Markets Limited	100% (2012: 100%)	Investments and Fund Management
NBM Securities Limited	100% (2012: 100%)	Dormant
National Bank of Malawi Nominees Limited	100% (2012: 100%)	Holding of investments as nominee
Stockbrokers Malawi Limited	75% (2012: 75%)	Registered Stockbroker
NBM Bureau de Change Limited	100% (2012: 100%)	Bureau de Change

AREAS OF OPERATION

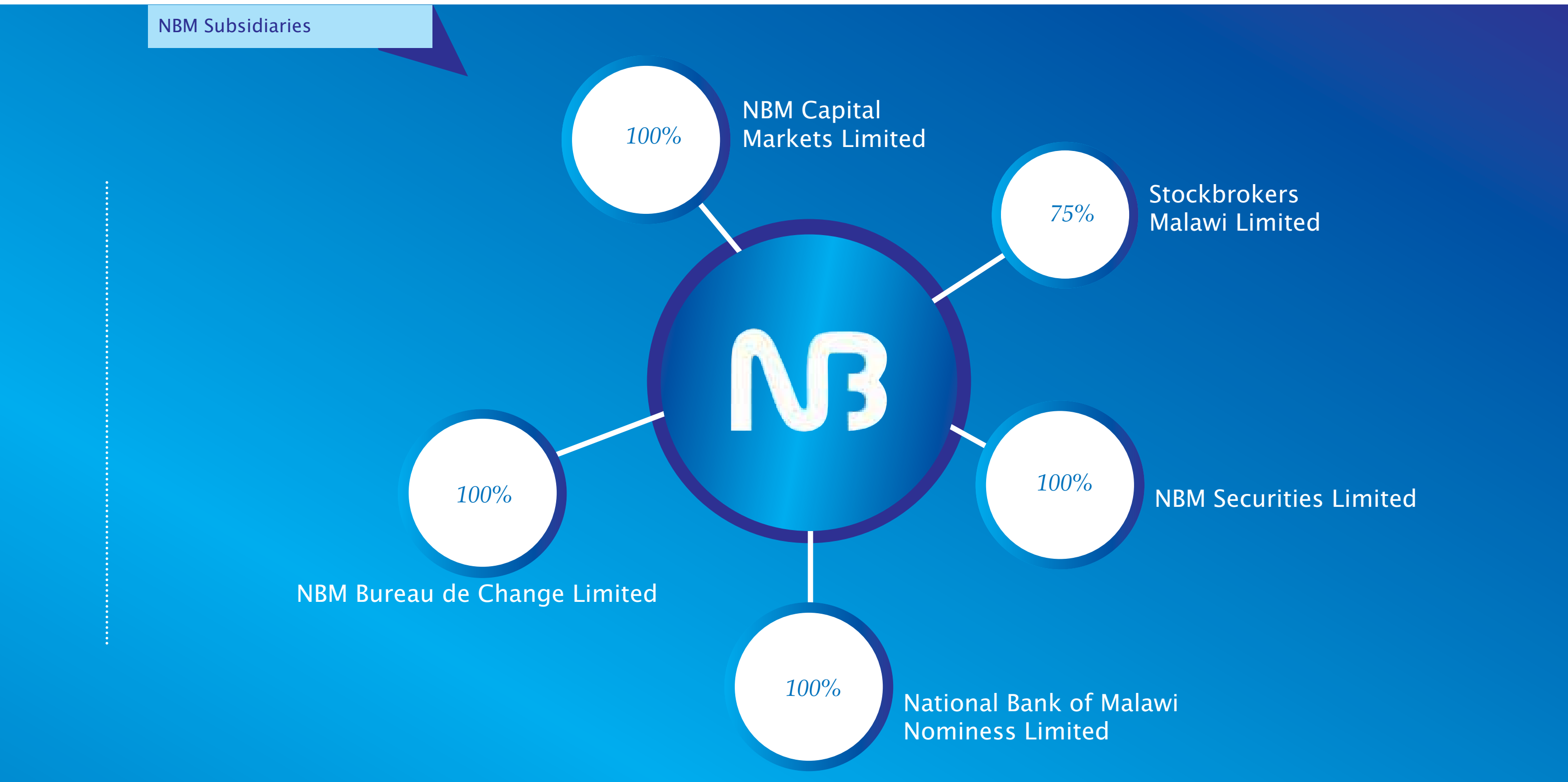
The Bank has 30 (2012: 29) service centres throughout the country. The Bank and its subsidiaries' registered offices and principal places of business are in Blantyre.

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 2014.

BY ORDER OF THE BOARD

Mrs Z.E.Mitole
Acting Company Secretary



"I am pleased to announce a group pre-tax profit of ***MK18.4 billion,*** *compared with MK11.0 billion earned in 2012, representing a 68% increase."*

Chairman of the Board, Dr Mathews Chikaonda

THE OPERATING ENVIRONMENT

The operating environment in the first three quarters of 2013 was fairly positive. There was tangible economic recovery evidenced by significant capacity utilization improvements in most sectors. This, among other factors, was as a result of the government's market oriented approach to economic management.

Revelations in the fourth quarter that substantial amounts of public funds were misappropriated through fraudulent transactions processed into the government's integrated financial management system caused erosion of confidence and introduced considerable uncertainty to the economic outlook. As a result of the discovery of the fraud, the IMF Extended Credit Facility Arrangement disbursements were delayed and budgetary support from the country's major donors was suspended.

PERFORMANCE

I am pleased to announce a group pre-tax profit of K18.4 billion, compared with K11 billion earned in 2012, representing a 68% increase.

The Operating Environment

The operating environment in the first three quarters of 2013 was fairly positive.

STRATEGY AND PROSPECTS

As will be read in the Economic Review section of this Annual Report, Real GDP growth forecast for 2014 has been reduced from the official 6.1% to 5% according to IMF estimates. This is mainly due to the suspension of donor disbursements for budgetary support and the resultant higher than budgeted deficit for the fiscal year. It is expected that growth prospects could further be revised downwards on account of the announced suspension of production of uranium cake at Kayerekera mine at the end of the first quarter of 2014 caused by the plummeting of world uranium prices. However, the agriculture sector is expected to register good performance due to favourable rains in most parts of the country, with tobacco expected to register a 25% volume growth.

In the immediate term we envisage a declining trend in inflation and stability in the exchange rate, at least within the tobacco selling season. General elections to be held in May 2014 pose inflationary risk due to fiscal lapses normally associated with such immediate pre-election periods.

In the medium to long term the growth of the economy will depend on the policies to be adopted after the May 2014 general elections and the speed and level at which budgetary support by donors is going to be restored.

The Bank has a 5-year Strategic Plan which is in its second year of implementation. The Bank has built-in flexibility, resources, and the agility necessary to continue on a growth path. I therefore expect that the Bank will do similarly well in 2014.

BOARD OF DIRECTORS

Mr. D. Kafoteka and Mr. D. Kambalametore joined the Board in the course of the year to replace Mr. G. Pote and Mr. D. Mawindo respectively, who resigned from the Board in the previous year. In addition, as a way of further strengthening the presence of independent directors on the Board, Ms. R. Mkandawire was also appointed early in the year. I take this opportunity to extend a warm welcome to the new directors and to thank my fellow directors for their valuable contributions, support and cooperation during 2013. I look forward to their continued dedication on the board as we exploit opportunities ahead.

MANAGEMENT AND STAFF

I am deeply grateful to our professional workforce for achieving such commendable results. On behalf of the entire board and the shareholders, let me convey my sincere thanks and congratulations to them. I have no doubt that the Board can count on their commitment, loyalty, hard work and professionalism as the Bank continues to deliver optimal value to all its stakeholders.

Mathews A.P. Chikaonda, Ph.D
CHAIRMAN

Performance

...a group pre-tax profit of K18.4 billion, compared with K11.0 billion earned in 2012

Strategy

The Bank has built-in flexibility, resources, and the agility necessary to continue on a growth path.

Appreciation

I am deeply grateful to our professional workforce for achieving such commendable results.

SENIOR MANAGEMENT

Harry Mukaka (46)
BA (Public Admin.), MBA
HEAD, TREASURY AND FINANCIAL INSTITUTIONS

William Kaunda (44)
BSc, MSc (Bus Mgt)
HEAD, CARDS AND e-BANKING

Charles Dulira (45)
BA (Public Administration)
HEAD, HUMAN RESOURCES

Tayemu H Masikini (56)
Post Graduate Diploma in Computing, BSc.
HEAD, ADMINISTRATION

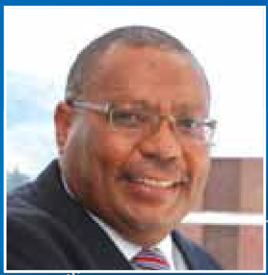
Charles Sunduzwayo Ulaya (38)
ACMA
ACTING HEAD, RISK

Harold Jiya (43)
Bcom, ACIB, MBA
HEAD, CORPORATE BANKING

Daniel Jere (40)
B.Acc, ACMA, CPA(Mw)
HEAD, INTERNAL AUDIT

Wilkins G. Mijiga (42)
B.Soc.Sc. (Econ)
CHIEF MARKETING OFFICER

SENIOR MANAGEMENT



George B Partridge (50)
B.Soc.Sc, (Econ), MSc (Finance), FCCA, CPA (Mw)
CHIEF EXECUTIVE OFFICER

Macfussy M Kawawa (49)
B.Acc (Hons), FCCA, CPA (Mw), MBA
GENERAL MANAGER & CHIEF FINANCIAL OFFICER

Eluphy Salamba (46)
B.Com (Business Admin), MSc (LCM)
HEAD, CREDIT MANAGEMENT

Oswin Kasunda (47)
B.Com, Msc (St.Mgt)
HEAD, PERSONAL AND BUSINESS BANKING

Austin N D Musyani [55]
BA[Public Admin.], MPA, MBA.
HEAD, CUSTOMER SERVICE

Brian Boby (49)
B.Soc.Sc., MBA
HEAD, OPERATIONS

Zunzo Mitole (Mrs) (40)
LLB (Hons) (MW)
ACTING COMPANY SECRETARY AND LEGAL COUNSEL

John Mitchell (49)
BSc. (Technical Education), MSc (Computing)
HEAD, INFORMATION TECHNOLOGY

SENIOR MANAGEMENT

The Senior Management Team

"I convey my sincere gratitude to my colleagues in senior management and to all members of staff for their commitment and dedication, and for their outstanding contributions which have enabled us to produce such commendable performance."

- George Partridge, Chief Executive Officer

"Revenue from treasury operations was one of the major sources of income for the Bank."

Chief Executive Officer, Mr George Partridge

PERFORMANCE OVERVIEW

The operating environment of the banking sector was characterized by liquidity challenges especially in the first half of the year. This was as a direct result of the Reserve Bank of Malawi's continued tight monetary policy stance exercised through mopping-up operations and the maintenance of a high interest rate regime.

Following the improved capacity utilization of its clientele due to improved availability of fuel, foreign exchange and raw materials compared to 2012, the Bank registered satisfactory growth in almost all its business lines, liquidity challenges on the market notwithstanding. Deposits and the loan book exceeded expectations. Year on year deposits grew by 36% while loan portfolio growth was constrained by a high interest rate environment and remained flat. Despite the high interest rate environment, the quality of the Bank's loan book at below 4% non-performing ratio was good in relation to the industry.

Performance Overview

...the Bank registered satisfactory growth in almost all its business lines, liquidity challenges on the market notwithstanding.

CORPORATE BANKING

Corporate Banking division continued to strengthen its relationships with corporate clients by increasing and broadening offerings of term foreign currency products to exporters through the bouquet of forex loans available. This offering was complemented by an Financierings-Maatschappij voor Ontwikkelingslanden N.V.(MFO). line amounting to USD20 million.

Great strides were made in building lasting relationships with key decision makers who are members of our Premium Banking Suite by extending flexible asset based loans to foster wealth creation.

Facilities to tobacco merchants targeting contracted tobacco farmers have been very successful and well received by the industry. Apart from being a profitable line, this business has one of the greatest positive social impacts on communities since as many as 70,000 families of rural communities are beneficiaries.

PERSONAL AND BUSINESS BANKING

The Personal and Business Banking portfolio which is comprised of 20% Personal Banking, 44% SME Banking and 36% Asset Finance, grew by 15% despite the challenging business environment. Due to the inherent risk associated with this segment in a high interest rate environment, deliberate efforts were deployed to control its growth.

We introduced two short term products to our bouquet of products; the Pay Day Loan targeted at salaried employees and Invoice Proceeds Based Finance Loan aimed at SMEs who are suppliers to reputable organizations. The two products have received overwhelming support from the market, a clear indication that there was a financing gap which we are delighted to have closed.

The Bank continues to focus its efforts in strengthening strategic alliances of SMEs with corporates, especially those that form part of the supply chain of corporate customers. This is regarded as a very lucrative growth area for the Bank and the economy. This approach ensures that commensurate risks associated with SMEs are appropriately managed.

TREASURY

Revenue from treasury operations was one of the major sources of income for the Bank. The 2013 tobacco market was better compared to 2012 both in terms of prices and volumes. The foreign exchange market correlates positively with the performance of this market. As a result of the underlying performance of tobacco exports, exchange earnings exceeded budget. Money market income also surpassed expectations. This was achieved despite the market going through a spell of liquidity challenges for a couple of months which resulted in higher cost of funding than would normally be the case.

Cards and e-Banking

...the Bank will start offering MasterCard products and services in 2014 and our ATMs will start accepting/acquiring MasterCard branded cards, in addition to Visa.

Outlook

In the medium to long term, the growth of the economy will depend on the policies to be adopted by the new government after the May 2014 general elections

Appreciation

I would like to thank the Board for their direction and support throughout the year...my colleagues in senior management and to all members of staff

The equities desk also performed very well owing to price gains experienced in a number of counters on the stock market as a result of a favourable business environment during the year than in 2012.

SERVICE CENTRES

In 2012, the Bank embarked on improvements of its frontline customer flow and queue management through installation of electronic queuing management system in its service centres. This phased process for all eligible centres was completed in the year under review.

During the course of the year, the Bank established its presence at Mwanza, a border town with Mozambique, bringing the number of service centres to 30. We also relocated Nchalo and Mzimba Service Centres to more spacious and inviting environments.

CARDS AND e-BANKING SERVICES

The Bank enhanced its mobile phone banking system (Mo626*ice*) and its internet banking system (BankNet Online) as part of its plans to advance these channels to new frontiers of e-payments. ten more ATMs were added to the Bank's network at service points in strategic and convenient areas in order to improve availability of round the clock service to customers, bringing the number of ATMs to 84. There are plans for further deployments in 2014.

The Point of Sale (POS) network with merchants expanded exponentially, this being a green-field area in the country. This growth is testimony that e-payments are the modern route for payments in the country which is taken for granted elsewhere. During the course of the year, the Bank was awarded principal membership of MasterCard. This is in addition to the principal membership with Visa obtained in 2006. Accepting the Bank as a principal member by a leading payments company such as MasterCard further signifies the maturity and the trust that the Bank enjoys from such reputable brands, in addition to demonstrating the trajectory of technological advances in the Bank.

Following the principal membership of MasterCard, the Bank will start offering MasterCard products and services in 2014 and our ATMs will start accepting/acquiring MasterCard branded cards, in addition to Visa.

Basel II Compliance and Information Technology Systems

We implemented Misys Almonde as our Basel II solution, which ensured our compliance with the Basel II regime which came into effect on 1st January, 2014.

Going forward the Bank will focus on the upgrading of its core banking system to improve processing and operational efficiency.

HUMAN RESOURCES AND CONTINUOUS DEVELOPMENT

We embarked on Wellness activities across the Bank. The Bank conducted sensitization programmes to members of staff on the importance of living healthy lifestyles.

Project Evolution (Cultural Transformation Project) continued to take centre stage. In our desire to bring about cultural change at all levels, staff in all our units were very active in regularly discussing and agreeing on corrective actions where necessary, based on monthly transformational themes.

Members of staff continued to excel in their studies with two of them completing studies for masters' degrees in Risk Management and Business Management respectively. One member of staff qualified as a chartered banker while twenty eight successfully completed other various professional courses. We offered postgraduate scholarships to two managers to pursue studies for masters' degrees in Information Technology

New Mwanza Service Centre

Modern queueing system in major service centres

and Business Management respectively in the United Kingdom. As an on-going effort, the Bank continued its routine banking related training programs to its employees at its own Learning and Growth Centre.

SUBSIDIARY AND ASSOCIATE COMPANIES

Stockbrokers Malawi Limited (SML)

The company recorded strong performance, registering 129% increase in revenue and commanding a 46% market share. A post-tax profit of K107 million was recorded (2012: K50 million).

It is expected that the company will continue to register significant progress in both business growth and profitability.

United General Insurance Company (UGI)

The company registered growth in after tax profit from K201 (restated) million in 2012 to K272 million. This performance was largely driven by investment income.

Gross written premium grew by 30% from K2.6 billion in 2012 to K3.4 billion while net written premium grew by 31% from K1.9 billion to K2.5 billion. The company managed to contain expenses, which were 17% (2012:17%) of gross written premiums in spite of an inflationary environment. Claims continued to be an industry challenge resulting into an overall loss ratio of 68%, a slight rise from 67% in 2012.

During the year shareholders injected additional capital into the company amounting to K176 million in order to improve the solvency ratio from 16.2% to 42%. The solvency ratio had fallen to below the minimum regulatory requirement of 20% as at the end of 2012 .

NBM Capital Markets Limited

The company's performance after 21 months of operation has been satisfactory. In 2013, the company registered a significant growth in after tax profit from K5 million in 2012 to K40 million, exceeding expectations of a start-up operation. The company's assets under management grew from K15 billion to K18 billion.

It is expected that the company will continue to register significant growth in business for the foreseeable future.

NBM Bureau de Change

Following the liberalization of the foreign exchange market where commercial banks were once again allowed to offer foreign cash services across their networks, the purpose for which the company was originally established in 2010 ceased to exist, and accordingly, a decision was taken to suspend its operations and its business channeled to our outlets like the way it was before 2010.

CORPORATE SOCIAL RESPONSIBILITY ACTIVITIES

Our Corporate Social Responsibility (CSR) policy ensures that the Bank remains true to its core value of being a good corporate citizen and a leader by actively participating in deserving charitable and social activities. The Bank believes that CSR programmes are a fundamental part of the way it does business and an essential element of its success.

To make its CSR programmes more relevant, the Bank revised its CSR Policy in 2013 and among others included scholarships and bursaries to needy but intelligent students to enable them pursue their chosen careers with financial assistance from the Bank. The Bank also introduced economic empowerment assistance programmes for the youth to enable them acquire skills in different trades so as to make them self-reliant and productive citizens.

Examples of some significant contributions the Bank made to local communities for the year under review included:

- K10,904,400 to needy students under Christian Health Association of Malawi colleges as first tranche of a three year K30m scholarship arrangement.

- K9,200,000 for procurement of students chairs and tables at Chancellor College, a constituent college of the University of Malawi.

- K5,000,000 to Queen Elizabeth Central Hospital for the rehabilitation of a TB ward, as part of a K20m pledge for refurbishments at the hospital.

OUTLOOK

Going into 2014, we envisage sustenance of the declining trend in inflation and a relatively stable exchange rate, at least within the tobacco selling season. The major down side risk being that the tripartite general elections to be held in May 2014 will pose inflationary and associated risks due to fiscal lapses and therefore widening recurrent budget deficits.

In the medium to long term, the growth of the economy will depend on the policies to be adopted by the new government after the May 2014 general elections and the speed and level at which suspended budgetary support by donors is restored.

Guided by its 5-year Strategic Plan, which is in the second year of implementation, the Bank has the necessary capital, human resources and ability to respond rapidly and adapt to changes in the macroeconomic environment. It is therefore expected that the Bank will continue on a growth path in 2014.

CONCLUSION

In conclusion, I would like to take this opportunity to thank the Board for their direction and support throughout the year. I convey my sincere gratitude to my colleagues in senior management and to all members of staff for their commitment and dedication, and for their outstanding contributions which have enabled us to produce such commendable performance. I call upon them to redouble their efforts in 2014 as we enter the second year of implementing our current 5-year strategic plan. Finally I would like to thank our overseas correspondent banks and customers for their extraordinary support and trust in us even when there were major country risks.

George B Partridge
CHIEF EXECUTIVE OFFICER

STAFF ACTIVITIES

Senior Management and Service Centre Managers at the annual strategic review workshop.

Wellness and fitness activities for all staff. Health Day for medical check-ups.

“Get well soon”. Gifts to patients during Festive Season.

Taking time off from usual business to cheer the sick.

All work and no play makes Jack a dull boy. Staff having fun at NBM Sports Festival.

Long serving employees with the Chief Executive Officer, Mr George Partridge.

Communication to staff through magazines and newsletters.

Information Technology (IT) Division is the hub of IT innovations at the Bank. Staff in IT Division.

CORPORATE SOCIAL RESPONSIBILITY ACTIVITIES

Scholarship Awards for creating pathways to students to gain long term careers in the field of health.

Classroom furniture to provide conducive learning environment to students at Chancellor College, a constituent college of the University of Malawi.

Newly launched
Mwanza Service Centre

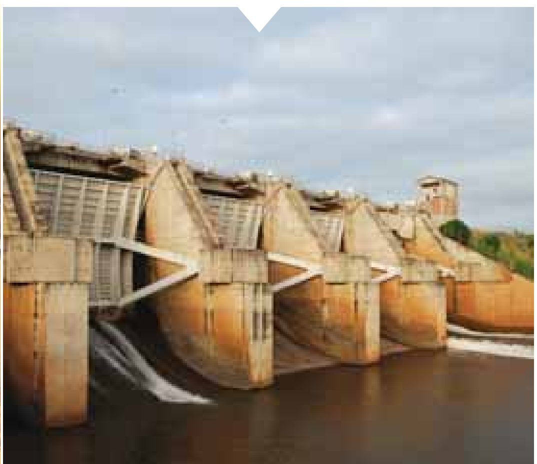
The General Manager,
Mr Mac Fussy Kawawa
cutting a ribbon as he
hands over a security
brick fence at Mwanza
District Hospital

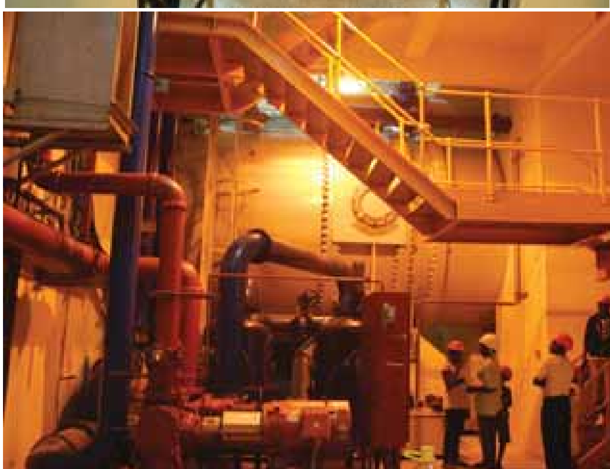
Excellence Awards
at Mzuzu University

Sports Sponsorships to socially mix with clients as well as make a difference to client's health and lifestyle.

SELECTED KEY CLIENTS' ACTIVITIES

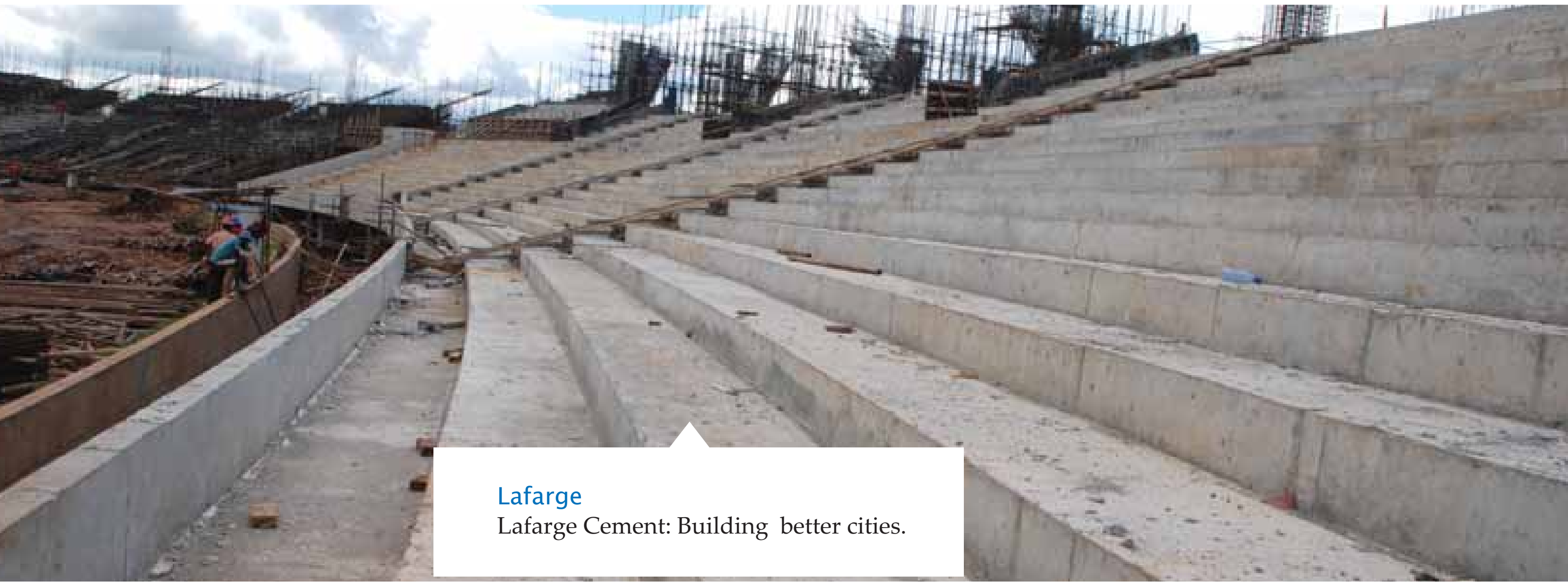
ESCOM Kapichira
Hydro-electric Power Station
Escom: Towards power all day every day





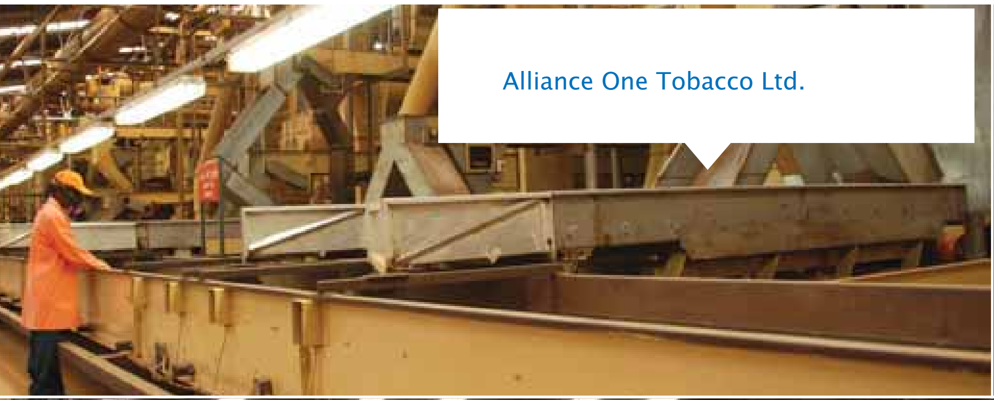
SOS Children's Village Malawi
A loving home for every child.

Dynamic Recycling Company
Paper waste management with a vision of reducing environmental emissions.



Lafarge
Lafarge Cement: Building better cities.

Alliance One Tobacco Ltd.



Rab Processors Limited
Always No. 1 on biscuits, Peanut Butter, Tea, Nuts, etc. Delicious, more value to your money.

Namadzi Bottlers Limited

Auction Holdings Limited
Lilongwe Floors at the peak of selling tobacco.

Polypack Limited
Manufacturers and suppliers of plastics and plastic packaging materials of superior quality and value.

Protea Hotel Ryalls
Elegance redefined.

Real GDP growth is expected to rebound from 1.8% recorded in 2012 to 5% in 2013. This growth will mainly emanate from improvements in agriculture, forestry and fishing sectors. The improvement in agriculture is mainly on account of the recovery of tobacco production from 79 million Kilograms in 2012 to 168 million Kilograms in 2013. Manufacturing is also expected to register an improvement with fewer production bottlenecks as a result of improvement in fuel and foreign exchange availability.

The tight liquidity conditions that characterized the economy in 2012 abated in the year under review. However, the year 2013 was characterized by inconsistency between monetary and fiscal policies. Whilst on the one hand the monetary authorities pursed a tight stance, there was fiscal laxity on the other hand, which led to the high interest rate environment experienced in the year. On average interest rates hovered between 35%-40% thus crowding out private sector investment.

The Malawi Kwacha depreciated from about MK340/1US Dollar recorded in the first quarter of 2013 to around MK450/1US Dollar at the end of the year. The currency exhibited some traditional seasonality, strengthening in between the months of March and July 2013 then depreciating thereafter as tobacco exports ended.

Foreign currency reserves were maintained at not less than 2 months of imports. As a consequence of this positive development, 2013 saw the clearance of the backlog of foreign remittances.

Revelations in the fourth quarter of 2013 that substantial amounts of public funds were misappropriated through fraudulent transactions processed into the government's integrated financial management system introduced considerable uncertainty in the economic outlook. The Extended Credit Facility Arrangement disbursements with the IMF were thus delayed and wider budgetary support from the country's major donors suspended.

INFLATION

The economic environment was largely inflationary in the year under review although there was a noticeable sustained declining trend from quarter three. Headline inflation was 35.1% in January 2013 and peaked in April at 35.8% largely driven by high food prices. With the onset of the maize harvest and modest revisions in energy prices, complemented by a very tight monetary policy, headline inflation moderated in the second half of 2013 closing at 23.5% in December 2013. Annual average inflation for the year stood at 27.1%.

OUTLOOK FOR 2014

Real GDP growth forecast for 2014 has been reduced from 6.1% to 5% according to IMF estimates. This is mainly due to the suspension of donor disbursements for budgetary support and the resultant higher than budgeted deficit for the fiscal year. It is expected that growth prospects could further be revised downwards on account of the announced suspension of production at the end of the first quarter of uranium cake at Kayerekera mine as a result of the plummeting of world uranium prices. However, the agriculture sector is expected to register good performance due to favourable rains in most parts of the country, with tobacco expected to register a 25% volume growth.

In the medium to long term the growth of the economy will depend on the policies to be adopted after the May general elections and the speed and magnitude of restoration of budgetary support.

The Board of National Bank of Malawi subscribes to the principles of openness, integrity and accountability as set out in the Malawi Corporate Governance Code, The Cadbury Report and the King Reports and is thus committed to good corporate governance. These principles are key to the effective and satisfactory relationship between the shareholders, customers, strategic partners, suppliers of various goods and services, regulators and staff.

The Board sets the strategic objectives of the Bank, determines investment policies, risk appetite and performance criteria and delegates the detailed planning and implementation of these objectives to management in accordance with appropriate parameters.

The Board monitors compliance with policies and achievement of objectives by holding management accountable for its activities through bi-monthly Board meetings at which performance is reported. Compliance is also monitored through the meetings of the four committees of the board namely – Risk; Audit; Appointments, Remuneration & Governance and Credit Committees.

Each committee has specific terms of reference issued by the Board, which are in the custody of the Company Secretary. Each committee chairman reports on the proceedings of his committee at the next meeting of the Board.

The directors are responsible for maintaining a system of internal controls, which provides reasonable assurance that the Bank has effective and efficient systems with sound internal financial controls governing all the operations of the Bank in line with best practice. The internal controls also ensure that there is compliance with laws and regulations. To do this, the Board supports investments in accounting, financial and risk management systems that enable the Bank to produce timely reports to its shareholders, the regulatory authorities and members of the general public. Note 40 to the financial statements provides details of the risk management processes that the Bank has embraced.

The Bank's Articles of Association provide for a maximum of eleven directors on the Board made up of two executive and nine non-executive directors. Press Corporation Limited nominates five of the non-executive directors, Old Mutual Companies nominate two non-executive directors and the Board in unison nominates the rest. The chairman is chosen from among these directors. Three directors were nominated in the course of the year bringing the total number of directors to ten. Currently one position of a non-executive director is vacant.

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

COMMITTEES OF THE BOARD

Risk Committee

The Chairman of the Risk Committee of the Board is Mr. D. J. Kambalametore. The committee is responsible for the strategic risk management of the Bank as delegated by the Board.

The directors provide the necessary oversight and direction in relation to current and potential future risk exposures and future risk strategy and are supported with risk management reports covering credit, market, liquidity and operational risks among other reports provided by the Risk Division of the Bank. The Committee also provided and continues to provide oversight over the Bank's preparation for compliance with Basel II requirements.

The Committee meets at least three times a year.

Audit Committee
The Chairperson of the Audit Committee of the Board is Ms R. Mkandawire. The Committee has overall responsibility for the Bank's system of internal control and for reviewing its effectiveness by reviewing the on-going processes for identifying, evaluating and managing the significant risks faced by the Bank and through an annual assessment of risk management systems. The Committee exercises the full powers and authority of the Board in accounting and financial reporting matters as guided by its terms of reference.

The directors are provided with information which assists them to assess the effectiveness of internal controls in each business unit through a pre-arranged audit programme. This programme addresses the full spectrum of the Bank's potential risks. The Head of the Bank's Internal Audit Division as well as the external auditor have unrestricted access to this Committee at all times.

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

Appointments Remuneration and Governance Committee

The Chairman of this Committee of the Board is Mr E.J. Kambalame. The Committee is responsible for board nominations and vetting, good governance practices, ensures that the Bank has a robust succession plan, that the Bank's human resources are best utilised, and that members of staff are remunerated commensurately with their responsibilities and effectiveness.

The Committee meets at least three times a year.

Credit Committee
The Chairman of this Committee of the Board is Mr P.P. Mulipa. The committee reviews the quality of the Bank's direct, contingent lending and the mix of industry concentration within agreed parameters, counterparty lending and dealing lines in line with the Credit Policy. The Committee also looks at substandard debt schedules and lists of facilities granted to sensitive customers, related parties and senior management.

Code of Ethics
The Bank is committed to a policy of fair dealing and integrity in the conduct of its business and ensures that business is conducted morally, honestly, fairly, legally and in a transparent manner in line with the Bank's recently approved Code of Ethics for staff.

Auditor Independence
The Board has in place systems for ensuring the independence, integrity, competence and professionalism of the Bank's external auditors and has satisfied itself that during the year, no aspect of their work was impaired on these grounds.

Board Information and Development
The Company Secretary is responsible for advising the Board on all governance issues, ensuring that board procedures are followed and applicable rules and regulations 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. The Company Secretary also coordinates directors' training for efficient discharge of the board's oversight responsibilities and also organises board orientation from time to time.

The Companies Act, 1984, requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Bank and the Group as at the end of the financial year and of the operating results for that year.

The Act also requires the directors to ensure that the Bank and the Group keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the Bank and the Group and enable them to ensure that the financial statements comply with the Companies Act, 1984.

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

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

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

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

DIRECTOR:

Mr. G.B. Partridge

DIRECTOR:

Dr M.A.P Chikaonda

Deloitte.

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

We have audited the consolidated and separate financial statements of National Bank of Malawi and its subsidiaries (the Group) as set out on pages 49 to 116, which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements give a true and fair view of the financial position of the Bank and the Group as of 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in accordance with the provisions of the Companies Act, 1984, so far as concerns the members of the company.

Deloitte

3 April 2014

Audit • Tax • Consulting • Financial Advisory •
Resident Partners: N.T. Uka J.S. Melrose L.L. Katandula V.W. Beza C.A. Kapenda

A member of
Deloitte Touche Tohmatsu

31 December 2013

	Notes	GROUP 31/12/13 K'm	GROUP 31/12/12 K'm Restated	GROUP 01/01/12 K'm Restated	COMPANY 31/12/13 K'm	COMPANY 31/12/12 K'm
ASSETS						
Cash and funds with Reserve Bank of Malawi	5	18 830	8 797	8 155	18 854	8 797
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	8 209	7 801	7 062	8 209	7 801
Government of Malawi local registered stock	7	-	372	467	-	372
Investment in Government of Malawi Government of Malawi promissory notes	8	10 765	-	-	10 765	-
Equity investments	9	1 577	732	695	1 476	731
Investment in associates	10	380	214	196	233	123
Investment in subsidiaries	11	-	-	-	142	142
Placements with other banks	12	33 784	19 347	8 753	33 784	19 347
Loans and advances	13	62 918	63 001	46 573	62 929	63 001
Other money market deposits	14	13 039	6 125	2 864	8 514	2 048
Assets held for sale		-	-	454	-	-
Other assets	15	12 738	8 539	4 201	12 656	8 486
Property plant and equipment	16	17 650	15 366	12 685	17 619	15 321
Intangible assets	17	2 912	2 082	1 442	2 912	2 082
Deferred tax	18	2 500	1 134	417	2 499	1 134
Total assets		185 302	133 510	93 964	180 592	129 385
LIABILITIES AND EQUITY						
LIABILITIES						
Customer deposits	19	123 855	91 501	68 606	119 481	87 512
Amounts due to other banks	20	212	583	2 874	212	583
Current income tax liabilities	21	1 740	1 303	1 030	1 743	1 304
Loans	22	8 348	3 395	-	8 348	3 395
Provisions	23	1 975	1 772	-	1 953	1 765
Other liabilities	24	17 009	13 389	5 166	16 932	13 334
Post-employment benefit obligation		-	-	585	-	-
Total liabilities		153 139	111 943	78 261	148 669	107 893
EQUITY						
Capital and reserves						
Share capital		467	467	467	467	467
Share premium		613	613	613	613	613
Loan loss reserve		-	632	466	-	632
Available for sale reserve		183	-	-	183	-
Revaluation reserve		6 230	3 785	2 291	6 230	3 785
Retained earnings		24 624	16 051	11 859	24 430	15 995
Equity attributable to equity holders of the parent		32 117	21 548	15 696	31 923	21 492
Non-controlling interests		46	19	7	-	-
Total equity		32 163	21 567	15 703	31 923	21 492
Total equity and liabilities		185 302	133 510	93 964	180 592	129 385
Memorandum items						
Contingencies-guarantees and performance bonds	34	1 692	5 551	4 215	1 692	5 551

The financial statements were approved and authorised for issue by the Board of Directors on 3rd April, 2014 and were signed on its behalf by:

Chairman: Dr. M.A.P. Chikaonda

Director: Mr. G.B. Partridge

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	GROUP 2013 K'm	GROUP 2012 K'm	COMPANY 2013 K'm	COMPANY 2012 K'm
Income					
Interest and similar income	26	25 008	12 270	24 982	12 274
Interest expense and similar charges	26	(5 290)	(2 407)	(5 290)	(2 408)
Net interest income	26	19 718	9 863	19 692	9 866
Commission and fee income	27	6 269	6 374	5 943	6 236
Profit from dealing in foreign currencies		6 089	4 626	6 059	4 535
Income from operating leases		684	511	684	511
Net gains on financial instruments classified as held for trading	9	646	76	646	76
Profit on disposal of equity investments		36	14	18	8
Share of profits of associate		80	26	-	-
Dividend income		43	51	42	50
Properties fair value gain	30	406	838	406	838
Profit on disposal of property plant and equipment		69	554	69	554
Total income		34 040	22 933	33 559	22 674
Expenditure					
Staff costs	28	7 734	5 552	7 591	5 476
Other operating expenditure	29	7 644	5 769	7 533	5 701
Total expenditure		15 378	11 321	15 124	11 177
Profit before recoveries and impairment losses on loans and advances		18 662	11 612	18 435	11 497
Recoveries on impaired loans and advances	13	512	253	512	253
Impairment losses on loans and advances	13	(728)	(860)	(728)	(860)
Profit before tax		18 446	11 005	18 219	10 890
Income tax expense	31	(5 740)	(3 418)	(5 678)	(3 399)
Profit for the year		12 706	7 587	12 541	7 491
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Surplus on revaluation of properties	30	898	1 111	898	1 111
Deferred tax on revalued assets	18	1 706	762	1 706	762
Items that may be reclassified subsequently to profit or loss					
Fair value movement on available for sale assets	8	183	-	183	-
Total other comprehensive income		2 787	1 873	2 787	1 873
Total comprehensive income for the year		15 493	9 460	15 328	9 364
Profit attributable to:					
Equity holders of the company	32	12 679	7 575	12 541	7 491
Non-controlling interests		27	12	-	-
		12 706	7 587	12 541	7 491
Comprehensive income attributable to:					
Equity holders of the company		15 466	9 448	15 328	9 364
Non-controlling interests		27	12	-	-
		15 493	9 460	15 328	9 364
Earnings per share (K)	32	27.15	16.22		
Diluted earnings per share (K)	32	27.15	16.22		
Dividend per share (K)	33	10.49	7.70		

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
2012									
As at 1 January 2012	467	613	466	-	2 291	11 859	15 696	7	15 703
Total comprehensive income	-	-	-	-	1 873	7 575	9 448	12	9 460
Transfer on disposal of PPE	-	-	-	-	(325)	325	-	-	-
Transfer of excess depreciation	-	-	-	-	(54)	54	-	-	-
Transfer to loan loss reserve	-	-	166	-	-	(166)	-	-	-
2011 final dividend proposed and paid	-	-	-	-	-	(1 262)	(1 262)	-	(1 262)
2012 interim dividend proposed and paid	-	-	-	-	-	(2 334)	(2 334)	-	(2 334)
As at 31 December 2012	467	613	632	-	3 785	16 051	21 548	19	21 567
2013									
As at 1 January 2013	467	613	632	-	3 785	16 051	21 548	19	21 567
Total comprehensive income	-	-	-	183	2 604	12 679	15 466	27	15 493
Transfer on disposal of PPE	-	-	-	-	(11)	11	-	-	-
Transfer of excess depreciation	-	-	-	-	(148)	148	-	-	-
Transfer from loan loss reserve	-	-	(632)	-	-	632	-	-	-
2012 final dividend proposed and paid	-	-	-	-	-	(1 498)	(1 498)	-	(1 498)
2013 first interim dividend proposed and paid	-	-	-	-	-	(1 998)	(1 998)	-	(1 998)
2013 second interim dividend proposed and unpaid (note 24)	-	-	-	-	-	(1 401)	(1 401)	-	(1 401)
As at 31 December 2013	467	613	-	183	6 230	24 624	32 117	46	32 163

For the year ended 31 December 2013

	Share capital K'm	Share Premium K'm	Loans Loss Reserve K'm	Available for sale reserve K'm	Revaluation reserve K'm	Retained earnings K'm	Total K'm
COMPANY							
2012							
As at 1 January 2012	467	613	466	-	2 291	11 886	15 723
Total comprehensive income	-	-	-	-	1 873	7 491	9 364
Transfer on disposal of PPE	-	-	-	-	(325)	325	-
Transfer of excess depreciation	-	-	-	-	(54)	54	-
Transfer to loan loss reserve	-	-	166	-	-	(166)	-
2011 final dividend proposed and paid	-	-	-	-	-	(1 261)	(1 261)
2012 interim dividend proposed and paid	-	-	-	-	-	(2 334)	(2 334)
As at 31 December 2012	467	613	632	-	3 785	15 995	21 492
2013							
As at 1 January 2013	467	613	632	-	3 785	15 995	21 492
Total comprehensive income	-	-	-	183	2 604	12 541	15 328
Transfer on disposal of PPE	-	-	-	-	(11)	11	-
Transfer of excess depreciation	-	-	-	-	(148)	148	-
Transfer from loan loss reserve	-	-	(632)	-	-	632	-
2012 final dividend proposed and paid	-	-	-	-	-	(1 498)	(1 498)
2013 first interim dividend proposed and paid	-	-	-	-	-	(1 998)	(1 998)
2013 second interim dividend proposed and unpaid (note 24)	-	-	-	-	-	(1 401)	(1 401)
As at 31 December 2013	467	613	-	183	6 230	24 430	31 923

	2013 K'm	2012 K'm
ANALYSIS OF SHARE CAPITAL		
Authorised		
500,000,000 Ordinary Shares of K1 each	500	500
Issued and fully paid		
466,931,738 Ordinary Shares of K1 each	467	467

	GROUP & COMPANY 2013 K'm	GROUP & COMPANY 2012 K'm
LOAN LOSS RESERVE		
Loan loss reserve	-	632

The loan loss reserve is no longer required by the Reserve Bank of Malawi and accordingly no provision has been made for 2013.The accumulated loan loss reserve has therefore been transferred to retained earnings.

	GROUP 2013 K'm	GROUP 2012 K'm	COMPANY 2013 K'm	COMPANY 2012 K'm
Cash flows from operating activities				
Profit before tax	18 446	11 005	18 219	10 890
Adjustments for:				
• Depreciation	1 732	1 392	1 721	1 383
• Profit on disposal of property plant and equipment	(69)	(554)	(69)	(554)
• Gain on disposal of equity investments	(36)	(14)	(18)	(8)
• Net gains on financial instruments classified as held for trading	(646)	(76)	(646)	(76)
• Dividend receivable	(43)	(51)	(42)	(50)
• Net fair value gain	(396)	(838)	(406)	(838)
• Share of profits of associate	(80)	(26)	-	-
• Increase in customer deposits	36 375	20 728	31 968	20 754
• Increase in other liabilities and provisions	2 422	9 994	2 385	9 965
• Decrease in employment benefit obligations	-	(585)	-	(585)
• Decrease/(increase) in loans and advances	83	(16 428)	72	(16 413)
• Increase in other assets	(4 012)	(4 316)	(4 130)	(4 291)
Cash generated from operations	53 776	20 231	49 054	20 177
Taxation paid	(4 930)	(3 090)	(4 898)	(3 080)
Net cash flow from operating activities	48 846	17 141	44 156	17 097
Cash flows from investing activities				
Increase in investments with maturity over three months	(10 983)	(651)	(10 743)	(668)
Purchase of property plant and equipment	(3 600)	(2 968)	(3 594)	(2 944)
Proceeds from disposal of property plant and equipment	117	1 214	117	1 214
Purchase of equity investments	(154)	(15)	(154)	(15)
Proceeds from disposal of equity investments	50	50	50	43
Dividends received	43	51	42	50
Net cash flow from investing activities	(14 527)	(2 319)	(14 282)	(2 320)
Cash flows from financing activities				
Proceeds from borrowings	4 953	3 395	4 953	3 395
Dividends paid	(3 496)	(3 595)	(3 496)	(3 595)
Net cash flow from financing activities	1 457	(200)	1 457	(200)
Net increase in cash and cash equivalents	35 776	14 622	31 331	14 577
Cash and cash equivalents at beginning of the year	29 665	15 043	29 609	15 032
Cash and cash equivalents at end of the year (note 36)	65 441	29 665	60 940	29 609

1. General information

National Bank of Malawi Group (the Group) provides retail, corporate and investment banking as well as stockbroking and insurance services in Malawi. The Group has a network of 30 (2012: 29) service centres.

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

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

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

2. Adoption of new and revised International Financial Reporting Standards

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

In the current year, the Group has adopted those new and revised Standards and Interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee of the International Accounting Standards Board that are relevant to its operations and are effective for annual reporting periods beginning on 1 January 2013.

Except as disclosed in note 3.2, the adoption of these new and revised Standards and Interpretations did not have a significant impact on the financial statements of the Group.

2.2 Standards and Interpretations in issue, not yet effective

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

Pronouncement	Issued	Effective date
IFRS 2 ***Share-based Payment***		
• Amendments resulting from *Annual Improvements 2010-2012 Cycle* (definition of 'vesting condition')	December 2013	Annual periods beginning on or after 1 July 2014
IFRS 3 ***Business Combinations***		
• Amendments resulting from *Annual Improvements 2010-2012 Cycle* (accounting for contingent consideration)	December 2013	Annual periods beginning on or after 1 July 2014
• Amendments resulting from *Annual Improvements 2011-2013 Cycle* (scope exception for joint ventures)	December 2013	Annual periods beginning on or after 1 July 2014
IFRS 7 ***Financial Instruments: Disclosures***		
• Deferral of mandatory effective date of IFRS 9 and amendments to transition disclosures	December 2011	Annual periods beginning on or after 1 January 2015 (The effective date of IFRS 9 was subsequently removed, see IFRS 9 below)
IFRS 7 ***Financial Instruments: Disclosures***		
• Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9	November 2013	Applies when IFRS 9 is applied (At the time of issue of the revised version of IFRS 9 including the hedge accounting chapter, IFRS 9 had no stated mandatory effective date, see below)
IFRS 8 ***Operating Segments***		
• Amendments resulting from *Annual Improvements 2010-2012 Cycle* (aggregation of segments, reconciliation of segment assets)	December 2013	Annual periods beginning on or after 1 July 2014

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

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

Pronouncement	Issued	Effective date
IFRS 9 ***Financial Instruments***		
• Deferral of mandatory effective date of IFRS 9 and amendments to transition disclosures	December 2011	Annual periods beginning on or after 1 January 2015 (Effective date subsequently removed, see below)
• Reissued to incorporate a hedge accounting chapter and permit the early application of the requirements for presenting in other comprehensive income the 'own credit' gains or losses on financial liabilities designated under the fair value option without early applying the other requirements of IFRS 9	November 2013	Contains no stated effective date and includes consequential amendments which remove the mandatory effective date of IFRS 9 (2010) and IFRS 9 (2009), leaving the effective date open but allowing each version of the standard to be available for application Note: At its November 2013 meeting, the IASB tentatively decided that the mandatory effective date of IFRS 9 will be no earlier than annual periods beginning on or after 1 January 2017.
IFRS 10 ***Consolidated Financial Statements***		
• Amendments for investment entities	October 2012	Annual periods beginning on or after 1 January 2014
IFRS 12 ***Disclosure of Interests in Other Entities***		
• Amendments for investment entities	October 2012	Annual periods beginning on or after 1 January 2014
IFRS 13 ***Fair Value Measurement***		
• Amendments resulting from *Annual Improvements 2011-2013 Cycle* (scope of the portfolio exception in paragraph 52)	December 2013	Annual periods beginning on or after 1 July 2014
IAS 16 ***Property, Plant and Equipment***		Annual periods beginning on or after 1 July 2014
• Amendments resulting from *Annual Improvements 2010-2012 Cycle* (proportionate restatement of accumulated depreciation on revaluation)	December 2013	
IAS 19 ***Employee Benefits***		
• Amended to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service	November 2013	Annual periods beginning on or after 1 July 2014
IAS 24 ***Related Party Disclosures***		
• Amendments resulting from *Annual Improvements 2010-2012 Cycle* (management entities) IAS 27 Separate Financial Statements (as amended in 2011)	December 2013	Annual periods beginning on or after 1 July 2014
IAS 27 ***Separate Financial Statements*** (as amended in 2011)		
• Amendments for investment entities	October 2012	Annual periods beginning on or after 1 January 2014
IAS 32 ***Financial Instruments: Presentation***		
• Amendments relating to the offsetting of assets and liabilities	December 2011	Annual periods beginning on or after 1 January 2014

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

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

Pronouncement	Issued	Effective date
IAS 36 *Impairment of Assets* • Amendments arising from *Recoverable Amount Disclosures for Non-Financial Assets*	May 2013	Annual periods beginning on or after 1 January 2014
IAS 38 *Intangible Assets* • Amendments resulting from *Annual Improvements 2010-2012 Cycle* (proportionate restatement of accumulated depreciation on revaluation)	December 2013	Annual periods beginning on or after 1 July 2014
IAS 39 *Financial Instruments: Recognition and Measurement* • Amendments for novations of derivatives	June 2013	Annual periods beginning on or after 1 January 2014
IAS 40 *Investment Property* • Amendments resulting from *Annual Improvements 2011-2013 Cycle* (interrelationship between IFRS 3 and IAS 40)	December 2013	Annual periods beginning on or after 1 July 2014

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

3. Accounting policies

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

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

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

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

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

a. <u>Subsidiaries</u>
The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2013. 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)*

a. Subsidiaries *(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.

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. Accounting policies *(Continued)*

3.2 Amendments to IFRSs affecting amounts reported in the financial statements
The following amendments to IFRSs applied in the current year have affected the disclosures reported in these financial statements. These include IFRS 10 *Consolidated Financial Statements,* IFRS 11 *Joint Arrangements,* IAS 19 *Employee Benefits* (Revised 2011), IFRS 13 *Fair Value Measurement* and amendments to IAS 1 *Presentation of Financial Statements*. In addition, the application of IFRS 12 *Disclosure of Interests in Other Entities* resulted in additional disclosures in the consolidated financial statements.

The nature and the impact of new standards and amendments are described below:

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements
IFRS 10 replaces parts of IAS 27 that deal with consolidated financial statements. Under IFRS 10 there is only one basis for consolidation that is control. In addition, IFRS 10, includes a new definition of control that contains three elements: (a) Power over an investee, (b) exposure or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of investor's return. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. The Group has no subsidiaries with material non-controlling interests. IFRS 12.C2A states that the IFRS 12 disclosures need not be provided for periods beginning before the annual period immediately preceding the first annual period for which IFRS 12 is applied.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 39.

Several other amendments apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Group. The following changes in IFRS have no effect on the consolidated and the separate financial statements:

- *Recoverable Amount Disclosures for Non-Financial Assets* – Amendments to IAS 36 *Impairment of Assets*
- IAS 19 *Employee Benefits* (Revised 2011)
- IAS 1 *Clarification of the requirement for comparative information* (Amendment)
- IAS 1 *Presentation of Items of Other Comprehensive Income – Amendments to IAS 1*
- IFRS 11 *Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures*

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

3.4 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. <u>Financial assets at fair value through profit or loss</u>
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

3. Accounting policies *(Continued)*

3.4 Financial assets *(Continued)*

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

comprehensive income and are reported as 'Net gains/(losses) on financial instruments classified as held for trading'. Interest income and expense and dividend income and expenses on financial assets held for trading are included in 'Net interest income' or 'Dividend income', respectively. The instruments are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising.

ii. Loans and receivables

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

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

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

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

iii. Held-to-maturity investments

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

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

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

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

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

iv Available-for-sale investments

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

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

v Recognition

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

3. Accounting policies *(Continued)*

3.4 Financial assets *(Continued)*

v. Recognition *(Continued)*

are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as 'Assets pledged as collateral', if the transferee has the right to sell or repledge them.

vi Derecognition

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

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

3.5 *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.

3.6 *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.

3.7 *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;

3. Accounting policies *(Continued)*
3.7 Impairment of financial assets *(Continued)*
a. Assets carried at amortised cost *(Continued)*

- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; and
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group; and
  - national or local economic conditions that correlate with defaults on the assets in the group.

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

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

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

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

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

b. Assets carried at fair value

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

3. Accounting policies *(Continued)*
3.7 *Impairment of financial assets* *(Continued)*
b. Assets carried at fair value *(Continued)*

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.

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

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.

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

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

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

3. Accounting policies *(Continued)*
3.10 *Leases* *(Continued)*
a. The Group as lessor *(Continued)*

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

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

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

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

3.11 *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.

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

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

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

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

3. Accounting policies *(Continued)*

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

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.

3.13 *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.

3.14 *Provisions*

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

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

a. Restructuring

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

b. Onerous contracts

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

c. Warranties

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

3.15 *Taxation*

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

Current tax

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

Deferred tax

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where

3. Accounting policies *(Continued)*

3.15 *Taxation* *(Continued)*

Deferred tax *(Continued)*

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.

3.16 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.

3.17 *Employee benefits*

a. Pension obligations – Hybrid of Defined Contribution Plan and Defined Benefit Plan

The pension fund, which is managed internally, is a hybrid of defined contribution and defined benefit schemes. The fund is in a transition period to a fully defined contribution scheme. The effective date of the transition is 1 June 2014. The plan has two funds: General Fund and Death Top up Fund (Special Fund). The Special Fund applies to additional funds that are made by the employer at 4% of salary to cover additional sums due to death-in-service and, the final salary underpin.

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.

b. Pension obligations - Defined Contribution Plan

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.

c. Pension obligations - Defined Benefit Plan

These are post-employment benefit plans other that a defined contribution plans. These plans create an obligation on the entity to provide agreed benefits to current and past employees and effectively places actuarial and investment risk on the entity.

d. New Pension Fund Rule

Under new rules of the Pension Fund to take effect on 1 June 2014, the fund will become a fully defined contribution plan and the 20% salary underpin will no longer apply.

e. Short-term benefits

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

3.18 *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

3. Accounting policies *(Continued)*
3.18 *Foreign currency translation* *(Continued)*
a. Functional and presentation currency *(Continued)*

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.

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

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

3.20 *Revenue recognition*

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

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

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

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

3. Accounting policies *(Continued)*

3.20 ***Revenue recognition***
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.

3.21 ***Share capital***

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

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

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

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

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

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

4. Critical accounting judgments and key sources of estimation uncertainty

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

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

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

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

4. Critical accounting judgments and key sources of estimation uncertainty *(Continued)*

4.2 Key sources of estimation uncertainty *(Continued)*

i. Impairment losses on loans and advances

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

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

Key assumptions used:

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

ii. Held to maturity investments

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

iii. Valuation of properties

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

iv. Residual values and useful lives of tangible assets

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

	GROUP		COMPANY	
	2013 K'm	**2012 K'm**	**2013 K'm**	**2012 K'm**
5. Cash and funds with Reserve Bank of Malawi				
Cash	6 597	5 059	6 621	5 059
Balances with the Reserve Bank of Malawi	12 233	3 738	12 233	3 738
Total cash and funds with Reserve Bank of Malawi	18 830	8 797	18 854	8 797

The currency analysis of cash is in note 40(e).

Balances held at Reserve Bank of Malawi which are denominated in Malawi Kwacha and United States Dollars are non-interest bearing and regulated as disclosed in note 40(e) and 40(g).

			GROUP		COMPANY	
			2013 K'm	2012 K'm	2013 K'm	2012 K'm

6. Government of Malawi treasury bills and Reserve Bank of Malawi bonds

	Average interest rates 2013	Average interest rates 2012	GROUP 2013 K'm	GROUP 2012 K'm	COMPANY 2013 K'm	COMPANY 2012 K'm
Government of Malawi treasury bills	23.6%	16.8%	4 891	3 741	4 891	3 741
Reserve Bank of Malawi bonds	15.4%	15.5%	3 318	4 060	3 318	4 060
			8 209	7 801	8 209	7 801
The bills and bonds are due to mature as follows:						
• Within three months			2 152	1 238	2 152	1 238
• Between three months and one year			4 809	3 355	4 809	3 355
• Over one year			1 248	3 208	1 248	3 208
			8 209	7 801	8 209	7 801

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

7. Government of Malawi local registered stock

	GROUP 2013 K'm	GROUP 2012 K'm	COMPANY 2013 K'm	COMPANY 2012 K'm
The stock is due to mature as follows:				
• Within three months	-	372	-	372

Government of Malawi local registered stock was denominated in Malawi Kwacha and was held to maturity.
The 2012 stock earned an average interest rate of 15.5%.

8. Government of Malawi promissory notes

At 31 December 2013

Promissory notes	Maturity date	Carrying amount K'm	Fair value K'm	Fair value gain K'm
Number 1	30 June 2014	2 116	2 135	19
Number 2	30 June 2015	4 233	4 302	69
Number 3	30 June 2016	4 233	4 328	95
Total		10 582	10 765	183

In February 2013 the Government of Malawi issued promissory notes to settle its exposure and several other Government Guaranteed loans in the market including interest. The total exposure of National Bank of Malawi to Government Guarantee loans as at 1 February 2013 was K16.9 billion. The Bank accepted the promissory notes to settle the Government Guaranteed loans effective 1 February 2013. The promissory notes are in blocks with the longest certificate maturing in 2016. The notes attract interest at the rate of the earliest 91 day Treasury bill yield during each quarter plus 2%. Interest of K4,143m has been recognised in the statement of comprehensive income. During 2013, the Bank sold the certificate maturing in 2017 representing 25% of the whole investment. This resulted in the remaining promissory notes being re-categorised as available for sale assets. The carrying value of the closing book was MK10,582m. The investment has been presented at fair value . The fair value has been determined by computing the net present value of the future cash flows using the effective interest rate method. This fair value presentation resulted in a K183m increase in value when compared with the carrying value. The surplus has been recognised in other comprehensive income in accordance with IAS 39. The fair value level has been disclosed under note 39

9. Equity investments

GROUP - 2013	2012 K'm	Additions/ (disposals) K'm	Fair value adjustment K'm	2013 K'm	Cost K'm
First Merchant Bank Limited 5,209 790 (2012: 7 209 720) Ordinary shares of K2.50 each at a market value of K15.00 (2012: K8.50) per share	61	(32)	49	78	40
Illovo Sugar (Malawi) Limited 1 597 386 (2012: 1 500 626) Ordinary shares of K0.02 each at a market value of K287.00 (2012: K153.35) per share	230	30	198	458	200
NICO Holdings Limited 10 000 000 (2012: 4 643 628) Ordinary shares of K0.20 each at a market value of K17.80 (2012: K14.30) per share	66	78	34	178	32
Malawi Property Investment Company Limited 8 532 748 (2012: 8 532 748) Ordinary shares of K0.05 each at a market value of K2.00 (2012: 2.40) per share	21	-	(4)	17	28
National Investment Trust Limited 6 312 345 (2012: 5 086 371) Ordinary shares of K1.00 each at a market value of K29.50 (2012: K17.00) per share	87	1	98	186	142
NBS Bank Limited 9 736 953 (2012: 10 282 645) Ordinary shares of K0.50 each at a market value of K16.00 (2012: K11.00) per share	113	5	38	156	107
Standard Bank of Malawi Limited 901 686 (2012: 740 929) Ordinary shares of K1.00 each at market value of K400.00 (2012: K128.23) per share	95	67	198	360	122
Sunbird Malawi Limited 1 000 000 (2012: 1 126 150) Ordinary shares of K0.05 each at a market value of K7.00 (2012: K6.50) per share	7	-	-	7	9
Telekom Networks Malawi Limited 63 345 512 (2012: 36 905 990) Ordinary shares of K0.04 each at a market valueof K2.14 (2012: K1.40) per share	52	50	35	137	123
Total equity investments	732	199	646	1 577	803

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

9. Equity investments *(Continued)*

COMPANY - 2013	2012 K'm	Additions/ (disposals) K'm	Fair value adjustment K'm	2013 K'm	Cost K'm
First Merchant Bank Limited 5 209 790 (2012: 7 209 720) Ordinary shares of K2.50 each at a market value of K15.00 (2012: K8.50)per share	61	(32)	49	78	40
Illovo Sugar (Malawi) Limited 1 470 626 (2012: 1 500 626) Ordinary shares of K0.02 each at a market value of K287.00 (2012: K153.35) per share	230	(3)	194	421	167
NICO Holdings Limited 10 000 000 (2012: 4 643 628) Ordinary shares of K0.20 each at a market value of K17.80 (2012: K14.30) per share	66	78	34	178	32
Malawi Property Investment Company Limited 8 532 748 (2012: 8 532 748) Ordinary shares of K0.05 each at a market value of K2.00 (2012:K2.40) per share	21	-	(4)	17	28
National Investment Trust Limited 6 312 345 (2012:5 086 371) Ordinary shares of K1.00 each at a market value of K29.50 (2012:K17.00) per share	87	1	98	186	142
NBS Bank Limited 9 736 953(2012: 10 282 645) Ordinary shares of K0.50 each at a market value of K16.00 (2012: K11.00) per share	113	5	38	156	107
Standard Bank of Malawi Limited 740 929 (2012: 740 929) Ordinary shares of K1.00 each at market value of K400.00 (2012:K128.23) per share	95	-	201	296	65
Sunbird Malawi Limited 1 000 000 (2012: 1 000 000) Ordinary shares of K0.05 each at a market value of K7.00 (2012: K6.50) per share	7	(1)	1	7	9
Telekom Networks Malawi Limited 63 345 512 (2012:36 592 400)Ordinary shares of K0.04 each at a market value of K2.14 (2012:K1.40) per share	51	50	36	137	123
Total equity investments	731	99	646	1 476	713

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

Details of the bank's equity investments in listed companies on the Malawi Stock exchange and information about the fair value hierarchy as at 31 December 2013 are as follows:

	Level 1 K'm	Level 2 K'm	Level 3 K'm	Fair value as 31/12/2013 K'm
Equity investments in listed companies	1 577	-	-	1 577

	GROUP 2013 K'm	GROUP 2012 K'm	COMPANY 2013 K'm	COMPANY 2012 K'm
10. Investment in associates				
Purchase consideration	123	123	123	123
Additional investment	110	-	110	-
Share of accumulated results	147	91	-	-
	380	214	233	123
Assets	2 806	1 762		
Liabilities	(1 836)	(1 284)		
Net assets	970	478		
Group's share of net assets of associates	252	124		
Total revenue	2 604	1 991		
Total profit for the period	215	71		

The Bank holds 26% (2012: 26%) of United General Insurance Limited share capital. The additional investment of K110m was in preference share capital and therefore did not affect the percentage of ordinary shares held by the Company.

	COMPANY 2013 K'm	COMPANY 2012 K'm
11. Investment in subsidiaries		
Stockbrokers Malawi Limited	98	98
NBM Bureau de Change Limited	27	27
National Bank Capital Markets Limited	17	17
Total investment in subsidiaries	142	142

The Bank, through National Bank Nominees Limited, holds 75% (2012: 75%) stake in Stockbrokers Malawi Limited. The Bank also holds a 100% (2012: 100%) stake in NBM Bureau de Change Limited and a 100% (2012: 100%) stake in NBM Capital Markets Limited. NBM Bureau de Change ceased operations in October 2013.

			GROUP AND COMPANY 2013 K'm	GROUP AND COMPANY 2012 K'm
12. Placements with other banks				
Money market placements with other banks			8 663	10 039
Balances due from other banks			25 121	9 308
Total placements with other banks			33 784	19 347
Placements with other banks are denominated in the following currencies:				
	Average interest rates 2013	Average interest rates 2012		
Malawi Kwacha denominated	-	-	-	-
US Dollar denominated	0.50%	2.00%	25 996	13 033
GBP denominated	1.75%	1.02%	4 161	3 271
Euro denominated	0.50%	1.00%	3 093	2 296
ZAR denominated	4.00%	4.50%	322	651
Other	-	-	212	96
			33 784	19 347

Money market placements with other banks are held to maturity and mature within one month (2012: one month) of the year end.

	GROUP 2013 K'm	GROUP 2012 K'm	COMPANY 2013 K'm	COMPANY 2012 K'm
13. Loans and advances				
Gross loans and advances	61 838	61 970	61 849	61 970
Staff loans	2 508	1 981	2 508	1 981
Total loans and advances	64 346	63 951	64 347	63 951
Specific provisions	(1 428)	(950)	(1 428)	(950)
Net loans and advances	62 918	63 001	62 929	63 001
Due to mature as follows:				
• Within three months	21 927	24 539	21 938	24 539
• Between three months and one year	19 905	14 229	19 905	14 229
• After one year and not later than five years	23 051	25 404	23 051	25 404
• Interest in suspense	(537)	(221)	(537)	(221)
	64 346	63 951	64 357	63 951
Analysis of gross loans by currency				
Malawi Kwacha denominated	50 566	57 703	50 577	57 703
US Dollar denominated	13 780	6 248	13 780	6 248
	64 346	63 951	64 357	63 951

The Malawi Kwacha base lending rate for the bank as at 31 December 2013 was 40.0% (2012: 35.0%) and US Dollar denominated loans carried an average interest rate of 8.8% (2012: 8.6%).

13. Loans and advances (Continued)

	GROUP 2013 K'm	GROUP 2012 K'm	COMPANY 2013 K'm	COMPANY 2012 K'm
Movement on specific provisions				
At beginning of the year	950	370	950	370
Applied against advances	(381)	(262)	(381)	(262)
Charged to statements of comprehensive income	728	410	728	410
Staff loans impairment	239	450	239	450
Recovered	(108)	(18)	(108)	(18)
At end of the year	1 428	950	1 428	950
Movement on interest in suspense				
At beginning of the year	221	160	221	160
Applied against advances	(408)	(510)	(408)	(510)
Suspended in the year	752	587	752	587
Recovered	(28)	(16)	(28)	(16)
At end of the year	537	221	537	221
Analysis of recoveries				
Specific provisions	108	18	108	18
Interest in suspense	28	16	28	16
Debts previously written off	376	219	376	219
Transferred to statement of comprehensive income	512	253	512	253

	GROUP AND COMPANY 2013 K'm	GROUP AND COMPANY 2012 K'm
Finance lease receivables		
Gross investment in finance lease receivable:		
• Within three months	87	48
• Between three months and one year	785	530
• After one year and not later than five years	6 466	6 919
	7 338	7 497
Unearned future income on finance leases	(2 302)	(2 486)
	5 036	5 011
Specific provisions	(89)	(9)
Net investment in finance leases	4 947	5 002
The net investment in finance leases matures as follows:		
• Within three months	80	46
• Between three months and one year	683	464
• After one year and not later than five years	4 184	4 492
	4 947	5 002

	GROUP 2013 K'm	GROUP 2012 K'm Restated	GROUP 2011 K'm Restated	COMPANY 2013 K'm	COMPANY 2012 K'm
14. Other money market deposits					
Balances with discount houses	13 039	6 125	2 864	8 514	2 048

The prior year numbers have been restated to include money market deposits for NBM Capital Markets Limited and Stockbrokers Malawi Limited amounting to K4 021m (2011: K1 855m) which were previously disclosed net of the related liabilities (note 37).

Balances with discount houses are held to maturity and mature within one month (2012: one month) after the year-end. The deposits earned an average interest rate of 24.7% (2012: 28.0%).

15. Other assets	GROUP 2013 K'm	GROUP 2012 K'm	COMPANY 2013 K'm	COMPANY 2012 K'm
Letters of credit	9 860	7 397	9 860	7 397
Sundry receivables and prepayments	2 913	1 930	2 831	1 877
Due from local banks	1 095	410	1 095	410
Other investments	42	24	42	24
Specific provision	(1 172)	(1 222)	(1 172)	(1 222)
Total other assets	12 738	8 539	12 656	8 486

16. Property plant and equipment	Freehold land and buildings K'm	Leasehold land and buildings K'm	Motor vehicles and equipment K'm	Work in progress K'm	Total K'm
COMPANY					
COST OR VALUATION					
At 1 January 2012	8 267	1 608	6 361	-	16 236
Additions	658	5	1 297	186	2 146
Disposals	-	-	(968)	-	(968)
Revaluation surplus	1 384	504	-	-	1 888
At 31 December 2012	10 309	2 117	6 690	186	19 302
At 1 January 2013	10 309	2 117	6 690	186	19 302
Additions	394	65	1 874	322	2 655
Transfer from work in progress	-	60	-	(60)	-
Disposals	(11)	-	(255)	-	(266)
Revaluation surplus	1 043	129	-	-	1 172
At 31 December 2013	11 735	2 371	8 309	448	22 863
DEPRECIATION					
At 1 January 2012	-	-	3 581	-	3 581
Charge for the year	52	9	1 163	-	1 224
Elimination on revaluation	(52)	(9)	-	-	(61)
Elimination on disposal	-	-	(763)	-	(763)
At 31 December 2012	-	-	3 981	-	3 981
At 1 January 2013	-	-	3 981	-	3 981
Charge for the year	121	12	1 480	-	1 613
Elimination on revaluation	(120)	(12)	-	-	(132)
Elimination on disposal	(1)	-	(217)	-	(218)
At 31 December 2013	-	-	5 244	-	5 244
CARRYING AMOUNT					
At 31 December 2013	11 735	2 371	3 065	448	17 619
At 31 December 2012	10 309	2 117	2 709	186	15 321

16. Property, plant and equipment (Continued)

	2013 K'm	2012 K'm
Carrying amount - GROUP		
Total property, plant and equipment	17 650	15 366

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

		2013 K'm	2012 K'm
Freehold	- at 2013 valuation	11 735	-
	- at 2012 valuation	-	10 309
Total freehold land and buildings		11 735	10 309
Leasehold	- at 2013 valuation	2 371	-
	- at 2012 valuation	-	2 117
Total leasehold land and buildings		2 371	2 117

Included in the property plant and equipment in subsidiary companies are motor vehicles and office equipment with a gross value of K59m (2012: K63m).

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

	Related parties K'm	Others K'm	2013 K'm	2012 K'm
Motor vehicles	399	99	498	613

Malawi Telecommunications Limited and the Bottling and Brewing Group Limited are related parties to whom the Bank is leasing out motor vehicles which were purchased at a cost of K111m (2012: K121m) and K1 599m (2012: K1 427m) respectively.

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

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

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

16. Property, plant and equipment *(Continued)*

Valuations in 2013
Land and buildings were fair valued as at 31 December 2013 by Knight Frank, qualified independent valuers. The valuation of the Business Centre and Office Complex resulted in an increase in carrying value of K388m. Out of the K1,304m total revaluation surplus, K406m 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 K898m was credited to the revaluation reserve through the statement of other comprehensive income (refer note 30). The basis of the valuations was current market value.

Details of the land and buildings at fair value and information about the fair value hierarchy as at 31 December 2013 are as follows:

	Level 1 K'm	Level 2 K'm	Level 3 K'm	Fair value as 31/12/2013 K'm
Freehold land and buildings	-	11 735	-	11 735
Leasehold land and buildings	-	2 371	-	2 371

Had land and buildings been carried at historical cost less depreciation and accumulated impairment losses their carrying value would have been approximately K9 120m (2012: K9 171m).

	Development costs K'm	Computer software K'm	Work in progress K'm	Total K'm
17. Intangible assets				
COMPANY AND GROUP				
COST OR VALUATION				
At 1 January 2012	326	1 175	304	1 805
Additions	-	203	596	799
At 31 December 2012	326	1 378	900	2 604
At 1 January 2013	326	1 378	900	2 604
Additions	-	132	807	939
At 31 December 2013	326	1 510	1 707	3 543
DEPRECIATION				
At 1 January 2012	238	125	-	363
Charge for the year	80	79	-	159
At 31 December 2012	318	204	-	522
At 1 January 2013	318	204	-	522
Charge for the year	2	107	-	109
At 31 December 2013	320	311	-	631
CARRYING AMOUNTS				
31 December 2013	6	1 199	1 707	2 912
31 December 2012	8	1 174	900	2 082

18. Deferred tax

	Opening balance K'm	Charge to income K'm	Charged to equity K'm	Closing balance K'm
GROUP				
2012				
Accelerated capital allowances	(387)	(34)	-	(421)
Revaluation of fixed assets	211	(252)	762	721
Other temporary differences	593	241	-	834
Total deferred tax	417	(45)	762	1 134
2013				
Accelerated capital allowances	(421)	(54)	-	(475)
Revaluation of fixed assets	721	(122)	1 706	2 305
Other temporary differences	834	(164)	-	670
Total deferred tax	1 134	(340)	1 706	2 500
COMPANY				
2012				
Accelerated capital allowances	(387)	(34)	-	(421)
Revaluation of fixed assets	211	(252)	762	721
Other temporary differences	593	241	-	834
Total deferred tax	417	(45)	762	1 134
2013				
Accelerated capital allowances	(421)	(55)	-	(476)
Revaluation of fixed assets	721	(122)	1 706	2 305
Other temporary differences	834	(164)	-	670
Total deferred tax	1 134	(341)	1 706	2 499

19. Customer deposits

	Average interest rates 2013	Average interest rates 2012	GROUP 31/12/13 K'm	GROUP 31/12/12 K'm Restated	GROUP 01/01/12 K'm Restated	COMPANY 31/12/13 K'm	COMPANY 31/12/12 K'm
Analysis by account type:							
Current accounts	0.67%	0.75%	41 916	35 085	30 197	41 968	34 920
Foreign currency accounts	0.50%	0.50%	41 873	23 947	8 726	41 873	24 144
Savings accounts	9.00%	7.50%	17 555	12 635	11 559	17 555	12 635
Deposit accounts	15.64%	10.68%	18 085	15 813	16 269	18 085	15 813
Client funds	15.64%	10.68%	4 426	4 021	1 855	-	-
Total customer deposits			123 855	91 501	68 606	119 481	87 512
Analysis by interest risk type:							
Interest bearing deposits			121 599	90 301	67 820	117 225	86 312
Non-interest bearing deposits			2 256	1 200	786	2 256	1 200
			123 855	91 501	68 606	119 481	87 512

All interest bearing accounts excluding deposit accounts are at floating rates that are adjusted at the Bank's discretion (note 40(d)).

	GROUP 31/12/13 K'm	GROUP 31/12/12 K'm Restated	GROUP 01/01/12 K'm Restated	COMPANY 31/12/13 K'm	COMPANY 31/12/12 K'm
Analysis by interest maturity:					
Customer deposits are payable as follows:					
• Within three months	121 460	90 367	67 820	117 086	86 378
• Between three months and one year	2 395	1 134	786	2 395	1 134
	123 855	91 501	68 606	119 481	87 512
Analysis by sector:					
Agriculture	4 999	1 497	2 444	4 999	1 497
Manufacturing	3 549	4 976	2 999	3 549	4 976
Wholesale and retail	9 178	16 210	2 036	9 178	16 210
Finance and insurance	5 799	5 048	1 768	5 851	5 048
Personal accounts	63 011	48 294	46 523	63 011	48 294
Construction	2 554	2 181	564	2 554	2 181
Electricity gas water and energy	10 063	1 916	2 331	10 063	1 916
Transport storage and communications	5 018	3 685	3 936	5 018	3 685
Restaurant and hotels	1 150	702	270	1 150	702
Client funds	4 426	4 021	1 855	-	-
Other	14 108	2 971	3 880	14 108	3 003
Total	123 855	91 501	68 606	119 481	87 512

The currency analysis of customer deposits is included in note 40(e).

The prior year customer deposits have been restated to include money market deals for Stockbrokers Malawi Limited and NBM Capital Markets Limited amounting to K4,021m (2011: K1,855m) that were previously recognised net of the related assets (note 37).

20. Amounts due to other banks

	GROUP AND COMPANY 2013 K'm	GROUP AND COMPANY 2012 K'm
Liabilities in Malawi Kwacha	38	52
Liabilities in foreign currency	46	203
Bills in suspense in foreign currency	128	328
Total amounts due to other banks	212	583

21. Current income tax liabilities

	GROUP 2013 K'm	GROUP 2012 K'm	COMPANY 2013 K'm	COMPANY 2012 K'm
Opening balance	1 303	1 030	1 304	1 030
Current charge	5 400	3 373	5 337	3 354
Tax paid	(4 930)	(3 090)	(4 898)	(3 080)
Prior period over provision	(33)	(10)	-	-
Closing balance	1 740	1 303	1 743	1 304

22. Loans

In 2012, the Bank signed an agreement for an unsecured facility of USD20 million from Nederlandse Financierings-Maatschappij voor 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 2013 USD20 million had been drawn down. Of this amount, USD833,333 had been repaid as per loan agreement, leaving an outstanding balance of USD19,166,666 which is repayable over the next three years. The interest rate on the outstanding loan balance is adjustable quarterly and is at the rate of LIBOR plus 4%.

	GROUP AND COMPANY 2013 K'm	GROUP AND COMPANY 2012 K'm
Amounts repayable within one year	2 783	306
Amount repayable after one year	5 565	3 089
	8 348	3 395

23. Provisions

	Employee bonus K'm	Tevet levy K'm	Total K'm
GROUP			
At 31 December 2013			
At 1 January 2013	1 757	15	1 772
Provisions made during the year	2 515	46	2 561
Payments made during the year	(2 319)	(39)	(2 358)
At 31 December 2013	1 953	22	1 975
At 31 December 2012			
At 1 January 2012	314	11	325
Provisions made during the year	1 950	26	1 976
Payments made during the year	(507)	(22)	(529)
At 31 December 2012	1 757	15	1 772
COMPANY			
At 31 December 2013			
At 1 January 2013	1 750	15	1 765
Provisions made during the year	2 493	46	2 539
Payments made during the year	(2 312)	(39)	(2 351)
At 31 December 2013	1 931	22	1 953
At 31 December 2012			
At 1 January 2012	314	11	325
Provisions made during the year	1 941	26	1 967
Payments made during the year	(505)	(22)	(527)
At 31 December 2012	1 750	15	1 765

	GROUP		COMPANY	
	2013 K'm	2012 K'm	2013 K'm	2012 K'm
24. Other liabilities				
Letters of credit	9 860	7 397	9 860	7 397
Unclaimed balances	1 157	915	1 157	915
Bank cheques	502	534	502	534
Office accounts	293	134	293	134
Dividends payable	1 401	-	1 401	-
Other liabilities	3 796	4 409	3 719	4 354
Total other liabilities	17 009	13 389	16 932	13 334

The currency analysis of other liabilities is included in note 40(e).

25. Pension scheme

The pension fund, which is managed internally, is a hybrid of defined contribution and defined benefit schemes. The fund is in a transition period to a fully defined contribution scheme. The effective date of the transition is 1 June 2014. The transition is in line with the Pensions Act, 2010. The respective contributions of employees and the employer are 5.5% (2012: 5.5%) and 11.0% (2012: 11.0%) of the fund members' basic pensionable salaries, respectively. The employer contributes an additional 4.0% (2012: 4.0%) of the pensionable salary. Thus the total contribution by the employer is 15.0% of pensionable salary. The amount charged against income during the year was K514m (2012: K363m).

The Pension Fund operates two accounts: the General Fund and the Special Fund. The Special Fund applies to additional funds that are made by the employer at 4.0% of salary to cover additional sums due on death-in-service, the final salary underpin and severance pay liabilities. The Special Fund is also built up by investment income earned on the fund's assets and a percentage of the employer's contribution forfeited by resigning, dismissal and redundant employees in accordance with the rules of the Fund.

The General Fund represents a reserve from which all other benefits are paid including administration expenses and bonuses. The Pension Fund is a self-accounting Trust whose assets are not available to the Group. The Trustees of the Fund are employees of the Bank. The Bank rents some of the Fund's properties at commercial rates. The Group incurred K130m (2012: K114m) in rentals for such properties during the year.

	GROUP		COMPANY	
	2013 K'm	2012 K'm	2013 K'm	2012 K'm
26. Net interest income				
Interest and similar income				
Interest on loans and advances and bills discounted	16 958	10 082	16 974	10 090
Income from investments	5 733	928	5 730	928
Income from lease financing	1 862	951	1 862	951
Interest on placements with other banks	455	309	416	305
	25 008	12 270	24 982	12 274
Interest expense and similar charges				
Banks and customers	3 787	1 666	3 787	1 667
Money market loans and repos	1 503	741	1 503	741
	5 290	2 407	5 290	2 408
Net interest income	19 718	9 863	19 692	9 866
27. Commission and fee income				
Commissions	4 332	2 949	4 008	2 817
Arrangement and other fee income	1 305	689	1 305	689
Premium on foreign exchange dealings	163	2 379	163	2 379
Other income	469	357	467	351
Total commission and fee income	6 269	6 374	5 943	6 236
28. Staff costs				
Salaries and wages	3 457	2 466	3 385	2 423
Other staff costs	1 231	681	1 191	675
Staff bonus	2 515	1 962	2 493	1 941
Severance pay	5	69	5	69
Pension costs	523	369	514	363
Contract gratuity expense	3	5	3	5
Total staff costs	7 734	5 552	7 591	5 476

	GROUP		COMPANY	
	2013 K'm	2012 K'm	2013 K'm	2012 K'm
29. Other operating expenditure				
Other costs	3 007	2 988	2 945	2 462
Recurrent expenditure on premises and equipment	2 578	1 105	2 554	1 583
Depreciation	1 623	1 233	1 612	1 224
Amortisation of intangible assets	109	159	109	159
Legal charges	72	97	71	95
Auditor's remuneration including VAT and expenses	67	48	56	40
Directors' remuneration:				
- fees for services as directors	17	13	15	12
- for managerial services	171	126	171	126
Total other operating expenditure	7 644	5 769	7 533	5 701
30. Properties fair value gains				
Fair value gains on Business Centre and Office Complex	388	591	388	591
Fair value gains on other properties	18	247	18	247
Total fair value gains through statement of comprehensive income	406	838	406	838
Fair value gains on properties included in other comprehensive income	898	1 111	898	1 111
Total properties fair vales gains (note 16)	1 304	1 949	1 304	1 949
31. Income tax expense				
Income tax	5 400	3 373	5 337	3 354
Deferred tax	340	45	341	45
Total income tax expense	5 740	3 418	5 678	3 399
Reconciliation of rate of tax	%	%	%	%
Standard rate of taxation	30	30	30	30
Permanent differences	1	1	1	1
Effective rate of taxation	31	31	31	31

32. 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	
	2013	**2012**
Profit attributable to equity holders of the Company (K'millions)	12 679	7 575
Net profit used to determine diluted earnings per share (K' millions)	12 679	7 575
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)	27.15	16.22

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.

Profit attributable to equity holders of the Company (K'millions)	12 679	7 575
Net profit used to determine diluted earnings per share (K'millions)	12 679	7 575
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)	27.15	16.22

	GROUP AND COMPANY	
	2013	**2012**
	K'm	**K'm**
33. Dividend per share		
Final dividend (prior year)	1 498	1 261
First interim dividend (current year)	1 998	1 134
Second interim dividend (prior year)	-	1 200
Second interim dividend (current year)	1 401	-
	4 897	3 595
Weighted average number of Ordinary Shares in issue (millions)	467	467
Dividend per share	10.49	7.70

The bank declared a second interim dividend of K1,401m in November 2013 which was paid in January 2014. The proposed current year final dividend is K2,900m (2012: K1,498m) representing K6.21 per share (2012: K3.21 per share).

	GROUP AND COMPANY 2013 K'm	2012 K'm
34. Contingencies		
Guarantees		
Foreign guarantees	213	988
Local guarantees and performance bonds	1 479	4 563
Total contingencies from guarantees	1 692	5 551
Other contingencies		
Legal claims	828	248

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 K428m (2012: nil).

	GROUP		COMPANY	
	2013 K'm	2012 K'm	2013 K'm	2012 Km
35. Commitments				
Expenditure contracted for but not yet incurred	823	479	823	479
Expenditure approved by the Board but not contracted	3 047	2 844	3 047	2 844
Total commitments	3 870	3 323	3 870	3 323
36. Cash and cash equivalents				
Cash and funds with Reserve Bank of Malawi (note 5)	18 830	8 797	18 854	8 797
Placements with other banks (note 12)	33 784	19 347	33 784	19 347
Other money market deposits (note 14)	13 039	2 104	8 514	2 048
Amounts due to other banks	(212)	(583)	(212)	(583)
Total cash and cash equivalents	65 441	29 665	60 940	29 609

37. Customer balances

Following a change in policy, customer balances relating to client funds in the Bank's subsidiaries, Stockbrokers Malawi Limited and NBM Capital Markets Limited, are included in the statement of financial position. In prior years these balances were offset and shown net in the notes to the financial statements. Prior year balances have been restated as disclosed in notes 14 and 19, respectively.

38. Financial assets and liabilities

Accounting categories and fair values

	Notes	Held for trading K'm	Held to maturity K'm	Loans and receivables K'm	Amotorised cost K'm	Total carrying amount K'm	Fair value K'm
GROUP							
As at 31 December 2012							
Assets							
Cash and bank balances with Reserve Bank of Malawi	5	8 797	-	-	-	8 797	8 797
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	-	7 801	-	-	7 801	7 801
Government of Malawi local registered stocks	7	-	372	-	-	372	373
Equity investments	9	732	-	-	-	732	732
Placements with other banks	12	-	-	19 347	-	19 347	19 347
Loans and advances to customers	13	-	-	63 001	-	63 001	63 001
Other money market deposits	14	-	-	6 125	-	6 125	6 125
Other assets	15	-	-	8 539	-	8 539	8 539
Total financial assets		9 529	8 173	97 012	-	114 714	114 714
Liabilities							
Long-term borrowing		-	-	-	3 395	3 395	3 395
Customer deposits	19	-	-	-	91 501	91 501	91 501
Amounts due to other banks		-	-	-	583	583	583
Other liabilities	24	-	-	-	15 161	15 161	15 161
Total financial liabilities		-	-	-	110 640	110 640	110 640

	Notes	Held for trading K'm	Held to maturity K'm	Available for sale K'm	Loans and receivables K'm	Amotorised cost K'm	Total carrying amount K'm	Fair value
GROUP								
As at 31 December 2013								
Assets								
Cash and bank balances with Reserve Bank of Malawi	5	18 830	-	-	-	-	18 830	18 830
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	-	8 209	-	-	-	8 209	8 209
Government of Malawi promissory notes	8	-	-	10 765	-	-	10 765	10 765
Equity investments	9	1 577	-	-	-	-	1 577	1 577
Placements with other banks	12	-	-	-	33 784	-	33 784	33 784
Loans and advances to customers	13	-	-	-	62 918	-	62 918	62 918
Other money market deposits	14	-	-	-	13 039	-	13 039	13 039
Other assets	15	-	-	-	12 738	-	12 738	12 738
Total financial assets		20 407	8 209	10 765	122 479	-	161 860	161 860
Liabilities and equity								
Long-term borrowing		-	-	-	-	8 348	8 348	8 348
Customer deposits	19	-	-	-	-	123 855	123 855	123 855
Amounts due to other banks		-	-	-	-	212	212	212
Provisions	23	-	-	-	-	1 975	1 975	1 975
Other liabilities	24	-	-	-	-	17 009	17 009	17 009
Total financial liabilities		-	-	-	-	151 399	151 399	151 399

38. 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	Amotorised cost K'm	Total carrying amount K'm	Fair value
COMPANY								
At 31 December 2012								
Assets								
Cash and bank balances with Reserve Bank of Malawi	5	8 797	-	-	-	-	8 797	8 797
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	-	7 801	-	-	-	7 801	7 801
Government of Malawi local registered stocks	7	-	372	-	-	-	372	372
Equity investments	9	731	-	-	-	-	731	731
Placements with other banks	12	-	-	-	19 347	-	19 347	19 347
Loans and advances to customers	13	-	-	-	63 001	-	63 001	63 001
Other money market deposits	14	-	-	-	2 048	-	2 048	2 048
Other assets	15	-	-	-	8 486	-	8 486	8 486
Total financial assets		9 528	8 173	-	92 882	-	110 583	110 583
Liabilities and equity								
Long term borrowing		-	-	-	-	3 395	3 395	3 395
Customer deposits	19	-	-	-	-	87 512	87 512	87 512
Amounts due to other banks		-	-	-	-	583	583	583
Other liabilities	24	-	-	-	-	15 099	15 099	15 099
Total financial liabilities		-	-	-	-	106 589	106 589	106 589
COMPANY								
At 31 December 2013								
Assets								
Cash and bank balances with Reserve Bank of Malawi	5	18 854	-	-	-	-	18 854	18 854
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	-	8 209	-	-	-	8 209	8 209
Government of Malawi Promissory notes	8	-	-	10 765	-	-	10 765	10 765
Equity investments	9	1 476	-	-	-	-	1 476	1 476
Placements with other banks	12	-	-	-	33 784	-	33 784	33 784
Loans and advances to customers	13	-	-	-	62 929	-	62 929	62 929
Other money market deposits	14	-	-	-	8 613	-	8 613	8 613
Other assets	15	-	-	-	12 656	-	12 656	12 656
Total financial assets		20 330	8 209	10 765	117 982	-	157 286	157 286
Liabilities and equity								
Long term borrowing		-	-	-	-	8 348	8 348	8 348
Customer deposits	19	-	-	-	-	119 481	119 481	119 481
Amounts due to other banks		-	-	-	-	212	212	212
Provisions	23	-	-	-	-	1 953	1 953	1 953
Other liabilities	24	-	-	-	-	16 932	16 932	16 932
Total financial liabilities		-	-	-	-	146 926	146 926	146 926

39. Fair value measurements

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

39.1 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.

39.2 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	
	2013 K'm	**2012 K'm**
Financial assets at fair value through profit or loss		
Non-derivative financial assets held for trading		
Level 1	1 577	732

	COMPANY	
	2013 K'm	**2012 K'm**
Financial assets at fair value through profit or loss		
Non-derivative financial assets held for trading		
Level 1	1 476	731

39. Fair value measurements *(Continued)*

39.3 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 2013 K'm	Fair value 2012 K'm	Fair value hierarchy	Valuation technique(s) and key input(s)
Equity investments	1 577	732	Level 1	Quoted prices
Malawi Government Promissory notes	10 765	-	Level 2	Discounted cash flows using applicable interest rates and agreed repayment plan
	12 342	732		

39.4 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.

	2013 Carrying amount K'm	2013 Fair value K'm	2012 Carrying amount K'm	2012 Fair value K'm
Group				
Financial assets				
Held to maturity				
Government of Malawi Treasury Bills	8 209	8 209	7 801	7 801
Government of Malawi Local Registered Stocks	-	-	372	372
Loan and receivables				
Placement with other banks	33 784	33 784	19 347	19 437
Loans and advances to customers	62 918	62 918	63 001	63 001
Other money market deposits	13 039	13 039	6 125	6 125
Other assets	12 738	12 738	8 539	8 539
Total	130 688	130 688	105 185	105 185
Financial liabilities				
Financial liabilities held at amortised cost				
Long term borrowing	8 348	8 348	3 395	3 395
Customer deposits	123 855	123 885	91 501	91 501
Amounts due to other banks	212	212	583	583
Provisions	1 975	1 975	1 772	1 772
Other liabilities	17 009	17 009	13 389	13 389
Total	151 399	151 399	110 640	110 640

39. Fair value measurements *(Continued)*

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

	2013 Carrying amount K'm	2013 Fair value K'm	2012 Carrying amount K'm	2012 Fair value K'm
Company				
Financial assets				
Held to maturity				
Government of Malawi Treasury Bills	8 209	8 209	7 801	7 801
Government of Malawi Local Registered Stocks	-	-	372	372
Loan and receivables				
Placement with other banks	33 784	33 784	19 347	19 437
Loans and advances to customers	62 929	62 918	63 001	63 001
Other money market deposits	8 514	8 514	2 048	2 048
Other assets	12 656	12 656	8 486	8 486
Total	126 092	126 092	101 055	101 055
Financial liabilities				
Financial liabilities held at amortised cost				
Long term borrowing	8 348	8 348	3 395	3 395
Customer deposits	119 481	119 481	87 512	87 512
Amounts due to other banks	212	212	583	583
Provisions	1 953	1 953	1 772	1 772
Other liabilities	16 932	16 932	13 334	13 334
Total	146 926	146 926	106 596	106 596

Fair value hierarchy - 2013

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

39. Fair value measurements *(Continued)*

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

	Fair value hierarchy - 2012		
	Level 1 K'm	**Level 2 K'm**	**Total K'm**
Group			
Financial assets			
Held to Maturity			
Government of Malawi Treasury Bills	-	7 801	7 801
Government of Malawi of Local Registered stocks	-	372	372
Loan and receivables			
Placement with other banks	19 347	-	19 347
Loans and advances to customers	-	63 001	63 001
Other money market deposits	-	6 125	6 125
Other receivables and prepayments	-	8 539	8 539
Total	19 347	85 838	105 185
Financial liabilities			
Financial liabilities held at amortised cost			
Long term borrowing	-	3 395	3 395
Customer deposits	-	91 501	91 501
Amounts due to other Banks	-	583	583
Provisions	-	1 772	2 455
Other liabilities	-	13 389	13 389
Total	-	110 640	110 640

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

39. Fair value measurements *(Continued)*

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

Fair value hierarchy - 2012

	Level 1 K'm	Level 2 K'm	Total K'm
Company			
Financial assets			
Held to Maturity			
Government of Malawi Treasury Bills	-	7 801	7 801
Government of Malawi of Local Registered stocks	-	372	372
Loan and receivables			
Placement with other banks	19 347	-	19 347
Loans and advances to customers	-	63 001	63 001
Other money market deposits	-	2 048	2 048
Other receivables and prepayments	-	8 486	8 486
Total	19 347	81 708	101 055
Financial liabilities			
Financial liabilities held at amortised cost			
Long term borrowing	-	3 395	3 395
Customer deposits	-	87 480	87 480
Amounts due to other Banks	-	583	583
Other liabilities	-	13 334	13 334
Total	-	104 792	104 792

40. Financial risk management

a. Introduction and overview

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

Risk management framework
In line with the corporate governance structure of the Bank, the Board has overall responsibility for ensuring that risks are adequately identified, measured, monitored and managed. This is achieved through policies as well as specialised Board Committees. The Board develops the risk appetite and risk tolerance limits appropriate to the Bank'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 four Board committees; the Risk Committee, the Credit Committee, the Audit Committee and the Appointments and Remuneration Committee. All the Board Committees include non-executive members and report regularly to the Board on their activities.

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

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

40. Financial risk management *(Continued)*

a. Introduction and overview *(Continued)*

Risk management framework *(Continued)*

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

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

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

The Group has adopted three lines of defence in mitigation of the 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
Assesses, evaluates, measures and controls risk exposures through the day-to- day activities of the business within the framework set by the second line of defence.	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 frameworks and thereby providing the overall assurance.
Reports to management	Reports to management and Board Risk Committee	Reports to Board Audit Committee

b. Credit risk

Credit risk is the likelihood of financial loss to the Group if customers or counterparties to financial instruments fail to meet their contractual obligations, and arises principally from the Group's loans and advances to customers. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

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

Additionally, there is a Management Credit Committee which is comprised of 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.

40. Financial risk management *(Continued)*

b. Credit risk

Management of credit risk *(Continued)*

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

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

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

i. Formulating credit policies and procedures as a general guide to lending in order to maintain credit risk exposure within acceptable parameters and in compliance with the Bank's risk strategy, legal, regulatory and statutory requirements;

ii. Overseeing the granting and administration of credit i.e. assessment, approval, sanctioning, security perfection, monitoring, review, classification etc.;

iii. Managing exposures to ensure aggregate credit commitments be they in form of single borrowers or counter parties, a group of connected counter parties, are maintained within acceptable concentration vis-à-vis the Bank's capital;

iv. Monitoring compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types; and

v. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

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

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

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	
	2013 K'm	**2012 K'm**	**2013 K'm**	**2012 K'm**
Balances with the Reserve Bank of Malawi	12 233	3 738	12 233	3 738
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	8 209	7 801	8 209	7 801
Government of Malawi local registered stocks	-	372	-	372
Government of Malawi Promissory notes	10 765	-	10 765	-
Placements with other banks	33 784	19 347	33 784	19 347
Loans and advances to customers	62 918	63 001	62 929	63 001
Other money market deposits	13 039	6 125	8 514	2 048
Other assets	12 738	8 539	12 656	8 486
Total recognised financial instruments	153 686	108 923	149 090	104 793
Guarantees and performance bonds	1 692	5 551	1 692	5 551
Loan commitments and other credit facilities	8 457	12 256	8 457	12 256
Total unrecognised financial instruments	10 149	17 807	10 149	17 807
Total credit exposure	163 835	126 730	159 239	122 600

40. Financial risk management *(Continued)*

b. Credit risk *(Continued)*

Net exposure to credit risk without taking into account any collateral or other credit enhancements *(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:

GROUP

	Carrying Amount K'm	Offset K'm	Net exposure to credit risk K'm
31 December 2012			
Balances with the Reserve Bank of Malawi	3 738	-	3 738
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	7 801	-	7 801
Government of Malawi local registered stock	372	-	372
Placements with other banks	19 347	-	19 347
Loans and advances to customers	63 001	-	63 001
Other money market deposits	6 125	-	6 125
Other assets	8 539	-	8 539
	108 923	-	108 923
31 December 2013			
Balances with the Reserve Bank of Malawi	12 233	-	12 233
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	8 209	-	8 209
Government of Malawi promissory notes	10 765	-	10 765
Placements with other banks	33 784	-	33 784
Loans and advances to customers	62 918	-	62 918
Other money market deposits	13 039	-	13 039
Other assets	12 738	-	12 738
	153 686	-	153 686

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

COMPANY

	Carrying Amount K'm	Offset K'm	Net exposure to credit risk K'm
31 December 2012			
Balances with the Reserve Bank of Malawi	3 738	-	3 738
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	7 801	-	7 801
Government of Malawi local registered stock	372	-	372
Placements with other banks	19 347	-	19 347
Loans and advances to customers	63 001	-	63 001
Other money market deposits	2 048	-	2 048
Other assets	8 628	-	8 628
	104 935	-	104 935
31 December 2013			
Balances with the Reserve Bank of Malawi	12 233	-	12 233
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	8 209	-	8 209
Government of Malawi promissory notes	10 765	-	10 765
Placements with other banks	33 784	-	33 784
Loans and advances to customers	62 929	-	62 929
Other money market deposits	8 514	-	8 514
Other assets	12 656	-	12 656
	149 090	-	149 090

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

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

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

The Government of Malawi issued promissory notes in February 2013 to settle its exposure and several other Government Guaranteed loans, including interest, up to the effective date of the promissory notes. The total exposure of NBM to Government Guarantee loans as at 1 February 2013 was K16.9 billion. The Bank accepted the promissory notes in settlement of the Government Guaranteed loans effective 1 February 2013. Some of the promissory notes were disposed and some were repaid. The balance of the promissory notes as at 31 December 2013 was K10,765 billion.

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.

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

	GROUP		COMPANY	
	2013 K'm	2012 K'm	2013 K'm	2012 K'm
Individually impaired:				
Grade 8: Impaired	1 712	508	1 712	508
Grade 9: Impaired	747	487	747	487
Gross amount	2 459	995	2 459	995
Allowance for impairment	(369)	(190)	(369)	(190)
Carrying amount	2 090	805	2 090	805
Past due but not impaired:				
Grade 7: Watch list	1 696	16 227	1 696	16 227
Neither past due nor impaired:				
Grade 1 – 3 Low risk	12 658	17 560	12 658	17 560
Grade 4 – 6 Fair risk	46 474	28 409	46 485	28 409
Total carrying amount	62 918	63 001	62 929	63 001

Impaired loans and advances
Impaired loans and advances are loans and advances for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/advances agreement(s). These loans are graded 8 to 9 in the bank's internal credit risk grading system.

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

Allowance for impairment
The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individual significant exposures.

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

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

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

	GROUP AND COMPANY Loans and advances to customers		
	Gross K'm	Allowance for Impairment K'm	Net K'm
31 December 2012			
Grade 8: Individually impaired	508	(130)	378
Grade 9: Individually impaired	487	(60)	427
Total	995	(190)	805
31 December 2013			
Grade 8: Individually impaired	1 712	-	1 712
Grade 9: Individually impaired	747	(369)	378
Total	2 459	(369)	2 090

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

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

	GROUP AND COMPANY	
	2013 K'm	2012 K'm
Against individually impaired		
Motor vehicles	347	48
Commercial property	13	315
Residential property	557	221
Total	917	584
Against the rest of the loan book		
Motor vehicles	6 830	6 083
Commercial property	9 413	7 063
Residential property	20 395	11 778
Cash	3 374	2 666
Equities	228	112
Government guarantees	-	11 965
Treasury Bills	41	728
Mortgages over farmland	3 186	1 546
Bank guarantees	302	302
Total	43 769	42 243
Grand total	44 686	42 827

40. Financial risk management *(Continued)*

b. Credit risk *(Continued)*

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

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

	Loans and advances to customers			
	GROUP		COMPANY	
	2013	**2012**	**2013**	**2012**
	K'm	**K'm**	**K'm**	**K'm**
Concentration by sector				
Agriculture	10 434	7 436	10 434	7 436
Finance and Insurance	2 931	1 044	2 942	1 044
Manufacturing	13 738	5 758	13 738	5 758
Other	6 113	15 459	6 113	15 459
Transport and communication	6 464	3 957	6 464	3 957
Real estate	1 810	4 355	1 810	4 355
Personal	6 457	4 306	6 457	4 306
Wholesale and Retail	14 971	20 686	14 971	20 686
	62 918	63 001	62 929	63 001

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

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

c. Liquidity risk

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

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

The daily management of liquidity is entrusted to the Treasury and Financial Institutions Division (TFID) at Head Office. The TFID receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The TFID then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units are funded through deposits from customers. Any short-term fluctuations are funded through treasury activities such as inter-bank facilities, repurchase agreements and others.

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

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

40. Financial risk management *(Continued)*
c. Liquidity risk *(Continued)*

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

	2013	2012
At 31 December	66%	44%
Average of the period	60%	41%
Maximum for the period	66%	44%
Minimum for the period	54%	38%

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

GROUP

	Less than 1 month K'm	1-3 months K'm	3-12 months K'm	Over 1 year K'm	Total K'm	Carrying amount K'm
At 31 December 2012						
Financial assets						
Cash and funds with Reserve Bank of Malawi	8 797	-	-	-	8 797	8 797
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	1 238	-	3 356	3 207	7 801	7 801
Local registered stocks	-	372	-	-	372	372
Equity investments	-	732	-	-	732	732
Placements with other banks	19 347			-	19 347	19 347
Loans and advances to customers	19 394	4 924	14 229	25 404	63 951	63 001
Other money markets deposits	6 125	-	-	-	6 125	6 125
Other assets	8 515	-	-	24	8 539	8 539
Total financial assets	**63 416**	**6 028**	**17 585**	**28 635**	**115 664**	**114 714**
Financial liabilities						
Long term borrowing	-	25	281	3 089	3 395	3 395
Customer deposits	78 495	11 872	1 063	71	91 501	91 501
Amounts due to other banks	583	-	-	-	583	583
Other liabilities	13 411	1 750	-	-	15 161	15 161
Total financial liabilities	**92 489**	**13 647**	**1 344**	**3 160**	**110 640**	**110 640**
Contractual liquidity mismatch	**(29 073)**	**(7 619)**	**16 241**	**25 475**	**5 024**	**4 074**
Cumulative mismatch	**(29 073)**	**(36 692)**	**(20 451)**	**5 024**	**-**	**-**

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

40. 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.

GROUP

	Less than 1 month K'm	1-3 months K'm	3-12 months K'm	Over 1 year K'm	Total K'm	Carrying amount K'm
At 31 December 2013						
Financial assets						
Cash and funds with Reserve Bank of Malawi	18 830	-	-	-	18 830	18 830
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	2 152	-	4 809	1 248	8 209	8 209
Government of Malawi promissory notes	10 765	-	-	-	10 765	10 765
Equity investments	-	1 577	-	-	1 577	1 577
Placements with other banks	33 784	-	-	-	33 784	33 784
Loans and advances to customers	11 894	10 167	19 905	22 379	64 346	62 918
Other money markets deposits	13 039	-	-	-	13 039	13 039
Other assets	12 698	-	-	40	12 738	12 738
Total financial assets	**103 163**	**11 744**	**24 714**	**23 667**	**163 288**	**161 860**
Financial liabilities						
Long term borrowing	-	696	2 087	5 565	8 348	8 348
Customer deposits	117 428	4 065	2 189	174	123 855	123 855
Amounts due to other banks	212	-	-	-	212	212
Provisions	-	-	1 975	-	1 975	1 975
Other liabilities	17 009	-	-	-	17 009	17 009
Total financial liabilities	**134 649**	**4 761**	**4 276**	**5 739**	**151 399**	**151 399**
Contractual liquidity mismatch	**(31 486)**	**6 984**	**18 463**	**17 928**	**11 889**	**10 461**
Cumulative mismatch	**(31 486)**	**(24 503)**	**(6 039)**	**11 889**	**-**	**-**

Included in group balances are gross assets/liabilities and equity for subsidiary companies with carrying amounts totaling K313.3m (before elimination of group balances). As such, the separate analyses of the above are not materially different from the group analyses.

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

40. Financial risk management *(Continued)*

d. Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risk

The Group separates its exposure to market risk between trading and non-trading portfolios. 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-today monitoring activities. The table below summarises the exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by earlier of contractual re-pricing or maturity dates.

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

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

GROUP

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Non-interest sensitive K'm	Total K'm
At 31 December 2012						
Financial assets						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	8 797	8 797
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	1 238	-	3 356	3 207	-	7 801
Government of Malawi-local registered stocks	-	372	-	-	-	372
Equity investments	-	732	-	-	-	732
Placements with other banks	19 347	-	-	-	-	19 347
Loans and advances to customers	18 444	4 924	14 229	25 404	-	63 001
Other money market deposits	6 125	-	-	-	-	6 125
Other assets	-	-	-	-	8 539	8 539
Total financial assets	**45 154**	**6 028**	**17 585**	**28 611**	**17 336**	**114 714**
Financial liabilities						
Long term borrowing	-	25	281	3 089	-	3 395
Customer deposits	77 295	11 872	1 063	71	1 200	91 501
Amounts due to other banks	583	-	-	-	-	583
Other liabilities	-	-	-	-	15 161	15 161
Total financial liabilities	**77 878**	**11 897**	**1 344**	**3 160**	**16 361**	**110 640**
Interest sensitivity gap	**(32 724)**	**(5 869)**	**16 241**	**25 451**	**975**	**4 074**
Cumulative gap	**(32 724)**	**(38 593)**	**(22 352)**	**3 099**	**4 074**	**-**
Impact on profit of an increase in interest rates						
+1%	(327)	(59)	162	255	-	31
+2%	(654)	(118)	324	510	-	62
+3%	(981)	(177)	486	765	-	93
Impact on profit of a decrease in interest rates						
-1%	327	59	(162)	(255)	-	(31)
-2%	654	118	(324)	(510)	-	(62)
-3%	981	177	(486)	(765)	-	(93)

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

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

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

GROUP

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

Included in group balances are gross assets/liabilities and equity for the subsidiary company with carrying amounts totaling K313.3m (before elimination of group balances). As such the separate analyses of the above are not materially different from the group analyses.

40. Financial risk management *(Continued)*

e. Currency risk

The Group had the following significant foreign currency positions:

GROUP

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
At 31 December 2012							
Financial assets							
Cash and funds with Reserve Bank of Malawi	5 061	3 627	13	60	36	-	8 797
Government of Malawi Treasury Bills and Reserve Bank of Malawi Bonds	7 801	-	-	-	-	-	7 801
Government of Malawi local registered stocks	372	-	-	-	-	-	372
Equity investments	732	-	-	-	-	-	732
Placements with other banks	-	13 033	3 271	2 296	650	97	19 347
Loans and advances to customer	56 753	6 247	1	-	-	-	63 001
Other money market deposits	6 123	-	-	-	-	-	6 125
Other assets	929	6 425	65	438	518	164	8 539
Total financial assets	**77 773**	**29 332**	**3 350**	**2 794**	**1 204**	**261**	**114 714**
Financial liabilities							
Loans and borrowings	-	3 395	-	-	-	-	3 395
Customer deposits	67 280	18 635	3 196	2 283	58	49	91 501
Liabilities to other banks	380	4	-	-	199	-	583
Other liabilities	6 958	6 719	159	399	761	165	13 389
Total financial liabilities	**74 618**	**28 753**	**3 355**	**2 682**	**1 018**	**214**	**108 508**
Net balance open position	**3 155**	**579**	**(5)**	**112**	**186**	**47**	**5 846**
Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit	-	(58)	1	(11)	(19)	(5)	(92)
Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit	-	58	(1)	11	19	5	92

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

40. Financial risk management *(Continued)*
e. Currency risk *(Continued)*

GROUP

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
At 31 December 2013							
Financial assets							
Cash and funds with Reserve Bank of Malawi	11 706	5 178	738	1 141	56	11	18 830
Government of Malawi Treasury Bills and Reserve Bank of Malawi Bonds	8 209	-	-	-	-	-	8 209
Government of Malawi- Promissory notes	10 765	-	-	-	-	-	10 765
Equity investments	1 577	-	-	-	-	-	1 577
Placements with other banks	-	25 996	4 161	3 093	322	212	33 784
Loans and advances to customer	48 931	13 987	1	-	-	-	62 918
Other money market deposits	13 039	-	-	-	-	-	13 039
Other assets	2 878	9 102	-	494	112	152	12 738
Total financial assets	**97 105**	**54 263**	**4 900**	**4 728**	**490**	**375**	**161 861**
Financial liabilities							
Loans and borrowings	-	8 348	-	-	-	-	8 348
Customer deposits	81 925	33 253	4 652	3 746	230	50	123 855
Liabilities to other banks	166	46	-	-	-	-	212
Provisions	1 975	-	-	-	-	-	2 500
Other liabilities	6 160	9 723	125	519	328	153	17 009
Total financial liabilities	**90 227**	**51 370**	**4 777**	**4 265**	**558**	**203**	**151 399**
Net balance open position	**6 878**	**2 893**	**123**	**463**	**(68)**	**172**	**10 461**
Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit	-	(289)	(12)	(46)	7	(17)	(357)
Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit	-	289	12	46	(7)	17	357

Included in group balances are gross assets/liabilities and equity for the subsidiary company with carrying amounts totaling K313.9m (before elimination of group balances). As such, the separate analyses of the above are not materially different from the group analyses.

40. Financial risk management *(Continued)*

f. Operational risk

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

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

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

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

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

g. Compliance risk

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

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

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

Statutory requirements

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

<u>Liquidity reserve requirement</u>

The Bank is required to maintain a liquidity reserve with the Reserve Bank of Malawi equivalent to no less than 15.5% of total customer deposits. At the end of the year the liquidity reserve was equivalent to 65.69% (2012: 43.6%) of total customer deposits.

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

The Bank's available capital is required to be a minimum of 10% of its risk bearing assets and contingent liabilities. At the end of the year the Bank's available capital was 20.8% (2011: 23.4%) of its risk bearing assets and contingent liabilities.

40. Financial risk management *(Continued)*

g. Compliance risk

Prudential aspects of bank liquidity

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

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

Liquidity ratios
At the end of the year, the Bank's liquidity ratio I was 65.9% (2012: 43.7%) and liquidity ratio II was 65.7% (2012: 43.6%).

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 are as follows:

- A core (tier 1) capital of not less than 6% 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 10% of its total risk-weighted on statement of financial position assets plus risk-weighted off-statement of financial position items.

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

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

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

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

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

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

40. Financial risk management *(Continued)*

h. Capital management *(Continued)*

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

	2013 K'm	2012 K'm
Tier 1 capital		
Ordinary share capital	467	467
Share premium	613	613
Retained earnings	19 414	12 997
Unconsolidated investments	(390)	(142)
Total regulatory (tier 1) capital	20 103	13 935
Supplementary capital		
Loan loss reserve	-	632
Available for sale reserve	183	-
Revaluation reserve	6 230	3 785
Total regulatory (tier 2) capital	26 516	18 352
Risk-weighted assets		
Retail bank corporate bank and treasury	144 555	78 379
Total risk-weighted assets	144 555	78 379
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	18.3%	23.4%
Total tier 1 capital expressed as a percentage of risk-weighted assets	13.9%	17.8%

i. Basel II implementation

The Reserve Bank of Malawi announced in 2011 that all the banks in Malawi must be Basel II compliant by 1 January 2014. The main objective for the Basel II implementation is to strengthen the prudential elements of capital framework and improve the banking sector's ability to absorb shocks arising from financial and economic stress and thereby contain any possible systemic risks in the economy.

The Group is fully committed to be compliant with the Basel II requirements by 2014. The Basel II implementation has been set as one of the milestones to be achieved in the Group's Strategic Plan for the five-year period from 2013 to 2017. The activities that have already been completed by the Group include the following: the Basel II implementation gap analysis and an action plan (road map); setting up of the steering committee and project team; appointment of the representatives to the Reserve Bank of Malawi Basel II sub committees; providing training on Basel II to some of the Group's Directors, management and staff; conducting an assessment of the Basel II solutions and the selection process; adopting the stress testing and scenario analysis policy and guidelines document; approving the Basel II capital and revenue expenditures in the years 2012 and 2013 budgets; participating in the first and second Reserve Bank of Malawi's Basel II Quantitative Impact Studies; and participating in the Reserve Bank of Malawi's Basel II self-assessments.

Misys Almonde was selected as the Basel II solution that satisfied the Group's request for proposal (RFP) requirements and implementation had since commenced. The business analysis review was performed and the data mapping exercise is in progress. The key milestones in this exercise include the following:

- Updating the product attributes in T24 to comply with the Basel II (Almonde) format;
- Updating the ISIC codes in T24 by either editing the product screens or deleting the wrong product screens and creating the correct product screens;
- Creating the Basel II asset classes in T24;
- Creating the Basel II business lines in T24;
- Creating the permissible Basel II mitigating factors (i.e. qualifying collateral) in T24;

40. Financial risk management *(Continued)*
i. Basel II implementation *(Continued)*

- Consideration of recruiting a third party (consultant), who is conversant with T24 and has some experience in implementing Basel II solutions, to assist in the data mapping exercise; and
- Training of relevant staff members.

The Misys Almonde solution is scheduled to go live on 30 June 2014

j. Environmental and social risk
The Group adopted the environmental and social management policy last year which was also consistent with its own corporate social responsibility (CSR) initiatives. It has taken 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 corporate banking loans to ensure that the customers who borrow from it manage their social and environmental risks that are associated with their activities. It is impacted 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 major milestones that have been achieved include the following:
- Developed an E&S Policy and the Environmental and Social Management System (ESMS) framework including the exclusion activities list and the approach to E&S risk management;
- Categorised the Bank's existing portfolio and associated risks;
- Established precise procedures, tools and guidelines for review processes including classification, and follow-up (e.g. risk screening tool, client questionnaire etc.);
- Established a sector-based approach to enable effective allocation of the Bank's resources to the different sectors in their portfolio, bringing about specialization and efficiency in E&S risk analysis;
- Provided training to the appropriate bank officers in the E&S procedures. This involved building the business case to obtain both management-level and operational-level buy-in;
- Provided training to the risk and credit analysts;
- Developed strategies for inserting E&S analysis into the existing work flow;
- Developed strategies and tools for communicating E&S findings into the banks' credit decision framework;
- Developed client engagement/information tools;
- Conducted the pilot run of the ESMS;
- Going live of the ESMS; and
- Periodic ESMS monitoring and (internal) reporting

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. In particular it will not support the following activities:
- Production or activities involving forced labour or child labour;
- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements;
- Production or trade in: a) weapons and munitions, and b) hard liquor;
- Lending to gambling, casinos and equivalent enterprises;
- Any business relating to pornography or prostitution;
- Trade in wildlife or wildlife products regulated under CITES;
- Production or use of or trade in hazardous materials such as radioactive materials, unbounded asbestos and fibres and products containing PCBs;
- Cross-border trade in waste and waste products unless compliant to the Basel Convention and the underlying regulations;
- Drift net fishing in the marine environment using nets in excess of 2.5 km in length;
- Production, use of or trade in pharmaceuticals, pesticides/herbicides, chemicals, ozone depleting substances and other hazardous substances subject to international phase-outs or bans;
- Significant conversion or degradation of Critical Habitat;
- Production and distribution of racist and anti-democratic media;
- Significant alteration, damage, or removal of any critical cultural heritage; and
- Relocation of Indigenous Peoples from traditional or customary lands.

40. Financial risk management *(Continued)*
j. Environmental and social risk *(Continued)*

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.

41. 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% (2012: 51.5%) of the Ordinary Shares. The Old Mutual Group owns 24.9% (2012: 24.5%) of the Ordinary Shares and the remaining 23.6% (2012: 24.0%) of the Ordinary Shares are widely held by individuals, corporate and institutional investors and are publicly traded on the Malawi Stock Exchange.

The ultimate holding entity of the Group is Press Trust. Press Trust owns 44.5% (2012: 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 31 December 2013 with the shareholders and other related parties are as follows:

GROUP AND COMPANY

	Loans K'm	Net Deposits K'm	Net 2013 K'm	2012 K'm
Press Corporation Limited and its subsidiaries	7 566	(2 962)	4 604	1 567
Old Mutual Group	19	(148)	(129)	(256)
Bottling and Brewing Group Limited	3 154	(815)	2 339	291
Limbe Leaf Tobacco Company Limited	1	(59)	(58)	(176)
Press Trust	-	(1)	(1)	(14)
Directors	51	(17)	34	51
Employees	2 588	(189)	2 399	1 810
National Bank of Malawi Pension Fund	3	(58)	(55)	(40)
Total related party balances	13 382	(4 249)	9 133	3 233

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 (2012: nil).

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

41. Related party transactions *(Continued)*

The following transactions were conducted with related parties:

GROUP AND COMPANY

	2013 K'm	2012 K'm
Interest receivable		
Press Corporation Limited and its subsidiaries	2 584	765
Bottling and Brewing Group Limited	-	55
Limbe Leaf Tobacco Company Limited	16	8
Directors	24	6
Employees	860	377
Average interest rate (%)	35	24
Operating lease income		
Malawi Telecommunication Limited	54	100
Bottling and Brewing Group Limited	529	381
Interest payable		
Press Corporation Limited and its subsidiaries	1	10
Old Mutual Group	13	8
Employees	18	10
Purchases		
Press Corporation Limited and its subsidiaries	327	233

	GROUP		COMPANY	
	2013 K'm	2012 K'm	2013 K'm	2012 K'm
Compensation of key management personnel				
Salaries bonus and benefits	730	435	698	405

No specific share options were offered to key management personnel during the year 31 December 2013 (2012: Nil). No shares were exercised by key management during the year ended 31 December 2013 (2012: Nil).

42. 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.

42. Business segments *(Continued)*

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.

	Corporate banking K'm	Retail banking K'm	Treasury K'm	Other K'm	Total K'm
Group					
Statement of comprehensive income					
December 2013					
Total external income	19 727	4 369	14 162	1 072	39 330
Segment result	16 304	3 241	13 424	856	33 825
Unallocated income	-	-	-	-	-
Unallocated expenses	-	-	-	-	(15 380)
Profit before tax	-	-	-	-	18 446
Corporate tax	-	-	-	-	(5 740)
Group profit for the year	-	-	-	-	12 706
Other information					
Depreciation					
Unallocated depreciation	-	-	-	-	1 732
Revaluation surplus on property					
Unallocated fair value gain	-	-	-	-	406

42. Business segments *(Continued)*

	Corporate banking K'm	Retail banking K'm	Treasury K'm	Other K'm	Total K'm
Group					
Statement of financial position					
December 2013					
Segment assets	36 930	15 976	81 646	50 750	185 302
Unallocated assets	-	-	-	-	-
Total consolidated assets	36 930	15 976	81 646	50 750	185 302
Liabilities and equity					
Segment liabilities	59 450	17 555	50 434	25 700	153 139
Unallocated liabilities and equity	-	-	-	-	-
Total consolidated liabilities and equity	59 450	17 555	50 434	25 700	153 139
Other information					
Capital additions	-	-	-	-	-
Unallocated capital additions	-	-	-	-	32 163
Total	-	-	-	-	185 302
Statement of comprehensive income					
December 2012					
Total external income	12 019	2 581	8 908	993	24 501
Segment result	10 398	1 936	8 779	375	21 488
Unallocated income	-	-	-	-	-
Unallocated expenses	-	-	-	-	(10 483)
Profit before tax	-	-	-	-	11 005
Corporate tax	-	-	-	-	(3 418)
Group profit for the year	-	-	-	-	7 587
Other information					
Depreciation					
Unallocated depreciation	-	-	-	-	1 392
Revaluation surplus on property					
Unallocated fair value gain	-	-	-	-	838

42. Business segments *(Continued)*

	Corporate banking K'm	Retail banking K'm	Treasury K'm	Other K'm	Total K'm
Statement of financial position					
December 2012					
Assets					
Segment assets	44 468	15 286	40 576	29 159	129 489
Unallocated assets	-	-	-	-	-
Total consolidated assets	44 468	15 286	40 576	29 159	129 489
Liabilities and equity					
Segment liabilities	50 734	12 635	28 123	16 430	107 922
Unallocated liabilities and equity	-	-	-	-	-
Total consolidated liabilities and equity	50 734	12 635	28 123	16 430	107 922
Other information					
Capital additions	-	-	-	-	-
Unallocated capital additions	-	-	-	-	21 567
Total	-	-	-	-	129 489

43. 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 .

	2013	2012
Kwacha/GBP	741.84	414.96
Kwacha/Rand	45.32	32.45
Kwacha/US Dollar	449.00	255.81
Kwacha/Euro	625.28	337.20
Inflation (%) (December)	23.5	34.6

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

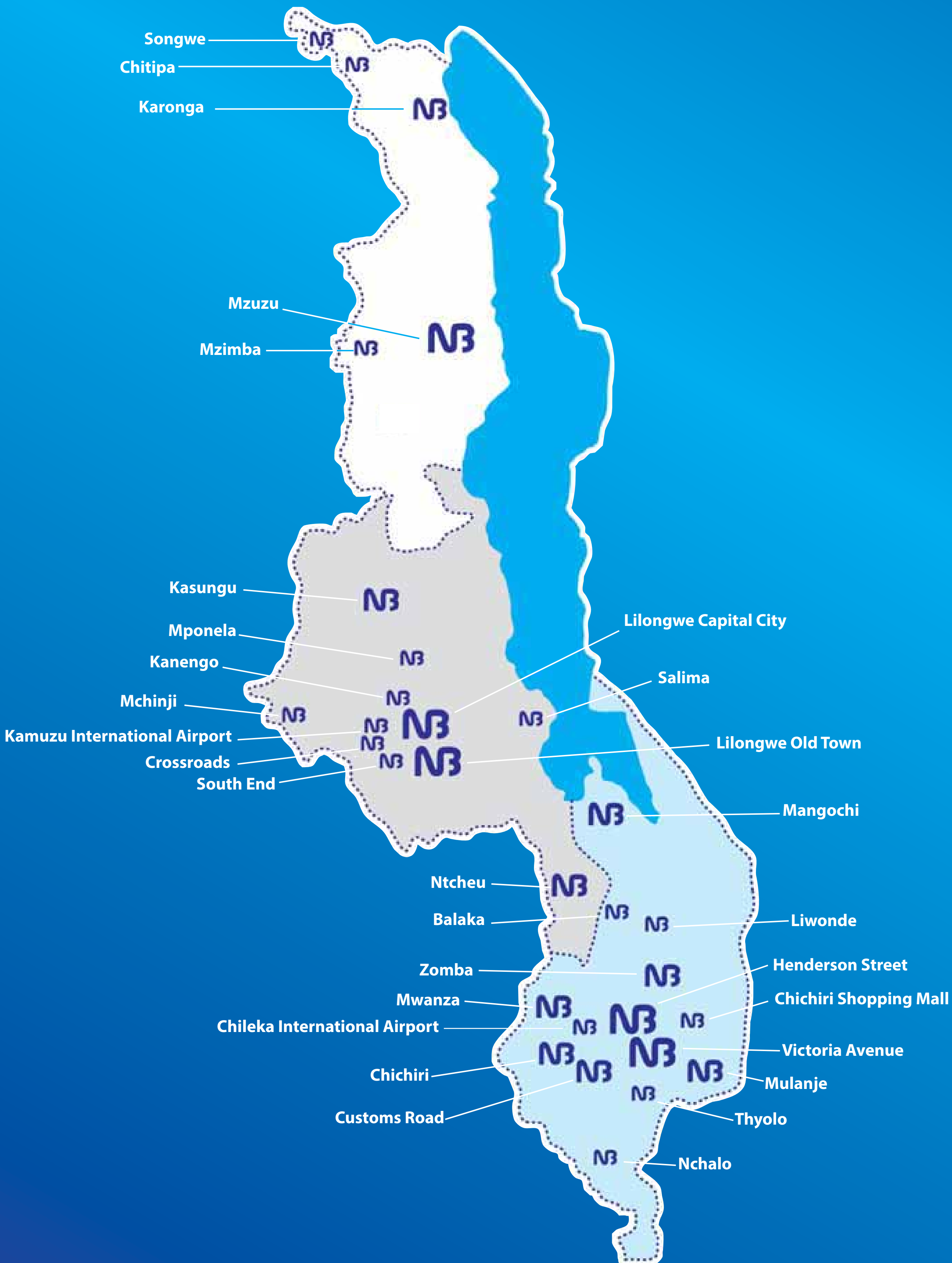
Kwacha/GBP	677.82
Kwacha/Rand	39.25
Kwacha/US Dollar	407.99
Kwacha/Euro	563.22

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

- Citibank, New York
- Standard Chartered Bank, London
- Deutsche Bank AG, Frankfurt
- Deutsche Bank Trust Company Americas, New York
- ABSA Bank, Johannesburg
- First National Bank, Johannesburg
- Standard Bank, Johannesburg
- Standard Chartered Bank, Tokyo
- Bank of Montreal, Canada
- Union Bank of Switzerland - Zurich
- Commerz Bank, Frankfurt
- Credit Suisee, Zurich
- Bank of China, Beijing

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

MAP OF MALAWI - NB SERVICE CENTRES



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