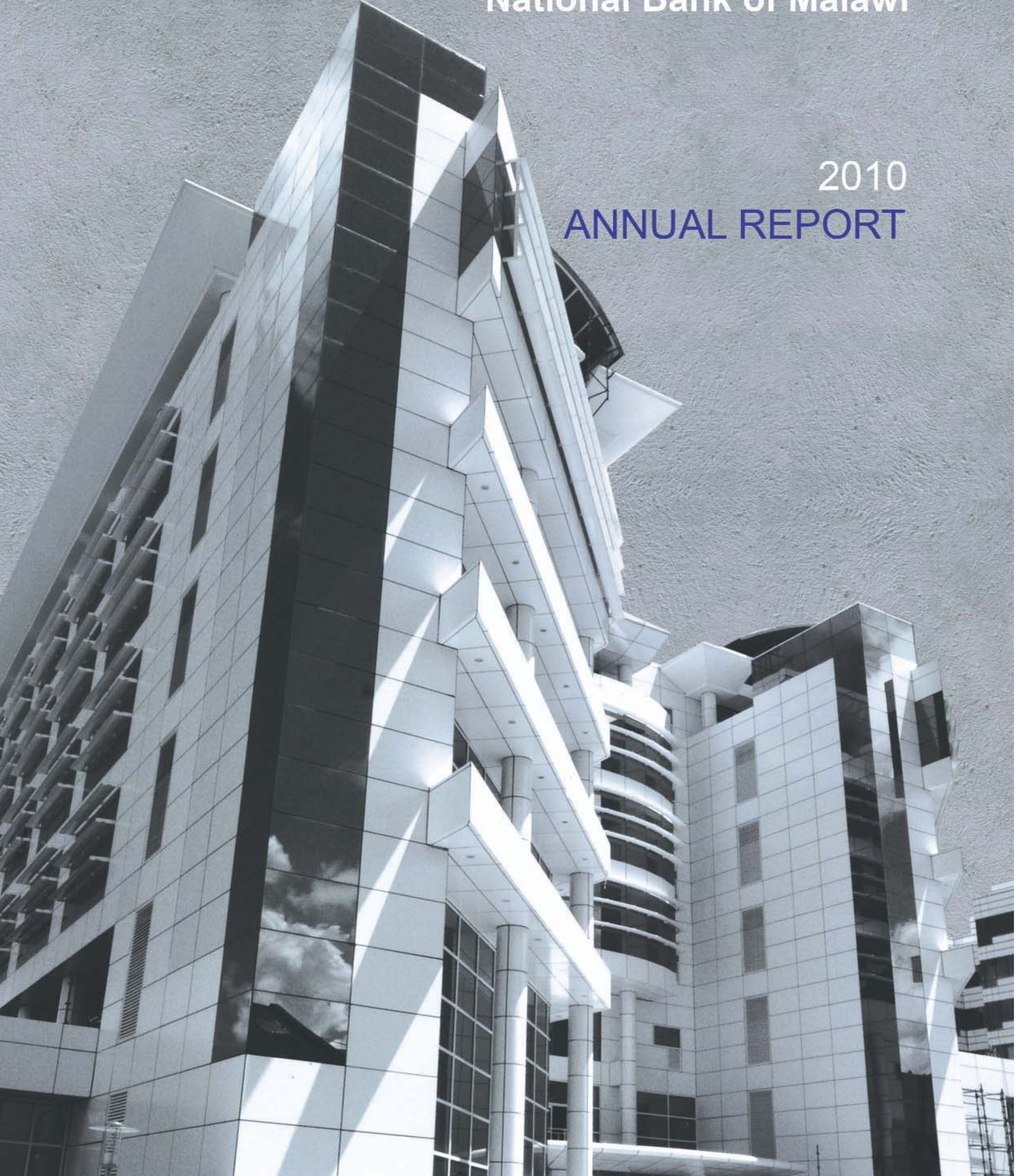
National Bank of Malawi

2010 ANNUAL REPORT



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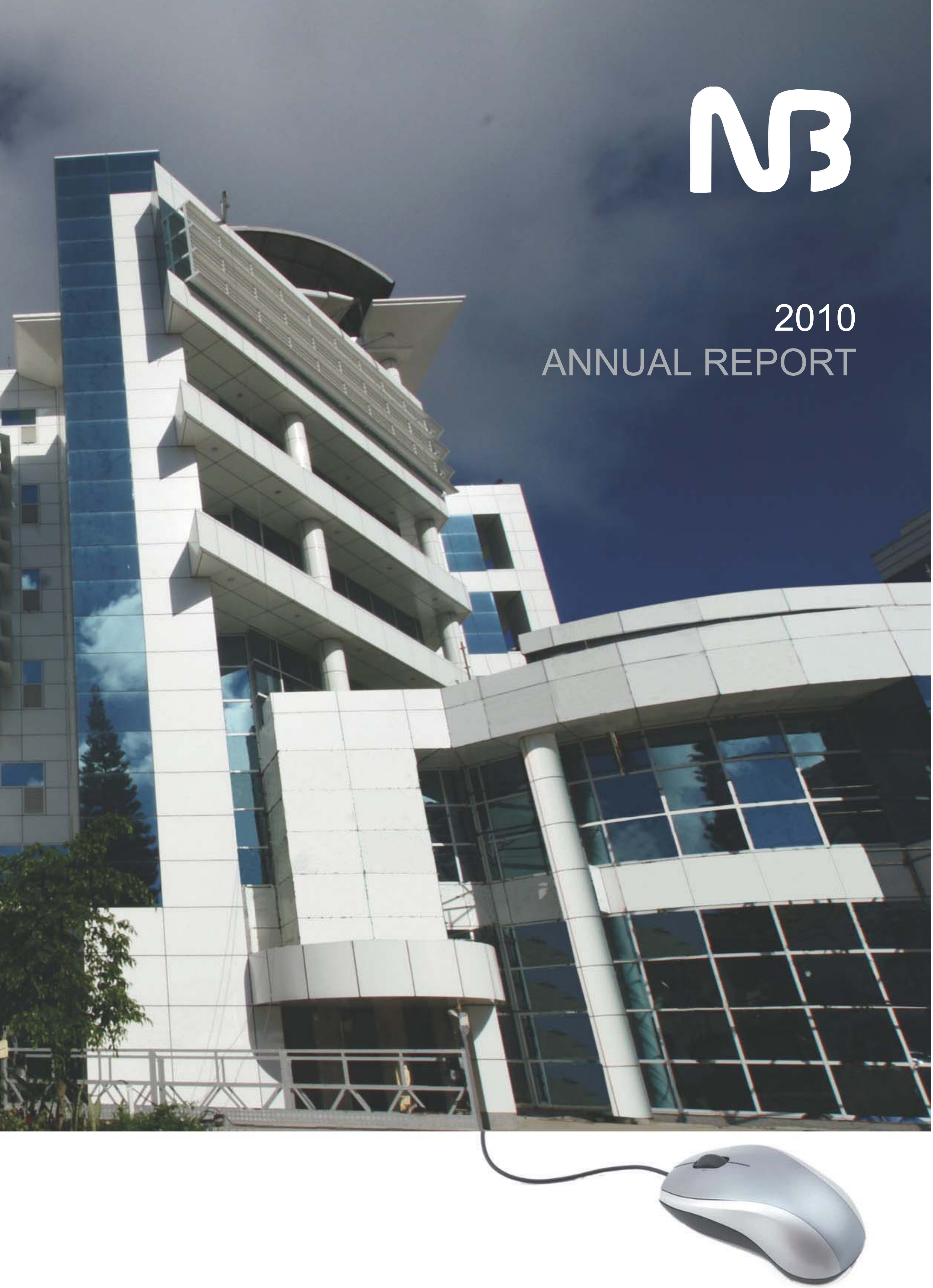


CONTENTS

We concluded the renovation and re-branding program with the refurbishment of Chichiri, Mangochi and Mulanje Service centres.

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 commited to excellence in its performance and that the employees will have a clear understanding of its objectives and goals.

Integrity and Trust

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

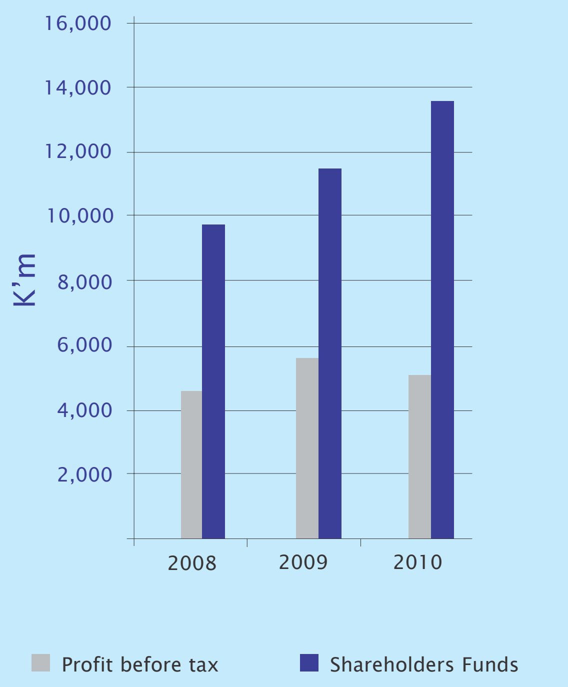
Team Work

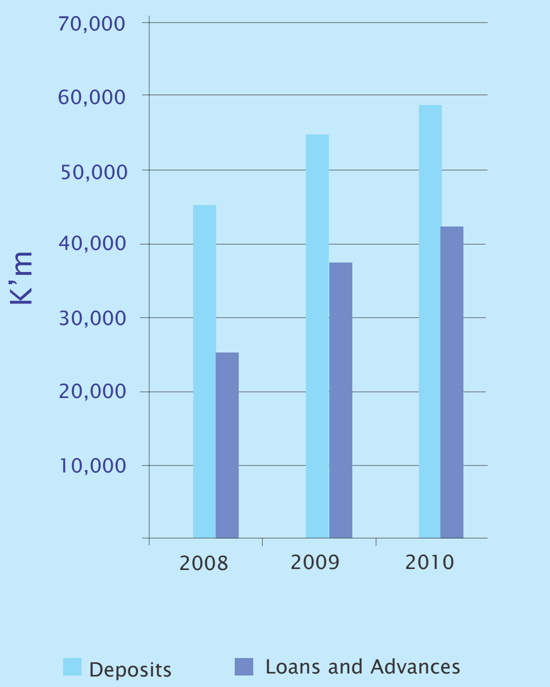
The Bank will build and maintain a culture of mutual respect, recognition and cooperation and promote feedback, effective communication and group work.

Corporate Social Responsibility

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

	K'm 2008	K'm 2009	K'm 2010	% Change 10 vs 09
Proft before tax	4,571	5,622	5,078	-10%
Shareholders Funds	9,765	11,945	13,584	14%
Deposits	45,439	55,072	59,023	7%
Loans and Advances	25,567	37,564	42,529	13%





CURRENT DIRECTORS

CURRENT DIRECTORS

Centre - Standing

Dr Mathews A.P. Chikaonda (56)
BA (Hons), MBA, Ph.D.
Chairman

Front Row - Seated from left

Elias J. Kambalame (64)
BA (Ecom)
Director

Gilbert K. Chibesakunda (59)
LLB. (Hons), LLM
Legal Counsel/
Company Secretary

Andrew G. Sesani (62)
FCCA, CPA
Director

George B. Partridge (47)
B.Soc. Sc. (Econ),
Msc (Finance), FCCA, CPA
Director

Back Row - Standing from left

Agnes J. Varela (59)
B.Soc Sc., MSc.
Director

Pius P. Mulipa (57)
Dip. (Mgt), BA, MSc (Mgt)
Director

Dye Mawindo (52)
LLB (Hons), MBA
Director

Mcfussy Kawawa (46)
B.Acc (Hons), FCCA, CPA, MBA
Director

Not in the picture

James A. Regout (61)
M. Econ
Director

The directors have pleasure in presenting the Consolidated Financial Statements of National Bank of Malawi for the year ended 31 December 2010.

The directors report a consolidated profit before tax of K5,078m (2009: K5,662m) for the year after making due provision for impairment losses.

CAPITAL

The authorised share capital of the Bank is K500m (2009: K500m) divided into 500,000,000 Ordinary shares of K1 each. The issued capital is K467m (2009: K466m) divided into 466,635,738 (2009: 466,019,038) Ordinary shares of K1 each, fully paid.

The shareholders and their respective shareholdings are:

	2010 %	2009 %
Press Corporation Limited	51.6	51.6
Old Mutual Group	24.6	24.6
Members of the public	22.3	22.3
Employees (ESOP)	1.5	1.5
	100.0	100.0

PROFIT AND DIVIDENDS

The directors report a consolidated profit before tax of K5,078m (2009: K5,662m) for the year after making due provision for impairment losses. A final dividend of K1,251m (2009: K1,250m) is proposed for the year. An interim dividend of K700m (2009: K671m) was paid to the shareholders on 4 September 2010.

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
Regout, J A	All year
Sesani, A G	All year
Kambalame, E	All year
Valera, A Mrs.	All year
Mawindo, D	All year
Partridge, G B	All year
Kawawa, M M	From February, 2010

DIRECTORS' INTERESTS

The following directors held shares in the Bank as at 31 December 2010:

Mulipa, P P	20,000 (2009: 20,000) shares
Partridge, G B	305,634 (2009: 33,000) shares
Kawawa, M M	94,568 (2009: 77,268) 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 K11m (2009: K18m).

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% (2009: 100%)	Dormant
NBM Securities Limited	100% (2009: 100%)	Dormant
National Bank of Malawi Nominees Limited	100% (2009: 100%)	Holding of investments as nominee
Stockbrokers Malawi Limited	75% (2009: 75%)	Registered stockbroker

AREAS OF OPERATION

The Bank has 26 (2009: 25) 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 2011.

BY ORDER OF THE BOARD

GILBERT CHIBESAKUNDA
COMPANY SECRETARY

I am pleased to report to the shareholders a Group pre-tax profit of K5.1b (2009: K5.6b).

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Dr Mathews A.P. Chikaonda
Board Chairman

THE OPERATING ENVIRONMENT

The Malawi economy grew by 7.1%, slower than the growth rate registered in 2009 of 8.6%, but robust growth nonetheless. The Bank Rate came down in August 2010 from 15% to 13%. The consistently high economic growth rates for the past 3 years combined with the reduction of interest rates and an overvalued currency in a fixed exchange rate environment created an upswing in aggregate demand which the domestic market was unable to satisfy.

The resultant pressure manifested itself in excessive demand for foreign exchange via imported goods and services, exerting considerable strain on foreign exchange reserves. This created external trade imbalances which resulted in persistent shortages of foreign exchange and a significant import backlog.

The high GDP growth and the foreign exchange shortages posed both opportunities and challenges to the banking industry generally and National Bank in particular.

FINANCIAL PERFORMANCE

The above notwithstanding, I am pleased to report to the shareholders a Group pre-tax profit of K5.1b (2009: K5.6b). The persistent foreign currency challenges negatively affected the bank's various underlining revenue streams from treasury operations as well as net interest income from lending activities.

Significant efforts focused on the implementation of a new core banking IT platform and the completion of the new Business and Office Complex project. These investments were very resource intensive. I am pleased to report a successful migration to the new core banking IT platform and satisfactory progress on the new Business Centre and Office Complex project, which will be occupied in 2011.

DIVIDEND

An interim dividend of K700m was paid in September, 2010. This is in addition to a final dividend of K1.25b in respect of 2009 profits. In total the dividend paid out in 2010 amounted to K1.95b.

The Board has resolved to recommend to maintain last year's dividend per share of K4.18, translating into a final dividend pay out of K1.25b to be tabled at the Annual General Meeting which will be held on 24th June, 2011.

STRATEGY AND PROSPECTS

The economy is forecast to grow at 6.8% in 2011, underpinned by strong growth in telecommunications and construction sectors. Excess foreign exchange demand conditions are expected to persist, with adverse effects on manufacturing output and trading generally. In addition, upward pressure on general price levels is expected as a result of 20% increase in utility tariffs in December, 2010 and soaring world energy prices.

Going forward, the bank is focusing on consolidating on the benefits of its new core banking platform now that most of the teething challenges have been addressed. The strong infrastructure in place will enable the bank to embrace the opportunities and deal with the challenges that the operating arena presents as it seeks further growth.

The bank looks to expand its areas of representation in qualifying areas countrywide in pursuance of its growth objective. In addition, the bank will roll out new products and improve its delivery payment channels following the successful implementation of the new core banking system.

BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

Mr M. M. Kawawa, formerly Chief Financial Officer, was appointed General Manager and Executive Director in February, 2010. I take this opportunity to extend a warm welcome to Mr Kawawa to Executive Management and the Board. All other directors served all year in 2010.

On behalf of the shareholders, and on my own behalf, I would like to thank all my fellow directors for their contributions, support and cooperation during 2010. I look forward to their continued support as we exploit opportunities and face challenges ahead.

CONCLUSION

On behalf of the Shareholders and the Board I wish to thank management and staff for their commitment and hard work in a year that was full of challenges. I look forward to their continued dedication and cooperation.

DR M A P Chikaonda
CHAIRMAN

SENIOR MANAGEMENT

Centre - Seated

George B Partridge (47)
B.Soc.Sc.(Econ), MSc (Finance), FCCA, CPA
Chief Executive Officer

Front Row - Seated

Left

Macfussy M. Kawawa (46)
B.Acc(Hons), FCCA, CPA,MBA
General Manager & Chief Financial Officer

Right

Austin N D Musyani (52)
BA (Public Admin.), MPA, MBA
Head of Customer Service & Transactional Banking

Back Row - Standing from left

Gilbert K. Chibesakunda (59)
LLB. (Hons), LLM
Legal Counsel & Company Secretary

Brian Boby (46)
B.Soc.Sc., MBA
Head of Operations

Harold Jiya (40)
Bcom, ACIB, MBA
Head of Corporate Banking

Tayemu H Masikini (53)
Post Graduate Diploma in Computing, BSc
Head of Information Technology Division

Daphter Z Namandwa (49)
BA (Public Admin.), FIPM
Head of Human Resources

Oswin Kasunda (44)
B.Com, MSc (St. Mgt)
Head of Personal & Business Banking

Daniel Jere (37)
B. Acc, ACMA, CPA (M)
Head of Internal Audit Division

Isaac Kanje (49)
B.Acc (Hons), FCCA, CPA, CISA, FIBSA, MBA
Head of Risk

Nimia Kambili-Mzembe (Mrs) (49)
BA (Public Admin.), CDipAF, MBA
Head of Credit Management

Harry Mukaka (43)
BA (Public Admin.), MBA
Head of Treasury & Financial Institutions

The bank recorded a net profit of K3.4 billion (2009: K3.8 billion). The reduction in profitability is largely attributed to subdued earnings from foreign exchange dealings and related income...

George B Partridge
Chief Executive

PERFORMANCE OVERVIEW

The year 2010 was full of challenges and excitement. Most of the bank's efforts were focused on the implementation of a new core banking IT platform, to which we successfully migrated in September, and the completion of the new Business and Office Complex Project which will be occupied in the second half of 2011. These projects were resource intensive both in financial and human terms.

The operating environment was characterised by persistent shortages of hard currency with negative implications on the operations of our customers, earnings from our own treasury activities and international trade business.

The bank recorded a net profit of K3.4 billion (2009: K3.8 billion). The 10% reduction in profitability is largely attributed to subdued earnings from foreign exchange dealings and related income, and significant costs associated with the two major projects.

CORPORATE BANKING ACTIVITIES

We were delighted during the year with the unlocking of financing opportunities offered by our long standing correspondent banks by structuring several large transactions with NBM as an agent. We look forward to continue working closely with global partners as together we deliver innovative solutions to key customers.

During quarter 4, the bank experienced some operational challenges following the migration to the new IT platform. The challenges were not unexpected and the bank had ready mechanisms to resolve operational glitches as they arose from teething implementation problems. We were very much humbled by the patience and understanding demonstrated by all our customers. We are very confident that we will have fully resolved all major outstanding issues by the end of the first quarter of 2011.

PERSONAL AND BUSINESS BANKING

Personal and Business Banking continues to show steady growth. During the year emphasis was placed on strengthening existing relationships with SMEs and courting new ones, this being a potential business growth area. A special policy for SMEs was rolled out and the Personal & Business Banking division was re-organised aimed at addressing bottlenecks on relationship management, the credit assessment and disbursement process without necessarily compromising credit standards and asset quality.

The leasing portfolio has continued to show satisfactory growth, motor vehicle financing being a major contributor. The finance lease book increased by 18% while operating leases registered a remarkable growth of 67%. The strategy deployed to enhance visibility of this new division on the market bore fruit.

A new product, the asset based finance loan, was added to the portfolio of products offered by this division which has proven to be very attractive in the market.

In 2010 emphasis was placed on strengthening existing relationships with SMEs and courting new ones

TREASURY & FINANCIAL INSTITUTIONS

The persistent foreign exchange challenges negatively affected the underlying revenue streams from treasury operations which significantly fell short of the budget. Accessibility of foreign currency and declining money market yields will continue to pose challenges in 2011.

Our equities desk slightly outperformed the market, with dividend income exceeding expectations. Equity prices have since stabilized, a sign of a possible rebound in 2011.

SERVICE DELIVERY CHANNELS

Card products and mobile phone banking

The bank continues to lead in the country's payment

VISA Debit Cards

Helping you shop safe and smart via
VISA POS machines available countrywide

...The number of cards issued and transaction volumes on our range of NBM Visa branded debit cards (Electron, Classic, Gold and Platinum) have continued to increase steadily...

systems modernization agenda. The number of cards issued and transaction volumes on our range of NBM Visa branded debit cards (Electron, Classic, Gold and Platinum) have continued to increase steadily as there has been growing product acceptance by both the cardholders and merchants in view of the numerous benefits that this payment platform has engendered.

Our mobile phone banking service, popularly known as Mo626, was further upgraded by the introduction of "Unstructured Supplementary Service Data" (USSD) which enables users to use session based, menu driven commands instead of SMS messages making it more efficient and user friendly. We expect both number and value of Mo626 transactions to keep growing as more customers discover and appreciate the convenience brought about by this self service facility.

Rebranding and Expansion

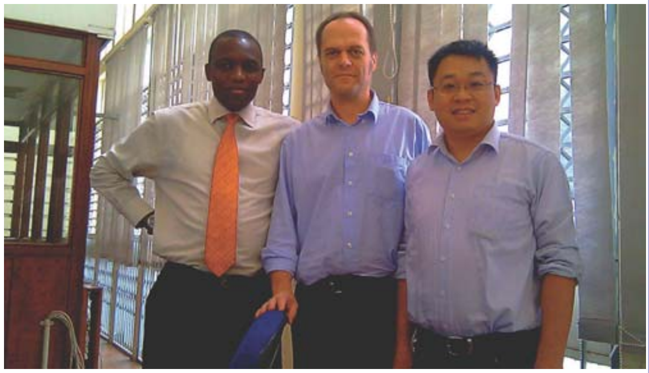
We concluded the renovation and re-branding program with the refurbishment of Chichiri, Mangochi and Mulanje Service centres. Significant progress was made towards the completion of the construction of the new Business Centre and Office Complex to which the bank will be moving in the course of 2011.

Having completed the refurbishment program, plans are underway to construct new agency service centres in a number of areas throughout the country in pursuance of the bank's objective of increasing areas of representation and growth. This presence will be supplemented by the deployment of ATMs at all qualifying new places.

New Core Banking System

In pursuance of one of the key strategic objectives of modernizing its IT systems, the bank, in the third quarter or 2010, successfully migrated from Bankmaster/Branchpower system which the bank had been using since 1997 to a new system called T24.

The change, which has taken 18 months to implement, is expected to bring a number of positive changes in the way the bank offers its products and services to customers. Among others, the new system will streamline the delivery platform, enhance capability to deliver on demand tailored products and will provide non-stop customer access to self-service channels such as internet, mobile banking (Mo626), POS terminals, and ATMs. In addition, risk management will be enhanced and the system is in compliance with the new Basel regime and anti money laundering rules.



Members of staff undewent T24 training to ensure that they have the requisite skills and competencies to use this state of the art banking technology

Now that most of the teething challenges have been dealt with, a number of additional functional modules will be added to the T24 system in 2011 to further enhance the system's capability to enable the bank serve its customers better.

HUMAN RESOURCES

The major focus during the year was on T24 training related activities. This was to ensure that members of staff have the requisite skills and competencies to use this state of the art banking technology.
Staff continued to excel in their professional studies with 3 of them qualifying as chartered bankers with the

Asset Based Finance Loan

Helping you own your dream assets.

Stockbrokers Malawi Limited ... turned around and registered MK 5.9m profit for the year 2010 (2009: K104m loss).

Chartered Institute of Bankers of the UK. We also offered a postgraduate scholarship to one of our young managers to pursue an MBA in Banking and Finance at a university in the UK.

CSR ACTIVITIES

During the course of the year, we released the second tranche of K7.0 million towards the K50 million sponsorship of a chair in commercial law in the Faculty of Law at Chancellor College, a constituency college of the University of Malawi. Other notable donations include K4.0 million to various health units, K2.0 million for earthquake victims in Karonga District, K2.0 million for the Malawi National Football team's participation in African Cup of Nations, K2.0 million for the physically challenged persons under Malawi Council for the Handicapped and K2.0 million to the elderly through the Silver Grey Foundation.

SUBSIDIARY AND ASSOCIATE COMPANIES

Stockbrokers Malawi Ltd

Stockbrokers Malawi Limited invested most of its time in reconciliation of legacy issues and the close monitoring of its internal controls. The company turned around and registered MK 5.9m profit for the year 2010 (2009: K104m loss). The major drivers were revenue realized from money market commissions complimented by the containment of costs during the period under review.

Following the 2009 loss, the company was recapitalized to comply with the regulatory capital threshold.

Having turned around, the company's focus will now be on customer attraction and retention through excellent service and good management of internal controls.

United General Insurance Ltd

UGI continues to register business growth. It attained growth in gross premium written of 17% to K1, 843 million in 2010. Underwriting profit grew by 36% from K78 million in 2009 to K106 million. Profit before tax increased 139% from K64 million in 2009 to K153 million.

The company is focusing on customer relationship management, cost leadership and staff motivational strategies in order to improve its market share and profitability. In this regard a new IT platform is being installed to enhance efficiencies in customer service, risk management and reporting capabilities.

Conclusion

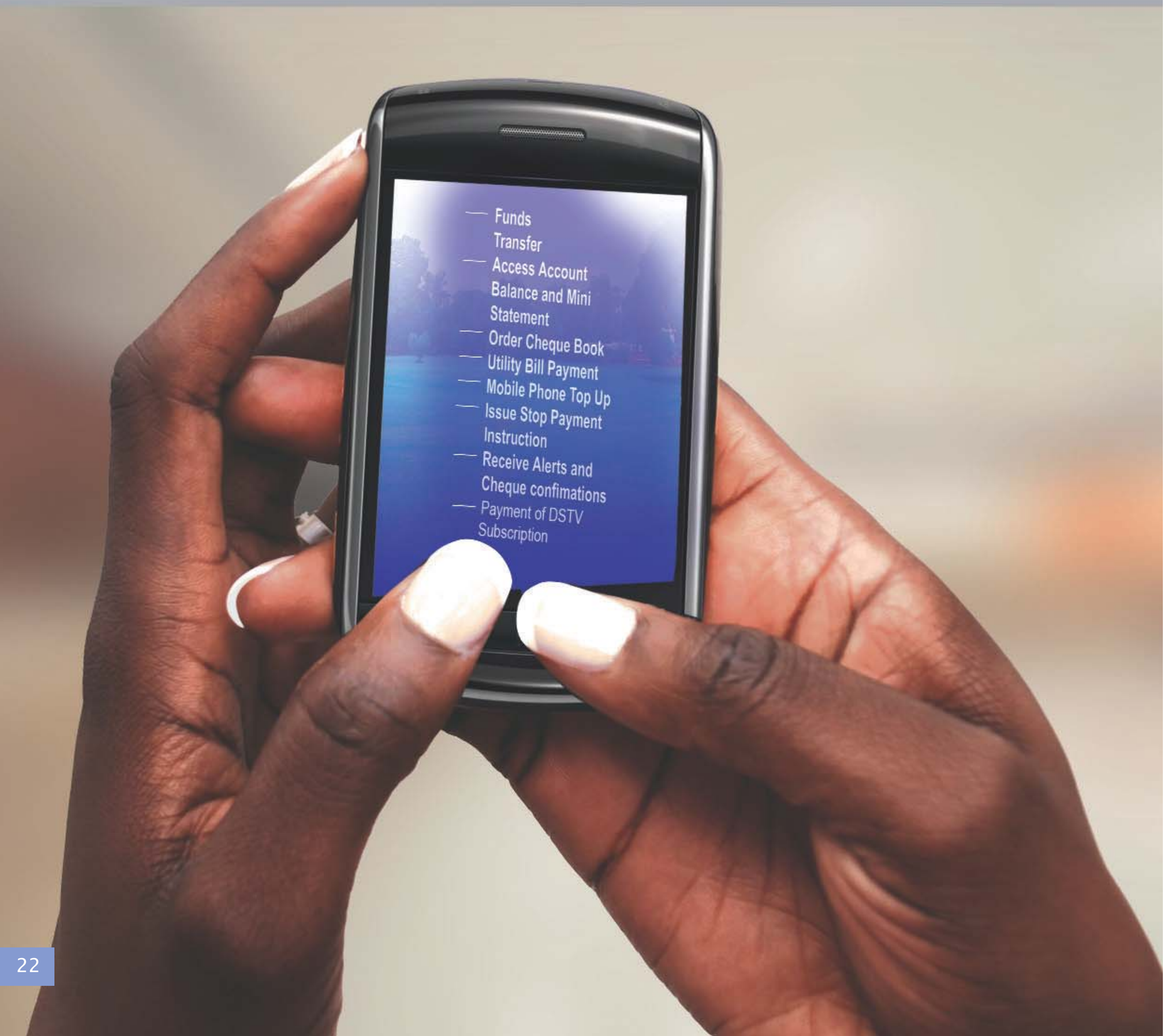
I would like to thank the Chairman and Board of directors for their guidance, support and direction during the year. I also convey my gratitude to senior management colleagues and all members of staff, for their commitment and outstanding contributions in the year 2010.

Let me pay special tribute to the T24 project team and the entire family of NBM for the togetherness and sense of purpose demonstrated during the implementation of the new computer system, a journey that had some anxious moments.

Finally, I take the opportunity to sincerely thank customers for the patience and perseverance shown when we had teething problems during migration to the new banking platform. I also thank our correspondent banks worldwide for their custom and loyalty to the bank and look forward to their continued support.

George B Partridge
Chief Executive

Helping you access various banking services via your cellphone from any mobile network in the world.

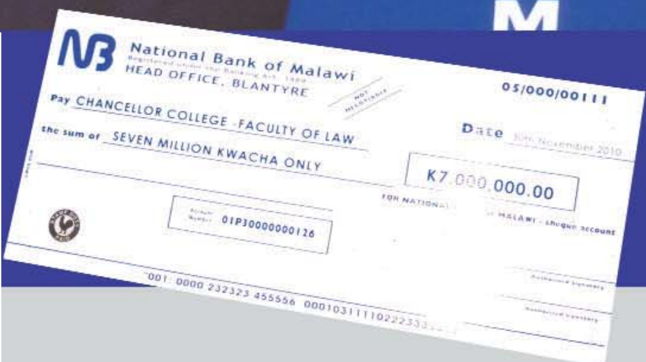


CORPORATE ACTIVITIES

CORPORATE ACTIVITIES

PLOUGHING BACK INTO COMMUNITIES THROUGH CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

National Bank of Malawi Chief Executive Officer, George Partridge, presents a cheque for K7 million to Chancellor College's Associate Professor Edge Kanyongolo towards sponsorship of a Chair in Commercial Law.



National Bank of Malawi
HEAD OFFICE, BLANTYRE

05/000/00111

Pay CHANCELLOR COLLEGE -FACULTY OF LAW

the sum of SEVEN MILLION KWACHA ONLY

Date

K7,000,000.00

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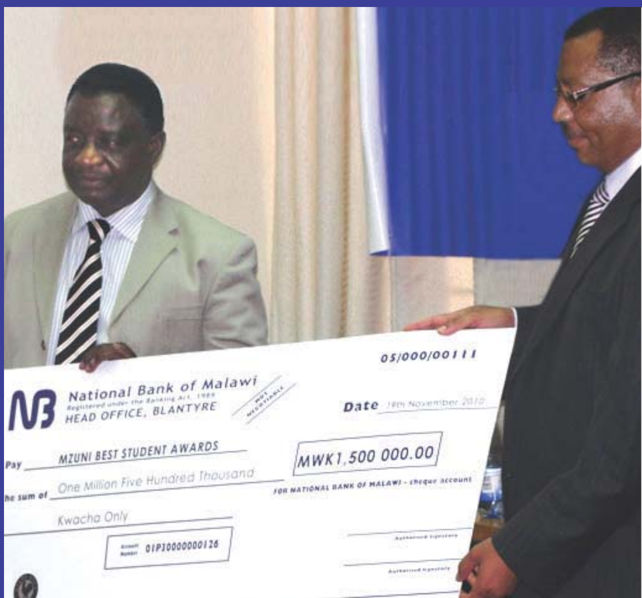
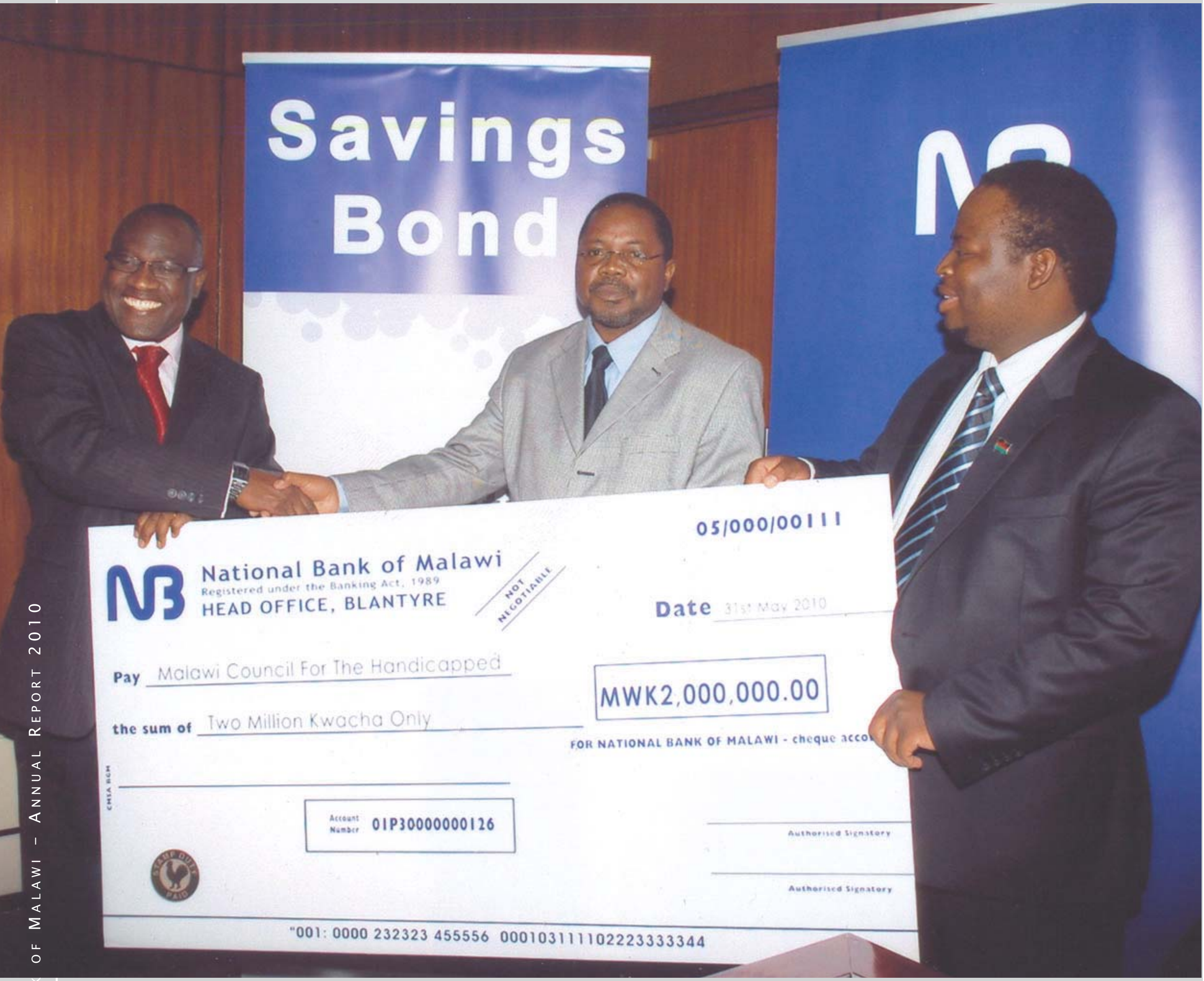
National Bank of Malawi Chief Executive Officer, George Patridge, in the year launched Best Student Awards for Mzuzu University, the second biggest university in Malawi.



PLOUGHING BACK INTO COMMUNITIES THROUGH CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

K2 million towards empowering the physically challenged through Malawi Council for the handicapped



PLOUGHING BACK INTO COMMUNITIES THROUGH CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

Cricket Ssponsorship

Blankets and tents to the victims of Karonga Earthquake

Golf sponsorship

To the sick at Salima Hospital

CORPORATE ACTIVITIES

PLOUGHING BACK INTO COMMUNITIES THROUGH CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

Quality education

Safe motherhood

MOTIVATING STAFF THROUGH RECREATION ACTIVITIES

MOTIVATING STAFF THROUGH RECREATION ACTIVITIES

SELECTED KEY CLIENTS' ACTIVITIES

BUILDING THE NATION THROUGH PROJECT FINANCING

MPICO SHOPPING MALL – UNDER CONSTRUCTION
The pride of the nation

CARLSBERG MALAWI
Malawi's biggest beer and beverage company.

SELECTED KEY CLIENTS' ACTIVITIES

BUILDING THE NATION THROUGH PROJECT FINANCING

SOS VILLAGE
A loving home for every child

DAEYANG LUKE HOSPITAL
"Whatever you did for the least of these brothers of mine, you did for Me." Matthews 25:40

SELECTED KEY CLIENTS' ACTIVITIES

BUILDING THE NATION THROUGH PROJECT FINANCING

KAMPONJI POULTRY FARM
Donna's Eggs

ZST CRESTA HOTEL
Absolute luxury

SELECTED KEY CLIENTS' ACTIVITIES

BUILDING THE NATION THROUGH PROJECT FINANCING

GALA TOBACCO ESTATE– ZOMBA
Flue cured tobacco farming

...mining and quarrying, construction, telecommunications and financial services registered growth of about 83%, 17%, 15% and 11% respectively in 2010.

DEVELOPMENTS IN 2010

Preliminary estimates from the National Statistics Office point to a growth rate of about 7.1% in 2010 suggesting that growth peaked in 2008 when the economy registered 8.6% real GDP growth. The slowdown in economic activity was mainly induced by adverse weather conditions in some parts of the country which experienced dry spells in January 2010. As a result agriculture grew by a modest 1.9% in 2010 from 13.9% the previous year.

The year under review, was also characterized by high foreign exchange demand on the back of the high economic growth rates experienced in the recent past. Excess foreign exchange demand put severe pressure on reserves which meant cover was persistently less than the recommended 3 months of imports, leading to queues in the country's commercial banks. Lack of foreign exchange severely impacted on the manufacturing sector due to its dependence on significant imported raw material inputs. As a result, growth in manufacturing output slowed down to 7% in the year under review from an average of 10% recorded in the past two years.

The above notwithstanding, mining and quarrying, construction, telecommunications and financial services registered growth of about 83%, 17%, 15% and 11% respectively in 2010.

INFLATION

Overall prices continued to trend downwards in 2010 with 6.3% inflation recorded in December. The low inflation environment experienced in the year was mainly due to low food prices, a direct effect of bumper harvests achieved in recent years because of the fertlizer subsidy program.

However, the authorities increased electricity and water tariffs by about 20% in December 2010 which coupled with rises in fuel prices worldwide may be expected to affect inflation in 2011.

INTEREST RATES

The bank rate was adjusted downward in August 2010 from 15% to 13% , a reflection of the low inflation environment in the economy. Consequently average prime lending rates were adjusted to approximately 17.75% with savings rates at about 3.5%.

2010 TOBACCO AUCTION SEASON

The 2010 tobacco marketing season was officially closed on 19th November 2010 with a total of 216.7 million kilograms sold and total export earnings of US$410.6 million (2009: 232.5 million kilograms and US$434.4 million). The decline in tobacco earnings in the year under review emanated from a decline in volumes sold as the 2010 average price at US$1.89 per kilogram was not significantly different from the 2009 average price of US$1.87 per kilogram.

OULOOK FOR 2011

Although agriculture performance is expected to improve in 2011, the excess foreign exchange demand conditions are expected to remain with the resultant effects on manufacturing output. In addition, upward pressure on prices as a result of increase in utility tariffs will create upward pressure on prices in the first half of 2011. As a result, the economy is forecast to grow at 6.8% in 2011, underpinned by strong growth in telecommunications and construction sectors.

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, regulatory authorities and staff.

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

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

Each committee has specific terms of reference issued by the Board and adopted by the committee which are available from the Company Secretary. All committee chairmen report on the proceedings of their committees at the next meeting of the Board.

In accordance with best practice, the directors have responsibility for maintaining a system of internal controls, which provides reasonable assurance that the Bank has effective and efficient operations with sound internal financial controls governing all the operating areas of the bank. The system of internal controls also ensures 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 32 to the financial statements explains in detail the risk management processes that the Bank has embraced.

The Bank's Board currently comprises two executive and seven non-executive directors. Of the seven non-ex directors, five directors are appointed by Press Corporation Limited and two directors by the Old Mutual Companies. These shareholders have the right to remove the directors they appoint. The chairman is chosen from among these directors.

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

Committees of the Board

Risk and Audit Committee

The Risk and Audit Committee comprises three non-executive directors and is chaired by Mr D.B. Mawindo. The Committee is responsible for exercising the full powers and authority of the Board in accounting and financial reporting matters as guided by its terms of reference.

Among others this committee reviews the ongoing processes for identifying, evaluating and managing the significant risks faced by the Bank.

The Bank's internal audit function supports the directors in assessing the effectiveness of internal controls in each business unit through a pre-arranged audit programme which addresses the full spectrum of the Bank's activities and risk exposures.

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

Appointments and Remuneration Committee

This sub Committee of the Board comprises three non-executive directors and is chaired by Mr E.J. Kambalame. Its principal functions are to ensure that there is a robust staff development and 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 of the Board is composed of three non-executive directors. It is chaired by Mr P.P. Mulipa and in line with its terms of reference, meets at least four times a year. 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 reports 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 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 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.

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

Deloitte.

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

We have audited the company and consolidated financial statements of National Bank of Malawi and its subsidiaries (the Group) as set out on pages 45 to 109, which comprise the statement of financial position as at 31 December 2010, 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 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in accordance with the provisions of the Companies Act, 1984, so far as concerns the members of the company.

Deloitte

31 March 2011

Audit • Tax • Consulting • Financial Advisory •

Resident Partners: N.T. Uka J.S. Melrose L.L. Katandula V.W. Beza C.A. Kapenda

A member of
Deloitte Touche Tohmatsu

	Notes	GROUP 2010 K'm	GROUP 2009 K'm	COMPANY 2010 K'm	COMPANY 2009 K'm
ASSETS					
Cash and funds with Reserve Bank of Malawi	5	5,474	7,737	5,474	7,737
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	3,928	9,821	3,927	9,814
Government of Malawi local registered stock	7	543	1,345	543	1,345
Equity investments	8	884	815	864	815
Investment in associate	9	202	157	123	123
Placements with other banks	10	9,515	3,488	9,515	3,488
Loans and advances	11	42,529	37,564	42,529	37,594
Other money market deposits	12	437	701	370	701
Other assets	13	5,636	4,586	5,728	4,516
Property, plant and equipment	14	12,359	8,750	12,356	8,741
Intangible assets	15	1,293	661	1,293	661
Deferred tax	16	7	604	7	604
Total assets		**82,807**	**76,229**	**82,729**	**76,139**
LIABILITIES AND EQUITY					
LIABILITIES					
Liabilities due to customers	17	59,023	55,072	59,030	55,080
Liabilities due to other banks		1,813	258	1,813	258
Current income tax liabilities		125	862	123	862
Other liabilities	18	6,766	6,989	6,686	6,912
Post employment benefit obligation	19	1,496	1,103	1,494	1,100
Total liabilities		69,223	64,284	69,146	64,212
EQUITY					
Capital and Reserves					
Share capital		467	466	467	466
Share premium		597	563	597	563
Loan loss reserve		411	375	411	375
Revaluation reserve		1,671	1,654	1,671	1,654
Retained earnings		10,431	8,888	10,437	8,869
Equity attributable to equity holders of the parent		13,577	11,946	13,583	11,927
Non-controlling interests		7	(1)	-	-
Total equity		13,584	11,945	13,583	11,927
Total equity and liabilities		82,807	76,229	82,729	76,139
Memorandum items					
Contingencies	27	2,434	3,461	2,434	3,461

The financial statements were authorised for issue by the Board of Directors on 31 March 2011 and were signed on its behalf by:

Chairman: Dr. M.A.P. Chikaonda

Director: Mr. G.B. Partridge

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

		GROUP		COMPANY	
	Notes	2010 K'm	2009 K'm	2010 K'm	2009 K'm
Income					
Interest and similar income	20	7,994	7,893	7,989	7,896
Interest expense and similar charges	20	(1,153)	(1,116)	(1,150)	(1,116)
Net interest income	20	6,841	6,777	6,839	6,780
Commission and fee income	21	2,113	2,337	2,049	2,308
Gains less losses arising from dealing in foreign currencies		1,503	1,803	1,503	1,803
Income from operating leases		634	428	634	428
Fair value loss on equity investments	8	(41)	(148)	(36)	(148)
Profit/(loss) on disposal of equity investments		3	(39)	-	(39)
Share of profits of associate		41	22	-	-
Dividend income		62	43	60	43
Profit on disposal of property, plant and equipment		124	26	124	26
Total income		11,280	11,249	11,173	11,201
Expenditure					
Staff costs	22	3,012	2,633	2,980	2,608
Other operating expenditure	23	3,352	2,597	3,247	2,561
Impairment (gain)/loss on property		(42)	566	(42)	566
Total expenditure		6,322	5,796	6,185	5,735
Profit before recoveries and impairment losses on loans and advances		4,958	5,453	4,988	5,466
Recoveries on impaired loans and advances	11	326	433	326	433
Impairment losses on loans and advances	11	(206)	(264)	(206)	(264)
Profit before tax		5,078	5,622	5,108	5,635
Income tax expense	24	(1,649)	(1,820)	(1,636)	(1,812)
Profit for the year		3,429	3,802	3,472	3,823
Other comprehensive income					
Surplus/(deficit) on revaluation of properties	14	340	(86)	340	(86)
Deferred tax on revalued assets		(241)	109	(241)	109
Total other comprehensive income		99	23	99	23
Total comprehensive income for the year		3,528	3,825	3,571	3,846
Profit attributable to:					
Equity holders of the company	25	3,447	3,811	3,472	3,823
Non-controlling interests		(18)	(9)	-	-
		3,429	3,802	3,472	3,823
Comprehensive income attributable to:					
Equity holders of the company		3,546	3,834	3,571	3,846
Non-controlling interests		(18)	(9)	-	-
		3,528	3,825	3,571	3,846
Earnings per share (K)	25	7.38	8.18		
Diluted earnings per share (K)	25	7.37	8.16		
Dividend per share (K)	26	4.18	3.59		

	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								
2009								
As at 1 January 2009	457	49	255	1,640	7,356	9,757	8	9,765
Comprehensive income:								
- Profit for the year	-	-	-	-	3,811	3,811	(9)	3,802
- Other comprehensive income	-	-	-	23	-	23	-	23
- Transfer of excess depreciation	-	-	-	(9)	9	-	-	-
- Transfer to loan loss reserve	-	-	120	-	(120)	-	-	-
Total comprehensive income	-	-	120	14	3,700	3,834	(9)	3,825
2008 final dividend proposed and paid	-	-	-	-	(1,002)	(1,002)	-	(1,002)
2009 interim dividend proposed and paid	-	-	-	-	(671)	(671)	-	(671)
Issue of shares under employee share ownership plan	1	27	-	-	-	28	-	28
Issue of bonus shares	8	487	-	-	(495)	-	-	-
As at 31 December 2009	466	563	375	1,654	8,888	11,946	(1)	11,945
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 employee share ownership plan	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

For the year ended 31 December 2010

	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						
2009						
As at 1 January 2009	457	49	255	1,640	7,325	9,726
Comprehensive income:						
- Profit for the year	-	-	-	-	3,823	3,823
- Other comprehensive income	-	-	-	23	-	23
- Transfer of excess depreciation	-	-	-	(9)	9	-
- Transfer to loan loss reserve	-	-	120	-	(120)	-
Total comprehensive income	-	-	120	14	3,712	3,846
2008 final dividend proposed and paid	-	-	-	-	(1,002)	(1,002)
2009 interim dividend proposed and paid	-	-	-	-	(671)	(671)
Issue of shares under employee share ownership plan	1	27	-	-	-	28
Issue of bonus shares	8	487	-	-	(495)	-
As at 31 December 2009	466	563	375	1,654	8,869	11,927
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 employee share ownership plan	1	34	-	-	-	35
As at 31 December 2010	467	597	411	1,671	10,437	13,583

ANALYSIS OF SHARE CAPITAL	2010 K'm	2009 K'm
Authorised		
500,000,000 Ordinary shares of K1 each	500	500
Issued and fully paid		
466,635,738 (2009: 466,019,038) Ordinary shares of K1 each	467	466

LOAN LOSS RESERVE	GROUP & COMPANY 2010 K'm	2009 K'm
Loan loss reserve	411	375

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

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

EMPLOYEE SHARE OPTION PLAN

Issue of shares to employees (ESOP)

Since 2000 the Bank has operated an Employee Share Ownership Plan (ESOP). Through the scheme, which is due to expire in 2011, full time employees of the Bank are availed options to purchase shares in the Bank. A total of 9,000,000 Ordinary shares were earmarked for the scheme, representing 2% of the issued share capital at the time of listing the Bank on the Malawi Stock Exchange (MSE).

An optional offer of 8,208,200 K1 Ordinary shares was made to eligible employees at a price of K4 per share in 2000 to be exercised over a period of four years, in four equal amounts. By 31 December 2007 a total of 5,602,500 shares had been taken up. In 2007, the Bank made a second optional offer of 298,200 shares to employees who became eligible under the scheme since the last offer, at K23 per share, the market price ruling at the time the offer was made, to be exercised over the period to 2010. Shares amounting to 197,700 were accepted from this offer. In line with the scheme rules that provide for re-offer of lapsed shares, a subsequent optional offer was made of 3,158,200 Ordinary shares to all eligible employees at K30 per share, the market price ruling at the time the offer was made, to be exercised over a four year period, out of which 2,660,400 shares were accepted. In 2010 a further 711,800 shares were offered to eligible members of staff and 607,800 shares were accepted

As at 31 December 2010 options totaling 8,308,300 (2009: 7,960,000) Ordinary shares had been exercised under the scheme. Options totaling 691,700 (2009: 1,040,000) Ordinary shares were still outstanding. Consistent with the scheme rules, any shares not taken up through either lapsing or rejection will be offered to eligible employees before the expiry of the life of the plan in June 2011.

STATEMENTS OF CASHFLOWS

For the year ended 31 December 2010

		GROUP		COMPANY	
	Notes	2010 K'm	2009 K'm	2010 K'm	2009 K'm
Cash flows from operating activities					
Profit before tax		5,078	5,622	5,108	5,635
Adjustments for:					
● Depreciation	23	1,004	716	1,002	713
● Profit on disposal of property, plant and equipment		(124)	(26)	(124)	(26)
● (Profit)/loss on disposal of equity investments		(3)	39	-	39
● Fair value loss on equity investments	8	41	148	36	148
● Dividend receivable		(62)	(43)	(60)	(43)
● Impairment (gain)/loss on property		(42)	566	(42)	566
● Share of profits of associate		(41)	(22)	-	-
● Increase in liabilities to customers		3,951	9,633	3,950	9,635
● (Decrease)/increase in other liabilities		(223)	3,378	(226)	3,321
● Increase in employment benefit obligations		393	13	394	13
● Increase in loans and advances		(4,965)	(11,997)	(4,936)	(12,027)
● Increase in other assets		(1,051)	(1,198)	(1,146)	(1,133)
Cash generated from operations		3,956	6,829	3,956	6,841
Taxation paid		(2,017)	(1,669)	(2,017)	(1,664)
Net cash flow from operating activities		1,939	5,160	1,939	5,177
Cash flows from investing activities					
Decrease in investments with maturity over three months		6,695	1,150	6,610	1,156
Purchase of property, plant and equipment		(5026)	(3,584)	(5026)	(3,583)
Proceeds from disposal of property, plant and equipment		300	47	295	47
Purchase of equity investments		(110)	(23)	(85)	(23)
Proceeds from disposal of equity investments		-	58	-	58
Dividends received		62	43	60	43
Net cash flow from investing activities		1,921	(2,309)	1,854	(2,302)
Cash flows from financing activities					
Proceeds from issue of shares		35	28	35	28
Dividends paid		(1,950)	(1,673)	(1,950)	(1,673)
Net cash flow from financing activities		(1,915)	(1,645)	(1,915)	(1,645)
Net increase in cash and cash equivalents		1,945	1,206	1,878	1,230
Cash and cash equivalents at beginning of the year		11,668	10,462	11,668	10,438
Cash and cash equivalents at end of the year	29	13,613	11,668	13,546	11,668

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 26 service centres (2009: 25).

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

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

The Group's parent company is Press Corporation Limited (PCL), which is a limited liability company, incorporated and domiciled in Malawi, and 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 entity 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 2010.

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

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 3 *Business Combinations* - Amendments resulting from May 2010 Annual Improvements to IFRSs (effective for annual periods beginning on or after 1 July 2010).

2.2.2 IFRS 7 *Financial Instruments: Disclosures* - Amendments resulting from May 2010 Annual Improvements to IFRSs (effective for annual periods beginning on or after 1 January 2011).

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

2.2.4 IFRS 9 *Financial Instruments - Classification and Measurement* (effective for annual periods beginning on or after 1 January 2013).

2.2.5 IAS 1 *Presentation of Financial Statements* - Amendments resulting from May 2010 Annual Improvements to IFRSs (effective for annual periods beginning on or after 1 January 2011).

2.2.6 IAS 12 Income Taxes - Limited scope amendment (recovery of underlying assets). Effective for annual periods beginning on or after 1 January 2012.

2.2.7 IAS 24 *Related Party Disclosures* - Revised definition of related parties (effective for annual periods beginning on or after 1 January 2011).

2.2.8 IAS 27 *Consolidated and Separate Financial Statements* - Amendments resulting from May 2010 Annual Improvements to IFRSs (effective for annual periods beginning on or after 1 July 2010).

2.2.9 IAS 32 *Financial Instruments: Presentation* - Amendments relating to classification of rights issues (effective for annual periods beginning on or after 1 February 2010).

2.2.10 IFRIC 13 *Customer Loyalty Programmes* - Amendments resulting from May 2010 Annual Improvements to IFRSs (effective for annual periods beginning on or after 1 January 2011).

2.2.11 IFRIC 14 IAS19 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* - November 2009 Amendments with respect to voluntary prepaid contributions (effective for annual periods beginning on or after 1 January 2011).

2.2.12 IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods beginning on or after 1 July 2010).

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

3. ACCOUNTING POLICIES

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

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

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

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

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

a. <u>Subsidiaries</u>
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.

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. <u>Associates</u>
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

3. ACCOUNTING POLICIES (Continued)

3.1 Basis of consolidation (Continued)

b. <u>Associates</u> (Continued)

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

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

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

ii. <u>Loans and receivables</u>

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. <u>Held-to-maturity investments</u>

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.

3. ACCOUNTING POLICIES (Continued)

3.3 Financial assets (Continued)

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

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

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

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

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

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

3. ACCOUNTING POLICIES (Continued)

3.3 Financial assets (Continued)

vii. Reclassification of financial assets (Continued)
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 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

3. ACCOUNTING POLICIES (Continued)

3.6 Impairment of financial assets (Continued)

a. Assets carried at amortised cost(Continued)
current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

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

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

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

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

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

3.7 Property, plant and equipment

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

3. ACCOUNTING POLICIES (Continued)

3.7 Property, plant and equipment (Continued)

annually, net of deferred tax, from the revaluation reserve to retained earnings.

Land and buildings comprise mainly service centres and offices.

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

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

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

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

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

Freehold land and capital work in progress are not depreciated.

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

3.8 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 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.

3.9 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and

3. ACCOUNTING POLICIES (Continued)

3.9 Derivative financial instruments (Continued)

are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

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

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

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

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

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

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

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

3.11 Non-current assets held for sale

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

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

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

3.12 Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the

3. ACCOUNTING POLICIES (Continued)

3.12 Provisions (Continued)

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 ongoing 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.

3.13 Taxation

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

Current tax

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

Deferred tax

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

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

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

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

3. ACCOUNTING POLICIES (Continued)

3.13 Taxation (Continued)

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.

3.14 Cash and cash equivalents

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

3.15 Employee benefits

a. **Pension obligations - Defined Contribution Plan**

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

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

The plan has two funds General Fund and Death Top up Fund (Special Fund). The Special Fund applies to additional funds that are made by the employer at 4% of salary to cover additional sums due on death-in-service, the final salary underpin and severance pay liabilities (note 19).

b. **Short-term benefits**

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

c. **Severance pay**

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

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

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

3.16 Foreign currency translation

a. **Functional and presentation currency**

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

b. **Transactions and balances**

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

3.17 Financial liabilities and equity

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

i. **Customer deposits and liabilities to other banks**

Customer deposits and liabilities to other banks are recognised initially at fair value, being their issue

3. ACCOUNTING POLICIES (Continued)

3.17 Financial liabilities and equity (Continued)

i. Customer deposits and liabilities to other banks (Continued)

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.

3.18 Revenue recognition

Interest income and expense

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

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

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

Fee and commission income

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

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

Dividend income

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

3.19 Share capital

Share issue costs

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

Dividends on ordinary shares

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

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

Dividend per share

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

3. ACCOUNTING POLICIES (Continued)

3.19 Share capital (Continued)

Earnings per share

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

3.20 Fiduciary activities

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

4.1 Critical judgements in applying the Group's accounting policies

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

4.2 Key sources of estimation uncertainty

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

i. Impairment losses on loans and advances

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

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

Key assumptions used:

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

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

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

4.2 Key sources of estimation uncertainty (Continued)

ii. <u>Held to maturity investments</u> (Continued)
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. <u>Valuation of properties</u>
The assumptions and methods of revaluing properties are disclosed in note 14.

iv. <u>Residual values useful lives of tangible assets</u>
The residual values and useful lives of property, plant and equipment are reviewed and adjusted, if appropriate, at each reporting 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 3.7.

v. <u>Severance allowance provision</u>
The Bank has estimated severance allowance provision as at 31 December 2010. The actual liability to be incurred will depend on a number of factors including rates of death, retirement, resignation and dismissal. The amount provided is subject to review annually.

5. CASH AND FUNDS WITH RESERVE BANK OF MALAWI

	GROUP		COMPANY	
	2010 K'm	2009 K'm	2010 K'm	2009 K'm
Cash	2,870	2,370	2,870	2,370
Balances with the Reserve Bank of Malawi	2,604	5,367	2,604	5,367
Total cash and funds with Reserve Bank of Malawi	5,474	7,737	5,474	7,737

The currency analysis of cash is in note 32(e).

Balances held at Reserve Bank of Malawi are denominated in Malawi Kwacha, are non-interest bearing and are regulated as disclosed in note 32(e) and 32(g).

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

	Average interest rate 2010	Average interest rate 2009	GROUP 2010 K'm	GROUP 2009 K'm	COMPANY 2010 K'm	COMPANY 2009 K'm
Government of Malawi treasury bills	10.1%	12.6%	2,854	8,806	2,854	8,800
Reserve Bank of Malawi bonds	10.0%	10.0%	1,074	1,015	1,073	1,014
			3,928	9,821	3,927	9,814
The bills and bonds are due to mature as follows:						
● Within three months			1,003	5,223	1,002	5,217
● Between three months and one year			2,925	4,598	2,925	4,597
			3,928	9,821	3,927	9,814

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	
	2010 K'm	2009 K'm	2010 K'm	2009 K'm
The stock is due to mature as follows:				
● Within three months	107	663	107	663
● Between three months and one year	-	512	-	512
● Between one and five years	436	170	436	170
	543	1,345	543	1,345

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% (2009: 17.3%).

8. QUOTED EQUITY INVESTMENTS

GROUP	2009 Carrying Amount K'm	Additions /(disposals) K'm	Fair value adjustment K'm	2010 Carrying Amount K'm	Cost K'm
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: K10.00) 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
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
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	-
Total quoted equity investments	815	110	(41)	884	964

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

8. QUOTED EQUITY INVESTMENTS (Continued)

COMPANY	2009 Carrying Amount K'm	Additions /(disposals) K'm	Fair value adjustment K'm	2010 Carrying Amount K'm	Cost K'm
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 quoted 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.

8. QUOTED EQUITY INVESTMENTS

GROUP & COMPANY	2009 Carrying Amount K'm	Additions /(disposals) K'm	Fair value adjustment K'm	2010 Carrying Amount K'm	Cost K'm
First Merchant Bank Limited 9,209,720 (2008: 9,771,229) Ordinary shares of K2.50 each at a market value of K10.00 (2008: K12.00) per share	117	(12)	(13)	92	80
Illovo Sugar (Malawi) Limited 4,024,785 (2008: 4,113,985) Ordinary shares of K0.02 each at a market value of K110.00 ((2008: K125.00) per share	514	(11)	(60)	443	464
NICO Holdings Limited 3,000,000 Ordinary shares of K0.20 each at a market value of K9.00 (2008: K9.50) per share	29	-	(2)	27	21
Malawi Property Investment Company Limited 5,532,748 (2008:7,032,748) Ordinary shares of K0.05 each at a market value of K2.60 (2008:K4.30) per share	30	(7)	(9)	14	19
National Investment Trust Limited 4,946,371 Ordinary shares of K1.00 each at a market value of K15.50 (2008:K21.00) per share	104	-	(27)	77	119
NBS Bank Limited 924,553 (2008: 1,325,358) Ordinary shares of K0.50 each at a market value of K14.00 (2008: K14.50) per share	19	(6)	-	13	9
Old Mutual Limited Nil (2008: 148,500) Ordinary shares	62	(62)	-	-	-
Packaging Industries Malawi Limited 2,000,000 Ordinary shares of K0.20 each at a market value of K6.25 per share	13	-	-	13	13
Standard Bank of Malawi Limited 595,277 (2008:426,899) Ordinary shares of K1.00 each at market value of K92.00 (2008:K85) per share	36	14	4	54	51
Sunbird Malawi Limited 1,000,000 Ordinary shares of K0.05 each at a market value of K8.90 per share	9	-	-	9	9
Telekom Networks Malawi Limited 36,592,400 (2008:31,592,400) Ordinary shares of K0.04 each at a market value of K2.00 (2008:3.30) per share	104	10	(41)	73	73
Total quoted equity investments	1,037	(74)	(148)	815	858

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

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

9. INVESTMENT IN ASSOCIATE

	GROUP		COMPANY	
	2010 K'm	2009 K'm	2010 K'm	2009 K'm
Purchase consideration	123	123	123	123
Share of results	105	49	-	-
Share of tax	(26)	(15)	-	-
	202	157	123	123
Assets	1,566	1,349		
Liabilities	1,108	1,008		
Net assets	458	341		
Group's share of net assets of associates	119	89		
Total revenue	1,328	1,139		
Total profit for the period	116	55		

The Bank holds 26% (2009: 26%) of United General Insurance Limited shares.

10. PLACEMENTS WITH OTHER BANKS

	GROUP & COMPANY	
	2010 K'm	2009 K'm
Money market placements with other banks	8,335	2,081
Balances due from other banks	1,180	1,407
Total placements with other banks	9,515	3,488

Placements with other banks are denominated in the following currencies:

	Average interest rate			
	2010	2009		
Malawi Kwacha denominated	10.50%	11.80%	6,200	2,082
US Dollar denominated	0.80%	0.27%	2,024	911
GBP denominated	0.53%	0.73%	479	125
Euro denominated	0.65%	0.81%	674	167
ZAR denominated	4.50%	6.93%	10	114
Other	-	-	128	89
			9,515	3,488

Money market placements with other banks are held to maturity and mature within 3 months (2009: 3 months).

11. LOANS AND ADVANCES

	GROUP		COMPANY	
	2010 K'm	2009 K'm	2010 K'm	2009 K'm
Gross loans and advances	42,880	37,870	42,880	37,900
Specific provisions	(351)	(306)	(351)	(306)
Net loans and advances	42,529	37,564	42,529	37,594
Due to mature as follows:				
● Within three months	11,260	757	11,260	759
● Between three months and one year	17,064	22,779	17,064	22,779
● After one year and not later than 5 years	14,804	14,488	14,804	14,518
● Interest in suspense	(248)	(156)	(248)	(156)
	42,880	37,868	42,880	37,900
Analysis of gross loans by currency				
Malawi Kwacha denominated	36,907	33,617	36,907	33,649
US Dollar denominated	5,973	4,251	5,973	4,251
	42,880	37,868	42,880	37,900

The Malawi Kwacha base lending rate for the bank as at 31 December 2010 was 17.75% (2009: 19.5%) and US Dollar denominated loans carried an average interest rate of 8.6% (2009: 9.4%).

	GROUP		COMPANY	
	2010 K'm	2009 K'm	2010 K'm	2009 K'm
Movement on specific provisions				
At beginning of the year	306	208	306	208
Applied against advances	(84)	(113)	(84)	(113)
Charged to statement of comprehensive income	206	264	206	264
Recovered	(77)	(53)	(77)	(53)
At end of the year	351	306	351	306
Movement on interest in suspense				
At beginning of the year	156	144	156	144
Applied against advances	(101)	(118)	(101)	(118)
Suspended in the year	286	246	286	246
Recovered	(93)	(116)	(93)	(116)
At end of the year	248	156	248	156
Analysis of recoveries				
Specific provisions	78	53	78	53
Interest in suspense	93	116	93	116
Debts previously written off	155	264	155	264
Transferred to the statement of comprehensive income	326	433	326	433

11. LOANS AND ADVANCES (Continued)

	GROUP & COMPANY	
	2009 K'm	2008 K'm
Finance Lease receivables		
Loans and advances to customers include the following finance lease receivables:		
Gross investment in finance lease receivable:		
● Within three months	88	152
● Between three months and one year	645	470
● After one year and not later than five years	3,789	3,792
	4,522	4,414
Unearned future income on finance leases	(802)	(859)
	3,720	3,555
Specific provisions	(1)	(23)
Net investment in finance leases	3,719	3,532
The net investment in finance leases matures as follows:		
● Within three months	81	151
● Between three months and one year	603	436
● After one year and not later than five years	3,035	2,945
	3,719	3,532

12. OTHER MONEY MARKET DEPOSITS

	GROUP		COMPANY	
	2010 K'm	2009 K'm	2010 K'm	2009 K'm
Balances with discount houses	437	701	370	701

Balances with discount houses are held to maturity and mature within one month (2009: 1 month) after the year-end. The deposits earned an average interest rate of 5.4% (2009: 10.25%).

13. OTHER ASSETS

	GROUP		COMPANY	
	2010 K'm	2009 K'm	2010 K'm	2009 K'm
Letters of credit	3,531	3,389	3,531	3,389
Sundry receivables and prepayments	810	590	803	501
Due from local banks	1,276	588	1,276	588
Stockbrokers Malawi Limited	-	-	99	19
Other investments	19	19	19	19
Total other assets	5,636	4,586	5,728	4,516

The Bank, through National Bank Nominees Limited, holds a 75% (2009: 75%) stake in Stockbrokers Malawi Limited (SML).

14. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings K'm	Leasehold land and buildings K'm	Motor vehicles and equipment	Work in progress K'm	Total K'm
COMPANY					
COST OR VALUATION					
At 1 January 2009	1,971	540	3,394	2,570	8,475
Additions	9	38	789	2,356	3,192
Transfer from work in progress	207	984	-	(1,191)	-
Impairment loss	(166)	(490)	-	-	(656)
Elimination on disposal	-	-	(90)	-	(90)
At 31 December 2009	2,021	1,072	4,093	3,735	10,921
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
DEPRECIATION					
At 1 January 2009	-	-	1,592	-	1,592
Charge for the year	17	4	640	-	661
Elimination on revaluation	(4)	-	-	-	(4)
Elimination on disposal	-	-	(69)	-	(69)
At 31 December 2009	13	4	2,163	-	2,180
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
CARRYING AMOUNT					
At 31 December 2010	2,480	1,299	2,908	5,669	12,356
At 31 December 2009	2,008	1,068	1,930	3,735	8,741

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

	2010 K'm	2009 K'm
GROUP		
Carrying amount		
Total property, plant and equipment - Company	12,356	8,741
Property, plant and equipment included in subsidiary companies	3	9
Total property, plant & equipment - Group	12,359	8,750

Land and buildings

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

		2010 K'm	2009 K'm
Freehold	- at 2008 valuation	-	1,911
	- at 2009 valuation	-	110
	- at 2010 valuation	2,480	-
Total freehold land and buildings		2,480	2,021
Leasehold	- at 2008 valuation	-	537
	- at 2009 valuation	-	535
	- at 2010 valuation	1,299	-
Total leasehold land and buildings		1,299	1,072

Included in the property, plant and equipment in subsidiary companies are motor vehicles and office equipment with a gross value of K18m (2009: K26m).

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	2010 K'm	2009 K'm
Equipment	-	89	89	173
Motor vehicles	1,319	15	1,334	784
	1,319	104	1,423	957

Malawi Telecommunications Limited and the Bottling and Brewing Group Limited are the related parties to whom the Group is leasing out the motor vehicles which were purchased at a cost of K447m (2009: K563m) and K1,542m (2009: K523m), respectively.

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

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

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

Valuations in 2010

Land and buildings were revalued as at 31 December 2010 by Chris Mullock, MRICS, MSIM, a qualified independent valuer. The revaluation resulted in a net revaluation surplus of K382m. The basis of valuation was current market value.

As at 31 December 2010, had the land and buildings (excluding work in progress) been carried at historical cost less depreciation and accumulated impairment losses, their carrying amount would have been approximately K1,443m (2009: K1,041m).

15. 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 2009	111	47	234	392
Additions	-	-	412	412
Transfer from work in progress	215	-	(215)	-
At 31 December 2009	326	47	431	804
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
DEPRECIATION				
At 1 January 2009	51	40	-	91
Charge for the year	51	1	-	52
At 31 December 2009	102	41	-	143
At 1 January 2010	102	41	-	143
Charge for the year	65	1	-	66
At 31 December 2010	167	42	-	209
Carrying amounts				
31 December 2010	159	1,019	115	1,293
At 31 December 2009	224	6	431	661

16. DEFERRED TAX

	Opening balance K'm	Charge to income K'm	Charged to equity K'm	Closing balance K'm
GROUP				
2009				
Accelerated capital allowances	(100)	135	-	35
Revaluation of fixed assets	(35)	-	109	74
Other temporary differences	435	60	-	495
Total deferred tax	300	195	109	604
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
COMPANY				
2009				
Accelerated capital allowances	(100)	136	-	36
Revaluation of fixed assets	(35)	-	109	74
Other temporary differences	436	58	-	494
Total deferred tax	301	194	109	604
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

17. LIABILITIES DUE TO CUSTOMERS

	Average interest rate		GROUP		COMPANY	
	2010	2009	2010 K'm	2009 K'm	2010 K'm	2009 K'm
Analysis by account type:						
Current accounts	0.10%	1.00%	26,370	27,917	26,372	27,925
Foreign currency accounts	0.43%	0.50%	7,042	6,260	7,047	6,260
Savings accounts	1.65%	3.13%	9,848	8,277	9,848	8,277
Deposit accounts	3.77%	6.07%	15,763	12,618	15,763	12,618
Total liabilities due to customers			59,023	55,072	59,030	55,080
Analysis by interest risk type:						
Interest bearing deposits			58,113	54,146	58,120	54,154
Non-interest bearing deposits			910	926	910	926
Total liabilities due to customers			59,023	55,072	59,030	55,080

All interest bearing deposits excluding deposit accounts are at floating rates that are adjusted at the Bank's discretion (see note 32 (d)).

17. LIABILITIES DUE TO CUSTOMERS (Continued)

	GROUP		COMPANY	
	2010 K'm	2009 K'm	2010 K'm	2009 K'm
Analysis by interest maturity:				
Liabilities due to customers are payable as follows:				
● Within three months	57,250	54,678	57,257	54,686
● Between three months and one year	1,773	394	1,773	394
Total	59,023	55,072	59,030	55,080
Analysis by sector:				
Agriculture	3,806	4,424	3,806	4,424
Manufacturing	3,898	3,987	3,898	3,987
Wholesale and retail	8,463	4,687	8,463	4,687
Finance and insurance	2,656	1,754	2,663	1,762
Personal accounts	36,033	33,690	36,033	33,690
Other	4,167	6,530	4,167	6,530
Total	59,023	55,072	59,030	55,080

The currency analysis of liabilities due to customers is included in note 32 (e).

18. OTHER LIABILITIES

	GROUP 2010 K'm	GROUP 2009 K'm	COMPANY 2010 K'm	COMPANY 2009 K'm
Letters of credit	3,531	3,389	3,531	3,389
Other liabilities	2,043	2,220	1,963	2,143
Staff bonus	-	471	-	471
Unclaimed balances	385	344	385	344
Bank cheques	769	450	769	450
Office accounts	38	115	38	115
Total other liabilities	6,766	6,989	6,686	6,912

The currency analysis of other liabilities is included in note 32 (e).

19. EMPLOYMENT BENEFIT OBLIGATION

	GROUP		COMPANY	
	2010 K'm	2009 K'm	2010 K'm	2009 K'm
Unfunded employment benefit obligation				
Employment benefit obligation	1,599	1,587	1,597	1,584
Fair value of plan assets	(103)	(484)	(103)	(484)
Unfunded employment benefit obligation	1,496	1,103	1,494	1,100
Movements in employment benefit obligation in the current period were as follows:				
Opening balance	1,587	1,512	1,584	1,509
Current service cost of severance pay	472	79	471	79
Net investment income	82	62	82	62
Benefits paid	(542)	(66)	(540)	(66)
Closing balance	1,599	1,587	1,597	1,584
Movements in the fair value of plan assets in the current period were as follows:				
Opening balance	484	422	484	422
Interest income	82	69	82	69
Contributions	53	39	53	39
Benefits paid	(516)	(46)	(516)	(46)
Closing balance	103	484	103	484
The major categories of plan assets as at the year-end date were as follows:				
Equity investments	16	13	16	13
Fixed deposit investments	67	35	67	35
Government of Malawi treasury bills	-	416	-	416
Government of Malawi Local Registered Stocks	20	20	20	20
	103	484	103	484

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

Accordingly the group has made a net provision of K1.5 billion (2009: K1.1 billion) in line with the Act as a defined benefit scheme under IAS 19.

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

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

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

19. EMPLOYMENT BENEFIT OBLIGATION (Continued)

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

The legislation that gave rise to the requirement to provide for severance allowance, the Employment Act, has been revised. The principal change to the Act is the removal of the provision requiring employers to accrue for severance allowance relating to future retirement costs. The new Act was assented to, but not gazetted, and it is supposed to be introduced in conjunction with new pensions legislation (Pensions Act) which was passed by Parliament subsequent to the year end and has also not yet been gazetted. The amended Acts introduce an obligation on the part of employers to ensure that employees are covered by registered pension arrangements. Both these pieces of legislation, when effective, will give rise to changes in the accounting for post retirement benefits.

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% (2009: 5.5%) and 11% (2009: 11%) of the fund members' basic pensionable salaries, respectively. The employer contributes an additional 4% (2009: 4%) of the pensionable salary. Thus the total contribution by the employer is 15% of pensionable salary. The amount charged against income during the year was K200m (2009: K145m).

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

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

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

The Bank rents some of the Fund's properties at commercial rates. The Group incurred K92m (2009: K81m) in rentals for such properties during the year.

	GROUP		COMPANY	
	2009 K'm	2008 K'm	2009 K'm	2008 K'm
20. NET INTEREST INCOME				
Interest income				
Interest on loans and advances and bills discounted	6,324	5,333	6,325	5,336
Income from investments	843	1,760	843	1,760
Income from lease financing	713	718	713	718
Interest on placements with other banks	114	82	108	82
	7,994	7,893	7,989	7,896
Interest expense				
Banks and customers	692	814	692	814
Money market loans and repos	461	302	458	302
	1,153	1,116	1,150	1,116
Net interest income	6,841	6,777	6,839	6,780
21. COMMISSION AND FEE INCOME				
Commissions	1,595	1,716	1,551	1,688
Arrangement and other fee income	303	330	303	330
Other income	215	291	195	290
Total fee and commission income	2,113	2,337	2,049	2,308
22. STAFF COSTS				
Salaries and wages	1,728	1,166	1,704	1,148
Other staff costs	601	685	596	680
Staff bonus provision	-	564	-	564
Severance pay	419	40	418	40
Pension costs - defined contribution plan	200	145	200	145
Contract gratuity expense	64	33	62	31
Total staff costs	3,012	2,633	2,980	2,608

The Group runs an in-house defined contribution pension scheme as stated in note 19 above.

	GROUP		COMPANY	
	2010 K'm	2009 K'm	2010 K'm	2009 K'm

23. OTHER OPERATING EXPENDITURE

	GROUP 2010 K'm	GROUP 2009 K'm	COMPANY 2010 K'm	COMPANY 2009 K'm
Other costs	1,307	1,011	1,213	987
Recurrent expenditure on premises and equipment	859	766	855	759
Depreciation	1,004	716	1,002	713
Listing and legal charges	45	19	45	19
Auditors' remuneration including surtax and expenses:				
- current year	30	24	26	21
- prior year	(1)	1	(1)	2
Directors' remuneration:				
- fees for services as directors	11	8	10	8
- for managerial services	97	52	97	52
Total other operating expenditure	3,352	2,597	3,247	2,561

24. INCOME TAX EXPENSE

	GROUP 2010 K'm	GROUP 2009 K'm	COMPANY 2010 K'm	COMPANY 2009 K'm
Income tax - current year	1,293	2,016	1,280	2,007
- prior year	-	(1)	-	(1)
Deferred tax	356	(195)	356	(194)
Total income tax expense	1,649	1,820	1,636	1,812
Reconciliation of rate of tax	%	%	%	%
Standard rate of taxation	30	30	30	30
Permanent differences	2	2	2	2
Effective rate of taxation	32	32	32	32

25. 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	
	2010	2009
Profit attributable to equity holders of the Company (K millions)	3,447	3,811
Weighted average number of ordinary shares in issue (millions)	467	466
Basic earnings per share (expressed in K per share)	7.38	8.18

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	
	2010	2009
Profit attributable to equity holders of the Company (K millions)	3,447	3,811
Net profit used to determine diluted earnings per share (K millions)	3,447	3,811
Weighted average number of ordinary shares in issue	467	466
Adjustments for share options (millions)	1	1
Weighted average number of ordinary shares for diluted earnings per share (millions)	468	467
Diluted earnings per share (expressed in K per share)	7.37	8.16

26. 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 2010 K'm	GROUP 2009 K'm
Interim dividend paid (for current year)	700	671
Final dividend paid (for previous year)	1,250	1,002
	1,950	1,673
Weighted average number of ordinary shares in issue (millions)	467	466
Dividend per share	4.18	3.59

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

	GROUP & COMPANY 2010 K'm	GROUP & COMPANY 2009 K'm
27. CONTINGENCIES		
Guarantees		
Foreign guarantees	1,322	1,524
Local guarantees and performance bonds	1,112	1,937
Total contingencies from guarantees	2,434	3,461
Other contingencies		
Legal claims	256	251

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 K330m (2009: K546m).

	GROUP		COMPANY	
	2010 K'm	2009 K'm	2010 K'm	2009 K'm
28. COMMITMENTS				
Expenditure contracted but not incurred	1,105	2,210	1,105	2,210
Expenditure approved by the Board but not contracted	1,709	1,586	1,709	1,586
Total capital expenditure	2,814	3,796	2,814	3,796
29. CASH AND CASH EQUIVALENTS				
Cash and funds with Reserve Bank of Malawi (note 5)	5,474	7,737	5,474	7,737
Placements with other banks (note 10)	9515	3,488	9,515	3,488
Other money market deposits (note 12)	437	701	370	701
Liabilities due to other banks	(1,813)	(258)	(1,813)	(258)
Total cash and cash equivalents	13,613	11,668	13,546	11,668
30. CUSTOMER BALANCES				
Customer funds	(820)	(1,386)	-	-
Investments in Malawi Government and RBM Bills	-	1,140	-	-
Funds at call and on deposit	767	197	-	-
Total customer balances	(53)	(49)	-	-

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

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

31. 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		-	-	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	16	-	-	-	59,023	59,023	59,023
Balances due to other banks		-	-	-	1,813	1,813	1,813
Other payables		-	-	-	6,766	6,766	6,766
Total financial liabilities		-	-	-	67,602	67,602	67,602
GROUP							
As at 31 December 2009							
Assets							
Cash and bank balances with Reserve Bank of Malawi	5	7,737	-	-	-	7,737	7,737
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	-	9,821	-	-	9,821	9,821
Government of Malawi local registered stocks	7	-	1,345	-	-	1,345	1,345
Equity investments	8	815	-	-	-	815	891
Placements with other banks	10	-	-	3,488	-	3,488	3,488
Loans and advances to customers	11	-	-	37,564	-	37,564	37,564
Other money market deposits	12	-	-	701	-	701	701
Other assets		-	-	4,586	-	4,586	4,586
Total financial assets		8,552	11,166	46,339	-	66,057	66,133
Liabilities and equity							
Liabilities due to customers	16	-	-	-	55,072	55,072	55,072
Balances due to other banks		-	-	-	258	258	258
Other payables		-	-	-	6,989	6,989	6,989
Total financial liabilities		-	-	-	62,319	62,319	62,319

31. FINANCIAL ASSETS AND LIABILITIES

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		-	-	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	16				59,030	59,030	59,030
Balances due to other banks					1,813	1,813	1,813
Other payables					6,686	6,686	6,686
Total financial liabilities					67,529	67,529	67,529
COMPANY							
At 31 December 2009							
Assets							
Cash and bank balances with Reserve Bank of Malawi	5	7,737	-	-	-	7,737	7,737
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	6	-	9,814	-	-	9,814	9,814
Government of Malawi local registered stocks	7	-	1,345	-	-	1,345	1,345
Equity investments	8	815	-	-	-	815	815
Placements with other banks	10	-	-	3,488	-	3,488	3,488
Loans and advances to customers	11	-	-	37,594	-	37,594	37,594
Other money market deposits	12	-	-	701	-	701	701
Other assets		-	-	4,515	-	4,515	4,515
Total financial assets		8,552	11,159	46,298	-	66,009	66,009
Liabilities and equity							
Liabilities due to customers	16	-	-	-	55,080	55,080	55,080
Balances due to other banks		-	-	-	258	258	258
Other payables		-	-	-	6,912	6,912	6,912
Total financial liabilities		-	-	-	62,250	62,250	62,250

31. FINANCIAL ASSETS AND LIABILITIES (Continued)

31.1 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.

31.2 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	
	2010 K'000	2009 K'000
Financial assets at fair value through profit or loss		
Non-derivative financial assets held for trading		
Level 1	884	815

	COMPANY	
	2010 K'000	2009 K'000
Financial assets at fair value through profit or loss		
Non-derivative financial assets held for trading		
Level 1	864	815

32. FINANCIAL RISK MANAGEMENT

a. Introduction and overview

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

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

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

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

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

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

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

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).

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

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

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

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

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

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

32. 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	
	2010 K'm	2009 K'm	2010 K'm	2009 K'm
Balances with the Reserve Bank of Malawi	2,603	5,367	2,603	5,367
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	3,928	9,821	3,927	9,814
Government of Malawi local registered stocks	543	1,345	543	1,345
Placements with other banks	9,515	3,488	9,515	3,488
Loans and advances to customers	42,529	37,564	42,529	37,594
Other money market deposits	437	701	370	701
Other assets	5,636	4,586	5,728	4,515
Total recognised financial instruments	65,191	62,872	65,215	62,824
Guarantees and performance bonds	2,434	3,461	2,434	3,461
Loan commitments and other credit facilities	7,607	7,992	7,607	7,992
Total unrecognised financial instruments	10,041	11,453	10,041	11,453
Total credit exposure	75,232	74,325	75,256	74,277

32. 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 2009			
Balances with the Reserve Bank of Malawi	5,367	-	5,367
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	9,821	-	9,821
Government of Malawi local registered stock	1,345	-	1,345
Placements with other banks	3,488	-	3,488
Loans and advances to customers	37,564	-	37,564
Other money market deposits	701	-	701
Other assets	4,586	-	4,586
	62,872	-	62,872

32. 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 2009			
Balances with the Reserve Bank of Malawi	5,367	-	5,367
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	9,814	-	9,814
Government of Malawi local registered stock	1,345	-	1,345
Placements with other banks	3,488	-	3,488
Loans and advances to customers	37,594	-	37,594
Other money market deposits	701	-	701
Other assets	4,516	-	4,516
	62,825	-	62,825

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.

32. FINANCIAL RISK MANAGEMENT (Continued)

b. Credit risk (Continued)

There is one significant concentration of credit risk, for K8.4 billion (2009: K3.1 billion) which was guaranteed by the Government of Malawi. The remainder of the book is spread over a relatively large number of counterparties and customers.

Credit quality of loans and advances

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

	Loans and advances to customers			
	GROUP		COMPANY	
	2010 K'm	2009 K'm	2010 K'm	2009 K'm
Individually impaired:				
Grade 8: Impaired	451	187	451	187
Grade 9: Impaired	483	385	483	385
Gross amount	934	572	934	572
Allowance for impairment	(599)	(461)	(599)	(461)
Carrying amount	335	111	335	111
Past due but not impaired:				
Grade 7: Watch list	3	1	3	1
Neither past due nor impaired:				
Grade 1 - 3 Low risk	13,746	16,696	13,746	16,696
Grade 4 - 6 Fair risk	28,445	20,756	28,445	20,786
Total carrying amount	42,529	37,564	42,529	37,594
Past due comprises:				
30 - 60 days	-	-	-	-

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.

32. 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 2009			
Grade 8: Individually impaired	187	(136)	51
Grade 9: Individually impaired	385	(325)	60
Total	572	(461)	111

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

32. 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

	2010 K'm	2009 K'm
Against individually impaired:		
Motor vehicles	4,758	4,975
Commercial property	6,016	7,358
Residential property	7,318	3,124
Cash	3,203	2,861
Equities	56	239
Government guarantees	12,963	11,463
Bank guarantees	511	473
Total	34,825	30,493

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	
	2010 K'm	2009 K'm	2010 K'm	2009 K'm
Concentration by sector				
Agriculture	2,922	1,603	2,922	1,603
Finance and Insurance	32	2,163	32	2,193
Manufacturing	21,379	4,679	21,379	4,679
Other	3000	18,545	3,000	18,545
Personal	10,244	7,280	10,244	7,280
Wholesale and Retail	4,952	3,294	4,952	3,294
	42,529	37,564	42,529	37,594

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.

32. FINANCIAL RISK MANAGEMENT (Continued)

c. Liquidity risk

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

Management of liquidity risk

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

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

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

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

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment securities for which there is an active and liquid market less any deposits from banks, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Group's compliance with the liquidity limit established by the Reserve Bank of Malawi. Details of the reported Group ratio of net liquid assets to deposits from customers at the year-end date and during the reporting period were as follows: 35% (2009: 54%)

	2010	2009
At 31 December	31%	35%
Average of the period	32%	41%
Maximum for the period	36%	53%
Minimum for the period	27%	35%

32. FINANCIAL RISK MANAGEMENT (Continued)

c. Liquidity risk (Continued)

The table below analyses assets and liabilities into relevant maturity profiles based on the remaining period at 31 December 2010 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	3025	-	4,039	3,928
Local registered stocks	-	100	-	410	510	543
Equity investments	-	884	-	-	884	864
Placements with other banks	9,515				9,515	9,515
Loans and advances to customers	10,469	2,545	14,710	14,805	42,529	42,529
Other money markets deposits	437				437	437
Other assets	2,722	1,446	1447	21	5,636	5,636
Total financial assets	29,231	5,375	19,182	15,236	69,024	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	(17,285)	(10,809)	14,776	14,740	1,422	1,344
Cumulative mismatch	(17,285)	(28,094)	(13,318)	1422	-	-

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.

32. 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 2009						
Financial assets						
Cash and funds with Reserve Bank of Malawi	7,737	-	-	-	7,737	7,737
Government of Malawi treasury bills and Reserve Bank of Malawi Bonds	500	3,156	5,500	1,101	10,257	9,821
Local registered stocks	628	-	474	160	1,262	1,345
Equity investments	-	815	-	-	815	815
Placements with other banks	3,488	-	-	-	3,488	3,488
Loans and advances to customers	447	1,174	23,280	12,663	37,564	37,564
Other money markets deposits	701	-	-	-	701	701
Other assets	3,056	537	993	-	4,586	4,586
Total financial assets	16,557	5,682	30,247	13,924	66,410	66,057
Financial liabilities						
Liabilities to customers	48,607	6,372	93	-	55,072	55,072
Liabilities to other banks	258	-	-	-	258	258
Other liabilities	3,985	537	993	1,474	6,989	6,989
Total financial liabilities	52,850	6,909	1,086	1,474	62,319	62,319
Contractual liquidity mismatch	(36,293)	(1,227)	29,161	12,450	4,091	3,738
Cumulative mismatch	(36,293)	(37,520)	(8,359)	4,091	-	-

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

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.

32. 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.

32. 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 and Reserve 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	-

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.

32. 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 2009						
Financial assets						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	7,737	7,737
Government of Malawi treasury bills and Reserve Bank of Malawi bonds	496	4,727	3,583	1,015	-	9,821
Government of Malawi local registered stocks	663	-	512	170	-	1,345
Equity investments	-	-	-	-	815	815
Placements with other banks	3,488	-	-	-	-	3,488
Loans and advances to customers	447	1,174	23,280	12,663	-	37,564
Other money market deposits	701	-	-	-	-	701
Other assets	3,056	537	993	-	-	4,586
Total financial assets	8,851	6,438	28,368	13,848	8,552	66,057
Financial liabilities						
Liabilities to customers	47,705	6,372	93	-	902	55,072
Liabilities to other banks	258	-	-	-	-	258
Other liabilities	3,985	537	993	1,474	-	6,989
Total financial liabilities	51,948	6,909	1,086	1,474	902	62,319
Interest sensitivity gap	(43,097)	(471)	27,282	12,374	7,650	3,738
Cumulative gap	(43,097)	(43,568)	(16,286)	(3,912)	3,738	-

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

32. 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	8730	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

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.

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

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

32. FINANCIAL RISK MANAGEMENT (Continued)

f. Operational risk

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

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

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

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

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

g. Compliance risk

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

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

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.

32. 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% (2009: 15.5%) of total customer deposits. At the end of the year the liquidity reserve was equivalent to 31.7% (2009: 15.5%) 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% (2009: 10%) of its risk bearing assets and contingent liabilities. At the end of the year the Bank's available capital was 24% (2009: 21%) 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 31% (2009:35%) and liquidity ratio II was 32% (2009: 35%).

h. **Capital management**

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

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

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

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

- Core capital (Tier 1) consists of ordinary share capital, share premium, retained profits, 60% of after-tax profits in the current year (or less 100% of current year loss), less any unconsolidated investment in financial companies.
- Total capital (Tier 2), consists of revaluation reserves and general provisions, when such general provisions

32. FINANCIAL RISK MANAGEMENT (Continued)

h. Capital management (Continued)

Regulatory capital (Continued)

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 2009 was as follows:

	2010	2009
Tier 1 capital		
Ordinary share capital	467	466
Share premium	597	563
Retained earnings	8,984	7,344
Unconsolidated investments	(241)	(162)
Total regulatory (tier 1) capital	9,807	8,211
Supplementary capital		
Loan loss reserve	462	375
Revaluation reserve	1,684	1,654
Total regulatory (tier 2) capital	11,953	10,240
Risk-weighted assets		
Retail bank, corporate bank and treasury	53,536	46,991
Total risk-weighted assets	53,536	46,991
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	22.3%	21.8%
Total tier 1 capital expressed as a percentage of risk-weighted assets	18.3%	17.5%

33. 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 51.6% (2009: 51.6%) of the ordinary shares. The Old Mutual Group owns 24.6% (2009: 24.6%) of the ordinary shares and the remaining 23.8% (2009: 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 48.5% (2009: 48.5%) of Press Corporation Limited.

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

Net outstanding balances as at 31 December 2010 with the shareholders and other related parties are as follows:

GROUP AND COMPANY

	Loans K'm	Deposits K'm	Net 2010 K'm	Net 2009 K'm
Press Corporation Limited and its subsidiaries	2,054	(1,948)	106	761
Old Mutual Group	1	(304)	(303)	(61)
Bottling and Brewing Group Limited	221	(792)	(571)	(255)
Limbe Leaf Tobacco Company Limited	2	(1)	1	70
Press Trust	-	(5)	(5)	(3)
Directors	5	(15)	(10)	(2)
Employees	779	(162)	617	436
National Bank of Malawi Pension Fund	-	(1)	(1)	-
Total related party balances	3,062	(3,228)	(166)	946

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

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

During the year no amount due from a related party was written off against interest in suspense and provision for loan losses. There were no outstanding provisions in respect of loans granted to related parties as at the end of the year (2009: K39.7m).

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

33. RELATED PARTY TRANSACTIONS (Continued)

The following transactions were conducted with related parties:

GROUP AND COMPANY

	Net 2010 K'm	Net 2009 K'm
Interest receivable		
Press Corporation Limited and its subsidiaries	324	158
Bottling and Brewing Group Limited	17	32
Directors	1	-
Employees	142	121
Average interest rate (%)	19	20
Operating lease income		
Malawi Telecommunication Limited	181	136
Bottling and Brewing Group Limited	333	180
Interest payable		
Press Corporation Limited and its subsidiaries	3	61
Old Mutual Group	6	3
Employees	2	3
Average interest rate (%)	1	1

	GROUP		COMPANY	
	2010 K'm	2009 K'm	2010 K'm	2009 K'm
Compensation of key management personnel				
Salaries, bonus and benefits	462	384	446	379
Severance pay current year provision	45	48	45	48
	507	432	491	427
Severance pay provision	254	209	254	209

Share options totalling 99,300 (2009: 76,100) were offered to key management personnel during the year ended 31 December 2010 and as at that date options amounting to 78,600 (2009: 109,700) were exercised.

34. 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.

	2010	2009
Kwacha/GBP	235.4	237.3
Kwacha/Rand	23.7	20.5
Kwacha/US Dollar	150.8	145.9
Kwacha/Euro	202.8	212.6
Inflation (%)	7.5	8.6

As at 17 March 2011the above noted exchange rates had moved as follows:

Kwacha/GBP	244.8
Kwacha/Rand	22.2
Kwacha/US Dollar	150.8
Kwacha/Euro	212.7
Inflation (%)	6.4

35. 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.

35. 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	-	-	-	-	1004
Revaluation surplus on property					
Unallocated revaluation surplus	-	-	-	-	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

35. BUSINESS SEGMENTS (Continued)

	Corporate banking K'm	Retail banking K'm	Treasury K'm	Other K'm	Total K'm
Group - Statement of comprehensive income					
December 2009					
Total external income	4,176	1,531	3,802	810	10,319
Segment result	3,731	1,260	3,465	810	9,265
Unallocated income	-	-	-	-	2,046
Unallocated expenses	-	-	-	-	(5,689)
Profit before tax	-	-	-	-	5,622
Corporate tax	-	-	-	-	(1,820)
Group profit for the year	-	-	-	-	3,802
Other information					
Depreciation					
Unallocated depreciation	-	-	-	-	713
Impairment loss on property					
Unallocated impairment loss	-	-	-	-	565
Group - Statement of financial position					
December 2009					
Assets					
Segment assets	30,188	8,346	24,087	5,164	67,785
Unallocated assets	-	-	-	-	8,444
Total consolidated assets	30,188	8,346	24,087	5,164	76,229
Liabilities and equity					
Segment liabilities	30,896	15,641	258	-	46,795
Unallocated liabilities and equity	-	-	-	-	29,434
Total consolidated liabilities and equity	30,896	15,641	258	-	76,229
Other information					
Capital additions	-	-	-	-	-
Unallocated capital additions	-	-	-	-	3,584
Total	-	-	-	-	3,584

CORRESPONDENT BANKS

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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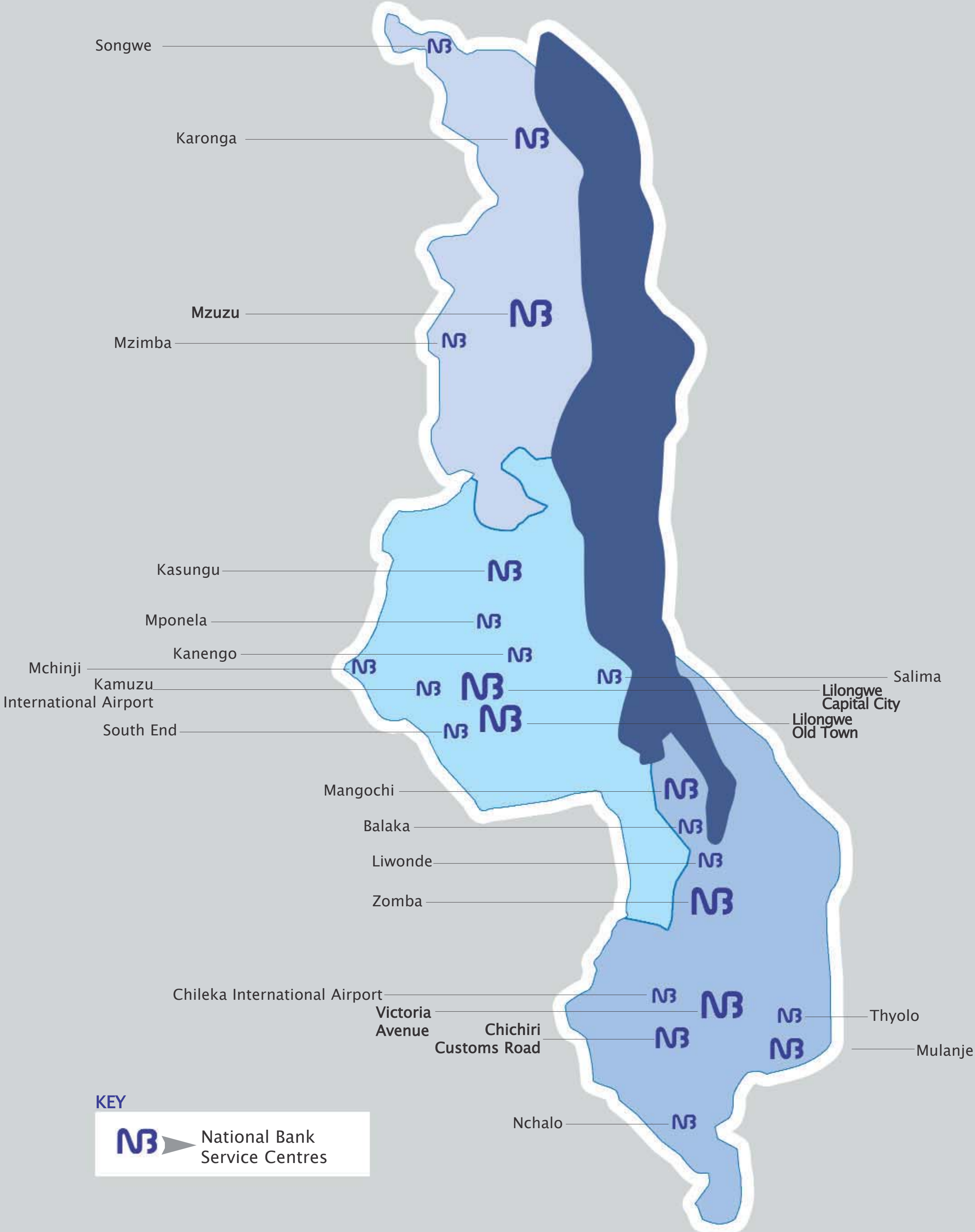
MAP OF MALAWI – NB SERVICE CENTRES



NOTES

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Copies of this report
may be obtained from
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P.O. Box 945
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