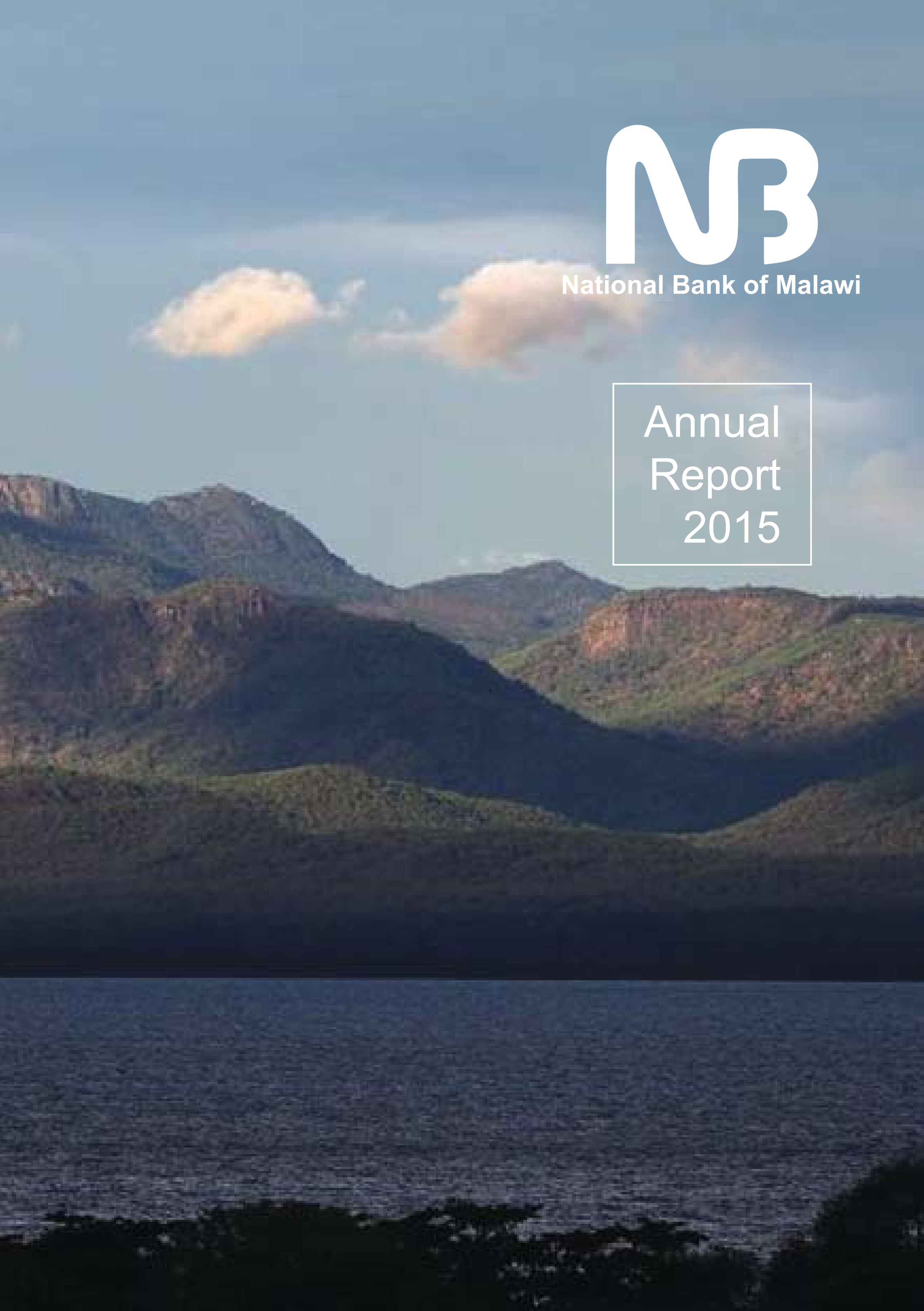
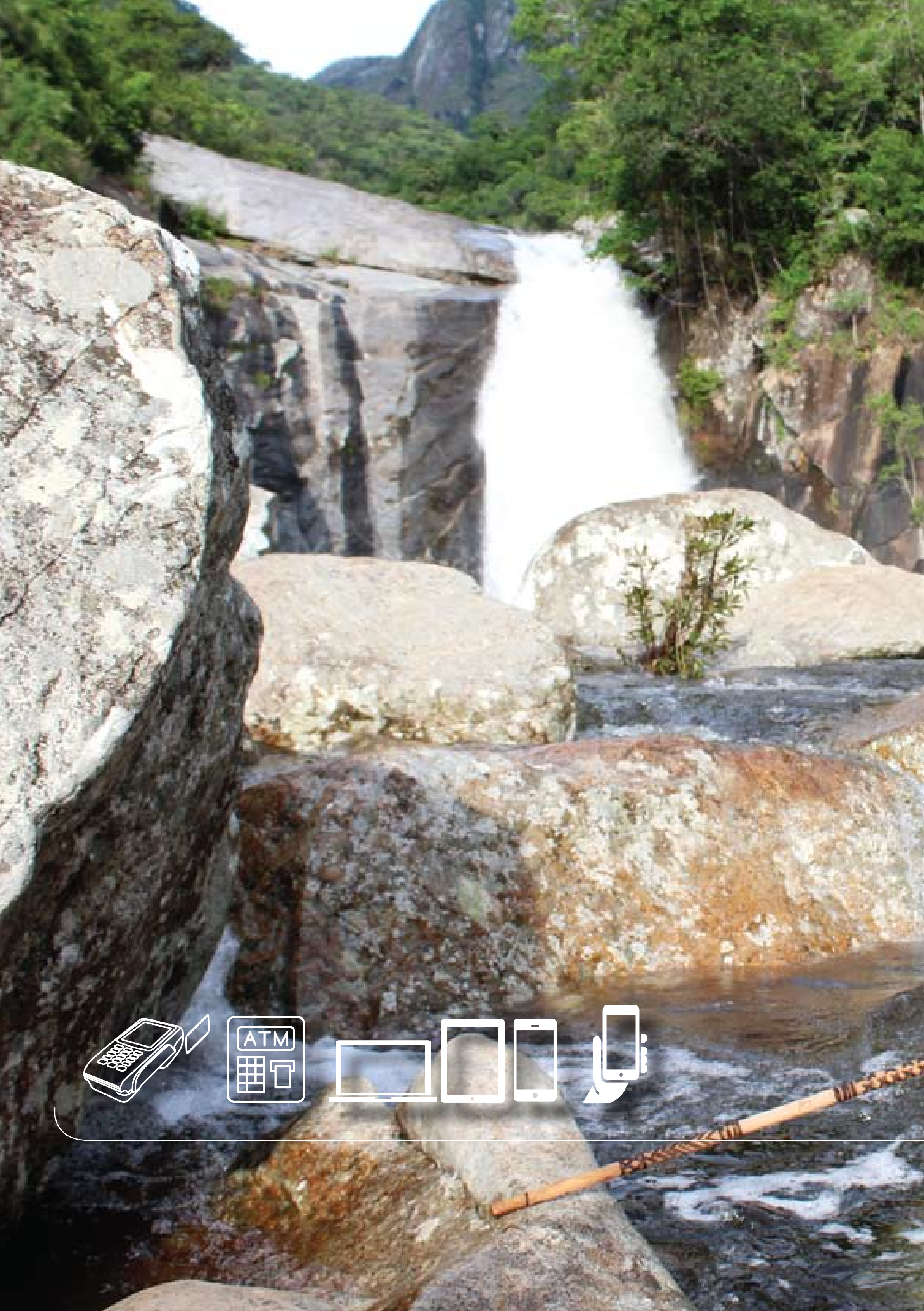
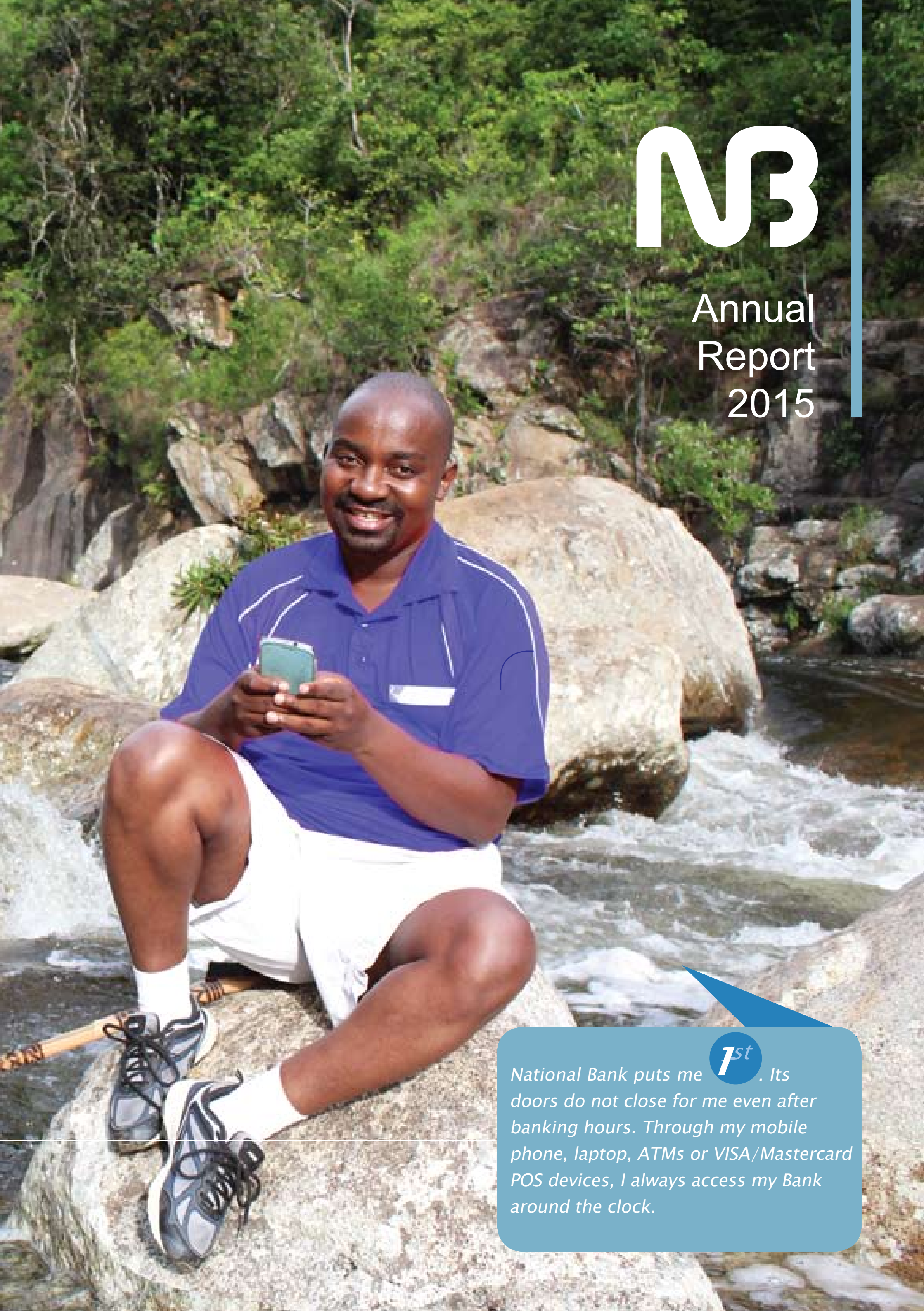


National Bank of Malawi

Annual Report 2015


ATM

Annual Report 2015



Customer 1st

I listen to my customers' needs and complaints and through that I have succeeded in meeting their expectations.

Mathews Tsere, Platinum Award Winner of the annual National Bank Recognition Awards

CONTENTS

Cover photo by Sven Aretz - View from Mpale Cultural Village, Mangochi of Lake Malawi
Inside photos by Govati Nyirenda

Customer 1st

I attract customers, not because I am on top of things or have charisma. It is because I care.

John Kabefu, Platinum Award Winner of the annual National Bank Recognition Awards

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 disciplinedand 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.

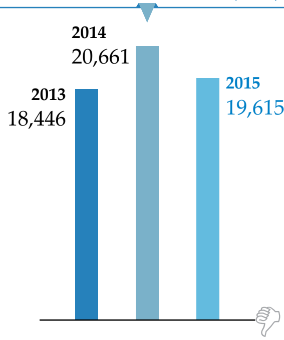
Corporate Social Responsibility

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

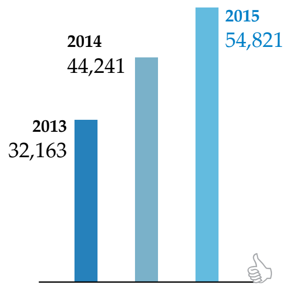
Nicholus Musaiwa, Platinum Award Winner of the annual National Bank Recognition Awards

	K'm 2013	K'm 2014	K'm 2015	% Change 2015 vs 2014
Profit before tax	18,446	20,661	19,615	–5%
Shareholders Funds	32,163	44,241	54,821	24%
Deposits	123,855	144,967	214,989	48%
Loans and Advances	62,918	79,322	113,975	44%

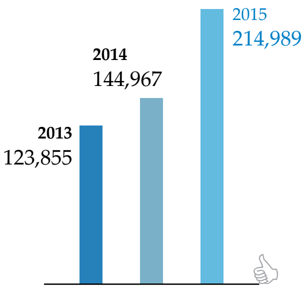
PROFIT BEFORE TAX (K'M)



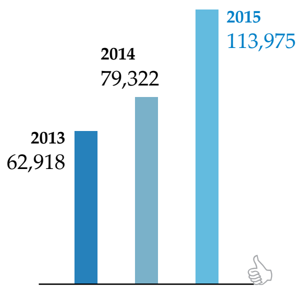
SHAREHOLDERS FUNDS (K'M)



DEPOSITS (K'M)



LOANS AND ADVANCES (K'M)



Customer 1st

I cherish my customers as if they were guests to a party, and I am the host. It is my responsibility to make them experience the best.

Rankin Chifomboti, Platinum Award Winner of the annual National Bank Recognition Awards

CURRENT DIRECTORS

REPORT OF THE DIRECTORS

CHAIRMAN'S REPORT

FRONT (L–R)

Elias J Kambalame (69)
BA (Econ.)
DIRECTOR

Dr. Mathews A P Chikaonda (61)
BA (Hons), MBA, Ph.D.
CHAIRMAN

Elizabeth Mafeni (Mrs) (47)
MBL, FCCA, B.Com.
DIRECTOR

Dr. George B Partridge (52)
B.Soc.Sc, (Econ), Msc (Finance), FCCA, CA (Mw)
DIRECTOR

Pius P Mulipa (62)
Dip. (Mgt), BA, MSc (Mgt)
DIRECTOR

BACK (L–R)

Damien Kafoteka (51)
FCCA, B.com (Accountancy), CA (Mw)
DIRECTOR

James Mhura (40)
MBA, ACMA, B.Acc.
DIRECTOR

Macfussy M Kawawa (51)
B.Acc (Hons), FCCA, CA (Mw), MBA
DIRECTOR

Maureen Kachingwe (Mrs) (49)
LL.B (Hons), MBA
DIRECTOR

Zunzo Mitole (Mrs) (42)
LLB (Hons) (MW)
COMPANY SECRETARY AND LEGAL COUNSEL

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

K19.6bn
Profit before tax

K3.2bn
Final dividend

K85m
Charitable donations

The directors have pleasure in presenting the Consolidated and Separate Financial Statements of National Bank of Malawi for the year ended 31 December 2015.

CAPITAL

The authorised share capital of the Bank is K500m (2014: K500m) divided into 500,000,000 Ordinary Shares of K1 each. The issued capital is K467m (2014: K467m) divided into 466,931,738 (2014: 466,931,738) fully paid Ordinary Shares of K1 each.

The shareholders and their respective shareholdings are:

	2015 %	2014 %
Press Corporation Limited	51.5	51.5
Old Mutual Group	25.1	24.9
Members of the public	21.6	21.8
Employees (ESOP)	1.8	1.8
	100.0	100.0

PROFIT AND DIVIDENDS

The directors report a consolidated profit before tax of K19 615m (2014: K20 661m) for the year. A final dividend of K3 200m (2014: K4 670m) is proposed for the year. An interim dividend of K1 504m (2014: K2 498m) was paid to shareholders on 4 September 2015.

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, Dr. G B	All year
Kawawa, M M	All year
Kapanga C	Up to May 2015
Mafeni, E	All year
Mkandawire, R	Up to July 2015
Kambalametore, D J	All year
Kafoteka, D	All year
Kachingwe, M	All year
Mhura, J	From August 2015

DIRECTORS' INTERESTS

The following directors held shares in the Bank as at 31 December 2015:

Mulipa, P P	20 367 (2014: 20 367) Ordinary Shares
Partridge, Dr. G B	826 507 (2014: 768 874) Ordinary Shares
Kawawa, M M	113 255 (2014: 113 255) Ordinary Shares
Kapanga C	7 146 (2014 - restated: 7 146) Ordinary Shares

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

DONATIONS

During the year, the Group made charitable donations of K85m (2014: K59m).

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% (2014: 100%)	Investments and fund management
NBM Securities Limited	100% (2014: 100%)	Dormant
National Bank of Malawi Nominees Limited	100% (2014: 100%)	Holding of investments as nominee (Dormant)
Stockbrokers Malawi Limited	75% (2014: 75%)	Registered stockbroker
NBM Bureau de Change Limited	100% (2014: 100%)	Dormant
NBM Pension Administration Limited	100% (2014: n/a)	Pension administration
Indebank Limited	97.05% (2014: n/a)	Commercial banking

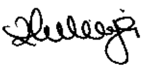
AREAS OF OPERATION

The Group has 47 (2014: 30) service centres throughout the country. The Bank and its subsidiaries' registered offices and principal places of business are in Blantyre.

AUDITORS

The auditors, Deloitte, have signified their willingness to continue in office and a resolution is to be proposed at the forthcoming Annual General Meeting in relation to their appointment as auditors in respect of the year ending 31 December 2016.

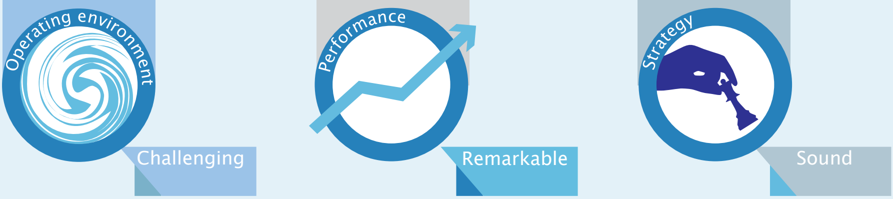
BY ORDER OF THE BOARD



Mrs Z.E. Mitole
Company Secretary

CHAIRMAN'S REPORT

Dr Mathews Chikaonda



THE OPERATING ENVIRONMENT

All economic parameters of 2015 indicate a poorly performing economy. Inflation and interest rates remained persistently high. The exchange rate was unstable and the Malawi Kwacha significantly depreciated against all major currencies. Direct budgetary support from co-operating partners continued to be suspended. Consequently, monetary policy stance by the monetary authorities continued to be tight. This was aimed at containing money supply growth, credit growth, inflation and stabilization of the exchange rate. Due to the high interest rate environment, both utilization of approved facilities and attendant fee income were subdued.

In the course of the year the Bank acquired 97.05% of Indebank at K6.59b. Indebank continued to make losses which were being absorbed within the group pending the full merging of operations into National Bank of Malawi (NBM). Upon integration, the group will leverage on synergies by absorbing Indebank business using existing NBM overheads, thereby adding value to the group.

PERFORMANCE

Having taken into account the poor economic environment and the opportunity cost of the capital outlay from internal resources that were used for the Indebank acquisition, inclusive of the absorption of post-acquisition losses pending full integration, I am pleased to announce a group pre-tax profit of K19.6bn (2014: K20.7bn). The Bank has shown remarkable resilience in its performance under the circumstances. As a direct impact of the acquisition, both deposits and the loan book at group level have grown significantly by 48% and 44%, respectively, signifying the future earning potential of the investment.

STRATEGY AND PROSPECTS

The economic growth outlook for 2016 remains weak in light of the el-Niño weather conditions being experienced in the region, with its attendant impact on agricultural output.

The absence of direct budgetary support from co-operating partners coupled with lower than forecast tax collections because of a weak economy are expected to negatively affect government operations and increase the budget deficit. This will put pressure on inflation, interest rates and economic growth prospects.

The pressure on inflation is expected to abate somewhat towards the end of the second quarter due to seasonal export proceeds from tobacco and the availability of maize which should reduce food inflation.

Given the continuation of a poorly performing economy, the absence of donor aid and the resultant fiscal position, a very tight monetary stance is expected to prevail resulting in continued suppressed demand for credit.

The Bank has a 5-year Strategic Plan which is entering its fourth year of implementation. The Bank has built-in flexibility, resources, and the agility necessary to continue on a growth path notwithstanding the prevailing operating environment. I therefore expect that the Bank will continue to perform well in 2016.

BOARD OF DIRECTORS

Mr. C. Kapanga and Ms. R. Mkandawire resigned from the Board in May 2015 and July 2015, respectively. Mr J. Mhura joined the Board in July 2015 to replace Mr. Kapanga while the process of replacing Ms. Mkandawire's is at an advanced stage.

On behalf of the shareholders, and on my own behalf, I would like to take this opportunity to welcome the new director and thank the two directors who have left the Board for their valuable contributions and support during their tenure and wish them well in their new responsibilities. I also wish to thank fellow directors for their support, dedication and co-operation and look forward to a fruitful working relationship with them in 2016 and beyond.

MANAGEMENT AND STAFF

I am deeply grateful to our professional staff for achieving these results in a challenging operating environment. On behalf of the entire board and shareholders, I take this opportunity to 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 forges ahead in its quest to deliver optimal value to all its stakeholders.

M.A.P. Chikaonda, PhD
CHAIRMAN

SENIOR MANAGEMENT

CHIEF EXECUTIVE OFFICER'S STATEMENT

FRONT (L-R)

John Mitchell (51)
BSc. (Technical Education), MSc (Computing)
HEAD, INFORMATION TECHNOLOGY

William Kaunda (46)
BSc, MSc (Bus Mgt)
HEAD, CARDS and e-BANKING

Harry Mukaka (48)
BA (Public Admin.), MBA
HEAD, TREASURY AND INVESTMENT BANKING

BACK (L-R)

Wilkins G. Mijiga (44)
B.Soc.Sc. (Econ)
HEAD, STRATEGY, MARKETING AND CORPORATE AFFAIRS

Daniel Jere (42)
B.Acc, ACMA, CGMA, CA(Mw)
HEAD, INTERNAL AUDIT

Charles Dulira (47)
BA (Public Admin.)
HEAD, HUMAN RESOURCES.

Tayemu H Masikini (58)
Post Graduate Diploma in Computing, BSc.
HEAD, ADMINISTRATION

Zunzo Mitole (Mrs) (42)
LLB (Hons) (MW)
COMPANY SECRETARY AND LEGAL COUNSEL

Charles S. Ulaya (40)
ACMA, CGMA
HEAD, RISK

Dr. George B Partridge (52)
B.Soc.Sc, (Econ), MSc (Finance), FCCA, CA (Mw)
CHIEF EXECUTIVE

Oswin Kasunda (49)
B.Com, Msc (St.Mgt)
HEAD, PERSONAL AND BUSINESS BANKING

Macfussy M Kawawa (51)
B.Acc (Hons), FCCA, CA (Mw), MBA
DEPUTY CHIEF EXECUTIVE & CHIEF FINANCIAL OFFICER

Eluphy Salamba (Ms) (48)
B.Com (Business Admin), MSc (LCM)
HEAD, CREDIT MANAGEMENT

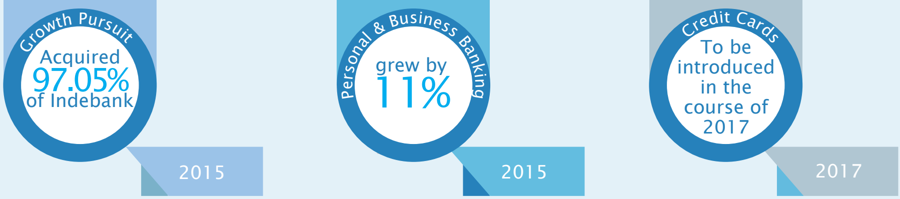
Austin N D Musyani [57]
BA [Public Admin.], MPA, MBA.
HEAD, OPERATIONS

Brian Boby (51)
B.Soc.Sc., MBA
HEAD, BUSINESS PROCESS MANAGEMENT

Harold Jiya (45)
Bcom, ACIB, MBA
HEAD, WHOLESALE BANKING

CHIEF EXECUTIVE OFFICER'S STATEMENT

Dr George Partridge



PERFORMANCE OVERVIEW

Utilization of approved facilities was comparably low, especially in the first half of the year, resulting in lower than expected net interest income and attendant fee income. The low utilization was due to the high interest rate environment prevailing during the year. The unfavourable operating environment increased the risk of bad debts resulting in the Bank adopting a conservative attitude in managing the loan book. Low levels of lending however, resulted in more surplus cash than budget and this excess found a home in lower yielding money market products. Consequently, this revenue stream's performance exceeded budget.

In pursuit of growth in a stagnant market, the Bank acquired 97.05% of Indebank, a severely undercapitalized and loss making bank. The rationale for the acquisition is to leverage on synergies by absorbing its business using NBM overheads as Indebank does not have a critical mass of customers and products to sustain its business model. Indebank's performance pre and post-acquisition has remained unsatisfactory and the Group is absorbing its losses until its operations are finally merged into NBM.

WHOLESALE BANKING OPERATIONS

The high interest rate environment is continuing to negatively affect private sector investment. In an effort to expand the catchment area for the Bank's lending portfolio, Wholesale Banking Division commenced the process of arranging an agricultural storage line of credit of Euros 25m with the European Investment Bank aimed at financing eligible medium to long term investments for the purchase, construction, renovation and extension of warehouses and grain storage assets.

Through the Integrated Contract tobacco farming product with major buyers, the Bank continued to make a positive impact on local communities who have organised themselves into farming clubs and are beneficiaries of the Bank's initiative. In the coming years, the Bank intends to replicate this initiative to other cash crops and hence cement the Bank's relationship with local communities, apart from ensuring diversified revenue streams for the Bank. Notwithstanding the above, the contract farming segment this year had a higher bad debt ratio than planned due to the effects of poor weather in this part of the region caused by the el-Nino phenomenon. The Bank will continue to enhance its risk management efforts to ensure profitability of this segment.

In its drive to compliment efforts by the authorities to expand and diversify the country's export base, the Bank intends to participate in a syndicate led by Afrexim Bank for a USD150 million line of credit for exporters through the Export Development Fund.

The Bank has vertically integrated all corporate customers as a result of the acquisition of Indebank which has made the deposit and loan books grow faster than would have otherwise been, especially during the latter part of the year. Incentives have been put in place on the newly acquired business by ring fencing and preventing attrition of these new valuable relationships.

TREASURY & INVESTMENT BANKING

The Bank experienced mixed results on revenue targets from treasury operations. While performance exceeded expectation on money markets due to excess liquidity as a result of low demand for credit, the Bank underperformed on foreign exchange and equity investments. The underperformance on the foreign exchange income was largely on account of reduced volumes and low margins due to donor aid withdrawal and regulatory changes on foreign exchange trading respectively.

The equity portfolio on the other hand did not perform well due to share price falls in most of the stocks in our portfolio as a result of an underperforming private sector.

PERSONAL AND BUSINESS BANKING OPERATIONS

The Personal and Business Banking lending portfolio which comprises 35% SME Banking, 28% Personal Banking and 37% Leasing, registered total portfolio growth of 11%, lower than the inflation rate. There was a deliberate restraint to grow in this risky sector due to the non-conducive operating environment. Instead, the main focus on personal lending was on establishing long term financing schemes with reputable corporate employers. This segment alone grew by 47%.
Deliberate efforts were also deployed to limit the portfolio on SMEs in order to manage the level of non-performing debts. We stepped up our efforts in offering advisory services to our SME customers through the provision of in-class training sessions in business management to enhance their business management skills.
Responding to the growing sophistication of customers' requirements and in line with the Bank's desire to remain relevant on the market, we commenced the restructuring of Personal and Business Banking Division(PBBD) which will result in the splitting of Personal Banking and SME Banking in terms of relationship management and product development. This will help the Bank to develop an in depth understanding of the customer segments that it serves which in turn will enable it develop tailor made solutions to suit the unique needs of each segment. This process is expected to be completed within the first half of 2016.

CARDS AND e-BANKING SERVICES

During the course of the year the Bank continued to make improvements in the areas of cards and electronic banking services. The Bank enhanced further its mobile phone banking system (Mo626ice) to include the ability to do interbank transfers to all other banks in the country. During the course of the year the Bank also played a leading role in the National Switch which enables all cardholders to have access to their accounts through all ATMs whose banks are members of the switch. The Bank also finalised certification of MasterCard acquiring through its ATM network thereby affording MasterCard card holders ability to transact on the bank's ATMs and POS devices.

Looking ahead, the Bank plans to introduce credit cards for its customers in the course of 2016.

Lilongwe Gateway Service Centre, a new flagship model small service centre

INFORMATION TECHNOLOGY SYSTEM

As part of the continuing efforts to enhance the performance of the Bank's IT systems, an upgrade assessment of the Bank's T24 system was commissioned as a pre-requisite for the upgrade of the main Banking platform from the current Release 9 to Release 15. The Project is now underway with a go live planned for mid-2017. Once completed, this upgrade is expected to enhance efficiencies in terms of speed of customer service and quality of information.

CUSTOMER SERVICE CHANNEL IMPROVEMENTS

In 2015 the bank embarked on various projects and successfully delivered on its promise to remain customer centric.

A new flagship model small service centre (Lilongwe Gateway Service Centre) with a spacious banking hall and highly modern banking facilities was opened at the new Gateway Mall in Lilongwe. Mangochi and Salima Service Centres have been expanded and refurbished and will have increased banking hall space. This was done to provide customers of small towns with excellent customer experience.

Our network of ATMs was increased to 94 in an effort to take our self-service channels off site so as to be conveniently closer to where our customers live, work and do their shopping and leisure activities.

From a process efficiency perspective, we succeeded at streamlining and decentralizing our cheque scanning process. Tellers in service centres are now able to scan cheques immediately after receiving them to ensure that cheque deposit transactions reflect in the customers' accounts the same day they are made. This initiative has improved cheque processing turnaround times by eliminating unnecessary delays occasioned by movement of large volumes of cheques from service centres to centralised processing points.

Looking ahead, the assumption of strategic assets and resources from the newly acquired Indebank will further broaden and enhance the Bank's service centres and self-service channels' footprint. Our network of ATMs will significantly be increased in both rural and urban locations bringing enhanced conveniences to customers of the group. Balaka, Liwonde and Chileka Airport service centres are programmed to undergo renovations aimed at improving customer experience.

TALENT MANAGEMENT ACTTIVITIES

Mid-year, the Bank rolled out a Leadership Development program ran by an external firm, involving twenty junior and middle managers, due to graduate in June 2016. Upon completion the Bank will have developed a reservoir of well-trained junior and middle managers who will be ready to assume higher leadership positions without any difficulties.

Two members of staff successfully completed their studies in the United Kingdom for Master of Science in Information Technology and Master of Business Administration degrees, respectively. Three other employees also completed their studies for Master of Business Administration degrees locally. Two members of staff qualified as chartered accountants.

The Bank also continued to offer short - term relevant training to its employees at its purpose built Learning & Growth Centre. In recognition of our commitment towards staff training and development, the Bank won the Gold Award in the Training and Human Resources Development Category during the 2015 Top Employers Awards organized by Employers Consultative Association of Malawi (ECAM). Accompanying the award was a rebate to the Bank which was re-invested in skills development programs for members of staff.

As a healthy workforce leads to higher productivity, wellness activities took centre stage as divisions and service centres undertook various wellness activities.

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 is an essential element of its success.

In line with this philosophy the Bank, among other investments, made the following significant contributions in the course of the year: -

- Assisted Malawians affected by the floods following heavy rains last year through Public Private Partnership Dialogue.

- Provided scholarships worth towards the training of 18 nursing students who are on a 3 year scholarship program.

- Introduced the Best Student Awards in each of the faculties at Lilongwe University of Agriculture and Natural Resources (Luanar). This is in addition to the already existing programs with Mzuzu University and University of Malawi
- Provided chairs and desks at selected primary and community day secondary schools

Effective 31st October 2015, the Bank acquired 97.05% of Indebank

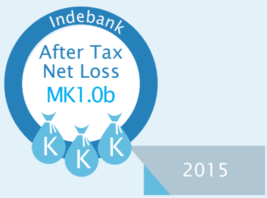
- In partnership with Lions Club of Blantyre, the Bank contributed towards the construction of a girl's dormitory at Namikasi Secondary School in a bid to alleviate the overwhelming challenges that girls face on accommodation.
- Supplied hospital equipment to Zomba General and Nkhota-Kota District Hospitals.
- Extended access to capital to young graduate entrepreneurs at Malawi Council for the Handicapped.

SUBSIDIARIES AND ASSOCIATES

Indebank Limited

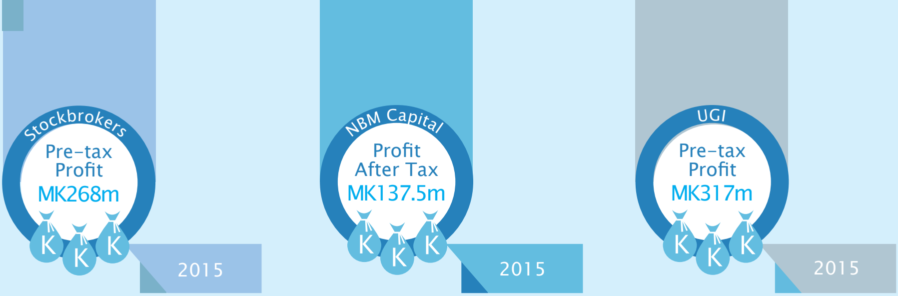
As stated earlier, effective 31st October 2015 the Bank acquired 97.05% of Indebank.

Indebank's performance pre and post-acquisition has remained unsatisfactory and is expected to remain so until its operations are completely integrated into NBM. This performance is on account of significant curtailment of new lending and severely reduced foreign currency trading, especially at the beginning of the year, due to Indebank's failure to meet minimum regulatory capital ratios under Basel II as the search for a new shareholder was underway. This was compounded by



poor credit management which resulted in significant provisions on non-performing loans. Upon acquisition, the sanctioning of all credit was subsequently transferred to NBM for better management.

Consequently, Indebank Company level total revenue in 2015 of K4.896 billion was



11% lower than that achieved in 2014 while operating expenses increased by 16% year on year. The net result was a higher after tax net loss of K1.0 billion in 2015 compared to a loss of K95.1 million incurred in 2014.

NBM Capital Markets Limited

NBM Capital is a wholly owned subsidiary of the Bank carrying out the core business of investment management services which include fund management, private wealth management, corporate finance and advisory services. The company's clientele include pension funds, trust funds, institutional funds and high net-worth individuals.

The performance of the company for the year 2015 has been below expectation but satisfactory considering the tough economic conditions that prevailed over the review period. The company reported a profit after tax of MK137.5m (2014: MK167.4m) against a budget of MK229m. The main cause for the underperformance is non-execution of any of the corporate finance mandates that were anticipated as clients cited hostile economic conditions for inaction.

Following the acquisition of Indebank group, the company expects significant growth in funds under management mainly resulting from the transfer of the business portfolio from Indetrust Limited to NBM Capital. The company is expected to take over about MK15b in investment assets from Indetrust. Besides, the company anticipates to benefit from organic growth arising from its continued aggression in marketing activities.

Stockbrokers Malawi Limited

Stockbrokers Limited is a 75% subsidiary of the Bank. The company registered good results despite the tough economic environment. Pre-tax profit grew by 96% from K136 million in 2014 to K268 million. The performance was largely driven by money market operations.

Revenues and money market book grew respectively by 21% and 128%.

NBM Pension Administration Ltd (NBM PAL)

NBM PAL is a wholly owned subsidiary of the Bank. Its core business is the provision of Pension Administration services. This is a start-up company that commenced operations during the year. It registered a loss of K1.4m due to pre-incorporation costs.

United General Insurance (UGI)

The company did not register any meaningful growth as a result of the poor performance of the economy in general. The company faced challenges with collections of premiums.

Year on year Gross Premium Written (GPW) grew by 14%, below inflation from K4.3 billion to K4.9billion this year. However claims only grew by 5% from K1.9billion to K2billion notwithstanding one large fire claim experienced during the year under review. The loss ratio has consequently improved from 60% to 58% in 2015.

Pre-tax profits declined by 15% to K317million (2014:K373million).

Going forward there is a lot of potential for UGI. Success will very much depend upon consolidation of the claims management and debtors' collection function as well as efforts to grow the GPW ahead of inflation, coupled with prudent management of expenses.

OUTLOOK

Economic growth prospects will continue to be under pressure in light of the el-Niño weather conditions with its attendant impact on agricultural production. A higher budget deficit than would normally obtain due to absence of donor aid coupled with lower than forecast tax collections will compound challenges on growth.

A very tight monetary stance is expected to continue, with the Bank Rate expected to remain generally high throughout 2016. Appetite for credit in real terms is expected to continue to be subdued. Given the experiences of 2015, there are also indications of a continuing increase in non-performing loans within the whole banking system.

The Bank is on course to finalise the integration of Indebank operations and will continue to focus on areas that will result in superior customer experience both in service delivery and product innovations. Due to the envisaged continuing poor economic environment, the Bank will enhance loan book management, and will aim to attract and retain quality critical mass clientele for sustained growth.

CONCLUSION

I take this opportunity to thank the Chairman and all directors for their oversight role, support and direction during the year. I convey my gratitude to my senior management team for their outstanding contributions in a year full of challenges. I also express my appreciation to all members of staff for their dedication and call upon them to redouble their efforts in 2016 and beyond as we integrate Indebank into NBM in pursuit of further growth for the Bank.

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

George B Partridge, PhD
Chief Executive

CUSTOMER SERVICE DELIVERY CHANNELS

Service Centres

Mo626ice

VISA/Mastercard
Point Of Sales (POS) Devices

Moneycard
Auto Teller Machines (ATMs)

BankNet Online

National Bank of Malawi is the leading bank in Malawi with a countrywide network of service centres, 24hrs Auto Teller Machines (ATMs), Visa/ Mastercard POS devices including a modern and versatile mobile banking service, Mo626ice and a robust Internet banking, BankNet Online.

STAFF ACTIVITIES

CSR ACTIVITIES

SELECTED KEY CLIENTS

STAFF ACTIVITIES

"The Bank derives pleasure when its employees are offering the best customer service to clients as National Bank is a service oriented organization."

Charles Dulira
Head of Human Resources

- Management Conference
- Staff Training
- Awards
- Wellness
- Staff Charity

Management Conference

Sharpening skills for customer service excellence

Staff Training

A class in session

Awards

Long Service Awards - Appreciating dedication as a core recipe for customer service excellence

Platinum awardees - Rewarding exceptional commitment to customer service excellence

Staff Charity


Hospital visit - A healthy clientele is the source of vitality for the Bank


Feeding the orphans - Investing in a brighter future client base

Wellness


Staff wellness and fitness - Vitality of body, mind and soul drives customer service excellence

CORPORATE SOCIAL RESPONSIBILITY

"National Bank does not have a singular view of profitability. It makes a balance between profitability and social responsibility. It is authentic about caring for its communities and that is why it is a successful bank."

Wilkins Mijiga
Head of Strategy, Marketing
& Corporate Affairs

- Education
- Health
- Sports
- Corporate Sponsorships

Education

Higher education awards

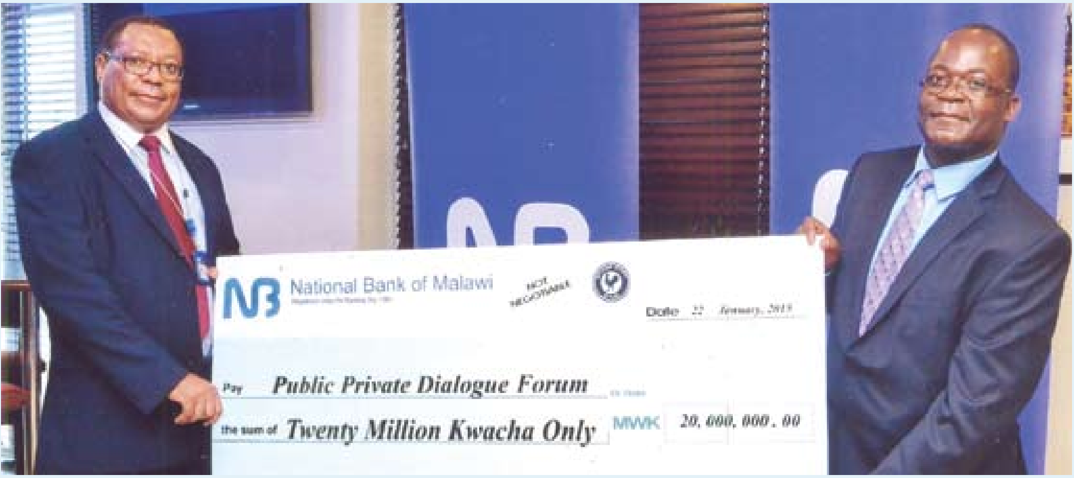
Donation of desks

Health

A skilled pool of health care experts is vital for a vibrant clientele for NBM

Delivery of good health care assures NBM of a productive customer base

Corporate Sponsorships



Donation to Public Private Dialogue Forum toward floods disaster - A friend in need is a demonstration of a caring service provider to its clients

Sand Music Festival - All work, no play, makes Jimmy a dull customer

Educating the nation through the girl child

Donations to various institutions - Developing the professions to sharpen the general customer service excellence atmosphere

Sports

You work hard and you deserve time to relax and play

Keep the greens great and the game vibrant

SELECTED KEY CLIENTS

"The goal of Wholesale Banking Division at National Bank is to have customer service that is not just the best but legendary."

Harold Jiya
Head of Wholesale Banking

Corporate Banking

Corporate Banking

Mpico Gateway Mall, Lilongwe

Illovo Sugar Company Limited, Nchalo

Corporate Banking

Shoprite Limited

Raiply

Corporate Banking

Eastern Produce Limited- Esparanza tea factory - Mulanje

Oxfam

Corporate Banking

Nasfam

Banja La Mtsogolo


National Bank of Malawi
PUMA
GO CASHLESS.
BUY FUEL WITH
MyFUEL CARD
Personalised card with your name and option for vehicle registration
Remote loading - Value is downloaded to the card at any MyFuel Point of Sale (POS) located at all PUMA Filling Stations throughout the country or Direct top up by the Fleet Manager.
No need to visit NBM Service Centre for loading
Efficient Convenient Secure
For more information, visit your nearest National Bank Service Centre
+265 (0) 1 831 485 / +265 (0) 1 831 646
Email: callcentre@natbankmw.com
PUMA
www.natbank.co.mw
Call Centre: 01 831 485
The Bank of the Nation

SELECTED KEY CLIENTS

"Successful SMEs are a pleasure to the bank as they symbolize growth of our economy."

Oswin Kasunda
Head of Personal & Business Banking

Personal & Small to Medium Enterprises (SMEs) Banking

Personal & SMEs Banking

Celected Suppliers

Rangers Security

Personal & SMEs Banking

Supa Fit

Shayona Cement

Personal & SMEs Banking

Universal Trading Company

Built Environs

ECONOMIC REVIEW & PROSPECTS FOR 2016

2015 Real GDP Growth Rate	2015 Tobacco Income	2015 Key Interest Rate	2015 Inflation
2.8%	USD337.4m 7% decrease	27%	24.9%

ECONOMIC DEVELOPMENTS IN 2015

The country's growth prospects deteriorated markedly in the last quarter of 2015 though earlier forecasts were indicative of continued recovery. This has been the result of a combination of worsening weather conditions, the full extent of which became apparent in the last quarter of 2015 with reports of reductions in the output of both food and non-food crops. In addition, there was increased instability in key macroeconomic variables and accompanied by a general decline in business confidence.

While the country was impacted by the flooding in January 2015, the effect on economic growth rates was fairly limited. The late arrival and early cessation of rains, however, impacted the agricultural sector significantly resulting in the downward revision of real GDP growth rates to 2.8% compared to earlier forecasts of 5.1% in 2015, according to World Bank data.

The above notwithstanding, tobacco production was virtually unchanged compared to the year before with 192.670 million kgs produced (2014:191.967million kgs). The economy realised USD337.4 million (2014:USD361.5million), down 7% on the year before. Average prices were depressed mainly due to carryover stocks on the global markets.

Monetary policy in the period under review was largely contractionary. Although this was the case, the monetary authorities implemented a reduction in the Liquidity Reserve Requirement to 7.5% from 15.5% thus injecting about MK40billion into the banking system. The intention of this adjustment was to reduce the gap between deposit and lending rates. Indirectly this fueled inflationary pressures and increased demand for foreign exchange.

At the close of the year the authorities maintained the policy rate, the key interest rate, at 27%.

Developments on the local currency in the year have mainly been speculative. The uncertainty on the level of agriculture production in general and tobacco in particular as a result of the weather conditions in addition to the suspension of direct budgetary support by co-operating partners created a measure of panic in the currency markets. Exporters brought their purchases forward while foreign currency account holders limited their sales into the market to take advantage of the continuous depreciation of the Malawi Kwacha. As a result, the Malawi Kwacha closed the year at around MK664/1USD from MK466/1USD recorded at the start of the period under review.

INFLATION

Inflationary pressures were persistently dominant in the year with the country recording year-end headline inflation for December 2015 of 24.9% (December 2014: 24.2%). Urban and rural rates stood at 19.1% and 29.1% respectively.

Overall, annual average inflation for 2015 stood at 21.9% compared to 23.8% recorded in the previous year.

OUTLOOK FOR 2016

The outlook for 2016 is for growth to remain weak in light of the el-Niño weather conditions being experienced due to its impact on agricultural production.

The absence of donor aid flows and lower than forecast tax collections due to a weak economy are expected to impact government operations negatively and putting enormous pressure on the budget deficit, thus impacting on economic growth further.

CORPORATE GOVERNANCE STATEMENT

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

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

The Board meets bi-monthly to monitor compliance with policies and achievement of objectives by holding management accountable for its activities and performance. The Board delegates some of its compliance monitoring responsibilities to committees of the Board namely – Risk; Audit; Appointments, Remuneration & Governance; Credit Committee and the Committee of the Board on Related Parties in accordance with each committee's specific terms of reference issued by the Board and in the custody of the Company Secretary. The Committee chairpersons report on the proceedings of their committee meetings at the next meeting of the Board.

The maintenance of a system of internal controls which gives assurance that Bank has effective and efficient systems with sound internal financial controls governing all the operations of the Bank in line with best practice is the responsibility of the directors. These internal controls ensure that there is compliance with laws and regulations. To achieve this, the Board supports investments in accounting, financial and risk management systems that enable the Bank to produce timely reports to its shareholders, the regulatory authorities and members of the general public. Details of the risk management processes that the Bank has embraced are provided in Note 41 the financial statements.

The Bank's Board is made up of ten directors, two of whom are executive directors and the rest are non-executive directors. The chairman is chosen from among these directors.

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

Committees of the Board

Risk Committee

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

The committee provides the necessary oversight and direction in relation to current and potential future risk exposures and future risk strategy. The Committee reviews risk management reports covering credit, market, liquidity and operational risks among other reports provided by the Risk Division of the Bank. The Committee also monitors the Bank's compliance with Basel II requirements.

The Committee meets at least three times a year. In the 2015 financial year, the Committee met six times.

Audit Committee

This Committee was chaired by Ms R. Mkandawire until her resignation from the Board in July 2015. The process of appointing her replacement is at an advanced stage. The Committee has overall responsibility for the Bank's system of internal controls and for reviewing its effectiveness. The Committee also exercises the full powers and authority of the Board in accounting and financial reporting matters as guided by its terms of reference. Results of pre-arranged and surprise risk based audits provide the directors with information which assists them to assess the effectiveness of internal controls and management of risks in each business unit.

The Committee meets at least three times a year with the Bank's senior management and the external auditor to review among other things, accounting, auditing, internal controls, financial reporting matters and published financial statements of the Bank. The Head of the Bank's Internal Audit Division as well as the external auditor have unrestricted access to this Committee at all times.

In the 2015 financial year, the Committee met six times.

Appointments Remuneration and Governance Committee

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

The Committee meets at least three times a year. In the 2015 financial year, the Committee met three times.

Credit Committee

Mr P.P. Mulipa is the Chairman of the Committee. The Committee considers credit applications that are above management limits in line with the Bank's Authorities Schedule approved by the Board. It also reviews credit policies, the quality of the Bank's direct and contingent lending, the mix of industry concentration within agreed parameters, counterparty lending and dealing lines. The Committee monitors the quality of the loan book through review of substandard debt schedules and lists of facilities granted to sensitive customers, related parties and senior management.

The Committee meets as and when there are lending facilities to be considered. In the 2015 financial year, the Committee met seven times.

Code of Ethics

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

Auditor Independence

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

Board Information and Development

The Company Secretary is 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 coordinates directors' training for efficient discharge of the Board's oversight responsibilities. The Company Secretary also organises board orientation from time to time and conducts board assessment in liaison with the Chairman of the Appointment, Remuneration and Governance Committee.

CONSOLIDATED & SEPARATE FINANCIAL STATEMENTS

National Bank of Malawi Finance Division Team

STATEMENT OF DIRECTORS' RESPONSIBILITIES

31 December 2015

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:
Dr. G.B. Partridge

CHAIRMAN:
Dr M.A.P Chikaonda

Deloitte.

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Blantyre
Malawi

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+265 (0) 1 820 506
Fax : +265 (0) 1 821 229
Email : btdeloitte@deloitte.co.mw
www.deloitte.com

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 58 to 169, which comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the 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 2015, 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

31 March 2016

Audit. Tax. Consulting. Financial Advisory.
Resident Partners: N.T.Uka J.S. Melrose V.W. Beza C.A Kapenda M.C Mwenelupembe (Mrs.)

A member of
Deloitte Touche Tohmatsu

STATEMENTS OF FINANCIAL POSITION

31 December 2015

	Notes	GROUP 2015 K'm	GROUP 2014 K'm Restated	GROUP 2013 K'm Restated	COMPANY 2015 K'm	COMPANY 2014 K'm Restated	COMPANY 2013 K'm Restated
ASSETS							
Cash and funds with Reserve Bank of Malawi	5	30 550	28 992	18 830	27 570	28 992	18 854
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	29 409	23 523	8 209	27 040	23 523	8 209
Government of Malawi promissory notes	7	2 285	6 552	10 765	2 285	6 552	10 765
Equity investments	8	2 761	2 483	1 577	2 697	2 440	1 476
Investment in associates	9	527	454	380	233	233	233
Investment in subsidiaries	10	-	-	-	6 904	122	142
Placements with other banks	11	24 129	26 516	33 784	18 878	26 516	33 784
Loans and advances	12	113 975	79 322	62 918	109 610	79 322	62 929
Other money market deposits	13	40 023	8 412	13 039	23 437	-	8 514
Other assets	14	5 985	7 543	2 878	5 021	7 458	2 796
Investment properties	15	133	-	-	-	-	-
Property, plant and equipment	16	25 519	20 031	17 650	21 259	19 938	17 619
Intangible assets	17	5 003	3 772	2 912	4 758	3 772	2 912
Deferred tax	18	4 590	3 422	2 500	4 175	3 414	2 499
Goodwill	19	4 011	-	-	-	-	-
Total assets		288 900	211 022	175 442	253 867	202 282	170 732
LIABILITIES AND EQUITY							
LIABILITIES							
Customer deposits	20	214 989	144 967	123 855	184 093	136 937	119 481
Amounts due to other banks	21	3 347	5 228	212	3 147	5 228	212
Current income tax liabilities	22	1 229	1 930	1 740	1 192	1 884	1 743
Loans	23	3 551	5 582	8 348	3 340	5 582	8 348
Provisions	24	2 428	2 617	1 975	1 630	2 553	1 953
Other liabilities	25	7 935	6 457	7 149	7 266	6 394	7 072
Deferred tax	18	600	-	-	-	-	-
Total liabilities		234 079	166 781	143 279	200 668	158 578	138 809
EQUITY							
Capital and reserves							
Share capital		467	467	467	467	467	467
Share premium		613	613	613	613	613	613
Loan loss reserve		1 057	1 077	-	1 448	1 077	-
Available for sale reserve		11	202	183	11	202	183
Revaluation reserve		11 676	9 115	6 230	11 653	9 115	6 230
Retained earnings		39 954	32 708	24 624	39 007	32 230	24 430
Equity attributable to equity holders of the parent		53 778	44 182	32 117	53 199	43 704	31 923
Non-controlling interests		1 043	59	46	-	-	-
Total equity		54 821	44 241	32 163	53 199	43 704	31 923
Total equity and liabilities		288 900	211 022	175 442	253 867	202 282	170 732
Memorandum items							
Letters of credit and guarantees	36	20 635	18 529	11 552	20 147	18 529	11 552

The financial statements were approved and authorised for issue by the Board of Directors on 31 March 2016 and were signed on its behalf by:

Chairman: Dr M.A.P. Chikaonda

Director: Dr. G.B. Partridge

		GROUP		COMPANY	
	Notes	**2015** K'm	**2014** K'm	**2015** K'm	**2014** K'm
Income					
Interest and similar income	28	32 758	25 473	32 050	25 408
Interest expense and similar charges	28	(4 660)	(3 773)	(4 404)	(3 773)
Net interest income	28	28 098	21 700	27 646	21 635
Commission and fee income	29	9 878	7 432	8 787	6 775
Profit from dealing in foreign currencies		4 984	7 915	4 919	7 915
Income from operating leases		641	666	629	666
Net gains on financial instruments classified as held for trading	8	75	686	67	683
Profit on disposal of equity investments		-	6	-	-
Share of profits of associate		91	97	-	-
Dividend income		121	104	160	135
Properties fair value gains	32	15	616	15	616
Profit on disposal of property, plant and equipment		21	65	18	57
Total income		43 924	39 287	42 241	38 482
Expenditure					
Staff costs	30	10 967	8 026	10 194	7 838
Other operating expenditure	31	11 526	9 930	10 920	9 751
Total expenditure		22 493	17 956	21 114	17 589
Profit before recoveries and impairment losses on loans and advances		21 431	21 331	21 127	20 893
Recoveries on impaired loans and advances	12	1 564	1 344	1 345	1 344
Impairment losses on loans and advances	12	(3 380)	(2 014)	(2 847)	(2 014)
Profit before tax		19 615	20 661	19 625	20 223
Income tax expense	33	(6 246)	(6 132)	(6 374)	(6 002)
Profit for the year		13 369	14 529	13 251	14 221
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss:					
Surplus on revaluation of properties	32	1 383	1 901	1 365	1 901
Deferred tax on revalued assets	18	1 263	1 033	1 243	1 033
Items that may be reclassified subsequently to profit or loss:					
Fair value movement on available for sale assets	7	(191)	19	(191)	19
Total other comprehensive income		2 455	2 953	2 417	2 953
Total comprehensive income for the year		15 824	17 482	15 668	17 174

For the Year Ended 31 December 2015

	Notes	GROUP 2015 K'm	GROUP 2014 K'm	COMPANY 2015 K'm	COMPANY 2014 K'm
Profit attributable to:					
Equity holders of the company	34	13 329	14 505	13 251	14 221
Non-controlling interests		40	24	-	-
		13 369	14 529	13 251	14 221
Comprehensive income attributable to:					
Equity holders of the company		15 769	17 458	15 668	17 174
Non-controlling interests		55	24	-	-
		15 824	17 482	15 668	17 174
Earnings per share (K)	34	28.54	31.06		
Diluted earnings per share (K)	34	28.54	31.06		
Dividend per share (K)	35	13.22	11.55		

	Share Capital K'm	Share Premium K'm	Loan Loss Reserve K'm	Available For Sale Reserve K'm	Revaluation Reserve K'm	Retained Earnings K'm	Equity Attributable to Equity Holders of the Parent K'm	Non-Controlling Interests K'm	Total K'm
GROUP 2014									
At beginning of the year	467	613	-	183	6 230	24 624	32 117	46	32 163
Total comprehensive income	-	-	-	19	2 934	14 505	17 458	24	17 482
Transfer of excess depreciation	-	-	-	-	(49)	49	-	-	-
Transfer from loan loss reserve	-	-	1 077	-	-	(1 077)	-	-	-
Dividend paid to minority shareholders	-	-	-	-	-	-	-	(11)	(11)
2013 Final dividend declared and paid	-	-	-	-	-	(2 895)	(2 895)	-	(2 895)
2014 First interim dividend declared and paid	-	-	-	-	-	(2 498)	(2 498)	-	(2 498)
At end of the year	467	613	1 077	202	9 115	32 708	44 182	59	44 241
2015									
At beginning of the year	467	613	1 077	202	9 115	32 708	44 182	59	44 241
Total comprehensive income	-	-	-	(191)	2 631	13 329	15 769	55	15 824
Transfer of excess depreciation	-	-	-	-	(70)	70	-	-	-
Transfer from loan loss reserve	-	-	(20)	-	-	20	-	-	-
Acquired through business combination	-	-	-	-	-	-	-	943	943
Dividend paid to minority shareholders	-	-	-	-	-	-	-	(14)	(14)
2014 Final dividend declared and paid	-	-	-	-	-	(4 669)	(4 669)	-	(4 669)
2015 First interim dividend declared and paid	-	-	-	-	-	(1 504)	(1 504)	-	(1 504)
At end of the year	467	613	1 057	11	11 676	39 954	53 778	1 043	54 821

	Share Capital K'm	Share Premium K'm	Loan Loss Reserve K'm	Available For Sale Reserve K'm	Revaluation Reserve K'm	Retained Earnings K'm	Total K'm
COMPANY							
2014							
As at 1 January 2014	467	613	-	183	6 230	24 430	31 923
Total comprehensive income	-	-	-	19	2 934	14 221	17 174
Transfer of excess depreciation	-	-	-	-	(49)	49	-
Transfer from loan loss reserve	-	-	1 077	-	-	(1 077)	-
2013 Final interim dividend declared and paid	-	-	-	-	-	(2 895)	(2 895)
2014 First interim dividend declared and paid	-	-	-	-	-	(2 498)	(2 498)
As at 31 December 2014	467	613	1 077	202	9 115	32 230	43 704
2015							
As at 1 January 2015	467	613	1 077	202	9 115	32 230	43 704
Total comprehensive income	-	-	-	(191)	2 608	13 251	15 668
Transfer of excess depreciation	-	-	-	-	(70)	70	-
Transfer from loan loss reserve	-	-	371	-	-	(371)	-
2014 Final interim dividend declared and paid	-	-	-	-	-	(4 669)	(4 669)
2015 First interim dividend declared and paid	-	-	-	-	-	(1 504)	(1 504)
As at 31 December 2015	467	613	1 448	11	11 653	39 007	53 199

	2015 K'm	2014 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	
	2015 K'm	2014 K'm	2015 K'm	2014 K'm
LOAN LOSS RESERVE				
1% general provision	684	803	1 231	803
16.67% additional quarterly provision	373	274	217	274
Loan loss reserve	1 057	1 077	1 448	1 077

The 1% general provision against risk assets and 16.67% additional quarterly provision against non-performing secured lending, as required by the Reserve Bank of Malawi, cannot be offset against the gross value of the assets because IAS 39 Financial Instruments: *Recognition and Measurement* does not allow general provisions on anticipated future losses to be charged to the statement of comprehensive income. In order to comply with Reserve Bank of Malawi capital adequacy requirements, a non-distributable statutory general reserve is used.

PROPERTY REVALUATION RESERVE

The property revaluation reserve relates to unrealised capital profits (net of related deferred tax) on valuation of properties and is not available for distribution in terms of the Companies Act, 1984.

STATEMENTS OF CASHFLOWS

For the Year Ended 31 December 2015

	GROUP			COMPANY		
	2015 K'm	2014 K'm Restated	2013 K'm Restated	2015 K'm	2014 K'm Restated	2013 K'm Restated
Cash flows from operating activities						
Profit before tax	19 615	20 661	18 446	19 625	20 223	18 219
Adjustments for:						
● Depreciation	2 286	2 056	1 732	2 208	2 045	1 721
● Profit on disposal of property, plant and equipment	(21)	(65)	(69)	(18)	(57)	(69)
● Gain on disposal of equity investment	-	(6)	(36)	-	-	(18)
● Net gains on financial instruments classifiedas held for trading	(75)	(686)	(646)	(67)	(683)	(646)
● Dividend receivable	(121)	(104)	(43)	(160)	(135)	(42)
● Net fair value gain on revaluation of properties	(15)	(616)	(396)	(15)	(616)	(406)
● Share of profits of associate	(91)	(97)	(80)	-	-	-
● Movement in customer deposits	52 457	21 112	36 375	47 156	17 456	31 968
● Movement in other liabilities and provisions	(214)	(9 910)	(7 438)	(51)	(9 938)	(7,475)
● Movement in loans and advances	(25 360)	(16 404)	83	(30 287)	(16 393)	72
● Movement in other assets	2 169	5 378	5 848	2 260	5 260	5 730
Cash generated from operations	50 630	21 319	53 776	40 651	17 162	49 054
Taxation paid	(6 644)	(5 831)	(4 930)	(6 584)	(5 743)	(4 898)
Net cash flow from operating activities	43 986	15 488	48 846	34 067	11 418	44 156
Cash flows from investing activities						
Increase in investments with maturity over three months	904	(11 175)	(10 873)	750	(11 101)	(10 633)
Increase in investment in subsidiaries and associates	(575)	-	(110)	(6 782)	-	(110)
Purchase of property plant and equipment and intangible assets	(3 434)	(3 628)	(3 600)	(3 431)	(3 543)	(3 594)
Proceeds from disposal of property plant and equipment	281	918	117	299	900	117
Purchase of equity investments	(203)	(310)	(154)	(190)	(310)	(154)
Proceeds from disposal of equity investments	-	24	50	-	-	50
Dividends	121	104	43	160	135	42
Net cash flow from investing activities	(2 906)	(14 067)	(14 527)	(9 194)	(13 919)	(14 282)
Cash flows from financing activities						
(Repayments)/proceeds from borrowings	(2 244)	(2 766)	4 953	(2 242)	(2 766)	4 953
Dividends paid	(6 173)	(5 404)	(3 496)	(6 173)	(5 393)	(3 496)
Net cash flow from financing activities	(8 417)	(8 170)	1 457	(8 415)	(8 159)	1 457
Net increase/(decrease) in cash and cash equivalent	32 663	(6 749)	35 776	16 458	(10 660)	31 331
Cash and cash equivalents at beginning of the year	58 692	65 441	29 665	50 280	60 940	29 609
Cash and cash equivalents at end of the year(note 38)	91 355	58 692	65 441	66 738	50 280	60 940

1. GENERAL INFORMATION

National Bank of Malawi Group (the Group) provides retail, corporate and investment banking as well as stockbroking, insurance and pension administration services in Malawi. The Group has a network of 47 (2014: 30) service centres.

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

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

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

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

In the current year, the company 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 2015.

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

2.2 Standards and Interpretations in issue, not yet effective

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

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

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

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

Effective date	Standard, Amendment or interpretation
Annual period beginning on or after 1 January 2018	accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include impairment requirements for financial assets and limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. IFRS 15 *Revenue from Contracts with Customers* IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework: • Identify the contract(s) with a customer • Identify the performance obligations in the contract • Determine the transaction price • Allocate the transaction price to the performance obligations in the contract • Recognise revenue when (or as) the entity satisfies a performance obligation.
Annual period beginning on or after 1 January 2016	Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations* The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation

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

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

Effective date	Standard, Amendment or interpretation
	that constitutes a business as defined in IFRS 3 *Business Combinations.* Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 12 *Income Taxes* regarding the recognition of deferred taxes at the time of acquisition and IAS 36 *Impairment of Assets* regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation. A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.
Annual period beginning on or after 1 January 2019	IFRS 16 Leases IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides lessee accounting model, requires lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying assets has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
Annual period beginning on or after 1 January 2016	Amendments to IAS 1 *Disclosure Initiative* The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice. ● An entity should not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. ● An entity need not provide a specific disclosure required

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

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

Effective date	Standard, Amendment or interpretation
	by an IFRS if the information resulting from that disclosure is not material. ● In the other comprehensive income section of a statement of profit or loss and other comprehensive income, the amendments require separate disclosures for the share of other comprehensive income of associates and joint ventures accounted for using the equity method that will not be reclassified subsequently to profit or loss and those that will be reclassified subsequently to profit or loss.
Annual period beginning on or after 1 January 2016	Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation* The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances: a. when the intangible asset is expressed as a measure of revenue; or b. when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.
Annual period beginning on or after 1 January 2016	Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants The amendments to IAS 16 and IAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.

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

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

Effective date	Standard, Amendment or interpretation
Annual period beginning on or after 1 January 2016	Amendments to IAS 27: Equity Method in Separate Financial Statements The amendments focus on separate financial statements and allow the use of the equity method in such statements. Specifically, the amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements: ● at cost, ● in accordance with IFRS 9 (or IAS 39 for entities that have not yet adopted IFRS 9), or ● using the equity method as described in IAS 28 Investments in Associates and Joint Ventures. Basically the same accounting must be applied to each category of investments and the amendments also clarifies that when a parent ceases to be an investment entity, or becomes an investment entity, it should account for the change from the date when the change in status occurs.
Annual period beginning on or after 1 January 2016	Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

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

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

Effective date	Standard, Amendment or interpretation
Annual period beginning on or after 1 January 2016	Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception* The amendments to IFRS 10, IFRS 12 and IAS 28 clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.
Annual period beginning on or after 1 January 2016	*Annual Improvements to IFRSs 2012-2014 Cycle* The *Annual Improvements* to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarised below. The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued. The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

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

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

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high qualify corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

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

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

3. ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (Continued)

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

a. Subsidiaries

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2015. Subsidiaries are entities over which the bank has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

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

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

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

3. ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (Continued)

a. Subsidiaries (Continued)

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.

3. ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (Continued)

b. Associates (Continued)

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

3.2 Business combinations

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

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

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

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate

3. ACCOUNTING POLICIES (CONTINUED)

3.2 Business combinations (Continued)

share of the recognised amounts of the acquiree's identifiable net assts. The choice of measurement basis is made on a transaction by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable on the basis specified in another IFRS.

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

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

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

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

3. ACCOUNTING POLICIES (CONTINUED)

3.3 Goodwill

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

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

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

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

3. 4 Comparatives

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

3.5 Financial assets

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

3. ACCOUNTING POLICIES (CONTINUED)

3.5 Financial assets (Continued)

i. Financial assets at fair value through profit or loss

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

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

ii. Loans and receivables

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

a. those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the 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'.

3. ACCOUNTING POLICIES (CONTINUED)

3.5 Financial assets (Continued)

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

3. ACCOUNTING POLICIES (CONTINUED)

3.5 Financial assets (Continued)

iv. Available-for-sale investments (Continued)
classified as available for sale are recognised in the statement of comprehensive income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income in 'Dividend income' when the Group's right to receive payment is established.

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

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

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

3. ACCOUNTING POLICIES (CONTINUED)

3.5 Financial assets (Continued)

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

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

3.6 Offsetting financial instruments

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

3.7 Sale and repurchase agreements

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

3.8 Impairment of financial assets

a. Assets carried at amortised cost

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

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;

3. ACCOUNTING POLICIES (CONTINUED)

3.8 Impairment of financial assets (Continued)

a. Assets carried at amortised cost (Continued)

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

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

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

3. ACCOUNTING POLICIES (CONTINUED)

3.8 *Impairment of financial assets (Continued)*

a. Assets carried at amortised cost (Continued)

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,

3. ACCOUNTING POLICIES (CONTINUED)

3.8 *Impairment of financial assets (Continued)*

b. Assets carried at fair value (Continued)
the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of comprehensive income.

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

3.9 *Property, plant and equipment*

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

3. ACCOUNTING POLICIES (CONTINUED)

3.9 *Property, plant and equipment (Continued)*

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

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

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

Freehold land and capital work in progress are not depreciated.

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

3.10 *Intangible assets*

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

3.11 *Leases*

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

a. <u>The Group as lessor</u>

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

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

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum

3. ACCOUNTING POLICIES (CONTINUED)

3.11 *Leases (Continued)*

a. The Group as lessor (Continued)
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.

3.12 *Derivative financial instruments*

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

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

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

3. ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

3.14 Non-current assets held for sale

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

3. ACCOUNTING POLICIES (CONTINUED)

3.14 *Non-current assets held for sale (Continued)*

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

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

3.15 *Provisions*

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

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

a. 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.

3.16 *Taxation*

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

3. ACCOUNTING POLICIES (CONTINUED)

3.16 *Taxation (Continued)*

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

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

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

3. ACCOUNTING POLICIES (CONTINUED)

3.11 *Leases (Continued)*

liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

3.17 *Cash and cash equivalents*

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

3.18 *Employee benefits*

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

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

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

3.19 *Foreign currency translation*

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

3. ACCOUNTING POLICIES (CONTINUED)

3.19 *Foreign currency translation (Continued)*

b. Transactions and balances

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

3.20 *Financial liabilities and equity*

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

i. Customer deposits and liabilities to other banks

Customer deposits and liabilities to other banks are recognised initially at fair value, 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. ACCOUNTING POLICIES (CONTINUED)

3.21 Revenue recognition

Interest income and expense

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

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

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

Fee and commission income

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

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time apportion basis. Asset management fees related to investment funds are recognised rateably over the period in which the

3. ACCOUNTING POLICIES (CONTINUED)

3.21 *Revenue recognition (Continued)*

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

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

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

3.22 *Share capital*

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

Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are approved by the 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. ACCOUNTING POLICIES (CONTINUED)

3.23 Fiduciary activities

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

4.1 Critical judgements in applying the Group's accounting policies

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

4.2 Key sources of estimation uncertainty

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

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

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

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 (Continued)

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.

v. Impairment of goodwill

In determining whether goodwill is impaired, the group estimates the value in use of the cash-generating unit to which goodwill has been allocated. In calculating the

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

4.2 *Key sources of estimation uncertainty (Continued)*

v. Impairment of goodwill (Continued)
value in use, the group estimates the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the value in use is less than the carrying amount of goodwill, an impairment is recognised.

5. CASH AND FUNDS WITH RESERVE BANK OF MALAWI

	GROUP		COMPANY	
	2015 K'm	**2014 K'm**	**2015 K'm**	**2014 K'm**
Cash	12 389	8 535	11 387	8 535
Balances with the Reserve Bank of Malawi	18 161	20 457	16 183	20 457
Total cash and funds with Reserve Bank of Malawi	30 550	28 992	27 570	28 992

The currency analysis of cash is in note 41(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 41(e) and 41(g).

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

	Average interest rates 2015	Average interest rates 2014	Group 2015	Group 2014	Company 2015	Company 2014
Government of Malawi treasury bills	23.3%	21.0%	28 827	22 209	26 458	22 209
Reserve Bank of Malawi bonds	9.7%	9.7%	582	1 314	582	1 314
			29 409	23 523	27 040	23 523

The bills and bonds are due to mature as follows:

• Within three months	11 101	9 351	9 893	9 351
• Between three months and one year	18 073	13 602	16 912	13 602
• Over one year	235	570	235	570
	29 409	23 523	27 040	23 523

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

7. GOVERNMENT OF MALAWI PROMISSORY NOTES

Promissory notes	Maturity date	Carrying amount K'm	Fair value K'm	Fair value gain K'm
2014				
Number 2	30 June 2015	2 117	2 703	586
Number 3	30 June 2016	4 233	3 849	(384)
Total		6 350	6 552	202
2015				
Number 3	30 June 2016	2 181	2 192	11
Acquired in 2015	18 February 2016	93	93	-
Total		2 274	2 285	11

In February 2013, the Government of Malawi issued promissory notes to settle its indebtedness in respect of Government Guaranteed loans in the market including interest. The total exposure of the Bank at that date was K16.9 billion. The Bank accepted the promissory notes to settle the Government Guaranteed loans effective 1 February 2013. The notes attract interest at the rate of the earliest 91 day Treasury bill yield during each quarter plus 2%. Interest of K1 291m (2014: K2 116m) 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 K2 181m (2014: K6 350m). The investment has been presented at fair value which has been determined by computing the net present value of the future cash flows using the effective interest rate method. This fair value presentation results in a K191m (2014: K19m increase) decrease in value when compared with the carrying value which has been recognised in other comprehensive income in accordance with IAS 39 Financial Instruments: *Recognition and Measurement*. The cumulative fair value increase is K11m (2014: K202m).

During the year, the Bank acquired another promissory note from the market at a cost of K71m. The note has a nominal value of K96m and its maturity date is 18 February 2016. The carrying amount includes accrued interest receivable amounting to K22m.

The fair value level has been disclosed under note 40.

8. EQUITY INVESTMENTS

	2014 K'm	Additions/ Dispsals K'm	Fair Value Adjustment K'm	2015 K'm	Cost K'm
GROUP					
First Merchant Bank Limited 7 759 790 (2014: 5 259 790) Ordinary shares of K2.50 each at a market value of K14.00 (2014: K18.96) per share	100	48	(39)	109	94
Illovo Sugar (Malawi) Limited 1 531 495 (2014: 1 470 626) Ordinary shares of K0.02 each at a market value of K230.00 (2014: K294.20) per share	433	13	(93)	353	181
NICO Holdings Limited 14 300 000 (2014: 14 300 000) Ordinary shares of K0.20 each at a market value of K28.00 (2014: K32.50) per share	464	-	(64)	400	128
Malawi Property Investment Company Limited 9 825 441 (2014: 8 588 580) Ordinary shares of K0.05 each at a market value of K8.20 (2014: K4.02) per share	34	5	41	80	33
National Investment Trust Limited 7 278 259 (2014: 6 358 565) Ordinary shares of K1.00 each at a market valueof K55.00 (2014: K41.50) per share	264	42	95	401	186
NBS Bank Limited 16 312 789 (2014: 15 501 550 Ordinary shares of K0.50 each at a market value of K23.00 (2014: K27.00) per share	419	25	(69)	375	227
Standard Bank of Malawi Limited 1 102 662 (2014: 838 155) Ordinary shares of K1.00 each at market value of K440.00 (2014: K425.00) per share	399	70	20	489	186
Sunbird Malawi Limited 1 000 000 (2014: 1 000 000) Ordinary shares of K0.05 each at a market value of K23.00 (2014: K8.00) per share	8	-	15	23	9
Telekom Networks Malawi Limited 88 350 194 (2014: 88 350 194) Ordinary shares of K0.04 each at a market value of K6.00 (2014: K4.09) per share	362	-	169	531	203
Total equity investment	2 483	203	75	2 761	1 247

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

8. EQUITY INVESTMENTS (CONTINUED)

	2014 K'm	Additions/ Dispsals K'm	Fair Value Adjustment K'm	2015 K'm	Cost K'm
COMPANY					
First Merchant Bank Limited 7 759 790 (2014: 5 259 790) Ordinary shares of K2.50 each at a market value of K14.00 (2014: K18.96) per share	100	48	(39)	109	94
Illovo Sugar (Malawi) Limited 1 470 626 (2014: 1 470 626) Ordinary shares of K0.02 each at a market value of K230.00 (2014: K294.20 per share	433	-	(94)	339	167
NICO Holdings Limited 14 300 000 (2014: 14 300 000) Ordinary shares of K0.20 each at a market value of K28.00 (2014: K32.50) per share	464	-	(64)	400	128
Malawi Property Investment Company Limited 9 825 441 (2014: 8 588 580) Ordinary shares of K0.05each at a market value of K8.20 (2014: K4.02) per share	34	5	41	80	33
National Investment Trust Limited 7 278 259 (2014: 6 358 565) Ordinary shares of K1.00 each at a market value of K55.00 (2014: K41.50) per share	264	42	95	401	186
NBS Bank Limited 16 312 789 (2014: 15 501 550) Ordinary shares of K0.50 each at a market value of K23.00 (2014: K27.00) per share	419	25	(69)	375	227
Standard Bank of Malawi Limited 1 000 000 (2014: 838 155) Ordinary shares of K1.00 each at market value of K440.00 (2014: K425.00) per share	356	70	13	439	186
Sunbird Malawi Limited 1 000 000 (2014: 1 000 000) Ordinary shares of K0.05 each at a market value of K23.00 (2014: K8.00) per share	8	-	15	23	9
Telekom Networks Malawi Limited 88 350 194 (2014: 88 350 194) Ordinary shares of K0.04 each at a market value of K6.00 (2014: K4.09) per share	362	-	169	531	203
Total equity investments	2 440	190	67	2 697	1 233

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

8. EQUITY INVESTMENTS (CONTINUED)

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

	Level 1 K'm	Level 2 K'm	Level 3 K'm	Fair value 2014 K'm
Equity investments in listed companies	2 483	-	-	2 483

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

9. INVESTMENT IN ASSOCIATES

	GROUP		COMPANY	
	2015 K'm	2014 K'm	2015 K'm	2014 K'm
Purchase consideration	123	123	123	123
Additional investment	110	110	110	110
Share of accumulated results	294	221	-	-
	527	454	233	233
Assets	5 498	4 862		
Liabilities	(3 694)	(3 312)		
Net assets	1 804	1 550		
Group's share of net assets of associates	559	403		
Total revenue	3 771	3 426		
Total profit for the period	199	286		

NBM holds 31% (2014: 26%) of United General Insurance Limited share capital. The additional investment of K110m which was initially in preference share capital was converted into ordinary shareholding and hence increasing the percentage of ordinary shares held by the Company.

10. INVESTMENT IN SUBSIDIARIES

	COMPANY 2015 K'm	COMPANY 2014 K'm
Indebank Limited	6 590	-
NBM Pensions Administration Limited	192	-
Stockbrokers Malawi Limited	98	98
NBM Bureau de Change Limited	7	7
NBM Capital Markets Limited	17	17
Total investment in subsidiaries	6 904	122

NBM, through National Bank Nominees Limited, holds a 75% (2014: 75%) stake in Stockbrokers Malawi Limited. The Bank also holds a 100% (2014: 100%) stake in NBM Bureau de Change Limited, a 100% (2014: 100%) stake in NBM Capital Markets Limited, a 100% (2014: n/a) stake in NBM Pension Administration Limited and a 97.05% (2014: n/a) stake in Indebank Limited. NBM Bureau de Change ceased operations in 2013.

10.1 Subsidiary acquired during the year

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

Indebank was acquired as a growth strategy for NBM. Indebank will strengthen Small and Medium Enterprise business and offer special packages in start ups, project and development finance. The consideration transferred to materialize the acquisition was cash.

10. INVESTMENT IN SUBSIDIARIES (CONTINUED)

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

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

10.1.2 Non-Controlling Interest (NCI)

The non-controlling interest of 2.95% (ESOP) recognized at the acquisition date was by reference to the net asset value of the NCI amounting to K943m.

10.1.3 Goodwill arising on acquisition

Consideration transferred	6 590
Non-controlling interest	943
Less: Fair value of identifiable net assets acquired	(3 522)
Goodwill arising on acquisition (note 19)	4 011

10.1.4 Net cash outflow on acquisition of subsidiary

Consideration paid in cash	6 590
Less: cash and cash equivalent balances acquired	(1 873)
Net cash outflow	4 717

10. INVESTMENT IN SUBSIDIARIES (CONTINUED)

10.1.5 Impact of acquisition on the results of the Group

Included in the profit for the year is a loss of K232m attributable to the additional business generated by Indebank Limited. Income for the year includes K701m in respect of Indebank Limited.

Had business combination been affected at 1 January 2015, the total income for the Group from continuing operations would have been increased by K4 200m.

11. PLACEMENTS WITH OTHER BANKS

	GROUP		COMPANY	
	2015 K'm	2014 K'm	2015 K'm	2014 K'm
Money market placements with other banks	3 650	2 771	-	2 771
Balances due from other banks	20 479	23 745	18 878	23 745
Total placements with other banks	24 129	26 516	18 878	26 516

Placements with other banks are denominated in the following currencies:

	Average interest rates		GROUP	
	2015	2014	2015	2014
Malawi Kwacha denominated	27.00%	24.19%	5 102	925
US Dollar denominated	0.50%	0.50%	6 184	18 331
GBP denominated	1.75%	1.75%	3 283	3 979
Euro denominated	0.50%	0.50%	8 384	976
ZAR denominated	4.00%	4.00%	977	557
Other	-	-	199	1 748
			24 129	26 516

Money market placements with other banks are held to maturity and mature within one month (2014: one month) of the year end.

12. LOANS AND ADVANCES

	GROUP		COMPANY	
	2015 K'm	2014 K'm	2015 K'm	2014 K'm
Gross loans and advances	113 728	79 838	109 021	79 838
Staff loans	1 958	1 315	1 781	1 315
Total loans and advances	115 686	81 153	110 802	81 153
Specific provisions	(1 711)	(1 831)	(1 192)	(1 831)
Net loans and advances	113 975	79 322	109 610	79 322
Due to mature as follows:				
- Within three months	25 734	8 384	23 519	8 384
- Between three months and one year	51 048	36 487	49 602	36 487
- After one year and not later than five years	39 837	37 258	38 315	37 258
- Interest in suspense	(933)	(976)	(634)	(976)
	115 686	81 153	110 802	81 153
Analysis of gross loans by currency				
Malawi Kwacha denominated	75 385	58 293	71 119	58 293
US Dollar denominated	40 301	22 860	39 683	22 860
	115 686	81 153	110 802	81 153

The Malawi Kwacha base lending rate for the bank as at 31 December 2015 was 34.0% (2014: 40.0%) and US Dollar denominated loans carried an average interest rate of 8.97% (2014: 9.0%)

	GROUP 2015 K'm	GROUP 2014 K'm	COMPANY 2015 K'm	COMPANY 2014 K'm
Movement on specific provisions				
At beginning of the year	1 831	1 428	1 831	1 428
Applied against advances	(3 134)	(303)	(3 339)	(303)
Charged to statements of comprehensive income	3 380	2 014	2 847	2 014
Staff loans fair value adjustment	-	(999)	-	(999)
Recovered	(366)	(309)	(147)	(309)
At end of the year	1 602	1 831	1 109	1 831
Movement on interest in suspense				
At beginning of the year	976	537	976	537
Applied against advances	(2 726)	(1 404)	(2 726)	(1 404)
Suspended in the year	2 703	2 062	2 404	2 062
Recovered	(20)	(219)	(20)	(219)
At end of the year	933	976	634	976
Analysis of recoveries				
Specific provisions	366	309	147	309
Interest in suspense	20	219	20	219
Debts previously written off	1 178	816	1 178	816
Transferred to statement of comprehensive income	1 564	1 344	1 345	1 344

12. LOANS AND ADVANCES (CONTINUED)

	GROUP AND COMPANY	
	2015 K'm	2014 K'm
Finance lease receivables		
Gross investment in finance lease receivable:		
- Within three months	85	73
- Between three months and one year	772	486
- After one year and not later than five years	11 407	11 576
	12 264	12 135
Unearned future income on finance leases	(3 744)	(4 212)
	8 520	7 923
Specific provisions	(48)	(128)
Net investment in finance leases	8 472	7 795
The net investment in finance leases matures as follows:		
- Within three months	60	70
- Between three months and one year	652	437
- After one year and not later than five years	7 760	7 288
	8 472	7 795

13. OTHER MONEY MARKET DEPOSITS

	GROUP		COMPANY	
	2015 K'm	2014 K'm	2015 K'm	2014 K'm
Balances with discount houses	40 023	8 412	23 437	-

Balances with discount houses are held to maturity and mature within one month (2014: one month) after the year-end. The deposits earned an average interest rate of 25% (2014: 24%).

14. OTHER ASSETS

	GROUP			COMPANY		
	2015 K'm	2014 K'm Restated	2013 K'm Restated	2015 K'm	2014 K'm Restated	2013 K'm Restated
Sundry receivables and prepayments	5 026	4 127	2 913	4 294	4 042	2 831
Due from local banks	1 037	3 976	1 095	982	3 976	1 095
Employee benefit subsidy	1 784	1 304	-	1 607	1 304	-
Other investments	44	42	42	44	42	42
Specific provision	(1 906)	(1 906)	(1 172)	(1 906)	(1 906)	(1 172)
Total other assets	5 985	7 543	2 878	5 021	7 458	2 796

14. OTHER ASSETS (CONTINUED)

Restatement - letters of credit

The Bank offers letters of credit (LCs) to customers. In prior years, the Bank presented LCs in the statement of financial position as other assets and other liabilities. In accordance with IAS 37 *Provisions, Contingent Liabilites and Contingent Assets,* LCs are contingent liabilities and should be disclosed as memorandum items only. The error has been accounted for retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and comparative figures (2014: K17 391m, 2013: K9 860m) have been restated. The restatement does not impact profit or reserves. Letters of credit have been disclosed under contingent liabilities (note 36).

Employee benefit subsidy

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

15. INVESTMENT PROPERTIES

	GROUP	
	2015 K'm	2014 K'm
Acquired through business combination	133	-

Investment properties comprise land and a residential property, and gains arising during the year have been accounted for in the statement of comprehensive income in line with IAS 40, *Investment Properties.*

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

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

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

16. PROPERTY, PLANT AND EQUIPMENT

	Freehold land & buildings K'm	Leasehold land & buildings K'm	Motor vehicles & equipment K'm	Work in progress K'm	Total K'm
COMPANY					
COST OR VALUATION					
At 1 January 2014	11 746	2 360	8 325	448	22 879
Additions	108	-	1 867	481	2 456
Transfer from work in progress	192	543	29	(764)	-
Disposals	-	-	(1 555)	-	(1 555)
Transfer from NBM Bureau	-	-	5	-	5
Write offs	-	-	(50)	-	(50)
Revaluation surplus	1 952	340	-	-	2 292
At 1 January 2015	13 998	3 243	8 621	165	26 027
Additions	130	15	1 286	697	2 127
Transfer from work in progress	281	82	171	(534)	-
Disposals	-	-	(1 098)	-	(1 098)
Transfer to NBM Pension	-	-	(3)	-	(3)
Revaluation surplus	875	197	-	-	1 072
At 31 December 2015	15 284	3 537	8 977	328	28 126
DEPRECIATION					
At 1 January 2014	-	-	5 214	-	5 214
Charge for the year	184	95	1 586	-	1 865
Elimination on revaluation	(184)	(41)	-	-	(225)
Elimination on disposal	-	-	(717)	-	(717)
Elimination on write offs	-	-	(48)	-	(48)
At 1 January 2015	-	54	6 035	-	6 089
Charge for the year	241	173	1 476	-	1 890
Elimination on revaluation	(241)	(52)	-	-	(293)
Elimination on disposal	-	-	(817)	-	(817)
Transfer to NBM Pension	-	-	(2)	-	(2)
At 31 December 2015	-	175	6 692	-	6 867
CARRYING AMOUNT					
At 31 December 2015	15 284	3 362	2 285	328	21 259
At 31 December 2014	13 998	3 189	2 586	165	19 938

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold land & buildings K'm	Leasehold land & buildings K'm	Motor vehicles & equipment K'm	Work in progress K'm	Total K'm
GROUP					
COST OR VALUATION					
At 1 January 2014	11 746	2 360	8 356	448	22 910
Additions	108	-	1 952	481	2 541
Transfer from work in progress	192	543	29	(764)	-
Disposals	-	-	(1 555)	-	(1 555)
Transfer from NBM Bureau	-	-	5	-	5
Write offs	-	-	(50)	-	(50)
Revaluation surplus	1 952	340	-	-	2 292
At 1 January 2015	13 998	3 243	8 737	165	26 143
Additions	130	15	1 288	697	2 130
Transfer from work in progress	281	82	171	(534)	-
Disposals	-	-	(1 101)	-	(1 101)
Acquired through business combination	2 335	710	950	201	4 196
Revaluation surplus	875	217	-	-	1 092
At 31 December 2015	17 619	4 267	10 045	529	32 460
DEPRECIATION					
At 1 January 2014	-	-	5 226	-	5 226
Charge for the year	184	95	1 597	-	1 876
Elimination on revaluation	(184)	(41)	-	-	(225)
Elimination on disposal	-	-	(717)	-	(717)
Elimination on write offs	-	-	(48)	-	(48)
At 1 January 2015	-	54	6 058	-	6 112
Charge for the year	241	186	1 534	-	1 961
Elimination on revaluation	(241)	(50)	-	-	(291)
Elimination on disposal	-	-	(841)	-	(841)
At 31 December 2015	-	190	6 751	-	6 941
CARRYING AMOUNT					
At 31 December 2015	17 619	4 077	3 294	529	25 519
At 31 December 2014	13 998	3 189	2 679	165	20 031

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

	2015 K'm	2014 K'm
GROUP		
Freehold - at 2015 valuation	17 619	-
- at 2014 valuation	-	13 998
Total freehold land and buildings	17 619	13 998
Leasehold - at 2015 valuation	4 267	-
- at 2014 valuation	-	3 243
Total leasehold land and buildings	4 267	3 243

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

	Related parties K'm	Others K'm	2015 K'm	2014 K'm
Motor vehicles	271	127	398	495

Bottling and Brewing Group Limited is a related party to whom the Bank leases motor vehicles which were purchased at a cost of K1 138m (2014: K1 895m).

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

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

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

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Valuations in 2015

Land and buildings for NBM were fair valued as at 31 December 2015 by Knight Frank, qualified independent valuers on a current market value basis. Land and buildings for Indebank were revalued as at 31 December 2015 by J Kantema BSc (Hons) Land Admin, BSc, MSIM an independent registered chartered valuation surveyor of Real Property and Development Consultants. The revalued amounts were assumed to approximate the fair values as at the acquisition date of 31 October 2015.

Out of the K1 398m (2014: K2 517m) gross revaluation surplus, K15m (2014: K616m) was credited to the statement of comprehensive income to reverse decreases in fair values previously charged to the statement of comprehensive income and the balance of K1,383m was credited to the revaluation reserve through the statement of other comprehensive income (refer note 32).

	Level 1 K'm	**Level 2 K'm**	**Level 3 K'm**	**Fair value K'm**
Freehold land and buildings	-	17 619	-	17 619
Leasehold land and buildings	-	4 267	-	4 267

Had land and buildings been carried at historical cost less depreciation and accumulated impairment losses, their carrying value would have been approximately K8 697m (2014: K8 890m).

17. INTANGIBLE ASSETS

	Development costs K'm	Computer software K'm	Work in progress K'm	Total K'm
GROUP				
COST OR VALUATION				
At 1 January 2014	326	1 501	1 707	3 534
Additions	-	-	1 087	1 087
Transfer from work in progress	-	181	(181)	-
Write offs	-	(3)	-	(3)
At 1 January 2015	326	1 679	2 613	4 618
Additions	-	235	1 069	1 304
Transfer from work in progress	-	1 591	(1 591)	-
Acquired through business combination	-	252	-	252
At 31 December 2015	326	3 757	2 091	6 174
DEPRECIATION				
At 1 January 2014	320	349	-	669
Charge for the year	2	178	-	180
Write offs	-	(3)	-	(3)
At 1 January 2015	322	524	-	846
Charge for the year	1	324	-	325
At 31 December 2015	323	848	-	1 171
CARRYING AMOUNTS				
31 December 2015	3	2 909	2 091	5 003
31 December 2014	4	1 155	2 613	3 772

17. INTANGIBLE ASSETS (CONTINUED)

	Development costs K'm	Computer software K'm	Work in progress K'm	Total K'm
COMPANY				
COST OR VALUATION				
At 1 January 2014	326	1 501	1 707	3 534
Additions	-	-	1 087	1 087
Transfer from work in progress	-	181	(181)	-
Write offs	-	(3)	-	(3)
At 1 January 2015	326	1 679	2 613	4 618
Additions	-	235	1 069	1 304
Transfer from work in progress	-	1 591	(1 591)	-
At 31 December 2015	326	3 505	2 091	5 922
DEPRECIATION				
At 1 January 2014	320	349	-	669
Charge for the year	2	178	-	180
Write offs	-	(3)	-	(3)
At 1 January 2015	322	524	-	846
Charge for the year	1	317	-	318
At 31 December 2015	323	841	-	1 164
CARRYING AMOUNTS				
31 December 2015	3	2 664	2 091	4 758
31 December 2014	4	1 155	2 613	3 772

18.1 DEFERRED TAX ASSET

	Opening balance K'm	Acquired through business combination K'm	Charge to come K'm	Charged to equity K'm	Closing balance K'm
GROUP					
2014					
Accelerated capital allowances	(475)	-	124	-	(351)
Revaluation of fixed assets	2 305	-	(185)	1 033	3 153
Other temporary differences	670	-	(50)	-	620
Total deferred tax	2 500	-	(111)	1 033	3 422
2015					
Accelerated capital allowances	(351)	(64)	(298)	-	(713)
Revaluation of fixed assets	3 153	70	24	1 233	4 480
Tax losses	-	251	181	-	432
Other temporary differences	620	(33)	(196)	-	391
Total deferred tax	3 422	224	(289)	1 233	4 590
COMPANY					
2014					
Accelerated capital allowances	(476)	-	126	-	(350)
Revaluation of fixed assets	2 305	-	(185)	1 033	3 153
Other temporary differences	670	-	(59)	-	611
Total deferred tax	2 499	-	(118)	1 033	3 414
2015					
Accelerated capital allowances	(350)	-	(300)	-	(650)
Revaluation of fixed assets	3 153	-	(4)	1 243	4 392
Other temporary differences	611	-	(178)	-	433
Total deferred tax	3 414	-	(482)	1 243	4 175

18.2 DEFERRED TAX LIABILITY

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

19. GOODWILL

	GROUP 2015 K'm	GROUP 2014 K'm
Cost		
Addition during the year (note 10.1.3)	4 011	-

National Bank of Malawi acquired Indebank Limited on 31 October 2015. The purchase consideration was K6 590m and the goodwill arising on acquisition of K4 011m (refer to note 10) has been provisionally recorded as at 31 December 2015. In accordance with IAS 36 Impairment of Assets paragraph 84, the purchase price allocation valuation exercise will be carried out in 2016 and disclosed in the 2016 financial statements. The goodwill balance has not been allocated to cash generating units as at the reporting date as some transitional and operational issues are yet to be finalised.

Annual test for impairment
In accordance with IAS 36 Impairment of Assets, the Group assessed goodwill for impairment as at 31 December 2015 and determined that the goodwill was not impaired.

20. CUSTOMER DEPOSITS

	Average interest rates 2015	Average interest rates 2014	GROUP 2015 K'm	GROUP 2014 K'm	COMPANY 2015 K'm	COMPANY 2014 K'm
Analysis by account type:						
Current accounts	0.15%	0.57%	75 971	55 237	70 921	54 720
Foreign currency accounts	0.50%	0.50%	62 707	40 871	60 558	40 871
Savings accounts	7.80%	7.84%	32 986	23 711	30 028	23 711
Deposit accounts	10.50%	14.08%	27 402	17 635	22 586	17 635
Client funds	22.00%	26.00%	15 922	7 513	-	-
Total customer deposits			214 989	144 967	184 093	136 937
Analysis by interest risk type:						
Interest bearing deposits			212 742	143 771	181 846	135 741
Non-interest bearing deposits			2 247	1 196	2 247	1 196
			214 989	144 967	184 093	136 937

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

Analysis by interest maturity:

	GROUP 2015 K'm	GROUP 2014 K'm	COMPANY 2015 K'm	COMPANY 2014 K'm
Customer deposits are payable as follows:				
• Within three months	212 351	142 298	181 846	134 268
• Between three months and one year	2 638	2 669	2 247	2 669
	214 989	144 967	184 093	136 937
Analysis by sector:				
Agriculture	2 017	187	221	180
Manufacturing	9 260	5 764	8 688	4 277
Wholesale and retail	18 834	13 613	17 474	13 381
Finance and insurance	15 888	9 161	13 236	9 161
Personal accounts	64 976	35 884	63 708	35 884
Construction	2 949	1 673	2 026	1 673
Electricity gas water and energy	13 108	5 277	11 438	5 277
Transport, storage and communications	7 785	4 626	6 888	4 626
Restaurants and hotels	1 071	688	985	688
Client funds	15 922	7 513	-	-
Other	63 179	60 581	59 429	61 790
Total	214 989	144 967	184 093	136 937

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

21. AMOUNTS DUE TO OTHER BANKS

	GROUP		COMPANY	
	2015 K'm	2014 K'm	2015 K'm	2014 K'm
Liabilities in Malawi Kwacha	1 662	5 037	1 462	5 037
Liabilities in foreign currency	322	136	322	136
Bills in suspense in foreign currency	1 363	55	1 363	55
Total amounts due to other banks	3 347	5 228	3 147	5 228

22. CURRENT INCOME TAX LIABILITIES

	GROUP 2015 K'm	GROUP 2014 K'm	COMPANY 2015 K'm	COMPANY 2014 K'm
Opening balance	1 930	1 740	1 884	1 743
Current charge	5 943	6 021	5 892	5 884
Tax paid	(6 644)	(5 831)	(6 584)	(5 743)
Closing balance	1 229	1 930	1 192	1 884

23. LOANS

The Group's loans comprise Financierings-Maatschappij voor Ontwikkelingsladen (FMO) Loan and lines of credit as detailed below. The carrying amounts of the group loans at at 31 December were as follows:

	GROUP 2015 K'm	GROUP 2014 K'm	COMPANY 2015 K'm	COMPANY 2014 K'm
Amounts repayable within one year	3 343	3 203	3 340	3 203
Amount repayable after one year	208	2 379	-	2 379
	3 551	5 582	3 340	5 582

23.1 Financierings-Maatschappij voor Ontwikkelingsladen (FMO) Loan

In 2012, the Bank signed an agreement for an unsecured facility of USD20m 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 2015 USD20m (December 2014: USD20m) had been drawn down. Of this amount, USD14.96m (2014: USD8.3m) had been repaid as per loan agreement leaving an outstanding balance of USD5.04m (2014: USD11.7m) which is repayable over the next one year. The interest rate on the outstanding loan balance is adjustable quarterly and is at the rate of LIBOR plus 4%.

23.2 Lines of credit

23.2.1 Malawi Government (denominated in Deutschemark (DM)

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

23. LOANS (CONTINUED)

23.2 Lines of credit (Continued)

equivalent to DM4.78m and DM6.07m respectively. Both loans are interest free. The loans are repayable to the Malawi Government in Malawi Kwacha starting in 2034 and 2043, respectively. The Malawi Kwacha value of the loan was set at the time of disbursement. The total carrying amount of the loan as at 31 December 2015 was K104m.

23.2.2 United States Agency for International Development (USAID)

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

23.2.3 The Transport Sector Revolving Fund

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

23.2.3 Private Sector Revolving Fund

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

23.2.4 Reserve Bank of Malawi

This is an agricultural input and output marketing revolving fund denominated in Malawi Kwacha which bears interest at the lower of the Reserve Bank reference rate and 10 percent and was due for repayment in 1999 with an option for renegotiation. The Group successfully negotiated with the Reserve Bank of Malawi that the facility be extended for a further two years beginning from 1 January 2009. In 2012, the Group also negotiated that the facility be extended for another five years from January 2012. The carrying amount of the loan as at 31 December 2015 was K3m.

24. PROVISIONS

	Employee bonus K'm	Tevet levy K'm	Other K'm	Total K'm
GROUP				
2015				
At 1 January 2015	2 595	22	-	2 617
Provisions made during the year	1 680	83	691	2 454
Payments made during the year	(2 570)	(73)	-	(2 643)
At 31 December 2015	1 705	32	691	2 428
2014				
At 1 January 2014	1 953	22	-	1 975
Provisions made during the year	2 581	59	-	2 640
Payments made during the year	(1 939)	(59)	-	(1 998)
At 31 December 2014	2 595	22	-	2 617
COMPANY				
2015				
At 1 January 2015	2 532	21	-	2 553
Provisions made during the year	1 603	78	-	1 681
Payments made during the year	(2 532)	(72)	-	(2 604)
At 31 December 2015	1 603	27	-	1 630
2014				
At 1 January 2014	1 931	22	-	1 953
Provisions made during the year	2 506	58	-	2 564
Payments made during the year	(1 905)	(59)	-	(1 964)
At 31 December 2014	2 532	21	-	2 553

25. OTHER LIABILITIES

	GROUP			COMPANY		
	2015 K'm	**2014 K'm Restated**	**2013 K'm Restated**	**2015 K'm**	**2014 K'm Restated**	**2013 K'm Restated**
Unclaimed balances	349	396	1 157	349	396	1 157
Bank cheques	433	1 059	502	433	1 059	502
Office accounts	234	326	293	234	326	293
Dividends payable	-	-	1 401	-	-	1 401
Other liabilities	6 919	4 676	3 796	6 250	4 613	3 719
Total other liabilities	7 935	6 457	7 149	7 266	6 394	7 072

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

Restatement
Refer to note 14 for details of the restatement of 2014 and 2015 other liability balances.

26. POST BALANCE SHEET EVENTS

The acquisition of Indebank Limited requires approval from Competition and Fair Trading Commission (CFTC). CFTC required a payment to be made to them before commencement of assessment of the merger of NBM and Indebank. The payment was made in February 2016. As at the date of approval of these financial statements, an approval for the merger had not yet been granted by CFTC.

27. PENSION SCHEME

The Pension Fund, which was managed internally up to 31 December 2014, is a fully defined contribution scheme. The contributions of employees and the employer are 5.5% (2014: 5.5%) and 11.0% (2014: 11.0%) of the fund members' basic pensionable salaries, respectively. The amount charged against income during the year was K572m (2014: K558m).

Until 30 June 2014, the Pension Fund operated two accounts: the General Fund and the Death in Service Top Up Fund (Special Fund). The Special Fund was set up at the discretion of the employer to cater for benefit enhancement factors which were removed in compliance with the Pensions Act, 2010. The Special Fund covered two aspects: on death if the accumulated credit was less than 2 years' salary or on retirement if the pension was less than 20% of the exit salary. The Pensions Act, 2010, advocates for a minimum of one times annual salary group life assurance cover for each member. Since July 2012, pursuant to the Act, the Bank has been subscribing for Group Life Assurance Cover for its employees at two times annual salary. The removal of the benefit enhancement factors

27. PENSION SCHEME (CONTINUED)

and the subscription for group life assurance cover rendered the Special Fund redundant, thereby necessitating, among other reasons, the changing of the Fund rules. The new Fund rules are yet to be approved by the Reserve Bank of Malawi. The General Fund represents a reserve from which all other benefits are paid including administration expenses and bonuses.

The Pension Fund is a self-accounting Trust whose assets are not available to the National Bank of Malawi Group. The Trustees of the Fund are employees of the Bank. The Bank rents some of the Fund's properties at commercial rates. The Group incurred K189m (2014: K155m) in rentals for such properties during the year.

The Fund was valued by independent actuaries, Alexander Forbes, as at 31 December 2014. As per the interim actuarial valuation, the General Fund had a surplus of K2 596m (December 2013: surplus of K1 903m) and the Special Fund had a surplus of K1 830m (December 2013: deficit of K4 391m.)

In as far as the Special Fund is concerned, the above position was based on the old rules which fell away with the ushering in of new rules that do not require that there be a separate salary under-pin cover and a separate death cover within the fund. Since this liability fell away, every member's benefit was confirmed by the trustees to have been fully funded as at 1 July 2014 as required by law such that there is no longer a deficit applicable after 30 June 2014. As highlighted above, the interim actuarial report as at 31 December 2014 has confirmed the non-existence of such deficit. Therefore no liability nor contingent liability has been recognised in the 2015 annual financial statements. In 2014 a contingent liability of K2 488m was disclosed under note 36.

28. NET INTEREST INCOME

	GROUP		COMPANY	
	2015 K'm	**2014 K'm**	**2015 K'm**	**2014 K'm**
Interest and similar income				
Interest on loans and advances and bills discounted	18 238	16 966	17 793	16 970
Income from investments	11 466	6 030	11 381	6 028
Income from lease financing	2 690	2 253	2 690	2 253
Interest on placements with other banks	364	224	186	157
	32 758	25 473	32 050	25 408
Interest expense and similar charges				
Banks and customers	4 394	3 436	4 134	3 436
Money market loans and repos	266	337	270	337
	4 660	3 773	4 404	3 773
Net interest income	28 098	21 700	27 646	21 635

29. COMMISSION AND FEE INCOME

	GROUP		COMPANY	
	2015 K'm	2014 K'm	2015 K'm	2014 K'm
Commissions	7 431	5 304	6 491	4 655
Arrangement and other fee income	1 583	1 576	1 561	1 576
Other income	864	552	735	544
Total commission and fee income	9 878	7 432	8 787	6 775

30. STAFF COSTS

	GROUP		COMPANY	
	2015 K'm	2014 K'm	2015 K'm	2014 K'm
Salaries and wages	5 536	4 209	5 146	4 141
Other staff costs	3 113	1 615	2 874	1 578
Staff loans fair value adjustment	31	(999)	31	(999)
Staff bonus	1 680	2 581	1 603	2 506
Severance pay	(18)	62	(18)	62
Pension costs	625	558	558	550
Total staff costs	10 967	8 026	10 194	7 838

31. OTHER OPERATING EXPENDITURE

	GROUP		COMPANY	
	2015 K'm	2014 K'm	2015 K'm	2014 K'm
Recurrent expenditure on premises and equipment	3 850	3 055	3 632	3 041
Depreciation	1 961	1 876	1 890	1 865
Amortisation of intangible assets	325	180	318	180
Legal charges	119	61	80	61
Auditor's remuneration including VAT and expenses	95	77	70	64
Directors' remuneration				
- fees for services as directors	47	28	40	26
- for managerial services	437	277	437	277
Other expenses	4 692	4 376	4 453	4 237
Total other operating expenditure	11 526	9 930	10 920	9 751

32. PROPERTIES FAIR VALUE GAINS

	GROUP		COMPANY	
	2015 K'm	**2014 K'm**	**2015 K'm**	**2014 K'm**
Fair value gains on Business Centre and Office Complex	-	714	-	714
Fair value gains on other properties	15	(98)	15	(98)
Total fair value gains through income statement	15	616	15	616
Fair value gains on properties included in other comprehensive income	1 383	1 901	1 365	1 901
Total properties fair value gains (note 16)	1 398	2 517	1 380	2 517

33. INCOME TAX EXPENSE

	GROUP		COMPANY	
	2015 K'm	**2014 K'm**	**2015 K'm**	**2014 K'm**
Income tax	5 943	6 021	5 892	5 884
Deferred tax	303	111	482	118
Total income tax expenses	6 246	6 132	6 374	6 002
<u>Reconciliation of rate of tax</u>	%	%	%	%
Standard rate of taxation	30	30	30	30
Permanent differences	2	1	2	1
Effective rate of taxation	32	31	32	31

34. EARNINGS PER SHARE

Basic earnings per share

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

	GROUP	
	2015 K'm	**2014 K'm**
Profit attributable to equity holders of the Company (K'm)	13 329	14 505
Net profit used to determine diluted earnings per share (K'm)	13 329	14 505
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)	28.54	31.06

34. EARNINGS PER SHARE (COTINUED)

Diluted earnings per share (Continued)

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

	GROUP	
	2015 K'm	**2014 K'm**
Profit attributable to equity holders of the Company (K'm)	13 329	14 505
Net profit used to determine diluted earnings per share (K'm)	13 329	14 505
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)	28.54	31.06

35. DIVIDEND PER SHARE

	GROUP AND COMPANY	
	2015 K'm	**2014 K'm**
Final dividend (prior year)	4 670	2 895
First interim dividend (current year)	1 504	2 498
	6 174	5 393
Weighted average number of Ordinary Shares in issue (millions)	467	467
Dividend per share	13.22	11.55

The proposed current year final dividend is K3 200m (2014: K4 670m) representing K6.85 per share (2014: K10.06 per share).

36. CONTINGENCIES

	GROUP			COMPANY		
	2015 K'm	2014 K'm Restated	2013 K'm Restated	2015 K'm	2014 K'm Restated	2013 K'm Restated
Letters of credit and guarantees						
Foreign guarantees	297	52	213	40	52	213
Local guarantees and performance bonds	1 761	1 086	1 479	1 543	1 086	1 479
Letters of credit (note 14)	18 577	17 391	9 860	18 564	17 391	9 860
Total letters of credit and guarantees (page 5)	20 635	18 529	11 552	20 147	18 529	11 552
Other contingencies						
Legal claims	946	847	828	930	847	828
Customer funds under management	23 068	23 563	16 273	23 068	23 563	16 273
Net deficit on NBM Pension Fund (note 27)	-	2 488	-	-	2 488	-
Total other contingencies	24 014	26 898	17 010	23 998	26 898	17 101

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

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

Legal claims represent outstanding legal cases against the Group in the ordinary course of business, the outcome of which is uncertain. The amount disclosed represents an estimate of the cost to the Group in the event that legal proceedings find the Group to be in the wrong. In the opinion of the directors the claims are not expected to give rise to a cost to the Group. Legal claims in favour of the Group as at the end of the year were K2 704m (2014: K472m).

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

37. COMMITMENTS

	GROUP		COMPANY	
	2015 K'm	**2014 K'm**	**2015 K'm**	**2014 K'm**
Expenditure contracted for but not yet incurred	250	186	250	186
Expenditure approved by the Board but not contracted	3 805	1 699	3 294	1 699
Total commitments	4 055	1 885	3 544	1 885

38. CASH AND CASH EQUIVALENTS

Cash and funds with Reserve of Malawi (note 5)	30 550	28 992	27 570	28 992
Placements with other banks (note 11)	24 129	26 516	18 878	26 516
Other money market deposits (note 13)	40 023	8 412	23 437	-
Amounts due to other banks (note 21)	(3 347)	(5 228)	(3 147)	(5 228)
Total cash and cash equivalents	91 355	58 692	66 738	50 280

39. FINANCIAL ASSETS AND LIABILITIES

Accounting categories and fair values

	Notes	Held for trading K'm	Held to maturity K'm	Available for sale K'm	Loans and receivables K'm	Amortised cost K'm	Total carrying amount K'm	Fair value K'm
GROUP								
2014								
Assets								
Cash and bank balances with Reserve Bank of Malawi	5	28 992	-	-	-	-	28 992	28 992
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	-	23 523	-	-	-	23 523	23 523
Government of Malawi promissory notes	7	-	-	6 552	-	-	6 552	6 552
Equity investments	8	2 483	-	-	-	-	2 483	2 483
Placements with other banks	11	-	-	-	26 516	-	26 516	26 516
Loans and advances to customers	12	-	-	-	79 322	-	79 322	79 322
Other money market deposits	13	-	-	-	8 412	-	8 412	8 412
Other assets		-	-	-	6 239	-	6 239	6 239
Total financial assets		31 475	23 523	6 552	120 489	-	182 039	182 039
Liabilities and equity								
Customer deposits	20	-	-	-	-	144 967	144 967	144 967
Amounts due to other banks	21	-	-	-	-	5 228	5 228	5 228
Loans	23	-	-	-	-	5 582	5 582	5 582
Provisions	24	-	-	-	-	2 617	2 617	2 617
Other liabilities	25	-	-	-	-	6 457	6 457	6 457
Total financial liabilities	-	-	-		-	164 851	164 851	164 851

39. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Accounting categories and fair values (Continued)

	Notes	Held for trading K'm	Held to maturity K'm	Available for sale K'm	Loans and receivables K'm	Amortised cost K'm	Total carrying amount K'm	Fair value K'm
GROUP								
2015								
Assets								
Cash and bank balances with Reserve Bank of Malawi	5	30 550	-	-	-	-	30 550	30 550
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	-	29 409	-	-	-	29 409	29 409
Government of Malawi promissory notes	7	-	-	2 285	-	-	2 285	2 285
Equity investments	8	2 761	-	-	-	-	2 761	2 761
Placements with other banks	11	-	-	-	24 129	-	24 129	24 129
Loans and advances to customers	12	-	-	-	113 975	-	113 975	113 975
Other money market deposits	13	-	-	-	40 023	-	40 023	40 023
Other assets		-	-	-	4 201	-	4 201	4 201
Total financial assets		33 311	29 409	2 285	182 328	-	247 333	247 333
Liabilities and equity								
Customer deposits	20	-	-	-	-	214 989	214 989	214 989
Amounts due to other banks	21	-	-	-	-	3 347	3 347	3 347
Loans	23	-	-	-	-	3 551	3 551	3 551
Provisions	24	-	-	-	-	2 428	2 428	2 428
Other liabilities	25	-	-	-	-	7 935	7 935	7 935
Total financial liabilities		-	-	-	-	232 250	232 250	232 250

39. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Accounting categories and fair values (Continued)

	Notes	Held for trading K'm	Held to maturity K'm	Available for sale K'm	Loans and receivables K'm	Amortised cost K'm	Total carrying amount K'm	Fair value K'm
COMPANY								
2014								
Assets								
Cash and bank balances with Reserve Bank of Malawi	5	28 992	-	-	-	-	28 992	28 992
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	-	23 523	-	-	-	23 523	23 523
Government of Malawi promissory notes	7	-	-	6 552	-	-	6 552	6 552
Equity investments	8	2 440	-	-	-	-	2 440	2 440
Placements with other banks	11	-	-	-	26 516	-	26 516	26 516
Loans and advances to customers	12	-	-	-	79 322	-	79 322	79 322
Other assets		-	-	-	6 154	-	6 154	6 154
Total financial assets		31 432	23 523	6 552	111 992	-	173 499	173 499
Liabilities and equity								
Customer deposits	20	-	-	-	-	136 937	136 937	136 937
Amounts due to other banks	21	-	-	-	-	5 228	5 228	5 228
Loans	23	-	-	-	-	5 582	5 582	5 582
Provisions	24	-	-	-	-	2 553	2 553	2 553
Other liabilities	25	-	-	-	-	6 394	6 394	6 394
Total financial liabilities		-	-	-	-	156 694	156 694	156 694

39. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Accounting categories and fair values (Continued)

	Notes	Held for trading K'm	Held to maturity K'm	Available for sale K'm	Loans and receivables K'm	Amortised cost K'm	Total carrying amount K'm	Fair value K'm
COMPANY								
2015								
Assets								
Cash and bank balances with Reserve Bank of Malawi	5	27 570	-	-	-	-	27 570	27 570
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	-	27 040	-	-	-	27 040	27 040
Government of Malawi promissory notes	7	-	-	2 285	-	-	2 285	2 285
Equity investments	8	2 697	-	-	-	-	2 697	2 697
Placements with other banks	11	-	-	-	18 878	-	18 878	18 878
Loans and advances to customers	12	-	-	-	109 610	-	109 610	109 610
Other money market deposits	13	-	-	-	23 437	-	23 437	23 437
Other assets		-	-	-	3 414	-	3 414	3 414
Total financial assets		30 267	27 040	2 285	155 339	-	214 931	214 931
Liabilities and equity								
Customer deposits	20	-	-	-	-	184 093	184 093	184 093
Amounts due to other banks	21	-	-	-	-	3 147	3 147	3 147
Loans	23	-	-	-	-	3 340	3 340	3 340
Provisions	24	-	-	-	-	1 630	1 630	1 630
Other liabilities	25	-	-	-	-	7 266	7 266	7 266
Total financial liabilities		-	-	-	-	199 476	199 476	199 476

40. FAIR VALUE MEASUREMENTS

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

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

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

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

40.2 Fair value measurements recognised in the statement of financial position

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

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

	GROUP	
	2015 K'm	**2014 K'm**
Financial assets at fair value through profit or loss		
Non-derivative financial assets held for trading		
Level 1	2 761	2 483

	COMPANY	
	2015 K'm	**2014 K'm**
Financial assets at fair value through profit or loss		
Non-derivative financial assets held for trading		
Level 1	2 697	2 440

40. FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

Group **Financial assets/financial liabilities**	**Fair value**		**Fair value hierarchy**	**Valuation technique(s) and key input(s)**
	2015 K'm	**2014 K'm**		
Equity investments	2 761	2 483	Level 1	Quoted prices
Malawi Government Promissory notes	2 285	6 552	Level 2	Discounted cash flows using applicable interest rates and agreed repayment plan
	5 046	9 035		

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

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

41. FINANCIAL RISK MANAGEMENT

a. Introduction and overview

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

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

a. Introduction and overview (Continued)

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

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

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

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

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

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

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

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

a. Introduction and overview (Continued)

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

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

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

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

Credit risk is the likelihood of financial loss to the Group if customers or counterparties to financial instruments fail to meet their contractual obligations, and arises principally from the Group's loans and advances to customers. Basel II under credit risk does provide three approaches in calculating required capital. These are; the Standardised Approach and the Internal Ratings Based (IRB).

approaches. The IRB approach is further divided into two, the Foundation IRB approach and the Advanced IBR approach. The approaches are more aligned or biased towards the robustness of the internal risk management systems of the banks. The Reserve Bank of

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Credit risk (Continued)

Malawi has prescribed that all banks be on the Standardised Approach on this initial adoption of Basel II. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

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

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

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

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

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

i. Formulating credit policies and procedures as a general guide to lending in order to maintain credit risk exposure within acceptable parameters and in compliance with the Bank's risk strategy, legal, regulatory and statutory requirements;
ii. Overseeing the granting and administration of credit i.e. assessment, approval, sanctioning, security perfection, monitoring, review, classification etc.;
iii. Managing exposures to ensure aggregate credit commitments be they in form of single borrowers or counter parties, a group of connected counter parties, are maintained within acceptable concentration vis-à-vis the Bank's capital;
iv. Monitoring compliance of business units with agreed exposure limits, including those

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Credit risk (Continued)

Management of credit risk (Continued)

for selected industries, country risk and product types; and

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

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

Exposure to credit risk

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

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

Gross maximum exposure

	GROUP		COMPANY	
	2015 K'm	2014 K'm Restated	2015 K'm	2014 K'm Restated
Balances with the Reserve Bank of Malawi	18 161	20 457	16 183	20 457
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	29 409	23 523	27 040	23 523
Government of Malawi Promissory notes	2 285	6 552	2 285	6 552
Placements with other banks	24 129	26 516	18 878	26 516
Loans and advances to customers	113 975	79 322	109 610	79 322
Other money market deposits	40 023	8 412	23 437	-
Other assets	5 985	7 543	5 021	7 458
Total recognised financial instruments	233 967	172 325	202 454	163 828
Guarantees and performance bonds	2 058	1 138	1 583	1 138
Letters of credit	18 577	17 391	18 564	17 391
Total unrecognised financial instruments	20 635	18 529	20 147	18 529
Total credit exposure	254 602	190 854	222 601	182 357

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Credit risk (Continued)

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

	Carrying Amount K'm	Offset K'm	Net exposure to credit risk K'm
GROUP			
2014 - restated			
Balances with the Reserve Bank of Malawi	20 457	-	20 457
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	23 523	-	23 523
Government of Malawi promissory notes	6 552	-	6 552
Placements with other banks	26 516	-	26 516
Loans and advances to customers	79 322	-	79 322
Other money market deposits	8 412	-	8 412
Other assets	7 543	-	7 543
	172 325	-	172 325
2015			
Balances with the Reserve Bank of Malawi	18 161	-	18 161
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	29 409	-	29 409
Government of Malawi promissory notes	2 285	-	2 285
Placements with other banks	24 129	-	24 129
Loans and advances to customers	113 975	-	113 975
Other money market deposits	40 023	-	40 023
Other assets	5 985	-	5 985
	233 967	-	233 967

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Credit risk (Continued)

	Carrying Amount K'm	Offset K'm	Net exposure to credit risk K'm
COMPANY			
2014 - restated			
Balances with the Reserve Bank of Malawi	20 457	-	20 457
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	23 523	-	23 523
Government of Malawi promissory notes	6 552	-	6 552
Placements with other banks	26 516	-	26 516
Loans and advances to customers	79 322	-	79 322
Other assets	7 458	-	7 458
	163 828	-	163 828
2015			
Balances with the Reserve Bank of Malawi	16 183	-	16 183
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	27 040	-	27 040
Government of Malawi promissory notes	2 285	-	2 285
Placements with other banks	18 878	-	18 878
Loans and advances to customers	109 610	-	109 610
Other money market deposits	23 437	-	23 437
Other assets	5 021	-	5 021
	202 454	-	202 454

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.

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Credit risk (Continued)

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

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

	GROUP		COMPANY	
	2015 K'm	2014 K'm	2015 K'm	2014 K'm
Individually impaired:				
Grade 8: Impaired	1 910	971	755	971
Grade 9: Impaired	1 999	3 738	1 999	3 738
Gross amount	3 909	4 709	2 754	4 709
Allowance for impairment	(1 711)	(1 831)	(1 192)	(1 831)
Carrying amount	2 198	2 878	1 562	2 878
Past due but not impaired:				
Grade 7: Watch list	5 041	3 055	4 422	3 055
Neither past due nor impaired:				
Grade 1 - 3 Low risk	21 380	14 947	18 002	14 947
Grade 4 - 6 Fair risk	87 067	60 273	86 816	60 273
Total carrying amount	115 686	81 153	110 802	81 153

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

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Credit risk (Continued)

Allowance for impairment (Continued)
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.

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

	Loans and advances to customers		
	Gross K'm	Allowance for Impairment K'm	Net K'm
GROUP			
2014			
Grade 8: Individually impaired	971	-	971
Grade 9: Individually impaired	3 738	(1 831)	1 907
Total	4 709	(1 831)	2 878
2015			
Grade 8: Individually impaired	1 910	-	1 910
Grade 9: Individually impaired	1 999	(1 711)	288
Total	3 909	(1 711)	2 198
COMPANY			
2014			
Grade 8: Individually impaired	971	-	971
Grade 9: Individually impaired	3 738	(1 831)	1 907
Total	4 709	(1 831)	2 878
2015			
Grade 8: Individually impaired	755	-	755
Grade 9: Individually impaired	1 999	(1 192)	807
Total	2 754	(1 192)	1 562

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Credit risk (Continued)

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		COMPANY	
	2015 K'm	**2014 K'm**	**2015 K'm**	**2014 K'm**
<u>Against individually impaired</u>				
Motor vehicles	361	368	361	368
Commercial property	452	1 586	452	1 586
Residential property	392	701	392	701
Cash	1	-	1	-
	1 206	2 655	1 206	2 655
<u>Against the rest of the loan book</u>				
Motor vehicles	12 065	13 426	11 485	13 426
Commercial property	9 693	8 951	9 693	8 951
Residential property	30 920	25 107	28 577	25 107
Cash	2 937	2 467	2 849	2 467
Equities	5 488	4 196	5 488	4 196
Treasury bills	27	25	25	25
Mortgages	4 325	3 841	4 325	3 841
Bank guarantee	1 109	142	1 036	142
Total	66 564	58 155	63 478	58 155
Grand Total	67 770	60 810	64 684	60 810

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.

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Credit risk (Continued)

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

	Loans and advances to customers			
	GROUP		COMPANY	
	2015 K'm	2014 K'm	2015 K'm	2014 K'm
Concentration by sector				
Agriculture	22 893	16 433	22 167	16 433
Finance and insurance	797	501	797	501
Manufacturing	30 576	20 270	29 986	20 270
Other	10 643	12 111	10 037	12 111
Transport and communication	5 441	-	4 997	-
Real estate	2 571	-	2 571	-
Personal	13 602	11 238	12 494	11 238
Wholesale and retail	27 452	18 769	26 561	18 769
	113 975	79 322	109 610	79 322

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

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

c. Liquidity risk

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

Management of liquidity risk

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

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

c. Liquidity risk (Continued)

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.

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:

	2015	2014
At 31 December	54%	62%
Average of the period	65%	62%
Maximum for the period	72%	65%
Minimum for the period	54%	59%

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

c. Liquidity risk (Continued)

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

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Total K'm	Carrying amount K'm
GROUP						
2014 - restated						
Financial assets						
Cash and funds with Reserve Bank of Malawi	28 992	-	-	-	28 992	28 992
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	-	9 351	13 601	571	23 523	23 523
Government of Malawi promissory notes	6 552	-	-	-	6 552	6 552
Equity investments	-	2 483	-	-	2 483	2 483
Placements with other banks	26 516			-	26 516	26 516
Loans and advances to customers	3 807	5 719	36 487	33 309	79 322	79 322
Other money markets deposits	8 412	-	-	-	8 412	8 412
Other assets	7 543	-	-	-	7 543	7 543
Total financial assets	**81 822**	**17 553**	**50 088**	**33 880**	**183 343**	**183 343**
Financial liabilities						
Loans	-	824	2 379	2 379	5 582	5 582
Customer deposits	130 259	12 039	2 650	19	144 967	144 967
Amounts due to other banks	5 228	-	-	-	5 228	5 228
Provisions	-	-	2 617	-	2 617	2 617
Other liabilities	6 457	-	-	-	6 457	6 457
Total financial liabilities	**141 944**	**12 863**	**7 646**	**2 398**	**164 851**	**164 851**
Contractual liquidity mismatch	**(60 122)**	**4 690**	**42 442**	**31 482**	**18 492**	**18 492**
Cumulative mismatch	**(60 122)**	**(55 432)**	**(12 990)**	**18 492**	**-**	**-**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

c. Liquidity risk (Continued)

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

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

c. Liquidity risk (Continued)

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Total K'm	Carrying amount K'm
COMPANY						
2014 - restated						
Financial assets						
Cash and funds with Reserve Bank of Malawi	28 992	-	-	-	28 992	28 992
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	-	9 351	13 601	571	23 523	23 523
Government of Malawi promissory notes	6 552	-	-	-	6 552	6 552
Equity investments	-	2 440	-	-	2 440	2 440
Placements with other banks	26 516	-	-	-	26 516	26 516
Loans and advances to customers	3 807	5 719	36 487	33 309	79 322	79 322
Other assets	7 458	-	-	-	7 458	7 458
Total financial assets	**73 325**	**17 510**	**50 088**	**33 880**	**174 803**	**174 803**
Financial liabilities						
Loans	-	824	2 379	2 379	5 582	5 582
Customer deposits	122 229	12 039	2 650	19	136 937	136 937
Amounts due to other banks	5 228	-	-	-	5 228	5 228
Provisions	-	-	2 553	-	2 553	2 553
Other liabilities	6 394	-	-	-	6 394	6 394
Total financial liabilities	**133 851**	**12 863**	**7 582**	**2 398**	**156 694**	**156 394**
Contractual liquidity mismatch	**(60 526)**	**4 647**	**42 506**	**31 482**	**18 109**	**18 109**
Cumulative mismatch	**(60 526)**	**(55 879)**	**(13 373)**	**18 109**	**-**	**-**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

c. Liquidity risk (Continued)

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

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.

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

d. Market risk

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

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

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

Overall authority for market risk is vested in ALCO. 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.

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

d. Market risk (Continued)

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

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Non-interest sensitive K'm	Total K'm
GROUP						
2014 - restated						
Financial assets						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	28 992	28 992
Government of Malawi treasurybills and Reserve Bank of Malawi bonds	-	9 351	13 601	571	-	23 523
Promissory notes	6 552	-	-	-	-	6 552
Equity investments	-	2 483	-	-	-	2 483
Placements with other banks	26 516			-	-	26 516
Loans and advances to customers	3 807	5 719	36 487	33 309	-	79 322
Other money market deposits	8 412	-	-	-	-	8 412
Other assets	-	-	-	-	7 543	7 543
Total financial assets	**45 287**	**17 553**	**50 088**	**33 880**	**36 535**	**183 343**
Financial liabilities						
Loans	-	824	2 379	2 379	-	5 582
Customer deposits	129 063	12 039	2 650	19	1 196	144 967
Amounts due to other banks	5 228	-	-	-	-	5 228
Provisions	-	-	-	-	2 617	2 617
Other liabilities	-	-	-	-	6 457	6 457
Total financial liabilities	**134 291**	**12 863**	**5 029**	**2 398**	**10 270**	**164 851**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

d. Market risk (Continued)

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

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Non-interest sensitive K'm	Total K'm
GROUP						
Interest sensitivity gap	**(89 004)**	**4 690**	**45 059**	**31 482**	**26 265**	**18 492**
Cumulative gap	**(89 004)**	**(84 314)**	**(39 255)**	**(7 773)**	**18 492**	**-**
Impact on profit of an increase in interest rates:						
+1%	(890)	47	451	315	-	1
+2%	(1 780)	94	902	630	-	2
+3%	(2 670)	141	1 353	945	-	3
Impact on profit of a decrease in interest rates:						
-1%	890	(47)	(451)	(315)	-	(1)
-2%	1 780	(94)	(902)	(630)	-	(2)
-3%	2 670	(141)	(1 353)	(945)	-	(3)
2015						
Financial assets						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	30 550	30 550
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	326	10 343	18 505	235	-	29 409
Government of Malawi-Promissory notes	2 285	-	-	-	-	2 285
Equity investments	-	2 761	-	-	-	2 761
Placements with other banks	24 129	-	-	-	-	24 129
Loans and advances to customers	11 191	16 222	50 891	35 671	-	113 975
Other money market deposits	40 023	-	-	-	-	40 023
Other assets	-	-	-	-	5 985	5 985
Total financial assets	**78 036**	**29 326**	**69 396**	**35 906**	**36 535**	**249 199**
Financial liabilities						
Long term borrowing	-	1 125	2 218	208	-	3 551
Customer deposits	191 261	18 917	2 560	4	2 247	214 989
Amounts due to other banks	3 347	-	-	-	-	3 347
Provisions	-	-	-	-	2 428	2 428
Other liabilities	-	-	-	-	7 935	7 935
Total financial liabilities	**194 608**	**20 042**	**4 778**	**212**	**12 610**	**232 250**
Interest sensitivity gap	**(116 572)**	**9 284**	**64 618**	**35 694**	**23 925**	**16 949**
Cumulative gap	**(116 572)**	**(107 288)**	**(42 670)**	**(6 976)**	**16 949**	**-**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

d. Market risk (Continued)

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

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Non-interest sensitive K'm	Total K'm
GROUP						
Impact on profit of an increase in interest rates:						
+1%	(1 167)	93	646	357	-	1
+2%	(2 334)	186	1 292	714	-	2
+3%	(3 501)	279	1 938	1 071	-	3
Impact on profit of a decrease in interest rates:						
-1%	1 167	(265)	(646)	(357)	-	(1)
-2%	2 334	(530)	(1 292)	(714)	-	(2)
-3%	3 501	(795)	(1 938)	(1 071)	-	(3)
COMPANY 2014 - restated						
Financial assets						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	28 992	28 992
Government of Malawi T'bills and Reserve Bank of Malawi bonds	-	9 351	13 601	571	-	23 523
Promissory notes	6 552	-	-	-	-	6 552
Equity investments	-	2 440	-	-	-	2 440
Placements with other banks	26 516	-	-	-	-	26 516
Loans and advances to customers	3 807	5 719	36 487	33 309	-	79 322
Other assets	-	-	-	-	7 458	7 458
Total financial assets	**36 875**	**17 510**	**50 088**	**33 880**	**36 450**	**174 803**
Financial liabilities						
Loans	-	824	2 379	2 379	-	5 582
Customer deposits	121 063	12 039	2 650	19	1 196	136 937
Amounts due to other banks	5 228	-	-	-	-	5 228
Provisions	-	-	-	-	2 553	2 553
Other liabilities	-	-	-	-	6 394	6 394
Total financial liabilities	**126 261**	**12 863**	**5 029**	**2 398**	**10 143**	**156 694**
Interest sensitivity gap	**(89 386)**	**4 647**	**45 059**	**31 482**	**26 307**	**18 109**
Cumulative gap	**(89 386)**	**(84 739)**	**(39 680)**	**(8 198)**	**18 109**	**-**
Impact on profit of an increase in interest rates:						
+1%	(894)	47	451	315	-	1
+2%	(1 788)	94	902	630	-	2
+3%	(2 682)	141	1 353	945	-	3
Impact on profit of a decrease in interest rates:						
-1%	894	(47)	(451)	(315)	-	(1)
-2%	1 788	(94)	(902)	(630)	-	(2)
-3%	2 682	(141)	(1 353)	(945)	-	(3)

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

d. Market risk (Continued)

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

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Non-interest sensitive K'm	Total K'm
COMPANY						
2015						
Financial assets						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	27 570	27 570
Government of Malawi treasurybills and Reserve Bank of Malawi bonds	-	9 893	16 912	235	-	27 040
Promissory notes	2 285	-	-	-	-	2 285
Equity investments	-	2 697	-	-	-	2 697
Placements with other banks	18 878	-	-	-	-	18 878
Loans and advances to customers	9 629	16 088	49 445	34 448	-	109 610
Other money market deposits	23 437	-	-	-	-	23 437
Other assets	-	-	-	-	5 021	5 021
Total financial assets	**54 229**	**28 678**	**66 357**	**34 683**	**32 591**	**216 538**
Financial liabilities						
Loans	-	1 125	2 215	-	-	3 340
Customer deposits	161 083	18 590	2 169	4	2 247	184 093
Amounts due to other banks	3 147	-	-	-	-	3 147
Provisions	-	-	-	-	1 630	1 630
Other liabilities	-	-	-	-	7 266	7 266
Total financial liabilities	**164 230**	**19 715**	**4 384**	**4**	**11 143**	**199 476**
Interest sensitivity gap	**(110 001)**	**8 963**	**61 973**	**34 679**	**21 448**	**17 145**
Cumulative gap	**(110 001)**	**(100 955)**	**(38 982)**	**(4 303)**	**17 145**	**-**
Impact on profit of an increase in interest rates						
+1%	(1 100)	90	620	357	-	1
+2%	(2 200)	180	1 240	714	-	2
+3%	(3 300)	270	1 860	1 071	-	3
Impact on profit of a decrease in interest rates						
-1%	1 100	(90)	(620)	(357)	-	(1)
-2%	2 200	(180)	(1 240)	(714)	-	(2)
-3%	3 300	(270)	(1 860)	(1 071)	-	(3)

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

e. Currency risk

The Group had the following significant foreign currency positions:

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
GROUP							
2014 - restated							
Financial assets							
Cash and funds with Reserve Bank of Malawi	27 954	949	22	30	261	11	29 227
Government of Malawi T'Bills and Reserve Bank of Malawi Bonds	23 523	-	-	-	-	-	23 523
Promissory notes	6 552	-	-	-	-	-	6 552
Equity investments	2 483	-	-	-	-	-	2 483
Placements with other banks	92 518	8 330	3 979	976	557	1 749	108 109
Loans and advances to customer	56 461	22 860	-	-	-	-	79 321
Other money market deposits	8 412	-	-	-	-	-	8 412
Other assets	7 543	-	-	-	-	-	7 543
Total financial assets	**225 446**	**32 139**	**4 001**	**1 006**	**818**	**1 760**	**265 170**
Financial liabilities							
Loans	-	5 582	-	-	-	-	5 582
Customer deposits	104 034	34 707	3 585	2 273	332	36	144 967
Liabilities to other banks	5 209	19	-	-	-	-	5 228
Provisions	2 617	-	-	-	-	-	2 617
Other liabilities	6 457	-	-	-	-	-	6 457
Total financial liabilities	**118 317**	**40 308**	**3 585**	**2 273**	**332**	**36**	**164 851**
Net balance open position	**107 129**	**(8 169)**	**416**	**(1 267)**	**486**	**1 724**	**100 319**
Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit	-	(183)	(42)	127	(25)	(172)	(295)
Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit	-	183	42	(127)	25	172	295

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

e. Currency risk (Continued)

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
GROUP							
2015							
Financial assets							
Cash and funds with Reserve Bank of Malawi	29 858	500	30	61	100	-	30 550
Government of Malawi T'Bills and Reserve Bank of Malawi Bonds	29 409	-	-	-	-	-	29 409
Promissory notes	2 285	-	-	-	-	-	2 285
Equity investments	2 761	-	-		-	-	2 761
Placements with other banks	5 102	6 184	3 283	8 384	977	199	24 129
Loans and advances to customer	73 674	40 301	-	-	-	-	113 975
Other money market deposits	40 023	-	-	-	-	-	40 023
Other assets	5 985	-	-	-	-	-	5 985
Total financial assets	**189 097**	**46 985**	**3 313**	**8 445**	**1 077**	**199**	**249 117**
Financial liabilities							
Loans	211	3 340	-	-	-	-	3 551
Customer deposits	154 268	48 699	3 117	8 124	747	34	214 989
Liabilities to other banks	3 347	-	-	-	-	-	3 347
Provisions	2 428	-	-	-	-	-	2 428
Other liabilities	7 935	-	-	-	-	-	7 935
Total financial liabilities	**168 189**	**52 039**	**3 117**	**8 124**	**747**	**34**	**232 250**
Net balance open position	**20 909**	**(5 054)**	**197**	**321**	**330**	**16 516**	**867**
Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit	-	505	(20)	(32)	(33)	(17)	403
Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit	-	(505)	20	32	33	17	(403)

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

e. Currency risk (Continued)

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
COMPANY							
2014 - restated							
Financial assets							
Cash and funds with Reserve Bank of Malawi	27 954	949	22	30	261	11	29 227
Government of Malawi T'Bills and Reserve Bank of Malawi Bonds	23 523	-	-	-	-	-	23 523
Promissory notes	6 552	-	-	-	-	-	6 552
Equity investments	2 440	-	-	-	-	-	2 440
Placements with other banks	92 518	330	3 979	976	557	1 749	100 109
Loans and advances to customer	56 462	22 860	-	-	-	-	79 322
Other assets	7 458	-	-	-	-	-	7 458
Total financial assets	**216 907**	**24 139**	**4 001**	**1 006**	**818**	**1 760**	**248 631**
Financial liabilities							
Loans	-	5 582	-	-	-	-	5 582
Customer deposits	96 004	34 707	3 585	2 273	332	36	136 937
Liabilities to other banks	5 209	19	-	-	-	-	5 228
Provisions	2 553	-	-	-	-	-	2 553
Other liabilities	6 394	-	-	-	-	-	6 394
Total financial liabilities	**110 160**	**40 308**	**3 585**	**2 273**	**332**	**36**	**156 694**
Net balance open position	**15 514**	**1 831**	**416**	**(1 267)**	**251**	**1 724**	**18 109**
Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit	-	(183)	(42)	127	(25)	(172)	(295)
Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit	-	183	42	(127)	25	172	295

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

e. Currency risk (Continued)

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
COMPANY							
2015							
Financial assets							
Cash and funds with Reserve Bank of Malawi	26 878	500	30	61	100	-	27 570
Government of Malawi T'Bills and Reserve Bank of Malawi Bonds	27 040	-	-	-	-	-	27 040
Promissory notes	2 285	-	-	-	-	-	2 285
Equity investments	2 697	-	-	-	-	-	2 697
Placements with other banks	-	6 184	3 268	8 384	970	72	18 878
Loans and advances to customer	69 927	39 683	-	-	-	-	109 610
Other money market deposits	23 437	-	-	-	-	-	23 437
Other assets	5 021	-	-	-	-	-	5 021
Total financial assets	**157 368**	**46 367**	**3 298**	**8 445**	**1 070**	**72**	**216 621**
Financial liabilities							
Loans	-	3 340	-	-	-	-	3 340
Customer deposits	125 521	47 217	2 941	7 634	746	34	184 093
Liabilities to other banks	3 147	-	-	-	-	-	3 147
Provisions	1 630	-	-	-	-	-	1 630
Other liabilities	7 266	-	-	-	-	-	7 266
Total financial liabilities	**137 564**	**50 557**	**2 941**	**7 634**	**747**	**34**	**199 476**
Net balance open position	**19 722**	**(4 190)**	**358**	**811**	**324**	**38**	**17 145**
Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit	-	419	(36)	(81)	(33)	(4)	265
Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit	-	(419)	36	81	33	4	(265)

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

f. Operational risk

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

Basel II provides three ways in which a bank can compute operational risk charge which are dependent on the Operational risk exposures. These are as follows;- Basic Indicator Approach (BIA), Standardised Approach (SA) and Advanced Measurement Approach (AMA).

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

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

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

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

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

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

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

g. Compliance risk

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

The management of compliance risk has become a distinct discipline within the Group's overall risk management framework. Ultimate responsibility for this risk lies with the Board of Directors. A combination of key activities are undertaken to manage the risk such as identifying the regulatory universe and developing compliance management plans, training staff and other stakeholders on relevant regulatory requirements, and monitoring compliance.

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

With regard to the AML/CFT obligations of the Bank, the Compliance function is duty-bound to ensure that the Group has adequate processes rendering the Group's services inaccessible to criminals, including money launderers and terrorists. To that end, the Bank has a Compliance Officer who ensures that staff is given appropriate training to help them identify suspicious transactions in keeping with legal and regulatory requirements. The Group has adopted anti-money laundering policies including Know Your Customer policies, and procedures, and adheres to the country's anti-money laundering legislation and Reserve Bank of Malawi regulations and directives.

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

<u>Liquidity reserve requirement</u>
A Bank is required to maintain a liquidity reserve with the Reserve Bank of Malawi equivalent to no less than 7.5% (2014: 15.5%) of its preceding week's average deposit liabilities including Government deposits. At the end of the year the liquidity reserve for National Bank of Malawi and Indebank Limited were equivalent to 54% (2014: 61%) and 12% (2014: 20%), respectively, of total customer deposits.

<u>Capital adequacy requirement as per Section 10(1) of the Banking Act, 2009</u>
A Bank's available capital is required to be a minimum of 10% of its risk bearing assets and contingent liabilities. At the end of the year the National Bank's available capital was 20% (2014: 22%) of its risk bearing assets and contingent liabilities while the capital of Indebank was 4% (2014: 8%).

<u>Prudential aspects of bank liquidity</u>
As a complement to the Section 38 of the Banking Act, 2009, the Reserve Bank of Malawi

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

g. Compliance risk

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, National Bank's liquidity ratio I was 54% (2014: 61%) and liquidity ratio II was 54% (2014: 61%) while Indebank's liquidity ratio I was 71% (2014: 37%) and liquidity ratio II was 71% (2014: 37%).

h. Capital management

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

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

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

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

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

Banking operations are categorised as either trading book or banking book and risk-weighted assets are determined according to specified requirements that seek to reflect

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

h. Capital management (Continued)

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.

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

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

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

	2015 K'm	2014 K'm
Tier 1 capital		
Ordinary share capital	467	467
Share premium	613	613
Retained earnings	33 707	26 542
Unconsolidated investment	(3 591)	(371)
Total regulatory (tier 1) capital	31 196	27 251
Supplementary capital		
Loan loss reserve	1 448	1 077
Available for sale reserve	11	202
Revaluation reserve	11 653	9 115
Unconsolidated investments	(3 591)	-
Total regulatory (tier 2) capital	40 717	37 645
Risk-weighted assets		
Retail bank, corporate bank and treasury	205 837	170 788
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	20%	22%
Total tier 1 capital expressed as a percentage of risk-weighted assets	15%	16%

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

h. Capital management (Continued)

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

	2015 K'm	2014 K'm
Tier 1 capital		
Ordinary share capital	84	84
Share premium	808	808
Retained earnings	(206)	636
Unconsolidated investment	(8)	(8)
Total regulatory (tier 1) capital	678	1 520
Supplementary capital		
Loan loss reserve	177	283
Revaluation reserve	465	222
Unconsolidated investments	(8)	(8)
Total regulatory (tier 2) capital	1 312	2 016
Risk-weighted assets		
Retail bank corporate bank and treasury	15 661	23 953
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	8%	8%
Total tier 1 capital expressed as a percentage of risk-weighted assets	4%	6%

i. Basel II implementation

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

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

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

i. Basel II implementation (Continued)

computing the individual risks under each category using the following approaches:
a. Operational Risk – Basic Indicator Approach (BIA)
b. Credit Risk – Standardized Approach (SA)
c. Market Risk – Standardized Approach (SA)

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

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

j. Environmental and social risk

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

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

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

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

k. Reputational risk policy

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

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

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

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

42. RELATED PARTY TRANSACTIONS

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

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

The Group is controlled by Press Corporation Limited (incorporated in Malawi), which owns 51.5% (2014: 51.5%) of the Ordinary Shares. The Old Mutual Group owns 25.1% (2014: 24.9%) of the Ordinary Shares and the remaining 23.4% (2014: 23.6%) of the Ordinary Shares are widely held by individuals, corporate and institutional investors and are publicly traded on the Malawi Stock Exchange.

The ultimate holding entity of the Group is Press Trust. Press Trust owns 44.5% (2014: 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.

42. RELATED PARTY TRANSACTIONS (CONTINUED)

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

GROUP AND COMPANY	**Loans K'm**	**Deposits K'm**	**Net 2015 K'm**	**Net 2014 K'm**
Press Corporation Limited and its subsidiaries	2 225	(3 027)	(802)	3 202
Old Mutual Group	-	(1 746)	(1 746)	(40)
Bottling and Brewing Group Limited	69	(24)	45	32
Limbe Leaf Tobacco Company Limited	-	(327)	(327)	437
Press Trust	-	(4)	(4)	-
Directors	341	(20)	321	197
Employees	3 547	(243)	3 304	2 441
National Bank of Malawi Pension Fund	-	(45)	(45)	(22)
Total related party balances	6 182	(5 436)	746	6 247

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 (2014: nil).

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

42. RELATED PARTY TRANSACTIONS (CONTINUED)

The following transactions were conducted with related parties:

GROUP AND COMPANY	2015 K'm	2014 K'm
Interest receivable		
Press Corporation Limited and its subsidiaries	1 092	1 587
Limbe Leaf Tobacco Company Limited	19	4
Directors	5	4
Employees	1 041	900
Average interest rate (%)	34	37
Operating lease income		
Malawi Telecommunication Limited	-	7
Bottling and Brewing Group Limited	520	598
Interest payable		
Press Corporation Limited and its subsidiaries	148	175
Employees	838	728
Purchases		
Press Corporation Limited and its subsidiaries	527	304

	GROUP		COMPANY	
	2015 K'm	2014 K'm	2015 K'm	2014 K'm
Compensation of key management personnel				
Salaries, bonuses and benefits	3 164	1 828	2 450	1 782

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

43. BUSINESS SEGMENTS

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

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

i. Retail and corporate banking – incorporating, savings, deposits, investment savings products, consumer loans, current accounts, overdrafts, loan and other credit facilities, trade finance and corporate leasing;

ii. Treasury – incorporating financial instruments trading, dealings in foreign currency, stock broking and derivative products; and

iii. Other operations comprising fund management, custodial services and providing training services, none of which constitutes a separately reportable segment.

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

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

43. BUSINESS SEGMENTS (CONTINUED)

	Corporate banking K'm	Retail banking K'm	Treasury K'm	Other K'm	Total K'm
GROUP					
Statement of comprehensive income					
2015					
Total external income	25 044	7 078	16 888	1 147	50 157
Segment result	18 273	5 808	16 888	1 147	42 116
Unallocated income	-	-	-	-	-
Unallocated expenses	-	-	-	-	(22 493)
Profit before tax	-	-	-	-	19 615
Corporate tax	-	-	-	-	(6 246)
Group profit for the year	-	-	-	-	13 369
Other information					
Depreciation					
Unallocated depreciation	-	-	-	-	2 286
Revaluation surplus on property					
Unallocated fair value gain	-	-	-	-	15

	Corporate banking K'm	Retail banking K'm	Treasury K'm	Other K'm	Total K'm
GROUP					
Statement of financial position					
2015					
Segment assets	86 258	32 306	97 701	72 717	288 982
Unallocated assets	-	-	-	-	-
Total consolidated assets	86 258	32 306	97 701	72 717	288 982
Liabilities and equity					
Segment liabilities	93 504	30 031	63 705	46 789	234 079
Unallocated liabilities and equity	-	-	-	-	-
Total consolidated liabilities and equity	93 504	30 031	63 705	46 789	234 079
Other information					
Capital additions	-	-	-	-	-
Unallocated capital additions	-	-	-	-	54 821
Total	-	-	-	-	288 900

43. BUSINESS SEGMENTS (CONTINUED)

	Corporate banking K'm	Retail banking K'm	Treasury K'm	Other K'm	Total K'm
GROUP					
2014					
Statement of comprehensive income					
Total external income	21 081	7 003	14 861	1 458	44 403
Segment result	16 375	5 923	14 861	1 458	38 617
Unallocated income	-	-	-	-	-
Unallocated expenses	-	-	-	-	(17 956)
Profit before tax	-	-	-	-	20 661
Corporate tax	-	-	-	-	(6 132)
Group profit for the year	-	-	-	-	14 529
Other information					
Depreciation					
Unallocated depreciation	-	-	-	-	2 056
Revaluation surplus on property					
Unallocated fair value gain	-	-	-	-	616
GROUP					
Statement of financial position					
2014					
Segment assets	61 530	24 730	79 885	44 877	211 022
Unallocated assets	-	-	-	-	-
Total consolidated assets	61 530	24 730	79 885	44 877	211 022
Liabilities and equity					
Segment liabilities	72 356	23 711	46 099	24 615	166 781
Unallocated liabilities and equity	-	-	-	-	-
Total consolidated liabilities and equity	72 356	23 711	46 099	24 615	166 781
Other information					
Capital additions	-	-	-	-	-
Unallocated capital additions	-	-	-	-	44 241
Total	-	-	-	-	228 413

44. INDEBANK LIMITED – GOING CONCERN

Background

Malawi adopted Basel II capital management framework for banking institutions with effect from 1 January 2014. At the time the framework was adopted, Indebank was not compliant as its capital adequacy ratios fell short of the required minimum threshold of 10% and 15% of risk weighted assets for Tier 1 and Tier 1 & 2, respectively. In view of this, and given that Indebank shareholders at the time had indicated that they would not be able to recapitalize the bank, the process of identifying an investor in the Bank that started back in 2013 intensified. The Public Private Partnership Commission (PPPC) handled the process because the majority shareholding (67.05%) in the Bank was held by Malawi Government through Central Government (41.38%) and Admarc (25.67%).

National Bank of Malawi (NBM) emerges the successful bidder in Indebank

The process of identifying an investor in Indebank culminated into NBM emerging the successful bidder and acquired the 67.05% shareholding from Central Government and Admarc. Press Trust which owned a 30% shareholding in Indebank also sold their shareholding to NBM taking NBM's shareholding in Indebank to 97.05%.

After NBM acquired the majority shareholding in Indebank they requested Reserve Bank of Malawi (RBM) to approve the merging of Indebank's commercial banking operations into NBM's operations. This was in view of the requirements of the Financial Services Act, 2010 that prohibits a commercial bank to own and operate another commercial bank. The RBM approved the request giving a deadline of 31 October 2016 for completion of the exercise. In addition, the RBM asked NBM to initially boost Indebank's capital ratios by way of swapping of high risk weighted assets for low risk weighted ones (de-risking). The RBM gave a deadline of 31 December 2015 for the de-risking exercise which was later extended to 31 March 2016 following NBM's request. Following the RBM approval of the request to merge commercial banking operations, NBM arranged for a Scheme of Arrangement whose effect is the transfer of all assets and liabilities of Indebank to NBM. An integration program has been drawn up which indicates that the merging of Indebank's commercial banking operations into NBM will be achieved ahead of the deadline given by RBM of 31 October 2016.

Capital inadequacy and going concern considerations

As at 31 December 2015, Indebank remains inadequately capitalized and its financial performance continues to deteriorate due to curtailed lending arising from the inadequate capital. This coupled with the other developments highlighted above cast doubt upon Indebank's ability to continue as a going concern. Management has considered these events and conditions, their significance and whether there are any plans to mitigate their impact on the going concern status of Indebank Limited.

44. INDEBANK LIMITED – GOING CONCERN (CONTINUED)

The table below highlights the principal events/conditions, their significance and whether management plans are available to mitigate their impact on the going concern status of Indebank:

Principal event/condition	Significance of the event/condition	Availability of plans to mitigate effect on going concern
Operating losses and adverse key financial ratios.	Significant	De-risking and scheme of arrangement but their full impact are uncertain.
Non-compliance with minimum capital adequacy ratios.	Significant	De-risking and scheme of arrangement but their full impact are uncertain.
RBM approval to integrate Indebank into NBM by 31 October 2016 (10 months into the new financial year).	Significant	Scheme of Arrangement. However its full impact is uncertain.
Integration plan that goes up to 31 May 2016 and results in the handover of Indebank's commercial banking license to RBM by 30 June 2016 (six months into the new financial year).	Significant	To turn the Bank into provider of long term finance. However this is going to happen after the going concern consideration period (January 2017) according to the Integration plan.
Scheme of Arrangement transferring all assets and liabilities of Indebank to NBM	Significant	This allows for flexibility of risk transfer. However it curtails Indebank's operations materially.

In view of the above assessment of principal events and conditions management has concluded that there is significant uncertainty about Indebank's ability to continue as a going concern because all the events and conditions are significant, the management plans in place to mitigate their impact on the going concern status of the bank are uncertain and some of the events point to material curtailment of Indebank's operations. The separate financial statements of Indebank Limited have therefore not been prepared on a going concern basis. Instead, the financial statements have been prepared on a break up basis.

45. EXCHANGE RATES AND INFLATION

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

	2015	2014
Kwacha/GBP	996	779
Kwacha/Rand	44	44
Kwacha/US Dollar	668	495
Kwacha/Euro	730	603
Inflation (%) (December)	24.9	23.3

As at 29 March 2016 the above rates had moved as follows:

Kwacha/GBP	980
Kwacha/Rand	45
Kwacha/US Dollar	680
Kwacha/Euro	760
Inflation (%) - February 2016	23.4

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

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

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

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