ANNUAL REPORT 2017

Standard Bank Limited

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Standard Bank Moving Forward™

OUR **REPORT**

Standard Bank Limited is a subsidiary of the Standard Bank Group,Africa's largest Bank by assets. The Standard Bank Group with strong African roots and leader in emerging markets has on the ground representation in 20 African countries.

With our 48 years of local market knowledge,we offer the best banking solutions to grow your business effectively. We will continue to move Malawi forward.

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AR These icons refer readers to information elsewhere in this report.

Indicates that information is available online.

CHAIRMAN'S AND CHIEF EXECUTIVE'S REPORT

"Standard Bank Limited's, enduring commitment remains that of providing our customers with superior services that are fit-for-purpose, based on in-depth knowledge of the business and delivered by knowledgeable people who are passionate about our customers."

37%

MK428.0 billion

TOTAL ASSETS

2016: MK313.5 billion

6%

MK57.2 billion

OPERATING INCOME

2016: MK54.1 billion

Dr. R Harawa

Mr. W le Roux

ECONOMIC OVERVIEW

Headline inflation declined significantly from 20% in 2016 to close at about 7% in December 2017 on the back of improved food availability and stable currency. The Kwacha was steady at around MK730 to the US dollar throughout the year. This provided a lot of room for authorities to cut the policy rate by a cumulative 8 percentage points in the year. Treasury bill yields and base lending rates for commercial banks followed suit.

PERFORMANCE

The year proved to be challenging for the Group as it recorded a drop in earnings year on year. Despite the drop in earnings, total assets grew by 37% over the same period in prior year. The growth in the balance sheet was mainly attributable to growth in loans and advances to banks which grew by 62% year on year and deposits from customers which also grew by 27% year on year. Loan and advances to customers grew by 4% when compared to prior year.

The Group registered profit after tax of MK12.2 billion which represented a 37% decline year on year. However, operating income grew by 6% over same period in prior year due to 6% growth in net interest income driven by growth in loans and advances to banks. Non-interest income grew by 6% due to increase in transaction volumes.

Credit impairments were significantly above prior year due to the growth of the non-performing loans, in the Agriculture sector. The Group will continue to focus on robust credit risk management to avert future non-performing loans and emphasis on recoveries of written off loans.

Operating costs were 32% above prior year due to operational losses arising from fraud and process failure as well as costs arising from the implementation of the new Core banking system. Consequently, the cost to income ratio was 59% compared to 47% in prior year. Going into 2018, the Group will focus on cost management plans in order to maintain a sustainable cost base.

Earnings per share for the year decreased from MK83 in 2016 to MK52 in 2017.

STRATEGY

The Group continues to maintain a strong position in the market and is able to leverage on its size, and scope to compete for opportunities to transform the market. Our strategy remains to service our customers to meet their financial needs, to continually innovate in order to offer high standards of customer service and cost-effective delivery channels.

Our people remain the critical success factor in our efforts to provide excellent customer service. Growing our people is at the core of the strategy.

We continue to focus on risk and capital management to ensure sustainable profitable growth for the Group.

LEADERSHIP

The Group continues to provide leadership training through the Standard Bank's Global Leadership Centre to ensure that our people are able to execute the strategy effectively and consistently in the increasingly competitive environment in which we operate. The Group will therefore continue investing in its people for the sustainable growth of the Group. During the year, many staff members were trained in various aspects of their areas of work in order for us to maintain our competitive advantage in terms of business performance by our staff. Leadership development and training was provided by The Standard Bank's Global Leadership Centre to our managers as part of our continuous efforts to give our staff focused development to enable the transitions required from one level to another.

CORPORATE GOVERNANCE AND DIRECTORSHIP

The Group maintains high standards of corporate governance. Compliance with applicable legislations, codes, regulations and standards is an essential part of the Group's operations. The Board monitors regulatory compliance through management reporting.

PROSPECTS

A stable macroeconomic environment is anticipated for the most part of 2018. However, downside risks from weather-related shocks and power challenges remain.

As a Group, we remain committed to ensuring customer satisfaction. With the new the Finacle Core Banking system in place, we will drive digitisation in order to improve customer experience. We will also focus on cost rationalisation, prudent management of risk and liquidity, diversify balance sheet and maintain a healthy capital position.

APPRECIATION

We would like to thank the executive team and the staff for the great results delivered in 2017. We thank our customers for their continued support. We also thank our colleagues on the Board for their sound guidance and support during the year.

Dr R Harawa

Chairman

Mr. W le Roux

Chief Executive

28 February 2018

OUR VALUES

Our success and growth over the long term is built on making a difference in the communities in which we operate. We are committed to moving Malawi forward.

1. Serving our customers
2. Growing our people
3. Delivering to our shareholders
4. Being proactive
5. Working in teams
6. Constantly raising the bar
7. Respecting each other
8. Upholding the highest levels of integrity

REVIEW OF PERFORMANCE

MK12.2 billion
PROFIT AFTER TAX
2016: MK19.4 billion

SOLE FINANCIER OF THE LARGEST BILATERAL LOCAL CURRENCY DEBT DEAL AMOUNTING TO
MK11 billion
IN THE CONSUMER SECTOR

STRUCTURED, ARRANGED AND FINANCED
US$20 million
REVOLVING TRADE FACILITY FOR THE IMPORTATION OF FUEL INTO THE COUNTRY

ARRANGED AND UNDERWROTE
US$33 million
PRE-EXPORT FINANCE FACILITIES IN THE TOBACCO INDUSTRY

772
EMPLOYEES
2016: 855

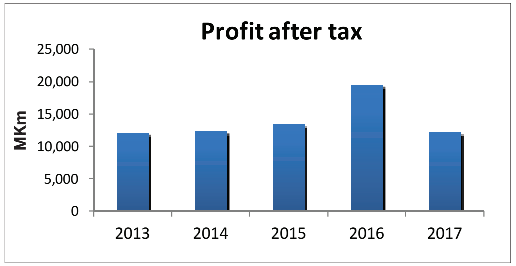
MK94.2 billion
LOANS AND ADVANCES TO CUSTOMERS
2016: MK91.01 billion

59%
COST-TO-INCOME RATIO
2016: 47%

17%
RETURN ON EQUITY
2016: 31%

MK259.5 billion
DEPOSITS FROM CUSTOMERS
2016: MK204.4 billion

3%
CREDIT LOSS RATIO
2016: 1%



AWARDS

The Banker,
2016 Bank of the Year in Malawi

Global Finance, Best Bank Award
2016 Best Bank in Africa

The Banker, Transaction Banking Awards
2016 Best Transactional Bank in Africa

Global Finance, Best Bank Award
2016 Best Sub-Custodian Bank in Africa

The EMEA Finance Treasury Services Awards
2016 Best FX Provider in Africa

Global Finance, Best Investment Bank Award
2016 Best Investment Bank in Africa

EMEA Finance African Banking Awards 2017
Best Investment Bank in Malawi

CIM Excellence Awards 2017
Best Marketing campaign of the year
Best PR Project
Most Improved Brand

CICM Service Excellence Awards
Service Excellence Awards – Banking Sector

OUR SOCIO-ECONOMIC IMPACT

We will ensure long-term sustainability by harmonising the needs of our customers, our people and our shareholders and by being relevant to the societies in which we operate.

A TOTAL OF **MK75.3 million** WAS SPENT ON SOCIAL CORPORATE RESPONSIBILITY

Sponsored the Ndi Moyo Palliative Care charity golf for **MK1 million**

Sponsored **MK30.0 million** for a bursary program in 5 universities, covering 30 students.

Sponsored **MK15.0 million** to the Mhub Entrepreneurship Challenge which seeks to foster entrepreneurship among the youth.

Donated medicine to Embangweni Mission Hospital worth **MK10.0 million**

Donated **MK5.7 million** on medicine that we donated to Nkhoma Mission hospital

Donated various hospital equipment to Queen Elizabeth Central Hospital through the Nation Publication Ltd Mother's Day fun run for **MK5 million**

Sponsored **MK4.4 million** on Global Fund partners in Financial Management and capacity building trainings for its Principal Recipients and Sub-recipients

Sponsored **MK2.2 million** on Standard Bank and UNICEF Girls Mentorship program for girls in Dedza and Salima

Sponsored MK**2.0 million** to a group of surgeons to conducted free cleft lip surgeries under the Operation Smile initiative.

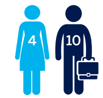
OUR BUSINESS STRUCTURE

		WHAT WE OFFER
PERSONAL AND BUSINESS BANKING	Provides banking and other financial services to individual customers and small- to medium-sized enterprises.	• Mortgage lending • Card products • Transactional products • Instalment sale and finance leases • Lending products • Bancassurance
CORPORATE AND INVESTMENT BANKING	Provides corporate and investment banking services to governments, parastatals, larger corporates, financial institutions and international counterparties.	• Global Markets • Investment Banking • Transactional Products and Services

OTHER

Includes the results of centralised support functions (back office), including those functions that were previously embedded in the business segments. The direct costs of support functions are recharged to the business segments.

BOARD OF DIRECTORS



1. DR. REX HARAWA 60
Chairman
PhD. (Finance & Economics)
Appointed August 2007

2. ANDREW MASHANDA 48
Chief Executive
Bachelor of Accounting Science
Served as a Director up to August 2017

3. WILLIAM LE ROUX 56
Chief Executive
Bachelor of Commerce
Appointed December 2017

4. GREG BRACKENRIDGE 60
Director
Associate Institute of Bankers – South Africa
Appointed August 2014

5. ANDREW CHIOKO 64
Director
Fellow of the Association of Chartered Certified Accountants
Appointed June 2007

6. TEMWANI SIMWAKA 47
Chief Financial Officer
Fellow of the Association of Chartered Certified Accountants
Appointed May 2010

7. ALAN CHINULA SC 60
Director
LL.B Honours
Appointed June 2012

8. DR. NGEYI KANYONGOLO 49
Director
PhD in Law (Warwick)
Appointed June 2012

9. JAYESH PATEL 48
Director
M.A Economics
Appointed October 2008

10. ETNESS CHANZA, 47
Head, Legal and Company Secretary
MSc. Finance & Financial Law
Appointed June 2006

11. RODERICK PHIRI 67
Director
Bachelor of Social Science (Economics & Statistics)
Appointed October 2006

12. DAVID PINTO 44
Director
Bcom Management Finance
Appointed May 2016

13. SHADRECK ULEMU 58
Director
MSc Electronic Engineering
Appointed May 2016

14. CATHERINE MTONDA 56
Director
Master of Business Administration
Appointed June 2012

EXECUTIVE COMMITTEE

1. ANDREW MASHANDA [48]
Chief Executive
Bachelor of Accounting Science
Served as Chief Executive up to August 2017

2. WILLIAM LE ROUX [56]
Chief Executive
Bachelor of Commerce
Joined December 2017

3. TEMWANI SIMWAKA [47]
Chief Finance Officer
Fellow of the Association of Chartered Certified Accountants
Joined September 2006

4. KONDWANI MLILIMA [44]
Chief Risk Officer
Master of Arts Economics
Joined October 2002

5. ETNESS CHANZA [47]
Head, Legal & Company Secretary
MSc. Finance & Financial Law
Joined June 1996

6. DR. MARGARET KUBWALO-CHAIKA [44]
Head, Personal and Business Banking
PhD in Customer Relationship Management and Knowledge Management
Joined December 1998.

7. FRANK CHANTAYA [42]
Head, Corporate and Investment Banking
Bachelor of Business Administration
Joined April 2008

8. LINDA MANDA [42]
Deputy Head Corporate and Investment Banking and Head Client Coverage
Fellow of the Association of Chartered Certified Accountants
Joined January 2016

9. MCLEWEN SIKWESE [32]
Head, Global Markets
MSc. Finance, Economic Policy
Joined September 2016

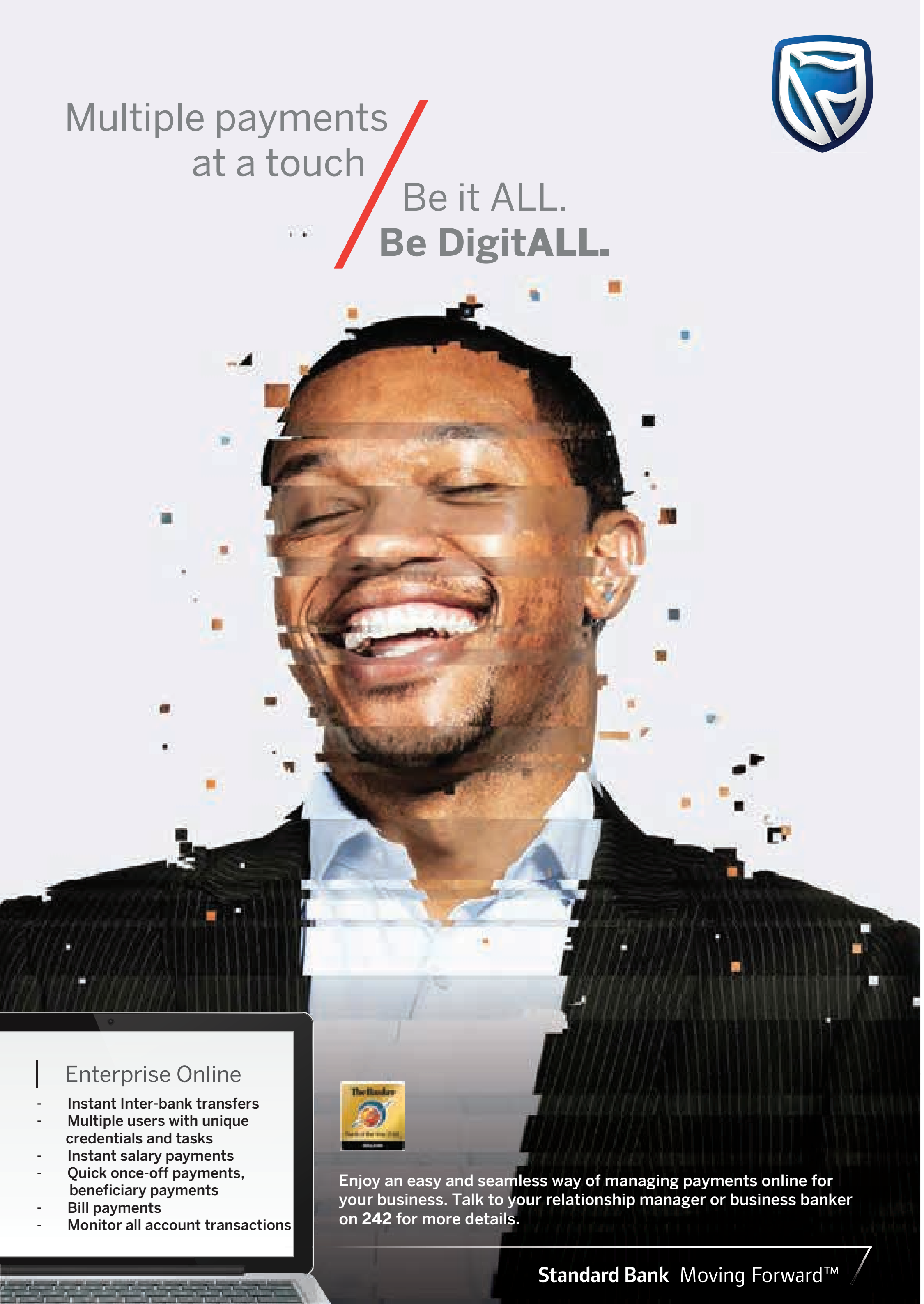
10. THOKO UNYOLO [37]
Head, Marketing and Communications
Master of Business Administration
Joined January 2015

11. WILLIAM NUKA [53]
Head, Information Technology
Bachelor of Science in Electrical Engineering
Joined January 2000

12. STEVEN KALANI [44]
Head of Operations
BSC in International Business Administration Management
Joined January 2016

13. FELIX OCHIENG [37]
Head, Human Capital
Bachelor of Arts (Economics)
Joined January 2017

14. DANIEL MBOZI [47]
Head Core Banking Project
Chartered Management Accountant
Joined May 2004



STATEMENT OF CORPORATE GOVERNANCE

CODES AND REGULATIONS

The Group complies with applicable legislation, regulations, standards and codes. The Board of Directors ("Board") monitors compliance with these by means of management reports, which include information on the outcomes of any significant interaction with key stakeholders such as the Group's various regulators.

The Group operates within a clearly defined governance framework. Through the framework, a delegation of authority is given to management by the Board, while the Board retains effective control.

BOARD AND DIRECTORS

Ultimate responsibility for governance rests with the Board. The Group has a unitary Board structure and the roles of Chairman and the Chief Executive are separate and distinct. The Chairman is an independent non-executive director. The number and stature of independent non-executive directors ensure that sufficient independence is brought to bear on decision making. There are nine non-executive directors on the Board and three executive directors.

It is the Board's responsibility to ensure that effective management is in place to implement the Group's strategy, and to consider issues relating to succession planning. The Board is satisfied that the current pool of talent available within the Group and the ongoing work to deepen the talent pool provide adequate succession plan, in both the short and long term. During the year, the Board also considered other key people-related challenges including talent retention.

Regular interaction between the Board and Executive Management is encouraged. Directors are provided with unrestricted access to Management and Group information, as well as the resources required to carry out their responsibilities at the Group's expense.

A feature of the way the Board operates is the role played by Board Committees which facilitate the discharge of Board's responsibilities. Each Committee has a Board-approved mandate that is regularly reviewed. Details on how these committees operate are provided below.

SKILLS, KNOWLEDGE, EXPERIENCE AND ATTRIBUTES OF DIRECTORS

The Board ensures that directors possess the skills, knowledge and experience necessary to fulfil their obligations. The directors bring a balanced mix of attributes to the Board, including:

- International and domestic experience;
- Operational experience;
- Knowledge and understanding of both the macroeconomic and the microeconomic factors affecting the Group; and
- Financial, legal, entrepreneurial and banking skills.

BOARD RESPONSIBILITIES

The key terms of reference in the Board's mandate, which form the basis for its responsibilities, are to:

- Agree on the Group's objectives, strategies and plans for achieving those objectives;
- Regularly review the corporate governance process and assess achievement against objectives;
- Delegate to the Chief Executive or any director holding any executive office or any senior executive, any of the powers, authorities and discretions vested in the Board, including the power of sub-delegation. Delegate, similarly, such powers, authorities and discretions to any committee and subsidiary company boards as may exist or be created from time to time;
- Determine the terms of reference and procedures of all board committees in consultation with Standard Bank Africa ("SBAF");
- Consider and evaluate reports submitted by management;
- Ensure that an effective risk management process exists and is maintained throughout the Group;
- Monitor the performance of the Chief Executive and the executive team;
- Establish, review regularly and approve major changes to the Group's policies;
- Ensure that an adequate budget and planning process exists, that performance is measured against budgets and plans and approves annual budgets for the Group, in line with the policies

and procedures of the Group;

- Consider and approve capital expenditure as recommended by management;
- Consider and approve any significant changes proposed in accounting policies and practices and consider the recommendations of the Board Audit Committee.
- Assume ultimate responsibility for systems of financial, operational and internal controls, the adequacy and review of which is delegated to sub-committees, and the Board ensures that reporting on these issues is adequate;
- Take ultimate responsibility for regulatory compliance and ensure that reporting to the Board is comprehensive;
- Ensure balanced reporting to stakeholders on the Group's position and that such reporting is done in a manner that can be understood by stakeholders;
- Review non-financial matters that have not been specifically delegated to any sub-committee. The review includes a code of ethics, environmental issues and social issues.

STRATEGY

The Board is responsible for setting the Group's strategy, which is considered and formally approved at a Board meeting. A separate annual session is held with the Executive Committee, where the strategy is deliberated and the Board's input into the strategy is provided to executive management for inclusion into the Bank's strategy. Once the strategy is finalised by management, the same is presented to the Board through the Board Audit Committee. Once the financial and governance objectives for the following year have been agreed, the Board monitors performance on an ongoing basis. Performance against financial objectives is monitored by way of management quarterly reports and representations at board meetings.

BOARD EFFECTIVENESS AND EVALUATION

The Board assesses itself against its objectives by conducting an annual Board Self Evaluation. The aim of the evaluation is to assist the Board in improving its effectiveness. The outcome of the evaluation is discussed at a board meeting and any areas of concern are addressed. Relevant action points are also noted for implementation. The performance of the Chairman, Chief Executive Officer, the individual directors, the Company Secretary and the Board Committees are also assessed annually.

BOARD MEETINGS

The Board meets quarterly with an additional annual meeting to consider the Group's Strategy. Ad hoc meetings are held when necessary. The directors are provided with comprehensive board documentation at least four days prior to each of the scheduled meetings.

Board meetings - Meeting Attendance

Member	27–Feb 17	25-May 17	27- July 17	16 –Nov 17
Dr. R Harawa**	√	√	√	√
Mr. J P Patel**	√	√	√	√
Mr. R K Phiri**	√	√	√	√
Mr. A A Chioko**	√	√	√	√
Dr. N R Kanyongolo**	√	√	√	√
Mr. A J W Chinula**	√	√	√	√
Mrs. C Mtonda**	√	√	√	√
Mr. G Brackenridge*	√	√	√	A
Mr. A Mashanda*	√	√	√	N/A
Mrs. T Simwaka *	√	√	√	√
Mr. S Ulemu**	√	√	√	√
Mr. D Pinto**	√	√	√	√

Key

√ = Attended the meeting
A = Apology
N/A = Not a Director on the stated date.
* = Executive Director
** = Non-executive Director

Board committees are established to assist the Board in discharging its responsibilities. They operate in terms of Board approved mandates which are reviewed and approved by the Board on an annual basis. The mandates set out their roles, responsibilities, scope of authority, composition and procedures for reporting to the Board.

Board Audit Committee

The role of this Committee is to review the Group's financial position and make recommendations to the Board on all financial matters. This includes assessing the integrity and the effectiveness of the audit, accounting, financial and internal control systems. The Committee also ensures effective communication between the internal auditors, external auditors, the Board, Management and Regulators. The Committee's key terms of reference comprise of various categories of responsibilities and among others include the following:

- Annual review and recommendation to the Board for approval of the Board Audit Committee mandate;
- Review of the audit plan with the external auditors, with specific reference to the proposed audit scope and approach to the Group's activities falling within the high risk areas, the effectiveness of the audit and audit fee.
- Consider with Management, areas of special concern and the procedures being developed to monitor and contain risks in those areas;
- Review with Management copies of reports and letters received from the external auditors concerning deviations from and weaknesses in accounting and operational controls, and ensure that prompt action is taken by Management and that issues are satisfactorily resolved;
- Review the adequacy of capital, provisions for bad debts and diminution in the value of other assets, and the formulae applied by the Group in determining charges for and levels of general debt provisions, within the framework of the Group policy;
- Review the accounting policies adopted by the Group and all proposed changes in accounting policies and practices, and recommend such changes where these are considered appropriate in terms of International Financial Reporting Standards. Also considers the adequacy of disclosures in the financial statements;
- Review the Group's interim and audited annual financial statements and all financial information intended for distribution to the shareholders and the general public, prior to submission to the full Board;
- Assess the performance of financial management and review the quality of internal accounting control systems and reports produced by management;
- Review the basis on which the Group has been determined as a going concern and make recommendations to the Board;
- Review written reports furnished by the Internal Audit Department of the Bank and of the Standard Bank Group detailing the adequacy and overall effectiveness of the Group's internal audit function and its implementation by Management, the scope and depth of coverage, reports on internal control and any recommendations and confirmation that appropriate action has been taken;
- Monitor compliance with the Financial Services Act, Companies Act, Banking Act and the Stock Exchange Listings Requirements and all other applicable legislation in as far as they impact financial reporting.
- Monitor ethical conduct of the Group and executives and reviewing reports from management on violations of the Group's Code of Ethics;
- Consider the development of standards and requirements and review statements on ethical standards or requirements for the Group; and
- Review and make recommendations on any potential conflicts of interest relating to situations of a material nature.

The membership of this committee comprises:
Mr A A Chioko - Chairman
Mrs C Mtonda - Member
Mr. S Ulemu - Member

The committee met four times during the year.

Member	21-Feb-17	24-May 17	26 – Jul 17	15 – Nov- 17
Mr. A A Chioko	√	√	√	√
Mr. S Ulemu	√	√	√	√
Mrs. C Mtonda	√	√	√	√

Key

√ = Attended the meeting

Board Credit Committee

The role of this Committee is to ensure that effective credit governance is in place in order to provide for the adequate management, measurement, monitoring and control of credit risk, including country risk. This involves ensuring that all committees within the Credit governance structure operate within clearly defined mandates and delegated authorities, as delegated to them by the Board, and that an appropriate credit framework and structure exists. The responsibilities of the Committee also include:

- Annual review and recommendation to the Board for approval of the Board Credit Committee mandate, the management Credit Committee mandate and the Credit Risk Management Committee mandate;
- Establish sub-committees as required for the proper performance of its mandate and ensure that such sub-committees have clearly defined and appropriate mandates and delegated authority;
- Consider and ratify all insider credit facilities pertaining to Directors and Senior management and parties related to them irrespective of size, and to ensure that all regulatory requirements are complied with;
- Review and ratify credit approvals made by the various delegated authorities;
- Approve the agreed credit risk appetite framework as required by Standard Bank Group Credit Risk Governance Standard;
- Quarterly review of the credit and country risk portfolio reports; the credit and country risk impairment adequacy, and the credit and country risk sections of the report to the Board;
- Consider any other Credit related matters as may be necessary.

The membership of this committee comprises:

Mr J P Patel - Chairman
Dr N R Kanyongolo - Member
Mr R Phiri - Member

The committee met four times during the year.

Member	20-Feb-17	23-May- 17	25 –Jul- 17	14 –Nov - 17
Mr. Mr. J P Patel	√	√	√	√
Dr. N R Kanyongolo	√	√	√	√
Mr. R Phiri	√	√	√	√

Key

√ = Attended the meeting

Board Risk Committee

The role of this Committee is to ensure quality, integrity and reliability of the Group's risk management procedures. This Committee also assists the Board in the discharge of its duties relating to the corporate accountability and associated risks in terms of management, assurance and reporting. The Committee reviews and assesses the integrity of the risk control systems and ensures that risk policies and strategies are effectively identified and managed. The responsibilities of the committee also include:

- Annual review and recommendation to the Board for approval of the Board Risk Committee mandate;
- Reviewing, with the Group's Legal Counsel, any legal matters that could have a significant impact on the Group's business;
- Reviewing of reports by the Head of Compliance on matters of regulatory and reputational risk, including such areas as breaches, fines, material malfunctions and changes in legislation;
- Monitor compliance with the Companies Act, Banking Act, the MSE Rules and Listings Requirements, all other applicable legislation and governance codes and review all reports detailing the extent of compliance;
- Provide independent and objective oversight and review the information presented by management relating to the practice of corporate accountability and reporting of specifically associated risk, including emerging and prospective impact;
- Reviewing the adequacy and effectiveness of the enterprise risk management framework which, includes the risk strategy, standards, policies, procedures, practices and controls as implemented;
- Ensuring compliance with such policies, and with the overall risk profile of the Group including all risks associated with the Bank's information technology, market risk, credit risk, operational risk, legal risk, compliance risk, liquidity risk, reputational risk, country risk and other risks appropriate to the business which may be identified from time to time;
- Monitoring procedures to deal with and review the disclosure of information to customers, the resolution of major customer complaints and compliance with the Group's code of banking practices and ethics;

  In terms of risk appetite (RA), recommend proposed RA Statement for approval to Board and receive report on risk profile and risk tendency compared to risk appetite and risk tolerance triggers;
- In terms of the Bank's stress-testing framework, review the recommended macroeconomic scenarios, stress testing results, recommendations on financial resources and the required capital buffer based on the stress-testing results.

The membership of this committee comprises

Mr A Chinula - Chairperson
Mr J P Patel - Member
Mr D Pinto - Member

The committee met four times during the year.

Member	20-Feb-17	23-May 17	25 – Jul 17	14 – Nov- 17
Mr. A Chinula	√	√	√	√
Mr J P Patel	√	√	√	√
Mr. D Pinto	√	√	√	√

Key

√ = Attended the meeting

BOARD HUMAN CAPITAL COMMITTEE

The role of this Committee is to ensure that appropriate human capital policies are in place to enable the Group source and maintain staff with appropriate skills (and mix of skills) in the right jobs and to have back up skills and resources available at all times. The Committee also ensures that management has put in place measures to ensure that reward packages are fair and in accordance with the market forces, to reward performance initiatives and also motivate the work force. The responsibilities of the Committee also include:

- Annual review and recommendation to the Board for approval of the Board Human Capital Committee mandate;
- Recommending to the Board for approval the Group's Human Capital Policies, Strategy and any amendments on a regular basis, such strategy and policies shall require that Management put in place effective mechanisms for recruiting, management and reward systems to ensure motivation and retention of quality staff;
- Review and approval of proposals for amendments to the organisational structure in conjunction with Standard Bank Group standards;
- Recommend for Board approval, major changes in employee benefit structures for the Group;
- Ensuring that employees of the Group are provided with appropriate incentives to encourage performance and are, in a fair and responsible manner rewarded for their individual contributions to the success of the Group;
- Providing insight to the recruitment and termination of employment of Senior Management Staff or as may be required by the Reserve Bank of Malawi (RBM) or any regulatory authority with the power to regulate such appointments; and
- Making recommendations to the Board on the reinforcement, through transparency of sound corporate governance principles covering among other things, information about the incentive structure of the Group, including compensation policies, executive compensation etc.

The membership of this committee comprises:

Mr R K Phiri - Chairperson
Dr N R Kanyongolo - Member
Mr A Chinula - Member
Mr D Pinto - Member

The committee met four times during the year.

Member	21-Feb-17	24-May 17	26-Jul -17	15 – Nov -17
Mr. R K Phiri	√	√	√	√
Dr N R Kanyongolo	√	√	√	√
Mr. A Chinula	√	√	√	√
Mr. D Pinto	A	√	√	√

Key

√ = Attended the meeting

A = Apology

MANAGEMENT COMMITTEES

Credit Risk Management Committee

The Credit Risk Management Committee is a senior management credit oversight function with a defined oversight role as determined by the Board of Directors through the Board Credit Committee from time to time. The purpose of the Credit Risk Management Committee is to establish and define the principles under which the Group is prepared to assume credit risk and the overall framework for the consistent and unified governance, identification, measurement, management and reporting of credit risk.

For purposes of complying with its duties and responsibilities, the Credit Risk Management Committee has the right to delegate responsibilities to sub-committees and/or individuals within clearly defined mandates and delegated authorities.

Asset And Liability Committe (ALCO)

This Committee is responsible for the management and monitoring of the trading book risk, market risk, the banking liquidity and interest rate risks. The committee also monitors capital adequacy of the Bank. It comprises the Chief Executive Officer, the Chief Financial Officer, the Chief Risk Officer, the Treasurer and the Departmental Heads for Global Markets, Corporate and Investment Banking, Personal and Business Banking, Operations, Transactional Products Services, Investment Banking and Business Banking.

Executive Committee (EXCO)

This committee comprises of senior executives of the Group and its main role is to guide and control the overall direction of the business of the Group including the day to day running of the Group and it is responsible to the Board.

COMPANY SECRETARY

The role of the Company Secretary is to ensure that the Board remains cognisant of its duties and responsibilities. In addition to providing the Board with guidance on its responsibilities, the Company Secretary keeps the Board abreast of relevant changes in legislation and governance best practices. The Company Secretary oversees the induction of new directors, as well as the ongoing training of directors. All directors have access to the services of the Company Secretary.

GOING CONCERN

On the recommendation of the Board Audit Committee, the board annually considers and assesses the going concern basis for the preparation of financial statements at the year end. At the interim reporting period, a similar process is followed to enable the Board to consider whether or not there is sufficient reason for this conclusion to be affirmed.

RELATIONSHIPS WITH SHAREHOLDERS

The shareholders' role is to appoint the Board of Directors and the external auditors. This role is extended to holding the Board accountable and responsible for efficient and effective corporate governance.

SUSTAINABILITY REPORTING

Management of the Group's economic, social and environmental impacts and responsibilities is being systematically entrenched in the Group's culture through the emphasis placed on the application of the Group's vision and values in all its operations.

ETHICS AND ORGANISATIONAL INTEGRITY

The Group's code of ethics is designed to empower employees and enable faster decision making at all levels of the Group's business according to defined ethical principles. It also aims to ensure that, as a significant organisation in the financial services industry, we adhere to the highest standards of responsible business practice.

The code interprets and defines Standard Bank's values in detail and provides values-based decision making principles to guide the Group's conduct. It is aligned with other Standard Bank policies and procedures, and supports the relevant industry regulations and laws of the country.

The code of ethics is supported by the appropriate organisational structure, namely an ethics advice process and an ethics reporting process. These processes link into existing human capital and compliance structures wherever possible, including grievance processes and a fraud hotline. New structures and roles, including those of business unit ethics officers, have been created to ensure that our values and ethics are effectively embedded. The code includes targeted communications, coaching, reference guides and induction packs distributed to all members of staff.

New members of staff are taken through the Code of Ethics and each is given a soft copy. In the year there were no material breaches to the Code of Ethics.

REMUNERATION

Remuneration Philosophy

Our reward strategies and remuneration structure support the development of an engaged, high performing and diverse employee population, who deliver outstanding business performance. In addition, the reward strategy is designed to attract, motivate and retain high calibre people, at all levels of the organisation, in a highly competitive market. Consideration is given to Total Reward and the appropriate balance between fixed and variable pay for all employees, depending on seniority and roles.

The Group's Board of Directors sets the principles for the remuneration philosophy in line with approved business strategy and objectives. The philosophy aims to maintain an appropriate balance between employee and shareholder interests.

A key success factor for the Group is its ability to attract, retain and motivate the talent it requires to achieve its strategic and operational objectives.

Remuneration Governance

The remuneration of Board members is approved in-country and reviewed by the Standard Bank Group Remuneration Committee ("REMCO"). The remuneration of executive management in-country is reviewed by Standard Bank Group Remuneration Committee.

The following key factors have formed the implementation of reward policies and procedures that support the achievement of business goals:

- the provision of rewards that enable the attraction, retention and motivation of employees and the development of a high-performance culture;
- maintaining competitive remuneration in line with our markets, trends and required statutory obligations;
- rewarding people according to their contribution;
- allowing a reasonable degree of flexibility in remuneration processes and choice of benefits by employees and;
- educating employees on the full employee value proposition.

Remuneration Structure

Non-Executive Directors

Terms Of Service

Directors are appointed by the shareholders at the annual general meeting ("AGM") and interim board appointments are allowed between AGMs. The interim appointees are required to retire at the next AGM where they make themselves available for appointment by shareholders. In addition, one third of the non-executive directors are required to retire at each AGM and may offer themselves for re-election. There is no limitation to the number of times a non-executive director may stand for re-election.

Fees

Non-executive directors receive fixed fees for their service on the Board and Board Committees. This includes a retainer that has been calculated in line with market practices. There are no contractual arrangements for compensation for loss of office. Non-executive directors do not receive short-term incentives, nor do they participate in any long-term incentive schemes.

Management and Staff

Terms Of Service

The terms and conditions of employment for managers are guided by the legislation in Malawi and are aligned to Standard Bank Group practices. Notice periods to terminate employment vary from one month to three months depending on seniority. Notice periods also depend on the level of responsibility of a particular member of staff and whether or not they are leaving to join a competitor.

All general staff are unionised. Their terms and conditions of employment are therefore guided by collective agreement(s) signed with the Commercial, Industrial and Allied Workers' Union of Malawi (CIAWU).

Fixed Remuneration

Managerial total remuneration comprises a fixed cash portion, compulsory benefits (medical aid and retirement fund membership) and optional benefits. Market data is used to benchmark salary levels and benefits before the annual review which is normally done in March.

For all employees, performance-related payments have formed an increasing proportion of total remuneration over time to achieve business objectives and reward individual contribution.

All employees (executives, managers and general staff) are rated on the basis of their annual performance and this is used to determine performance-related remuneration.

The outcome of the annual performance and the consequent pay decision is done on an individual basis. There is, therefore, a link between the individual performance outcome and reward.

Short-Term Incentives

All members of staff participate in a performance bonus scheme. Our approach towards reward enables the Bank to recognise the performance of the employees by recommending rewards that acknowledge the staffs' contribution to the performance of the Bank, the business and team. In keeping with the Bank's remuneration philosophy, the bonus scheme seeks to attract and retain high-performing employees.

Long-Term Incentives

It is essential for the Bank to retain key skills over the long term for sustainable business continuity. This is done particularly through Standard Bank Group share-linked incentive awards to guarantee higher levels of retention.

The purpose of these is to align the interests of the Group and its employees, as well as to attract and retain skilled and competent people.

Post-Employment Benefits

The Bank operates a contributory pension fund to provide for retirement benefits for employees. Both, employee and employer contributions are made in line with the Pension Act of 2011. Currently, NICO Life Insurance Company are the fund managers.

GROUP'S HIGHLIGHTS FOR THE YEAR

As our existing and prospective shareholders are providers of capital to the Group, we are responsible for providing them with reliable, relevant and timely information to help them make informed investment decisions.

The following are the highlights of the year:

- Standard Bank Limited was appointed as the Escrow Agent for Malawi National Fibre Project being implemented by Electricity Supply Corporation of Malawi (ESCOM) effective 01 April 2017.
- EMEA Finance awarded our Investment Banking department the 2017 Best Investment Bank in Malawi award.
- The Bank scooped 4 awards from the CIM Excellence Awards 2017: Best Marketing campaign of the year, Best PR Project, Most Improved Brand. We also won Service Excellence Awards – Banking Sector from the CICM Service Excellence Awards
- The Nacala Logistics Corridor Project Finance deal completed in December 2017 saw Standard Bank Limited win the Onshore Malawi Account Bank mandate for the Nacala Corridor Project. This culminated into another appointment of the Bank as a Security Agent on behalf of the Lenders.
- During the year, the Bank successfully migrated from Bankmaster to Finacle core banking system. The following channels are now available as a result;
    - 247 Online, a new internet banking channel for individual customers
    - Enterprise Online (EOL), an internet banking channel targeting business customers
    - *247#, a USSD based mobile banking channel
    - 247 App, our smart app channel
- To mitigate card fraud and bring customer cards to an international level, Europay MasterCard Visa (EMV) migration was successfully rolled out by 31 December 2017
- A Branch of the future concept was launched at the former Blantyre branch and face lifts of Zomba, Mzimba, Kasungu, Ginnery Corner and Mzuzu Branches.

GROUP SNAPSHOT

	2017	2016
Points of representation	**27**	27
ATMs	**80**	79
POS devices	**260**	190
Headcount	**772**	855

OUR STAKEHOLDERS

Shareholders

Delivering to our shareholders – We understand that we earn the right to exist by providing appropriate long-term returns to our shareholders. We try extremely hard to meet our various targets and deliver on our commitments.

As our existing and prospective shareholders are providers of capital to the Group, we are responsible for providing them with reliable, relevant and timely information to help them make informed investment decisions. Our shareholder base is diverse, including individuals and institutional shareholders both locally and internationally. The composition of the Groups shareholders is analysed on page 34.

To ensure effective and meaningful shareholder engagement, we have developed various communication channels to meet different shareholders' information needs, and to manage shareholders' expectations positively and transparently.

In addition to the various press releases that are published in the papers, the Group's Chairman encourages shareholders to attend the Annual General Meetings where interaction is welcomed. The other Directors and Group Executives are also available at the meetings to respond to questions from shareholders.

Customers

Our customers range from individuals and small businesses to large corporate and government entities. Sustainable business performance depends on our ability to engage meaningfully with our customers, to be sensitive to their different needs and to provide relevant products and services. Extensive research is conducted to better understand customer needs and market dynamics.

Our customers' worlds are defined largely by the economic and competitive particulars of their industry sectors and local market circumstances. Where we are able to bring insight through deep sector knowledge, drawn globally from across a range of companies, together with local market knowledge, we do so.

Our Corporate and Investment Banking (CIB) division serves a wide range of customer requirements for banking, finance, trading, investment and risk management. In line with the growing sophistication of customers' requirements, the division has built a deep understanding of Malawi's market and economics dynamics.

This is served by operating a client-centric and distribution-focused business model, supported by a culture that prioritises client relationships and economic returns, and a business structure that enables an integrated, multi-product service offering. CIB offers this comprehensive range of products and services through our Investment Banking, Global Markets and Transactional Products and Services divisions.

Our Client relationship managers develop close relationships with clients and link in our specialist product and global distribution teams to deliver innovatively and appropriately on individual requirements. We maintain a specific focus on industry sectors that are most relevant to emerging markets and have strong sector value propositions in mining and metals, oil, gas and renewable energy, telecommunications and media, power and infrastructure, agribusiness and financial institutions.

In Personal and Business Banking (PBB) division, we offer service through Personal Markets and Business Banking.

In Business Banking (both Commercial and Small and Medium Entreprises (SME) markets), relationship building and management has been key to how we relate with our customers. We provide SME customers with opportunities to access affordable loans in the form of working capital or bridging finance to move their businesses forward.

In Personal Markets, we continue to provide personalised banking solutions through our Private Banking unique proposition and branch network franchise, where achiever and priority banking services are offered. We have also taken particular initiative to serve our personal customers where they work through our robust Workplace Banking proposition. In this regard, we now provide and have become the leading Bank in providing unsecured personal loans.

Whilst we continue to expose our customers to top class banking solutions that are commensurate with latest offerings in the developed world, we strive to remain locally relevant by framing our solutions with a complete understanding of the local dynamics.

Employees

Growing our people – We encourage and help our people to develop to their full potential, and measure our leaders on how well they grow and challenge the people they lead.

Talent Management

The Group believes that critical to the achievement of its business objectives, now and into the future, is the effective attraction, retention of critical talent, and the development of executive talent. Our strategy in this regard primarily relies on internal development and assessment of our staff in order to build and strengthen our future talent pool.

Those that are identified to have high potential are engaged in more intensive development processes which amongst others include being placed in mentoring and coaching relationships with senior level executives outside their reporting structure as well as offering them developmental cross-functional and international experience to maximise their development opportunities.

Leadership Development

Leadership remains our core competency in order for the Group to continue to have a competitive edge in business performance. With the support of our Global Leadership Centre, we continue to develop and offer the entire spectrum of appropriate leadership development and training interventions at all levels of leadership in the Group. These are customised according to individual development needs, aimed at giving our leaders focused development propositions to enable the transitions required from one level to another.

Occupation-Directed Education, Training and Development

The Group recognizes that to maintain a committed and competent workforce, it needs to ensure that there is adequate training and development provided for all employees. All education, training and development activities are directed at meeting business objectives, developing a culture of continuous improvement, and more importantly, enabling our staff realize their full potential, develop and grow in the organization. Through its Banking Education scheme and support to tertiary education, the Group has continued to support staff that are keen to further their studies provided the further study is considered necessary by the Group and will be beneficial to both the Group and employee.

Independent Counselling and Advisory Services

Independent Counselling and Advisory Services confidentially assists and supports employees and their immediate families with many personal issues including stress management, trauma, HIV/Aids, divorce, bereavement and legal issues.

The Group receives a country report for all staff in Malawi and Standard Bank Africa receives a combined report on what issues are prevalent across the continent. This enables the Group to plan the required interventions around the behavioural risk issues it is facing.

Staff Recognition Programme

The Group has a recognition programme where we publicly recognise achievements that are considered to be beyond what is expected from an individual or teams. Recognition remains key to the upholding of the Group's values and achievement of its strategic goals. To this end, over and above the incentive programmes that it runs which are based on performance and behaviour, the Group encourages a culture of recognition on an ongoing basis formally and informally to acknowledge and reinforce desired behaviour.

Regulators

Being proactive – We strive to stay ahead by anticipating rather than reacting, and our actions are always carefully considered.

We view regulatory compliance not only as a requirement by law, but also as one of the key components of sustainable development. The Reserve Bank of Malawi is our primary regulator and supervisor, and the relationship is one of mutual trust built through regular and open communication. Various other supervisory bodies also monitor our compliance with specific pieces of legislation.

Working in teams – All aspects of our work are interdependent. We appreciate that, as teams, we can achieve much greater things than as individuals. We value teams within and across business units, divisions and countries.

Suppliers

The Group is committed to procuring from all levels of suppliers ranging from large corporations to individuals. The Group set up a Procurement Committee that looks at supplier relationships to ensure that that the Group deals with all suppliers equitably and facilitate a governed process of procuring goods and services from qualified and accredited suppliers in our Group.

Community

We will ensure long-term sustainability by harmonising the needs of our customers, our people and our shareholders and by being relevant to the societies in which we operate.

Health, Education and Sustainable Development remain the key areas that we continue to support in Malawi. We are aware that a healthy, educated and growing economy will provide the much-needed resources for sustainable development; therefore we will continue to invest in these areas. To invest in an economy means to believe in that economy and drive it closer to achieving its goals. Our philosophy for Corporate Social Investment still remains that when we invest in our people and economy, we invest in our sustainability.

As a socially responsible corporate organisation, we support communities through meaningful corporate social investment initiatives that make a difference. We also encourage our staff members to be in the forefront when we drive sustainable growth and development in Malawi. We support this through staff volunteerism; and as a Bank, we match whatever our staff members are able to contribute to their communities financially.

Health

Our key corporate social initiative in the health sector for 2017 was in partnership with The Global Fund's Principal recipients and Sub-recipients. We facilitated their Financial Management capacity building training to administer and account for funds disbursed for the fight against AIDS, Malaria and Tuberculosis in Malawi.

We supported the Ndi Moyo Palliative Care golf tournament whose proceeds went toward the provision of palliative care in Salima district.

We donated medicine to Embangweni Mission Hospital and Nkhoma Mission Hospital as a response to the drug shortage the two hospitals faced in the year. The drugs were worth MK15.7 million. During the year, we sponsored a team of volunteer doctors from Operation Smile to provide free surgery to people born with cleft lip. Our staff members volunteered to assist the doctors with patient management as they wait for surgery. In the health sector, we invested over MK 28.1 million for 2017.

Education

In the education sector, we introduced a 4-year bursary covering 30 students of 5 universities in Malawi namely; Polytechnic, Chancellor College, Mzuzu University, Malawi University of Science and Technology and Lilongwe University of Agriculture and Natural Resources. These scholarships are valued at MK120 million spread over the 4 academic years and will cover tuition accommodation food, book allowance and a stipend for the needy but hardworking students. We also donated 25 computers to the Ministry of Labour, Youth, Sports and Man Power Development to give any deserving technical colleges to enable them to upskill young people with ICT education.

Female employees of Standard Bank continued their monthly visits to Dedza and Salima to mentor girls under the partnership with UNICEF. A total of MK 32.2 million was invested in education .

Youth and Sustainable Development

Our passion for youth and sustainable development in Malawi is backed by our contribution towards the progress of youth and economic matters. We continued to support sports events for the Malawi Defence Force in 2017.

We also hosted key events including the Malawi Socio-Economic Forum which was done in collaboration with UNICEF and Ministry of Labour, Youth, Sports, and Man-power Development.

We supported the Mhub entrepreneurship challenge What Would You Do with MK20 million of which we contributed MK15 million cash and business coaching and mentoring by the Banks senior Business Banking relationship manager.

We invested over Mk15 million in Youth and Sustainable Development.

Sponsorships

We sponsored the following events: Institute of Chartered Accountants in Malawi (ICAM), Annual Conference, Bankers' Annual conference (BAM), Economics Association of Malawi Conference (ECAMA), Women in Leadership Conference and Lake Malawi Sailing Marathon.

Environment

As a provider of financial services, the Group has a responsibility and an opportunity to promote sustainable development in areas where it has influence. For instance, project financing operations can potentially indirectly expose the Group to material environmental and social impacts. While customers are directly responsible for managing these impacts, the Group protects its assets and reputation by selecting customers and allocating capital responsibly. The ongoing challenge is to maintain the balance between meeting our customers' needs and protecting our assets.

As a provider of financial services and a socially responsible organisation, it is our responsibility to promote sustainable development in areas where we have influence. Therefore, we ensure that we carry out necessary study before embarking on and financing projects for the good of our communities and the world at large.

As a Bank, we protect our assets and reputation by selecting customers and allocating capital responsibly; avoiding operations that have the potential of directly or indirectly exposing communities and the Group to material environmental and social harm.

RISK MANAGEMENT AND CONTROL

The effective management of risk is fundamental to the business activities of the Group as we remain committed to the objective of increasing shareholder value by developing and growing business that is consistent with agreed risk appetite. We seek to achieve an appropriate balance between risk and reward in our business, and continue to build and enhance the risk management capabilities that will assist in delivering our growth plans in a controlled environment.

Risk management is at the core of the operating and management structures of the Group. The Group seeks to limit adverse variations in earnings and equity by managing the statement of financial position and capital within agreed levels of risk appetite. Managing and controlling risks, and in particular avoiding undue concentrations of exposure, limiting potential losses from stress events, and restricting significant positions in less quantifiable risk areas, are essential elements of the Group's risk management and control framework which ultimately leads to the protection of the Group's reputation.

Responsibility and accountability for risk management reside at all levels within the Group, from the Board and executive down through the organisation to each business manager, risk specialist and staff.

Key aspects of risk management are the risk governance and the organisational structures established by the Group to manage risk according to a set of risk governance standards which are implemented across the Group and are supported by appropriate risk policies and procedures.

RISK MANAGEMENT FRAMEWORK

The Group's approach to risk management is based on well-established governance processes and relies on both individual responsibility and collective oversight, supported by comprehensive reporting. This approach balances strong corporate oversight at the Board level with independent risk management structures.

Unit heads are specifically responsible for the management of risk within their areas. As such, they are responsible for ensuring that there are appropriate risk management frameworks that are adequate in design, effective in operation and meet minimum Group standards.

The Group has developed a set of risk governance standards for each major risk type. The standards set out and ensure alignment and consistency in the manner in which the major risk types across the Group are governed, identified, measured, managed, controlled and reported. It is the responsibility of each unit's head to ensure that the requirements of the risk governance standards, policies and procedures are implemented within their unit while independent oversight is provided by the Risk Function, Risk Committees at management level and Risk Committees at board level. Each standard is supported by policy and procedural documents as required. The Group is required to self-assess, at least annually, its compliance with risk standards and policies.

For extensive disclosures on how the Group manages its risk and capital, log on to our website at www.standardbank.co.mw to access a copy of the Risk and Capital Management Report.

DIRECTOR'S REPORT

Incorporation and registered office

Standard Bank Limited is a company incorporated in Malawi under Laws of Malawi and is domiciled in Malawi. It was listed on the Malawi Stock Exchange on 28 June 1998. The address of its registered office is:

Standard Bank Centre
Africa Unity Avenue.
P O Box 30380
Lilongwe 3
Malawi

Principal Activities

Standard Bank Limited is registered as a financial institution under the Banking Act, 2009. It is in the business of banking and the provision of other related services. Its subsidiary Standard Bank Bureau De Change Limited is involved in foreign exchange trading.

Financial Performance

The results and state of affairs of the Group and the Company are set out in the accompanying consolidated and separate statements of financial position, profit or loss, other comprehensive income, changes in equity, cash flows, and notes to the financial statements.

Dividend

The net profit for the year of **MK12.2 billion** (2016: MK19.4 billion) has been added to retained earnings. An interim dividend of **MK1.5 billion** (2016: MK1 billion) was paid in September 2017 representing **MK6.39** (2016: MK4.26) per ordinary share. The directors recommend a final dividend of **MK1billion** (2016: MK5 billion) representing **MK4.26** (2016: MK21.31) per ordinary share to be tabled at the forthcoming Annual General Meeting.

Directorate and Secretary

Details of directors and company secretary as at the date of the annual financial statements are as follows:

Dr R Harawa**	-	Chairman all year
Mr R K Phiri**	-	All year
Mr A A Chioko**	-	All year
Mr J Patel**	-	All year
Mr A Mashanda*	-	Served as a Director up to August 2017
Mrs T Simwaka**	-	All year
Mr A J W Chinula SC**	-	All year
Dr N R Kanyongolo**	-	All year
Mrs C Mtonda**	-	All year
Mr. G. Brackenridge***	-	All year
Mr. S Ulemu**	-	All year
Mr. D Pinto****	-	All year
Mr. W le Roux***	-	Served as a Director from December 2017
Mrs E Chanza**	-	Company Secretary and all year

*	Zimbabwean
**	Malawian
***	South African
****	Portuguese

Shareholding analysis

The shareholders of the Group as at 31 December 2017 were as below:

Stanbic Africa Holdings Limited	60.18%
NICO Holdings Limited	20.00%
Old Mutual Life Assurance Company Ltd.	4.91%
Press Trust	2.32%
Standard Bank Pension Fund	1.47%
Public	11.12%
Total	**100.00%**

Dr R Harawa
Chairman

A A Chioko
Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements of Standard Bank Limited, comprising the statements of financial position at 31 December 2017, and the statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by Companies Act, 2013, of Malawi.

The Act also requires the directors to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the consolidated and separate statement of financial position of the Group and ensure the consolidated and separate financial statements comply with the Companies Act, 2013, of Malawi.

In preparing the consolidated and separate financial statements, the directors accept responsibility for 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 consolidated and separate financial statements, subject to any material departures being disclosed and explained in the consolidated and separate financial statements; and
- Preparation of consolidated and separate financial statements on a going concern basis unless it is inappropriate to presume the Group will continue in business.

The directors are also responsible for such internal controls as the directors determine necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk management.

The Directors' responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The Directors have made an assessment of the Group and Company's ability to continue as a going concern and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the consolidated and separate financial statements.

The Directors have made an assessment and they attest to the adequacy of accounting records and effectiveness of the systems of internal controls and effective risk management for the Group.

The external auditor is responsible for reporting on whether the consolidated and separate financial statements are fairly presented in accordance with the International Financial Reporting Standards (IFRS).

Approval of consolidated and separate financial statements

The consolidated and separate financial statements of Standard Bank Limited, as identified in the first paragraph, were approved by the Board of Directors on 28 February 2018 and are signed on its behalf by.

By order of the Board

Dr R Harawa
Chairman

A A Chioko
Director

OUR CORPORATE SOCIAL INVESTMENT

STANDARD BANK AND UNICEF GIRL CHILD MENTORSHIP PROGRAMME

In partnership with United Nations Children Fund (UNICEF), our women leaders champion the girl child mentorship program targeting girls aged 8-15 in the districts of Dedza, Salima, Mangochi and selected youth drop-in centres.

GLOBAL FUND FINANCIAL MANAGEMENT PROGRAMME

We are passionate about the health and well-being of Malawians in our quest to contribute to nation building and to move business and personal lives forward. Our partnership with the Global Fund underscores our commitment in fighting AIDS, TB and Malaria.

STANDARD BANK BURSARY PROGRAMME

The Bank believes that education is a catalyst and lubricant to economic growth and contributions to public universities is not an isolated intervention by the Bank but a continuation of its contributions to the education sector.

OUR PEOPLE

MOVING FORWARD WITH THE NEW ERA OF TECHNOLOGY

In our quest to deliver superior services in and move our customers in tune with advancements in technology, Standard Bank successfully switched to a new core banking system called Finacle.

HEALTH MATTERS

As a brand we recognize that our ability to deliver on our brand promise relies entirely on our people and wellness is a key focus area in our employee value proposition. We organized a Health Week for our staff where we had activities such as stress management, financial management, health screening and aerobics.

RECOGNIZING EXCELLENCE

Our individual efforts provide the sum total of success for the Bank.

OUR SPONSORSHIPS

BE MORE RACE

The Be More Race is a signature event under our 'Be More' proposition, it is the only race that combines sport, health and financial inclusion on one platform as it brings together people from diverse backgrounds and interests to achieve their respective goals through one race.

LIONESSES OF AFRICA

In partnership with the Lioness of Africa Foundation, we are passionate to bring powerful and progressive women together to share ideas, best practices, successes and learning

Standard Bank brings women entrepreneurs together in key cities to 'lean in' and listen to successful women business brand builders share their stories, to inspire one another, and to network and connect for business success.

MALAWI SOCIAL-ECONOMIC FORUM

Standard Bank hosted Malawi Social-economic forum in collaboration with UNICEF and Ministry of Labour, Youth, Sports and Man-power Development under the theme ***Youth Entrepreneurship: Creating Opportunities to build Mother Malawi.***

OUR EVENTS

CHINESE MID-AUTUMN FESTIVAL

In cherishing the business relationship we joined the Chinese community in celebrating Chinese Mid-Autumn Festival.

BE MORE GOLF

We place premium value on the relationships we have built with our customers and golf accords us the platform to appreciate and harness these relations.

CULTURAL DIVERSITY NIGHT

The Cultural Diversity Night provides a rare opportunity for the Bank to interact with customers from diverse backgrounds, cultures and nationalities.

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF STANDARD BANK LIMITED

Opinion

We have audited the consolidated and separate financial statements of Standard Bank Limited (the Group and Company) set out on pages 49 to 165, which comprise the statements of financial position as at 31 December 2017, and the statements of profit or loss, statements of other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Standard Bank Limited as at 31 December 2017, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2013 of Malawi.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated and separate financial statements* section of our report. We are independent of the Group and Company in accordance with the International Ethics Standard Board for Accountants' Code for Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance the IESBA Code. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The below key audit matters are applicable to both the group and company.

Key Audit Matter	How Our Audit Addressed The Key Audit Matter
Impairment of loans and advances to customers See notes 3(v), 4,5(i) and 12 to the consolidated and separate financial statements A significant proportion of the Group and Company's business involves providing loans and advances to customers. The Bank considers whether these loans and advances may be impaired at both a specific asset and on a collective (portfolio) level as described in note 3(v). Market and economic conditions in Malawi, including high interest rates and inflation as well as depreciation of the local currency against all the major currencies, have a significant impact on the ability of customers to repay loans borrowed from the Group and Company. Accordingly, we paid particular attention to the impairment of loans and advances to customers at year end due to: • The significance of loans and advance to customers balance in the statements of financial position at year end.	As part of our audit, we inspected the Bank's credit impairment policies that sets out the provisioning processes that are followed by the Bank. We assessed the provisioning processes by considering whether the impairment process is in compliance with IAS 39 *Financial Instruments:* Recognition and Measurements, as well as with the provisions prescribed by the Reserve Bank of Malawi. For the collective impairment allowances: • For the specific models used, we independently evaluated the appropriateness of the modelling policy and methodology used for material portfolios by reference to the accounting standards and market practices. The model calculations were tested through re-performance. • For inputs into the models, we tested the centrally modelled roll rates and probability of default by the customers and evaluated the documented justification for the following model elements: Emergence periods, Outcome periods, Adjustment for macro-economic trends. • We tested a sample of loans from the models used to calculate impairment. This testing varied by portfolio, but typically included testing of the grading used in impairment models, re-performance of the calculation, testing the extraction of data used in the models including the 'bucketing' into delinquency bandings, and testing and applying sensitivities to the underlying critical assumptions.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers • The subjective nature of the impairment calculations, including the high level of judgement and complexity involved in determining the amounts to be reported in the consolidated and separate financial statements. • The complexity of the models used to assess the impairment of the loans and advances to customers, resulting in the impairment of loans and advances to customers being a key audit matter for both the consolidated and separate financial statements.	For impairments of specific assets: • We challenged management's assumptions in grading of loans into performing and non-performing loans by selecting a sample of loans and assessing whether the loans classified as performing were indeed performing by looking at the repayment history of the performing loans. • We evaluated a selected sample of loans categorized according to industries that have been affected by the current economic situation, such as agribusiness and transport sector, to determine the adequacy of loans impairment provision on specific loans to customers in those industries. • We examined a sample of loans and advances which had not been identified by management as potentially impaired and formed our own judgment, based on our knowledge of the client and experience of the industry in which it operates, as to whether management's decision was appropriate using external evidence in respect of the relevant counterparties. • Where impairment had been identified, we examined the forecasts of future cash flows prepared by management to support the calculation of the impairment, by selecting loan exposures on a sample basis and testing the appropriateness of the specific loan loss provision as at the reporting date, including inspecting the Bank's documented credit assessment of the borrowers, challenging assumptions around future cash flow projections and the valuation of collateral held.

Key audit matter	How our audit addressed the key audit matter
Valuation of trading assets and financial investments See notes 3(g), 3(f), 7(b), 10 and 13 to the consolidated and separate financial statements The Group and Company hold a number of financial instruments. Trading assets and financial investments, specifically bonds and treasury bills, are recorded at fair value in the statements of financial position in the consolidated and separate financial statements, with changes in fair value recorded in profit or loss for the year. Because the fair value of these instruments is not readily available in the economy as there is no active market for these instruments in Malawi, these instruments held were classified as Level 2 instruments in accordance with IFRS 13. We paid particular attention to the valuation of these instruments at fair value due to: • The significance of the fair values of these instruments recognised in the consolidated and separate financial statements. • The complexity involved in determining the fair values of financial investments due to lack of an active market for financial investments. • The use of significant judgement by management in the inputs to the models used to calculate the fair value of these instruments. Resulting in the valuation of trading assets and financial investments being a key audit matter in both the consolidated and separate financial statements.	Our audit included testing the fair value calculations of the investments by considering whether the assumptions and calculation method used are appropriate and consistent with market conditions. We tested the key controls relating to fair valuation of the financial instruments, including the process over product approval and the review of the models and model parameters. In respect of the inputs into the models: • We evaluated the key internal controls in place to check the integrity of the data being input in the valuation models and to check against manipulation of the output data from the valuation models. • We compared a sample of market data input by the Group and Company with independently verifiable data to evaluate its reasonableness and appropriateness. • We considered the inputs to which the valuation of the Bank's instruments are most sensitive and targeted our sample of inputs for testing using this understanding. We compared the price quoted on the financial investments to the available market prices provided by the regulator specifically of publicly traded bonds and treasury bills. • In cases where the external information supporting the data input was limited, we examined the Bank's internal price verification processes and controls that over these judgments against other information, which, while not always directly comparable, provide indicative basis of the appropriate valuation.

Key Audit Matter	How Our Audit Addressed The Key Audit Matter
Valuation of properties See notes 3(i), 5 and 16 to the consolidated and separate financial statements The Group operates in multiple locations throughout the country. Properties are measured at the revalued amount and the revaluation is carried out with sufficient regularity to ensure that its carrying amount does not materially differ from its fair value. During the 2017 financial year an independent valuer was engaged to provide specialist advice on valuing the assets at 31 December 2017. An open market valuation technique was used by the external independent valuer using the direct comparison approach methodology, which is complex, subjective and requires estimates regarding anticipated market conditions, economic characteristics, and conditions of sale and operating expenses. Due to the significant risk associated with the property from an audit perspective and the judgement applied by management and independent valuer, the valuation of the property was considered a key audit matter.	Our audit procedures included: • We tested the fair value of the properties at year end by considering whether the assumptions and judgements used by the independent valuer during 2017 i.e location of the properties, accessibility of the properties, condition of the properties, lending rates, inflation rates, power and water supply are still appropriate and consistent with market conditions and the economic environment prevailing during the year. • We evaluated the competence, independence and integrity of the Group's independent valuer. • We assessed the appropriateness of management's assumptions based on our understanding and knowledge of the property market and the economic environment within which the Group operates. • Compared a sample of market data such as inflation used by management in making their assumptions to independently verifiable data. • Considered the financial statements disclosures in respect of the valuation of property to the relevant financial reporting framework.

Other Information

The directors are responsible for the other information. The other information comprises the Chairman's and chief executive's report, Statement of corporate governance, Risk management and control, Directors' report and Statement of directors' responsibilities which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed \, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities Of Directors For The Consolidated And Separate Financial Statements

The directors are responsible for the preparation of the consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2013 of Malawi, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities For The Audit Of The Consolidated And Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

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

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

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

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

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

KPMG

Gordon Tembo

Chartered Accountant (Malawi)

Partner

Lilongwe, Malawi

Date: 8 March 2018

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2017

		CONSOLIDATED		SEPARATE	
	Note	**2017 MKm**	**2016 MKm**	**2017 MKm**	**2016 MKm**
Assets					
Cash and balances held with Central Bank	8	**35,234**	36,866	**34,962**	36,715
Derivative assets	9	**541**	726	**541**	726
Trading assets	10	**23,522**	18,008	**23,522**	18,008
Current tax asset		**3,362**	408	**3,361**	408
Loans and advances to banks and other financial institutions	11	**174,788**	107,530	**173,730**	107,530
Loans and advances to customers	12	**94,219**	91,008	**94,604**	91,008
Financial investments	13	**46,893**	37,623	**46,893**	37,623
Investment in subsidiary	14	**-**	-	**100**	100
Other assets	15	**9,429**	6,314	**9,445**	6,333
Property and equipment	16	**15,208**	12,613	**15,208**	12,613
Intangible assets	17	**20,942**	591	**20,942**	591
Deferred tax assets	18	**3,860**	1,828	**3,850**	1,822
Total assets		**427,998**	313,515	**427,158**	313,477
Liabilities					
Derivative liabilities	9	**188**	195	**188**	195
Trading liabilities	19	**135**	322	**103**	322
Deposits and loans from banks	20	**60,659**	19,234	**60,681**	19,234
Deposits from customers	21	**259,488**	204,410	**259,820**	205,138
Other liabilities	22	**23,107**	16,873	**23,102**	16,865
Income tax payable	23	**65**	3,217	**-**	3,132
Provisions	24	**2,856**	3,054	**2,856**	3,054
Employee benefits liabilities	41	**85**	113	**85**	113
Deferred tax liabilities	18	**9,183**	3,297	**9,183**	3,297
Total liabilities		**355,766**	250,715	**356,018**	251,350
Equity					
Share capital	25	**234**	234	**234**	234
Share premium	25	**8,492**	8,492	**8,492**	8,492
Revaluation reserve	26	**7,533**	4,211	**7,533**	4,211
Available for sale reserve	26	**358**	(84)	**358**	(84)
Share-based payment reserve	26	**2**	4	**2**	4
Loan loss reserve	26	**2,845**	-	**2,845**	-
Retained earnings	26	**52,768**	49,943	**51,676**	49,270
Total equity		**72,232**	62,800	**71,140**	62,127
Total liabilities and equity		**427,998**	313,515	**427,158**	313,477

These financial statements were approved for issue by the Board of Directors on 28 February 2018 and were signed on its behalf by:

Dr R. Harawa
Chairman

A A Chioko
Director

STATEMENTS OF PROFIT OR LOSS

For the year ended 31 December 2017

	Note	CONSOLIDATED 2017 MKm	CONSOLIDATED 2016 MKm	SEPARATE 2017 MKm	SEPARATE 2016 MKm
Interest income	27	**46,729**	44,282	**46,771**	44,288
Interest expense	27	**(8,806)**	(8,458)	**(8,807)**	(8,458)
Net interest income	27	**37,923**	35,824	**37,964**	35,830
Fee and commission income	28	**10,010**	10,063	**10,010**	10,063
Fee and commission expense	28	**(639)**	(595)	**(639)**	(595)
Net fee and commission income		**9,371**	9,468	**9,371**	9,468
Net trading income	29	**9,886**	8,715	**8,938**	7,853
Other operating income	30	**74**	124	**119**	167
Total operating income		**57,254**	54,131	**56,392**	53,318
Impairment losses on loans and advances	12	**(6,224)**	(576)	**(6,224)**	(576)
Income after credit impairment losses on loans and advances		**51,030**	53,555	**50,168**	52,742
Staff costs	31	**(14,306)**	(11,499)	**(14,306)**	(11,499)
Depreciation and amortisation	32	**(2,599)**	(1,619)	**(2,599)**	(1,619)
Other operating expenses	33	**(16,664)**	(12,270)	**(16,400)**	(12,114)
Total expenditure		**(33,569)**	(25,388)	**(33,305)**	(25,232)
Profit before income tax expense		**17,461**	28,167	**16,863**	27,510
Income tax expense	34	**(5,299)**	(8,742)	**(5,120)**	(8,545)
Profit for the year attributable to ordinary shareholders		**12,162**	19,425	**11,743**	18,965
Earnings per share					
Basic and diluted (MK per share)	35	**51.97**	83.01	**50.19**	81.05

STATEMENTS OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	CONSOLIDATED 2017 MKm	CONSOLIDATED 2016 MKm	SEPARATE 2017 MKm	SEPARATE 2016 MKm
Profit for the year	**12,162**	19,425	**11,743**	18,965
Items that will not be reclassified to profit or loss				
Net revaluation gain on property and equipment	**3,322**	-	**3,322**	-
Items that may be reclassified subsequently to profit or loss				
Net change in fair value on available for sale financial assets	**442**	345	**442**	345
Total other comprehensive income for the year, net of tax	**3,764**	345	**3,764**	345
Total comprehensive income for the year attributable to ordinary shareholders	**15,926**	19,770	**15,507**	19,310

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2017

CONSOLIDATED	Share capital MKm	Share premium MKm	Available for sale reserve MKm	Share based payment reserve MKm	Revaluation reserve MKm	Loan loss reserve MKm	Retained earnings MKm	Total MKm
2017								
Balance at 1 January	**234**	**8,492**	**(84)**	**4**	**4,211**	**-**	**49,943**	**62,800**
Transaction with owners of the company								
Dividends paid	-	-	-	-	-	-	(6,500)	(6,500)
Transfer to loan loss reserve	-	-	-	-	-	2,845	(2,845)	-
Transfer (from)/to share ownership scheme reserve	-	-	-	(2)	-	-	8	6
Total transaction with owners of the company	-	-	-	(2)	-	2,845	(9,337)	(6,494)
Other comprehensive income								
Revaluation surplus, net of tax	-	-	-	-	3,322	-	-	3,322
Change in fair value of available-for-sale								
Financial assets net of tax	-	-	442	-	-	-	-	442
Total other comprehensive income	-	-	442	-	3,322	-	-	3,764
Profit for the year	-	-	-	-	-	-	12,162	12,162
Total comprehensive income for the year	-	-	442	-	3,322	-	12,162	15,926
Balance at 31 December	**234**	**8,492**	**358**	**2**	**7,533**	**2,845**	**52,768**	**72,232**

CONSOLIDATED	Share capital MKm	Share premium MKm	Available for sale reserve MKm	Share based payment reserve MKm	Revaluation reserve MKm	Retained earnings MKm	Total MKm
2016							
Balance at 1 January	234	8,492	(429)	15	4,211	34,512	47,035
Transaction with owners of the company							
Dividends paid	-	-	-	-	-	(4,008)	(4,008)
Transfer (from)/to share ownership scheme reserve	-	-	-	(11)	-	14	3
Total transaction with owners of the company	-	-	-	(11)	-	(3,994)	(4,005)
Other comprehensive income							
Change in fair value of available-for-sale							
Financial assets net of tax	-	-	345	-	-	-	345
Total other comprehensive income	-	-	345	-	-	-	345
Profit for the year	-	-	-	-	-	19,425	19,425
Total comprehensive income for the year	-	-	345	-	-	19,425	19,770
Balance at 31 December	234	8,492	(84)	4	4,211	49,943	62,800

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2017

SEPARATE	Share capital MKm	Share premium MKm	Available for sale reserve MKm	Share based payment reserve MKm	Revaluation reserve MKm	Loan loss reserve MKm	Retained earnings MKm	Total MKm
2017								
Balance at 1 January	**234**	**8,492**	**(84)**	**4**	**4,211**	**-**	**49,270**	**62,127**
Transaction with owners of the company								
Dividends paid	-	-	-	-	-	-	(6,500)	(6,500)
Transfer to loan loss reserve	-	-	-	-	-	2,845	(2,845)	-
Transfer (from)/to share ownership scheme reserve	-	-	-	(2)	-	-	8	6
Total transaction with owners of the company	-	-	-	(2)	-	2,845	(9,337)	(6,494)
Other comprehensive income								
Revaluation surplus, net of tax	-	-	-	-	3,322	-	-	3,322
Change in fair value of available-for-sale Financial assets net of tax	-	-	442	-	-	-	-	442
Total other comprehensive income	-	-	442	-	3,322	-	-	3,764
Profit for the year	-	-	-	-	-	-	11,743	11,743
Total comprehensive income for the year	-	-	442	-	3,322	-	11,743	15,507
Balance at 31 December	**234**	**8,492**	**358**	**2**	**7,533**	**2,845**	**51,676**	**71,140**

SEPARATE	Share capital MKm	Share premium MKm	Available for sale reserve MKm	Share based payment reserve MKm	Revaluation reserve MKm	Retained earnings MKm	Total MKm
2016							
Balance at 1 January	234	8,492	(429)	15	4,211	34,299	46,822
Transaction with owners of the company							
Dividends paid	-	-	-	-	-	(4,008)	(4,008)
Transfer (from)/to share ownership scheme reserve	-	-	-	(11)	-	14	3
Total transaction with owners of the company	-	-	-	(11)	-	(3,994)	(4,005)
Other comprehensive income							
Change in fair value of available-for-sale Financial assets net of tax	-	-	345	-	-	-	345
Total other comprehensive income	-	-	345	-	-	-	345
Profit for the year	-	-	-	-	-	18,965	18,965
Total comprehensive income for the year	-	-	345	-	-	18,965	19,310
Balance at 31 December	234	8,492	(84)	4	4,211	49,270	62,127

STATEMENTS OF CASHFLOWS

For the year ended 31 December 2017

	Note	CONSOLIDATED 2017 MKm	CONSOLIDATED 2016 MKm	SEPARATE 2017 MKm	SEPARATE 2016 MKm
Cash flows from operating activities:					
Interest received		**46,729**	44,282	**46,771**	44,288
Interest paid		**(8,806)**	(8,458)	**(8,807)**	(8,458)
Fee and commission receipts	28	**10,010**	10,063	**10,010**	10,063
Fee and commission expense	28	**(639)**	(595)	**(639)**	(595)
Trading and other income receipts	29, 30	**9,960**	8,839	**9,057**	8,020
Recoveries from impairment losses		**547**	1,117	**547**	1,117
Payments to employees and suppliers		**(33,717)**	(24,986)	**(33,450)**	(24,830)
Cash flows from operating activities before changes in operating assets and liabilities		**24,084**	30,262	**23,489**	29,605
Changes in operating assets and liabilities:					
Loans and advances		**(3,211)**	4,702	**(3,596)**	4,702
Liquidity reserve requirements	39	**(3,621)**	(4,003)	**(3,621)**	(4,003)
Trading assets maturing over 90 days		**(8,463)**	(2,560)	**(8,463)**	(2,560)
Financial investments over 90 days		**(24,458)**	4,791	**(24,458)**	4,791
Balance with banks over 90days		**(64,486)**	(1,875)	**(64,486)**	(1,875)
Derivative assets		**186**	(289)	**186**	(289)
Other assets		**(6,479)**	(192)	**(6,475)**	(207)
Deposits from customers		**55,077**	37,022	**54,683**	37,480
Deposits and loans from other banks		**41,425**	14,380	**41,447**	14,380
Derivative liabilities		**(7)**	(210)	**(7)**	(210)
Trading liabilities		**(187)**	173	**(219)**	173
Other liabilities		**6,008**	12,727	**6,008**	12,722
Net cash generated from / (used in) operating activities before income tax		**15,868**	94,928	**14,488**	94,709
Income tax paid	23	**(6,347)**	(7,702)	**(6,143)**	(7,556)
Net cash generated from / (used in) operating activities		**9,521**	87,226	**8,345**	87,153
Cash flows from investing activities					
Purchase of property and equipment	16, 17	**(23,643)**	(3,191)	**(23,643)**	(3,191)
Proceeds from sale of property and equipment		**-**	1	**-**	1
Net cash used in investing activities		**(23,643)**	(3,190)	**(23,643)**	(3,190)
Cash flows to financing activities					
Dividends paid		**(6,500)**	(4,008)	**(6,500)**	(4,008)
Net (decrease)/increase in cash and cash equivalents		**(20,622)**	80,028	**(21,798)**	79,955
Cash and cash equivalents at 1 January		**147,718**	67,690	**147,566**	67,611
Cash and cash equivalents at 31 December	39	**127,096**	147,718	**125,768**	147,566

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. REPORTING ENTITY

Standard Bank Limited is a company domiciled in Malawi. The address of the Group's registered office is Standard Bank Centre, African Unity Avenue, P O Box 30380, Lilongwe 3, Malawi. The Group is primarily involved in investment, corporate and retail banking, and in providing asset management services. The consolidated and separate financial position, financial performance and cash flows of Standard Bank Limited and its subsidiary Standard Bank Bureau De Change Limited are collectively referred to as the Group. The separate financial statements present the separate financial position, financial performance and cash flows of Standard Bank Limited are referred to as the Company. When reference is made to the Group in the accounting policies, it should be interpreted as also referring to the company where the context requires unless otherwise noted.

General information

Standard Bank Limited provides retail and corporate banking services through its **27** (2016: 27) service centres located across Malawi. The Company is listed on the Malawi Stock Exchange.

The Group's ultimate parent company is Standard Bank Group Limited, which is a limited liability company incorporated in South Africa and listed on the Johannesburg Securities Exchange with a secondary listing on the Namibian Stock Exchange.

Standard Bank Bureau de Change Limited is a 100% owned subsidiary of Standard Bank Limited whose line of business is foreign exchange trading.

2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) that were relevant to its operations. These consolidated and separate financial statements have also been prepared in the manner required by the Companies Act, 2013 of Malawi.

(b) Basis of measurement

The consolidated and separate financial statements have been prepared on the historical cost basis except for the following:

- investments held for trading are measured at fair value;
- derivative financial instruments are measured at fair value;
- financial instruments at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value; and
- Buildings and freehold land is measured at revalued amounts.

(c) Functional and presentation currency

These consolidated and separate financial statements are presented in Malawi Kwacha, which is the Group's functional currency. Except where indicated otherwise, financial information presented in Malawi Kwacha has been rounded to the nearest million.

(d) Use of estimates and judgements

The preparation of consolidated and separate financial statements in conformity with IFRS requires the use of accounting estimates. It also requires management to exercise its judgement in the application of policies and reported amounts in assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing 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 periods if the revision affects both current and future periods.

Judgements made by management in the application of the IFRSs that have significant effect on the consolidated and separate financial statements and estimates on the amounts recognised are discussed in Note 5.

(e) Changes in accounting policies

Except for the changes on note 3(k), the Group has consistently applied the accounting policies as set out in Note 3 to all periods presented in these consolidated and separate financial statements.

The accounting policy has been amended to change armortisation period of intangible assets which was previously amortised between three -five years and has been changed to three - fifteen years. The change will be applied prospectively in line with IAS 8 — Accounting Policies, Changes in Accounting Estimates and Errors. The change in policy did not have a significant impact on the Group's existing intangible assets when compared with prior year results. However,the significant increase in armortisation charge for the year arose from intangible asset additions which came after the policy change. The armortisation charge on the additions for the year after the change in policy was Mk854million

(i) Adoption of new and amended standards effective for the current financial period

The accounting policies are consistent with those reported in the previous year except for of the adoption of the following amendments effective for the current period:

- Annual improvements 2014 – 2016 clarification to IFRS 12 Disclosure of Interests in Other Entities (IFRS 12): amendment clarifies that an entity is not required to disclose summarised financial information for a subsidiary, joint venture or associate when classified (or included in a disposal group that is classified) as held for sale in terms of

2. Basis of preparation (continued)

(e) Changes in accounting policies (continued)

(i) Adoption of new and amended standards effective for the current financial period (continued)

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (IFRS 5).

- Amendment to IFRS 2 Classification and Measurement of Share-based Payment Transactions (IFRS 2): the amendments eliminates diversity in practice in three main areas namely, (1) effects of vesting conditions on the measurement of a cash-settled share based payment transaction; (2) classification of a share-based payment transaction with net settlement features for withholding tax obligations and (3) accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.
- Annual improvements 2014 – 2016 clarification to IFRS 1 First-time Adoption of International Financial Reporting Standards (IFRS 1) and IAS 28 Investments in Associates and Joint Ventures (IAS 28). The clarification to IAS 28 clarifies that an entity may make an election separately for each associate or joint venture, that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, at initial recognition to measure that associate or joint venture at either at fair value through profit or loss in accordance with IAS 39 or the equity method in accordance with IAS 28.
- Disclosure initiative (Amendments to IAS 7):the amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flow and non-cash changes
- Recognition of deferred tax assets for unrealised losses (amendments to IAS 12):the amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.

The abovementioned amendments to the IFRS standards and circular, adopted on 1 January 2017, did not have any effect on the Group's previously reported financial results or disclosures and had no material impact on the Group's accounting policies.

(f) Going concern

The financial statements have been prepared on a going concern basis as directors have made assessment of the Group's ability to continue as a going concern and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Group continues to adopt the going concern basis in preparing the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the years presented except as explained in note 2(e) which addresses changes in accounting policies.

(a) Basis of consolidation

The consolidated financial statements comprise the Bank and its subsidiary, Standard Bank Bureau de Change Limited, which is controlled by the Bank.

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at cost in the separate financial statements. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

Subsidiaries

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, 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. The financial statements of subsidiaries are included in the consolidated and separate financial statements from the date on which control commences until the date when control ceases.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

Inter-company balances and transactions and any unrealised income and expenses arising from inter-company transactions are eliminated in preparing the consolidated and separate financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency transactions

Transactions in foreign currencies during the year are translated into Malawi Kwacha at rates ruling at the transaction dates. Monetary assets and liabilities at the reporting date, which are expressed in foreign currencies, are translated into Malawi Kwacha at rates ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the transaction date, and those measured at fair value are translated at the exchange rate at the date that the fair value was determined. Exchange rate differences on non-monetary items are accounted for based on the classification of the underlying items. Foreign exchange gains and losses on equities (debt) classified as available-for-sale financial assets are recognised in the available-for-sale reserve in OCI (interest income), whereas the exchange differences on equities (debt) that are classified as held at fair value through profit or loss are reported as part of the other revenue (interest income).

(c) Financial assets and financial liabilities

(i) Recognition

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

(ii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all risks and rewards of ownership and it does not retain control of the financial assets. Any interest in a transferred asset that is created or retained by the Group is recognised as a separate asset or liability.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of the consideration received and any cumulative gain or loss that has been recognised in other comprehensive income is recognised in profit or loss.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(iii) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the consolidated and separate statement of financial position when, and only when, the Group has a legal right to offset the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activities.

(iv) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price. Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(d) Cash and cash equivalents

Cash and cash equivalents includes notes and coins on hand, unrestricted balances with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management its short-term commitments.

Cash and cash equivalents are measured at amortised cost.

(e) Derivative assets and liabilities

In the normal course of business, the Group enters into a variety of derivative transactions for both trading and hedging purposes. Derivative financial instruments are entered into for trading purposes and for hedging foreign exchange, interest rate, inflation, credit, and commodity and equity exposures. Derivative instruments used by the Group in both trading and hedging activities include swaps, options, forwards, futures and other similar types of instruments based on foreign exchange rates, credit risk, inflation risk, interest rates and the prices of commodities and equities.

Derivatives are initially recognised at fair value. Derivatives that are not designated in a qualifying hedge accounting relationship are classified as held for trading with all changes in fair value being recognised within trading revenue. All derivative instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Embedded derivatives included in hybrid instruments are treated and disclosed as separate derivatives when their economic

3. Significant accounting policies (continued)
(e) Derivative assets and liabilities (continued)

characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. The financial host contracts are accounted for and measured applying the rules of the relevant financial instrument category.

The method of recognising fair value gains and losses on derivatives designated as a hedging instrument depends on the nature of the hedge relationship.

(f) Trading assets and trading liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and trading liabilities are initially recognised and subsequently measured at fair value in the consolidated and separate statements of financial position with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. Trading assets and liabilities are not re-classified subsequent to their initial recognition, except that non-derivative trading assets, may be reclassified out of the fair value through profit or loss (i.e. trading category) if they are no longer held for the purpose of being sold or repurchased in the near term and the following terms are met:

- If the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held for trading at initial recognition), then it may be reclassified if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and receivables, then it may be classified out of the trading category only in 'rare circumstances'.

(g) Treasury bills, bonds and investment securities

The Group classifies its treasury bills; bonds and investment securities into the following three categories: held for trading, held-to-maturity and available-for-sale assets. Financial assets that the Group holds for short-term profit taking are classified as assets held for trading. Financial assets with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Financial assets 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 are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Subsequent to initial recognition held-for-trading assets are measured at fair value. All related realised and unrealised gains and losses arising from the change in fair value are included in the profit or loss.

Financial assets classified as held-to-maturity are carried at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. Any unrealised gains and losses arising from changes in the fair values are recognised in OCI. Foreign exchange gains and losses on available-for-sale monetary items are recognised in profit or loss. Interest income is recognised in profit or loss using the effective interest method.

When assets classified as available-for-sale are disposed of or impaired, the related accumulated fair value adjustments previously recognised in consolidated and separate statements of other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

The fair values of held-for-trading and available-for-sale financial assets are based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price. Earnings or price/ cash flow ratios refined to reflect the specific circumstances of the issuer.

Unquoted equity securities for which fair values cannot be measured reliably are measured at cost less any impairment losses.

Impairment of financial assets

At each reporting date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a Group of assets such as adverse changes in the payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group.

If impairment indicators are present; an impairment test is carried out.

If a decline in the fair value of an available-for-sale financial asset has previously been recognised in consolidated and separate statements of other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in equity is transferred to profit or loss as reclassification adjustment.

Impairment losses in respect of financial assets that are measured at amortised cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. Impairment losses are recognised in profit or loss. Impairment losses are reversed through profit or loss if the subsequent increase in the financial asset can be related objectively to an event occurring after the impairment loss was recognised.

Impairment losses in respect of an investment in an equity instrument classified as available-for-sale are not reversed through the profit or loss but recognised in OCI. If 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 profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

Interest earned on financial assets classified as held-to-maturity or available-for-sale is recognised as interest income. Dividends receivable on held-to-maturity or available-for-sale financial assets are included separately in dividend income when a dividend is declared. Interest earned and dividends received on financial assets classified as held-for-trading are included in net trading income.

(h) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the short term. Loans and advances are recognised when cash is advanced to borrowers. Loans and advances are initially recognised at fair value (plus any directly attributable transaction costs). Subsequent to initial recognition, loans and advances are measured at amortised cost, using the effective interest method.

Loans and advances are classified as loans and receivables and are measured at amortised cost.

(i) Property and equipment
(i) Recognition and measurement

All property and equipment is initially recorded at cost. Leasehold and freehold land and buildings are subsequently carried at revalued amount, being its fair value, based on valuations by external independent valuers, less subsequent accumulated depreciation, and subsequent accumulated impairment losses. All other property and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour plus any other cost directly attributable to bringing the asset to a working condition for its intended use.

Increases in the carrying amount arising on revaluation are recognised in OCI and accumulated in equity under the heading revaluation reserve. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and charged against the revaluation reserve, all other decreases are charged to profit or loss. The revaluation reserve is a non-distributable reserve and therefore not available for distribution as dividends.

(ii) Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The cost of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated on the straight line basis to write down the carrying value or the revalued amounts of each asset, to its residual value over its estimated useful life. The following are the estimated useful lives for the current and comparative periods:

Buildings	13 - 40 years
Fixtures, fittings and equipment	3 – 13 years
Motor vehicles	5 years
Computer equipment	5 years

Freehold land is not depreciated as it is deemed to have an unlimited useful life.

Capitalised leased assets are depreciated over the shorter of the lease term and their useful lives, except where it is reasonably certain that the Group will obtain ownership at the end of the lease term, in which case the period of expected useful life of the asset is used.

Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

Depreciation methods, useful lives and residual values of property and equipment are reviewed at the end of each reporting period. Gains and losses on disposal of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment and are recognised in other operating income/other operating expense in profit or loss. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

(j) Work in progress

Work in progress represents costs incurred on capital projects relating to refurbishment of the Group's branch network. It is measured at cost accumulated to the reporting date. Costs include all expenditure related directly to the specific projects and an allocation of fixed and variable overheads incurred in normal operating capacity.

Work in progress is presented under property and equipment in the consolidated and separate statements of financial position and is transferred to respective class of assets upon completion of the projects. Work in progress is not depreciated.

(k) Intangible assets

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when:

- The Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits;
- The Group can reliably measure the costs to complete the development;
- It is technically and commercially feasible; and
- There are sufficient resources to complete development and to use the asset.

The capitalised cost of internally developed software includes all costs directly attributable to developing the software, and are amortised over its useful life.

Subsequent expenditure on software is capitalised only if it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as it is incurred.

Amortisation is recognised in profit or loss on a straight line basis over the estimated useful life of the software, from the date it is available for use. The estimated useful life of software is between three to fifteen years.

The carrying amount of intangible assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's

3. Significant accounting policies (continued)
(k) Intangible assets (continued)

recoverable amount is estimated. An impairment loss is recognised if the carrying amount exceeds its recoverable amount. Intangible assets that are not yet available for use are tested for impairment on an annual basis.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Impairment of non-financial assets
These assets are reviewed for impairment at each reporting date and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in non-trading and capital related items for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is determined as the higher of an asset's fair value less costs to sell and value in use. Fair value less costs to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset.

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 the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest CGUs.Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. The carrying amount of these other assets may, however, not be reduced below the higher of the CGU's fair value less costs to sell and its value in use.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through non-trading and capital related items only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Leases
A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. A lease of assets is either classified as a finance lease or operating lease.

(i) Finance lease

Lessee
Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset. Lease payments are separated using the effective interest method to identify the finance cost, which is charged as an expense over the lease period and the capital repayment which reduces the liability.

Lessor
When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable at an amount equal to the net investment in the lease. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Finance income is recognised over the term of the lease using the effective interest method (before tax), which reflects a constant periodic rate of return. Lease payments are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

(ii) Operating lease

Lessee
Leases of assets are classified as operating leases if the lease does not transfer substantially all the risks and rewards. All leases that do not meet the criteria of a financial lease are classified as operating leases. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the period of the lease. Contingent rentals are expensed as they are incurred.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which the termination takes place.

(m) Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. If such an estimate cannot be made, a contingent liability is disclosed.

When the effect of discounting is material, provisions are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from the 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 the provision is established, the Group recognises any impairment loss on the assets associated with the contract.

(n) Income tax expense
Income tax for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income in which case it is recognised in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. The following temporary differences are not provided for:

- initial recognition of goodwill,
- investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future, and
- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits.

Tax rates enacted or substantively enacted at the reporting date are used to determine deferred tax, taking consideration of the expected manner of recovery or realisation or settlement of the carrying amount of the assets and liabilities.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related deferred tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Additional income taxes that arise from the distribution of dividend are recognised at the same time as the liability to pay the related dividend is recognised.

(o) Dividends
Dividends are recognised in the period in which they are declared. Dividends declared after reporting date are disclosed in the dividends note.

(p) Interest income and expense
Interest income and expense are recognised in profit or loss for all instruments measured at amortised cost using the effective interest method and for all available for sale financial assets.

The effective interest method is a method of calculating the amortised cost of a financial asset or 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 flows through the expected life of the financial instrument or, when appropriate, a shorter period to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate the Group estimates future cash flows considering all the contractual terms of the financial instrument 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.

Interest income includes coupons earned on fixed income investments and securities, loans and receivables and accrued discount and premium on treasury bills and other discounted instruments. When loans and advances become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Interest income and expense presented in the profit or loss include:

- Interest on financial assets and liabilities at amortised cost on an effective interest basis.
- Interest on interest bearing available-for-sale investment securities on an effective interest basis.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and presented together with the changes in the fair value of trading assets and in net trading income.

Fair value changes on other financial assets and financial liabilities carried at fair value through profit or loss, are presented in net income on other financial instruments at fair value through profit and loss in the consolidated and separate statements of profit or loss.

(q) Employee benefits
Employee entitlements to gratuity and long service awards are recognised as they accrue to employees. A liability is recognised for such entitlements as a result of services rendered by employees up to the reporting date.

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

A provision is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be measured reliably.

(ii) Leave pay liability
Employee benefits in the form of annual leave entitlements are provided for when they accrue to employees with reference to services rendered up to the reporting date.

(iii) Termination benefits
Termination benefits are recognised when the Group is committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy when it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(iv) Retirement contribution plan
The Group operates a defined contribution retirement scheme for employees. Under the defined contribution plan the Group pays fixed contributions to a separate entity and will have no legal or constructive obligations to pay further amounts. The assets of the schemes are held in separate trustee administered funds, which are funded by contributions from both the Group and employees.

The Group's contributions to the defined contribution scheme are recognised in profit or loss in the year to which they relate.

(v) Share-based payment transactions
The fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the number of share options for which the related service and non-market performance vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share options that do meet the related service and non-market performance conditions at the vesting date.

The fair value of the amount payable to employees in respect of SAR's, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is re-measured at each reporting date and at settlement date based on the fair value of the SARs. Any changes in the liability are recognised in profit or loss.

The employee share options are valued by independent experts at the Standard Bank Group level and the values relating to their employees are communicated to the Group subsidiary.

3. Significant accounting policies (continued)

(r) Acceptances, guarantees and letters of credit

Acceptances, guarantees (other than financial guarantees) and letters of credit are not recognised in the annual financial statements but are disclosed in the notes to the annual financial statements unless the terms and conditions thereof have not been met.

(s) Fees and commissions

Fees and commissions are generally recognised on an accrual basis as the service is 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 Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as 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-proportionate basis. Asset management fees related to investment funds are recognised over the period in which the service is provided.

Both principles are applied for 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.

Other fees and commission expense relates mainly to transactions and service fees which are expensed as the services are received.

(t) Net trading income

Trading income includes gains and losses from spot and forward contracts, options, futures, and foreign exchange differences and gains and losses on trading assets and liabilities. Interest rate instruments include the results of making markets in instruments in government securities, corporate debt securities, money market instruments, interest rate and currency swaps, options and other derivatives.

Equities trading income includes the results of making markets globally in equity securities and equity derivatives such as swaps, options, futures and forward contracts.

(u) Financial guarantees

Financial guarantee contracts are contracts that require the issuer (i.e. the Group) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the original or modified terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities. Financial guarantees are included within other liabilities.

Financial guarantees are initially recognised at fair value on the date the guarantee is given and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management.

Any increase in the liability relating to guarantees is included in the profit or loss under other operating expenses.

(v) Identification and measurement of impairment of financial assets

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably such that the carrying value is higher than the present value of estimated future cash flows.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to group assets such as adverse changes in the payment status of borrowers or issuers in the group or economic conditions that correlate with defaults in the Group.

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the acquisition cost and current fair value out of equity to profit or loss less any previously recognised impairment losses. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

Allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of the loans. The amount of the allowance is the difference between the carrying amount and the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

A general allowance for loan impairment is established to cover losses that are judged to be present in the lending portfolio at the reporting date, but which have not been specifically identified as such. This allowance is based on the directors' assessment of the latent risk of default known to be present in the portfolio of the Group's advances.

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

When a loan is deemed uncollectible, it is written off against the allowance account. Subsequent recoveries are recognised in profit or loss. If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the allowance is recognised in profit or loss.

(w) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. The basic EPS is determined by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(x) Determination and presentation of operating segments

The Group determines and presents operating segments based on the information that is internally provided to the Group Executive Committee which is the Group's chief operating decision maker. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group's Executive Committee to make decisions about resource allocation to the segment and assess its performance and for which discrete information is available.

(y) New standards and interpretations not yet adopted

The following new or revised standards, amendments and interpretations are not yet effective for the year ended 31 December 2017 and have not been applied in preparing these annual consolidated and separate financial statements. The Group does not plan to adopt these standards early:

(i) IFRS 9 Financial Instruments

Background

IFRS 9 Financial Instruments (IFRS 9) will replace the existing standard dealing with the accounting treatment for financial instruments IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) from 1 January 2018.

IFRS 9 consists of the following key areas which represent changes from that of IAS 39:

- Revised requirements for the classification and measurement of financial assets and consequential changes in the classification and measurement of financial liabilities, mainly relating to the recognition of changes in fair value due to changes in own credit risk on fair value designated financial liabilities in OCI as opposed to the income statement
- An expected credit loss (ECL) impairment model
- Revised requirements and simplifications for hedge accounting

IFRS 9 is required to be adopted retrospectively from 1 January 2018, with the exception of IFRS 9's hedge accounting requirements where the standard permits an entity to choose as its accounting policy to continue to apply with IAS 39 hedge accounting requirements instead of the requirements in Chapter 6 of IFRS 9.

The group has elected to not restate its comparative financial statements. Accordingly, the difference between the previous (IAS 39) and new (IFRS 9) carrying values will be recognised in the group's opening retained earnings as at 1 January 2018.

Project governance

The Group structured its IFRS 9 implementation project in such a way as to effectively enable the delivery of the IFRS 9 requirements across the Group. The IFRS 9 steering committee provides strategic direction to the project, monitors the project's progress, and identifies required interventions and project interdependencies with other group initiatives.

In order to ensure appropriate board oversight, the IFRS 9 project reports on its activities, status and outcomes to the Board Audit Committee (BAC).

The Group's IFRS 9 implementation project included a September 2017 hard close process (hard close) which was used to test the Group's readiness for the transition to IFRS 9. The results of the hard close were assessed by external audit to assist management in determining the Group's readiness and the results and findings were communicated to both the BAC and the Group's Board.

IFRS 9 requirements

The following is a summary of IFRS 9's key requirements and the estimated impact on the Group. Accordingly, the estimated impact set out below, which were determined using the December 2017 results, may change as a result of changes in the Group's size and nature of its assets and liabilities as well as changes in the risk rating and expected loss input variables (including forward looking macroeconomic factors) of its assets):

Classification of financial assets and liabilities

IFRS 9 requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and its contractual cash flow characteristics.

The accounting for financial assets differs in various other areas to existing requirements such as embedded derivatives and the recognition of fair value adjustments in OCI.

All changes in the fair value of financial liabilities that are designated at fair value through profit or loss due to changes in own credit risk will be required to be recognised in OCI with no subsequent recognition in the income statement.

IFRS 9's classification and measurement requirements are expected to have a minimal impact on the Group's reserves as at 1 January 2018.

Expected credit loss (ECL) impairment model

IFRS 9's ECL impairment model's requirements will represent the most material IFRS 9 impact.

The IASB developed the IFRS 9 ECL impairment model with the objective of transitioning from an incurred loss approach to an expected loss model which will require entities to recognise impairment losses in advance of an exposure having objective evidence of impairment. The ECL model will apply to financial assets measured at either amortised cost or at fair value through OCI, as well as loan commitments when there is present commitment to extend credit (unless these are measured at fair value through profit or loss).

3. Significant accounting policies (continued)
(y) New standards and interpretations not yet adopted (continued)

With the exception of purchased or originated credit impaired financial assets, expected credit losses are required to be measured through a loss allowance at an amount equal to either 12-month expected credit losses or full lifetime expected credit losses. A loss allowance for full lifetime expected credit losses is recognised for a financial asset where the credit risk of that financial asset increased significantly since initial recognition (unless the financial asset is exposed to a low level of credit risk) as well as for certain contract assets and trade receivables or where the exposure is classified as in default. For all other financial instruments, expected credit losses are measured at an amount equal to 12-month expected credit losses.

Significant increase in credit risk or low credit risk

The assessment of significant increase in credit risk for the group's PBB exposures will be based on changes in a customer's credit score and for the group's CIB exposures on changes in internal credit ratings, together with the expected outlook for the specific sector and industry and other relevant available information. For both the group's PBB and CIB exposures, the determination will be set to identify significant deterioration in credit risk before the exposure reaches a past due status of 30 days. Exposures for which there is a significant increase in credit risk but for which the credit risk is low remain in stage one. Exposures are generally considered to have a low credit risk where there is a low risk of default, the exposure has a strong capacity to meet its contractual cash flow obligations and adverse changes in economic and business conditions are unlikely to reduce the exposure's ability to fulfil its contractual obligations.

Forward-looking information

In determining whether there has been a significant increase in credit risk and in determining the expected credit loss calculation, IFRS 9 requires the consideration of forward-looking information. The determination of significant increase in credit risk is required to include consideration of all reasonable and supportable information available without undue cost or effort. This information will typically include forward-looking information based on expected macro-economic conditions and specific factors that are expected to impact individual portfolios.

The incorporation of forward-looking information represents a significant change from existing accounting requirements which are based on observable events. The use of such forward-looking information will increase the use of management judgement and is expected to increase the volatility of impairment provisions as a result of continuous changes in future expectations. The forward-looking framework will be based on the group's economic expectations, industry and sub-sector-specific expectations, as well as expert management judgement.

Default

While default is not specifically defined by IFRS 9, the group has aligned the determination of default with its existing internal credit risk management definitions and approaches. Default is determined as occurring at the earlier of:

- when either, based on objective evidence, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as realisation of security; or
- when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit). In some cases, additional specific criteria are set according to the nature of the lending product.

Impact on reserves

The IFRS 9's requirements noted above are expected to reduce the Group's reserves at 1 January 2018 by approximately MK2.2billion to MK3.2billion (net of tax). This adjustment materially arises from IFRS 9's ECL requirements. The following table details the key drivers of this estimated range:

IFRS 9 ECL Driver	Reason
Stage one (12-month expected loss)	PBB's existing emergence period is between three to six months and for CIB exposure is 12 months. The change to a 12 month expected loss requirement for exposures will hence result in an increase in impairments for PBB.
Stage two (lifetime expected loss for items for which there is a significant increase in credit risk)	IFRS 9 will require a lifetime loss to be recognised for items for which there has been a significant increase in credit risk. This requirement will affect both PBB and CIB's credit impairments.
Stage three (lifetime expected loss for credit impaired exposures)	Whilst IFRS 9 contains similar requirements to that of existing accounting requirements, an increase in impairment provisions will be recognised as a result of the requirement to include the probability of multiple lifetime defaults.
Off-balance sheet exposures	The IFRS 9 requirement for impairments for off-balance sheet facilities results in the requirement for additional credit impairments for both PBB and CIB.
Forward-looking information	The inclusion of forward-looking economic information could increase the level of provisions as a result of the possible consequence of deteriorating economic conditions.

Hedge accounting

The revised general hedge accounting requirements are better aligned with an entity's risk management activities and provide both additional opportunities to apply hedge accounting and various simplifications in achieving hedge accounting. The group's date of adoption of the IFRS 9 revised hedge accounting requirements will be based on further IFRS developments with respect to the IASB's macro hedge accounting project or on the group deeming it opportune to adopt the revised requirements. The group has elected to continue with IAS 39's hedge accounting requirements, but will implement IFRS 9's revised hedge accounting disclosures.

Tax implications

According to the Malawi Taxation Act S36 (1) there shall be allowed as a deduction doubtful debts to the extent that they are estimated to be doubtful if the amounts of such debts are included in the current year of assessment or were included in any previous year of assessment in the taxpayer's income either in terms of the Act or any previous law. Such allowance shall be included in the income of the taxpayer in the following year. All general provisions are therefore not allowable deductions for tax purposes. Application of the tax legislation will result in an increase in the deferred tax asset carrying value of approximately MK0.7b to MK1.7b for the Group with a consequential deduction to the Group's Tier 1 capital.

Capital implications

IFRS 9 (including the related tax consequences) will affect the Group's regulatory capital requirements. The expected increase in impairment provisions, together with the increase in the Group's deferred tax asset carrying value, will reduce Tier 1 capital. The impact on the Group's Tier capital is estimated to be MK3.4b to MK4.4b.

(ii) IFRS 9 Financial Instruments amendment

On 12 October 2017, IASB issued an amendment to IFRS 9 (the amendment). This allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortised cost or at fair value through other comprehensive income. The amendment is required to be applied retrospectively. The amendment is not expected to have a material impact on the group.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2019 with early adoption permitted.

(iii) IFRS 15 Revenue from Contracts with Customers

This standard will replace the existing revenue standards and their related interpretations. The standard sets out the requirements for recognising revenue that applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts or financial instruments).

The core principle of the standard is that revenue recognised reflects the consideration to which the company expects to be entitled in exchange for the transfer of promised goods or services to the customer.

The standard incorporates a five step analysis to determine the amount and timing of revenue recognition.

The standard will be applied retrospectively. The standard does not apply to revenue associated with financial instruments, and therefore does not impact majority of the group's revenue. The group has identified and reviewed the contracts with customers that are within the scope of this standard which indicate that IFRS 15 will not materially impact the Group on transition.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018 with early adoption permitted.

(iv) IFRS 16 Leases

This standard will replace the existing standard IAS 17 Leases as well as the related interpretations and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, being the lessee (customer) and the lessor (supplier).

The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on statement of financial position.

The most significant change pertaining to the accounting treatment of operating leases is from the lessees' perspective. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and introduces a single lessee accounting model, where a right of use (ROU) asset together with a liability for the future payments is to be recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The lessor accounting requirements in IAS 17 has not changed substantially in terms of this standard as a result a lessor continues to classify its leases as operating leases or finance leases and accounts for these as it currently done in terms of IAS 17.

In addition, the standard requires lessor to provide enhanced disclosures about its leasing activities and in particular about its exposure to residual value risk and how it is managed.

The standard will be applied retrospectively. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

IFRS 16 is effective for reporting periods beginning on or after 1 January 2019 with early adoption permitted if IFRS 15 Revenue from Contracts with Customers is also adopted early.

(v) IFRIC 22 Foreign Currency Transactions and Advance Consideration

The IFRIC provides guidance on how to determine the date of the transaction for the purpose of determining

the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the

derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The IFRIC will be applied retrospectively or prospectively. The Group has identified and reviewed the contracts and transaction that are within the scope of this interpretation which indicate that this IFRIC will not materially impact the annual financial statements.

IFRIC 22 is effective for reporting periods beginning on or after 1 January 2018 with early adoption permitted.

(vi) IFRIC 23 Uncertainty over Income Tax Treatments

This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable

3. Significant accounting policies (continued)
(y) New standards and interpretations not yet adopted (continued)

profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this interpretation. This Interpretation addresses: whether an entity considers uncertain tax treatments separately; the assumptions an entity makes about the examination of tax treatments by taxation authorities; how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances. The IFRIC will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.

IFRIC 22 is effective for reporting periods beginning on or after 1 January 2019 with early adoption permitted.

(vii) Annual improvements 2015-2017 cycle
The IASB has issued various amendments and clarifications to existing IFRS, none of which is expected to

have a significant impact on the Group's annual financial statements.

(viii) IAS 19 Employee Benefits (amendments)
Amendments require a company to use the updated assumptions when a change to a plan either an amendment, curtailment or settlement, takes place to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Until now, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. The amendment will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.

IAS 19 is effective for reporting periods beginning on or after 1 January 2019 with early adoption permitted.

4. RISK MANAGEMENT

(a) Introduction and overview
The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Group also has exposure to operational, legal, reputational, business and compliance risks.

This note presents information about the Group's exposure to key risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk measurement and control
The effective management of risk is critical to earnings and statement of financial position growth within the Standard Bank Group where the culture encourages sound commercial decision making which adequately balances risk and reward.

Risk management approach
The Group has governance standards for all major risk types. All standards are applied consistently across the Group and are approved by the Board.

The standards form an integral part of the Group's governance infrastructure, reflecting the expectations and requirements of the Board in respect of key areas of control across the Group. The standards ensure alignment and consistency in the manner that major risk types across the Group are identified, measured, managed, controlled, and reported.

The Group's Internal Audit Department independently audits the adequacy and effectiveness of the Group's risk management, control and governance processes. The head of internal audit department provides independent assurance to the Board Audit Committee and has unrestricted access to the Chief Executive and the Chairman of the Board.

Risk appetite and risk tolerance
Risk appetite is the quantum of risk the Group is willing to accept in the normal course of business in pursuit of its strategic and financial objectives. Risk taken within "appetite" may give rise to expected losses, but these should be covered by expected earnings.

Risk tolerance is an assessment of the maximum risk the Group is willing to sustain for short periods of time. It emphasises the "downside" of the risk distribution, and the Group's capacity to survive unexpected losses. The capacity to take unexpected losses depends on having sufficient capital and liquidity available to avoid insolvency. Risk tolerance typically provides a useful upper boundary for the Group's risk appetite.

The Group's board of directors has ultimate responsibility for risk management, which includes evaluating key risk areas and ensuring the process for risk management and systems of internal control are implemented. It has delegated its risk-related responsibilities primarily to three committees, as follows: the risk management committee, the audit committee and the credit committee - with each committee focusing on different risk exposures.

Risk management
Naturally, the Group faces a number of risks when conducting its business which it may choose to take, transfer or mitigate as described in the notes to the consolidated and separate financial statements from 4(b) to 4(h).

(b) Credit risk
Credit risk is the risk that a loss will be incurred if counterparty to a credit transaction does not fulfil its contractual obligations in a timely manner.

The Group's Personal and Business Banking and Corporate and Investment Banking credit policies cover the entire credit risk management process within the Group. These polices are more stringent than the Banking Act of Malawi and Reserve Bank of Malawi (RBM) Directives. They are subject to review and require the approval of the Group's Board of Directors. The policies outline issues pertaining to delegated lending limits, risk concentrations and internal lending constraints, security and legal documentation, risk weightings applied to lending, excesses and irregular accounts reporting and the treatment of non-performing loans.

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

Management of credit risk
The Board of Directors has delegated the responsibility of the management of credit risk to its Credit Committee. A separate Credit Function (within the Risk Management Department), that reports quarterly to the Credit Committee of the Board through the Credit Risk Management Committee, is responsible for oversight of the credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for approvals and renewals of credit facilities. Authorisation limits are provided to credit officers and credit committees. Large credit limits require approval by the country Credit Risk Management Committee and the Head of Credit as delegated by the Board.
- Reviewing and assessing credit risk. The Credit Function assesses all credit exposures and prepares a watch list which includes all those clients which have exceeded their limits or repayments are in arrears.
- Limit concentration of exposure to counterparts' location and type of customer in relation to the Group loans and advances to customers by carrying a balanced portfolio.
- Reviewing compliance so that exposure limits remain within the acceptable range.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

Regular audits of business units and credit processes are undertaken by the internal audit department.

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 financial 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.

		Maximum exposure			
		Consolidated		Seperate	
		2017	2016	**2017**	2016
	Note	**MKm**	MKm	**MKm**	MKm
Cash and balances held with Central Bank	8	**35,234**	36,866	**34,962**	36,715
Derivative assets	9	**541**	726	**541**	726
Trading assets	10	**23,522**	18,008	**23,522**	18,008
Loans and advances to banks and other financial institutions	11	**174,788**	107,530	**173,730**	107,530
Personal and Business Banking					
- Mortgage Lending	12	**2,202**	1,521	**2,202**	1,521
- Installment sales and finance leases	12	**4,550**	5,360	**4,550**	5,360
- Other loans and advances	12	**47,221**	48,441	**47,606**	48,441
Corporate and Investment Banking					
- Corporate lending	12	**49,018**	38,258	**49,018**	38,258
Less: Impairment losses on loans and advances to customers	12	**(8,772)**	(2,572)	**(8,772)**	(2,572)
Financial investments	13	**46 878**	37,608	**46 878**	37,608
Other assets	15	**9,051**	5,891	**9,067**	5,910
Total recognised financial instruments		**384,233**	297,637	**383,304**	297,505
Acceptances and letters of credit	37	**14,219**	9,953	**14,219**	9,953
Guarantees and performance bonds	37	**25,575**	24,270	**25,575**	24,270
Irrevocable unutilized facilities	37	**7,508**	1,433	**7,508**	1,433
Total unrecognized financial instruments		**47,302**	35,656	**47,302**	35,656
Total credit risk exposure		**431,535**	333,293	**430,606**	333,161

4. Risk Management (continued)
(b) Credit risk (continued)

Description of collateral held as security and other credit enhancements, in respect of the exposure above.

The Group holds mortgages over property, registered securities and guarantees as collateral within the following classes:	2017 MKm	2016 MKm
Personal and Business Banking		
- Mortgage Lending	**10,703**	7,870
- Installment sales and finance leases	**6,487**	5,692
- Other loans and advances	**104,193**	80,681
Corporate and Investment Banking		
- Corporate lending	**93,669**	79,678
	215,052	173,921
Collateral repossessed		
Nature of assets		
Residential property	**327**	94
Other	**50**	169
	377	263

It is the Group's policy to dispose off repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

Net exposure to credit risk without taking into account any collateral or other credit enhancements
In respect of certain financial assets, the Group 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 as there are no master netting arrangements for any of the exposures. However, the exposure to credit risk relating to the respective financial assets is mitigated as follows:

At 31 December 2017

	Note	Carrying amount MKm	Offset MKm	Net exposure to credit risk MKm
Consolidated				
Cash and balances held with Central Bank	8	**35,234**	-	**35,234**
Derivative assets	9	**541**	-	**541**
Trading assets	10	**23,522**	-	**23,522**
Loans and advances to banks and other financial institutions	11	**174,788**	-	**174,788**
Loans and advances to customers	12	**94,219**	**(448)**	**93,771**
Financial investments	13	**46 878**	-	**46,878**
Other assets	15	**9,051**	-	**9,051**
		384,233	**(448)**	**383,785**

At 31 December 2016

	Note	Carrying amount MKm	Offset MKm	Net exposure to credit risk MKm
Consolidated				
Cash and balances held with Central Bank	8	36,866	-	36,866
Derivative assets	9	726	-	726
Trading assets	10	18,008	-	18,008
Loans and advances to banks and other financial institutions	11	107,530	-	107,530
Loans and advances to customers	12	91,008	(2,541)	88,467
Financial investments	13	37,608	-	37,608
Other assets	15	5,891	-	5,891
		297,637	(2,541)	295,096

4. Risk Management (continued)
(b) Credit risk (continued)

At 31 December 2017

	Note	Carrying amount MKm	Offset MKm	Net exposure to credit risk MKm
Separate				
Cash and balances held with Central Bank	8	34,962	-	34,962
Derivative assets	9	541	-	541
Trading assets	10	23,522	-	23,522
Loans and advances to banks and other financial institutions	11	173,730	-	173,730
Loans and advances to customers	12	94,604	(448)	94,156
Financial investments	13	46 878	-	46,878
Other assets	15	9,067	-	9,067
		383,304	(448)	382,856

At 31 December 2016

	Note	Carrying amount MKm	Offset MKm	Net exposure to credit risk MKm
Separate				
Cash and balances held with Central Bank	8	36,715	-	36,715
Derivative assets	9	726	-	726
Trading assets	10	18,008	-	18,008
Loans and advances to banks and other financial institutions	11	107,530	-	107,530
Loans and advances to customers	12	91,008	(2,541)	88,467
Financial investments	13	37,608	-	37,608
Other assets	15	5,910	-	5,910
		297,505	(2,541)	294,964

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of financial asset (gross) for credit risk related items, based on the Group's credit rating system.

Consolidated

2017 Credit quality	Note	Performing: Standard MKm	Performing: Past due but not Impaired MKm	Non - Performing: Sub-Standard MKm	Non - Performing: Doubtful MKm	Non - Performing: Loss MKm	Total MKm	Security against impaired amount MKm	Net impaired amount MKm
Cash and balances held with Central Bank	8	35,234	-	-	-	-	35,234	-	-
Derivative assets	9	541	-	-	-	-	541	-	-
Trading assets	10	23,522	-	-	-	-	23,522	-	-
Loans and advances to banks and other financial institutions	11	174,788	-	-	-	-	174,788	-	-
Loans and advances to customers									
Personal and Business Banking:									
- Mortgage lending	12	2,019	110	41	32	-	2,202	34	27
- Installment sales and finance leases	12	3,136	1,355	38	11	10	4,550	22	37
- Other loans and advances	12	27,808	5,724	310	12,784	595	47,221	4,133	7,273
Corporate and Investment Banking:									
- Corporate lending	12	49,018	-	-	-	-	49,018	-	-
Financial investments	13	46,878	-	-	-	-	46,878	-	-
Other assets	15	9,051	-	-	-	-	9,051	-	-
Total recognised financial instruments		371,995	7,189	389	12 827	605	393,005	4 189	7 337

4. Risk Management (continued)
(b) Credit risk (continued)

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of financial asset (gross) for credit risk related items, based on the Group's credit rating system.

Consolidated

2016 Credit quality	Note	Performing: Standard	Performing: Past due but not Impaired	Non - Performing: Sub-Standard	Non - Performing: Doubtful	Non - Performing: Loss	Total	Security against impaired amount	Net impaired amount
		MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm
Cash and balances held with Central Bank	8	36,866	-	-	-	-	36,866	-	-
Derivative assets	9	726	-	-	-	-	726	-	-
Trading assets	10	18,008	-	-	-	-	18,008	-	-
Loans and advances to banks and other financial institutions	11	107,530	-	-	-	-	107,530	-	-
Loans and advances to customers									
Personal and Business Banking:									
- Mortgage lending	12	1,377	135	9	-	-	1,521	7	2
- Installment sales and finance leases	12	4,460	319	314	267	-	5,360	174	407
- Other loans and advances	12	39,782	7,486	821	150	202	48,441	472	629
Corporate and Investment Banking:									
- Corporate lending	12	38,258	-	-	-	-	38,258	-	-
Financial investments	13	37,608	-	-	-	-	37,608	-	-
Other assets	15	5,891	-	-	-	-	5,891	-	-
Total recognised financial instruments		290,506	7,940	1,144	417	202	300,209	653	1,038

Separate

2017 Credit quality	Note	Performing: Standard	Performing: Past due but not Impaired	Non - Performing: Sub-Standard	Non - Performing: Doubtful	Non - Performing: Loss	Total	Security against impaired amount	Net impaired amount
		MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm
Cash and balances held with Central Bank	8	34,962	-	-	-	-	34,962	-	-
Derivative assets	9	541	-	-	-	-	541	-	-
Trading assets	10	23,522	-	-	-	-	23,522	-	-
Loans and advances to banks and other financial institutions	11	173,730	-	-	-	-	173,730	-	-
Loans and advances to customers									
Personal and Business Banking:									
- Mortgage lending	12	2,019	110	41	32	-	2,202	34	27
- Installment sales and finance leases	12	3,136	1,355	38	11	10	4,550	22	37
- Other loans and advances	12	28,193	5,724	310	12,784	595	47,606	4,133	7,273
Corporate and Investment Banking:									
- Corporate lending	12	49,018	-	-	-	-	49,018	-	-
Financial investments	13	46,878	-	-	-	-	46,878	-	-
Other assets	15	9,067	-	-	-	-	9,067	-	-
Total recognised financial instruments		371,066	7,189	389	12,827	605	392,076	4,189	7,337

4. Risk Management (continued)
(b) Credit risk (continued)

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of financial asset (gross) for credit risk related items, based on the Group's credit rating system.

Separate

2016 Credit quality	Note	Performing: Standard	Performing: Past due but not Impaired	Non - Performing: Sub-Standard	Non - Performing: Doubtful	Non - Performing: Loss	Total	Security against impaired amount	Net impaired amount
		MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm
Cash and balances held with Central Bank	8	36,715	-	-	-	-	36,715	-	-
Derivative assets	9	726	-	-	-	-	726	-	-
Trading assets	10	18,008	-	-	-	-	18,008	-	-
Loans and advances to banks and other financial institutions	11	107,530	-	-	-	-	107,530	-	-
Loans and advances to customers									
Personal and Business Banking:									
- Mortgage lending	12	1,377	135	9	-	-	1,521	7	2
- Installment sales and finance leases	12	4,460	319	314	267	-	5,360	174	407
- Other loans and advances	12	39,782	7,486	821	150	202	48,441	472	629
Corporate and Investment Banking:									
- Corporate lending	12	38,258	-	-	-	-	38,258	-	-
Financial investments	13	37,608	-	-	-	-	37,608	-	-
Other assets	15	5,910	-	-	-	-	5,910	-	-
Total recognised financial instruments		290,374	7,940	1,144	417	202	300,077	653	1,038

The fair value of collateral that the Group holds relating to loans individually determined to be impaired at 31 December 2017 amounts to **MK4,189 million** (2016: MK653 million). The collateral consists of securities, mortgages over property and guarantees.

The amount of renegotiated loans as at 31 December 2017 was **MK4,959 million** (2016: MK857 million).

Impaired loans and advances to customers

Impaired loans and advances to customers

For the definition of 'impaired loans and advances, see overleaf.

The table below sets out a reconciliation of changes in the carrying amount of impaired loans and advances to customers.

	Consolidated and Separate 2017	2016
	MKm	MKm
Impaired loans and advances to customers at 1 January	**1,763**	1,176
Classified as impaired during the year	**13,133**	1,786
Transferred to not impaired during the year	**(505)**	(26)
Amount written off	**(570)**	(1,173)
Impaired loans and advances to customers at 31 December	**13,821**	1,763

Age analysis of loans and advances to customers past due but not impaired:

Consolidated and Separate

2017
Credit quality

	Less than 30 days	31 to 60days	61 to 90 days	Total
	MKm	MKm	MKm	MKm
Personal and Business Banking:				
- Mortgage lending	56	38	16	110
- Installment sales and finance leases	962	152	241	1,355
- Other loans and advances	3,617	1,166	941	5,724
Corporate and Investment Banking:				
- Corporate lending	-	-	-	-
Total	4,635	1,356	1,198	7,189

4. Risk Management (continued)
(b) Credit risk (continued)

Age analysis of loans and advances to customers past due but not impaired:

Consolidated and Separate

2016

Credit quality

	Less than 30 days MKm	31 to 60 days MKm	61 to 90 days MKm	Total MKm
Personal and Business Banking:				
- Mortgage lending	81	51	3	135
- Installment sales and finance leases	35	171	113	319
- Other loans and advances	6 440	318	728	7,486
Corporate and Investment Banking:				
- Corporate lending	-	-	-	-
Total	6,556	540	844	7,940

Impaired loans and advances
Impaired loans and advances are loans and advances for which the group and company have identified objective evidence of default, such as a breach of a material loan covenant or condition as well as those loans for which instalments are due and unpaid for 90 days or more.

Past due but not impaired loans
Loans and advances where the counterparty has failed to make contractual payments and payments are less than 90 days past due, but it is expected that the full carrying value will be recovered when considering future cash flows, including collateral. Ultimate loss is unlikely but could occur if the adverse conditions persist.

Loans with renegotiated terms
Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category regardless of satisfactory performance after restructuring.

Allowances for impairment
The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for Groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Impairment policy
The Group writes off a loan/security balance (and any related allowances for impairment losses) when Group Credit determines that the loans/securities 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. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

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

Loans and advances to customers	Note	Consolidated 2017 MKm	Consolidated 2016 MKm	Separate 2017 MKm	Separate 2016 MKm
Segmental analysis – industry					
Agriculture		**48,531**	22,511	**48,531**	22,511
Construction		**549**	744	**549**	744
Energy		**234**	3	**234**	3
Finance, real estate and other business services		**347**	2,262	**732**	2,262
Individuals ,community, social and personal services		**25,617**	34,699	**25,617**	34,699
Manufacturing		**13,642**	19,897	**13,642**	19,897
Mining		**699**	426	**699**	426
Transport, storage and communication		**1,242**	2,905	**1,242**	2,905
Wholesale		**12,130**	10,133	**12,130**	10,133
	12	**102,991**	93,580	**103,376**	93,580

Economic sector risk concentrations within the customer loan portfolio were as follows:

	Consolidated 2017	Consolidated 2016	Separate 2017	Separate 2016
Agriculture	**47%**	24%	**47%**	24%
Construction	**1%**	1%	**1%**	1%
Energy	**0%**	0%	**0%**	0%
Finance, real estate and other business services	**0%**	2%	**2%**	2%
Individuals	**25%**	37%	**25%**	37%
Manufacturing	**13%**	21%	**13%**	21%
Mining	**1%**	1%	**1%**	1%
Transport	**1%**	3%	**1%**	3%
Wholesale	**12%**	11%	**12%**	11%
	100%	100%	**100%**	100%

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 good credit standing, enters into master netting agreements whenever 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.

4. Risk Management (continued)

(c) Liquidity risk

Liquidity risk arises from exposure to daily calls on the Group's cash resources. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

Management of liquidity risk

The Group has access to a diverse funding base. Funds are raised mainly from deposits and shareholders. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Group strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business objectives. In addition the Group holds a portfolio of liquid assets as part of its liquidity risk management strategy.

The table below analyses financial assets and liabilities into relevant maturity rankings based on the remaining period at 31 December 2017 to the contractual maturity date on a discounted basis. All figures are in millions of Malawi Kwacha.

At 31 December 2017	Note	Up to 1month	1-3 months	3 - 12 months	Over 1 Year	Undated	Total
Consolidated		MKm	MKm	MKm	MKm	MKm	MKm
Assets							
Cash and balances held with Central Bank	8	35,234	-	-	-	-	35,234
Derivative assets	9	191	350	-	-	-	541
Trading assets	10	7,501	3,655	12,366	-	-	23,522
Loans and advances to banks	11	93,969	61,579	19,240	-	-	174,788
Loans and advances to customers	12	19,160	30,615	20,183	33,033	-	102,991
Financial Investments	13	2,493	7,965	18,739	17,681	15	46,893
Other assets	15	9,051	-	-	-	-	9,051
Total assets		167,599	104,164	70,528	50,714	15	393,020
Derivative liabilities	9	58	130	-	-	-	188
Trading liabilities	19	135	-	-	-	-	135
Balances due to other banks	20	59,140	1,519	-	-	-	60,659
Deposits from customers	21	257,844	1,131	440	73	-	259,488
Other liabilities	22	23,107	-	-	-	-	23,107
Total liabilities		340,284	2,780	440	73	-	343,577
Liquidity gap		(172,685)	101,384	70,088	50,641	15	49,443
Off balance sheet exposures							
Letters of credit and guarantees	37	(5,933)	(6,393)	(16,147)	(11,321)	-	(39,794)
Unutilised loan commitments	37	(115)	(7,393)	-	-	-	(7,508)
Total off balance sheet exposures		(6,048)	(13,786)	(16,147)	(11,321)	-	(47,302)
Total liquidity gap (on and off balance sheet)		(178,733)	87,598	53,941	39,320	15	2,141

At 31 December 2016	Note	Up to 1month	1-3 months	3 - 12 months	Over 1 Year	Undated	Total
Consolidated		MKm	MKm	MKm	MKm	MKm	MKm
Assets							
Cash and balances held with Central Bank	8	36,866	-	-	-	-	36,866
Derivative assets	9	108	570	48			726
Trading assets	10	5,007	1,941	11,060	-	-	18,008
Loans and advances to banks	11	85,818	20,681	1,031	-	-	107,530
Loans and advances to customers	12	31,862	19,256	11,502	30,960	-	93,580
Financial Investments	13	14,458	5,971	17,179	-	15	37,623
Other assets	15	5,891	-	-	-	-	5,891
Total assets		180,010	48,419	40,820	30,960	15	300,224
Derivative liabilities	9	57	97	41	-	-	195
Trading liabilities	19	322	-	-	-	-	322
Balances due to other banks	20	10,724	6,837	-	1,673	-	19,234
Deposits from customers	21	203,365	819	207	19	-	204,410
Other liabilities	22	16,873	-	-	-	-	16,873
Total liabilities		231,341	7,753	248	1,692	-	241,034
Liquidity gap		(51,331)	40,666	40,572	29,268	15	59,190
Off balance sheet exposures							
Letters of credit and guarantees	37	(1,658)	(10,900)	(8,406)	(13,259)	-	(34,223)
Unutilised loan commitments	37	(1,433)	-	-	-	-	(1,433)
Total off balance sheet exposures		(3,091)	(10,900)	(8,406)	(13,259)	-	(35,656)
Total liquidity gap (on and off balance sheet)		(54,422)	29,766	32,166	16,009	15	23,534

4. Risk Management (continued)
(c) Liquidity risk (continued)

At 31 December 2017	Note	Up to 1month	1-3 months	3 -12 months	Over 1 Year	Undated	Total
Seperate		MKm	MKm	MKm	MKm	MKm	MKm
Assets							
Cash and balances held with Central Bank	8	34,962	-	-	-	-	34,962
Derivative assets	9	191	350	-	-	-	541
Trading assets	10	7,501	3,655	12,366	-	-	23,522
Loans and advances to banks	11	92,911	61,579	19,240	-	-	173,730
Loans and advances to customers	12	19,545	30,615	20,183	33,033	-	103,376
Financial Investments	13	2,493	7,965	18,739	17,681	15	46,893
Other assets	15	9,067	-	-	-	-	9,067
Total assets		166,670	104,164	70,528	50,714	15	392,091
Derivative liabilities	9	58	130	-	-	-	188
Trading liabilities	19	103	-	-	-	-	103
Balances due to other banks	20	59,162	1,519	-	-	-	60,681
Deposits from customers	21	258,176	1,131	440	73	-	259,820
Other liabilities	22	23,102	-	-	-	-	23,102
Total liabilities		340,601	2,780	440	73	-	343,894
Liquidity gap		(173,931)	101,384	70,088	50,641	15	48,197
Off balance sheet exposures							
Letters of credit and guarantees	37	(5,933)	(6,393)	(16,147)	(11,321)	-	(39,794)
Unutilised loan commitments	37	(115)	(7,393)	-	-	-	(7,508)
Total off balance sheet exposures		(6,048)	(13,786)	(16,147)	(11,321)	-	(47,302)
Total liquidity gap (on and off balance sheet)		(179,979)	87,598	53,941	39,320	15	895

At 31 December 2016	Note	Up to 1month	1-3 months	3 -12 months	Over 1 Year	Undated	Total
Seperate		MKm	MKm	MKm	MKm	MKm	MKm
Assets							
Cash and balances held with Central Bank	8	36,715	-	-	-	-	36,715
Derivative assets	9	108	570	48			726
Trading assets	10	5,007	1,941	11,060	-	-	18,008
Loans and advances to banks	11	85,818	20,681	1,031	-	-	107,530
Loans and advances to customers	12	31,862	19,256	11,502	30,960	-	93,580
Financial Investments	13	14,458	5,971	17,179	-	15	37,623
Other assets	15	5,910	-	-	-	-	5,910
Total assets		179,878	48,419	40,820	30,960	15	300,092
Derivative liabilities	9	57	97	41	-	-	195
Trading liabilities	19	322	-	-	-	-	322
Balances due to other banks	20	10,724	6,837	-	1,673	-	19,234
Deposits from customers	21	204,092	819	208	19	-	205,138
Other liabilities	22	16,865	-	-	-	-	16,865
Total liabilities		232,060	7,753	249	1,692	-	241,754
Liquidity gap		(52,182)	40,666	40,571	29,268	15	58,338
Off balance sheet exposures							
Letters of credit and guarantees	37	(1,658)	(10,900)	(8,406)	(13,259)	-	(34,223)
Unutilised loan commitments	37	(1,433)	-	-	-	-	(1,433)
Total off balance sheet exposures		(3,091)	(10,900)	(8,406)	(13,259)	-	(35,656)
Total liquidity gap (on and off balance sheet)		(55,273)	29,766	32,165	16,009	15	22,682

4. Risk Management (continued)
(c) Liquidity risk (continued)

The contractual liquidity gap shows the mismatch before any adjustments are made for product and customer behavioural assumptions. The Group's asset liability committee manages this mismatch by setting guidelines and limits for anticipated liquidity gaps and monitors these gaps daily.

Monitoring of liquidity risk using structural gaps is facilitated by the adoption of maximum mismatch tolerance limits appetite triggers and monitoring items.

Should there be breaches, the Bank triggers the contingency funding plan to raise additional funding.

The committee reviews the product and customer behavioural assumptions when there is indication that there is a shift in one or more of the variables.

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the remaining contractual maturities of the Group's financial assets and liabilities based on un discounted cash flows:

2017	Note	Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 6 months but within 12 months	Maturing over 1 year	Undated	Gross nominal inflow/(outflow)	Carrying amount
Consolidated		**MKm**	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**
Non derivative financial assets									
Cash and balances held with Central Bank	8	35,234	-	-	-	-	-	35,234	35,234
Trading assets	10	-	7,528	14,234	3,017	-	-	24,779	23,522
Loans and advances to banks	11	39,460	53,488	81,664	2,319	-	-	176,931	174,788
Loans and advances to customers	12	14,667	4,495	41,206	9,639	35,129	-	105,136	94,219
Financial investments	13	-	2,500	14,699	12,358	21,031	15	50,603	46,893
Other assets	15	6,916	-	-	-	-	-	6,916	9,051
Non derivative financial liabilities									
Deposits and loans from banks	20	(19,441)	(39,728)	(1,519)	-	-	-	(60,688)	(60,659)
Deposits from customers	21	(252,173)	(5,671)	(1,344)	(227)	(73)	-	(259,488)	(259,488)
Other liabilities	22	(23,107)	-	-	-	-	-	(23,107)	(23,107)
Off balance sheet exposures									
Letters of credit and guarantees	37	(61)	(5,872)	(11,415)	(11,125)	(11,321)	-	(39,794)	(39,794)
Unutilised loan commitments	37	-	(115)	(7,393)	-	-	-	(7,508)	(7,508)
Total financial instruments		(198,505)	16,625	130,132	15,981	44,766	15	9,014	(6,849)

4. Risk Management (continued)
(c) Liquidity risk (continued)

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the remaining contractual maturities of the Group's derivative financial assets and liabilities based on undiscounted cash flows:

2017	Note	Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Gross nominal inflow/(outflow)	Carrying amount
Consolidated		MKm	MKm	MKm	MKm	MKm
Derivative assets						
Trading:	9	-	-	-	-	541
Inflow		-	16,868	24,237	41,105	-
Outflow		-	(17,179)	(24,759)	(41,938)	-
Derivatives and trading liabilities						
Trading:	9,19	-	-	-	-	(323)
Inflow		-	1,943	2,356	4,299	-
Outflow		-	(2,466)	(2,493)	(4,959)	-
Total derivative financial instruments		-	(834)	(659)	(1,493)	218

4. Risk Management **(continued)**
(c) Liquidity risk (continued)

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the remaining contractual maturities of the Group's non derivative financial assets and liabilities based on undiscounted cash flows

2016	Note	Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 6 months but within 12 months	Maturing over 1 year	Undated	Gross nominal inflow/(outflow)	Carrying amount
Consolidated		MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm
Non derivative financial assets									
Cash and balances held with Central Bank	8	36,866	-	-	-	-	-	36,866	36,866
Trading assets	10	-	5,071	13,420	1,000	-	-	19,491	18,008
Loans and advances to banks	11	22,209	63,593	21,627	1,217	-	-	108,646	107,530
Loans and advances to customers	12	19,748	12,117	24,699	6,081	33,093	-	95,738	91,008
Financial investments	13	-	14,595	13,601	11,598	-	15	39,809	37,623
Other assets	15	3,730	-	-	-	-	-	3,730	5,891
Non derivative financial liabilities									
Deposits and loans from banks	20	(10,638)	(86)	(6,837)	-	(1,673)	-	(19,234)	(19,234)
Deposits from customers	21	(197,688)	(5,677)	(954)	(72)	(19)	-	(204,410)	(204,410)
Other liabilities	22	(16,873)	-	-	-	-	-	(16,873)	(16,873)
Off balance sheet exposures									
Letters of credit and guarantees	37	-	(1,658)	(13,940)	(5,366)	(13,259)	-	(34,223)	(34,223)
Unutilised loan commitments	37	-	(1,433)	-	-	-	-	(1,433)	(1,433)
Total financial instruments		(142,646)	86,522	51,616	14,458	18,142	15	28,107	20,753

4. Risk Management **(continued)**
(c) Liquidity risk (continued)

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the remaining contractual maturities of the Group's derivative financial assets and liabilities based on undiscounted cash flows:

2016	Note	Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 6 months but within 12 months	Gross nominal inflow/(outflow)	Carrying amount
Consolidated		**MKm**	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**
Derivative assets							
Trading:	9	-	-	-	-	-	726
Inflow		-	2,426	18,591	867	21,884	-
Outflow		-	(2,962)	(18,734)	(845)	(22,541)	-
Derivative and trading liabilities							
Trading:	9,19	-					(517)
Inflow		-	1,689	3,916	845	6,450	-
Outflow		-	(1,748)	(4,065)	(864)	(6,677)	-
Total derivative financial instruments		-	(595)	(292)	3	(884)	209

4. Risk Management (continued)
(c) Liquidity risk (continued)

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the remaining contractual maturities of the Company's non-derivative financial assets and liabilities based on undiscounted cash flows:

2017	Note	Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 6 months but within 12 months	Maturing over 1 year	Undated	Gross nominal inflow/(outflow)	Carrying amount
Separate		MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm
Non derivative financial assets									
Cash and balances held with Central Bank	8	34,962	-	-	-	-	-	34,962	34,962
Trading assets	10	-	7,528	14,234	3,017	-	-	24,779	23,522
Loans and advances to banks	11	39,449	53,488	81,664	2,319	-	-	176,920	173,730
Loans and advances to customers	12	15,052	4,495	41,206	9,639	35,129	-	105,521	94,604
Financial investments	13	-	2,500	14,699	12,358	21,031	15	50,603	46,893
Other assets	15	6,932	-	-	-	-	-	6,932	9,067
Non derivative financial liabilities									
Deposits and loans from banks	20	(19,463)	(39,728)	(1,519)	-	-	-	(60,710)	(60,681)
Deposits from customers	21	(252,505)	(5,671)	(1,344)	(227)	(73)	-	(259,820)	(259,820)
Other liabilities	22	(23,107)	-	-	-	-	-	(23,107)	(23,102)
Off balance sheet exposures									
Letters of credit and guarantees	37	(61)	(5,872)	(11,415)	(11,125)	(11,321)	-	(39,794)	(39,794)
Unutilised loan commitments	37	-	(115)	(7,393)	-	-	-	(7,508)	(7,508)
Total financial instruments		(198,741)	16,625	130,132	15,981	44,766	15	8,778	(8,127)

4. Risk Management **(continued)**
(c) Liquidity risk (continued)

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the remaining contractual maturities of the Group's derivative financial assets and liabilities based on undiscounted cash flows:

2017	Note	Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Gross nominal inflow/(outflow)	Carrying amount
Separate		**MKm**	**MKm**	**MKm**	**MKm**	**MKm**
Derivative assets						
Trading:	9	-	-	-	-	**541**
Inflow		-	**16,868**	**24,237**	**41,105**	-
Outflow		-	**(17,179)**	**(24,759)**	**(41,938)**	-
Derivatives and trading liabilities						
Trading:	9,19	-	-	-	-	**(291)**
Inflow		-	**1,943**	**2,356**	**4,299**	-
Outflow		-	**(2,466)**	**(2,493)**	**(4,959)**	-
Total derivative financial instruments		-	**(834)**	**(659)**	**(1,493)**	**250**

4. Risk Management **(continued)**
(c) Liquidity risk (continued)

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the remaining contractual maturities of the Company's non-derivative financial assets and liabilities based on undiscounted cash flows:

2016	Note	Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 6 months but within 12 months	Maturing over 1 year	Undated	Gross nominal inflow/(outflow)	Carrying amount
Separate		**MKm**	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**
Non derivative financial assets									
Cash and balances held with Central Bank	8	36,715	-	-	-	-	-	36,715	36,715
Trading assets	10	-	5,071	13,420	1,000	-	-	19,491	18,008
Loans and advances to banks	11	22,209	63,593	21,627	1,217	-	-	108,646	107,530
Loans and advances to customers	12	19,748	12,117	24,699	6,081	33,093	-	95,738	91,008
Financial investments	13	-	14,455	12,558	10,779	-	15	37,807	37,623
Other assets	15	3,749	-	-	-	-	-	3,749	5,910
Non derivative financial liabilities									
Deposits and loans from banks	20	(10,638)	(86)	(6,837)	-	(1,673)	-	(19,234)	(19,234)
Deposits from customers	21	(198,415)	(5,677)	(955)	(72)	(19)	-	(205,138)	(205,138)
Other liabilities	22	(16,865)	-	-	-	-	-	(16,865)	(16,865)
Off balance sheet exposures									
Letters of credit and guarantees	37	-	(1,658)	(13,940)	(5,366)	(13,259)	-	(34,223)	(34,223)
Unutilised loan commitments	37	-	(1,433)	-	-	-	-	(1,433)	(1,433)
Total financial instruments		(143,497)	86,382	50,572	13,639	18,142	15	25,253	19,901

4. Risk Management (continued)
(c) Liquidity risk (continued)

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the remaining contractual maturities of the Group's derivative financial assets and liabilities based on undiscounted cash flows:

2016	Note	Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 6 months but within 12 months	Gross nominal inflow/(outflow)	Carrying amount
Separate		MKm	MKm	MKm	MKm	MKm	MKm
Derivative assets							
Trading:	9	-	-	-	-	-	726
Inflow		-	2,426	18,591	867	21,884	-
Outflow		-	(2,962)	(18,734)	(845)	(22,541)	-
Derivatives and trading liabilities							
Trading:	9, 19	-					(517)
Inflow		-	1,689	3,916	845	6,450	-
Outflow		-	(1,748)	(4,065)	(864)	(6,677)	-
Total derivative financial instruments		-	(595)	(292)	3	(884)	209

4. Risk Management (continued)

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates and other price risk will affect the Group's income or the value of holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Global Markets unit, and include positions arising from market making and flow trading, together with financial assets and liabilities that are managed on a fair value basis.

All foreign exchange risk within the Group is transferred and sold down by the banking book. Accordingly, the foreign exchange position is treated as part of the Group's trading portfolios for risk management purposes.

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO). Group Risk 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 to market risks – Trading portfolios

The principal tool used to measure and control market risk exposure within the Group's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that would arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 95% confidence level and assumes a one-day holding period. The VaR Model used is based mainly on historical simulation taking account of market data from the one-year data or from at least 250 business days, and observed relationships between different markets and prices.

The model generates a wide range of plausible future scenarios for market price movements.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A one day holding period assumes it is possible to hedge or dispose off positions within that period. This is considered to be a realistic assumption in almost all the cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- A 95% confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a 5% probability that losses could exceed the VaR;
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature;
- The VaR measure is dependent upon the Group's position and the volatility of market prices; and
- The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The Group uses VaR limits for specific foreign exchange, Present value (PV01) limit and other price risks. The overall structure of VaR limits is subject to review and approval by ALCO. VaR is measured at least daily. VaR limits are allocated to trading portfolios.

(i) Assets and liabilities subject to market risk between trading and non-trading portfolios:

At 31 December 2017 Consolidated	Note	Trading portfolio MKm	Non trading portfolio MKm	Total MKm
Assets subject to market risk				
Cash and balances held with Central Bank	8	-	**35,234**	**35,234**
Derivative assets	9	**541**	-	**541**
Trading assets	10	**23,522**	-	**23,522**
Loans and advances to banks	11	-	**174,788**	**174,788**
Loans and advances to customers	12	-	**102,991**	**102,991**
Financial investments	13	-	**46,893**	**46,893**
Other assets	15	-	**9,051**	**9,051**
		24,063	**368,957**	**393,020**
Liabilities subject to market risk				
Derivative liabilities	9	**188**	-	**188**
Trading liabilities	19	**135**	-	**135**
Deposits and loans from banks	20	-	**60,659**	**60,659**
Deposits from customers	21	-	**259,488**	**259,488**
Other liabilities	22	-	**23,107**	**23,107**
		323	**343,254**	**343,577**
Assets subject to market risk				
Cash and balances held with Central Bank	8	-	36,866	36,866
Derivative assets	9	726	-	726
Trading assets	10	18,008	-	18,008
Loans and advances to banks	11	-	107,530	107,530
Loans and advances to customers	12	-	93,580	93,580
Financial investments	13	-	37,623	37,623
Other assets	15	-	5,891	5,891
		18,734	281,490	300,224
Liabilities subject to market risk				
Derivative liabilities	9	195	-	195
Trading liabilities	19	322	-	322
Deposits and loans from banks	20	-	19,234	19,234
Deposits from customers	21	-	204,410	204,410
Other liabilities	22	-	16,873	16,873
		517	240,517	241,034

4. Risk Management (continued)
(d) Market risk (continued)

(i) Assets and liabilities subject to market risk between trading and non-trading portfolios:

At 31 December 2017 Separate	Note	Trading portfolio MKm	Non trading portfolio MKm	Total MKm
Assets subject to market risk				
Cash and balances held with Central Bank	8	-	34,962	34,962
Derivative assets	9	541	-	541
Trading assets	10	23,522	-	23,522
Loans and advances to banks	11	-	173,730	173,730
Loans and advances to customers	12	-	103 376	103 376
Financial investments	13	-	46,893	46,893
Other assets	15	-	9,067	9,067
		24,063	368,028	392,091
Liabilities subject to market risk				
Derivative liabilities	9	188	-	188
Trading liabilities	19	103	-	103
Deposits and loans from banks	20	-	60,681	60,681
Deposits from customers	21	-	259,820	259,820
Other liabilities	22	-	23,102	23,102
		291	343,603	343,894
Assets subject to market risk				
Cash and balances held with Central Bank	8	-	36,715	36,715
Derivative assets	9	726	-	726
Trading assets	10	18,008	-	18,008
Loans and advances to banks	11	-	107,530	107,530
Loans and advances to customers	12	-	93,580	93,580
Financial investments	13	-	37,623	37,623
Other assets	15	-	5,910	5,910
		18,734	281,358	300,092
Liabilities subject to market risk				
Derivative liabilities	9	195	-	195
Trading liabilities	19	322	-	322
Deposits and loans from banks	20	-	19,234	19,234
Deposits from customers	21	-	205,138	205,138
Other liabilities	22	-	16,865	16,865
		517	241,237	241,754

(ii) Exposure to market risks – Value at Risk
The Group applies a Value at Risk (VaR) methodology to its trading and non-trading portfolios, to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Assets and Liabilities Committee (ALCO) sets limits on the value of risk that may be acceptable for the Bank,which are monitored on a daily basis by market risk.VaR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Bank might lose, but only to a certain level of confidence (95%). There is therefore a specified statistical probability (5%) that actual loss could be greater than the VaR estimate.

Diversified normal VaR exposures (USD'000)

Desk name	High	Min	Average	31-Dec-17	Limit
Bank wide	167	7	21	18	246
Forex trading	35	1	9	13	93
Money markets trading	150	3	15	7	227

Desk name	High	Min	Average	31-Dec-16	Limit
Bank wide	60	10	27	18	246
Forex trading	54	-	12	13	93
Money markets trading	38	5	19	7	184

Stress tests
Stress testing is done to augment other risk measures that are used by the Bank, such as VaR and market risk factor sensitivities (e.g. PV01's). These stress scenarios are typically used to highlight exposures that may not be explicitly incorporated by the VaR calculations. Such tests provide an indication of the potential size of losses that could arise in extreme market conditions. The stress tests carried out by the Bank include: cross market stress testing where stress movements are applied to each risk factor across different markets and interest rate hypothetical stress testing where stress movements are applied to different interest rate scenarios

Diversified Stress VaR exposures (USD'000)

Desk name	High	Min	Average	31-Dec-17	Limit
Bank wide	3,809	530	1,060	899	3,205
Forex trading	2,484	9	392	329	2,979
Money markets trading	3,368	547	926	848	1,180

Desk name	High	Min	Average	31-Dec-16	Limit
Bank wide	2,833	11	496	664	3,205
Forex trading	3,000	1	501	296	2,979
Money markets trading	697	122	366	672	965

4. Risk Management (continued)
(d) Market risk (continued)

(ii) Exposure to market risks – Value at Risk (continued)

The quality of the VaR model is continuously monitored by back testing the VaR results for trading books. All back testing exceptions and any exceptional revenues on the profit side of the VaR distribution are investigated.

As VaR constitutes an integral part of the Bank's market risk control regime, VaR limits are established by the Board of Directors (the Board) annually for all trading and non-trading portfolios. Actual exposure against limits, together with a consolidated group wide VaR, is reviewed daily by Bank's treasury and market risk.

The quality of the VaR model is continuously monitored by back testing the VaR results for trading books. All back testing exceptions and any exceptional revenues on the profit side of the VaR distribution are investigated.

Sensitivity analysis for each type of market risk

Interest rate risk

The table below indicates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's profit or loss in local currency:

Consolidated and separate	decrease in basis points	Sensitivity of net interest income MKm
2017	**750**	**(4,648)**
2016	500	(4,570)

The table below indicates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's equity in local currency:

Consolidated and separate	decrease in basis points	Sensitivity of equity MKm
2017	**750**	**1,185**
2016	500	(819)

To reflect the volatile interest rate environment, the relative change in interest rates are measured monthly by calculating a market calibrated shock using the historic volatility over a period of five years, with a 95% confidence interval, assuming a holding period of one month. This calculation is then used to determine the quantum of an upward and downward parallel interest rate shock and as such rate shocks are subject to change from time to time.

Interest rate gap analysis

The table below summarises the exposure to interest rate risks. Included in the table are the Group's assets and liabilities categorised by the earlier of contractual re-pricing or maturity dates. The Group does not bear an interest rate risk on unrecognized financial instruments.

At 31 December 2017 Consolidated	Note	Up to 1 Month MKm	1-3 months MKm	3-12 months MKm	Over 1 Year MKm	Non rate sensitive MKm	Total MKm
Assets							
Cash and balances held with Central Bank	8	-	-	-	-	35,234	35,234
Derivative assets	9	-	-	-	-	541	541
Trading assets	10	-	-	-	-	23,522	23,522
Loans and advances to banks	11	93,641	61,835	19,312	-	-	174,788
Loans and advances to customers	12	98,591	4,400	-	-	-	102,991
Financial investments	13	2,044	11,682	6,006	27,146	15	46,893
Other assets	15	-	-	-	-	9,051	9,051
Total assets		**194,276**	**77,917**	**25,318**	**27,146**	**68,363**	**393,020**
Liabilities							
Derivative liabilities	9	-	-	-	-	188	188
Trading liabilities	19	-	-	-	-	135	135
Deposits and loans from banks	20	46,701	13,958	-	-	-	60,659
Deposits from customers	21	254,275	4,473	205	535	-	259,488
Other liabilities	22	-	-	-	-	23,107	23,107
Total liabilities		**300,976**	**18,431**	**205**	**535**	**23,430**	**343,577**
Interest sensitivity gap		**(106,700)**	**59,486**	**25,113**	**26,611**	**44,933**	**49,443**

4. Risk Management (continued)
(d) Market risk (continued)

At 31 December 2016 Consolidated	Note	Up to 1 Month MKm	1-3 months MKm	3-12 months MKm	Over 1 Year MKm	Non rate sensitive MKm	Total MKm
Assets							
Cash and balances held with Central Bank	8	-	-	-	-	36,866	36,866
Derivative assets	9	-	-	-	-	726	726
Trading assets	10	-	-	-	-	18,008	18,008
Loans and advances to banks	11	86,029	20,501	1,000	-	-	107,530
Loans and advances to customers	12	93,580	-	-	-	-	93,580
Financial investments	13	15,026	5,971	16,611	-	15	37,623
Other assets	15	-	-	-	-	5,891	5,891
Total assets		194,635	26,472	17,611	-	61,506	300,224
Liabilities							
Derivative liabilities	9	-	-	-	-	195	195
Trading liabilities	19	-	-	-	-	322	322
Deposits and loans from banks	20	19,234	-	-	-	-	19,234
Deposits from customers	21	199,244	3,973	1,189	4	-	204,410
Other liabilities	22	-	-	-	-	16,873	16,873
Total liabilities		218,478	3,973	1,189	4	17,390	241,034
Interest sensitivity gap		(23,843)	22,499	16,422	(4)	44,116	59,190

At 31 December 2017 Separate	Note	Up to 1 Month MKm	1-3 months MKm	3-12 months MKm	Over 1 Year MKm	Non rate sensitive MKm	Total MKm
Assets							
Cash and balances held with Central Bank	8	-	-	-	-	34,962	34,962
Derivative assets	9	-	-	-	-	541	541
Trading assets	10	-	-	-	-	23,522	23,522
Loans and advances to banks	11	92,583	61,835	19,312	-	-	173,730
Loans and advances to customers	12	98,976	4,400	-	-	-	103 376
Financial investments	13	2,044	11,682	6,006	27,146	15	46,893
Other assets	15	-	-	-	-	9,067	9,067
Total assets		193,603	77,917	25,318	27,146	68,107	392,091
Liabilities							
Derivative liabilities	9	-	-	-	-	188	188
Trading liabilities	19	-	-	-	-	103	103
Deposits and loans from banks	20	46,723	13,958	-	-	-	60,681
Deposits from customers	21	254,607	4,473	205	535	-	259,820
Other liabilities	22	-	-	-	-	23,102	23,102
Total liabilities		301,330	18,431	205	535	23,393	343,894
Interest sensitivity gap		(107,727)	59,486	25,113	26,611	44,714	48,197

4. Risk Management (continued)
(d) Market risk (continued)

At 31 December 2016 Separate	Note	Up to 1 Month MKm	1-3 months MKm	3-12 months MKm	Over 1 Year MKm	Non rate sensitive MKm	Total MKm
Assets							
Cash and balances held with Central Bank	8	-	-	-	-	36,715	36,715
Derivative assets	9	-	-	-	-	726	726
Trading assets	10	-	-	-	-	18,008	18,008
Loans and advances to banks	11	86,029	20,501	1,000	-	-	107,530
Loans and advances to customers	12	93,580	-	-	-	-	93,580
Financial investments	13	15,026	5,971	16,611	-	15	37,623
Other assets	15	-	-	-	-	5,910	5,910
Total assets		194,635	26,472	17,611	-	61,374	300,092
Liabilities							
Derivative liabilities	9	-	-	-	-	195	195
Trading liabilities	19	-	-	-	-	322	322
Deposits and loans from banks	20	19,234	-	-	-	-	19,234
Deposits from customers	21	199,972	3,973	1,189	4	-	205,138
Other liabilities	22	-	-	-	-	16,865	16,865
Total liabilities		219,206	3,973	1,189	4	17,382	241,754
Interest sensitivity gap		(24,571)	22,499	16,422	(4)	43,992	58,338

(ii) Exposure to market risks – Value at Risk

The Group applies a Value at Risk (VaR) methodology to its trading and non-trading portfolios, to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Assets and Liabilities Committee (ALCO) sets limits on the value of risk that may be acceptable for the Bank,which are monitored on a daily basis by market risk.VaR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Bank might lose, but only to a certain level of confidence (95%). There is therefore a specified statistical probability (5%) that actual loss could be greater than the VaR estimate.

Consolidated At 31 December 2017	USD	GBP	Euro	ZAR	Total
Assets					
Cash and balances held with Central Bank	3,000	69	172	1,105	4,346
Trading assets	3,665	-	-	-	3,665
Loans and advances to banks	95,051	1,380	2,856	21,873	121,160
Loans and advances to customers	4,157	-	-	-	4,157
Other assets	572	47	88	82	789
Forward contracts and SWAPs	40,032	11	3,457	616	44,116
Total assets	146,477	1,507	6,573	23,676	178,233
Liabilities					
Deposits and loans from banks	11,046	-	-	18,886	29,932
Deposits from customers	122,191	1,230	6,605	832	130,858
Other liabilities	1,041	55	4	15,206	16,306
Forward contracts and SWAPs	8,236	166	129	3,250	11,781
Total liabilities	142,514	1,451	6,738	38,174	188,877
Net position	3,963	56	(165)	(14,498)	(10,644)

4. Risk Management (continued)
(d) Market risk (continued)

Consolidated

At 31 December 2016	USD	GBP	Euro	ZAR	Total
Assets					
Cash and balances held with Central Bank	925	33	98	347	1,403
Loans and advances to banks	69,564	1,294	6,927	719	78,504
Loans and advances to customers	8,342	-	-	-	8,342
Other assets	2,634	10	-	405	3,049
Forward contracts and SWAPs	14,636	9	-	-	14,645
Total assets	96,101	1,346	7,025	1,471	105,943
Liabilities					
Deposits and loans from banks	-	1	-	-	1
Deposits from customers	89,861	1,136	6,594	344	97,935
Other liabilities	4,124	223	462	2,778	7,587
Forward contracts and SWAPs	5	-	-	444	449
Total liabilities	93,990	1,360	7,056	3,566	105,972
Net position	2,111	(14)	(31)	(2,095)	(29)

Separate

At 31 December 2017	USD	GBP	Euro	ZAR	Total
Assets					
Cash and balances held with Central Bank	2,907	50	137	1,037	4,131
Trading assets	3,665	-	-	-	3,665
Loans and advances to banks	93,952	1,250	2,696	21,873	119,771
Loans and advances to customers	4,157	-	-	-	4,157
Other assets	572	47	88	82	789
Forward contracts and SWAPs	40,032	11	3,457	616	44,116
Total assets	145,285	1,358	6,378	23,608	176,629
Liabilities					
Deposits and loans from banks	11,046	-	-	18,886	29,932
Deposits from customers	122,191	1,230	6,605	832	130,858
Other liabilities	1,041	55	4	15,206	16,306
Forward contracts and SWAPs	8,236	166	129	3,250	11,781
Total liabilities	142,514	1,451	6,738	38,174	188,877
Net position	2,771	(93)	(360)	(14,566)	(12,248)

Separate

At 31 December 2016	USD	GBP	Euro	ZAR	Total
Assets					
Cash and balances held with Central Bank	924	32	98	347	1,401
Loans and advances to banks	69,564	1,294	6,927	719	78,504
Loans and advances to customers	8,342	-	-	-	8,342
Other assets	2,634	10	-	405	3,049
Forward contracts and SWAPs	14,636	9	-	-	14,645
Total assets	96,100	1,345	7,025	1,471	105,941
Liabilities					
Deposits and loans from banks	-	1	-	-	1
Deposits from customers	89,861	1,136	6,594	344	97,935
Other liabilities	4,124	223	462	2,778	7,587
Forward contracts and SWAPs	5	-	-	444	449
Total liabilities	93,990	1,360	7,056	3,566	105,972
Net position	2,110	(15)	(31)	(2,095)	(31)

4. Risk Management (continued)
(d) Market risk (continued)

Foreign currency sensitivity analysis

The foreign currency risk sensitivity analysis below reflects the expected financial impact in Kwacha equivalent resulting from a 10% (2016:10%) shock to foreign currency risk exposures, with respect to derivative financial instruments, foreign denominated balances and accruals.

The sensitivity analysis reflects the sensitivity to profit or loss and equity on the Group's foreign denominated exposures with all variables held constant.

All amounts expressed below are in millions of Malawi Kwacha.

Consolidated

At 31 December 2017	USD	GBP	Euro	ZAR	Total
Sensitivity					
Total net long/(short) position	**3,963**	**56**	**(165)**	**(14,498)**	**(10,644)**
Impact of 10% weakening of the Kwacha on profit or loss	**396**	**6**	**(16)**	**(1,450)**	**(1,064)**
Impact of 10% strengthening of the Kwacha on profit or loss	**(396)**	**(6)**	**16**	**1,450**	**1,064**

At 31 December 2016	USD	GBP	Euro	ZAR	Total
Sensitivity					
Total net long/(short) position	2,111	(14)	(31)	(2,095)	(29)
Impact of 10% weakening of the Kwacha on profit or loss	211	(2)	(3)	(209)	(3)
Impact of 10% strengthening of the Kwacha on profit or loss	(211)	2	3	209	3

Separate

At 31 December 2017	USD	GBP	Euro	ZAR	Total
Sensitivity					
Total net long/(short) position	**2,771**	**(93)**	**(360)**	**(14,566)**	**(12,248)**
Impact of 10% weakening of the Kwacha on profit or loss	**277**	**(9)**	**(36)**	**(1,457)**	**(1,225)**
Impact of 10% strengthening of the Kwacha on profit or loss	**(277)**	**9**	**36**	**1,457**	**1,225**

Separate

At 31 December 2016	USD	GBP	Euro	ZAR	Total
Sensitivity					
Total net long/(short) position	2,110	(15)	(31)	(2,095)	(31)
Impact of 10% weakening of the Kwacha on profit or loss	211	(2)	(3)	(209)	(3)
Impact of 10% strengthening of the Kwacha on profit or loss	(211)	2	3	209	3

(f) Derivatives held for risk management purposes

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by a central treasury department (Bank Treasury) under policies approved by the Board of Directors. Bank Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments.

Derivatives are recognised initially at fair value and subsequently measured at fair value. Fair values are obtained from appropriate pricing models.

Gains and losses on derivatives are included in net trading income as they arise.

(g) Operational risks

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

The Group's objective 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 to avoid control procedures that restrict initiative and creativity.

The management of this risk is done through the implementation of an Operational Risk Management (ORM) Policy and Framework. The ORM model involves use of risk tables, risk control self-assessments, key risk indicators, incident management, audit findings, compliance reports, information risk management, loss control programmes and business continuity management. Audits and routine control (or operational integrity) processes provide an independent assurance on the adequacy and effectiveness of the management of operational risk, including, but not limited to, the processes, systems and controls.

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

(h) Compliance risk

Compliance is an independent core risk management activity, the head of which also has unrestricted access to the Chief Executive Officer and the Chairman of the Board. The Group is subject to extensive supervisory and regulatory regimes, and the executive management remains responsible for overseeing the management of the Group's compliance risk.

Money laundering control and occupational health and safety (including aspects of environmental risk management) are managed within the compliance function and there are increasingly onerous legislative requirements being imposed in both these areas. The Group has adopted anti-money laundering

4. Risk Management (continued)
(h) Compliance risk (continued)

policies including Know Your Customer policies and procedures and adheres to the country's anti-money laundering legislation and the Reserve Bank of Malawi's regulations/directives.

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. Compliance with the Know-Your-Customer and Anti-money Laundering procedures and legislation remains an area of major focus for the Group. The Group has a dedicated Money Laundering Control Officer who consults the country's Financial Intelligence Unit on money laundering and anti-terrorist financing matters.

(1) Statutory requirements
In accordance with the Banking Act, the Reserve Bank of Malawi has established the following requirements as at the reporting date:

(i) Liquidity reserve requirement
The Group is required to maintain a liquidity reserve amount with the Reserve Bank of Malawi, in cash and/or with registered discount houses, calculated on a bi weekly basis, of not less than **7.5%** (2016: 7.5%) of the preceding two weeks' average total deposit liabilities. The Group complied with the liquidity reserve requirement in 2017. In the last two weeks of December 2017, the liquidity reserve was **8.0%** (2016: 8.0%) of average customer deposits.

(ii) Capital adequacy requirement
The Group's available capital is required to be a minimum of **15%** (2016: 15%) of risk weighted assets and contingent liabilities. As at 31 December 2016, the Group's available capital was **20.31%** (2016: 25.13%) of its risk weighted assets and contingent liabilities. The Group has complied with this requirement during the year.

(iii) Loan loss provision
The loan loss provision in accordance with Reserve Bank of Malawi guidelines amounts to **MK11.1 billion** (2016: MK2.0 billion). The amount of impairment provisions included in the consolidated and separate financial statements in accordance with IAS 39 is **MK8.8 billion** (2016: MK2.6 billion).The shortfall in provisions has been treated as an appropriation of retained earnings to loan loss reserve in accordance with Reserve Bank of Malawi guidelines.

(2) Prudential aspects of the Group's liquidity
The Reserve Bank of Malawi has issued the following guidelines on the management of liquidity:

(i) Liquidity ratio 1
Net liquidity (total liquid assets less suspense account in foreign currency) divided by total deposits must be at least 30%.

(ii) Liquidity ratio 2
Net liquidity (total liquid assets less suspense account in foreign currency and cheques in the course of collection) divided by total deposits must be at least 20%.

The Group complied with the liquidity ratio requirements in 2017. At 31 December 2017, the Group's liquidity ratio 1 was **80.50%** (2016: 88.09%) and liquidity ratio 2 was **79.35%** (2016: 87.41%).

Implementing current capital requirements of the Reserve Bank of Malawi requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The Group calculates requirements for market risk in its trading portfolios based upon the Group's VaR models and uses its internal grading as the basis for risk weightings for credit risk.

The Group has access to a diverse funding base. Funds are raised mainly from deposits and shareholders. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Group strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required for meeting business objectives. In addition the Group holds a portfolio of liquid assets as part of its liquidity risk management strategy.

(iii) Capital management
Reserve Bank of Malawi sets and monitors the capital requirements for the Group. In implementing current capital requirements, the Reserve Bank of Malawi requires the Group to maintain a minimum ratio of **15%** (2016:15%) of total capital to risk-weighted assets. The Group's regulatory capital is analysed in two parts:

- Tier I Capital, which includes ordinary share capital, share premium, retained earnings, and other regulatory reserve after taking out 50% of investment in a subsidiary, deferred tax assets, 50% investment in the capital of other banks and financial institutions; and
- Tier II Capital, which includes share revaluation reserve investment revaluation reserve, property revaluation reserve and loan loss reserve after taking out 50% of investment in a subsidiary.

The calculation of both of the above ratio is shown below:

	2017 MKm	2016 MKm
Tier 1 capital		
Share capital and share premium	**8,726**	8,726
Retained earnings and other reserves	**48,127**	47,309
Total tier 1 capital	**56,853**	56,035
Tier 2 capital		
General debt provision	**1,435**	1,534
Revaluation reserve on property less 50% of investment in a subsidiary	**10,322**	4,154
Total tier 2 capital	**11,757**	5,688
Total regulatory capital	**68,610**	61,723
Risk weighted assets	**337,851**	245,582
Capital ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets	**20.31%**	25.13%
Total Tier 1 capital expressed as a percentage of total risk weighted assets	**16.83%**	22.82%

The Group has complied with all capital management requirements during the year ended 31 December 2017.

5. ACCOUNTING ESTIMATES AND JUDGEMENTS

Management discussed with the Board Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

Key sources of estimates and uncertainty

Note 4(b) contains information about the assumptions and their risk factors relating to provision for loan losses. In notes 4(c), 4(d) and 4(e) detailed analysis is given of the exposure to liquidity risk, interest rates and currency risk respectively. Detailed analysis of fair value measurement is disclosed in more detail on note 7.

(i) Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(v).

Portfolio loan impairments

The Group assesses loan portfolios for impairment at each reporting date. In determining whether an impairment loss should be recorded in profit or loss, the Group make judgments as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be allocated to an individual loan in that portfolio. Estimates are made of the duration between the occurrence of a loss event and the identification of a loss on an individual basis. The impairment for performing and non-performing but not specifically impaired loans is calculated on a portfolio basis, based on historical loss patterns, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These include early arrears and other indicators of potential default, such as changes in macroeconomic conditions and legislation affecting credit recovery. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period. At year end, the group applied an average loss emergence period of 3 months for PBB and 12 months for CIB loans and advances.

Specific loan impairments

Non-performing loans include those loans for which the group and company have identified objective evidence of default, such as a breach of a material loan covenant or condition as well as those loans for which instalments are due and unpaid for 90 days or more. The methodology used in determining the specific loan impairment includes modelling with various inputs such as segmentation, levels of loss expectation and probability of default. Management's estimates of future cash flows on individually impaired loans are based on historical loss experience for assets with similar credit risk characteristics. 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. Expected time to recover securities and recoveries of individual loans as a percentage of the outstanding balances are estimated as follows:

	Expected time to recovery		**Expected recoveries as a percentage of impaired loans**	
	2017	**2016**	**2017**	**2016**
	Months	Months	**%**	%
Personal and Business Banking				
Mortgage lending	**12**	12	**80**	80
Vehicle and asset finance	**9**	9	**50**	40
Other lending	**6**	6	**20**	10
Corporate and Investment Banking	**12**	12	**41**	41

(ii) Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(e) and 3(g). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(iii) Deferred tax

Deferred tax is recognised in direct taxation except to the extent that it relates to a business combination (relating to a measurement period adjustment where the carrying amount of the goodwill is greater than zero), or items recognised directly in equity or in OCI. Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax is not recognised for the following temporary differences:

- the initial recognition of goodwill
- the initial recognition of assets and liabilities in a transaction that is not a business combination, which affects neither accounting nor taxable profits or losses
- investments in subsidiaries, associates and jointly controlled arrangements (excluding mutual funds) where the Group controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted. Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(iv) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The Group's provisions typically (when applicable) include the following:

Provisions for legal claims

Provisions for legal claims are recognised on a prudent basis for the estimated cost for all legal claims that have not been settled or reached conclusion at the reporting date. In determining the provision, management considers the probability and likely settlement (if any). Reimbursements of expenditure to settle the provision are recognised when and only when it is virtually certain that the reimbursement will be received.

Provision for restructuring

A provision for restructuring is recognised when the Group has approved a detailed formal plan, and the restructuring either has commenced or has been announced publicly. Future operating costs or losses are not provided for.

Provision for 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 that contract.

6. SEGMENT REPORTING

Segment information is presented in respect of the Group's operating segments. The format, operating segments, is based on the Group's management and internal reporting structure.

The segment report includes only those business unit activities conducted within the group. No geographical segment information is disclosed due to the fact that business activities relate to Malawi.

Operating segments pay and receive interest to and from the Central Treasury on an arm's length basis to reflect the allocation of capital and funding costs.

The Group comprises the following main operating segments:

(i) Corporate and Investment Banking (CIB)

Includes the Group's trading and corporate finance activities, central treasury, loans, deposits and other transactions and balances with corporate customers.

- Commercial and investment banking services to larger corporate companies, financial institutions and international counterparties.
- Global markets - includes foreign exchange, commodities, debt securities and equities trading.
- Transactional products and services - includes transactional banking, trade finance and investor services.
- Investment banking - includes equity investment, advisory, project finance, structured finance, structured trade finance, corporate lending, primary markets, acquisition and finance, property finance and the asset and wealth management units.

(ii) Personal and Business Banking (PBB)

- Retail banking – incorporating private banking services, private customer current accounts, savings, deposits, investment savings products, custody, debit cards, consumer loans and mortgages.
- Transactional and lending products - transactions in products associated with the various points of contact channels such as ATMs, Internet, telephone banking and branches. This includes deposit taking activities, electronic banking, cheque accounts and other lending products.
- Installment sale and finance leases - comprises two main areas, installment finance in the consumer market, mainly vehicles, and secondly, finance of vehicles and equipment in the business market.

(iii) Treasury and Capital Management (TCM)

Capital and liquidity are managed within group treasury and capital management (TCM). TCM maintains a framework of governance standards and policies which enable it to effectively manage capital, liquidity, prudential limits and ratings. The objective of TCM is to contribute to shareholder value through managing the statement of financial position and financial resources in a way that is optimised, comprehensive and integrated across all banking operations.

Transactions between the operating 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 operating segments.

Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

During the year, the Group changed the reporting structure of operating segments whereby income and expenses of corporate functions are now reported as a separate segment and only reports into the business profit or loss as one line item reflecting the net cost/benefit. This is a departure from the previous treatment whereby they were absorbed and embedded within income and cost lines of business units. The prior year numbers have consequently been restated to reflect this change.

Operating segments

Consolidated	CIB		PBB		TCM		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	MKm	MKm	**MKm**	MKm	**MKm**	MKm	**MKm**	MKm
Interest income	**34,388**	30,534	**12,170**	13,248	**171**	500	**46,729**	44,282
Interest expense	**(6,764)**	(6,072)	**(2,042)**	(2,386)	**-**	-	**(8,806)**	(8,458)
Net interest income	**27,624**	24,462	**10,128**	10,862	**171**	500	**37,923**	35,824
Funding	**(9,221)**	(9,947)	**6,335**	7,637	**4,144**	3,275	**1,258**	965
Net fee and commission income	**1,555**	1,902	**7,795**	7,566	**22**	-	**9,372**	9,468
Net trading income	**8,936**	7,853	**950**	862	**-**	-	**9,886**	8,715
Other operating income	**(2)**	6	**76**	118	**-**	-	**74**	124
Operating income	**28,892**	24,276	**25,284**	27,045	**4,337**	3,775	**58,513**	55,096
Direct Staff costs costs before allocation	**(2,228)**	(1,904)	**(5,687)**	(4,580)	**(900)**	(535)	**(8,815)**	(7,019)
Direct operating expenses before allocation	**(5,878)**	(4,937)	**(9,227)**	(5,497)	**1,289**	503	**(13,816)**	(9,931)
Other operating expenses from enabling functions	**(3,706)**	(2,748)	**(8,368)**	(6,549)	**-**	-	**(12,074)**	(9,297)
Impairment losses on loans and advances	**(142)**	104	**(6,082)**	(680)	**-**	-	**(6,224)**	(576)
Profit before income tax	**16,938**	14,791	**(4,080)**	9,739	**4,726**	3,743	**17,584**	28,273
Income tax expense	**(4,806)**	(4,087)	**1,018**	(3,122)	**(1,512)**	(1,173)	**(5,300)**	(8,382)
Profit/(loss) for the year	**12,132**	10,704	**(3,062)**	6,617	**3,214**	2,570	**12,284**	19,891

6. Segment reporting (continued)

Consolidated	CIB 2017 MKm	CIB 2016 MKm	PBB 2017 MKm	PBB 2016 MKm	TCM 2017 MKm	TCM 2016 MKm	Total 2017 MKm	Total 2016 MKm
Assets								
Cash and balances held with Central Bank	**22,279**	28,214	**11,173**	8,652	**193**	-	**33,645**	36,866
Derivative assets	**541**	726	**-**	-	**-**	-	**541**	726
Trading assets	**23,522**	18,008	**-**	(19)	**-**	-	**23,522**	17,989
Loans and advances to banks	**173,730**	107,501	**1,057**	59	**-**	-	**174,787**	107,560
Loans and advances to customers	**48,242**	37,659	**45,965**	53,349	**-**	-	**94,207**	91,008
Financial investments	**43,632**	37,608	**-**	-	**3,261**	-	**46,893**	37,608
Other assets	**1,784**	2,244	**4,389**	2,174	**-**	-	**6,173**	4,418
Property and equipment	**99**	112	**4,401**	4,106	**364**	485	**4,864**	4,703
Intangible assets	**-**	-	**1**	5	**20,939**	586	**20,940**	591
Current and deferred tax asset	**1,942**	292	**1,432**	122	**2,389**	-	**5,763**	414
Total assets	**315,771**	232,364	**68,418**	68,448	**27,146**	1,071	**411,335**	301,883
Liabilities								
Derivative assets	**188**	195	**-**	-	**-**	-	**188**	195
Trading liabilities	**435**	322	**-**	-	**-**	-	**435**	322
Deposits and loans from banks	**59,827**	18,748	**832**	457	**-**	-	**60,659**	19,205
Deposits from customers	**149,893**	101,403	**109,595**	103,047	**-**	-	**259,488**	204,450
Other liabilities	**6,379**	5,185	**1,561**	2,349	**13,295**	-	**21,235**	7,534
Other provisions	**1,021**	5,313	**2,575**	5,311	**40**	-	**3,636**	10,624
Current and deferred tax liabilities	**3,262**	1,364	**2,547**	1,377	**-**	-	**5,809**	2,741
Total liabilities	**221,005**	132,530	**117,110**	112,541	**13,335**	-	**351,450**	245,071

Consolidated	CIB 2017 MKm	CIB 2016 MKm	PBB 2017 MKm	PBB 2016 MKm	TCM 2017 MKm	TCM 2016 MKm	Total 2017 MKm	Total 2016 MKm
Shareholders' equity								
Share capital and premium	**-**	-	**-**	-	**8,726**	8,726	**8,726**	8,726
Retained earnings and reserves	**22,636**	18,997	**15,924**	15,408	**17,424**	15,872	**55,984**	50,277
Funding	**72,130**	80,837	**(64,616)**	(59,501)	**(12,339)**	(23,527)	**(4,825)**	(2,191)
Total shareholders' equity	**94,766**	99,834	**(48,692)**	(44,093)	**13,811**	1,071	**59,885**	56,812
Total equity and liabilities	**315,771**	232,364	**68,418**	68,448	**27,146**	1,071	**411,335**	301,883

Reconciliation of information on reportable segment to IFRS measures

Consolidated	2017 MKm	2016 MKm
(i) Revenues		
Total revenues for reportable segments	**58,513**	55,096
Interdepartmental funding expense	**(1,259)**	(965)
Consolidated revenue	**57,254**	54,131
(ii) Profit before tax		
Total profit for reportable segments	**17,584**	28,273
Unallocated amounts*	**(123)**	(106)
Consolidated profit before tax	**17,461**	28,167
(iii) Assets		
Total assets for reportable segments	**411,335**	301,883
Unallocated amounts*	**16,663**	11 632
Consolidated total assets	**427,998**	313,515
(iv) Liabilities		
Total liabilities for reportable segments	**351,450**	245,071
Other unallocated amounts*	**4,316**	5,644
Consolidated total assets	**355,766**	250,715

*Unallocated amounts comprises of corporate functions (primarily Head Office units).

7. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(a) Valuation models

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- **Level 1:** inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- **Level 2:** inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- **Level 3:** inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

If the Group measures portfolios of financial assets and financial liabilities on the basis of net exposures to market risks, then it applies judgement in determining appropriate portfolio-level adjustments such as bid-ask spreads. Such adjustments are derived from observable bid-ask spreads for similar instruments and adjusted for factors specific to the portfolio. Similarly, when the Group measures portfolios of financial assets and financial liabilities on the basis of net exposure to the credit risk of a particular counterparty, then it takes into account any existing arrangements that mitigate the credit risk exposure (e.g. master netting agreements with the counterparty).

(b) Financial instruments measured at fair value – fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated and separate statements of financial position.

Consolidated	Note	Level 1 Mkm	Level 2 Mkm	Level 3 Mkm	Total Mkm
31 December 2017					
Derivative assets	9	**-**	**541**	**-**	**541**
Trading assets	10	**-**	**23,522**	**-**	**23,522**
Financial investments	13	**-**	**28,491**	**-**	**28,491**
Total		**-**	**52,554**	**-**	**52,554**
Derivative liabilities	9	**-**	**188**	**-**	**188**
Trading liabilities	19	**-**	**32**	**103**	**135**
Total		**-**	**220**	**103**	**323**

Consolidated	Note	Level 1 Mkm	Level 2 Mkm	Level 3 Mkm	Total Mkm
31 December 2016					
Derivative assets	9	-	726	-	726
Trading assets	10	-	18,008	-	18,008
Financial investments	13	-	37,623	-	37,623
Total		-	56,357	-	56,357
Derivative liabilities	9	-	195	-	195
Trading liabilities	19	-	-	322	322
Total		-	195	322	517

Separate	Note	Level 1 Mkm	Level 2 Mkm	Level 3 Mkm	Total Mkm
31 December 2017					
Derivative assets	9	**-**	**541**	**-**	**541**
Trading assets	10	**-**	**23,522**	**-**	**23,522**
Financial investments	13	**-**	**28,491**	**-**	**28,491**
Total		**-**	**52,554**	**-**	**52,554**
Derivative liabilities	9	**-**	**188**	**-**	**188**
Trading liabilities	19	**-**	**-**	**103**	**103**
Total		**-**	**188**	**103**	**291**
31 December 2016					
Derivative assets	9	-	726	-	726
Trading assets	10	-	18,008	-	18,008
Financial investments	13	-	37,623	-	37,623
Total		-	56,357	-	56,357
Derivative liabilities	9	-	195	-	195
Trading liabilities	19	-	-	322	322
Total		-	195	322	517

7. Accounting classifications and fair values of financial instruments (continued)

(c) Financial instruments not measured at fair value – fair value hierarchy

Consolidated	Note	Level 1 Mkm	Level 2 Mkm	Level 3 Mkm	Total Mkm
31 December 2017					
Cash and balances held with Central Bank	8	35,234	-	-	35,234
Loans and advances to banks and other Financial institutions	11	-	174,788	-	174,788
Loans and advances to customers	12	-	-	94,219	94,219
Financial investments	13	-	18,402	-	18,402
Other assets	15	-	-	9,051	9,051
Total		35,234	193,190	103,270	331,694
Deposits and loans from banks	20	19,441	41,218	-	60,659
Deposits from customers	21	252,173	7,315	-	259,488
Other liabilities	22		-	23,107	23,107
Total		271,614	48,533	23,107	343,254
31 December 2016					
Cash and balances held with Central Bank	8	36,866	-	-	36,866
Loans and advances to banks and other Financial institutions	11	-	107,530	-	107,530
Loans and advances to customers	12	-	-	91,008	91,008
Other assets	15	-	-	5,891	5,891
Total		36,866	107,530	96,899	241,295
Deposits and loans from banks	20	10,638	8,596	-	19,234
Deposits from customers	21	197,688	6,722	-	204,410
Other liabilities	22	-	-	16,873	16,873
Total		208,326	15,318	16,873	240,517

Separate	Note	Level 1 Mkm	Level 2 Mkm	Level 3 Mkm	Total Mkm
31 December 2017					
Cash and balances held with Central Bank	8	34,962	-	-	34,962
Loans and advances to banks and other Financial institutions	11	-	173,730	-	173,730
Loans and advances to customers	12	-	-	94,604	94,604
Financial investments	13	-	18,402	-	18,402
Other assets	15	-	-	9,067	9,067
Total		34,962	192,132	103,671	330,765
Deposits and loans from banks	20	19,463	41,218	-	60,681
Deposits from customers	21	252,505	7,315	-	259,820
Other liabilities	22	-	-	23,102	23,102
Total		271,968	48,533	23,102	343,603
31 December 2016					
Cash and balances held with Central Bank	8	36,715	-	-	36,715
Loans and advances to banks and other financial institutions	11	-	107,530	-	107,530
Loans and advances to customers	12	-	-	91,008	91,008
Other assets	15	-	-	5,910	5,910
Total		36,715	107,530	96,918	241,163
Deposits and loans from banks	20	10,638	8,596	-	19,234
Deposits from customers	21	198,415	6,723	-	205,138
Other liabilities	22	-	-	16,865	16,865
Total		209,053	15,319	16,865	241,237

7. Accounting classifications and fair values of financial instruments (continued)

The following tables provide a reconciliation of the opening to closing balance for all financial liabilities that are measured at fair value based on inputs that are not based on observable market data (level 3):

Separate	2017 MKm	2016 MKm
Balance at 1 January 2017	**322**	149
Sales and settlement	**1**	2,040
Total losses/ (gains) included in profit or loss - trading revenue	**(220)**	(1,867)
Balance at 31 December 2017	**103**	322

(c) Level 3 fair value measurements

Significant unobservable inputs are developed as follows.

- Expected prepayment rates are derived from historical prepayment trends, adjusted to reflect current conditions.
- The probabilities of defaults and loss severities for commercial assets are derived from the credit default swap (CDS) market. When this information is not available, the inputs are obtained from historical default and recovery information and adjusted for current conditions.
- The probabilities of default and loss severities for retail assets are derived from historical default and recovery information and adjusted for current conditions.
- Correlations between and volatilities of the underlying are derived through extrapolation of observable volatilities, recent transaction prices, quotes from other market participants, data from consensus pricing services and historical data adjusted for current conditions.
- Risk-adjusted spreads are derived from the CDS market (when this information is available) and from historical defaults and prepayment trends adjusted for current conditions.

(d) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table:

Item and description	Valuation technique	Main inputs and assumptions
Derivative financial instruments • Derivative financial instruments comprise foreign exchange derivatives and are held-for-trading.	Standard derivative contracts are valued using market accepted models and quoted parameter inputs. More complex derivative contracts are modelled using more sophisticated modelling techniques applicable to the instrument. Techniques include: • Discounted cash flow model • Black-Scholes model • Combination technique models.	For level 2 and 3 fair value hierarchy items discount rate • spot prices of the underlying • correlation factors • volatilities • dividend yields • earnings yield • valuation multiples.

Item and description	Valuation technique	Main inputs and assumptions
Trading assets and trading liabilities Trading assets and liabilities comprise instruments which are part of the Group's underlying trading activities. These instruments primarily include sovereign and corporate debt.	Where there are no recent market transactions in the specific instrument, fair value is derived from the last available market price adjusted for changes in risks and information since that date. Where a proxy instrument is quoted in an active market, the fair value is determined by adjusting the proxy fair value for differences between the proxy instrument and the financial investment being fair valued. Where proxies are not available, the fair value is estimated using more complex modelling techniques. These techniques include discounted cash flow and Black-Scholes models using current market rates for credit, interest, liquidity, volatility and other risks. Combination techniques are used to value unlisted equity securities and include inputs such as earnings and dividend yields of the underlying entity.	For level 2 and 3 fair value hierarchy items discount rate • spot prices of the underlying • correlation factors • volatilities • dividend yields • earnings yield • valuation multiples.
Financial investments Financial investments are non-trading financial assets and primarily comprise of sovereign debt and unlisted equity instruments Loans and advances to banks and Customers		
Loans and advances comprise: • Loans and advances to banks: call loan and balances held with other banks • Loans and advances to customers: mortgage loans (home loans and commercial mortgages), other asset-based loans, including collateralised debt obligations (instalment sale and finance leases), and other secured and unsecured loans (card debtors, overdrafts, other demand lending, term lending and loans granted under resale agreements).	For certain loans fair value may be determined from the market price of a recently occurring transaction adjusted for changes in risks and information between the transaction and valuation dates. Loans and advances are reviewed for observed and verified changes in credit risk and the credit spread is adjusted at subsequent dates if there has been an observable change in credit risk relating to a particular loan or advance. In the absence of an observable market for these instruments, discounted cash flow models are used to determine fair value. Discounted cash flow models incorporate parameter inputs for interest rate risk, foreign exchange risk, liquidity and credit risk, as appropriate. For credit risk, probability of default and loss given default parameters are determined using credit default swaps (CDS) markets, where available and appropriate, as well as the relevant terms of the loan and loan counterparty such as the industry classification and subordination of the loan.	For level 2 and 3 fair value hierarchy items • discount rate

7. Accounting classifications and fair values of financial instruments (continued)
(d) Estimation of fair values (continued)

Item and description	Valuation technique	Main inputs and assumptions
Deposits and debt funding Deposits from banks and customers comprise amounts owed to banks and customers, deposits under repurchase agreements, negotiable certificates of deposit, credit-linked deposits and other deposits.	For certain deposits, fair value may be determined from the market price on a recently occurring transaction adjusted for all changes in risks and information between the transaction and valuation dates. In the absence of an observable market for these instruments, discounted cash flow models are used to determine fair value based on the contractual cash flows related to the instrument. The fair value measurement incorporates all market risk factors, including a measure of the group's credit risk relevant for that financial liability. The market risk parameters are valued consistently to similar instruments held as assets stated in the section above. The credit risk of the reference asset in the embedded CDS in credit-linked deposits is incorporated into the fair value of all credit-linked deposits that are designated to be measured at fair value through profit or loss. For collateralised deposits that are designated to be measured at fair value through profit or loss, such as securities repurchase agreements, the credit enhancement is incorporated into the fair valuation of the liability.	For level 2 and 3 fair value hierarchy items • discount rate

Consolidated	Note	Available for sale MKm	Loans and receivables Mkm	Held for trading Mkm	Amortised cost Mkm	Held to maturity Mkm	Fair value Mkm	Carrying amount Mkm
31 December 2017								
Cash and balances held with Central Bank	8	-	35,234	-	-	-	35,234	35,234
Derivative assets	9	-	-	541	-	-	541	541
Trading assets	10	-	-	23,522	-	-	23,522	23,522
Loans and advances to banks and other financial institutions	11	-	174,788	-	-	-	174,788	174,788
Loans and advances to customers	12	-	94,219	-	-	-	94,219	94,219
Financial investments	13	28,491	-	-	-	18,402	46,893	46,893
Other assets	15	-	9,051	-	-	-	9,051	9,051
Total		28,491	313,292	24,063	-	18,402	384,248	384,248
Derivative liabilities	9	-	-	188	-	-	188	188
Trading liabilities	19	-	-	135	-	-	135	135
Deposits and loans from banks	20	-	-	-	60,659	-	60,659	60,659
Deposits from customers	21	-	-	-	259,488	-	259,488	259,488
Other liabilities	22	-	-	-	23,107	-	23,107	23,107
Total		-	-	323	343,254	-	343,577	343,577

7. Accounting classifications and fair values of financial instruments (continued)
(d) Estimation of fair values (continued)

Consolidated	Note	Available for sale MKm	Loans and receivables Mkm	Held for trading Mkm	Amortised cost Mkm	Fair value Mkm	Carrying amount Mkm
31 December 2016							
Cash and balances held with Central Bank	8	-	36,866	-		36,866	36,866
Derivative assets	9	-	-	726	-	726	726
Trading assets	10	-	-	18,008	-	18,008	18,008
Loans and advances to banks and other financial institutions	11	-	107,530	-	-	107,530	107,530
Loans and advances to customers	12	-	91,008	-	-	91,008	91,008
Financial investments	13	37,623	-	-	-	37,623	37,623
Other assets	15	-	5,891	-	-	5,891	5,891
Total		37,623	241,295	18,734	-	297,652	297,652
Derivative liabilities	9	-	-	195	-	195	195
Trading liabilities	19	-	-	322	-	322	322
Deposits and loans from banks	20	-	-	-	19,234	19,234	19,234
Deposits from customers	21	-	-	-	204,410	204,410	204,410
Other liabilities	22	-	-	-	16,873	16,873	16,873
Total		-	-	517	240,517	241,034	241,034

Separate	Note	Available for sale MKm	Loans and receivables Mkm	Held for trading Mkm	Amortised cost Mkm	Held to maturity Mkm	Fair value Mkm	Carrying amount Mkm
31 December 2017								
Cash and balances held with Central Bank	8	-	**34,962**	-	-	-	**34,962**	**34,962**
Derivative assets	9	-	-	**541**	-	-	**541**	**541**
Trading assets	10	-	-	**23,522**	-	-	**23,522**	**23,522**
Loans and advances to banks and other financial institutions	11	-	**173,730**	-	-	-	**173,730**	**173,730**
Loans and advances to customers	12	-	**94,604**	-	-	-	**94,604**	**94,604**
Financial investments	13	**28,491**	-	-	-	**18,402**	**46,893**	**46,893**
Other assets	15	-	**9,067**	-	-	-	**9,067**	**9,067**
Total		**28,491**	**312,363**	**24,063**	-	**18,402**	**383,319**	**383,319**
Derivative liabilities	9	-	-	**188**	-	-	**188**	**188**
Trading liabilities	19	-	-	**103**	-	-	**103**	**103**
Deposits and loans from banks	20	-	-	-	**60,681**	-	**60,681**	**60,681**
Deposits from customers	21	-	-	-	**259,820**	-	**259,820**	**259,820**
Other liabilities	22	-	-	-	**23,102**	-	**23,102**	**23,102**
Total		-	-	**291**	**343,603**	-	**343,894**	**343,894**

7. Accounting classifications and fair values of financial instruments (continued)
(d) Estimation of fair values (continued)

Separate	Note	Available for sale	Loans and receivables	Held for trading	Amortised cost	Fair value	Carrying amount
		Mkm	Mkm	Mkm	Mkm	Mkm	Mkm
31 December 2016							
Cash and balances held with Central Bank	8	-	36,715	-		36,715	36,715
Derivative assets	9	-	-	726	-	726	726
Trading assets	10	-	-	18,008	-	18,008	18,008
Loans and advances to banks and other financial institutions	11	-	107,530	-	-	107,530	107,530
Loans and advances to customers	12	-	91,008	-	-	91,008	91,008
Financial investments	13	37,623	-	-	-	37,623	37,623
Other assets	15	-	5,910	-	-	5,910	5,910
Total		37,623	241,163	18,734	-	297,520	297,520
Derivative liabilities	9	-	-	195	-	195	195
Trading liabilities	19	-	-	322	-	322	322
Deposits and loans from banks	20	-	-	-	19,234	19,234	19,234
Deposits from customers	21	-	-	-	205,138	205,138	205,138
Other liabilities	22	-	-	-	16,865	16,865	16,865
Total		-	-	517	241,237	241,754	241,754

8. CASH AND BALANCES HELD WITH CENTRAL BANK

See accounting policy in Note 3(d)

	Consolidated		Separate	
	2017	2016	2017	2016
	MKm	MKm	MKm	MKm
Cash balances	**12,955**	8,652	**12,683**	8,501
Balances with the Reserve Bank of Malawi	**22,279**	28,214	**22,279**	28,214
Balances eligible for liquidity reserve requirement (Note 39)	**35,234**	36,866	**34,962**	36,715

Banks are required to maintain a prescribed minimum balance in cash, with the Reserve Bank of Malawi and licensed discount houses that are not available to finance the Bank's day-to-day activities. The amount is determined as **7.5%** (2016:7.5%) of the average outstanding local and foreign currency customer deposits, over liquidity reserve cycle period of two weeks. Balances with the Reserve Bank of Malawi do not earn interest.

9. DERIVATIVES ASSETS AND LIABILITIES

See accounting policy in Note 3(e)

The table below analyses derivatives held for risk management purposes by type of instrument:

	Consolidated and separate			
	2017		2016	
	MKm	MKm	MKm	MKm
	Asset	**Liability**	Asset	Liability
Foreign exchange derivatives	**541**	**(188)**	726	(195)

At 31 December 2017, **Nil** (2016: Nil) of derivative assets/liabilities are expected to be recovered more than twelve months after the reporting date.

9. Derivatives assets and liabilities (continued)

In the normal course of business, the Group enters into a variety of derivative transactions for both trading and hedging purposes. Derivative financial instruments are entered into for trading purposes. Derivative instruments used by the Group and company in trading activities include swaps, forwards and other similar types of instruments based on foreign exchange rates and interest rates.

The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

The Group transact derivative contracts to address client demand, both as a market maker in the wholesale markets and in structuring tailored derivatives for clients. The Group also take proprietary positions for its own account.

All derivatives are held-for-trading.

10. TRADING ASSETS

See accounting policy in Note 3(f)

	Consolidated and Separate			Consolidated and Separate		
	2017	**2017**	**2017**	**2016**	**2016**	**2016**
	MKm	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**
	Pledged trading assets	**Non pledged trading assets**	**Total trading assets**	Pledged trading assets	Non pledged trading assets	Total trading assets
Treasury bills	**4,000**	**15,857**	**19,857**	-	18,008	18,008
Trading Securities - Other	**-**	**3,665**	**3,665**	-	-	-
	4,000	**19,522**	**23,522**	-	18,008	18,008

Trading assets

	Consolidated and Separate	
	2017	2016
	MKm	MKm
Listed	**19,857**	18,008
Unlisted	**3 665**	-
	23,522	18,008
Comprising:		
Treasury bills	**19,857**	18,008
Trading Assets Lending	**3 665**	-
	23,522	18,008

Maturity analysis

The maturities represent periods to contractual redemption of the trading assets recorded.

	Consolidated and Seperate	
	2017	**2016**
	MKm	**MKm**
Maturing within 1 month	**7,501**	5,007
Maturing after 1 month but within 6 months	**13,422**	12,194
Maturing after 6 months but within 12 months	**2,599**	807
	23,522	18,008

Collateral accepted as security for assets

At 31 December 2017, the fair value of financial assets accepted as collateral that the Group is permitted to sell or repledged in the absence of default is **Nil** (2016: Nil).

At 31 December 2017, the fair value of financial assets accepted as collateral that have been sold or repledged is Nil (2016: Nil).

11. LOANS AND ADVANCES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

See accounting policy in Note 3(h)

	Consolidated		Separate	
			2017	
	MKm	**MKm**	**MKm**	**MKm**
Loans and advances to other banks	**121,312**	62,954	120,254	62,954
Loans and advances with related banks (note 40)	**53 476**	44,576	53 476	44,576
Balances with banking institutions	**174,788**	107,530	173,730	107,530

At 31 December 2017 **Nil** (2016: Nil) loans and advances to banks and other financial institutions are expected to be recovered more than twelve months after the reporting date.

12. LOANS AND ADVANCES TO CUSTOMERS

See accounting policy in Note 3(h)

	Consolidated		Separate	
	2017	2016	2017	2016
	MKm	MKm	MKm	MKm
Loans and advances to staff at armotised cost	**2,634**	1,843	**2,634**	1,843
Loans and advances to customers at amortised cost	**100,357**	91,737	**100,742**	91,737
Gross loans and advances to customers	**102,991**	93,580	**103,376**	93,580
Less: impairment losses on loans and advances	**(8,772)**	(2,572)	**(8,772)**	(2,572)
Net loans and advances to customers	**94,219**	91,008	**94,604**	91,008

At 31 December 2017, **MK33,033 million** (2016: MK30,960 million) of loans and advances to customers are expected to be recovered more than twelve months after the reporting date.

Gross loans and advances to customers

Personal and Business Banking

Overdrafts	**11,741**	20,364	**12,126**	20,364
Term loans	**35,480**	28,077	**35,480**	28,077
Finance leases	**4,550**	5,360	**4,550**	5,360
Mortgages	**2,202**	1,521	**2,202**	1,521
	53,973	55,322	**54,358**	55,322

Corporate and Investment Banking

Overdrafts	**12,983**	18,790	**12,983**	18,790
Term loans	**35,737**	19,057	**35,737**	19,057
Finance leases	**298**	411	**298**	411
	49,018	38,258	**49,018**	38,258
Total gross loans and advances to customers	**102,991**	93,580	**103,376**	93,580

	Consolidated and Separate	
	2017	2016
Individual allowances for impairment:	MKm	MKm
Balance at 1 January	**1,038**	904
Impairment loss for the year:		
Charge for the year	**9,196**	1,666
Write-offs	**(570)**	(60)
Reversals of allowance on Impairments	**(2,327)**	(1,472)
Balance at 31 December	**7,337**	1,038
Collective allowances for impairment:		
Balance at 1 January	**1,534**	1,152
Impairment released for the year	**(99)**	382
Balance at 31 December	**1,435**	1,534
Total allowances for impairment	**8,772**	2,572

12. Loans and advances to customers (continued)

Impairment losses on loans and advances charged/credited to profit or loss is analysed as follows:

	Consolidated and Separate	
	2017	2016
	MKm	MKm
Non-performing loans	**6,323**	195
Performing loans	**(99)**	381
	6,224	576

Finance lease receivables

Leases entered into are at market-related terms. Under the terms of the lease agreements, no contingent rentals are receivable. Moveable assets are leased or sold to customers under finance leases and instalment sale agreements. Depending on the terms of the agreement, the lessee may have the option to purchase the asset at the end of the lease term.

The loans and advances to customers include the following finance lease receivables, for leases of certain property and equipment where the Group is the lessor:

Gross investment in finance leases receivable:

Not later than one year	**286**	620
Later than one year but less than five years	**5,886**	7,456
Later than five years	**64**	-
	6,236	8,076
Unearned future finance income on finance leases	**(1,388)**	(2,305)
Net investment in finance leases	**4,848**	5,771

The net investment in finance leases is analysed as follows:

Not later than one year	**266**	579
Later than one year but less than five years	**4,545**	5,192
Later than five years	**37**	-
	4,848	5,771

13. FINANCIAL INVESTMENTS

See accounting policy in Note 3(g)

	Consolidated and Separate	
	2017	2016
	MKm	MKm
Financial investment securities at fair value:		
Financial investment securities at fair value	**28,491**	37,623
Financial investment securities held to maturity	**18,402**	-
	46,893	37,623

At 31 December 2017 **Mk17,681 million** (2016: Nil) of investment securities are expected to be recovered more than twelve months after the reporting date.

Financial investment securities at fair value:

Treasury bills and bonds	**28,476**	37,608
Equity investment in National Switch Project	**15**	15
	28,491	37,623

Financial investment securities held to maturity:		
Treasury bills and bonds	**18,402**	-

14. INVESTMENT IN SUBSIDIARY

See accounting policy in Note 3(a)

	Separate	
	2017	2016
	MKm	MKm
Investment in Standard Bank Bureau De Change Limited	**100**	100

Standard Bank Limited owns 100% of the Shares in Standard Bank Bureau De Change Limited. Investments in subsidiaries are measured at cost in the separate financial statements.

The principal place of business for Standard Bank Bureau De Change Limited is Malawi.

15. OTHER ASSETS

See accounting policy in Note 3 (c) and 7 (d)

	Consolidated		Separate	
	2017	2016	2017	2016
	MKm	MKm	MKm	MKm
Items in transit*	**3,631**	1,108	**3,631**	1,108
Staff receivables	**36**	29	**36**	29
Inventory**	**61**	58	**61**	58
Sundry receivables	**3,249**	2,593	**3,265**	2,612
Staff loan employee benefits	**2,135**	2,161	**2,135**	2,161
Prepayments **	**317**	365	**317**	365
	9,429	6,314	**9,445**	6,333

*Included within items intransit are unpaid cheques and intransit remittances.
**Inventory and prepayments are not included in the analysis of credit, liquidity and market risk under the Risk management section and Accounting classifications and fair values of financial instruments section.

16. PROPERTY AND EQUIPMENT

See accounting policy in Note 3(i) and (j)

Consolidated and Separate	Freehold land and buildings	Leasehold land and buildings	Motor vehicles, computers, fixtures and fittings	Work in progress	Total
Cost or valuation	MKm	MKm	MKm	MKm	MKm
Balance at 1 January 2016	4,314	4,829	6,456	363	15,962
Additions during the year	15	8	1,145	1,438	2,606
Transfers during the year	-	186	956	(1,142)	-
Disposals during the year	-	(3)	(212)	(46)	(261)
Balance at 31 December 2016	4,329	5,020	8,345	613	18,307
Balance at 1 January 2017	**4,329**	**5,020**	**8,345**	**613**	**18,307**
Additions during the year	**51**	**1**	**695**	**1,695**	**2,442**
Revaluation during the year	**115**	**378**	**-**	**-**	**493**
Transfers during the year	**311**	**111**	**1,154**	**(1,576)**	**-**
Disposals during the year	**-**	**-**	**(289)**	**(12)**	**(301)**
Balance at 31 December 2017	**4,806**	**5,510**	**9,905**	**720**	**20,941**

Accumulated depreciation	Freehold land and buildings	Leasehold land and buildings	Motor vehicles, computers, fixtures and fittings	Work in progress	Total
	MKm	MKm	MKm	MKm	MKm
Balance at 1 January 2016	158	601	3,528	-	4,287
Charge for the year	130	393	1,093	-	1,616
Disposals during the year	-	-	(209)	-	(209)
Balance at 31 December 2016	288	994	4,412	-	5,694
Balance at 1 January 2017	**288**	**994**	**4,412**	-	**5,694**
Charge for the year	**83**	**292**	**1,374**	-	**1,749**
Disposals during the year	**-**	**-**	**(281)**	-	**(281)**
Write back of depreciation on revaluation	**(371)**	**(1,058)**	**-**	-	**(1,429)**
Balance at 31 December 2017	**-**	**228**	**5,505**	**-**	**5,733**
Carrying amounts					
At 31 December 2017	**4,806**	**5,282**	**4,400**	**720**	**15,208**
At 31 December 2016	4,041	4,026	3,933	613	12,613

Broll Malawi independent valuers, valued land and buildings as 31 December 2017. Land and buildings were revalued by Roger Hunting MRICS Dip T.P.MIV (SA) and Oscar Matope MSc, BSc, Dip, MSIM.Valuations were made on the basis of the open market value. The carrying values of the properties were adjusted to the revaluations and the resultant surplus net of deferred tax was credited to revaluation reserves and this reserve is not distributable until realised.

A register of freehold land and buildings is available for inspection at the registered office of the company. The additions in the property and equipment have resulted in the maintaining of the operating capacity of the Group.

16. Property and equipment (continued)

Fair value hierarchy

The following table analyses property and equipment measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised.

Consolidated and separate	Level 1	Level 2	Level 3	Total
	Mkm	Mkm	Mkm	Mkm
31 December 2017				
Freehold land and buildings	-	-	4,806	4,806
Leasehold land and buildings	-	-	5,510	5,510
Total	-	-	10,316	10,316

If the land and buildings were stated on the historical cost basis, the carrying amounts would be as follows:

Consolidated and separate	2017	2016
	MKm	MKm
Cost	5,750	5,308
Accumulated depreciation and impairment losses	(2,535)	(2,273)
Net carrying amount	3,215	3,035

17. INTANGIBLE ASSETS – SOFTWARE

See accounting policy in Note 3(k)

Cost		
Balance at 1 January	819	234
Additions during the year	21,201	585
Disposals during the year	(197)	-
	21,823	819
Accumulated amortisation		
Balance at 1 January	228	225
Amortisation during the year	850	3
Eliminated on disposal	(197)	-
Balance at 31 December	881	228
Carrying amounts	20,942	591

18. DEFERRED TAX ASSETS AND LIABILITIES

Analysis of deferred tax assets and liabilities in the consolidated and separate statements of financial position is as follows:

	Deferred tax asset		Deferred tax Liability		Net	
Consolidated	2017	2016	2017	2016	2017	2016
	MKm	MKm	MKm	MKm	MKm	MKm
Other provisions and receivables	2,072	1,118	-	-	2,072	1,118
Allowances for general loan losses	1,263	460	(188)	-	1,075	460
Property and equipment	-	-	(3,754)	(176)	(3,754)	(176)
Fair value adjustments	525	250	(4,828)	(1,309)	(4,303)	(1,059)
Revaluation reserve	-	-	(413)	(1,812)	(413)	(1,812)
	3,860	1,828	(9,183)	(3,297)	(5,323)	(1,469)
Separate						
Other provisions and receivables	2,072	1,118	-	-	2,072	1,118
Allowances for general loan losses	1,263	460	(188)	-	1,075	460
Property and equipment	-	-	(3,754)	(176)	(3,754)	(176)
Fair value adjustments	515	244	(4,828)	(1,309)	(4,313)	(1,065)
Revaluation reserve	-	-	(413)	(1,812)	(413)	(1,812)
	3,850	1,822	(9,183)	(3,297)	(5,333)	(1,475)

Deferred tax is calculated, in full, on all temporary differences under the liability method using the enacted tax rate of **30%** (2016:30%). The movement on the deferred tax account is as follows:

	Consolidated		Separate	
	2017	2016	2017	2016
	MKm	MKm	MKm	MKm
Balance at 1 January	(1,469)	(1,440)	(1,475)	(1,440)
Profit or loss (Note 34)	(5,044)	99	(5,048)	93
Movement through equity	1,190	(128)	1,190	(128)
Balance at 31 December	(5,323)	(1,469)	(5,333)	(1,475)

18. Deferred tax assets and liabilities (continued)

Deferred tax assets and liabilities, deferred tax credit/ (charge) in the profit or loss, and deferred tax (charge)/ credit on revaluation reserve in equity are attributable to the following items:

Consolidated	As at 1 January MKm	(Charged)/ credited to profit or loss MKm	(Charged)/ credited to equity MKm	As at 31 December MKm
2017				
Other provisions and receivables	1,118	954	-	2,072
Allowances for loan losses	460	615	-	1,075
Property and equipment	(176)	(3,578)	-	(3,754)
Fair value adjustments	(1,059)	(3,035)	(209)	(4,303)
Revaluation reserve	(1,812)	-	1,399	(413)
	(1,469)	(5,044)	1,190	(5,323)

Seperate	As at 1 January MKm	(Charged)/ credited to profit or loss MKm	(Charged)/ credited to equity MKm	As at 31 December MKm
2017				
Other provisions and receivables	1,118	954	-	2,072
Allowances for loan losses	460	615	-	1,075
Property and equipment	(176)	(3,578)	-	(3,754)
Fair value adjustments	(1,065)	(3,039)	(209)	(4,313)
Revaluation reserve	(1,812)	-	1,399	(413)
	(1,475)	(5,048)	1,190	(5,333)

19. TRADING LIABILITIES

See accounting policy in Note 3(f)

	Consolidated		Separate	
	2017	2016	2017	2016
Trading liabilities:	MKm	MKm	MKm	MKm
Day one gain on foreign currency SWAPs	135	322	103	322
	135	322	103	322

The Group enters into derivative transactions with corporate clients. The transaction price in the market in which these transactions are undertaken may be different from the fair value in the Group's principal market for those instruments, which is the wholesale dealer market.

On initial recognition, the Group estimates the fair values of derivatives transacted with corporate clients using valuation techniques. In many cases, all significant inputs into the valuation techniques are wholly observable – e.g. with reference to information from similar transactions in the wholesale dealer market.

If not all of the inputs are observable – e.g. because there are no observable trades in a similar risk at the trade date – then the Group uses valuation techniques that include unobservable inputs.

20. DEPOSITS AND LOANS FROM BANKS

See accounting policy in Note 3(f)

	Consolidated		Separate	
	2017	2016	2017	2016
	MKm	MKm	MKm	MKm
Balances due to related banks (Note 40)	13,408	6,840	13,408	6,840
Balances due to other banks	47,251	12,394	47,273	12,394
	60,659	19,234	60,681	19,234

Maturity analysis

The maturities represent periods to contractual redemption of the deposit from banks recorded.

Redeemable on demand	19,441	10,638	19,463	10,638
Maturing within 1 month	39,699	86	39,699	86
Maturing after 1 month but within 6 months	1,519	6,837	1,519	6,837
Maturing after 12 months but within 5 years	-	1,673	-	1,673
	60,659	19,234	60,681	19,234

21. DEPOSITS FROM CUSTOMERS

See accounting policy in Note 3(f)

Personal and Business Banking				
Current and demand deposits	56,726	47,474	57,058	48,202
Savings accounts	17,556	14,302	17,556	14,302
Fixed deposit accounts	5,809	8,233	5,809	8,233
Foreign currency deposit accounts	29,504	32,998	29,504	32,998
	109,595	103,007	109,927	103,735
Corporate and Investment Banking				
Current and demand deposits	43,766	32,925	43,766	32,925
Savings	673	78	673	78
Fixed deposit accounts	280	2,939	280	2,939
Foreign currency deposit accounts	105,174	65,461	105,174	65,461
	149,893	101,403	149,893	101,403
Total deposits from customers	259,488	204,410	259,820	205,138

At 31 December 2017, **MK73million** (2016: MK19million) of deposits from customers are expected to be settled more than twelve months after the reporting date.
Included in customer deposits were deposits of **MK7,951 million** (2016: MK1,433 million) held as collateral for irrevocable commitments under import letters of credit.

Some deposits carry fixed interest rates. Most customer deposits are at variable rate (see note 38).

21. Deposits from customers (continued)

Maturity analysis

The maturities represent periods to contractual redemption of the deposit and current accounts recorded.

	Consolidated		Separate	
	2017 MKm	2016 MKm	2017 MKm	2016 MKm
Redeemable on demand	**252,173**	197,688	**252,505**	198,415
Maturing within 1 month	**5,671**	5,677	**5,671**	5,677
Maturing after 1 month but within 3 months	**1,131**	819	**1,131**	819
Maturing after 3 months but within 6 months	**213**	135	**213**	136
Maturing after 6 months but within 12 months	**227**	72	**227**	72
Maturing after 12 months	**73**	19	**73**	19
	259,488	204,410	**259,820**	205,138

22. OTHER LIABILITIES

See accounting policy in note 3(c)

	Consolidated 2017 MKm	Consolidated 2016 MKm	Separate 2017 MKm	Separate 2016 MKm
Items in transit	**705**	9,966	**705**	9,966
Trade payables	**459**	102	**459**	102
Accruals	**2,190**	1,414	**2,190**	1,414
Due to Standard Bank of South Africa (Note 40)	**14,087**	2,405	**14,087**	2,405
Unclaimed balances	**2,959**	657	**2,959**	657
Other	**2,707**	2,329	**2,702**	2,321
	23,107	16,873	**23,102**	16,865

Included within items in transit are cheques in course of collection, credits outstanding and point of sale transactions.

At 31 December 2017 **Nil** (2016: Nil) other liabilities are payable more than twelve months after the reporting date.

23. INCOME TAX PAYABLE

See accounting policy in Note 3(n)

	Consolidated		Separate	
	2017 MKm	2016 MKm	2017 MKm	2016 MKm
Balance at 1 January	**3,217**	1,720	**3,132**	1,691
Provisions raised during the year	**255**	8,841	**72**	8,638
Income tax payments during the year	**(6,347)**	(7,702)	**(6,143)**	(7,556)
Tax receivable during the year	**2,940**	-	**2,939**	-
Other provisions raised/(released)	**-**	358	**-**	359
Balance at 31 December	**65**	3,217	**-**	3,132

24. PROVISIONS

See accounting policy in Note 3(m)

	Consolidated and Separate		
	Performance and deferred bonus MKm	Sundry MKm	Total MKm
Balance at 1 January 2017	**2,219**	**835**	**3,054**
Provisions raised during the year	**2,321**	**402**	**2,723**
Provisions released during the year	**(2,208)**	**(713)**	**(2,921)**
Balance at 31 December 2017	**2,332**	**524**	**2,856**

Performance and deferred bonus

A significant portion of the provisions are staff performance-based bonuses which are expected to be settled in full by the second quarter of the year 2018. There are no uncertainties relating to the amount and timing of the cash outflows for all provisions.

25. (I) SHARE CAPITAL

	Consolidated and Separate	
	2017	2016
	MKm	MKm
Issued and fully paid up as at 31 December	**234**	234

At 31 December 2017 the total authorised share capital comprised 240 million ordinary shares of MK1 each (31 December 2016: 240 million ordinary shares of MK1 each).

(II) SHARE PREMIUM

Issue of shares at a premium at 31 December	**8,492**	8,492

26. RESERVES

(i) Revaluation reserve

Balance at 1 January	**4,211**	4,211
Revaluation surplus during the year	**1,923**	-
Deferred tax on revaluation surplus	**1,399**	-
Balance at 31 December	**7,533**	4,211

The revaluation reserve comprises the surplus on revaluation of the Groups land and buildings in accordance with the Group's policy on land and buildings. The carrying values of the properties were adjusted to the revalued amounts and the resultant surplus, net of deferred tax, was credited to revaluation reserves in shareholders' equity and this reserve is not distributable until realised. The revaluation reserve comprises amount that have been revalued on the Groups buildings in accordance with the Group's policy on land and buildings. The carrying values of the properties were adjusted to the revaluations and the resultant surplus net of deferred tax was credited to revaluation reserves in shareholders' equity and this reserve is not distributable until realised.

(ii) Available-for-sale reserve

	Consolidated and Separate	
	2017	2016
	MKm	MKm
Balance at 1 January	**(84)**	(429)
Net gain/(loss) from changes in fair value	**651**	473
Deferred income taxes	**(209)**	(128)
Balance at 31 December	**358**	(84)

The available-for-sale revaluation reserve comprises the gain / (loss) on the banking investment book which is available-for-sale and is measured at fair value. Any unrealised gains and losses arising from such changes in fair values are recognised in other comprehensive income and accumulated equity. As at the reporting date, there was no objective evidence to suggest that the available-for-sale instruments are impaired.

(iii) Share-based payment reserve

Balance at 1 January	**4**	15
Net current year movement	**(2)**	(11)
Balance at 31 December	**2**	4

The fair value of share options is determined on the grant date and accounted for as staff costs over the vesting period of the share options, with a corresponding increase in the share-based payment reserve.

The Group has two equity compensation plans, namely the Group Share Incentive Scheme (GSIS) and the Equity Growth Scheme (EGS). The Group Share Incentive Scheme, which is equity-settled, confers rights to employees to acquire ordinary shares at the value of the SBG share price at the date the option is granted. The Equity Growth Scheme, which is cash-settled, was implemented in 2005 and represents appreciation rights allocated to employees. The eventual value of the right is effectively settled by the issue of shares equivalent in value to the value of the rights.

26. Reserves (continued)
(iii) Share based payment reserve (continued)

The two schemes have five different sub-types of vesting categories as illustrated by the table below:

Vesting categories	Year	% Vesting	Expiry
TYPE A	3,4,5	50,75,100	10 Years
TYPE B	5,6,7	50,75,100	10 Years
TYPE C	2,3,4	50,75,100	10 Years
TYPE D	2,3,4	33,67,100	10 Years
TYPE E	3,4,5	33,67,100	10 Years

On vesting of share options, amounts previously credited to the share-based payment reserve are transferred to retained earnings through an equity transfer.

Group Share Incentive Scheme

Reconciliation of the movement of share options is detailed below:

	Option price range (ZAR)	Number of options	
	2017	2017	2016
Options outstanding at the beginning of the year		**20,450**	62,300
Exercised	**92.00 - 111.94**	**(19,125)**	(3,000)
Transfers from group companies	**62.39 - 111.94**	**9,050**	(38,850)
Options outstanding at 31 December		**10,375**	20,450

Share options were exercised regularly throughout the year. The weighted average share price for the year was ZAR157.29 (December 2016: ZAR151.63).

The following options granted to employees, including executive directors, had not been exercised at 31 December 2017:

Number of shares	Option price ZAR	Weighted average price ZAR	Option expiry period
2,000	62.39	62.39	Year to 31 December 2019
3,750	111.94	111.94	Year to 31 December 2020
4,625	98.80	98.80	Year to 31 December 2021
10 375			

The following options granted to employees, including executive directors, had not been exercised 31 December 2016:

Number of shares	Option price ZAR	Weighted average price ZAR	Option expiry period
1,700	92.00	92.00	Year to 31 December 2018
18,750	111.94	111.94	Year to 31 December 2020
20,450			

Equity growth scheme

The share options were valued using a Black-Scholes option pricing model. Each grant was valued separately. The weighted fair value of the options granted per vesting type and the assumptions utilised are illustrated below:

A reconciliation of the movement of appreciation rights is detailed below:

	Option price range (ZAR)	Number of options	
	2017	2017	2016
Rights outstanding at 1 January		**74,500**	99,642
Exercised	**82.00**	-	(5,704)
Rights outstanding at 31 December	**62.39 – 98.00**	**(74,500)**	(19,438)
		-	74,500

26. Reserves (continued)

(iii) Share based payment reserve (continued)

The Group is required to ensure that employees' tax arising from benefits due in terms of the scheme is paid in accordance with the Taxation Act of Malawi. Where employees have elected not to fund the tax from their own resources the tax due is treated as a diminution of the gross benefits due under the scheme.

As at 31 December 2017, there were no rights granted to employees, including executive directors that had not been exercised.

The following rights granted to employees, including executive directors, had not been exercised at 31 December 2016:

Number of shares	Option price ZAR	Weighted average price ZAR	Option expiry period
5,500	98.00	98.00	Year to 31 December 2017
52,000	92.00	92.00	Year to 31 December 2018
17,000	62.39	62.39	Year to 31 December 2019
74,500			

(iv) Loan loss reserve

	Consolidated		Separate	
	2017 MKm	2016 MKm	2017 MKm	2016 Mkm
Balance at 1 January	-	-	-	-
Transfer from retained earnings	2,845	-	2,845	-
Balance as at 31 December	**2,845**	-	**2,845**	-

The loan loss reserve comprises of the shortfall in provisions in accordance to IAS 39 when compared with Reserve Bank of Malawi guidelines. The shortfall in provisions has been treated as an appropriation of retained earnings to loan loss reserve.

(v) Retained earnings

	Consolidated		Separate	
	2017 MKm	2016 MKm	2017 MKm	2016 Mkm
Balance at 1 January	49,943	34,512	49,270	34,299
Dividends paid	(6,500)	(4,008)	(6,500)	(4,008)
Transfer from share ownership scheme reserve	8	14	8	14
Transfer to loan loss reserve	(2,845)	-	(2,845)	-
Profit for the year	12,162	19,425	11,743	18,965
Balance as at 31 December	**52,768**	49,943	**51,676**	49,270

27. NET INTEREST INCOME

See accounting policy in Note 3(p)

	Consolidated 2017 MKm	Consolidated 2016 MKm	Separate 2017 MKm	Separate 2016 Mkm
Interest income				
Loans and advances	23,077	26,132	23,119	26,138
Investment securities	10,097	9,283	10,097	9,283
Cash and short term funds	13,555	8,867	13,555	8,867
	46,729	44,282	46,771	44,288
Interest expense				
Customer deposits	3,254	3,511	3,255	3,511
Borrowed funds	5,552	4,947	5,552	4,947
	8,806	8,458	8,807	8,458
Net interest income	37,923	35,824	37,964	35,830

Included within interest income are fair value gains/ (losses) on available for sale instruments recognised in profit or loss reclassified from equity amounting to **MK1 million** upon derecognition of the instruments (2016: (MK279) million).A gain/ (loss) of **MK442 million** (2016: MK345 million) has been recognised in other comprehensive income during the period.

Total interest income and expense calculated using the effective interest rate method reported above that relate to financial assets or financial liabilities that are not valued at fair value through profit or loss are **MK46,729million** (2016: MK44,282 million) and **MK8,806 million** (2016: MK8,458 million) respectively.

28. NET FEE AND COMMISSION INCOME

See accounting policy in Note 3(s)

	Consolidated and Separate	
	2017	2016
	MKm	MKm
Fee and commission income		
Point of representation fees	**2,332**	3,617
Card based commissions	**1,353**	952
Electronic banking fees	**691**	741
Foreign currency service fees	**1,333**	1,677
Documentation and administration fees	**2,226**	731
Others	**2,075**	2,345
	10,010	10,063
Fee and commission expense		
Interbank transactions	**(639)**	(595)
Net fee and commission income	**9,371**	9,468

All fee and commission revenue/ (expense) reported above relates to financial assets or liabilities not carried at fair value through profit or loss for the group and company.

29. NET TRADING INCOME

See accounting policy in Note 3(t)

	Consolidated		Separate	
	2017	2016	**2017**	2016
	MKm	MKm	**MKm**	MKm
Foreign exchange	**3,582**	4,151	**2,634**	3,289
Trading income debt securities	**6,304**	4,564	**6,304**	4,564
	9,886	8,715	**8,938**	7,853

30. OTHER OPERATING INCOME

	Consolidated		Separate	
	2017	**2016**	**2017**	**2016**
	MKm	**MKm**	**MKm**	**MKm**
Other operating income				
Sundry income	**74**	124	**119**	167
	74	124	**119**	167

31. STAFF COSTS

	Consolidated and Separate	
	2017	2016
	MKm	MKm
Salaries and allowances	**13,299**	10,683
Share options scheme	**6**	3
Retirement benefit costs	**1,001**	813
	14,306	11,499

32. DEPRECIATION AND AMORTISATION

See accounting policy in Note 3(i) and (k)

Depreciation (Note 16)	**1,749**	1,616
Amortisation of intangible assets (Note 17)	**850**	3
	2 599	1,619

33. OTHER OPERATING EXPENSES

	Consolidated		Separate	
	2017	2016	2017	2016
	MKm	MKm	MKm	MKm
Franchise fees	**1,689**	1,634	**1,689**	1,634
Auditor's remuneration and fees for other services	**116**	95	**116**	95
Motor vehicle and fuel costs	**297**	174	**297**	174
Software and IT development costs	**3,120**	2,043	**3,120**	2,043
Communication costs	**835**	592	**835**	592
Travel and entertainment expenses	**1,170**	1,072	**1,170**	1,072
Recurrent expenditure on property and equipment	**1,090**	643	**1,090**	643
Marketing and advertising expenses	**609**	404	**609**	404
Stationery and printing expenses	**537**	394	**537**	394
Training expenses	**229**	220	**229**	220
Insurance and security costs	**1,275**	1,039	**1,275**	1,039
Premises expenses	**597**	533	**597**	533
Professional fees	**390**	451	**390**	451
Indirect taxes	**1,475**	1,284	**1,475**	1,284
Operational risk losses	**613**	502	**613**	502
Administration and membership fees	**68**	252	**68**	252
Exchange differences	**1,310**	-	**1,310**	-
Commission paid	**148**	140	**148**	140
Coverage expenses	**320**	312	**320**	312
Other expenses	**776**	486	**512**	330
	16,664	12,270	**16,400**	12,114

34. INCOME TAX EXPENSE

See accounting policy in Note 3(n)

	Consolidated		Separate	
	2017	2016	2017	2016
	MKm	MKm	MKm	MKm
Current tax @ 30% (2016: 30%) - Current	**184**	8,841	**-**	8,638
- Prior year under provision	**71**	-	**72**	-
Deferred tax (Note 18)	**5,044**	(99)	**5,048**	(93)
	5,299	8,742	**5,120**	8,545

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

Profit before tax	**17,461**	28,167	**16,863**	27,510
Tax calculated at the statutory tax rate of 30%	**5,238**	8,450	**5,059**	8,253
Tax effect of:				
Expenses not deductible for tax purposes	**215**	780	**215**	780
Income allowable for tax purposes	**(146)**	(471)	**(146)**	(471)
Capital allowances	**(8)**	(17)	**(8)**	(17)
Total income tax expense in profit or loss	**5,299**	8,742	**5,120**	8,545

35. EARNINGS PER SHARE

See accounting policy in Note 3(w)

Net profit attributable to equity holders (MKm)	**12,162**	19,425	**11,743**	18,965
Weighted average number of ordinary shares in issue (millions)	**234**	234	**234**	234
Basic earnings per share (expressed in MK per share)	**51.97**	83.01	**50.19**	81.05
Diluted earnings per share (expressed in MK per share)	**51.97**	83.01	**50.19**	81.05

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year.

36. DIVIDENDS PER SHARE

See accounting policy in Note 3(o)

Interim dividends are accounted for as a separate component of equity until they have been ratified at an annual general meeting. The directors proposed a final dividend in respect of the year ended 31 December 2017 of **MK4.26** (2016: MK21.31) per ordinary share representing **MK1billion** (2016: MK5 billion).

An interim dividend of **MK6.39** (2016: MK4.26) per ordinary share representing **MK1.5 billion** (2016: MK1billion) was paid in the year and therefore total dividend for the year is **MK10.65 per** share (2016: MK25.57), amounting to a total of **Mk2.5billion** (2016: MK6 billion).

37. UNRECOGNISED FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS

a) Legal proceedings

There are a number of legal proceedings outstanding against the Group as at 31 December 2017. The defence against these claims and litigation costs are estimated to cost **MK810 million** (2016: MK787 million). Management is accordingly satisfied that the legal proceedings currently pending against the Group should not have a material adverse effect on the Group's consolidated financial position and the directors are satisfied that the Group has adequate provisions in place to meet claims that may succeed.

b) Capital commitments and contingent liabilities

In common with other banks, the Group conducts business involving acceptances, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

The contractual amounts of the Group's off balance sheet position financial instruments that commit it to extend credit to customers are as follows:

	Consolidated and Separate	
	2017	**2016**
	MKm	**MKm**
Contingent liabilities		
Acceptances and letters of credit	**14 219**	9,953
Guarantees and performance bonds	**25 575**	24,270
	39 794	34,223
Commitments		
Undrawn formal stand-by facilities, credit lines and other commitments to lend	**33,213**	19,501
Authorised but not yet contracted capital commitments on property and equipment	**3,862**	25,537
	37,075	45,038

Included in undrawn formal stand-by facilities, credit lines and other commitments to lend are irrecoverable commitments amounting to **MK7,508 million** (2016: MK1,433 million).

c) Operating lease commitments

The future minimum payments under non-cancellable operating leases are as follows:

	Consolidated and Separate	
	2017	**2016**
	MKm	**MKm**
Buildings		
Within 1 year	**104**	115
After 1 year but within 5 years	**353**	229
After 5 years	**182**	290
	639	634
Equipment		
Within 1 year	**-**	-
After 1 year but within 5 years	**17**	1
After 5 years	**-**	-
	17	1

38. EFFECTIVE INTEREST RATES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The effective interest rates for the principal financial assets and liabilities at 31 December were in the following

Consolidated and Separate

	2017	
	In MK	In US$
Assets		
Government securities	14.93% - 29.00%	-
Deposits with banking institutions	14.4% - 26.00%	2.41% - 3.65%
Loans and advances to customers	16.00% - 39.98%	4.70% - 10.70%
Liabilities		
Customer deposits	0.10% - 14.00%	0.24% - 1.10%

Consolidated and Separate

	2016	
	In MK	In US$
Assets		
Government securities	30.16%-30.19%	-
Deposits with banking institutions	29.29%	0.49%-0.57%
Loans and advances to customers	31.67%-40.49%	8.27%10.35%
Liabilities		
Customer deposits	0.37%-16.91%	0.38%

39. ANALYSIS OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE STATEMENT OF CASH FLOWS

	Consolidated		Separate	
	2017	2016	2017	2016
	MKm	MKm	MKm	MKm
Cash and balances with Reserve Bank of Malawi (note 8)	35,234	36,866	34,962	36,715
Less: Liquidity reserve requirement	(20,223)	(16,602)	(20,223)	(16,602)
	15,011	20,264	14,739	20,113
Treasury bills and bonds with a maturity of less than 90 days	3,660	21,797	3,660	21,797
Deposits and balances due from banking institutions	108,425	105,657	107,369	105,656
	127,096	147,718	125,768	147,566

For the purposes of the cash flow statements, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including cash and balances with Reserve Bank of Malawi, treasury bills and other eligible bills, and amounts due from other banks. Cash and cash equivalents exclude the liquidity reserve requirement.

40. RELATED PARTY TRANSACTIONS

The Group is controlled by Stanbic Africa Holdings Ltd, a Bank incorporated in the United Kingdom. The ultimate parent company of the Group is Standard Bank Group Limited, incorporated in the Republic of South Africa. There are other companies which are related to Standard Bank Limited through common shareholdings.

In the normal course of business, a number of banking transactions are entered into with related parties at arm's length. These include loans, deposits and foreign currency transactions. The parent bank also provides professional and technical consultancy services for which it charges market rates. The outstanding balances at the year end and relating expense and income for the year are as follows:

40. Related party transactions (Continued)

	Separate 2017	Separate 2016
	MKm	MKm
Balances due from related parties		
Derivative assets		
Standard Bank of South Africa – Fellow subsidiary	14	194
Trading Securities Other		
Standard Bank of Mauritius – Fellow subsidiary	3,665	-
Loans and advances to banks and other financial institutions		
Standard Bank of South Africa – Fellow subsidiary	-	89
Stanbic Kenya – Fellow subsidiary	-	11
Stanbic Botswana – Fellow subsidiary	-	1
Standard Bank Isle of Man – Fellow subsidiary	30,770	12,386
Standard Bank of Mauritius – Fellow subsidiary	22,706	32,089
Balances due from related banks (Note 11)	53,476	44,576
Loans and advances to customers		
Balances due from directors and other key management personnel	369	319
Balances due from other related parties	425	47
	794	366
Other assets		
Balance due from Standard Bank Bureau De Change Limited - subsidiary	15	19
Balance due from CFC Stanbic Kenya –Fellow subsidiary	27	30
Balance due from Stanbic Botswana – Fellow subsidiary	-	1
Balance due from Standard Bank of South Africa – Fellow subsidiary	5	146
Balance due from Standard Bank Swaziland –Fellow subsidiary	-	7
	47	203
Interest income earned from related banks	479	202
Interest expense to related banks	(204)	-
Trading income/(expense)from/(to)related banks	350	75
Franchise fees earned from Standard Bank Bureau De Change Limited	45	43

The amounts due from related party Banks relate to Nostro accounts and are not secured.

The amounts due from related party Banks are at market related interest rates and are short term in nature.

The loans issued to directors are repayable over two years and are granted at market related interest rates and are secured by the asset being purchased. The loans issued to key management personnel follow staff loans policy.

No impairment losses have been recorded against balances with related parties outstanding during the year.

	Separate 2017	Separate 2016
	MKm	MKm
Balances due to related parties		
Deposits from customers		
Balances due to directors and other key management personnel	133	33
Balances due to other related parties	309	986
Standard Bank Bureau De Change Limited -Subsidiary	333	727
	775	1,746
Deposits and loans from banks		
Standard Bank of South Africa – Fellow subsidiary	2,374	6,836
Stanbic Zimbabwe – Fellow subsidiary	-	1
Standard Bank Mauritius – Fellow subsidiary	-	1
Stanbic Zambia – Fellow subsidiary	-	2
Standard Bank of South Africa Isle of Man Branch - Fellow subsidiary	11,034	-
Balances due to related banks (Note 20)	13,408	6,840
Other liabilities		
Standard Bank of South Africa - Fellow subsidiary (Note 22)	14,087	2,405
Stanbic Botswana – Fellow subsidiary	-	50
CFC Stanbic Kenya – Fellow subsidiary	7	3
	14,094	2,458
Derivative liabilities		
Standard Bank of South Africa – Fellow subsidiary	188	13
Contingencies		
Letter of guarantee – Standard Bank of South Africa	10,446	10,189
Letter of guarantee – Stanbic Zambia	-	125
	10,446	10,314
Key management compensation		
Salaries and other short term benefits	1 326	853
Contributions to defined contribution plans	129	101
Share options	6	3
	1,461	957
Fee and commission expense to related banks	9	40
Staff costs paid to related banks	46	149
Franchise fees – Standard Bank of South Africa (Note 33)	1,689	1,634
Information technology fees and other services- Standard Bank of South Africa	1,573	1,511
Directors remuneration		
Non-Executive Directors – Fees	35	24
Non-Executive Directors – Expenses	36	40
Executive Directors salaries and other short term benefits	406	346
	477	410

40. Related party transactions (Continued)

A listing of members of the Board of Directors is shown on first page of the directors' report.

The fees for the Directors for 2017 was as detailed below:

Dr R Harawa	MK4.9million
Mr R K Phiri	MK3.8million
Mr A A Chioko	MK3.8million
Mr J Patel	MK3.8million
Mr A J W Chinula	MK3.8million
Dr N R Kanyongolo	MK3.8million
Mrs C Mtonda	MK3.8million
Mr S Ulemu	MK3.8million
Mr D Pinto	MK3.8million

41. EMPLOYEE BENEFIT LIABILITIES

See accounting policy in Note 3(q)

	Consolidated and Separate	
Severance pay provision	**2017**	2016
	MKm	MKm
Balance at 1 January	**113**	140
Payments made during the year	**(28)**	(27)
Balance at 31 December	**85**	113

Severance pay provision is for outstanding court cases and retired employees before the amendment of the Malawi Employment Act 2010. The expected timing of cash outflows cannot be reliably ascertained as the conclusions from courts proceedings cannot be accurately determined.

42. INFLATION AND EXCHANGE RATES

The foreign currencies affecting most the operations of the Group are United States Dollar, British Pound and South African Rand. The average of selling and buying exchange i.e. rate at year end of these currencies and the country's national index price which presents inflation rate were as follows:

	2017	2016	2015
United States Dollar (USD)	**732.02**	728.62	673.15
Sterling Pound (GBP)	**989.70**	899.92	998.01
South African Rand (ZAR)	**59.37**	54.26	43.38
Inflation rates as at 31 December (%)	**7.1**	20.0	24.9

As at the date of approval of the consolidated and separate financial statements, the exchange rates were as follows:

United States Dollar (USD)	**732.12**
Sterling Pound (GBP)	**909.62**
South African Rand (ZAR)	**56.81**

43. SUBSEQUENT EVENTS

Subsequent to the reporting date, nothing has occurred requiring adjustments to and/or disclosure in the consolidated and separate financial statements.

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Footprint in Malawi