NATIONAL BANK OF MALAWI

Consolidated Financial Statements for the Year Ended
31 December 2009

NATIONAL BANK OF MALAWI
CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2009

NATIONAL BANK OF MALAWI
REPORT OF THE DIRECTORS
31 December 2009

The directors have pleasure in presenting the Consolidated Financial Statements of National Bank of Malawi for the year ended 31 December 2009.

CAPITAL

The authorised share capital of the Bank is K500m (2008: K500m) divided into 500,000,000 Ordinary shares of K1 each. The issued capital is K466m (2008: K457m) divided into 466,019,038 (2008: 456,690,800) Ordinary shares of K1 each, fully paid.

The shareholders and their respective shareholdings are:

	2009	2008
	%	%
Press Corporation Limited	51.6	51.7
Old Mutual Group	24.6	24.8
Members of the public	22.3	22.0
Employees (ESOP)	1.5	1.5
	100.0	100.0

PROFIT AND DIVIDENDS

The directors report a consolidated profit before tax of K5,622m (2008: K4,571m) for the year after making due provision for impairment losses. A final dividend of K1,250m (2008: K1,000m) is proposed for the year. An interim dividend of K671m (2008: K500m) was paid to the shareholders on 5 September 2009.

DIRECTORS

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

Chikaonda, Dr M A P	All year
Mulipa, P P	All year
Regout, J A	All year
Sesani, A G	All year
Kambalame, E	All year
Valera, A Mrs.	All year
Mawindo, D	All year
Partridge, G B	All year
Chithenga, A C E	Up to July 2009

DIRECTORS' INTERESTS

The following directors held shares in the Bank as at 31 December 2009:

Mulipa, P P	20,000 (2008: 20,000) shares
Partridge, G B	33,000 (2008: 33,000) shares

In 2006, the Bank made an offer of options under the ESOP scheme to G B Partridge and A C E Chithenga amounting to 14,300 and 10,300 ordinary shares, respectively. By 31 December 2009, options amounting to 10,300 (2008: 8,700) were exercised by A C E Chithenga. There were no other contracts between the Bank and its directors nor were there any arrangements to enable the directors of the Bank to acquire shares in the Bank.

DONATIONS

During the year, the Bank made charitable donations of K18.0m (2008: K19.6m).

ACTIVITIES

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

Subsidiaries of National Bank of Malawi	Percentage of control	Nature of operations
NBM Capital Markets Limited	100% (2008: 100%)	Dormant
NBM Securities Limited	100% (2008: 100%)	Dormant
National Bank of Malawi Nominees Limited	100% (2008: 100%)	Holding of investments as nominee
Stockbrokers Malawi Limited	75% (2008: 75%)	Registered stockbroker

AREAS OF OPERATION

The Bank has 25 (2008: 23) service centres throughout the country. The Bank and its subsidiaries' registered offices and principal places of business are in Blantyre.

AUDITORS

The auditors, Deloitte, have signified their willingness to continue in office and a resolution is to be proposed at the forthcoming Annual General Meeting in relation to their appointment as auditors in respect of the year ending 31 December 2010.

BY ORDER OF THE BOARD

GILBERT CHIBESAKUNDA
COMPANY SECRETARY

NATIONAL BANK OF MALAWI
STATEMENT OF DIRECTORS' RESPONSIBILITIES
31 December 2009

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

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

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

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

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

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

Director: ____________________

Director: ____________________

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

We have audited the company and consolidated financial statements of National Bank of Malawi and its subsidiaries (the Group) as set out on pages 5 to 80, which comprise the statements of financial position as at 31 December 2009, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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.

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

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

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

Opinion
In our opinion, the financial statements give a true and fair view of the financial position of the Company and the Group as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Companies Act, 1984, so far as concerns the members of the company.

Deloitte

25 March 2010

NATIONAL BANK OF MALAWI
STATEMENTS OF FINANCIAL POSITION
31 December 2009

	Notes	GROUP 2009 K'm	GROUP 2008 K'm	COMPANY 2009 K'm	COMPANY 2008 K'm
ASSETS					
Cash and funds with Reserve Bank of Malawi	5	7,737	2,207	7,737	2,204
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	9,821	11,664	9,814	11,642
Government of Malawi local registered stock	7	1,345	1,623	1,345	1,623
Equity investments	8	815	1,037	815	1,037
Investment in associate	9	157	143	123	123
Placements with other banks	10	3,488	8,684	3,488	8,684
Loans and advances	11	37,564	25,567	37,594	25,567
Other money market deposits	12	701	500	701	500
Other assets	13	4,586	3,388	4,516	3,383
Property, plant and equipment	14	9,411	7,217	9,402	7,205
Deferred tax asset	15	604	300	604	301
Total assets		76,229	62,330	76,139	62,269
LIABILITIES AND EQUITY					
LIABILITIES					
Liabilities due to customers	16	55,072	45,439	55,080	45,445
Liabilities due to other banks		258	1,900	258	1,900
Current income tax liabilities		862	525	862	520
Other liabilities	17	6,989	3,611	6,912	3,591
Post employment benefit obligation	18	1,103	1,090	1,100	1,087
Total liabilities		64,284	52,565	64,212	52,543
EQUITY					
Capital and Reserves					
Share capital		466	457	466	457
Share premium		563	49	563	49
Loan loss reserve		375	255	375	255
Revaluation reserve		1,654	1,640	1,654	1,640
Retained earnings		8,888	7,356	8,869	7,325
Equity attributable to equity holders of the parent		11,946	9,757	11,927	9,726
Non-controlling interests		(1)	8	-	-
Total equity		11,945	9,765	11,927	9,726
Total equity and liabilities		76,229	62,330	76,139	62,269
Memorandum items					
Contingencies	26	3,461	2,560	3,461	2,560

The financial statements were authorised for issue by the Board of Directors on 25 March 2010 and were signed on its behalf by:

Chairman: Dr. M.A.P. Chikaonda

Director: Mr. G.B. Partridge

NATIONAL BANK OF MALAWI
STATEMENTS OF COMPREHENSIVE INCOME
For the year ended 31 December 2009

		GROUP		COMPANY	
		2009	2008	2009	2008
	Notes	K'm	K'm	K'm	K'm
Income					
Interest and similar income	19	7,893	5,972	7,896	5,975
Interest expense and similar charges	19	(1,116)	(816)	(1,116)	(819)
Net interest income	19	6,777	5,156	6,780	5,156
Commission and fee income	20	2,337	2,283	2,308	2,185
Gains less losses arising from dealing in foreign currencies		1,803	1,577	1,803	1,577
Income from operating leases		428	146	428	146
Fair value (loss)/gain on equity investments	8	(148)	59	(148)	59
(Loss)/profit on disposal of equity investments		(39)	2	(39)	2
Share of profits of associate		22	27	-	-
Dividend income		43	23	43	23
Profit on disposal of property, plant and equipment		26	5	26	6
Total income		11,249	9,278	11,201	9,154
Expenditure					
Staff costs	21	2,633	2,671	2,608	2,644
Other operating expenditure	22	2,597	2,136	2,561	2,086
Impairment loss on property	14	566	152	566	152
Total expenditure		5,796	4,959	5,735	4,882
Profit before recoveries and impairment losses on loans and advances		5,453	4,319	5,466	4,272
Recoveries on impaired loans and advances	11	433	519	433	519
Impairment losses on loans and advances	11	(264)	(267)	(264)	(267)
Profit before tax		5,622	4,571	5,635	4,524
Income tax expense	23	(1,820)	(1,417)	(1,812)	(1,403)
Profit for the year		3,802	3,154	3,823	3,121
Other comprehensive income					
(Loss)/gain on revaluation of properties	14	(86)	824	(86)	824
Deferred tax on revalued assets		109	(149)	109	(149)
Total other comprehensive income		23	675	23	675
Total comprehensive income for the year		3,825	3,829	3,846	3,796

NATIONAL BANK OF MALAWI
STATEMENTS OF COMPREHENSIVE INCOME (Continued)
For the year ended 31 December 2009

		GROUP		COMPANY	
	Notes	**2009** **K'm**	**2008** **K'm**	**2009** **K'm**	**2008** **K'm**
Profit attributable to:					
Equity holders of the company	24	3,811	3,152	3,823	3,121
Non-controlling interests		(9)	2	-	-
		3,802	3,154	3,823	3,121
Comprehensive income attributable to:					
Equity holders of the company		3,834	3,827	3,846	3,796
Non-controlling interests		(9)	2	-	-
		3,825	3,829	3,846	3,796
Earnings per share (K)	24	8.18	6.90		
Diluted earnings per share (K)	24	8.16	6.87		
Dividend per share (K)	25	3.59	1.86		

NATIONAL BANK OF MALAWI
STATEMENTS OF CHANGES IN EQUITY
For the year ended 31 December 2009

GROUP	Share capital K'm	Share premium K'm	Loan Loss reserve K'm	Revaluation reserve K'm	Retained earnings K'm	Equity attributable to equity holders of the parent K'm	Non-controlling interests K'm	Total K'm
2008								
As at 1 January 2008	456	34	184	974	5,117	6,765	6	6,771
Comprehensive income								
- Profit for the year	-	-	-	-	3,152	3,152	2	3,154
- Other comprehensive income	-	-	-	675	-	675	-	675
- Transfer of excess depreciation	-	-		(6)	6	-	-	-
- Transfer to loan loss reserve	-	-	71	-	(71)	-	-	-
- Transfer on disposal of assets	-	-	-	(3)	3	-	-	-
Total comprehensive income	-	-	71	666	3,090	3,827	2	3,829
2007 final dividend proposed and paid	-	-	-	-	(351)	(351)	-	(351)
2008 interim dividend proposed and paid	-	-	-	-	(500)	(500)	-	(500)
Issue of shares under employee share ownership plan	1	15	-	-	-	16	-	16
As at 31 December 2008	457	49	255	1,640	7,356	9,757	8	9,765
2009								
As at 1 January 2009	457	49	255	1,640	7,356	9,757	8	9,765
Comprehensive income								
- Profit for the year	-	-	-	-	3,811	3,811	(9)	3,802
- Other comprehensive income	-	-	-	23	-	23	-	23
- Transfer of excess depreciation	-	-	-	(9)	9	-	-	-
- Transfer to loan loss reserve	-	-	120	-	(120)	-	-	-
Total comprehensive income	-	-	120	14	3,700	3,834	(9)	3,825
2008 final dividend proposed and paid	-	-	-	-	(1,002)	(1,002)	-	(1,002)
2009 interim dividend proposed and paid	-	-	-	-	(671)	(671)	-	(671)
Issue of shares under employee share ownership plan	1	27	-	-	-	28	-	28
Issue of bonus shares	8	487	-	-	(495)	-	-	-
As at 31 December 2009	466	563	375	1,654	8,888	11,946	(1)	11,945

NATIONAL BANK OF MALAWI

STATEMENTS OF CHANGES IN EQUITY (Continued)

For the year ended 31 December 2009

COMPANY	**Share capital K'm**	**Share premium K'm**	**Loan Loss reserve K'm**	**Revaluation reserve K'm**	**Retained earnings K'm**	**Total K'm**
2008						
As at 1 January 2008	456	34	184	974	5,117	6,765
Comprehensive income						
- Profit for the year	-	-	-	-	3,121	3,121
- Other comprehensive income	-	-	-	675	-	675
- Transfer of excess depreciation	-	-	-	(6)	6	-
- Transfer to loan loss reserve	-	-	71	-	(71)	-
-Transfer on disposal of assets	-	-	-	(3)	3	-
Total Comprehensive income	-	-	71	666	3,059	3,796
2007 final dividend proposed and paid	-	-	-	-	(351)	(351)
2008 interim dividend proposed and paid	-		-	-	(500)	(500)
Issue of shares under employee share ownership plan	1	15	-	-	-	16
As at 31 December 2008	457	49	255	1,640	7,325	9,726
2009						
As at 1 January 2009	457	49	255	1,640	7,325	9,726
Comprehensive income						
- Profit for the year	-	-	-	-	3,823	3,823
- Other comprehensive income	-	-	-	23	-	23
- Transfer of excess depreciation	-	-	-	(9)	9	-
- Transfer to loan loss reserve	-	-	120	-	(120)	-
Total Comprehensive income	-	-	120	14	3,712	3,846
2008 final dividend proposed and paid	-	-	-	-	(1,002)	(1,002)
2009 interim dividend proposed and paid	-	-	-	-	(671)	(671)
Issue of shares under employee share ownership plan	1	27	-	-	-	28
Issue of bonus shares	8	487	-	-	(495)	-
	466	563	375	1,654	8,869	11,927

ANALYSIS OF SHARE CAPITAL	**2009 K'm**	**2008 K'm**
Authorised		
500,000,000 Ordinary shares of K1 each	500	500
Issued and fully paid		
466,019,038 (2008: 456,690,800) Ordinary shares of K1 each	466	457

ANALYSIS OF SHARE CAPITAL (Continued)

The Bank has increased its share capital through a bonus issue of 8,389,830 shares K1 shares at a premium of K58 per share in addition to shares issued under the Employee Share Ownership Plan in order to comply with the new RBM Directive regarding the revision of minimum capital requirement for banks in Malawi. Effective from 1 July 2010 the new minimum capital requirement defined as the sum of Share Capital and Share Premium is now at US$5.0m or its MK equivalent (previously US$1.5m or its MK equivalent).

	GROUP & COMPANY	
	2009	**2008**
	K'm	**K'm**
LOAN LOSS RESERVE		
Loan loss reserve	375	255

The 1% general provision against risk assets as required by the Reserve Bank of Malawi cannot be offset against the gross value of the assets because IAS 39 Financial Instruments: *Recognition and Measurement* does not allow general provisions on anticipated future losses to be charged to the statement of comprehensive income.

In order to comply with Reserve Bank of Malawi capital adequacy requirements, a statutory general reserve is used. This reserve is non-distributable.

EMPLOYEE SHARE OPTION PLAN

Issue of shares to employees (ESOP)

Since 2000 the Bank has operated an Employee Share Ownership Plan (ESOP). Through the scheme, which is due to expire in 2010, full time employees of the Bank are availed options to purchase shares in the Bank. A total of 9,000,000 Ordinary shares were earmarked for the scheme, representing 2% of the issued share capital at the time of listing the Bank on the Malawi Stock Exchange (MSE).

An optional offer of 8,208,200 K1 Ordinary shares was made to eligible employees at a price of K4 per share in 2000 to be exercised over a period of four years, in four equal amounts. By 31 December 2007 a total of 5,602,500 shares had been taken up. In 2007, the Bank made a second optional offer of 298,200 shares to employees who became eligible under the scheme since the last offer, at K23 per share, the market price ruling at the time the offer was made, to be exercised over the period to 2010. Shares amounting to 197,700 were accepted from this offer. In line with the scheme rules that provide for re-offer of lapsed shares, a subsequent optional offer was made of 3,158,200 ordinary shares to all eligible employees at K30 per share, the market price ruling at the time the offer was made, to be exercised over a four year period, out of which 2,660,400 shares were accepted.

As at 31 December 2009 options amounting to 7,960,000 (2008: 7,408,000) ordinary shares had been exercised under the scheme. Options amounting to 1,040,000 (2008: 1,592,000) ordinary shares were still outstanding. Consistent with the scheme rules, any shares not taken up through either lapsing or rejection will be offered to eligible employees before the expiry of the life of the plan in 2010.

NATIONAL BANK OF MALAWI
STATEMENTS OF CASH FLOWS
For the year ended 31 December 2009

	Notes	GROUP 2009 K'm	GROUP 2008 K'm	COMPANY 2009 K'm	COMPANY 2008 K'm
Cash flows from operating activities					
Profit before tax		5,622	4,571	5,635	4,524
Adjustments for:					
• Depreciation	22	716	454	713	450
• Profit on disposal of property, plant and equipment		(26)	(5)	(26)	(6)
• Loss/(profit) on disposal of equity investments		39	(2)	39	(2)
• Fair value (loss)/gain on equity investments	8	148	(59)	148	(59)
• Dividend receivable		(43)	(23)	(43)	(23)
• Impairment loss on property		566	152	566	152
• Share of profits of associate		(22)	(27)	-	-
• Increase in liabilities to customers		9,633	10,501	9,635	10,507
• Increase in other liabilities		3,378	808	3,321	800
• Increase/(decrease) in employment benefit obligation		13	(270)	13	(271)
• Increase in loans and advances		(11,997)	(7,146)	(12,027)	(7,138)
• Increase in other assets		(1,198)	(644)	(1,133)	(633)
Cash generated from operations		6,829	8,310	6,841	8,301
Taxation paid		(1,669)	(1,295)	(1,664)	(1,282)
Net cash flow from operating activities		5,160	7,015	5,177	7,019
Cash flows from investing activities					
Increase/(decrease) in investments with maturity over 3 months		1,150	(4,820)	1,156	(4,832)
Purchase of property, plant and equipment		(3,584)	(2,369)	(3,583)	(2,369)
Proceeds from disposal of property, plant and equipment		47	28	47	29
Purchase of equity investments		(23)	(630)	(23)	(630)
Proceeds from disposal of equity investments		58	20	58	20
Acquisition of associate		-	(123)	-	(123)
Dividends received		43	23	43	23
Net cash flow from investing activities		(2,309)	(7,871)	(2,302)	(7,882)
Cash flows from financing activities					
Proceeds from issue of shares		28	16	28	16
Dividends paid		(1,673)	(851)	(1,673)	(851)
Net cash flow from financing activities		(1,645)	(835)	(1,645)	(835)
Net increase/(decrease) in cash and cash equivalents		1,206	(1,691)	1,230	(1,698)
Cash and cash equivalents at beginning of the year		10,462	12,153	10,438	12,136
Cash and cash equivalents at end of the year	28	11,668	10,462	11,668	10,438

1. General information

National Bank of Malawi Group (the Group) provides retail, corporate and investment banking as well as stockbroking and insurance services in Malawi. The Group has a network of 25 service centres (2008:23).

The Bank, which is licensed under the Banking Act, 1989, Part II is a limited liability company incorporated and domiciled in Malawi and is listed on the Malawi Stock Exchange.

The address of its principal place of business and registered office is National Bank Head Office, 19 Victoria Avenue, Blantyre, Malawi.

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

2. Adoption of new and revised International Financial Reporting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2009.

2.1 The following relevant new and revised standards and interpretations which became effective for the year under review have been adopted in the current period.

2.1.1 IAS 1 *Presentation of financial statements*

The standard has been substantially rewritten, with many changes in terminology, including changes to the titles of individual financial statements. In addition items of income and expenses (that is, 'non-owner changes in equity') can no longer be presented in the statement of changes in equity. The revised standard requires 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also conforms with the revised standard. The majority of the changes made are not substantial and have a limited impact on the financial statements. The amendment of IAS 1 had an impact on the titles of the financial statements and presentation of the statement of changes in equity;

2.1.2 Revised IAS 23 *Borrowing Costs*

A revised version of IAS 23 was issued in March 2007. It eliminates the option of immediate recognition of borrowing costs as an expense for assets that require a substantial period of time to get ready for their intended use. The revised IAS 23 is effective for periods beginning on or after 1 January 2009 and did not have any significant impact on the financial statements;

2.1.3 IAS 32 *Financial instruments: Presentation*

The IASB amended IAS 32 in February 2008. It now requires some financial instruments that meet the definition of a financial liability to be classified as equity. Puttable financial instruments that represent a residual interest in the net assets of the entity are now classified as equity provided that specified conditions are met. Similar to those requirements is the exception to the definition of a financial liability for instruments that entitle the holder to a pro rata share of the net assets of an entity only on liquidation. The revised standard did not have a significant impact on the financial statements;

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

2.1.4 IFRS 2 *Share-based payment*

The IASB published an amendment to IFRS 2, '*Share-based payment'*, in January 2008. The changes pertain mainly to the definition of vesting conditions and the regulations for the cancellation of a plan by a party other than the Bank. These changes clarify that vesting conditions are solely service and performance conditions. As a result of the amended definition of vesting conditions, non-vesting conditions should now be considered when estimating the fair value of the equity instrument granted. In addition, the standard describes the posting type if the vesting conditions and non-vesting conditions are not fulfilled. The adoption of the revised standard did not have a significant impact on the financial statements;

2.1.5 IFRS 7 *Financial instruments: Disclosure*

The IASB published an amendment to IFRS 7 in March 2009. The amendment required enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosures of fair value measurements by level of fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Group.

2.1.6 IFRS 8 *Operating Segments*

The IASB issued IFRS 8 in 2006 which has replaced IAS 14 *Segment Reporting*. IFRS 8 is a disclosure Standard that specifies how an entity should report information about its operating segments in annual and interim financial statements. It requires an entity to report financial and descriptive information about its reportable segments and sets out requirements for related disclosures about products and services, geographical areas and major customers. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. IFRS 8 is effective for periods beginning on or after 1 January 2009 and has resulted in a redesignation of the Group's reportable segments.

2.1.7 IFRIC 13 *Consumer loyalty programmes*

The IFRIC 13 addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, did not have any significant impact on the financial statements; and

2.1.8 There have also been terminology changes, clarifications and amendments as part of the IASB annual improvements project, to: IFRS 1, IAS 19, IAS 20, IAS 27, IAS 28, IAS 29 IAS 36, IAS 40, IFRS 3, IAS 38, IAS 41, IAS 31, IAS 16 and IFRC 15, and are effective for periods beginning on or after 1 January 2009 and these changes did not have any significant impact on the financial statements of the Group.

2.2 At the date of authorisation of these financial statements the following relevant standards and interpretations were in issue but not yet effective:

2.2.1 IAS 7 *Statement of Cash Flows*

The amendments specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. Consequently, cash flows in respect of development costs that do not meet the criteria in IAS 38 *Intangible Assets* for capitalisation as part of an internally generated intangible asset (and, therefore, are recognised in profit or loss as incurred) have been reclassified from investing to operating activities in the statement of cash flows. This amendment is effective for periods beginning on or after 1 January 2010 and is not expected to have significant impact on the financial statements;

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

2.2.2 IAS 17 *Leases*

The amendment clarifies the classification of leases of land and building. In determining whether the land element is an operating or a finance lease, an important consideration is that land normally has an indefinite economic life. The amendment is effective for annual periods beginning on or after 1 January 2010 and is not expected to have a significant impact on the financial statements;

2.2.3 IFRS 3 *Business Combinations*

The impact of the changes is:

- To allow a choice on a transaction-by-transaction basis for the measurement of non-controlling interests (previously referred to as ‘minority’ interests) either at fair value or at the non-controlling interests’ share of the fair value of the identifiable net assets of the acquiree;

- To change the recognition and subsequent accounting requirements for contingent consideration. Under the previous version of the Standard, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were recognised against goodwill. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against goodwill only to the extent that they arise from better information about the fair value at the acquisition date, and they occur within the ‘measurement period’ (a maximum of 12 months from the acquisition date). All other subsequent adjustments are recognised in profit or loss;

- Where the business combination in effect settles a pre-existing relationship between the Group and the acquiree, to require the recognition of a settlement gain or loss; and

- To require that acquisition-related costs be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

The amendment is effective for business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 July 2009.

2.2.4 IAS 27 *Consolidated and separate financial statements*

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost; any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The amendment is effective for periods beginning or after 1 January 2010 and is not expected to have a significant impact on the financial statements;

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

2.2.5 IAS 39 *Financial instruments: Recognition and measurements*
The amendments provide clarification on two issues in relation to hedge accounting identifying inflation as a hedge risk and hedging with options.

Secondly the amendments permit reclassification of certain non-derivative financial assets recognised in accordance with IAS 39. A financial asset within the scope of these amendments can only be classified out of the fair value through profit of loss (FVTPL) or available-for-sale (AFS) classifications if specified criteria are met. The criteria vary depending on whether the assets would have met the definition of 'loans and receivables' (L and R) had it not been classified as at FVTPL or AFS at initial recognition. The amendments are effective for periods beginning on or after 1 January 2010 and are not expected to have a significant impact on the financial statements;

2.2.6 IFRS 2 *Share-based Payment*
In June 2009, the IASB issued amendments to IFRS 2 *Share-based Payment*. These amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award. The amendments are effective for periods beginning on or after 1 January 2010 and are not expected to have a significant impact on the financial statements;

2.2.7 IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
The amendment clarified that the disclosure requirements in Standards other than IFRS 5 do not generally apply to non-current assets classified as held for sale and discontinued operations. This amendment is effective for period beginning 1 January 2010 and is not expected to have a significant impact on the financial statements;

2.2.8 IFRS 9 *Financial instruments - Classification and measurements*
IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:
Financial assets are required to be classified into two measurement categories; those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. This standard is effective for periods on or after 1 January 2013. This amendment is expected to have a significant impact on the financial statements;

2.2.9 IFRIC 17 *Distributions of non-cash assets to owners*
IFRIC 17 was issued in November 2008. It addresses how non-cash dividends distributed to the shareholders should be measured. A dividend obligation is recognized when the dividend was authorized by the appropriate entity and is no longer at the discretion of the entity. This dividend obligation should be recognized at the fair value of the net assets to be distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognized in profit and loss. This interpretation is effective for period beginning on or after 1 July 2009 and is not expected to have a significant impact on the financial statements;

2.2.10 IFRIC 18 *Transfers of assets from customers*
IFRIC 18 was issued in January 2009. It clarifies how to account for transfers of items of property, plant and equipment by entities that receives such transfers from their customers. This is effective for periods on or after 1 July 2009 and is not expected to have a significant impact on the financial statements;

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

2.2.11 IFRIC19 *Extinguishing Financial Liabilities with Equity Instruments*
The interpretation addresses the accounting by the entity that issues equity instruments in order to settle, in full or in part, a financial liability. This interpretation is effective for annual periods beginning on or after 1 July 2010 and is not expected to have a significant impact on the financial statements; and

2.2.12 There have also been additional terminology changes, clarifications and amendments as part of the IASB annual improvements project to: IFRS 8, IAS1, IAS 24, IAS 27, IAS 28, IAS 31, IAS 32, IAS 36, IAS 38, and IAS 39 that were not yet effective. These additional amendments are not expected to have any significant impact on the financial statements of the Group.

3. Accounting policies

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

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

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

3.1 *Basis of consolidation*
The consolidated financial statements incorporate the financial statements of the Group and its subsidiary, Stockbrokers Malawi Limited. The Group financial statements also incorporate results of associated companies.

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

(a) Subsidiaries
Subsidiaries are all entities (including special purpose entities) over which the Bank has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

3. Accounting policies (Continued)

3.1 *Basis of consolidation* (Continued)

(a) Subsidiaries (Continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference (negative goodwill) is recognised directly in the statement of comprehensive income.

All intra-Group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of subsidiaries are changed where necessary to ensure consistency with policies adopted by the Group.

Non-controlling interests (previously referred to as 'minority' interests) in subsidiaries are identified separately from the Group's equity therein. The interest of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(b) Associates

Associates are all entities over which the Group has significant influence but no control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The Group's share of its associates' post acquisition profits or losses is recognised in the statement of comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associates, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associates.

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

3. Accounting policies (Continued)

3.2 *Comparatives*

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

3.3 *Financial assets*

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

i. Financial assets at fair value through profit or loss

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

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

ii. Loans and receivables

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

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

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

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

3. Accounting policies (Continued)

3.3 *Financial assets* (Continued)

iii. Held-to-maturity investments

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

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

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

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

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

iv Available-for-sale investments

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

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

3. Accounting policies (Continued)

3.3 *Financial assets* (Continued)

v Recognition

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

vi Derecognition

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

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

vii Reclassification of financial assets

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

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

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

3.4 *Offsetting financial instruments*

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

3. Accounting policies (Continued)

3.5 *Sale and repurchase agreements*

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

3.6 *Impairment of financial assets*

(a) Assets carried at amortised cost

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

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

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

3. Accounting policies (Continued)

3.5 *Impairment of financial assets* (Continued)

(a) Assets carried at amortised cost (Continued)

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

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

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

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

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

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

3. Accounting policies (Continued)

3.5 *Impairment of financial assets* (Continued)

(b) Assets carried at fair value

The Group assesses at each year-end date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

3.7 *Property, plant and equipment*

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

Land and buildings comprise mainly service centres and offices.

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

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

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

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

3. Accounting policies (Continued)

3.7 *Property, plant and equipment* (Continued)

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

Freehold land and capital work in progress are not depreciated.

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

3.8 *Leases*

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

(a) <u>The Group as lessor</u>

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

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

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

Finance charges are charged directly to profit or loss.

(b) <u>The Group as lessee</u>

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

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

3. Accounting policies (Continued)

3.9 *Derivative financial instruments*

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

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

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

3.10 *Impairment of tangible and intangible assets excluding goodwill and financial assets*

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

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

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

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

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

3. Accounting policies (Continued)

3.11 *Non-current assets held for sale*

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

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

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

3.12 *Provisions*

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

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

(a) <u>Restructuring</u>
A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Costs relating to the ongoing activities of the Group are not provided for.

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

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

3. Accounting policies (Continued)

3.13 *Taxation*

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

Current tax

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

Deferred tax

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

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

The carrying amounts of deferred tax assets are reviewed at each year-end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantially enacted at the year-end date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow the manner in which the Group expects, at the year-end date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

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

3. Accounting policies (Continued)

3.14 *Cash and cash equivalents*

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

3.15 *Employee benefits*

(a) Pension obligations - Defined Contribution Plan

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

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

The plan has two funds General Fund and Death Top up Fund (Special Fund). The Special Fund applies to additional funds that are made by the employer at 4% of salary to cover additional sums due on death-in-service, the final salary underpin and severance pay liabilities (note 18).

(b) Short-term benefits

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

(c) Severance pay

The Group provides for severance pay in full for all eligible employees in line with the requirements of the Employment Act as follows:

Number of years worked	**Severance pay**
More than 1 year but less than 10	2 weeks pay for each year of service
More than 10 years	4 weeks pay for each year of service

Severance pay provision is adjusted accordingly with estimates of anticipated long-term discounting rates, wage inflation, and resignations based on past trends.

3. Accounting policies (Continued)

3.16 *Foreign Currency translation*

(a) Functional and presentation currency

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

(b) Transactions and balances

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

3.17 *Financial liabilities and equity*

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

i. Customer deposits and liabilities to other banks

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

ii. Other liabilities

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

iii. Equity instruments

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

3. Accounting policies (Continued)

3.18 *Revenue recognition*

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

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

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

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

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

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

3. Accounting policies (Continued)

3.19 *Share capital*

Share issue costs

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

Dividends on ordinary shares

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

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

Dividend per share

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

Earnings per share

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

3.20 *Fiduciary activities*

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

4. Critical accounting judgments and key sources of estimation uncertainty

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

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

4.1 Critical judgements in applying the Group's accounting policies

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

4.2 Key sources of estimation uncertainty

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

(i) Impairment losses on loans and advances

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

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

Key assumptions used:

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

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

4.2 *Key sources of estimation uncertainty* (Continued)

(ii) Held to maturity investments

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

(iii) Valuation of properties

The assumptions and methods of revaluing properties are disclosed in note 9.

(iv) Residual values useful lives of tangible assets

The residual values and useful lives of property, plant and equipment are reviewed and adjusted, if appropriate, at each financial position date to reflect current thinking on their remaining lives in the light of technological change, prospective economic utilisation and physical conditions of the assets concerned as described under note 3.9.

(v) Severance allowance provision

The Bank has estimated severance allowance provision as at 31 December 2009. The actual liability to be incurred will depend on a number of factors including rates of death, retirement, resignation and dismissal. The amount provided is subject to review annually.

	GROUP		COMPANY	
	2009	2008	2009	2008
	K'm	K'm	K'm	K'm
5. Cash and funds with Reserve Bank of Malawi				
Cash	2,370	1,880	2,370	1,877
Balances with the Reserve Bank of Malawi	5,367	327	5,367	327
Total cash and funds with Reserve Bank of Malawi	7,737	2,207	7,737	2,204

The currency analysis of cash is in note 31(e).

Balances held at Reserve Bank of Malawi are denominated in Malawi Kwacha, are non-interest bearing and are regulated as disclosed in note 31(g).

	Average interest rate 2009	Average interest rate 2008	GROUP 2009 K'm	GROUP 2008 K'm	COMPANY 2009 K'm	COMPANY 2008 K'm
6. Government of Malawi treasury bills and Reserve Bank of Malawi bonds						
Government of Malawi treasury bills	12.6%	10.8%	8,806	10,705	8,800	10,684
Reserve Bank of Malawi bonds	10.0%	10.0%	1,015	959	1,014	958
			9,821	11,664	9,814	11,642
The bills are due to mature as follows:						
• Within three months			5,223	3,983	5,217	3,962
• Between three months and one year			4,598	7,681	4,597	7,680
			9,821	11,664	9,814	11,642
Government of Malawi treasury bills and Reserve Bank of Malawi bonds with less than 3 months maturity from date of acquisition included in cash and cash equivalents (Note 28)			-	971	-	950

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

7. Government of Malawi local registered stock

	GROUP 2009 K'm	GROUP 2008 K'm	COMPANY 2009 K'm	COMPANY 2008 K'm
The stock is due to mature as follows:				
• Within three months	663	305	663	305
• Between three months and one year	512	117	512	117
• Between one and five years	170	1,201	170	1,201
	1,345	1,623	1,345	1,623

Government of Malawi local registered stock is denominated in Malawi Kwacha and is held to maturity. The stock earned an average interest rate of 17.3% (2008:17.2%).

8. Quoted equity investments

	GROUP & COMPANY				
	2008 Carrying amount K'm	Additions /(disposals) K'm	Fair value adjustment K'm	2009 Carrying amount K'm	Cost K'm
First Merchant Bank Limited 9,209,720 (2008: 9,771,229) Ordinary shares of K2.50 each at a market value of K10.00 (2008: K12.00) per share	117	(12)	(13)	92	80
Illovo Sugar (Malawi) Limited 4,024,785 (2008: 4,113,985) Ordinary shares of K0.02 each at a market value of K110.00 ((2008: K125.00) per share	514	(11)	(60)	443	464
NICO Holdings Limited 3,000,000 Ordinary shares of K0.20 each at a market value of K9.00 (2008: K9.50) per share	29	-	(2)	27	21
Malawi Property Investment Company Limited 5,532,748 (2008:7,032,748) Ordinary shares of K0.05 each at a market value of K2.60 (2008:K4.30) per share	30	(7)	(9)	14	19
National Investment Trust Limited 4,946,371 Ordinary shares of K1.00 each at a market value of K15.50 (2008:K21.00) per share	104	-	(27)	77	119
NBS Bank Limited 924,553 (2008: 1,325,358) Ordinary shares of K0.50 each at a market value of K14.00 (2008: K14.50) per share	19	(6)	-	13	9
Old Mutual Limited Nil (2008: 148,500) Ordinary shares	62	(62)	-	-	-
Packaging Industries Malawi Limited 2,000,000 Ordinary shares of K0.20 each at a market value of K6.25 per share	13	-	-	13	13
Standard Bank of Malawi Limited 595,277 (2008:426,899) Ordinary shares of K1.00 each at market value of K92.00 (2008:K85) per share	36	14	4	54	51
Sunbird Malawi Limited 1,000,000 Ordinary shares of K0.05 each at a market value of K8.90 per share	9	-	-	9	9
Telekom Networks Malawi Limited 36,592,400 (2008:31,592,400) Ordinary shares of K0.04 each at a market value of K2.00 (2008:3.30) per share	104	10	(41)	73	73
Total quoted equity investments	1,037	(74)	(148)	815	858

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

Telekom Networks Malawi Limited and Old Mutual Limited are related parties.

	GROUP		COMPANY	
	2009	**2008**	**2009**	**2008**
	K'm	**K'm**	**K'm**	**K'm**
9. Investment in associate				
Purchase consideration	123	123	123	123
Share of results	49	27	-	-
Share of tax	(15)	(7)	-	-
	157	143	123	123
Assets	1,349	968		
Liabilities	1,008	670		
Net assets	341	298		
Group's share of net assets of associates	89	77		
Total revenue	1,139	850		
Total profit for the period	55	77		

The Bank holds 26% (2008: 26%) of United General Insurance Limited shares.

	GROUP & COMPANY	
	2009	**2008**
	K'm	**K'm**
10. Placements with other banks		
Money market placements with other banks	2,081	7,908
Balances due from other banks	1,407	776
	3,488	8,684

Placements with other banks are denominated in the following currencies:

	Average interest rate			
	2009	**2008**		
Malawi Kwacha denominated	11.80%	8.14%	2,082	7,180
US Dollar denominated	0.27%	2.51%	911	798
GBP denominated	0.73%	4.49%	125	286
Euro denominated	0.81%	3.77%	167	420
ZAR denominated	6.93%	10.97%	114	-
Other	-	4.00%	89	-
			3,488	8,684

Money market placements with other banks are held to maturity and all mature within 3 months (2008: 3 months).

11. Loans and advances

	GROUP 2009 K'm	GROUP 2008 K'm	COMPANY 2009 K'm	COMPANY 2008 K'm
Gross loans and advances	37,870	25,775	37,900	25,775
Specific provisions	(306)	(208)	(306)	(208)
Net loans and advances	37,564	25,567	37,594	25,567
Due to mature as follows:				
• Within three months	757	2,748	759	2,748
• Between three months and one year	22,779	16,621	22,779	16,621
• After one year and not later than 5 years	14,488	6,550	14,518	6,550
• Interest in suspense	(154)	(144)	(156)	(144)
	37,870	25,775	37,900	25,775
Analysis of gross loans by currency				
Malawi Kwacha denominated	33,619	22,855	33,649	22,855
US Dollar denominated	4,251	2,920	4,251	2,920
	37,870	25,775	37,900	25,775

The Malawi Kwacha base lending rate for the bank as at 31 December 2009 was 19.5% (2008: 19.5%) and US Dollar denominated loans carried an average interest rate of 9.4%% (2008: 9.4%).

	GROUP 2009 K'm	GROUP 2008 K'm	COMPANY 2009 K'm	COMPANY 2008 K'm
Movement on specific provisions				
At beginning of the year	208	298	208	298
Applied against advances	(113)	(177)	(113)	(177)
Charged to statement of comprehensive income	264	267	264	267
Recovered	(53)	(180)	(53)	(180)
At end of the year	306	208	306	208
Movement on interest in suspense				
At beginning of the year	144	277	144	277
Applied against advances	(120)	(187)	(118)	(187)
Suspended in the year	246	251	246	251
Recovered	(116)	(197)	(116)	(197)
At end of the year	154	144	156	144
Analysis of recoveries				
Specific provisions	53	180	53	180
Interest in suspense	116	197	116	197
Debts previously written off	264	142	264	142
Transferred to the statement of comprehensive income	433	519	433	519

11. Loans and advances (Continued)

Finance lease receivables

Loans and advances to customers include the following finance lease receivables:

	GROUP & COMPANY 2009 K'm	GROUP & COMPANY 2008 K'm
Gross investment in finance lease, receivable:		
• Within three months	152	50
• Between three months and one year	470	371
• After one year and not later than five years	3,792	3,244
	4,414	3,665
Unearned future income on finance leases	(859)	(785)
	3,555	2,880
Specific provisions	(23)	(61)
Net investment in finance leases	3,532	2,819
The net investment in finance leases comprises the following:		
• Within three months	151	49
• Between three months and one year	436	338
• After one year and not later than five years	2,945	2,432
	3,532	2,819

12. Other money market deposits

	GROUP & COMPANY 2009 K'm	GROUP & COMPANY 2008 K'm
Balances with discount houses	701	500

Balances with discount houses are held to maturity and are all maturing within one month after year-end (2008: 3 months). The deposits earned an average interest rate of 10.25% (2008: 10.00%)

13. Other assets

	GROUP 2009 K'm	GROUP 2008 K'm	COMPANY 2009 K'm	COMPANY 2008 K'm
Letters of credit	3,389	2,188	3,389	2,188
Sundry receivables and prepayments	590	406	501	382
Due from local banks	588	775	588	775
Stockbrokers Malawi Limited	-	-	19	19
Other investments	19	19	19	19
Total other assets	4,586	3,388	4,516	3,383

The Bank, through National Bank Nominees Limited, holds a 75% (2008: 75%) stake in Stockbrokers Malawi Limited (SML).

14. Property, plant and equipment

	Freehold land and buildings K'm	Leasehold land and buildings K'm	Motor vehicles and equipment K'm	Total K'm
COMPANY				
COST OR VALUATION				
At 1 January 2008	1,320	237	2,395	3,952
Additions	33	283	1,268	1,584
Revaluation	618	177	-	795
Impairment loss	-	(152)	-	(152)
Elimination on disposals	-	(5)	(111)	(116)
At 31 December 2008	1,971	540	3,552	6,063
At 1 January 2009	1,971	540	3,552	6,063
Additions	216	1,022	1,004	2,242
Impairment loss	(166)	(490)	-	(656)
Elimination on disposals	-	-	(90)	(90)
At 31 December 2009	2,021	1,072	4,466	7,559
DEPRECIATION				
At 1 January 2008	12	2	1,341	1,355
Charge for the year	12	3	435	450
Elimination on revaluation	(24)	(5)	-	(29)
Elimination on disposals	-	-	(93)	(93)
At 31 December 2008	-	-	1,683	1,683
At 1 January 2009	-	-	1,683	1,683
Charge for the year	17	4	692	713
Elimination on revaluation	(4)	-	-	(4)
Elimination on disposals	-	-	(69)	(69)
At 31 December 2009	13	4	2,306	2,323
CARRYING AMOUNT				
At 31 December 2009	2,008	1,068	2,160	5,236
Capital work in progress	3,735	-	431	4,166
Total	5,743	1,068	2,591	9,402
At 31 December 2008	1,971	540	1,869	4,380
Capital work in progress	2,260	311	254	2,825
Total	4,231	851	2,123	7,205

14. Property, plant and equipment (Continued)

GROUP

Carrying amount

	2009 K'm	2008 K'm
Total property, plant and equipment – company	9,402	7,205
Property, plant and equipment included in subsidiary companies	9	12
Total fixed assets - group	9,411	7,217

Land and buildings

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

			2009 K'm	2008 K'm
Freehold	-	at 2008 valuation	1,911	1,971
	-	at 2009 valuation	110	-
Total freehold land and buildings			2,021	1,971
Leasehold	-	at 2008 valuation	537	540
	-	at 2009 valuation	535	-
			1,072	540

Included in the Property, plant and equipment in subsidiary companies are motor vehicles and office equipment with gross values of K26.1 m (2008: K25.1 m).

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

	Related parties K'm	others K'm	2009 K'm	2008 K'm
Equipment	-	173	173	200
Motor vehicles	771	13	784	675
	771	186	957	875

Malawi Telecommunications Limited and Bottling and Brewing Group are the related parties to whom the Group is leasing out the motor vehicles which were purchased at a cost of K563m (2008: K303m) and K523m (2008: K456m) respectively.

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

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

14. Property, plant and equipment (Continued)

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

The Zomba and Kasungu Service Centres which were significantly refurbished in 2009 and the newly constructed Mzuzu Service Centre were revalued as at 31 December 2009 by Chris Mullock MRICS, MSIM, a qualified independent valuer. The basis of valuation was current market value as required by International Valuation Standards. The revaluation resulted in an impairment loss of K652m of which K566m has been recognised in the statement of comprehensive income and K86m relating to previous revaluations of Zomba and Kasungu Service Centres has been reversed from the revaluation reserve.

The rest of the land and buildings were revalued as at 31 December 2008 by Chris Mullock MRICS, MSIM, a qualified independent valuer. The revaluation resulted in a revaluation surplus of K824m and an impairment loss of K152m. The basis of valuation was current market value as required by International Valuation Standards. The directors consider that the carrying amount of the remaining properties approximates to their fair value.

As at 31 December 2009, had the land and buildings (excluding work in progress) been carried at historical cost less depreciation and accumulated impairment losses, their carrying amount would have been approximately K1,041m (2008: K791m).

15. Deferred tax

	Opening balance K'm	Charge to income K'm	Charged to equity K'm	Closing balance K'm
GROUP				
2008				
Accelerated capital allowances	(89)	(11)	-	(100)
Revaluation of fixed assets	116	-	(151)	(35)
Other temporary differences	536	(101)	-	435
Total deferred tax	563	(112)	(151)	300
2009				
Accelerated capital allowances	(100)	135	-	35
Revaluation of fixed assets	(35)	-	109	74
Other temporary differences	435	60	-	495
Total deferred tax	300	195	109	604

15. Deferred tax (Continued)

	Opening balance K'm	Charge to income K'm	Charged to equity K'm	Closing balance K'm
COMPANY				
2008				
Accelerated capital allowances	(88)	(12)	-	(100)
Revaluation of fixed assets	116	-	(151)	(35)
Other temporary differences	537	(101)	-	436
Total deferred tax	565	(113)	(151)	301
2009				
Accelerated capital allowances	(100)	136	-	36
Revaluation of fixed assets	(35)	-	109	74
Other temporary differences	436	58	-	494
Total deferred tax	301	194	109	604

16. Liabilities due to customers

	Average interest rate 2009	Average interest rate 2008	GROUP 2009 K'm	GROUP 2008 K'm	COMPANY 2009 K'm	COMPANY 2008 K'm
Analysis by account type:						
Current accounts	1.00%	0.25%	27,917	19,140	27,925	19,146
Foreign currency accounts	0.50%	2.08%	6,260	5,007	6,260	5,007
Savings accounts	3.13%	2.00%	8,277	7,149	8,277	7,149
Deposit accounts	6.07%	3.53%	12,618	14,143	12,618	14,143
Total liabilities due to customers			55,072	45,439	55,080	45,445
Analysis by interest risk type:						
Interest bearing deposits			54,146	44,541	54,154	44,547
Non-interest bearing deposits			926	898	926	898
Total liabilities due to customers			55,072	45,439	55,080	45,445

All interest bearing deposits excluding deposit accounts are at floating rates that are adjusted at the Bank's discretion (see note 31 (d)).

	GROUP 2009 K'm	GROUP 2008 K'm	COMPANY 2009 K'm	COMPANY 2008 K'm
16. Liabilities due to customers (Continued)				
Analysis by interest maturity:				
Liabilities due to customers are payable as follows:				
• Within three months	54,678	45,332	54,686	45,338
• Between three months and one year	394	107	394	107
Total	55,072	45,439	55,080	45,445
Analysis by sector:				
Agriculture	4,424	2,048	4,424	2,048
Manufacturing	3,987	2,175	3,987	2,175
Wholesale and retail	4,687	8,811	4,687	8,811
Finance and insurance	1,754	1,363	1,762	1,369
Personal accounts	33,690	13,495	33,690	13,495
Other	6,530	17,547	6,530	17,547
Total	55,072	45,439	55,080	45,445

The currency analysis of liabilities due to customers is included in note 31 (e).

17. Other liabilities

	GROUP 2009 K'm	GROUP 2008 K'm	COMPANY 2009 K'm	COMPANY 2008 K'm
Letters of credit	3,389	2,188	3,389	2,188
Other liabilities	2,220	450	2,143	430
Staff bonus	471	342	471	342
Unclaimed balances	344	288	344	288
Bank cheques	450	284	450	284
Office accounts	115	59	115	59
Total other liabilities	6,989	3,611	6,912	3,591

The currency analysis of other liabilities is included in note 31 (e).

	GROUP		COMPANY	
	2009	2008	2009	2008
	K'm	K'm	K'm	K'm
18. Employment benefit obligation				
Unfunded employment benefit obligation				
Employment benefit obligation	1,587	1,512	1,584	1,509
Fair value of plan assets	(484)	(422)	(484)	(422)
Unfunded employment benefit obligation	1,103	1,090	1,100	1,087
Movements in employment benefit obligation in the current period were as follows:				
Opening balance	1,512	1,745	1,509	1,743
Current service cost of severance pay	79	86	79	86
Interest cost	62	189	62	188
Benefits paid	(66)	(508)	(66)	(508)
Closing balance	1,587	1,512	1,584	1,509
Movements in the fair value of plan assets in the current period were as follows:				
Opening balance	422	385	422	385
Interest income	69	27	69	27
Contributions	39	39	39	39
Benefits paid	(46)	(78)	(46)	(78)
Net transfers from general fund	-	49	-	49
Closing balance	484	422	484	422
The major categories of plan assets as at the year-end date were as follows:				
Equity investments	13	20	13	20
Fixed deposit investments	35	232	35	232
Government of Malawi treasury bills	416	150	416	150
Government of Malawi Local Registered Stocks	20	20	20	20
	484	422	484	422

Severance pay

Section 35 (1) of the Employment Act No. 6 of 2000 requires employers to pay severance allowance to employees whose employment contracts are terminated either by mutual agreement between the employer and the employee or unilaterally by the employer.

Accordingly the group has made a net provision of K1.1 billion (2008: K1.1 billion) in line with the Act as a defined benefit scheme under IAS 19.

18. Employment benefit obligation (Continued)

The key assumptions underlying the computation of severance pay are as follows:

- Death in service projected at 1%;
- Retirement age – 60 years;
- Discount rate – 1% (market rate less wage inflation); and
- Resignation – based on history of staff turnover.

The plan assets relate to assets held by the Special Fund of the Group's pension scheme as explained below.

Pension Scheme
The pension fund, which is managed internally, is a defined contribution scheme and the respective contributions by employees and the employer are 5.5% (2008: 5%) and 11% (2008: 11%) of the fund members' basic pensionable salaries, respectively. The employer contributes an additional 4% (2008: 4%) of the pensionable salary. Thus the total contribution by the employer is 15% of pensionable salary. The amount charged against income during the year was K145m (2008: K148m).

The Pension Fund operates two accounts: the General Fund and Death Top up Fund (Special Fund). The Special Fund applies to additional funds that are made by the employer at 4% of salary to cover additional sums due on death-in-service, the final salary underpin and severance pay liabilities. The Special Fund is also built up by investment income earned on the fund's assets and a percentage of the employer's contribution forfeited by resigning, dismissal and redundant employees in accordance with the rules of the Fund. The General Fund represents a reserve from which all other benefits are paid including administration expenses and bonuses.

The Pension Fund is a self-accounting Trust whose assets are not available to the Group. The Trustees of the Fund are employees of the Bank.

The Bank rents some of the Fund's properties at commercial rates. The Group incurred K81m (2008: K56m) in rentals for such properties during the year.

	GROUP		COMPANY	
	2009	2008	2009	2008
	K'm	K'm	K'm	K'm
19. Net interest income				
Interest income				
Interest on loans and advances and bills discounted	5,333	3,707	5,336	3,710
Income from investments	1,760	1,578	1,760	1,578
Income from lease financing	718	491	718	491
Interest on placements with other banks	82	196	82	196
	7,893	5,972	7,896	5,975
Interest expense				
Banks and customers	814	626	814	629
Money market loans and repos	302	190	302	190
	1,116	816	1,116	819
Net interest income	6,777	5,156	6,780	5,156
20. Commission and fee income				
Commissions	1,716	1,574	1,688	1,482
Arrangement and other fee income	330	337	330	337
Other income	291	372	290	366
Total fee and commission income	2,337	2,283	2,308	2,185
21. Staff costs				
Salaries and wages	1,166	1,122	1,148	1,103
Other staff costs	685	622	680	619
Staff bonus provision	564	416	564	412
Severance pay	40	239	40	238
Pension costs - defined contribution plan	145	148	145	148
Redundancy pay	-	97	-	97
Contract gratuity expense	33	27	31	27
Total staff costs	2,633	2,671	2,608	2,644

The Group runs an in-house defined contribution pension scheme as stated in note 18 above.

	GROUP		COMPANY	
	2009	**2008**	**2009**	**2008**
	K'm	**K'm**	**K'm**	**K'm**
22. Other operating expenditure				
Other costs	1,011	887	987	852
Recurrent expenditure on premises and equipment	766	677	759	670
Depreciation	716	454	713	450
Listing and legal charges	19	24	19	24
Auditors' remuneration including surtax and expenses:				
- current year	24	18	21	16
- prior year	1	4	2	3
Directors' remuneration:				
- fees for services as directors	8	7	8	6
- for managerial services	52	65	52	65
Total other operating expenditure	2,597	2,136	2,561	2,086

23. Income tax expense

Income tax - current year	2,016	1,304	2,007	1,289
- prior year	(1)	1	(1)	1
Deferred tax	(195)	112	(194)	113
Total income tax expense	1,820	1,417	1,812	1,403
Reconciliation of rate of tax	**%**	**%**	**%**	**%**
Standard rate of taxation	30	30	30	30
Permanent differences	2	1	2	1
Effective rate of taxation	32	31	32	31

24. Earnings per share

Basic earnings per share

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

	GROUP	
	2009	**2008**
Profit attributable to equity holders of the Company (K millions)	3,811	3,152
Weighted average number of ordinary shares in issue (millions)	466	457
Basic earnings per share (expressed in K per share)	8.18	6.90

Diluted earnings per share

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

	GROUP	
	2009	**2008**
Profit attributable to equity holders of the Company (K millions)	3,811	3,152
Net profit used to determine diluted earnings per share (K millions)	3,811	3,152
Weighted average number of ordinary shares in issue	466	457
Adjustments for share options (millions)	1	2
Weighted average number of ordinary shares for diluted earnings per share (millions)	467	459
Diluted earnings per share (expressed in K per share)	8.16	6.87

25. Dividend per share

Dividend per share is calculated by dividing the total dividends paid in the year by the weighted average number of ordinary shares in issue during the year.

	GROUP	
	2009	**2008**
	K'm	**K'm**
Interim dividend paid (for current year)	671	500
Final dividend paid (for previous year)	1,002	351
	1,673	851
Weighted average number of ordinary shares in issue (millions)	466	457
Dividend per share	3.59	1.86

The proposed current year final dividend is K1.25 billion representing K2.68 per share.

	GROUP & COMPANY	
	2009	**2008**
	K'm	**K'm**
26. Contingencies		
Guarantees		
Foreign guarantees	1,524	792
Local guarantees and performance bonds	1,937	1,768
Total contingencies from guarantees	3,461	2,560
Other contingencies		
Legal claims	251	141

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

Legal claims represent outstanding legal cases against the Group in the ordinary course of business, the outcome of which is uncertain. The amount disclosed represents an estimate of the cost to the Group in the event that legal proceedings find the Group to be in the wrong. In the opinion of the directors the claims are not expected to give rise to a cost to the Group.

Legal claims in favour of the Group as at the end of the year were K546m (2008: K198m).

	GROUP 2009 K'm	GROUP 2008 K'm	COMPANY 2009 K'm	COMPANY 2008 Km
27. Commitments				
Expenditure contracted but not incurred	2,210	2,800	2,210	2,800
Expenditure approved by the Board but not contracted	1,586	2,073	1,586	2,071
Total capital expenditure	3,796	4,873	3,796	4,871
28. Cash and cash equivalents				
Cash and funds with Reserve Bank of Malawi (note 5)	7,737	2,207	7,737	2,204
Government of Malawi treasury bills and Reserve Bank of Malawi bonds (note 6)	-	971	-	950
Placements with other banks (note 10)	3,488	8,684	3,488	8,684
Other money market deposits (note 12)	701	500	701	500
Liabilities due to other banks	(258)	(1,900)	(258)	(1,900)
Total cash and cash equivalents	11,668	10,462	11,668	10,438
29. Client balances				
Client funds	(1,319)	(1,393)	-	-
Investment in Treasury Bills	1,133	1,327	-	-
Funds at call and on deposit	186	66	-	-
Total client balances	-	-	-	-

Funds held by Stockbrokers Malawi Limited, a subsidiary of the Group, on behalf of its clients are invested in Malawi Government securities or placed on call with reputable financial institutions.

The funds are managed separately from the Group's own funds.

30. Financial assets and liabilities

Accounting categories and fair values

	Notes	Held for trading K'000	Held to maturity K'000	Loans and receivables K'000	Amortised cost K'000	Total carrying amount K'000	Fair value K'000
GROUP							
As at 31 December 2009							
Assets							
Cash and bank balances with Reserve Bank of Malawi	5	7,737	-	-	-	7,737	7,737
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	-	9,821	-	-	9,821	9,821
Government of Malawi local registered stocks	7	-	1,345	-	-	1,345	1,345
Equity investments	8	815	-	-	-	815	891
Placements with other banks	10	-	-	3,488	-	3,488	3,488
Loans and advances to customers	11	-	-	37,564	-	37,564	37,564
Other money market deposits	12	-	-	701	-	701	701
Other assets		-	-	4,586	-	4,586	4,586
Total financial assets		8,552	11,166	46,339	-	66,057	66,133
Liabilities and equity							
Liabilities due to customers	16	-	-	-	55,072	55,072	55,072
Balances due to other banks		-	-	-	258	258	258
Other payables		-	-	-	6,989	6,989	6,989
Total financial liabilities		-	-	-	62,319	62,319	62,319

30. Financial assets and liabilities (Continued)

Accounting categories and fair values (Continued)

	Notes	Held for trading K'000	Held to maturity K'000	Loans and receivables K'000	Amortised cost K'000	Total carrying amount K'000	Fair value K'000
GROUP							
As at 31 December 2008							
Assets							
Cash and bank balances with Reserve Bank of Malawi	5	2,207	-	-	-	2,207	2,207
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	-	11,664	-	-	11,664	11,664
Government of Malawi local registered stocks	7	-	1,623	-	-	1,623	1,623
Equity investments	8	1,037	-	-	-	1,037	1,037
Placements with other banks	10	-	-	8,684	-	8,684	8,684
Loans and advances to customers	11	-	-	25,567	-	25,567	25,567
Other money market deposits	12	-	-	500	-	500	500
Other assets		-	-	3,115	-	3,115	3,115
Total financial assets		3,244	13,287	37,866	-	54,397	54,397
Liabilities and equity							
Liabilities due to customers	16	-	-	-	45,439	45,439	45,439
Balances due to other banks		-	-	-	1,900	1,900	1,900
Other payables		-	-	-	3,446	3,446	3,446
Total financial liabilities		-	-	-	50,785	50,785	50,785

30. Financial assets and liabilities (Continued)

Accounting categories and fair values (Continued)

COMPANY	**Notes**	**Held for trading K'000**	**Held for maturity K'000**	**Loans and receivables K'000**	**Amortised cost K'000**	**Total carrying amount K'000**	**Fair value K'000**
At 31 December 2009							
Assets							
Cash and bank balances with Reserve Bank of Malawi	5	7,737	-	-	-	7,737	7,737
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	-	9,814	-	-	9,814	9,814
Government of Malawi local registered stocks	7	-	1,345	-	-	1,345	1,345
Equity investments	8	815	-	-	-	815	815
Placements with other banks	10	-	-	3,488	-	3,488	3,488
Loans and advances to customers	11	-	-	37,594	-	37,594	37,594
Other money market deposits	12	-	-	701	-	701	701
Other assets		-	-	4,515	-	4,515	4,515
Total financial assets		8,552	11,159	46,298	-	66,009	66,009
Liabilities and equity							
Liabilities due to customers	16	-	-	-	55,080	55,080	55,080
Balances due to other banks		-	-	-	258	258	258
Other payables		-	-	-	6,912	6,912	6,912
Total financial liabilities		-	-	-	62,250	62,250	62,250

30. Financial assets and liabilities (Continued)

Accounting categories and fair values (Continued)

	Notes	Held for trading K'000	Other Held for maturity K'000	Loans and receivables K'000	Amortised cost K'000	Total carrying amount K'000	Fair value K'000
COMPANY							
At 31 December 2008							
Assets							
Cash and bank balances with Reserve Bank of Malawi	5	2,204	-	-	-	2,204	2,204
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	-	11,642	-	-	11,642	11,642
Government of Malawi local registered stocks	7	-	1,623	-	-	1,623	1,623
Equity investments	8	1,037	-	-	-	1,037	1,037
Placements with other banks	10	-	-	8,684	-	8,684	8,684
Loans and advances to customers	11	-	-	25,567	-	25,567	25,567
Other money market deposits	12	-	-	500	-	500	500
Other assets		-	-	3,100	-	3,100	3,100
Total financial assets		3,241	13,265	37,851	-	54,357	54,357
Liabilities and equity							
Liabilities due to customers	16	-	-	-	45,445	45,445	45,445
Balances due to other banks		-	-	-	1,900	1,900	1,900
Other payables		-	-	-	3,440	3,440	3,440
Total financial liabilities		-	-	-	50,785	50,785	50,785

30. Financial assets and liabilities (Continued)

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

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

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

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

30.2 Fair value measurements recognised in the statement of financial position

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

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

	GROUP & COMPANY	
	2009	**2008**
	K'000	**K'000**
Financial assets at fair value through profit or loss		
Non-derivative financial assets held for trading		
Level 1	815	1,037

31. Financial risk management

(a) Introduction and overview

The Group has exposure to the following risks arising from its transactions in financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk;
- Currency risk;
- Operational risks;
- Compliance risk; and
- Capital adequacy.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for identification, measurement, monitoring and controlling risk, and the Group's management of capital.

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

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board develops the risk appetite and risk tolerance limits appropriate to the Group's strategy and requires that management maintains an appropriate system of internal controls to ensure that these risks are managed within the agreed parameters. The Board delegates risk related responsibilities to three Board committees, the Credit Committee, the Audit and Risk Committee and the Appointments and Remuneration Committee, in addition to management Committees such as the Asset and Liability (ALCO), Credit and Security Committees, which are all responsible for developing and monitoring Group risk management policies in their specified areas. All Board committees have non-executive members and report regularly to the Board of Directors on their activities.

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

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

31. Financial risk management (Continued)

b) Credit risk

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

Management of credit risk

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

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

The committee is also responsible for establishing the authorisation structure for the approval and renewal of credit facilities.

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

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

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

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

31. Financial risk management (Continued)

b) Credit risk (Continued)

Each business unit is required to implement the Bank's credit policies and procedures, within delegated credit approval authorities. Each business unit has a Head or Manager who is accountable for all credit related matters and reports as appropriate to Credit Management Division or the Credit Committee through Credit Management Division.

Regular audits of business units and Credit processes are undertaken by the Internal Audit Department in the Risk and Compliance Division.

Exposure to credit risk

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

The table below shows the maximum exposure to credit risk by class of financial instrument. Financial instruments include 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.

Gross maximum exposure

	GROUP		COMPANY	
	2009	2008	2009	2008
	K'm	K'm	K'm	K'm
Balances with the Reserve Bank of Malawi	5,367	327	5,367	327
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	9,821	11,664	9,814	11,642
Government of Malawi local registered stocks	1,345	1,623	1,345	1,623
Placements with other banks	3,488	8,684	3,488	8,684
Loans and advances to customers	37,564	25,567	37,594	25,567
Other money market deposits	701	500	701	500
Other assets	4,586	3,115	4,515	3,100
Total recognised financial instruments	62,872	51,480	62,824	51,443
Guarantees and performance bonds	3,461	2,560	3,461	2,560
Loan commitments and other credit facilities	7,992	12,213	7,992	12,213
Total unrecognised financial instruments	11,453	14,773	11,453	14,773
Total credit exposure	74,325	66,253	74,277	66,216

31. Financial risk management (Continued)

b) Credit risk (Continued)

Net exposure to credit risk without taking into account any collateral or other credit
In respect of certain financial assets, the bank has legally enforceable rights to offset them with financial liabilities. However, in normal circumstances, there would be no intention of settling net, or of realising the financial assets and settling the financial liabilities simultaneously. Consequently, the financial assets are not offset against the respective financial liabilities for financial reporting purposes. However, the exposure to credit risk relating to the respective financial assets is mitigated as follows:

GROUP

	Carrying Amount K'm	Offset K'm	Net exposure to credit risk K'm
31 December 2009			
Balances with the Reserve Bank of Malawi	5,367	-	5,367
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	9,821	-	9,821
Government of Malawi local registered stock	1,345	-	1,345
Placements with other banks	3,488	-	3,488
Loans and advances to customers	37,564	-	37,564
Other money market deposits	701	-	701
Other assets	4,586	-	4,586
	62,872	-	62,872
31 December 2008			
Balances with the Reserve Bank of Malawi	327	-	327
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	11,664	-	11,664
Government of Malawi local registered stock	1,623	-	1,623
Placements with other banks	8,684	-	8,684
Loans and advances to customers	25,567	1,183	24,384
Other money market deposits	500	-	500
Other assets	3,115	-	3,115
	51,480	1,183	50,297

31. Financial risk management (Continued)

b) Credit risk (Continued)

COMPANY

	Carrying Amount K'm	Offset K'm	Net exposure to credit risk K'm
31 December 2009			
Balances with the Reserve Bank of Malawi	5,367	-	5,367
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	9,814	-	9,814
Government of Malawi local registered stock	1,345	-	1,345
Placements with other banks	3,488	-	3,488
Loans and advances to customers	37,594	-	37,594
Other money market deposits	701	-	701
Other assets	4,516	-	4,516
	62,825	-	62,825
31 December 2008			
Balances with the Reserve Bank of Malawi	327	-	327
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	11,642	-	11,642
Government of Malawi local registered stock	1,623	-	1,623
Placements with other banks	8,684	-	8,684
Loans and advances to customers	25,567	1,183	24,384
Other money market deposits	500	-	500
Other assets	3,100	-	3,100
	51,443	1,183	50,260

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

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

31. Financial risk management (Continued)

b) Credit risk (Continued)

There is one significant concentration of credit risk, for K3.1 billion (2008: K2.5 billion) which was guaranteed by the Government of Malawi. The remainder of the book is spread over a relatively large number of counterparties and customers.

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

	Loans and advances to customers			
	GROUP		**COMPANY**	
	2009	**2008**	**2009**	**2008**
	K'm	**K'm**	**K'm**	**K'm**
Individually impaired:				
Grade 8: Impaired	187	245	187	245
Grade 9: Impaired	385	285	385	285
Gross amount	572	530	572	530
Allowance for impairment	(461)	(352)	(461)	(352)
Carrying amount	111	178	111	178
Past due but not impaired:				
Grade 7: Watch list	1	11	1	11
Neither past due nor impaired:				
Grade 1 – 3 Low risk	16,696	9,877	16,696	9,877
Grade 4 – 6 Fair risk	20,756	15,501	20,786	15,501
Total carrying amount	37,564	25,567	37,594	25,567
Past due comprises:				
30 - 60 days	-	11	-	11

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

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

31. Financial risk management (Continued)

b) Credit risk (Continued)

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

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

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

GROUP AND COMPANY

	Loans and advances to customers		
	Gross	**Allowance for Impairment**	**Net**
	K'm	**K'm**	**K'm**
31 December 2009			
Grade 8: Individually impaired	187	(136)	51
Grade 9: Individually impaired	385	(325)	60
Total	572	(461)	111
31 December 2008			
Grade 8: Individually impaired	245	(210)	35
Grade 9: Individually impaired	285	(142)	143
Total	530	(352)	178

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

31. Financial risk management (Continued)

b) Credit risk (Continued)

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

GROUP AND COMPANY

	2009 **K'm**	**2008** **K'm**
Against individually impaired:		
Motor vehicles	4,975	3,898
Commercial property	7,358	4,510
Residential property	3,124	1,915
Cash	2,861	1,183
Equities	239	106
Government guarantees	11,463	6,500
Bank guarantees	473	266
Total	30,493	18,378

Collateral repossessed
It is the Group's policy to dispose of repossessed collateral in an orderly fashion. The proceeds are used to reduce or repay the outstanding loan balance. In general the Group does not use repossessed assets for its business.

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

	Loans and advances to customers			
	GROUP		**COMPANY**	
	2009 **K'm**	**2008** **K'm**	**2009** **K'm**	**2008** **K'm**
Concentration by sector				
Agriculture	1,603	2,684	1,603	2,684
Finance and Insurance	2,163	2,980	2,193	2,980
Manufacturing	4,679	1,890	4,679	1,890
Other	18,545	8,424	18,545	8,424
Personal	7,280	7,007	7,280	7,007
Wholesale and Retail	3,294	2,582	3,294	2,582
	37,564	25,567	37,594	25,567

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 wherever possible, and when appropriate, obtains collateral. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default.

31. Financial risk management (Continued)

c) Liquidity risk

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

Management of liquidity risk

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

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

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

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

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment securities for which there is an active and liquid market less any deposits from banks, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Group's compliance with the liquidity limit established by the Reserve Bank of Malawi. Details of the reported Group ratio of net liquid assets to deposits from customers at the year-end date and during the reporting period were as follows: 35% (2008: 54%)

	2009	**2008**
At 31 December	35%	54%
Average of the period	41%	54%
Maximum for the period	53%	67%
Minimum for the period	35%	43%

31. Financial risk management (Continued)

c) Liquidity risk (Continued)

The table below analyses assets and liabilities into relevant maturity profiles based on the remaining period at 31 December 2009 to the contractual maturity date.

GROUP

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Total K'm	Carrying amount K'm
At 31 December 2009						
Financial assets						
Cash and funds with Reserve Bank of Malawi	7,737	-	-	-	7,737	7,737
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	500	3,156	5,500	1,101	10,257	9,821
Local registered stocks	628	-	474	160	1,262	1,345
Equity investments	-	815	-	-	815	815
Placements with other banks	3,488	-	-	-	3,488	3,488
Loans and advances to customers	447	1,174	23,280	12,663	37,564	37,564
Other money markets deposits	701	-	-	-	701	701
Other assets	3,056	537	993	-	4,586	4,586
Total financial assets	16,557	5,682	30,247	13,924	66,410	66,057
Financial liabilities						
Liabilities to customers	48,607	6,372	93	-	55,072	55,072
Liabilities to other banks	258	-	-	-	258	258
Other liabilities	3,985	537	993	1,474	6,989	6,989
Total financial liabilities	52,850	6,909	1,086	1,474	62,319	62,319
Contractual liquidity mismatch	**(36,293)**	**(1,227)**	**29,161**	**12,450**	**4,091**	**3,738**
Cumulative mismatch	**(36,293)**	**(37,520)**	**(8,359)**	**4,091**	**-**	**-**

Included in group balances are gross assets/liabilities and equity for the subsidiary company with carrying amounts totaling K107.6m (before elimination of group balances). As such, the separate analyses of the above are not materially different from the group analyses.

31. Financial risk management (Continued)

c) Liquidity risk (Continued)

GROUP

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Total K'm	Carrying amount K'm
At 31 December 2008						
Financial assets						
Cash and funds with Reserve Bank of Malawi	2,207	-	-	-	2,207	2,207
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	1,200	3,425	6,550	1,101	12,276	11,664
Government of Malawi local registered stocks	-	305	117	1,201	1,623	1,623
Placements with other banks	8,684	-	-	-	8,684	8,684
Loans and advances to customers	982	1,414	16,621	6,550	25,567	25,567
Other money markets deposits	500	-	-	-	500	500
Other assets	851	910	1,627	-	3,388	3,388
Total financial assets	14,424	6,054	24,915	8,852	54,245	53,633
Financial liabilities						
Liabilities to customers	43,073	2,259	107	-	45,439	45,439
Liabilities to other banks	1,900	-	-	-	1,900	1,900
Other liabilities	436	1,207	1,968	-	3,611	3,611
Total financial liabilities	45,409	3,466	2,075	-	50,950	50,950
Contractual liquidity mismatch	(30,985)	2,588	22,840	8,852	3,295	2,683
Cumulative mismatch	(30,985)	(28,397)	(5,557)	3,295	-	-

Included in group balances are gross assets/liabilities and equity for the subsidiary company with carrying amounts totaling K59.2m (before elimination of group balances). As such, the separate analyses of the above are not materially different from the group analyses.

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

31. Financial risk management (Continued)

(d) Market risks

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

Management of market risks

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury and Financial Institutions Division, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in ALCO. Treasury and Financial Institutions Division is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to day review of their implementation.

Exposure of interest rate risk: non-trading portfolio

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

31. Financial risk management (Continued)

(d) Market risks (Continued)

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

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

GROUP	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Non-interest sensitive K'm	Total K'm
At 31 December 2009						
Financial assets						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	7,737	7,737
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	496	4,727	3,583	1,015	-	9,821
Government of Malawi local registered stocks	663	-	512	170	-	1,345
Equity investments	-	-	-	-	815	815
Placements with other banks	3,488	-	-	-	-	3,488
Loans and advances to customers	447	1,174	23,280	12,663	-	37,564
Other money market deposits	701	-	-	-	-	701
Other assets	3,056	537	993	-	-	4,586
Total financial assets	8,851	6,438	28,368	13,848	8,552	66,057
Financial liabilities						
Liabilities to customers	47,705	6,372	93	-	902	55,072
Liabilities to other banks	258	-	-	-	-	258
Other liabilities	3,985	537	993	1,474	-	6,989
Total financial liabilities	51,948	6,909	1,086	1,474	902	62,319
Interest sensitivity gap	**(43,097)**	**(471)**	**27,282**	**12,374**	**7,650**	**3,738**
Cumulative gap	**(43,097)**	**(43,568)**	**(16,286)**	**(3,912)**	**3,738**	**-**

Included in group balances are gross assets/liabilities and equity for the subsidiary company with carrying amounts totaling K107.6m (before elimination of group balances). As such, the separate analyses of the above are not materially different from the group analyses.

31. Financial risk management (Continued)

(d) Market risks (Continued)

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

GROUP

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Non-interest sensitive K'm	Total K'm
At 31 December 2008						
Financial assets						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	2,207	2,207
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	1,123	2,860	6,722	959	-	11,664
Government of Malawi local registered stocks	-	305	117	1,201	-	1,623
Equity investments	-	-	-	-	1,037	1,037
Placements with other banks	8,684	-	-	-	-	8,684
Loans and advances to customers	982	1,414	16,621	6,550	-	25,567
Other money market deposits	500	-	-	-	-	500
Other assets	-	-	-	-	3,388	3,388
Total financial assets	11,289	4,579	23,460	8,710	6,632	54,670
Financial liabilities						
Liabilities to customers	43,073	2,259	107	-	-	45,439
Liabilities to other banks	1,900	-	-	-	-	1,900
Income tax payable	-	-	-	-	525	525
Other liabilities	436	1,207	1,968	-	-	3,611
Total financial liabilities	45,409	3,466	2,075	-	525	51,475
Interest sensitivity gap	(34,120)	1,113	21,385	8,710	6,107	3,195
Cumulative gap	(34,120)	(33,007)	(11,622)	(2,912)	3,195	-

Included in group balances are gross assets/liabilities and equity for the subsidiary company with carrying amounts totaling K59.2m (before elimination of group balances). As such, the separate analyses of the above are not materially different from the group analyses.

31. Financial risk management (Continued)

(e) Currency risk

The Group had the following significant foreign currency positions:

GROUP

At 31 December 2009	**MK** K'm	**USD** K'm	**GBP** K'm	**EURO** K'm	**ZAR** K'm	**OTHER** K'm	**TOTAL** K'm
Financial assets							
Cash and funds with Reserve Bank of Malawi	7,592	125	2	2	16	-	7,737
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	9,821	-	-	-	-	-	9,821
Government of Malawi local registered stocks	1,345	-	-	-	-	-	1,345
Equity investments	815	-	-	-	-	-	815
Placements with other banks	1,100	911	362	912	114	89	3,488
Loans and advances to customer	32,570	4,994	-	-	-	-	37,564
Other money market deposits	701	-	-	-	-	-	701
Other assets	4,370	164	21	13	9	9	4,586
Total financial assets	58,314	6,194	385	927	139	98	66,057
Financial liabilities							
Liabilities to customers	48,813	4,939	331	912	44	33	55,072
Liabilities to other banks	201	31	-	9	17	-	258
Other liabilities	5,841	1,029	56	2	56	5	6,989
Total financial liabilities	54,855	5,999	387	923	117	38	62,319
Net balance open position	3,459	195	(2)	4	22	60	3,738

Included in group balances are gross assets/liabilities and equity for the subsidiary company with carrying amounts totaling K107.6m (before elimination of group balances). As such, the separate analyses of the above are not materially different from the group analyses.

31. Financial risk management (Continued)

(e) Currency risk (Continued)

GROUP

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
At 31 December 2008							
Financial assets							
Cash and funds with Reserve Bank of Malawi	2,181	13	2	2	9	-	2,207
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	11,664	-	-	-	-	-	11,664
Government of Malawi local registered stocks	1,623	-	-	-	-	-	1,623
Equity investments	1,037	-	-	-	-	-	1,037
Placements with other banks	7,180	798	286	420	-	-	8,684
Loans and advances to customers	22,647	2,920	-	-	-	-	25,567
Other money market deposits	500	-	-	-	-	-	500
Other assets	2,580	782	16	-	10	-	3,388
Total financial assets	49,412	4,513	304	422	19	-	54,670
Financial liabilities							
Liabilities to customers	40,432	3,838	340	709	78	42	45,439
Liabilities to other banks	456	1,208	26	210	-	-	1,900
Income tax payable	-	-	-	-	-	-	-
Other liabilities	3,317	178	47	3	46	20	3,611
Total financial liabilities	44,205	5,224	413	922	124	62	50,950
Net balance open position	5,207	(711)	(109)	(500)	(105)	(62)	3,720

Included in group balances are gross assets/liabilities and equity for the subsidiary company with carrying amounts totaling K59.2m (before elimination of group balances). As such, the separate analyses of the above are not materially different from the group analyses.

31. Financial risk management (Continued)

f) Operational risk

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

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

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

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

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

g) Compliance risk

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

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

31. Financial risk management (Continued)

g) Compliance risk (Continued)

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

Statutory requirements

In accordance with Section 27 of the Banking Act, 1989, the Reserve Bank of Malawi has established the following requirements as at the year-end date:

Liquidity reserve requirement

The Bank is required to maintain a liquidity reserve with the Reserve Bank of Malawi equivalent to no less than 15.5% (2008: 15.5%) of total customer deposits. At the end of the year the liquidity reserve was equivalent to 15.5% (2008: 15.5%) of total customer deposits.

Capital adequacy requirement as per Section 15(2) of the Banking Act, 1989

The Bank's available capital is required to be a minimum of 10% (2008: 10%) of its risk bearing assets and contingent liabilities. At the end of the year the Bank's available capital was 21% (2008: 21%) of its risk bearing assets and contingent liabilities.

Prudential aspects of bank liquidity

As a complement to Section 27 of the Banking Act, 1989, the Reserve Bank of Malawi had issued the following guidelines on the management of liquidity as at the year-end date:

- Liquidity Ratio I - Net liquidity (total liquid asset less suspense accounts in foreign currency) divided by total deposits must be at least 30%; and

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

Liquidity ratios

At the end of the year, the Bank's liquidity ratio I was 35% (2008: 54%) and liquidity ratio II was 35% (2008: 54%).

31. Financial risk management (Continued)

(h) Capital management

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

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

- A core (tier 1) capital of not less than 6% of total risk-weighted on statement of financial position assets plus risk-weighted off-statement of financial position items
- A total capital (tier 2) of not less than 10% of its total risk-weighted on statement of financial position assets plus risk-weighted off-statement of financial position items.

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

- Core capital (Tier 1) consists of ordinary share capital, share premium, retained profits, 60% of after-tax profits in the current year (or less 100% of current year loss), less any unconsolidated investment in financial companies.

- Total capital (Tier 2), consists of revaluation reserves and general provisions, when such general provisions have received prior approval of the Reserve Bank of Malawi plus tier 1 capital. Supplementary capital must not exceed core capital i.e. shall be limited to 100% of total core capital.

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

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

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

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

31. Financial risk management (Continued)

(h) Capital management

The Bank's regulatory capital position at 31 December 2009 was as follows:

	2009	2008
Tier 1 capital		
Ordinary share capital	466	457
Share premium	563	49
Retained earnings	7,344	6,077
Unconsolidated investments	(162)	(162)
Total regulatory (tier 1) capital	8,211	6,421
Supplementary capital		
Loan loss reserve	375	255
Revaluation reserve	1,654	1,640
Total regulatory (tier 2) capital	**10,240**	**8,316**
Risk-weighted assets		
Retail bank, corporate bank and treasury	46,991	33,498
Total risk-weighted assets	46,991	33,498
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	21.8%	24.8%
Total tier 1 capital expressed as a percentage of risk-weighted assets	17.5%	19.2%

32. Related party transactions

The approval of the Reserve Bank of Malawi has been obtained for related party transactions in accordance with the terms of Sections 29 and 30(1) a of the Banking Act, 1989.

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

The Group is controlled by Press Corporation Limited (incorporated in Malawi), which owns 51.6% (2008: 51.7%) of the ordinary shares. The Old Mutual Group owns 24.6% (2008: 24.8%) of the ordinary shares and the remaining 23.8% (2008: 23.5%) of the shares are widely held by individuals, corporate and institutional investors and are publicly traded on the Malawi Stock Exchange.

The ultimate holding entity of the Group is Press Trust. Press Trust owns 48.5% (2008: 48.5%) of Press Corporation Limited.

Transactions between the Bank and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

Net outstanding balances as at 31 December 2009 with the shareholders and other related parties are as follows:

GROUP AND COMPANY

	Loans K'm	Deposits K'm	Net 2009 K'm	Net 2008 K'm
Press Corporation Limited and its subsidiaries	1,825	(1,064)	761	(580)
Old Mutual Group	-	(61)	(61)	(307)
Bottling and Brewing Group Limited	434	(689)	(255)	362
Limbe Leaf Tobacco Company Limited	70	-	70	58
Press Trust	-	(3)	(3)	(5)
Directors	3	(5)	(2)	31
Employees	556	(120)	436	464
National Bank of Malawi Pension Fund	-	-	-	(6)
Total related party balances	2,888	(1,942)	946	17

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

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

During the year K39.9m due from a related party was written off against interest in suspense and provision for loan losses. There were no outstanding provisions in respect of loans given to related parties as at the end of the year (2008: K39.7m).

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

32. Related party transactions (Continued)

The following transactions were conducted with related parties:

GROUP AND COMPANY

	2009 K'm	2008 K'm
Interest Receivable		
Press Corporation Limited and its subsidiaries	158	90
Bottling and Brewing Group Limited	32	37
Old Mutual Group	-	1
Directors	-	5
Employees	121	122
Average interest rate (%)	20	20
Operating lease income		
Malawi Telecommunication Limited	136	100
Bottling and Brewing Group Limited	180	2
Interest Payable		
Press Corporation Limited and its subsidiaries	61	18
Old Mutual Group	3	4
Employees	3	3
National Bank of Malawi Pension Fund	-	1
Average interest rate (%)	1	1

	GROUP		COMPANY	
	2009 K'm	2008 K'm	2009 K'm	2008 K'm
Compensation of key management personnel				
Salaries, bonus and benefits	384	249	379	241
Severance pay current year provision	48	49	48	49
	432	298	427	290
Severance pay provision	209	181	209	181

Share options totalling 76,100 (2008: nil) were offered to key management personnel during the year ended 31 December 2009 and as at 31 December 2009 options amounting to 109,700 (2008: 102,500) were exercised.

33. Exchange rates and inflation

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

	2009	**2008**
Kwacha/GBP	237.3	217.1
Kwacha/Rand	20.5	16.1
Kwacha/US Dollar	145.9	140.6
Kwacha/Euro	212.6	211.4
Inflation (%)	8.6	9.9

As at 23 March 2010 the above noted exchange rates had moved as follows:

Kwacha/GBP	229.7
Kwacha/Rand	21.1
Kwacha/US Dollar	150.8
Kwacha/Euro	206.4
Inflation (%) (February 2010)	8.2

34. Business segments

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

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

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

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

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

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

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

34. Business segments (Continued)

	Corporate banking K'm	Retail banking K'm	Treasury K'm	Other K'm	Total K'm
Group -Statement of comprehensive income					
December 2009					
Total external income	4,176	1,531	3,802	810	10,319
Segment result	3,731	1,260	3,465	810	9,265
Unallocated income	-	-	-	-	2,046
Unallocated expenses	-	-	-	-	(5,689)
Profit before tax	-	-	-	-	5,623
Corporate tax	-	-	-	-	(1,821)
Group profit for the year	-	-	-	-	3,802
Other information					
Depreciation					
Unallocated depreciation	-	-	-	-	713
Impairment loss on property					
Unallocated impairment loss	-	-	-	-	565
Group-Statement of financial position					
December 2009					
Assets					
Segment assets	30,188	8,346	24,087	5,164	67,785
Unallocated assets	-	-	-	-	8,445
Total consolidated assets	30,188	8,346	24,087	5,164	76,229
Liabilities and equity					
Segment liabilities	30,896	15,641	258	-	46,795
Unallocated liabilities and equity	-	-	-	-	29,434
Total consolidated liabilities and equity	30,896	15,641	258	-	76,229
Other information					
Capital additions	-	-	-	-	-
Unallocated capital additions	-	-	-	-	3,584
Total	-	-	-	-	3,584

34. Business segments (Continued)

	Corporate banking K'm	Retail banking K'm	Treasury K'm	Other K'm	Total K'm
Group-Statement of comprehensive income					
December 2008					
Total external income	2,671	1,294	3,672	49	9,620
Segment result	2,385	667	3,162	49	6,263
Unallocated income	-	-	-	-	651
Unallocated expenses	-	-	-	-	(2,343)
Profit before tax	-	-	-	-	4,571
Corporate tax	-	-	-	-	(1,417)
Group for the year	-	-	-	-	3,154
Other information					
Depreciation	250	-	-	188	446
Unallocated depreciation	-	-	8	-	8
Total consolidated assets	250	-	8	188	450
Impairment loss on property					
Unallocated impairment loss	152	-	-	-	152
Group-Statement of financial position					
December 2008					
Assets					
Segment assets	18,390	5,440	26,861	754	5,445
Unallocated assets	-	-	-	-	10,885
Total consolidated liabilities and equity	18,390	5,440	26,861	754	62,330
Liabilities and equity					
Segment liabilities	39,457	-	11,467	-	49,430
Unallocated liabilities and equity	-	-	-	-	12,900
Total consolidated liabilities and equity	39,457	-	11,467	-	62,330
Other information					
Capital additions	1,393	-	14	606	2,013
Unallocated capital additions	-	-	-	-	355
Total	1,393	-	14	606	2,368