National Bank of Malawi

2011 ANNUAL REPORT

Cover Photo (Night Scene): National Bank Business Centre and Office Complex - Courtesy of Govati Nyirenda

2011 ANNUAL REPORT


National Bank

CONTENTS

VISION

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

MISSION STATEMENT

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

CORE VALUES

Customer Satisfaction

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

Employee Recruitment and Development

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

Employee Commitment

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

Integrity and Trust

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

Team Work

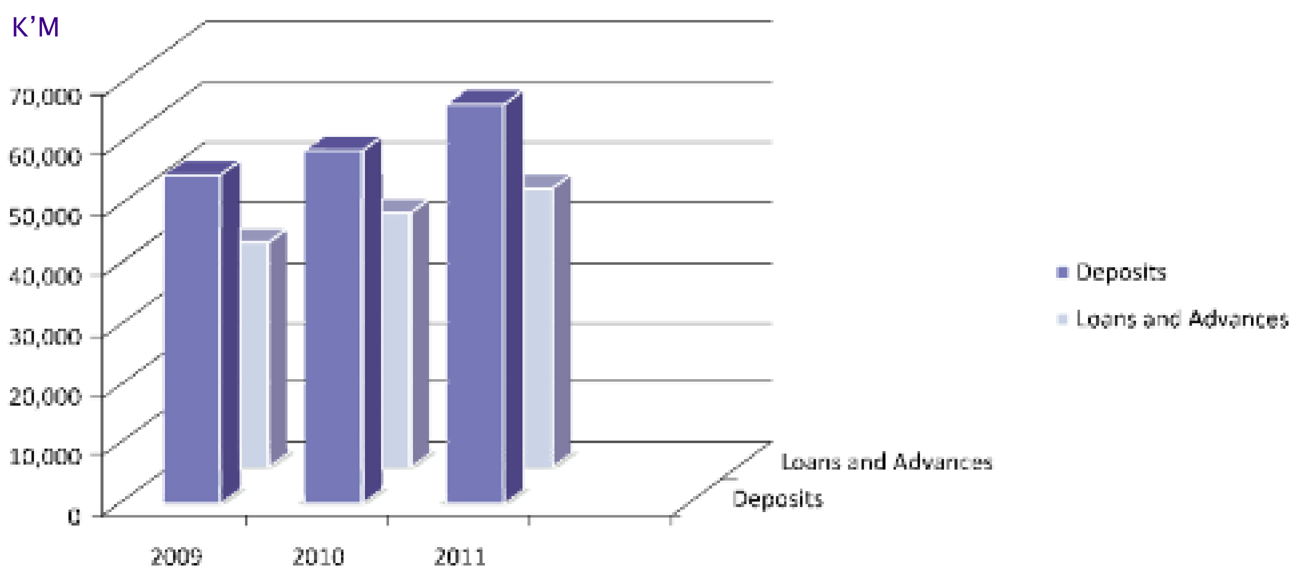
The Bank will build and maintain a culture of mutual respect, recognition and cooperation and promote feedback, effective communication and group work.

Corporate Social Responsibility

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

GROUP FINANCIAL HIGHLIGHTS

	K'm 2009	K'm 2010	K'm 2011	% Change 11 vs 10
Proft before tax	5,622	5,078	5,236	3%
Shareholders Funds	11,945	13,584	15,703	16%
Deposits	55,072	59,023	66,751	13%
Loans and Advances	37,564	42,529	46,573	10%



CURRENT DIRECTORS

31 December 2011

Front Row (From Left)

George B Partridge (48)
B.Soc.Sc, (Econ), Msc (Finance), FCCA, CPA (Mw)
Director

Elias J Kambalame (65)
BA (Econ.)
Director

Dr. Mathews A P Chikaonda (57)
BA (Hons), MBA, Ph.D.
Chairman

Chris A Kapanga (52)
ACII, MBA, Chartered Insurer
Director

Macfussy M Kawawa (47)
B.Acc (Hons), FCCA, CPA (Mw), MBA
Director

CURRENT DIRECTORS

31 December 2011

Back Row (From Left)

G. Konsekonse Chibesakunda (60)
LLB. (Hons), LLM
Legal Counsel/ Company Secretary

Dye Mawindo (54)
LLB (Hons) Mw, MBA
Director

Pius P Mulipa (58)
Dip. (Mgt), BA, MSc (Mgt)
Director

Elizabeth Mafeni (Mrs) (44)
MBL, FCCA, B.Com.
Director

Grant R Pote (53) (Not in the picture)
B Sc (Hons), Fellow of the Actuarial Society
Director

The directors have pleasure in presenting the Consolidated Financial Statements of National Bank of Malawi for the year ended 31 December 2011.

CAPITAL

The authorised share capital of the Bank is K500m (2010: K500m) divided into 500,000,000 Ordinary Shares of K1 each. The issued capital is K467m (2010: K467m) divided into 466,931,738 (2010: 466,635,738) fully paid Ordinary Shares of K1 each.

The shareholders and their respective shareholdings are:

	2011 %	2010 %
Press Corporation Limited	51.5	51.6
Old Mutual Group	24.5	24.6
Members of the public	22.2	22.3
Employees (ESOP)	1.8	1.5
	100.0	100.0

PROFIT AND DIVIDENDS

The directors report a consolidated profit before tax of K5,236m (2010: K5,078m) for the year. A final dividend of K1,261m (2010: K1,251m) is proposed for the year. An interim dividend of K840m (2010: K700m) was paid to the shareholders on 2 September 2011.

DIRECTORS

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

Chikaonda, Dr. M A P	All year
Mulipa, P P	All year
Kambalame, E	All year
Mawindo, D	All year
Partridge, G B	All year
Kawawa, M M	All year
Valera, A Mrs.	Up to October 2011
Regout, J A	Up to June 2011
Sesani, A G	Up to October 2011
Pote G	From July 2011
Kapanga C	From November 2011
Mafeni E Mrs.	From October 2011

DIRECTORS' INTERESTS

The following directors held shares in the Bank as at 31 December 2011:

Mulipa, P P	20,367 (2010: 20,000) Ordinary Shares
Partridge, G B	605,634 (2010: 305,634) Ordinary Shares
Kawawa, M M	104,456 (2010: 94,568) Ordinary Shares

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

DONATIONS

During the year, the Bank made charitable donations of K10m (2010: K11m).

ACTIVITIES

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

Subsidiaries of National Bank of Malawi	Percentage of control	Nature of operations
NBM Capital Markets Limited	100% (2010: 100%)	Dormant
NBM Securities Limited	100% (2010: 100%)	Dormant
National Bank of Malawi Nominees Limited	100% (2010: 100%)	Holding of investments as nominee
Stockbrokers Malawi Limited	75% (2010: 75%)	Registered stockbroker
NBM Bureau de Change Limited	100%	Bureau de Change

AREAS OF OPERATION

The Bank has 28 (2010:26) 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 2012.

BY ORDER OF THE BOARD

GILBERT CHIBESAKUNDA
COMPANY SECRETARY

Dr Mathews A.P. Chikaonda
Board Chairman

THE OPERATING ENVIRONMENT

The Malawi economy has gone through a very difficult year and is expected to register a real GDP growth rate of 3% in 2011 (2010: 6.7%).

The year was characterized by poor tobacco prices, an officially declared off-track IMF Programme and an accompanying freeze of donor budgetary support, underpinned by an overvalued currency. Consequently, there were acute shortages of foreign exchange, a backlog of import remittances and an unprecedented challenge to fuel and energy supplies. These had a significant negative impact on the performance of most businesses. Country risk was downgraded by various agencies and correspondent banks. The economy had experienced substantial idle capacity which led to lower utilization of bank products and services than would normally be the case.

PERFORMANCE

In spite of the fragile environment, I am pleased to report a group pre-tax profit of K5.2b (2010: K5.1b). This is a remarkable performance because the result is after the Bank having absorbed a one off fair value loss of K1.7b in respect of the new Business Centre and Office Complex. This charge arose from fair valuation of the new Complex upon occupation which had hitherto been carried at cost as capital work in progress in compliance with Bank policy on Property. The absorption of such a major write off demonstrates the resilience of the Bank to material shocks.

In this adverse macroeconomic environment, the Bank's Statement of Financial Position registered an 11% growth while both total earning assets and customer deposits registered a 13% growth.

STRATEGY AND PROSPECTS

Preliminary estimates point to a considerable slowdown in GDP growth rate as adverse foreign exchange, fuel and donor conditions are expected to persist. This will have unfavorable effects on jobs, manufacturing output and trading generally. The expanding parallel foreign exchange market will continue to crowd out legitimate foreign exchange business conducted at banks. The persistence of the parallel market together with the rise in world oil prices will continue to exert pressure on inflation. However, a strong showing in growth is still expected in the telecommunications and construction sectors.

The recent introduction of VAT on bank charges, will negatively impact the Bank's financial inclusion expansion initiatives. It is already evident that the introduction of this tax has had a noticeable adverse effect on the benefiting communities.

In response to the envisaged 2012 tough operating environment, the Bank will focus on taking advantage of its talent base, combined with its superior infrastructure and IT delivery platforms to increase its market share.

BOARD OF DIRECTORS

Mrs. A. Valera, Mr. J. A. Regout and Mr. A.G. Sesani retired from the Board during the year while Mr. G. Pote, Mr. C. Kapanga and Mrs E. Mafeni joined the Board in their stead. I would like to thank all the retiring directors for their valuable contributions and support during their tenure and wish them well in their post retirement activities. I also wish to thank fellow directors for the support dedication and cooperation. I welcome directors that have just joined the Board and look forward to working with them in these exciting and challenging times we have ahead of us.

MANAGEMENT AND STAFF

On behalf of the Board and shareholders I would like to express my sincere gratitude to management and staff for their hard work, dedication and commitment. I am confident that they will maintain the same level of commitment in 2012 and beyond.

DR M A P Chikaonda
CHAIRMAN

SENIOR MANAGEMENT

Front Row (From Left)

Isaac J. Kanje (50)
B.Acc (Hons), FCCA,
CPA, CISA, FIBSA, MBA
Head, Risk

Tayemu H. Masikini (54)
Post Graduate Diploma in
Computing, BSc
Head, Information Technology

Charles Dulira (43)
BA (Public Administration)
Acting Head, Human Resources

Eluphy Salamba (45)
B.Comm (Business Admin)
Head, Credit Management

Back Row (From Left)

G. Konsekonse Chibesakunda (60)
LLB. (Hons), LLM
Legal Counsel & Company Secretary

Harold Jiya (41)
B.com., ACIB, MBA
Head, Corporate Banking

Daniel Jere (38)
BAcc, ACMA, CGMA, CPA
Head, Internal Audit

Wilkins G. Mijiga (40)
B.Soc.Sc. (Econ)
Chief Marketing Officer

George B Partridge (48)
B.Soc.Sc, (Econ), Msc (Finance), FCCA, CPA (Mw)
Chief Executive Officer

Austin N. D. Musyani [53]
BA(Public Admin.), MPA, MBA
Head, Customer Service & Transactional Banking

Harry Mukaka (44)
BA (Public Admin.), MBA
Head of Treasury & Financial Institutions

Macfussy M. Kawawa (47)
B.Acc (Hons), FCCA, CPA (Mw), MBA
General Manager & Chief Financial Officer

Oswin Kasunda (45)
B.Com, Msc (St.Mgt)
Head, Personal & Business Banking

Brian Boby (47)
B.Soc.Sc., MBA
Head of Operations

George B Partridge
Chief Executive

PERFORMANCE OVERVIEW

In the year under review, the Bank recorded strong underlying performance in spite of a very challenging operating environment. At K5.2b, Group pretax profit was slightly above that attained in 2010 (K5.1b). This outturn is after absorbing a one off charge of K1.7b to profit on account of a fair value loss on the new Business Centre and Office Complex which was occupied in the last quarter of the year. Both total earning assets and customer deposits showed a growth of 13%. The completion of the modern state of the art Business Centre and Office Complex is a major milestone that has long been awaited by shareholders, directors and customers of the Bank.

CORPORATE BANKING ACTIVITIES

Our corporate customers faced a number of challenges as a result of the general macroeconomic environment, which significantly affected their production and general business operation levels. As a result of this, we noted a slow down in new loan applications and overdraft utilization levels. The foreign exchange challenges not only significantly affected our international trade volumes but also invariably resulted in strained relationships with customers due to our inability to meet their full needs.

We operationalised a new unit specialised in the provision of project finance solutions to meet growing needs in the medium and long term space. This new offering has started off on a very encouraging steady growth path.

In addition, we intend to explore avenues to specifically help our customers promote exports and to this end we shall in the course of 2012 operationalise a specific line of credit to our export customers to broaden their foreign exchange earning capacities.

PERSONAL AND BUSINESS BANKING

The major focus during the year 2011 was to grow the SME business portfolio. In spite of the personal banking portfolio growing by 28%, mainly on account of mortgage and home improvement facilities, acute shortages of foreign exchange and unprecedented challenge to fuel and energy supplies had a significant negative impact on the performance of most of the Bank's SME customers, preventing us from attaining the ambitious growth targets that we set ourselves.

The acute fuel problems affected the finance and operating lease business unfavorably, especially in large passenger and heavy goods transport category resulting in the stagnation of the portfolio. The underlying principle of achieving growth without compromising asset quality continued to prevail in the challenging economic environment.

The Bank continues to focus on building and strengthening customer relationships, introduction of innovative banking products and responsiveness to market demands in order to increase market share within the personal and SME sectors.

SERVICE DELIVERY CHANNELS

Rebranding

The Bank's new Business Centre and Office Complex includes a modern up-market Henderson Service Centre located on the ground floor. Besides attracting new customers, this new service centre, with generous customer parking spaces, will help to decongest traffic at surrounding Blantyre service centres.

In pursuance of the continuing Bank's objective of increasing areas of representation, and as part of our contribution to the financial inclusion programmes, we opened Ntcheu and Songwe Service Centres in the course of the year, bringing the number of our service centres to 28. More outlets are planned for opening in 2012 starting with Chitipa Service Centre to be opened in the first half of 2012. We continue to deploy ATMs at strategic places to supplement manned counters. The total number of our branded ATMs now stands at 63 and will rise to 70 by the end of 2012.

e-Banking Services

In 2011 we experienced significant rise in the number of subscribers on Mo626ice, a mobile phone product, especially after upgrading the system with USSD accessibility functions and extension of services to sale of airtime, Internet vouchers and TV subscriptions.

Internet Banking (Banknet Online) services stabilized in the course of the year and efforts are underway to replace the current system with a more robust and versatile system, Misys Cash Portal/Personal Finance Portal by the end of 2012.

Our Electronic Salary Processing (ESP) system continues to attract customers who are looking for more efficient ways of paying salaries. Through this system among others, salaries and pensions for more than 20,000 civil servants are being processed each month.

New Core Banking System

The Bank migrated from Bankmaster/Branchpower system to T24 in September 2010. In 2011, efforts centered on stabilizing the system. Having dealt with the teething challenges, a number of additional functional modules will be added to the T24 system in 2012 to further enhance the system's capability to enable the bank serve its customers better and fully comply with the new Basel II regime.

TREASURY & FINANCIAL INSTITUTIONS DIVISION

Revenue from treasury operations remains one of the major sources of income for the Bank. Earnings from foreign exchange operations exceeded expectations. This was achieved in spite of the persistent foreign exchange challenges that the country experienced throughout the year, a situation that is likely to continue in 2012. Money market income on the other hand fell short of the budget largely due to declining money market yields for a better part of the year.

Our equities desk performed reasonably well, surpassing the budget for the first time in the past two years due to the recovery of the Malawi Stock Exchange market, a performance expected to repeat itself in 2012.

HUMAN RESOURCES

The major focus in 2011 was on Cultural Transformation related activities. The Bank has embarked on Cultural Transformation in order to achieve a customer-centric culture required to offer excellent customer service. To achieve this aim, the Bank conducted various cultural transformation workshops involving Heads of Functions and Senior Managers, Change Agents and Middle/Junior Managers and supervisors.

Staff continued to excel in their professional studies with one member of staff qualifying as a chartered banker while another one qualified as a chartered insurer. We offered a postgraduate scholarship to one of our senior managers to pursue an executive MBA in Leadership and Management at a university in South Africa while several staff continued to pursue part-time postgraduate studies with the University of Malawi and the Malawi Institute of Management.

SUBSIDIARY AND ASSOCIATE COMPANIES

Stockbrokers Malawi Ltd

The operating environment for 2011 was characterized by a general decline in growth and economic activity. The scarcity of foreign currency affected the participation of foreign investors who are major players on the local bourse. This development affected negatively equity revenue for the company. The money market revenue was also affected by decreased yields.

The company registered a 26% increase in revenue and the Money market book grew by 126% as a result of intensive client visitations. Despite the increase in revenue, a loss of K3.3m was made in 2011 due to high overheads.

Going forward, the company's continued focus on costs control should see profits rebound in 2012.

United General Insurance Company

Gross Written Premium grew by 5% to MK 1.93 billion from MK1.84 billion in 2010, while claims incurred increased significantly from MK790 million to MK1.0 billion, mainly due to increase in cost of repairs on the motor book and exorbitant third party bodily injury claims from lawyers. The costs of business acquisition and management expenses however, were well contained at 7% and 10% of Gross Written Premium respectively. A marginal pre-tax profit of K23m was achieved.

The Premium Payment Directive, together with continued expenses control and close monitoring of liability claims should see a better 2012 outturn for the Company.

NBM Bureau de Change and NBM Capital Markets

Due to some changes in foreign exchange regulations and Pension and Financial Services Acts, the Bank registered NBM Bureau de Change and NBM Capital Markets respectively which will be fully operational in 2012.

CORPORATE SOCIAL RESPONSIBILITIES ACTIVITIES

National Bank has a longstanding commitment to promoting social values in the country. It is well aware of the so many sufferings and challenges that the communities around it face. The Bank in 2011 made a number of significant contributions towards addressing some of these challenges.

NBM "Green Week" was introduced across its network of service centres. During this week NBM staff participated in tree planting exercises with communities especially those areas where deforestation has reached critical levels. During the week the bank also distributed tree seedlings to some of its customers when they called in the service centres. The Bank believes that this will be its annual contribution towards the protection of the environment to fight deforestation and climate change.

Realising that Tuberculosis (TB) is one of the killer diseases, the Bank pledged K20.0 million for a period of four years for the rehabilitation of a TB Ward at the country's biggest referral hospital, Queen Elizabeth Central. This year the Bank disbursed K5.0 million.

In 2011 we experienced significant rise in the number of subscribers on Mo626ice...

Ntcheu Service Centre

In partnership with Swedish Cooperatives Centre and Malawi Lake Basin, the Bank engaged the people of Sauya Village in Mangochi District in a fish farming programme aimed at assisting upland fish farming in rural households so that they have a source of nutrition, extra income and as a cheaper way for HIV positive people to boost their nutrition.

Other donations of food and school items went to Orphanages (Alleluya and Jacaranda Orphanages), Computers to Police Traffic Department and Youth groups. The Bank also donated books and cement for construction of a school block for needy and pupils with special needs. During the year the Bank continued its sponsorship of best students from the Universities of Malawi and Mzuzu and continued with its K50m sponsorship of a chair in Commercial Law at Chancellor College.

OUTLOOK

In spite of the challenges faced in 2011 the Bank registered satisfactory growth. The Bank's continued growth will be dependent on our ability to leverage on our core strengths and exploiting opportunities in the market that focus on maximizing value delivery to customers.

With continued scarcity of foreign currency and fuel amid strained donor relations, preliminary estimates point at slow down in GDP growth as these conditions will have unfavorable effects on employment, manufacturing output and trading. The persistence of the parallel foreign exchange market together with the rise in world oil prices will continue to exert pressure on inflation. It is therefore expected that in 2012 the operating environment will continue to be very tough. The Bank has put up an appropriate strategy together with the necessary human, infrastructural and technological resources to sail through the storm and increase its market share and sustain its growth path.

CONCLUSION

In conclusion I would like to take this opportunity to thank the shareholders for their support, and the Board for their direction and support throughout the year. I am also grateful to my colleagues in senior management for their creativity, commitment and dedication in what has been a very challenging year. I also express my appreciation to all members of staff for their outstanding contributions and call upon them to maintain this in 2012, which promises to be full of challenges.

Finally I would like to thank our correspondent banks for their support especially in a year where country risk has been an area of major concern. We owe a lot of gratitude to all our valued customers from whom the Bank has enjoyed growing patience and support.

George B Partridge
Chief Executive


Moneycard
VISA

CORPORATE ACTIVITIES

K20 million for the rehabilitation of a TB Ward at the country's biggest referral hospital, Queen Elizabeth Central

The launch of Green Week

K1.3 million for upland
Fish Farming Project

Computers to Malawi Police Traffic
Department to zero-in on road accidents

A friend in need is a friend indeed.
Cement for a classroom block for
orphans at Jacaranda Orphanage

Modern learning infrastructure
assisting in providing quality
service to the Bank's customers


Corporate
Banking

SELECTED KEY CLIENTS'ACTIVITIES

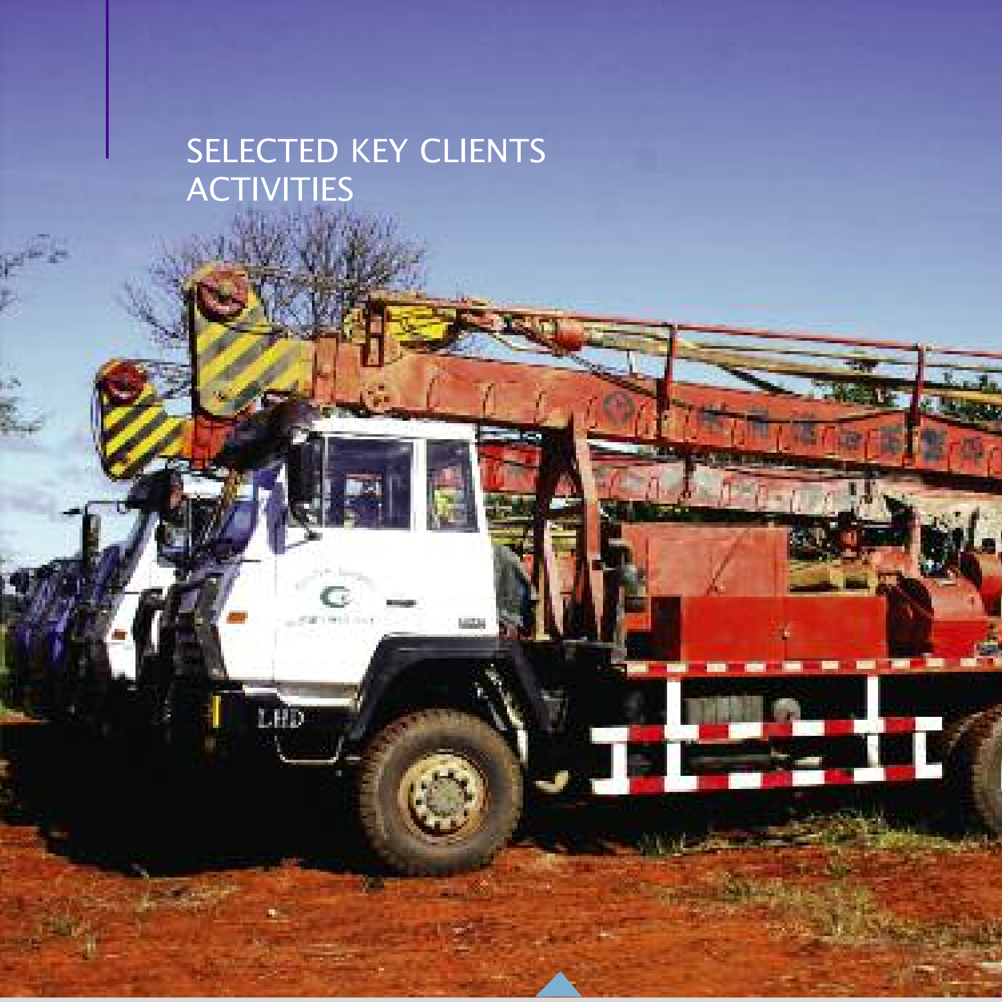
26 - 29

Sunbird Mount Soche Hotel, a home of hospitality

Carlsberg Malawi - Great Brands, Great People

Crossroads Hotel's new hotel under construction in Blantyre

SELECTED KEY CLIENTS ACTIVITIES



China Gashu Corporation providing portable water in rural households

Lilongwe Handling Company, taking professional care of you on the gound

Ntuwanjati Hatchery, the difference within the chick

Safintra – Africa's premium roofing solution provider for the last 50 years

DEVELOPMENTS IN 2011

Unofficial estimates for 2011 put real GDP growth at a modest 3% down from 6.7% recorded in the previous year. The slowdown in economic activity emanated from persistent foreign exchange shortages within the context of an artificially overvalued currency and tight administrative controls designed to force trade to take place within stipulated exchange rates.

Foreign exchange shortages are not only hurting exporters but also production and employment in general through reduced raw material, fuel, spare parts and other critical imports.

The Kwacha/US dollar exchange rate was officially devalued in August 2011 by about 10% from K150 to about K165. However, this move was deemed inadequate by the International Monetary Fund (IMF) and the market hence the continued suspension of a formal program with the Fund and heightened market speculation on the local currency respectively.

The year under review saw government attempt to restructure the country's domestic debt through medium term bond issues. The central bank introduced 2 year through to 5 year dated notes in December 2011 with coupon rates ranging between 8% and 10% respectively. In an attempt to limit cannibalization the authorities suspended issues of short term securities to raise the K30 billion total required on the bond issue.

However, market response to the bond issues has been lukewarm partly due to foreign exchange shortages. Investors appear to be opting for liquidity to be in a position to take advantage of foreign exchange allocations compared to investing long term. This is evidenced by the 24% off take for the period under review.

INFLATION

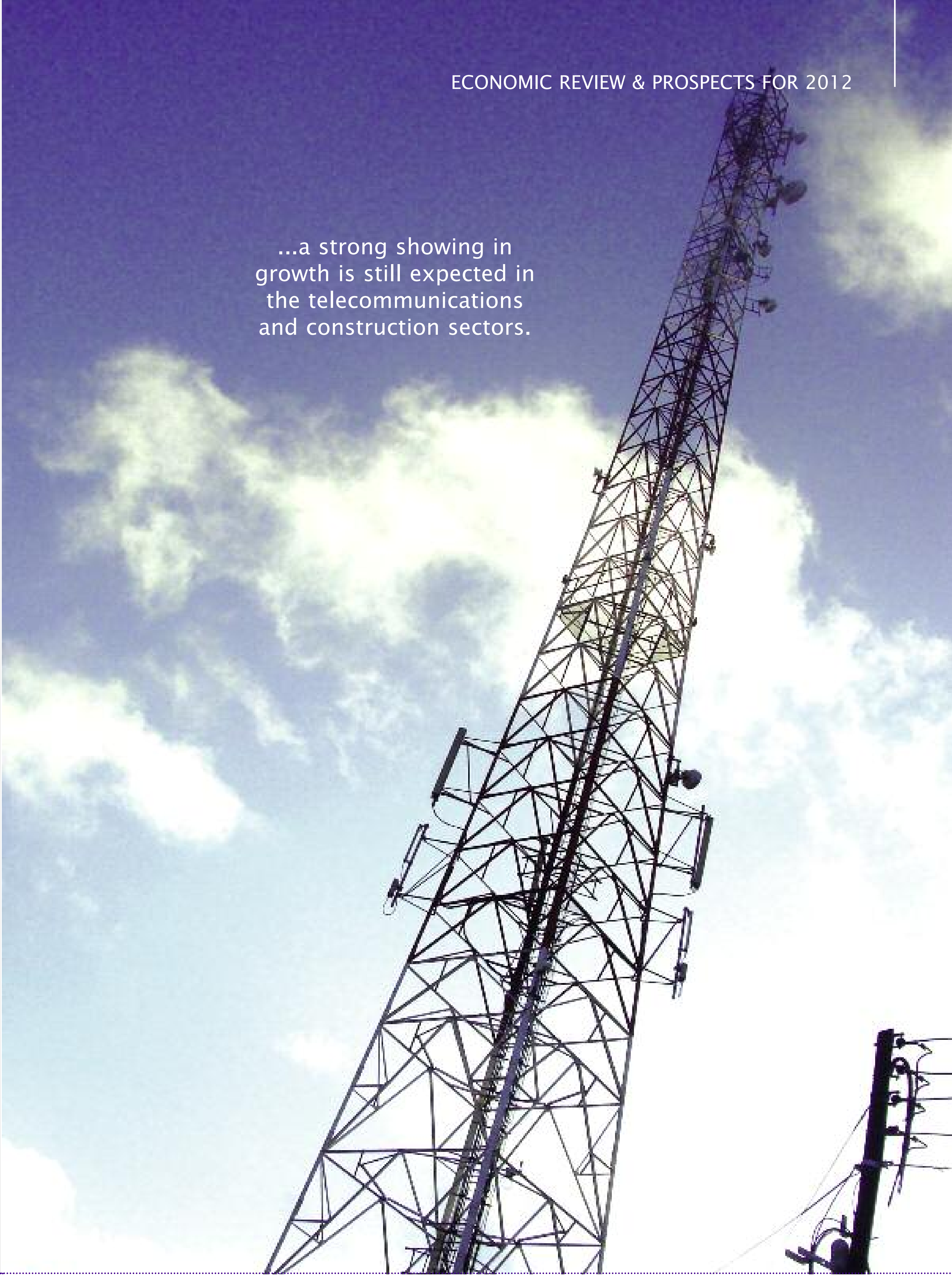
Inflation for the year under review has averaged 7.6%, 0.2 percentage points up from the previous year's average. Month-on-month prices continued to trend upwards in 2011 with 9.8% inflation recorded in December from 8.9% recorded in November 2011. The high inflationary environment experienced in the second half of 2011 was mainly due to fuel price hike associated with the August devaluation and seasonal maize price hikes.

2011 TOBACCO AUCTION SEASON

The 2011 tobacco marketing season was officially closed on 23rd December 2011 with a total of 237.2 million kilograms sold and total export earnings of US$293.7 million (2010: 220.2 million kilograms and US$416.4 million). The 29% decline in export earnings from tobacco in the year under review emanated from conditions of global oversupply coupled with decline in demand due to the anti-smoking lobby and unprecedented rejection rates. On average tobacco in the year 2011 traded at USD1.24/Kg down 34% from the previous year.

OULOOK FOR 2012

Preliminary estimates point to a considerable slowdown in GDP growth rate in 2012. Agriculture performance is expected to be subdued due largely to fuel shortages which affected distribution of the key inputs for the crucial farm inputs subsidy program. The IMF program is expected to remain off track for a significant part of 2012. This implies continued foreign currency shortages with resultant negative effects on production, employment and trading. In addition, the increase in maize prices, the persistence of the parallel market together with the rise in world oil prices will continue to exert upward pressure on inflation in 2012. However, a strong showing in growth is still expected in the telecommunications and construction sectors.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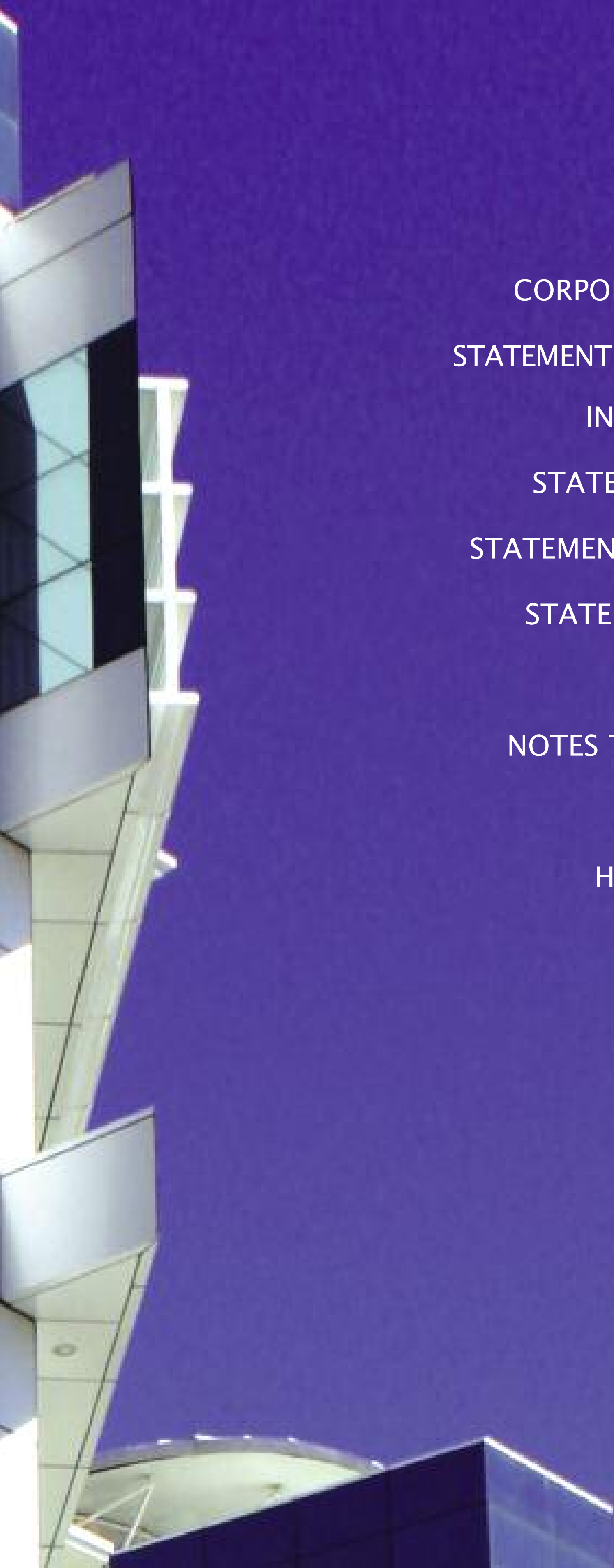

The Board of National Bank of Malawi is committed to good corporate governance and to this effect subscribes to the principles of openness, integrity and accountability as set out in the Malawi Corporate Governance Code, The Cadbury Report and the King Reports. These principles are key to the effective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

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

Compliance with policies and achievement of objectives are monitored by the Board by holding management accountable for its activities through bi-monthly Board meetings at which performance is reported. Compliance is also monitored through the meetings of the Risk, Audit, Appointments & Remuneration and Credit Committees of the Board.

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

The directors have the responsibility of maintaining a system of internal controls which provides reasonable assurance that the Bank has effective and efficient systems with sound internal financial controls governing all the operations of the bank in line with best practice. The system of internal controls also ensures that there is compliance with laws and regulations. In this regard the Board supports investments in accounting, financial and risk management systems that enable the Bank to produce timely reports to its shareholders, the regulatory authorities and members of the general public. Note 34 to the financial statements explains in detail the risk management processes that the Bank has embraced.

The Bank's Board is currently made up nine directors comprising of two executive and seven non-executive directors. Five of these directors are nominated by Press Corporation Limited and two directors by the Old Mutual Companies in line with the Articles of Association. The shareholders have the right to remove the directors they appoint. The chairman is chosen from among these directors.

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

Committees of The Board

Risk Committee
The Risk sub Committee is currently chaired by Mr. C. Kapanga. It has the overall responsibility for the strategic risk management of the Bank as delegated by the Board.

The Bank's Risk division provides the directors with risk management reports covering credit, market, liquidity and operational risks among other reports, which assist the directors to provide the necessary oversight and direction in relation to current and potential future risk exposures and future risk strategy. In particular the Committee is also providing oversight on the Bank's preparation for the implementation of Basel II.

Audit Committee
The Audit sub Committee is currently chaired by Mr. D. Mawindo. The Committee exercises the full powers and authority of the Board in accounting and financial reporting matters as guided by its terms of reference.

The Committee has overall responsibility for the Bank's system of internal control and for reviewing its effectiveness. This is done through a review of the on-going processes for identifying, evaluating and managing the significant risks faced by the Bank and through an annual assessment of risk management systems.

The Bank's internal audit function provides the directors with information which assists the directors in assessing the effectiveness of internal controls in each business unit through a pre-arranged audit programme. This programme addresses the full spectrum of the Bank's potential risks.

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

Appointments and Remuneration Committee
This sub-committee of the Board is currently chaired by Mr E.J. Kambalame. Its principal functions are to ensure that there is a robust succession plan, that the Bank's human resources are best utilised, and that members of staff are remunerated commensurately with their responsibilities and effectiveness.

Credit Committee
This sub-committee is currently chaired by Mr P.P. Mulipa and meets at least four times a year, in line with its terms of reference. Its principal functions are to review and approve the Bank's credit policy including provisioning, large loan exposures outside the mandate of management, counter-party lending and dealing lines. It also takes note of schedules of substandard debts and lists of facilities granted to sensitive customers and senior management.

Code of Ethics
The Bank is committed to a policy of fair dealing and integrity in the conduct of its business. This commitment is based on the fundamental belief that business should be conducted morally, honestly, fairly, legally and in a transparent manner.

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

Board Information and Development
Under the stewardship of the Chairman, the Company Secretary is responsible for advising the Board on all governance issues, ensuring that board procedures are followed and applicable rules and regulations are complied with. Further, all the directors individually and as committees, have access to the advice and services of the Company Secretary. Training programmes are devised from time to time for the directors to keep up with knowledge levels required for their oversight responsibilities.

In the course of the year, board members attended formal training covering Governance and Bank Risk management, including Basel II and Basel III.

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

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

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

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

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

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

Director:______________________________
Dr. M.A.P. Chikaonda

Director:______________________________
Mr. G.B. Partridge

Date: 29 March 2012

Deloitte.

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Malawi

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INDEPENDENT AUDITOR'S REPORT
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 37 to 104, which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in accordance with the provisions of the Companies Act, 1984, so far as concerns the members of the company.

Deloitte

29 March 2012

STATEMENTS OF FINANCIAL POSITION

31 December 2011

	Notes	GROUP 2011 K'm	GROUP 2010 K'm	COMPANY 2011 K'm	COMPANY 2010 K'm
ASSETS					
Cash and funds with Reserve Bank of Malawi	5	8,155	5,474	8,153	5,474
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	7,062	3,928	7,062	3,927
Government of Malawi local registered stock	7	467	543	467	543
Equity investments	8	695	884	683	864
Investment in associate	9	196	202	123	123
Placements with other banks	10	8,753	9,515	8,753	9,515
Loans and advances	11	46,573	42,529	46,588	42,529
Other money market deposits	12	1,009	437	1,000	370
Assets held for sale	13	454	-	454	-
Other assets	14	4,201	5,636	4,306	5,728
Property, plant and equipment	15	12,685	12,359	12,655	12,356
Intangible assets	16	1,442	1,293	1,442	1,293
Deferred tax	17	417	7	417	7
Total assets		**92,109**	**82,807**	**92,103**	**82,729**
LIABILITIES AND EQUITY					
LIABILITIES					
Liabilities due to customers	18	66,751	59,023	66,758	59,030
Liabilities due to other banks		2,874	1,813	2,874	1,813
Current income tax liabilities		1,030	125	1,030	123
Other liabilities	19	5,166	6,766	5,133	6,686
Post-employment benefit obligation	20	585	1,496	585	1,494
Total liabilities		76,406	69,223	76,380	69,146
EQUITY					
Capital and Reserves					
Share capital		467	467	467	467
Share premium		613	597	613	597
Loan loss reserve		466	411	466	411
Revaluation reserve		2,291	1,671	2,291	1,671
Retained earnings		11,859	10,431	11,886	10,437
Equity attributable to equity holders of the parent		15,696	13,577	15,723	13,583
Non-controlling interests		7	7	-	-
Total equity		15,703	13,584	15,723	13,583
Total equity and liabilities		**92,109**	**82,807**	**92,103**	**82,729**
Memorandum items					
Contingencies	29	4,215	2,434	4,215	2,434

The financial statements were authorised for issue by the Board of Directors on 29 March 2012 and were signed on its behalf by:

Chikaonda

……………………………………………

Chairman: Dr. M.A.P. Chikaonda

……………………………………………

Director: Mr. G.B. Partridge

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

		GROUP		COMPANY	
	Notes	2011 K'm	2010 K'm	2011 K'm	2010 K'm
Income					
Interest and similar income	21	9,116	7,994	9,089	7,989
Interest expense and similar charges	21	(956)	(1,153)	(956)	(1,150)
Net interest income	21	8,160	6,841	8,133	6,839
Commission and fee income	22	3,845	2,113	3,817	2,049
Gains less losses arising from dealing in foreign currencies		995	1,503	992	1,503
Income from operating leases		631	634	631	634
Fair value gain/(loss) on equity investments	8	36	(41)	35	(36)
(Loss)/profit on disposal of equity investments		(1)	3	(2)	-
Share of profits of associate		1	41	-	-
Dividend income		40	62	39	60
Profit on disposal of property, plant and equipment		14	124	14	124
Total income		13,721	11,280	13,659	11,173
Expenditure					
Staff costs	23	2,243	3,012	2,206	2,980
Other operating expenditure	24	4,641	3,352	4,602	3,247
Properties fair value loss/(gain)	25	1,491	(42)	1,491	(42)
Total expenditure		8,375	6,322	8,299	6,185
Profit before recoveries and impairment losses on loans and advances		5,346	4,958	5,360	4,988
Recoveries on impaired loans and advances	11	207	326	207	326
Impairment losses on loans and advances	11	(317)	(206)	(317)	(206)
Profit before tax		5,236	5,078	5,250	5,108
Income tax expense	26	(1,678)	(1,649)	(1,671)	(1,636)
Profit for the year		3,558	3,429	3,579	3,472
Other comprehensive income					
Surplus on revaluation of properties	15	706	340	706	340
Deferred tax on revalued assets		(70)	(241)	(70)	(241)
Total other comprehensive income		636	99	636	99
Total comprehensive income for the year		4,194	3,528	4,215	3,571
Profit attributable to:					
Equity holders of the company	27	3,558	3,447	3,579	3,472
Non-controlling interests		-	(18)	-	-
		3,558	3,429	3,579	3,472
Comprehensive income attributable to:					
Equity holders of the company		4,194	3,546	4,215	3,571
Non-controlling interests		-	(18)	-	-
		4,194	3,528	4,215	3,571
Earnings per share (K)	27	7.62	7.38		
Diluted earnings per share (K)	27	7.62	7.37		
Dividend per share (K)	28	4.48	4.18		

	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
GROUP								
2010								
As at 1 January 2010	466	563	375	1,654	8,888	11,946	(1)	11,945
Comprehensive income:								
- Profit for the year	-	-	-	-	3,447	3,447	(18)	3,429
- Other comprehensive income	-	-	-	99	-	99	-	99
- Transfer of excess depreciation	-	-	-	(13)	13	-	-	-
- Transfer to loan loss reserve	-	-	36	-	(36)	-	-	-
- Transfer on disposal	-	-	-	(69)	69	-	-	-
Total comprehensive income	-	-	36	17	3,493	3,546	(18)	3,528
2009 final dividend proposed and paid	-	-	-	-	(1,250)	(1,250)	-	(1,250)
2010 interim dividend proposed and paid	-	-	-	-	(700)	(700)	-	(700)
Issue of shares under ESOP	1	34	-	-	-	35	-	35
Issue of preference shares	-	-	-	-	-	-	26	26
As at 31 December 2010	467	597	411	1,671	10,431	13,577	7	13,584
2011								
As at 1 January 2011	467	597	411	1,671	10,431	13,577	7	13,584
Comprehensive income:								
- Profit for the year	-	-	-	-	3,558	3,558	-	3,558
- Other comprehensive income	-	-	-	636	-	636	-	636
- Transfer of excess depreciation	-	-	-	(16)	16	-	-	-
- Transfer to loan loss reserve	-	-	55	-	(55)	-	-	-
Total comprehensive income	-	-	55	620	3,519	4,194	-	4,194
2010 final dividend proposed and paid	-	-	-	-	(1,251)	(1,251)	-	(1,251)
2011 interim dividend proposed and paid	-	-	-	-	(840)	(840)	-	(840)
Issue of shares under ESOP	-	16	-	-	-	16	-	16
As at 31 December 2011	467	613	466	2,291	11,859	15,696	7	15,703

STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2011

	Share capital K'm	Share premium K'm	Loan Loss reserve K'm	Revaluation reserve K'm	Retained earnings K'm	Total K'm
COMPANY						
2010						
As at 1 January 2010	466	563	375	1,654	8,869	11,927
Comprehensive income:						
- Profit for the year	-	-	-	-	3,472	3,472
- Other comprehensive income	-	-	-	99	-	99
- Transfer of excess depreciation	-	-	-	(13)	13	-
- Transfer to loan loss reserve	-	-	36	-	(36)	-
- Transfer on disposal	-	-	-	(69)	69	-
Total comprehensive income	-	-	36	17	3,518	3,571
2009 final dividend proposed and paid	-	-	-	-	(1,250)	(1,250)
2010 interim dividend proposed and paid	-	-	-	-	(700)	(700)
Issue of shares under ESOP	1	34	-	-	-	35
As at 31 December 2010	467	597	411	1,671	10,437	13,583
2011						
As at 1 January 2011	467	597	411	1,671	10,437	13,583
Comprehensive income:						
- Profit for the year	-	-	-	-	3,579	3,579
- Other comprehensive income	-	-	-	636	-	636
- Transfer of excess depreciation	-	-	-	(16)	16	-
- Transfer to loan loss reserve	-	-	55	-	(55)	-
Total comprehensive income	-	-	55	620	3,540	4,215
2010 final dividend proposed and paid	-	-	-	-	(1,251)	(1,251)
2011 interim dividend proposed and paid	-	-	-	-	(840)	(840)
Issue of shares under ESOP	-	16	-	-	-	16
As at 31 December 2011	467	613	466	2,291	11,886	15,723

ANALYSIS OF SHARE CAPITAL	2011 K'm	2010 K'm
Authorised		
500,000,000 Ordinary Shares of K1 each	500	500
Issued and fully paid		
466,931,738 (2010:466,635,738) Ordinary Shares of K1 each	467	467

	GROUP & COMPANY	
LOAN LOSS RESERVE	2011 K'm	2010 K'm
Loan loss reserve	466	411

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 non-distributable statutory general reserve is used.

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 expired in 2011, full time employees of the Bank were 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. In 2010 a further 711,800 shares were offered to eligible members of staff and 607,800 shares were accepted.

As at 31 December 2011 options totaling 8,541,700 (2010: 8,308,300) Ordinary Shares had been exercised under the scheme. The options that were not exercised were forfeited.

STATEMENTS OF CASHFLOWS

For the year ended 31 December 2011

	Notes	GROUP 2011 K'm	GROUP 2010 K'm	COMPANY 2011 K'm	COMPANY 2010 K'm
Cash flows from operating activities					
Profit before tax		5,236	5,078	5,250	5,108
Adjustments for:					
• Depreciation	24	1,320	1,004	1,318	1,002
• Profit on disposal of property, plant and equipment		(14)	(124)	(14)	(124)
• Loss/(gain) on disposal of equity investments		1	(3)	2	-
• Fair value (gain)/loss on equity investments	8	(36)	41	(35)	36
• Dividend receivable		(40)	(62)	(39)	(60)
• Impairment loss/(gain) on property		1,491	(42)	1,491	(42)
• Share of profits of associate		(1)	(41)	-	-
• Increase in liabilities to customers		7,728	3,951	7,728	3,950
• Decrease in other liabilities		(1,600)	(223)	(1,552)	(226)
• (Decrease)/increase in employment benefit obligations		(911)	393	(909)	394
• Increase in loans and advances		(4,043)	(4,965)	(4,059)	(4,936)
• Decrease/(increase) in other assets		1,432	(1,051)	1,433	(1,146)
Cash generated from operations		10,563	3,956	10,614	3,956
Taxation paid		(1,228)	(2,017)	(1,228)	(2,017)
Net cash flow from operating activities		9,335	1,939	9,386	1,939
Cash flows from investing activities					
(Increase)/Decrease in investments with maturity over three months		(3,057)	6,695	(3,086)	6,610
Purchase of property, plant and equipment		(3,134)	(5,026)	(3,101)	(5,026)
Proceeds from disposal of property, plant and equipment		343	300	343	295
Purchase of equity investments		(130)	(110)	(130)	(85)
Proceeds from disposal of equity investments		109	-	109	-
Dividends received		40	62	39	60
Net cash flow from investing activities		(5,829)	1,921	(5,826)	1,854
Cash flows from financing activities					
Proceeds from issue of shares		16	35	16	35
Dividends paid		(2,091)	(1,950)	(2,091)	(1,950)
Net cash flow fromfinancing activities		(2,075)	(1,915)	(2,075)	(1,915)
Net increase in cash and cash equivalents		1,431	1,945	1,485	1,878
Cash and cash equivalents at beginning of the year		13,613	11,668	13,546	11,668
Cash and cash equivalents at end of the year	31	15,044	13,613	15,031	13,546

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 28(2010:26) service centres.

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

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

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

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

In the current year, the Group has adopted those new and revised Standards and Interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee of the International Accounting Standards Board that are relevant to its operations and are effective for annual reporting periods beginning on 1 January 2011.

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

2.2 Standards and Interpretations in issue, not yet effective

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

2.2.1 IFRS 7 *Financial Instruments: Disclosures* - Amendments enhancing disclosures about transfers of financial assets (effective for annual periods beginning on or after 1 July 2011).

2.2.2 IFRS 7 *Financial Instruments: Disclosures* - Amendments enhancing disclosures about offsetting of financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2013 and interim periods within those periods).

2.2.3 *IFRS 7 Financial Instruments: Disclosure*s – Amendments requiring disclosures about the initial application of IFRS 9 (effective for annual periods beginning on or after 1 January 2015 (or otherwise when IFRS 9 is first applied).

2.2.4 *IFRS 9 Financial Instruments - Classification and Measuremen*t (effective for annual periods beginning on or after 1 January 2015 – mandatory application date amended December 2011).

2.2.5 IFRS 9 *Financial Instruments – Accounting for financial liabilities and derecognition* (effective for annual periods beginning on or after 1 January 2015 – mandatory application date amended December 2011).

2.2.6 *IFRS 10 Consolidated Financial Statements* (effective for annual periods beginning on or after 1 January 2013).

2.2.7 IFRS 11 *Joint Arrangements* (effective for annual periods beginning on or after 1 January 2013).

2.2.8 *IFRS 12 Disclosure of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2013).

2.2.9 *IFRS 13 Fair Value Measurement* (effective for annual periods beginning on or after 1 January 2013).

2.2.10 IAS 1 *Presentation of Financial Statements* - Amendments to revise the way other comprehensive income is presented (effective for annual periods beginning on or after 1 July 2012).

2.2.11 IAS 12 *Income Taxes – Limited scope amendment* (recovery of underlying assets) (effective for annual periods beginning on or after 1 January 2012).

2.2.12 IAS 19 *Employee Benefits* – Amended Standard resulting from Post-Employment Benefits and Termination Benefits projects (effective for annual periods beginning on or after 1 January 2013).

2.2.13 IAS 27 *Consolidated and Separate Financial Statements* – Reissued as IAS 27 *Separate Financial Statements* (as amended in 2011) (effective for annual periods beginning on or after 1 January 2013).

2.2.14 IAS 28 *Investments in Associates* – Reissued as IAS 28 *Investments in Associates and Joint Ventures* (as amended in 2011) (effective for annual periods beginning on or after 1 January 2013).

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

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

2.2.15 IAS 32 *Financial Instruments: Presentation* - Amendments to application guidance on the offsetting of financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2014).

2.2.16 IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* (effective for annual periods beginning on or after 1 January 2013).

The directors anticipate that other than IFRS 9 and 13, these Standards and Interpretations in future periods will have no significant impact on the financial statements of the company. IFRS 9 will impact the measurement of financial instruments and IFRS 13 will impact all fair value measurements in the financial statements.

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 subsidiaries, Stockbrokers Malawi Limited and NBM Bureau de Change Limited. The Group financial statements also incorporate results of associated companies.

National Bank of Malawi Nominees Limited, 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.

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.

3. ACCOUNTING POLICIES (Continued)

3.1 Basis of consolidation (Continued)

a. Subsidiaries (Continued)

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.

3.2 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 it is part of a portfolio of identified financial investments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments.

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

3. ACCOUNTING POLICIES (Continued)

3.3 Financial assets (Continued)

i. Financial assets at fair value through profit or loss (Continued)
instruments are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising.

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

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

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

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

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

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

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

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

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

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

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised as other comprehensive income in the statement of comprehensive income, except for impairment losses and foreign exchange gains and losses which are recognised in profit or loss, until the financial asset is derecognised. If an

3. ACCOUNTING POLICIES (Continued)

3.3 Financial assets (Continued)

iv. Available-for-sale investments (Continued)
available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised as other comprehensive income in the statement of comprehensive income is recognised as profit or loss in the statement of comprehensive income. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the statement of comprehensive income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income in 'Dividend income' when the Group's right to receive payment is established.

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

vi. Derecognition
Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Group 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.

3.5 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

3. ACCOUNTING POLICIES (Continued)

3.5 Sale and repurchase agreements (Continued)

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.

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,

3. ACCOUNTING POLICIES (Continued)

3.6 Impairment of financial assets (Continued)

a. <u>Assets carried at amortised cost</u> (Continued)

geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

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

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

b. <u>Assets carried at fair value</u>

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 and treated as other comprehensive income in the statement of comprehensive income and transferred to the non-distributable reserve; on realisation (either through use or disposal) of the asset, the appropriate portion of the reserve is transferred to retained earnings. Deficits on revaluations are charged to profit and loss, except to the extent that they relate to revaluation surpluses previously transferred to the revaluation reserve in which case they are treated as other comprehensive income. An amount equivalent to the additional depreciation arising from revaluations is transferred annually, net of deferred tax, from the revaluation reserve to retained earnings.

Land and buildings comprise mainly service centres and offices.

Motor vehicles and equipment are stated at historical cost less related depreciation and accumulated impairment

3. ACCOUNTING POLICIES (Continued)

3.7 Property, plant and equipment (Continued)

losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

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

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

Freehold land and capital work in progress are not depreciated.

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

3.8 Intangible assets

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

3.9 Leases

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

a. The Group as lessor

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

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

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

b. The Group as lessee

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a

3. ACCOUNTING POLICIES (Continued)

3.9 Leases (Continued)

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

3.10 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.

3.11 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.

3.12 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

3. ACCOUNTING POLICIES (Continued)

3.12 Non-current assets held for sale (Continued)

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.

3.13 Provisions

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

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

a. Restructuring

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

b. Onerous contracts

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

c. Warranties

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

3.14 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

3. ACCOUNTING POLICIES (Continued)

3.14 Taxation (Continued)

Deferred tax (Continued)
other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

3.15 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.

3.16 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 and, the final salary underpin.

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

3. ACCOUNTING POLICIES (Continued)

3.17 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 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.

3.18 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.

3.19 Revenue recognition

Interest income and expense

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

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

3. ACCOUNTING POLICIES (Continued)

3.19 Revenue recognition (Continued)

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

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

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

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

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

3.20 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.

3.21 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.

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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 15.

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 3.6.

5. CASH AND FUNDS WITH RESERVE BANK OF MALAWI

	GROUP		COMPANY	
	2011 K'm	2010 K'm	2011 K'm	2010 K'm
Cash	3,398	2,870	3,396	2,870
Balances with the Reserve Bank of Malawi	4,757	2,604	4,757	2,604
Total cash and funds with Reserve Bank of Malawi	8,155	5,474	8,153	5,474

The currency analysis of cash is in note 34(e).

Balances held at Reserve Bank of Malawi, which are denominated in Malawi Kwacha and United States Dollars, are non-interest bearing and regulated as disclosed in note 34(e) and 34(g).

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

	Average interest rate 2011	Average interest rate 2010	GROUP 2011 K'm	GROUP 2010 K'm	COMPANY 2011 K'm	COMPANY 2010 K'm
Government of Malawi treasury bills	6.6%	10.1%	5,969	2,854	5,969	2,854
Reserve Bank of Malawi bonds	9.1%	10.0%	1,093	1,074	1,093	1,073
			7,062	3,928	7,062	3,927
The bills and bonds are due to mature as follows:						
● Within three months			2,550	1,003	2,550	1,002
● Between three months and one year			3,419	2,925	3,419	2,925
● Over one year			1,093	-	1,093	-
			7,062	3,928	7,062	3,927

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		COMPANY	
	2011 K'm	2010 K'm	2011 K'm	2010 K'm
The stock is due to mature as follows:				
● Within three months	-	107	-	107
● Between three months and one year	63	-	63	-
● Between one and five years	404	436	404	436
	467	543	467	543

Government of Malawi local registered stock is denominated in Malawi Kwacha and is held to maturity. The stock earned an average interest rate of 15.5% (2010:15.5%).

8. EQUITY INVESTMENTS

	2010 K'm	Additions /(disposals) K'm	Fair value adjustment K'm	2011 K'm	Cost K'm
GROUP - 2011					
First Merchant Bank Limited 9,209,720 (2010: 9,975,036) Ordinary shares of K2.50 each at a market value of K7.00 (2010: K6.50) per share	65	(5)	4	64	80
Illovo Sugar (Malawi) Limited 1,500,626(2010: 4,027,117) Ordinary shares of K0.02 each at a market value of K130.00 (2010: K110.00) per share	443	(277)	29	195	172
NICO Holdings Limited 5,667,790 (2010: 3,270,193) Ordinary shares of K0.20 each at a market value of K11.00 (2010: K9.20) per share	30	31	1	62	21
Malawi Property Investment Company Limited 8,574,393 (2010:5,574,393) Ordinary shares of K0.05 each at a market value of of K3.00 (2010:K3.10) per share	17	9	-	26	29
National Investment Trust Limited 4,946,371 (2010: 4,987,682) Ordinary shares of K1.00 each at a market value of K16.00 (2010: K16.00) per share	80	(1)	-	79	119
NBS Bank Limited 10,372,144(2010:8,047,861) Ordinary shares of K0.50 each at a market value of K10.00 (2010: K11.00) per share	89	22	(7)	104	118
Packaging Industries Malawi Limited Nil (2010: 2,000,000) Ordinary shares of K0.20 each	13	(13)	-	-	-
Standard Bank of Malawi Limited 740,929 (2010:644,351) Ordinary shares of K1.00 each at market value of K105.00 (2010: K100.00) per share	64	10	4	78	65
Sunbird Malawi Limited 1,000,000 (2010: 1,000,000) Ordinary shares of K0.05 each at a market value of K7.00 (2010: K8.90) per share	9	-	(2)	8	10
Telekom Networks Malawi Limited 36,592,400 (2010:36,592,400)Ordinary shares of K0.04 each at a market value of K1.90 (2010:K1.75) per share	71	-	6	77	81
Real Insurance Company Limited 1,645,305(2010: 1,156,550) Ordinary shares of K0.40 each at a market value of K1.20 each (2010: K1.00) per share	1	-	1	2	1
Press Corporation Limited Nil (2010: 12,202) Ordinary shares of K0.01 each	2	(2)	-	-	-
Total equity investments	884	(225)	36	695	695

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

8. EQUITY INVESTMENTS (Continued)

	2010 K'm	Additions /(disposals) K'm	Fair value adjustment K'm	2011 K'm	Cost K'm
COMPANY - 2011					
First Merchant Bank Limited 9,209,720(2010: 9,209,720) Ordinary shares of K2.50 each at a market value of K7.00 (2010: K6.50)per share	60	-	4	64	80
Illovo Sugar (Malawi) Limited 1,500,626(2010: 4,024,785) Ordinary shares of K0.02 each at a market value of K130.00 (2010: K110.00) per share	443	(277)	29	195	172
NICO Holdings Limited 5,634,000(2010:3,000,000) Ordinary shares of K0.20 each at a market value of K11.00 (2010: K9.20) per share	28	33	1	62	21
Malawi Property Investment Company Limited 8,532,748(2010:5,532,748) Ordinary shares of K0.05each at a market value of K3.00 (2010:K3.10) per share	17	9	-	26	28
National Investment Trust Limited 4,946,371 (2010:4,946,371) Ordinary shares of K1.00 each at a market value of K16.00 (2010:K16.00) per share	79	-	-	79	119
NBS Bank Limited 10,282,645(2010:7,956,553) Ordinary shares of K0.50 each at a market value of K10.00 (2010: K10.00) per share	87	22	(6)	103	112
Packaging Industries Malawi Limited Nil (2010:2,000,000)Ordinary shares of K0.20 each	13	(13)	-	-	-
Standard Bank of Malawi Limited 740,929 (2010:640,929) Ordinary shares of K1.00 each at market value of K105.00 (2010:K100.00) per share	64	10	4	78	65
Sunbird Malawi Limited 1,000,000 (2010: 1,000,000) Ordinary shares of K0.05 each at a market value of K7.00 (2010: K8.90) per share	9	-	(2)	7	9
Telekom Networks Malawi Limited 36,592,400 (2010:36,592,400)Ordinary shares of K0.04 each at a market value of K1.90 (2010:K1.75) per share	64	-	5	69	73
Total equity investments	864	(216)	35	683	679

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

8. EQUITY INVESTMENTS (Continued)

	2009 K'm	Additions /(disposals) K'm	Fair value adjustment K'm	2010 K'm	Cost K'm
GROUP - 2010					
First Merchant Bank Limited 9,975,036 (2009: 9,209,720) Ordinary shares of K2.50 each at a market value of K6.50 (2009: 10.00) per share	92	8	(35)	65	87
Illovo Sugar (Malawi) Limited 4,027,117 (2009: 4,024,785) Ordinary shares of K0.02 each at a market value of K110.00 ((2009: K110.00) per share	443	-	-	443	464
NICO Holdings Limited 3,270,193 (2009: 3,000,000) Ordinary shares of K0.20 each at a market value of K9.20 (2009: K9.00) per share	27	2	1	30	23
Malawi Property Investment Company Limited 5,574,393 (2009: 5,532,748) Ordinary shares of K0.05 each at a market value of K3.10 (2009: K2.60) per share	14	-	3	17	19
National Investment Trust Limited 4,987,682 (2009: 4,946,371) Ordinary shares of K1.00 each at a market value of K16.00 (2009: K15.50) per share	77	1	2	80	120
NBS Bank Limited 8,047,861 (2009: 924,553) Ordinary shares of K0.50 each at a market value of K11.00 (2009: K14.00) per share	13	82	(6)	89	92
Packaging Industries Malawi Limited 2,000,000(2009: 2,000,000) Ordinary shares of K0.20 each at a market value of K6.25 (2009: K6.25) per share	13	-	-	13	13
Standard Bank of Malawi Limited 644,351 (2009: 595,277) Ordinary shares of K1.00 each at market value of K100.00 (2009: K92.00) per share	54	5	5	64	55
Sunbird Malawi Limited 1,063,934 (2009: 1,000,000) Ordinary shares of K0.05 each at a market value of K8.90 (2009: K8.90) per share	9	-	-	9	9
Real Insurance Company Limited 1,156,550 Ordinary shares of K0.40 each at a market value of K1.00 each	-	1	-	1	1
Press Corporation Limited 12,202 Ordinary shares of K0.01 each at market value of K170.00 each	-	2	-	2	-
Telekom Networks Malawi Limited 40,612,201 (2009: 36,592,400) Ordinary shares of K0.04 each at a market value of K1.75 (2009: K2.00) per share	73	9	(11)	71	81
Total equity investments	815	110	(41)	884	964

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

8. EQUITY INVESTMENTS (Continued)

	2009 K'm	Additions /(disposals) K'm	Fair value adjustment K'm	2010 K'm	Cost K'm
COMAPNY - 2010					
First Merchant Bank Limited 9,209,720 (2009: 9,209,720) Ordinary shares of K2.50 each at a market value of K6.50 (2009: K10.00) per share	92	-	(32)	60	80
Illovo Sugar (Malawi) Limited 4,024,785 (2009: 4,024,785) Ordinary shares of K0.02 each at a market value of K110.00 (2009: K110.00) per share	443	-	-	443	464
NICO Holdings Limited 3,000,000 (2009: 3,000,000) Ordinary shares of K0.20 each at a market value of K9.20 (2009: K9.00) per share	27	-	1	28	21
Malawi Property Investment Company Limited 5,532,748 (2009: 5,532,748) Ordinary shares of K0.05 each at a market value of K3.10 (2009: K2.60) per share	14	-	3	17	19
National Investment Trust Limited 4,946,371 (2009: 4,946,371) Ordinary shares of K1.00 each at a market value of K16.00 (2009: K15.50) per share	77	-	2	79	119
NBS Bank Limited 7,956,553 (2009: 924,553) Ordinary shares of K0.50 each at a market value of K11.00 (2009: K14.00) per share	13	80	(6)	87	90
Packaging Industries Malawi Limited 2,000,000 (2009: 2,000,000) Ordinary shares of K0.20 each at a market value of K6.25 (2009: K6.25) per share	13	-	-	13	13
Standard Bank of Malawi Limited 640,929 (2009: 595,277) Ordinary shares of K1.00 each at market value of K100.00 (2009: K92.00) per share	54	5	5	64	55
Sunbird Malawi Limited 1,000,000 (2009: 1,000,000) Ordinary shares of K0.05 each at a market value of K8.90 (2009: K8.90) per share	9	-	-	9	9
Telekom Networks Malawi Limited 36,592,400 (2009: 36,592,400) Ordinary shares of K0.04 each at a market value of K1.75 (2009: K2.00) per share	73	-	(9)	64	73
Total equity investments	815	85	(36)	864	943

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

9. INVESTMENT IN ASSOCIATE

	GROUP		COMPANY	
	2011 K'm	2010 K'm	2011 K'm	2010 K'm
Purchase consideration	123	123	123	123
Share of results	106	105	-	-
Share of tax	(33)	(26)	-	-
	196	202	123	123
Assets	1,403	1,566		
Liabilities	1,025	1,108		
Net assets	378	458		
Group's share of net assets of associates	98	119		
Total revenue	1,536	1,328		
Total profit for the period	399	116		

The Bank holds 26% (2010: 26%) of United General Insurance Limited share capital.

10. PLACEMENTS WITH OTHER BANKS

	GROUP & COMPANY	
	2011 K'm	2010 K'm
Money market placements with other banks	4,772	8,335
Balances due from other banks	3,981	1,180
Total placements with other banks	8,753	9,515

Placements with other banks are denominated in the following currencies:

	Average interest rate			
	2011	2010		
Malawi Kwacha denominated	11.75%	10.50%	3,393	6,200
US Dollar denominated	0.80%	0.80%	2,755	2,024
GBP denominated	0.59%	0.53%	1,327	479
Euro denominated	0.82%	0.65%	1,150	674
ZAR denominated	4.50%	4.50%	3	10
Other	-	-	125	128
			8,753	9,515

Money market placements with other banks are held to maturity and mature within 3 months (2010: 3 months).

11. LOANS AND ADVANCES

	GROUP 2011 K'm	GROUP 2010 K'm	COMPANY 2011 K'm	COMPANY 2010 K'm
Gross loans and advances	46,943	42,880	46,958	42,880
Specific provisions	(370)	(351)	(370)	(351)
Net loans and advances	46,573	42,529	46,588	42,529
Due to mature as follows:				
• Within three months	12,252	11,260	12,252	11,260
• Between three months and one year	21,345	17,064	21,360	17,064
• After one year and not later than 5 years	13,506	14,804	13,506	14,804
• Interest in suspense	(160)	(248)	(160)	(248)
	46,943	42,880	46,958	42,880
Analysis of gross loans by currency				
Malawi Kwacha denominated	42,186	36,907	42,201	36,907
US Dollar denominated	4,757	5,973	4,757	5,973
	46,943	42,880	46,958	42,880

The Malawi Kwacha base lending rate for the bank as at 31 December 2011 was 17.75% (2010: 17.75%) and US Dollar denominated loans carried an average interest rate of 8.60% (2010: 8.60%).

	GROUP 2011 K'm	GROUP 2010 K'm	COMPANY 2011 K'm	COMPANY 2010 K'm
Movement on specific provisions				
At beginning of the year	351	306	351	306
Applied against advances	(284)	(84)	(284)	(84)
Charged to statement of comprehensive income	317	206	317	206
Recovered	(14)	(77)	(14)	(77)
At end of the year	370	351	370	351
Movement on interest in suspense				
At beginning of the year	248	156	248	156
Applied against advances	(497)	(101)	(497)	(101)
Suspended in the year	438	286	438	286
Recovered	(29)	(93)	(29)	(93)
At end of the year	160	248	160	248
Analysis of recoveries				
Specific provisions	14	77	14	77
Interest in suspense	29	93	29	93
Debts previously written off	164	156	164	156
Transferred to the statement of comprehensive income	207	326	207	326

11. LOANS AND ADVANCES (Continued)

	GROUP & COMPANY	
	2011 K'm	2010 K'm
Finance Lease receivables		
Loans and advances include the following finance lease receivables:		
Gross investment in finance lease receivable:		
• Within three months	65	88
• Between three months and one year	632	645
• After one year and not later than five years	3,733	3,789
	4,430	4,522
Unearned future income on finance leases	(816)	(802)
	3,614	3,720
Specific provisions	(1)	(1)
Net investment in finance leases	3,613	3,719
The net investment in finance leases matures as follows:		
• Within three months	58	81
• Between three months and one year	531	603
• After one year and not later than five years	3,024	3,035
	3,613	3,719

12. OTHER MONEY MARKET DEPOSITS

	GROUP		COMPANY	
	2011 K'm	2010 K'm	2011 K'm	2010 K'm
Balances with discount houses	1,009	437	1,000	370

Balances with discount houses are held to maturity and mature within two months (2010: 1 month) after the year-end. The deposits earned an average interest rate of 6.3% (2010: 5.4%).

13. ASSETS HELD FOR SALE

	GROUP & COMPANY	
	2011 K'm	2010 K'm
Property	454	-

The bank is in the process of selling two of its buildings, Henderson Street Branch building on plot BC 7A-8 in Blantyre and Churchill Road Branch building on plot LE 213/404 in Limbe.

14. OTHER ASSETS

	GROUP		COMPANY	
	2011 K'm	2010 K'm	2011 K'm	2010 K'm
Letters of credit	875	3,531	875	3,531
Sundry receivables and prepayments	2,597	1,222	2,576	1,215
Due from local banks	1,932	1,276	1,932	1,276
Stockbrokers Malawi Limited	-	-	99	99
NBM Bureau de Change Limited	-	-	27	-
Other investments	19	19	19	19
Provision for potential loss on other assets	(1,222)	(412)	(1,222)	(412)
Total other assets	4,201	5,636	4,306	5,728

The Bank, through National Bank Nominees Limited, holds a 75% (2010: 75%) stake in Stockbrokers Malawi Limited (SML). The Bank also holds a 100% stake in NBM Bureau de Change Limited.

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings K'm	Leasehold land and buildings K'm	Motor vehicles and equipment	Work in progress K'm	Total K'm
COMPANY					
COST OR VALUATION					
At 1 January 2010	2,021	1,072	4,093	3,735	10,921
Additions	-	-	1,986	2,344	4,330
Transfer from work in progress	2	408	-	(410)	-
Revaluation surplus	457	88	-	-	545
Impairment loss	-	(194)	-	-	(194)
Elimination on disposal	-	(75)	(359)	-	(434)
At 31 December 2010	2,480	1,299	5,720	5,669	15,168
At 1 January 2011	2,480	1,299	5,720	5,669	15,168
Additions	-	29	852	1,917	2,798
Transfer from work in progress	7,330	3	253	(7,586)	-
Revaluation surplus	413	277	-	-	690
Fair value loss	(1,491)	-	-	-	(1,491)
Reclassified as held for sale	(465)	-	-	-	(465)
Elimination on disposal	-	-	(464)	-	(464)
At 31 December 2011	8,267	1,608	6,361	-	16,236
DEPRECIATION					
At 1 January 2010	13	4	2,163	-	2,180
Charge for the year	17	7	912	-	936
Elimination on revaluation	(30)	(10)	-	-	(40)
Elimination on disposal	-	(1)	(263)	-	(264)
At 31 December 2010	-	-	2,812	-	2,812
At 1 January 2011	-	-	2,812	-	2,812
Charge for the year	20	7	1,137	-	1,164
Elimination on revaluation	(9)	(7)	-	-	(16)
Reclassified as held for sale	(11)	-	-	-	(11)
Elimination on disposal	-	-	(368)	-	(368)
At 31 December 2011	-	-	3,581	-	3,581
CARRYING AMOUNT					
At 31 December 2011	8,267	1,608	2,780	-	12,655
At 31 December 2010	2,480	1,299	2,908	5,669	12,356

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

	2011 K'm	2010 K'm
GROUP		
Carrying amount		
Total property, plant and equipment - Company	12,655	12,356
Property, plant and equipment included in subsidiary companies	30	3
Total property, plant and equipment - Group	12,685	12,359

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

			2011 K'm	2010 K'm
Freehold	-	at 2011 valuation	8,267	-
	-	at 2010 valuation	-	2,480
Total freehold land and buildings			8,267	2,480
Leasehold	-	at 2011 valuation	1,608	-
	-	at 2010 valuation	-	1,299
Total leasehold land and buildings			1,608	1,299

Included in the property, plant and equipment in subsidiary companies are motor vehicles and office equipment with a gross value of K43m (2010: K18m).

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	2011 K'm	2010 K'm
Equipment	-	10	10	89
Motor vehicles	962	7	969	1,334
	962	17	979	1,423

Malawi Telecommunications Limited and the Bottling and Brewing GroupLimited are related parties to whom the Bank is leasing out motor vehicles which were purchased at a cost of K399m (2010: K447m) and K1,639m (2010: K1,542m), respectively.

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

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

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

Valuations in 2011

Land and buildings were fair valued as at 31 December 2011 by Chris Mullock, MRICS, MSIM, and Don Whayo, MRICS, MSIM, qualified independent valuers. The valuation of the new Business Centre and Office Complex,arising from the reclassification of the building from capital work in progress to freehold land & buildings, resulted in a decrease in carrying value of K1.7 billion. The revaluation of the other properties resulted in an increase in fair value ofK907 million. Out of the K907 million revaluation surplus, K202 million was credited to the statement of comprehensive income (note 25) to reverse previous decreases in fair values charged to the statement of comprehensive income and the balance of K705 million was credited to the revaluation surplus through the statement of other comprehensive income. The basis of the valuations was current market value.

Had land and buildings been carried at historical cost less depreciation and accumulated impairment losses, their carrying value would have been approximately K9,361million (2010: K1,443million).

16. INTANGIBLE ASSETS

	Development costs K'm	Computer software K'm	Work in progess K'm	Total K'm
COMPANY AND GROUP				
COST OR VALUATION				
At 1 January 2010	326	47	431	804
Additions	-	-	698	698
Transfer from work in progress	-	1,014	(1,014)	-
At 31 December 2010	326	1,061	115	1,502
At 1 January 2011	326	1,061	115	1,502
Additions	-	114	189	303
At 31 December 2011	326	1,175	304	1,805
DEPRECIATION				
At 1 January 2010	102	41	-	143
Charge for the year	65	1	-	66
At 31 December 2010	167	42	-	209
At 1 January 2011	167	42	-	209
Charge for the year	71	83	-	154
At 31 December 2011	238	125	-	363
CARRYING AMOUNTS				
31 December 2011	88	1,050	304	1,442
31 December 2010	159	1,019	115	1,293

17. DEFERRED TAX

	Opening balance K'm	Charge to income K'm	Charged to equity K'm	Closing balance K'm
GROUP				
2010				
Accelerated capital allowances	36	(428)	-	(392)
Revaluation of fixed assets	74	-	(241)	(167)
Other temporary differences	494	72	-	566
Total deferred tax	604	(356)	(241)	7
2011				
Accelerated capital allowances	(392)	5	-	(387)
Revaluation of fixed assets	(167)	448	(70)	211
Other temporary differences	566	27	-	593
Total deferred tax	7	480	(70)	417
COMPANY				
2010				
Accelerated capital allowances	36	(428)	-	(392)
Revaluation of fixed assets	74	-	(241)	(167)
Other temporary differences	494	72	-	566
Total deferred tax	604	(356)	(241)	7
2011				
Accelerated capital allowances	(392)	5	-	(387)
Revaluation of fixed assets	(167)	448	(70)	211
Other temporary differences	566	27	-	593
Total deferred tax	7	480	(70)	417

18. LIABILITIES DUE TO CUSTOMERS

	Average interest rate		GROUP		COMPANY	
	2011	2010	2011 K'm	2010 K'm	2011 K'm	2010 K'm
Analysis by account type:						
Current accounts	0.10%	0.10%	30,197	26,370	30,204	26,372
Foreign currency accounts	1.69%	0.43%	8,726	7,042	8,726	7,047
Savings accounts	1.50%	1.65%	11,559	9,848	11,559	9,848
Deposit accounts	3.02%	3.77%	16,269	15,763	16,269	15,763
Total liabilities due to customers			66,751	59,023	66,758	59,030
Analysis by interest risk type:						
Interest bearing deposits			65,965	58,113	65,972	58,120
Non-interest bearing deposits			786	910	786	910
Total liabilities due to customers			66,751	59,023	66,758	59,030

All interest bearing accounts, excluding deposit accounts, are at floating rates that are adjusted at the Bank's discretion (refer note 34 (d)).

18. LIABILITIES DUE TO CUSTOMERS (Continued)

	GROUP		COMPANY	
	2011 K'm	2010 K'm	2011 K'm	2010 K'm
Analysis by interest maturity:				
Liabilities due to customers are payable as follows:				
● Within three months	65,878	57,250	65,885	57,257
● Between three months and one year	873	1,773	873	1,773
Total	66,751	59,023	66,758	59,030
Analysis by sector:				
Agriculture	2,444	3,806	2,444	3,806
Manufacturing	2,999	3,898	2,999	3,898
Wholesale and retail	2,036	8,463	2,036	8,463
Finance and insurance	1,768	2,656	1,768	2,663
Personal accounts	53,624	36,033	53,631	36,033
Other	3,880	4,167	3,880	4,167
Total	66,751	59,023	66,758	59,030

The currency analysis of liabilities due to customers is included in note 34 (e).

19. OTHER LIABILITIES

	GROUP 2011 K'm	GROUP 2010 K'm	COMPANY 2011 K'm	COMPANY 2010 K'm
Letters of credit	875	3,531	875	3,531
Other liabilities	3,492	2,043	3,459	1,963
Staff bonus	314	-	314	-
Unclaimed balances	368	385	368	385
Bank cheques	75	769	75	769
Office accounts	42	38	42	38
Total other liabilities	5,166	6,766	5,133	6,686

The currency analysis of other liabilities is included in note 34 (e).

20. EMPLOYMENT BENEFIT OBLIGATION

	GROUP		COMPANY	
	2011 K'm	2010 K'm	2011 K'm	2010 K'm
Unfunded employment benefit obligation				
Employment benefit obligation	585	1,599	585	1,597
Fair value of plan assets	-	(103)	-	(103)
Unfunded employment benefit obligation	585	1,496	585	1,494
Movements in employment benefit obligation in the current period were as follows:				
At beginning of the year	1,599	1,587	1,597	1,584
Current service cost of severance pay	(884)	472	(884)	471
Net investment income	-	82	-	82
Benefits paid	(130)	(542)	(128)	(540)
At end of the year	585	1,599	585	1,597
Movements in the fair value of plan assets in the current period were as follows:				
At beginning of the year	103	484	103	484
Interest income	-	82	-	82
Contributions	-	53	-	53
Benefits paid	(103)	(516)	(103)	(516)
At end of the year	-	103	-	103
The major categories of plan assets as at the year-end date were as follows:				
Equity investments	-	16	-	16
Fixed deposit investments	-	67	-	67
Government of Malawi Local Registered Stocks	-	20	-	20
	-	103	-	103

20. EMPLOYMENT BENEFIT OBLIGATION (Continued)

Severance Pay

Before 31 May 2011, Section 35 (1) of the Employment Act No. 6 of 2000 required employers to pay severance allowance to employees whose employment contracts were terminated either by mutual agreement between the employer and the employee or unilaterally by the employer. The Employment (Amendment) Act 2010 which became effective on 1 June 2011, removed this requirement.

The transitional arrangement from the old provisions of the Employment Act to the Employment (Amendment) Act 2010 requires employers to recognize the excess of the computed severance provision for each individual as at 31 May 2011, over the accumulated employer pension contribution, related bonuses and gratuities previously paid by the employer, as part of the transitional pension contribution due to the pension fund. This transitional pension due is payable to the pension fund within a period of 8 years and the balance due each year is adjusted by the CPI factors.

Accordingly the group has made a net provision of K0.6billion (2010: K1.5 billion severance provision) as the amount payable to the pension fund.

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% (2010: 5.5%) and11.0% (2010: 11.0%) of the fund members' basic pensionable salaries, respectively. The employer contributes an additional 4.0% (2010: 4.0%) of the pensionable salary. Thus the total contribution by the employer is 15.0% of pensionable salary. The amount charged against income during the year was K257m (2010: K200m).

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

The General Fund represents a reserve from which all other benefits are paid including administration expenses and bonuses.

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

The Bank rents some of the Fund's properties at commercial rates. The Group incurred K99m (2010: K92m) in rentals for such properties during the year.

	GROUP 2011 K'm	GROUP 2010 K'm	COMPANY 2011 K'm	COMPANY 2010 K'm
21. NET INTEREST INCOME				
Interest income				
Interest on loans and advances and bills discounted	7,488	6,324	7,490	6,325
Income from investments	723	843	723	843
Income from lease financing	761	713	761	713
Interest on placements with other banks	144	114	115	108
	9,116	7,994	9,089	7,989
Interest expense				
Banks and customers	619	692	619	692
Money market loans and repos	337	461	337	458
	956	1,153	956	1,150
Net interest income	8,160	6,841	8,133	6,839
22. COMMISSION AND FEE INCOME				
Commissions	1,997	1,595	1,972	1,551
Arrangement and other fee income	584	303	581	303
Premium on foreign exchange dealings	1,041	101	1,041	101
Other income	223	114	223	94
Total commission and fee income	3,845	2,113	3,817	2,049
23. STAFF COSTS				
Salaries and wages	1,925	1,728	1,894	1,704
Other staff costs	429	601	428	596
Staff bonus	438	- 438	-	
Severance pay (write back)/expense	(884)	419	(884)	418
Pension costs - defined contribution plan	258	200	257	200
Contract gratuity expense	77	64	73	62
Total staff costs	2,243	3,012	2,206	2,980

The Group runs an in-house defined contribution pension scheme as stated in note 20 above.

	GROUP 2011 K'm	GROUP 2010 K'm	COMPANY 2011 K'm	COMPANY 2010 K'm
24. OTHER OPERATING EXPENDITURE				
Other costs	1,316	895	1,486	801
Recurrent expenditure on premises and equipment	1,024	859	1,013	855
Depreciation	1,166	938	1,164	936
Amortisation of intangible assets	154	66	154	66
Increase in provision for potential loss on other assets	810	412	810	412
Legal charges	46	45	46	45
Auditor's remuneration including surtax and expenses:				
- current year	25	30	21	26
- prior year	4	(1)	4	(1)
Directors' remuneration:				
- fees for services as directors	11	11	10	10
- for managerial services	85	97	85	97
Total other operating expenditure	4,641	3,352	4,602	3,247
25. PROPERTIES FAIR VALUE LOSS/(GAIN)				
Fair value loss on New Business Centre and Office Complex	1,693	-	1,693	-
Fair value gains on other properties (note 15)	(202)	(42)	(202)	(42)
Total properties fair vales loss/(gain)	1,491	(42)	1,491	(42)

The fair value loss of K1,693m on the new BC&OC arose on the reclassification of capital work in progress to freehold land & buildings on completion of the building at the end of 2011.

26. INCOME TAX EXPENSE

	GROUP 2011 K'm	GROUP 2010 K'm	COMPANY 2011 K'm	COMPANY 2010 K'm
Income tax	2,158	1,293	2,151	1,280
Deferred tax	(480)	356	(480)	356
Total income tax expense	1,678	1,649	1,671	1,636
<u>Reconciliation of rate of tax</u>	%	%	%	%
Standard rate of taxation	30	30	30	30
Permanent differences	2	2	2	2
Effective rate of taxation	32	32	32	32

27. 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	
	2011	2010
Profit attributable to equity holders of the Company (K millions)	3,558	3,447
Weighted average number of Ordinary Shares in issue (millions)	467	467
Basic earnings per share (expressed in K per share)	7.62	7.38

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	
	2011	2010
Profit attributable to equity holders of the Company (K millions)	3,558	3,447
Net profit used to determine diluted earnings per share (K millions)	3,558	3,447
Weighted average number of Ordinary Shares in issue	467	467
Adjustments for share options (millions)	-	1
Weighted average number of Ordinary Shares for diluted earnings per share (millions)	467	468
Diluted earnings per share (expressed in K per share)	7.62	7.37

28. 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	
	2011 K'm	2010 K'm
Interim dividend paid (for current year)	840	700
Final dividend paid (for previous year)	1,251	1,250
	2,091	1,950
Weighted average number of Ordinary Shares in issue (millions)	467	467
Dividend per share	4.48	4.18

The proposed current year final dividend is K1,261million representing K2.70 per share.

29. CONTINGENCIES

	GROUP & COMPANY	
	2011 K'm	2010 K'm
Guarantees		
guarantees	972	1,322
Local guarantees and performance bonds	3,243	1,112
Total contingencies from guarantees	4,215	2,434
Other contingencies		
Legal claims	265	256

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 K320m (2010:K330m).

	GROUP		COMPANY	
	2011 K'm	2010 K'm	2011 K'm	2010 K'm
30. COMMITMENTS				
Expenditure contracted but not incurred	775	1,105	775	1,105
Expenditure approved by the Board but not contracted	2,925	1,709	2,925	1,709
Total capital expenditure	3,700	2,814	3,700	2,814
31. CASH AND CASH EQUIVALENTS				
Cash and funds with Reserve Bank of Malawi (note 5)	8,155	5,474	8,153	5,474
Placements with other banks (note 10)	8,753	9,515	8,753	9,515
Other money market deposits (note 12)	1,009	437	1,000	370
Liabilities due to other banks	(2,873)	(1,813)	(2,875)	(1,813)
Total cash and cash equivalents	15,044	13,613	15,031	13,546
32. CUSTOMER BALANCES				
Customer funds	1,855	820	-	-
Funds at call and on deposit	(1,855)	(767)	-	-
Total customer balances	-	53	-	-

Funds held by Stockbrokers Malawi Limited (SML), 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 SML's own funds.

33. 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 2010							
Assets							
Cash and bank balances with Reserve Bank of Malawi	5	5,474	-	-	-	5,474	5,474
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	-	3,928	-	-	3,928	3,928
Government of Malawi local registered stocks	7	-	543	-	-	543	543
Equity investments	8	884	-	-	-	884	884
Placements with other banks	10	-	-	9,515	-	9,515	9,515
Loans and advances to customers	11	-	-	42,529		42,529	42,529
Other money market deposits	12	-	-	437	-	437	437
Other assets	14	-	-	5,636	-	5,636	5,636
Total financial assets		6,358	4,471	58,117	-	68,946	68,946
Liabilities and equity							
Liabilities due to customers	18	-	-	-	59,023	59,023	59,023
Balances due to other banks		-	-	-	1,813	1,813	1,813
Other liabilities	19	-	-	-	6,766	6,766	6,766
Total financial liabilities		-	-	-	67,602	67,602	67,602
GROUP							
As at 31 December 2011							
Assets							
Cash and bank balances with Reserve Bank of Malawi	5	8,155	-	-	-	8,155	8,155
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	-	7,062	-	-	7,062	7,062
Government of Malawi local registered stocks	7	-	467	-	-	467	467
Equity investments	8	695	-	-	-	695	695
Placements with other banks	10	-	-	8,753	-	8,753	8,753
Loans and advances to customers	11	-	-	46,573	-	46,573	46,573
Other money market deposits	12	-	-	1,009	-	1,009	1,009
Other assets	14	-	-	4,201	-	4,201	4,201
Total financial assets		8,850	7,529	60,537	-	76,915	76,915
Liabilities and equity							
Liabilities due to customers	18	-	-	-	66,751	66,751	66,751
Balances due to other banks		-	-	-	2,874	2,874	2,874
Other liabilities	19	-	-	-	5,166	5,166	5,166
Total financial liabilities		-	-	-	74,791	74,791	74,791

33. FINANCIAL ASSETS AND LIABILITIES (Continued)

ACCOUNTING CATEGORIES AND FAIR VALUES (Continued)

	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
COMPANY							
At 31 December 2010							
Assets							
Cash and bank balances with Reserve Bank of Malawi	5	5,474	-	-	-	5,474	5,474
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	-	3,927	-	-	3,927	3,927
Government of Malawi local registered stocks	7	-	543	-	-	543	543
Equity investments	8	864	-		-	864	864
Placements with other banks	10	-	-	9,515		9,515	9,515
Loans and advances to customers	11	-	-	42,529	-	42,529	42,529
Other money market deposits	12	-	-	370	-	370	370
Other assets	14	-	-	5,728	-	5,728	5,728
Total financial assets		6,338	4,470	58,142	-	68,950	68,950
Liabilities and equity							
Liabilities due to customers	18	-	-	-	59,030	59,030	59,030
Balances due to other banks		-	-	-	1,813	1,813	1,813
Other liabilities	19	-	-	-	6,686	6,686	6,686
Total financial liabilities		-	-	-	67,529	67,529	67,529
COMPANY							
At 31 December 2011							
Assets							
Cash and bank balances with Reserve Bank of Malawi	5	8,153	-	-	-	8,153	8,153
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	-	7,062	-	-	7,062	7,062
Government of Malawi local registered stocks	7	-	467	-	-	467	467
Equity investments	8	683	-	-	-	683	683
Placements with other banks	10	-	-	8,754	-	8,754	8,754
Loans and advances to customers	11	-	-	46,588	-	46,588	46,588
Other money market deposits	12	-	-	1,000	-	1,000	1,000
Other assets	14	-	-	4,306	-	4,306	4,306
Total financial assets		8,836	7,529	60,648	-	77,013	77,013
Liabilities and equity							
Liabilities due to customers	18	-	-	-	66,758	66,758	66,758
Balances due to other banks		-	-	-	2,874	2,874	2,874
Other liabilities	19	-	-	-	5,133	5,133	5,133
Total financial liabilities		-	-	-	74,765	74,765	74,765

33. FINANCIAL ASSETS AND LIABILITIES (Continued)

33.1 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.

33.2 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	
	2011 K'000	2010 K'000
Financial assets at fair value through profit or loss		
Non-derivative financial assets held for trading		
Level 1	695	884

	COMPANY	
	2011 K'000	2010 K'000
Financial assets at fair value through profit or loss		
Non-derivative financial assets held for trading		
Level 1	683	864

34. FINANCIAL RISK MANAGEMENT

a. Introduction and overview

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

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

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 Risk Committee, the Credit Committee, the Audit Committee and the Appointments and Remuneration Committee, in addition to management Committees such as the Asset and Liability Committee (ALCO), Credit and Operational Risk, IT Policy 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 Committee is responsible for conducting an independent check to ensure 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 Risk Committees are assisted in these functions by the Risk Division which undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board Risk Committee.

The Board Risk Committee has the overall responsibility for the strategic risk management of the Bank as delegated by the Board. Its main responsibility is to set the corporate strategy in the credit, market, liquidity and operational risks management. It is also responsible for reviewing management performance in implementing the Bank's strategic plan and ensuring that the Bank's activities are consistent with the policies agreed by the Bank's Board as well as Directives of the Reserve Bank of Malawi and other regulatory requirements.

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).

34. FINANCIAL RISK MANAGEMENT (Continued)

b. Credit risk (Continued)

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 gradingsin 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.

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 Division.

34. FINANCIAL RISK MANAGEMENT (Continued)

b. Credit risk (Continued)

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	
	2011 K'm	2010 K'm	2011 K'm	2010 K'm
Balances with the Reserve Bank of Malawi	4,757	2,603	4,757	2,603
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	7,062	3,928	7,062	3,927
Government of Malawi local registered stocks	467	543	467	543
Placements with other banks	8,753	9,515	8,753	9,515
Loans and advances to customers	46,573	42,529	46,588	42,529
Other money market deposits	1,009	437	1,000	370
Other assets	4,201	5,636	4,306	5,728
Total recognised financial instruments	72,822	65,191	72,933	65,215
Guarantees and performance bonds	4,215	2,434	4,215	2,434
Loan commitments and other credit facilities	10,122	7,607	10,122	7,607
Total unrecognised financial instruments	14,337	10,041	14,337	10,041
Total credit exposure	87,159	75,232	87,270	75,256

34. 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 2010			
Balances with the Reserve Bank of Malawi	2,603	-	2,603
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	3,928	-	3,928
Government of Malawi local registered stock	543	-	543
Placements with other banks	9,515	-	9,515
Loans and advances to customers	42,529	-	42,529
Other money market deposits	437	-	437
Other assets	5,636	-	5,636
	65,191	-	65,191
31 December 2011			
Balances with the Reserve Bank of Malawi	4,757	-	4,757
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	7,062	-	7,062
Government of Malawi local registered stock	467	-	467
Placements with other banks	8,753	-	8,753
Loans and advances to customers	46,573	-	46,573
Other money market deposits	1,009	-	1,009
Other assets	4,201	-	4,201
	72,822	-	72,822

34. 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 2010			
Balances with the Reserve Bank of Malawi	2,604	-	2,604
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	3,927	-	3,927
Government of Malawi local registered stock	543	-	543
Placements with other banks	9,515	-	9,515
Loans and advances to customers	42,529	-	42,529
Other money market deposits	370	-	370
Other assets	5,728	-	5,728
	65,216	-	65,216
31 December 2011			
Balances with the Reserve Bank of Malawi	4,757	-	4,757
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	7,062	-	7,062
Government of Malawi local registered stock	467	-	467
Placements with other banks	8,753	-	8,753
Loans and advances to customers	46,588	-	46,588
Other money market deposits	1,000	-	1,000
Other assets	4,306	-	4,306
	72,933	-	72,933

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.

34. FINANCIAL RISK MANAGEMENT (Continued)

b. Credit risk (Continued)

There is one significant concentration of credit risk, for K8.9billion (2010: K8.4billion) 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 analysis below shows the credit quality of the loans and advances based on the Group's credit rating system.

	GROUP & COMPANY	
	2011 K'm	2010 K'm
Individually impaired:		
Grade 8: Impaired	171	451
Grade 9: Impaired	406	483
Gross amount	577	934
Allowance for impairment	(460)	(499)
Carrying amount	117	435
Past due but not impaired:		
Grade 7: Watch list	14,549	10,594
Neither past due nor impaired:		
Grade 1 – 3 Low risk	5,582	13,746
Grade 4 – 6 Fair risk	26,325	17,954
Total carrying amount	46,573	42,529

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.The 2010 balances have been restated to reflect the corrected analysis as at 31 December 2010.

34. 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 K'm	Allowance for Impairment K'm	Net K'm
31 December 2010			
Grade 8: Individually impaired	451	(241)	210
Grade 9: Individually impaired	483	(258)	225
Total	934	(499)	435
31 December 2011			
Grade 8: Individually impaired	171	(108)	63
Grade 9: Individually impaired	406	(352)	54
Total	577	(460)	117

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.

34. 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	
	2011 K'm	2010 K'm
Against individually impaired		
Motor vehicles	36	288
Commercial property	235	413
Residential property	164	24
Equities	-	5
Total	435	730
Against the rest of the loan book		
Motor vehicles	4,042	4,470
Commercial property	7,564	5,603
Residential property	10,559	7,294
Cash	2,843	3,201
Equities	181	51
Government guarantees	11,463	12,963
Bank guarantees	275	513
Total	36,927	34,095
Grand total	37,362	34,825

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	
	2011 K'm	2010 K'm	2011 K'm	2010 K'm
Concentration by sector				
Agriculture	17,158	2,922	17,158	2,922
Finance and Insurance	36	32	51	32
Manufacturing	10,323	21,379	10,323	21,379
Other	14,658	3,000	14,658	3,000
Personal	3,847	10,244	3,847	10,244
Wholesale and Retail	551	4,952	551	4,952
	46,573	42,529	46,588	42,529

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.

34. 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:26% (2010: 35%)

	2011	2010
At 31 December	26%	31%
Average of the period	25%	32%
Maximum for the period	27%	36%
Minimum for the period	23%	27%

34. FINANCIAL RISK MANAGEMENT (Continued)

c. Liquidity risk (Continued)

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

GROUP

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Total K'm	Carrying amount K'm
At 31 December 2010						
Financial assets						
Cash and funds with Reserve Bank of Malawi	5,474	-	-	-	5,474	5,474
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	614	400	3,025	-	4,039	3,928
Local registered stocks	-	100	-	410	510	543
Equity investments	-	884	-	-	884	884
Placements with other banks	9,515	-	-	-	9,515	9,515
Loans and advances to customers	10,820	2,545	14,710	14,805	42,880	42,529
Other money markets deposits	437	-	-	-	437	437
Other assets	2,722	1,446	1,447	21	5,636	5,636
Total financial assets	**29,582**	**5,375**	**19,182**	**15,236**	**69,375**	**68,946**
Financial liabilities						
Liabilities to customers	43,266	13,985	1,276	496	59,023	59,023
Liabilities to other banks	370	-	1,443	-	1,813	1,813
Other liabilities	2,880	2,199	1,687	-	6,766	6,766
Total financial liabilities	**46,516**	**16,184**	**4,406**	**496**	**67,602**	**67,602**
Contractual liquidity mismatch	**(16,934)**	**(10,809)**	**14,776**	**14,740**	**1,773**	**1,344**
Cumulative mismatch	**(16,934)**	**(27,743)**	**(12,967)**	**1,773**	**-**	**-**

Included in group balances are gross assets/liabilities and equity for the subsidiary company with carrying amounts totaling K112.5m (before elimination of group balances). As such, the separate analyses of the above are not materially different from the group analyses.

34. 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 2011						
Financial assets						
Cash and funds with Reserve Bank of Malawi	8,155	-	-	-	8,155	8,155
Government of Malawi treasury bills and ReserveBank of Malawi bonds	2,056	506	3,600	1,050	7,212	7,062
Local registered stocks	-	-	60	350	410	467
Equity investments	-	695	-	-	695	695
Placements with other banks	7,953	800	-	-	8,753	8,753
Loans and advances to customers	6,923	5,699	21,059	13,262	46,943	46,573
Other money markets deposits	700	309	-	-	1,009	1,009
Other assets	4,583	313	508	19	5,423	4,201
Total financial assets	**30,370**	**8,322**	**25,227**	**14,681**	**78,600**	**76,915**
Financial liabilities						
Liabilities to customers	62,719	3,550	104	378	66,751	66,751
Liabilities to other banks	2,055	-	819	-	2,874	2,874
Other liabilities	4,345	313	508	-	5,166	5,166
Total financial liabilities	**69,119**	**3,863**	**1,431**	**378**	**74,791**	**74,791**
Contractual liquidity mismatch	**(38,749)**	**4,459**	**23,796**	**14,303**	**3,809**	**2,124**
Cumulative mismatch	**(38,749)**	**(34,290)**	**(10,494)**	**3,809**	**-**	**-**

Included in group balances are gross assets/liabilities and equity for subsidiary companies with carrying amounts totalling K88.6m (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.

34. 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.

34. 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 2010						
Financial assets						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	5,474	5,474
Government of Malawi treasury bills andReserve Bank of Malawi bonds	596	388	2,944	-	-	3,928
Government of Malawi-local registered stocks	-	107	-	436	-	543
Equity investments	-	-	-	-	884	884
Placements with other banks	9,515	-	-	-	-	9,515
Loans and advances to customers	10,469	2,545	14,710	14,805	-	42,529
Other money market deposits	437	-	-	-		437
Other assets	-	-	-	-	5,636	5,636
Total financial assets	**21,017**	**3,040**	**17,654**	**15,241**	**11,994**	**68,946**
Financial liabilities						
Liabilities to customers	42,368	13,985	1,276	497	897	59,023
Liabilities to other banks	370	-	1,443	-	-	1,813
Other liabilities	-	-	-	-	6,766	6,766
Total financial liabilities	**42,738**	**13,985**	**2,719**	**497**	**7,663**	**67,602**
Interest sensitivity gap	**(21,721)**	**(10,945)**	**14,935**	**14,744**	**4,331**	**1,344**
Cumulative gap	**(21,721)**	**(32,666)**	**(17,731)**	**(2,987)**	**1,344**	**-**
Impact on profit of an increase in interest rates						
+1%	(217)	(109)	149	147	-	(30)
+2%	(434)	(218)	298	294	-	(60)
+3%	(651)	(327)	447	441	-	(90)
Impact on profit of a decrease in interest rates						
-1%	217	109	(149)	(147)	-	30
-2%	434	327	(298)	(294)	-	60
-3%	651	327	(447)	(441)	-	90

Included in group balances are gross assets/liabilities and equity for the subsidiary company with carrying amounts totaling K112.5m (before elimination of group balances). As such, the separate analyses of the above are not materially different from the group analyses.

34. 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 2011						
Financial assets						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	8,155	8,155
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	2,049	501	3,419	1,093	-	7,062
Government of Malawi-local registered stocks	-	-	63	404	-	467
Equity investments	-	695	-	-	-	695
Placements with other banks	8,753	-	-	-	-	8,753
Loans and advances to customers	6,553	5,699	21,059	13,262	-	46,573
Other money market deposits	700	309	-	-	-	1,009
Other assets	-	-	-	-	4,201	4,201
Total financial assets	**18,055**	**7,204**	**24,541**	**14,759**	**12,356**	**76,915**
Financial liabilities						
Liabilities to customers	61,933	3,550	104	378	786	66,751
Liabilities to other banks	2,055	-	819	-	-	2,874
Other liabilities	-	-	-	-	5,166	5,166
Total financial liabilities	**63,988**	**3,550**	**923**	**378**	**5,952**	**74,791**
Interest sensitivity gap	**(45,933)**	**3,654**	**23,618**	**14,381**	**6,404**	**2,124**
Cumulative gap	**(45,933)**	**(42,279)**	**(18,661)**	**(4,280)**	**2,124**	**-**
Impact on profit of an increase in interest rates						
+1%	(459)	37	236	144	-	(42)
+2%	(918)	74	472	288	-	(84)
+3%	(1,377)	111	708	432	-	(126)
Impact on profit of a decrease in interest rates						
-1%	459	(37)	(236)	(144)	-	42
-2%	918	(74)	(472)	(288)	-	84
-3%	1,377	(111)	(708)	(432)	-	126

Included in group balances are gross assets/liabilities and equity for the subsidiary company with carrying amounts totalling K88.6m (before elimination of group balances). As such, the separate analyses of the above are not materially different from the group analyses.

34. FINANCIAL RISK MANAGEMENT (Continued)

e. Currency risk

The Group had the following significant foreign currency positions:

GROUP

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
At 31 December 2010							
Financial assets							
Cash and funds with Reserve Bank of Malawi	5,431	21	1	-	17	4	5,474
Government of Malawi Treasury Bills and Reserve Bank of Malawi Bonds	3,928	-	-	-	-	-	3,928
Government of Malawi local registered stocks	543	-	-	-	-	-	543
Equity investments	884	-	-	-	-	-	884
Placements with other banks	6,200	2,024	479	674	10	128	9,515
Loans and advances to customer	36,556	5,973	-	-	-	-	42,529
Other money market deposits	437	-	-	-	-	-	437
Other assets	4,553	712	-	54	186	131	5,636
Total financial assets	**58,532**	**8,730**	**480**	**728**	**213**	**263**	**68,946**
Financial liabilities							
Liabilities to customers	51,976	5,721	512	737	34	43	59,023
Liabilities to other banks	213	1,485	22	46	42	5	1,813
Other liabilities	5,438	857	39	54	247	131	6,766
Total financial liabilities	**57,627**	**8,063**	**573**	**837**	**323**	**179**	**67,602**
Net balance open position	**905**	**667**	**(93)**	**(109)**	**(110)**	**84**	**1,344**
Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit	-	(67)	9	11	11	(8)	(44)
Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit	-	67	(9)	(11)	(11)	8	44

Included in group balances are gross assets/liabilities and equity for the subsidiary company with carrying amounts totalling K112.5m (before elimination of group balances). As such, the separate analyses of the above are not materially different from the group analyses.

34. 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 2011							
Financial assets							
Cash and funds with Reserve Bank of Malawi	6,698	1,452	3	1	1	-	8,155
Government of Malawi Treasury Bills and Reserve Bank of Malawi Bonds	7,062	-	-	-	-	-	7,062
Government of Malawi local registered stocks	467	-	-	-	-	-	467
Equity investments	695	-	-	-	-	-	695
Placements with other banks	3,393	2,755	1,327	1,150	3	125	8,753
Loans and advances to customer	41,816	4,757	-	-	-	-	46,573
Other money market deposits	1,009	-	-	-	-	-	1,009
Other assets	3,326	436	-	308	131	-	4,201
Total financial assets	**64,466**	**9,400**	**1,330**	**1,459**	**135**	**125**	**76,915**
Financial liabilities							
Liabilities to customers	58,026	6,230	1,385	1,023	13	74	66,751
Liabilities to other banks	1,411	1,349	9	10	95	-	2,874
Other liabilities	1,973	2,660	-	308	224	-	5,166
Total financial liabilities	**61,410**	**10,239**	**1,394**	**1,341**	**332**	**75**	**74791**
Net balance open position	**3,056**	**(839)**	**(64)**	**118**	**(197)**	**50**	**2,124**
Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit	-	84	6	(12)	20	(5)	93
Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit	-	(84)	(6)	12	(20)	5	(93)

Included in group balances are gross assets/liabilities and equity for the subsidiary company with carrying amounts totalling K88.6m (before elimination of group balances). As such, the separate analyses of the above are not materially different from the group analyses.

34. 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 bythe RiskDivision 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 ofbusiness 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 RiskDivision. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the management Operational Risk Committee and Board Risk Committee and senior management of the Group.

g. Compliance risk

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

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

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

34. FINANCIAL RISK MANAGEMENT (Continued)

g. Compliance risk (Continued)

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

Liquidity reserve requirement
The Bank is required to maintain a liquidity reserve with the Reserve Bank of Malawi equivalent to no less than 15.5% (2010: 15.5%) of total customer deposits. At the end of the year the liquidity reserve was equivalent to 26% (2010: 31.7%) of total customer deposits.

Capital adequacy requirement as per Section 10(1) of the Banking Act, 2009
The Bank's available capital is required to be a minimum of 10% (2010: 10%) of its risk bearing assets and contingent liabilities. At the end of the year the Bank's available capital was 25.5%(2010: 22.3%) of its risk bearing assets and contingent liabilities.

Prudential aspects of bank liquidity

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

- 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 32% (2010:31%) and liquidity ratio II was 32% (2010: 32%).

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.

34. FINANCIAL RISK MANAGEMENT (Continued)

h. Capital management (Continued)

Regulatory capital (Continued)

- 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.

The Bank's regulatory capital position at 31 December 2011was as follows:

	2011	2010
Tier 1 capital		
Ordinary share capital	467	467
Share premium	613	597
Retained earnings	10,454	9,048
Unconsolidated investments	(248)	(241)
Total regulatory (tier 1) capital	11,286	9,871
Supplementary capital		
Loan loss reserve	466	411
Revaluation reserve	2,291	1,671
Total regulatory (tier 2) capital	14,043	11,953
Risk-weighted assets		
Retail bank, corporate bank and treasury	55,002	53,536
Total risk-weighted assets	55,002	53,536
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	25.5%	22.3%
Total tier 1 capital expressed as a percentage of risk-weighted assets	20.5%	18.4%

34. FINANCIAL RISK MANAGEMENT (Continued)

i. Basel II

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

The Group is fully committed to be compliant with the Basel II requirements by 2014. The Basel II implementation has been set as one of the milestones to be achieved in the Group's Strategic Plan for the five-year period from 2012 to 2016. The activities that have already been completed by the Group include the following: the Basel II implementation gap analysis and an action plan (road map), setting up of the steering committee and project team. Appointment of the representatives to the Reserve Bank of Malawi Basel II sub committees, provided training on Basel II to some of the Group's Directors, management and staff, conducted an assessment of the Basel II solutions and the selection process, adopted the stress testing and scenario analysis policy and guidelines document, approved the Basel II capital and revenue expenditures in the Year 2012 budget, participated in the first Reserve Bank of Malawi's Basel II Quantitative Impact Study and participated in the first Reserve Bank of Malawi's Basel II self-assessments.

The group continues to assess the impact of these proposals on its capital position to arrive at an appropriately calibrated total level of risk-weighted assets, qualifying capital and leverage ratio, and has factored the proposals into its strategic business plans.

j. Environmental and social risks

The Group adopted the environmental and social management policy in the last quarter of the year which was also consistent with its own corporate social responsibility (CSR) initiatives. It has taken an obligation to manage the environmental and social impacts that its activities, products and services have on society and to respond strategically to the risks which global environmental and social pressures have on its ability to create sustainable value for its stakeholders.

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

The Group shall not invest in, lend to, or engage in activities that are detrimental to the environment, harmful, or dangerous to people or communities. In particular it will not support the following activities:

- Production or activities involving forced labour or child labour;
- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements;
- Production or trade in:
  a. weapons and munitions; and
  b. hard liquor.
- Lending to gambling, casinos and equivalent enterprises;
- Any business relating to pornography or prostitution;
- Trade in wildlife or wildlife products regulated under CITES;
- Production or use of or trade in hazardous materials such as radioactive materials, unbounded asbestos and fibres and products containing PCBs;

34. FINANCIAL RISK MANAGEMENT (Continued)

j. **Environmental and social risks** (Continued)

- Cross-border trade in waste and waste products unless compliant to the Basel Convention and the underlying regulations;
- Drift net fishing in the marine environment using nets in excess of 2.5 km in length;
- Production, use of or trade in pharmaceuticals, pesticides/herbicides, chemicals, ozone depleting substances and other hazardous substances subject to international phase-outs or bans;
- Significant conversion or degradation of Critical Habitat;
- Production and distribution of racist and anti-democratic media;
- Significant alteration, damage, or removal of any critical cultural heritage; and
- Relocation of Indigenous Peoples from traditional or customary lands.

The environmental and social management system will enable the Group to track and manage environment and social aspects of its operations. It will protect the Group against financial, legal and/or reputational risks arising from activities that are not compliant with sustainable development.

35. RELATED PARTY TRANSACTIONS

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

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

The Group is controlled by Press Corporation Limited (incorporated in Malawi), which owns 51.5% (2010: 51.6%) of the ordinary shares. The Old Mutual Group owns 24.9% (2010: 24.6%) of the ordinary shares and the remaining 23.6% (2010: 23.8%) 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 44.47% (2010: 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.

35. RELATED PARTY TRANSACTIONS (Continued)

Net outstanding balances as at 31 December 2011with the shareholders and other related parties are as follows:

GROUP AND COMPANY

	Loans K'm	Deposits K'm	Net 2011 K'm	Net 2010 K'm
Press Corporation Limited and its subsidiaries	1,495	(1,038)	457	106
Old Mutual Group	-	(268)	(268)	(303)
Bottling and Brewing Group Limited	1,250	(282)	968	(571)
Limbe Leaf Tobacco Company Limited	75	-	75	1
Press Trust	-	(5)	(5)	(5)
Directors	11	(3)	8	(10)
Employees	1,338	(121)	1,217	617
National Bank of Malawi Pension Fund	3	(20)	(17)	(1)
Total related party balances	4,172	(1,737)	2,435	(166)

Bottling and Brewing GroupLimited andLimbe Leaf Tobacco Company Limited are associates of Press Corporation Limited.

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

During the year no amount due from a related party was written off against interest in suspense and provision for loan losses. There were no provisions in respect of loans granted to related parties as at the end of the year(2010: K39.7m).

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

The following transactions were conducted with related parties:

GROUP AND COMPANY

	2011 K'm	2010 K'm
Interest receivable		
Press Corporation Limited and its subsidiaries	398	324
Bottling and Brewing Group Limited	13	17
Limbe Leaf Tobacco Company Limited	2	-
Directors	-	1
Employees	208	142
Average interest rate (%)	19	19
Operating lease income		
Malawi Telecommunication Limited	129	181
Bottling and Brewing Group Limited	423	333
Interest payable		
Press Corporation Limited and its subsidiaries	7	3
Old Mutual Group	2	6
Employees	141	2
Purchases		
Press Corporation Limited and its subsidiaries	150,956	156,906
Average interest rate (%)	1	1

35. RELATED PARTY TRANSACTIONS (Continued)

	GROUP 2011 K'm	GROUP 2010 K'm	COMPANY 2011 K'm	COMPANY 2010 K'm
Compensation of key management personnel				
Salaries, bonus and benefits	434	462	414	446
Severance pay current year provision	(217)	45	(217)	45
	217	507	197	491
Severance pay	150	254	150	254

No specific share options were offered to key management personnel during the year 31 December 2011 (2010: 99,300). No shares were exercised by key management during the year ended 31 December 2011 (2010:78,600).

36. 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.

36. 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 2011					
Total external income	6,215	1,818	4,329	4,253	16,615
Segment result	5,697	1,285	2,487	4,142	13,611
Unallocated income	-	-	-	-	-
Unallocated expenses	-	-	-	-	(8,375)
Profit before tax	-	-	-	-	5,236
Corporate tax	-	-	-	-	(1,678)
Group profit for the year	-	-	-	-	3,558
Other information					
Depreciation					
Unallocated depreciation	-	-	-	-	1,320
Revaluation surplus on property					
Unallocated fair value loss	-	-	-	-	1,491
Group-Statement of financial position					
December 2011					
Assets					
Segment assets	37,842	7,242	22,989	24,036	92,109
Unallocated assets	-	-	-	-	-
Total consolidated assets	37,842	7,242	22,989	24,036	92,109
Liabilities and equity					
Segment liabilities	46,474	11,559	11,599	6,774	76,406
Unallocated liabilities and equity	-	-	-	-	15,703
Total consolidated liabilities and equity	46,474	11,559	11,599	6,774	92,109
Other information					
Capital additions	-	-	-	-	-
Unallocated capital additions	-	-	-	-	-
Total	-	-	-	-	-

36. 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 2010					
Total external income	7,023	2,546	2,481	383	12,433
Segment result	6,587	2,290	2,020	383	11,280
Unallocated income	-	-	-	-	120
Unallocated expenses	-	-	-	-	(6,322)
Profit before tax	-	-	-	-	5,078
Corporate tax	-	-	-	-	(1,649)
Group profit for the year	-	-	-	-	3,429
Other information					
Depreciation					
Unallocated depreciation	-	-	-	-	1,004
Revaluation surplus on property					
Unallocated revaluation deficit	-	-	-	-	42
Group-Statement of financial position					
December 2010					
Assets					
Segment assets	34,302	8,228	20,782	221	63,533
Unallocated assets	-	-	-	-	19,274
Total consolidated assets	34,302	8,228	20,782	221	82,807
Liabilities and equity					
Segment liabilities	46,049	12,974	1,813	-	60,836
Unallocated liabilities and equity	-	-	-	-	21,971
Total consolidated liabilities and equity	46,049	12,974	1,813	-	82,807
Other information					
Capital additions	-	-	-	-	-
Unallocated capital additions	-	-	-	-	5,026
Total	-	-	-	-	5,026

37. 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.

	2011	2010
Kwacha/GBP	249.20	235.4
Kwacha/Rand	21.30	23.70
Kwacha/US Dollar	157.50	150.80
Kwacha/Euro	214.60	202.80
Inflation (%)	7.6	7.5

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

Kwacha/GBP	264.74
Kwacha/Rand	21.95
Kwacha/US Dollar	168.14
Kwacha/Euro	224.86

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

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

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

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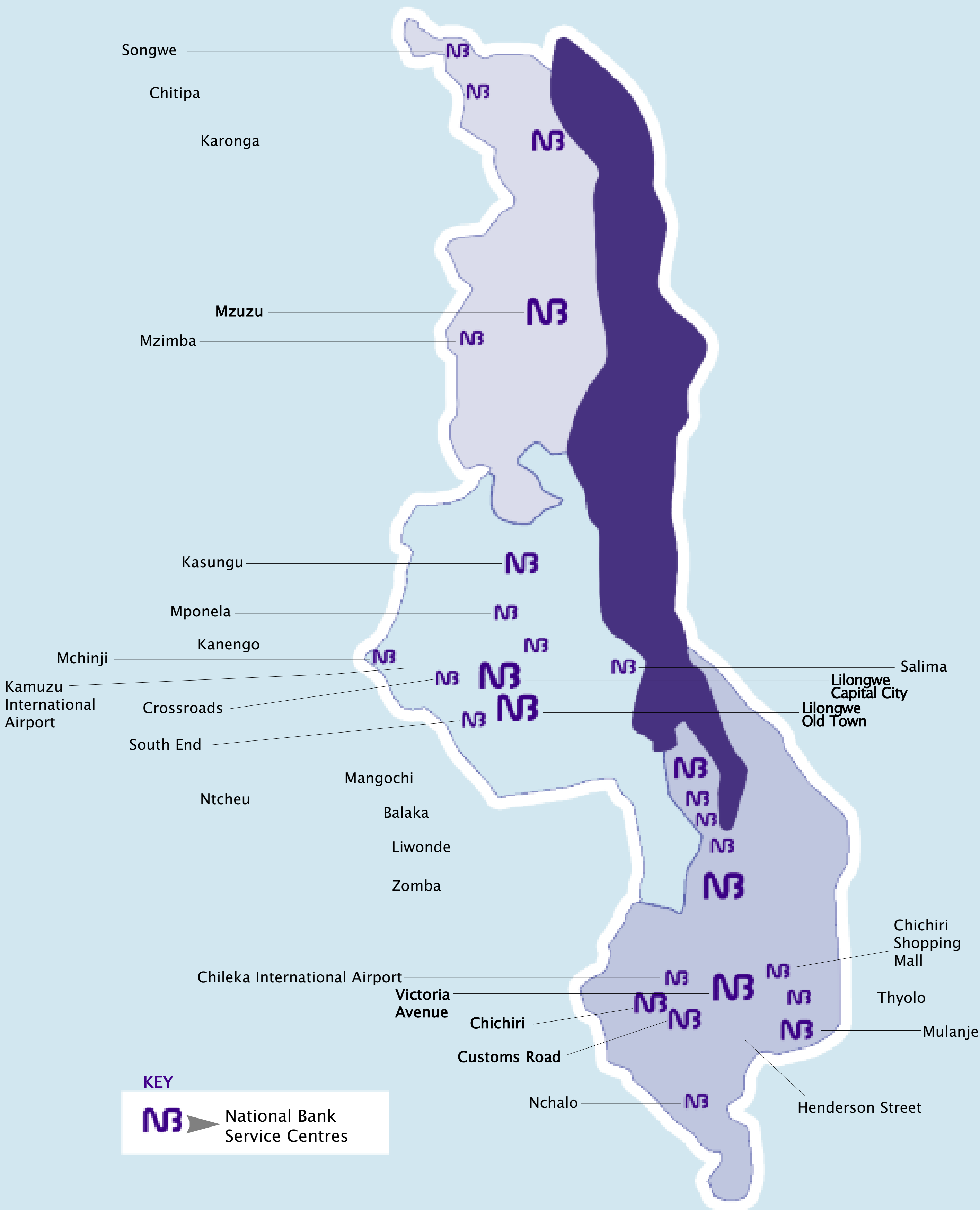
MAP OF MALAWI – NB SERVICE CENTRES



NOTES

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