2011
Annual Report

FMB

First Merchant Bank Ltd.

Change of guard

Mrs. Mary Nkosi, Deputy Governor of the Reserve Bank of Malawi welcomes the new CEO, Mr. Dheeraj Dikshit on board while the outgoing Managing Director, Mr. Kashinath Chaturvedi looks on

Contents

Financial Statements:

Board of Directors

Rasik C. Kantaria
Chairman

Mr Kantaria has a BSc in Economics and is Chairman of Prime Bank Limited, Kenya and Managing Director of Prime Capital and Credit Limited Kenya and also holds directorates in a number of other sectors of the Kenya economy, principally property and tourism.

Hitesh Anadkat
Vice Chairman

Mr Anadkat holds an MBA from Cornell University and a B.Sc Economics (Hons) from the University of London and prior to returning to Malawi to establish First Merchant Bank he worked in a corporate finance house in USA specializing in mergers, acquisitions and valuations. He also holds directorates in a number of other sectors of the Malawi economy, principally telecommunication, manufacturing and property development.

John M. O'Neill
Executive Director

Mr O'Neill has a BSc in Mathematics and Management Sciences and is a qualified chartered accountant with membership of the relevant institutes in Ireland and Malawi. Mr. O'Neill's previous experience includes a career of 17 years with the international accountancy firm Deloitte, in the UK and Malawi, including 6 years as a partner in its Malawi practice.

N. G. Anadkat
Director

Mr Anadkat is a well respected and long established business man in Malawi where he has been in business for over 40 years.

Bharat Jani
Director

Mr Jani was appointed as the Chief Executive Officer of Prime Bank on 25th October 2008 after having served in the position of General Manager for a period of five years. Mr Jani is a qualified, experienced and result oriented banker holding a post graduate degree in Commerce with specialization in Accountancy & Economics. In addition Mr Jani holds a professional qualification in Banking & Financial Management and has vast experience of over 30 years in International Banking.

Modecai Msisha SC
Director

Mr. Msisha SC is a legal practitioner and Commissioner of Oaths. He is qualified with Bachelor of Laws and Master of Laws (Toronto) and has practised and lectured law since 1975. He has been a partner in Nyirenda and Msisha Law Offices since 1990 and was appointed as Senior Counsel in 1997. He has served in various prominent roles in special legal assignments and commissions of national importance

Stewart Malata
Director

Mr Malata holds Master's Degree in Accounting and Finance and has held senior positions in MDC Limited, Admarc Investment Holding Company Limited and Smallholder Farmers Fertilizer Revolving Fund. He serves on the boards of numerous companies in Malawi including the listed companies, Illovo Sugar Malawi Limited and Malawi Property Investment Company Limited.

Charles Chuka
Director

Mr Charles Chuka has since December 2010 been the Chief Executive Officer (CEO) of Malawi Telecommunications Limited (MTL) – the incumbent fixed-line telephone operator. As CEO, he is responsible for strategic directions and oversight over the company's operations. Between November 2003 and May 2010 he worked as Senior Advisor in the office of the Word Bank's Executive Director responsible for 22 countries in the South, Central & East African region. His specific responsibilities included advising the Director on the policy and operations of International Development Association (IDA) and the World Bank's operations in Malawi, Mozambique and Tanzania.

Prior to joining the World Bank Group, he worked for Reserve Bank of Malawi from July 1979 until February 2003. Reporting to the Governor, he held the position of General Manager for Economic Services between 1997 and 2003 with direct responsibility for the design and implementation of monetary and financial policies, including financial sector reforms and having overall oprational responsibility for five departments: Research and Statistics, Bank Supervision, International Operations, Financial Market Operations and Information Technology.

Management Team

Dheeraj Dikshit	Chief Executive Officer
Lucas Kondowe	General Manager Finance, Planning & Business Intelligence
Thomas Kadantot	General Manager Corporate & International Banking
Alex Chigwale	General Manager Leasing and Finance Company
Prakash Kamath	Chief Networks Officer
Mani Verma	Chief Operations Officer
Emmatty Jacob Paul	Head IT
George Kamvulumvulu	Head Government, NGOs and Development
Tiwonge Kaluwa	Pensions Fund Manager
Prescott Nkhata	Head Human Resources
Mary Nkando	Head Embassies & Emerging Sectors
Siza Makwakwa	Head Operations
Sylvia Nankwenya	Head Marketing
Ewen Hiwa	Head Retail Sales
Lee Mulele	Head Internal Audit
Agnes Jazza	Head Credit
Fred Chipembere	Legal Counsel & Company Secretary

Chairman's Report

R.C. Kantaria - Chairman

Strong growth in the group balance sheet was maintained in 2011 with total group assets increasing by 20% from K50 billion to K60 billion. Group deposits grew by 27% but a more conservative lending approach was adopted in response to worsening economic conditions in Malawi resulting in the overall credit to deposit ratio being reduced from 71% to 63%.

Declining money market yields and competitive pressures on interest margins were experienced in both Malawi and Botswana. Accordingly, growth in net interest income, at 17%, did not match balance sheet growth. Non interest income was also adversely impacted by both competitive pressures and lower foreign exchange trading volumes.

Despite continued attention to cost control measures, the group cost to income ratio worsened marginally from 52.2% to 54.5%, largely due to the high initial costs of rolling out retail market infrastructure.

The overall net result for the year was, given a challenging economic environment, a relatively satisfactory 15% increase in group profit before taxation.

Economic Review

The Malawi economy is officially estimated to have grown in real terms by 4.9% in 2011, a remarkable achievement considering the myriad of economic challenges faced during the year. The IMF estimate a slightly more conservative growth figure of 4.6% for the year.

In 2011, the financial services and insurance sector enjoyed growth approaching 10% driven by new legislation such as the Pensions Act. The construction sector, although constrained by fuel and foreign exchange shortages is estimated to have grown by 7.5% mainly due to government sponsored projects such as the new international hotel and conference centre in Lilongwe.

Mining remained the fastest growing sector of the economy but growth slowed from the remarkable 80% recorded in 2010 to an estimated 30% in 2011 as existing mining operations began to face production constraints. Growth in other non agricultural sectors was in the main, sluggish with the critical manufacturing sector lagging all others with a second successive year of around 2% marginal expansion.

The largest absolute component of the overall official growth estimate is a rebound in the key agricultural sector, in particular an increase in maize production from 3.4 to 3.9 million tones. Maize production is to a significant extent consumed by producers rather than formally traded. Thus, growth may have had little impact on the formal cash economy as, arguably, for subsistence farming families consumption patterns are heavily influenced by available own production.

Tea and sugar production volumes both came in below historic levels. Cotton producers benefited from a short-term spike in world prices at the beginning of the season. Seed cotton production of 55,000 tonnes was significantly higher then the disastrous 2010 crop of 13,000 tonnes but still fell short of expectations and historic production levels.

A record tobacco crop of 237,000 tonnes exceeded merchant demand by as much as 50% with the result that auction prices fell sharply for a crop throw containing much indifferent quality leaf. Total auction realizations were US$294 million, considerably less than the previous three years realizations which each exceeded US$400 million.

The IMF's Extended Credit Facility (ECF) programme for Malawi which was approved in February 2010 was suspended in 2011 following its first review. The IMF were not satisfied that any progress had been made towards the goals of continued exchange rate adjustment and foreign exchange market liberalization. The suspension led, in turn, to the withdrawal of balance of payments support from the country's major donors with far reaching consequences for the economy.

On the fiscal front, the Minister of Finance, in his June 2011 budget statement, announced the intention of government to pursue what he termed a 'zero deficit budget' with the ambition of financing government's recurrent expenditure from its domestic revenues. Although officially claimed, mid way through the fiscal year, to be on target to achieve this goal, there is ample evidence that central bank funding has been accessed to finance budgetary operations in the absence of donor support. In 2011 net RBM credit to government has increased dramatically.

The expansion in the monetary base as a result of government borrowing and the consequent increased market liquidity has fuelled inflation and placed additional pressure on the exchange rate. Excess liquidity has also let to real yields on government paper declining into negative territory.

By year end, headline inflation had accelerated to 9.8% from 7.4% recorded in December 2010. The overall inflation rate is held down by the relatively lower level of food inflation of 5.2% year on year as against a non food inflation rate of 14.6%. Urban inflation, measured against a conceivably more realistic commodity basket, stood at 13.3%, much higher that rural inflation of 7.8%.

A relatively modest 10% devaluation of the kwacha took place in August 2011 but the authorities continue to resist pressure to allow the official exchange rate to depreciate to a level more reflective of underlying economic fundamentals. Against the background of underperformance by major agricultural export crops and a severe curtailment of donor assistance to the country, the absence of a pricing response to dampen demand for foreign exchange has inevitably seen a further depletion of foreign reserves. Gross official reserves declined over the year from US$280 million (2.2 months import cover) to US$190 million (1.5 months import cover). Foreign exchange shortages and remittance backlogs worsened and were manifested in frequent shortages of imported commodities, particularly fuel.

Group Performance

The key highlights of 2011 group performance were:

- 27% growth in group deposits from K37 billion to K47 billion.
- 20% growth in total assets from K50 billion to K60 billion.
- 15% growth in profit before tax from K2.6 billion to K3.0 billion.
- 15% growth in shareholders' equity from K7.5 billion to K8.6 billion.t

In an increasing liquid domestic market, the customer deposit base of our major Malawi operations, FMB and LFC, both grew strongly, with our Botswana subsidiary, Capital Bank, also demonstrating its continued competitiveness in that market. Excess liquidity has however forced down money market yields and necessitated a downward revision in our pricing of quality lending opportunities.

Due to the risks associated with prevailing economic conditions in Malawi, we exercised prudence in granting credit during the year and this has seen a drop in the overall group credit to deposit ratio from 71% to 63%. As a result, net interest margin has contracted slightly. The quality of our lending portfolio remains good with an impairment loss for the year of 0.3% of total credit outstanding.

The group remains highly liquid with all group companies complying comfortably with prudential liquidity and capital adequacy requirements. At year end, investments in low risk money market instruments, bank and cash exceeded K25 billion, equivalent to 40% of group assets and over 50% of liabilities to depositors and other banks.

Non interest income was boosted by a firming in the Malawi listed equity market which saw a fair value gain of K250 million being recorded on our portfolio after several years of indifferent performance. There was a sharp fall in the volumes of foreign exchange traded in the second half of 2011 but a strong first half year performance enable the achievement of a 12% annual growth in income from foreign exchange transactions. The levels of fee and commission income, which grew by a rather disappointing 7%, were adversely affected by increased competition for lending opportunities requiring much finer pricing of upfront arrangement and commitment fees.

Despite close attention to cost control, total expenditure increased by 26% in absolute terms and our cost to income ratio worsened marginally from 52.2% to 54.5%. Our human resource cost increase was contained at a relatively acceptable level of 16.6% with a much higher 35% increase in premises and equipment, depreciation and other costs being largely attributable to the substantial completion of the roll out of our retail market infrastructure.

Profits for the year attributable to shareholders were K1858.4 million and dividends were paid totaling K747.6 million. Retention of profits is the major component of the increase in total group equity from K8.2 billion to K9.3 billion at end 2012. This strong capital base provides a solid platform to support future growth strategies of the group.

Human Resources

Our holistic human resource change agenda was completed in 2011 and will be fully implemented from the beginning of the 2012 financial year. This included an organization wide job evaluation and grading exercise carried out during the year.

Using the balance scorecard technique, we have aligned individual and corporate strategic objectives and set measurable performance targets for all management and employees. This will enable us going forward to link employee remuneration with performance in a fair and transparent manner.

Our human resource development strategy now looks beyond the enhancement of the technical skills of our people to encouraging and rewarding entrepreneurship at all levels within the group.

Corporate Social Responsibility

Our CSR activities remain focused on health, education and sports development. We encourage and support our staff to become involved in activities that have a meaningful impact on the communities in which they are based. As a result, we have, during the year, provided significant financial support to a diverse range of worthy causes.

The board is fully committed to conducting the business of the group in a manner that respects the interests of all stakeholders. We seek at all times to act with integrity, maintain the highest ethical standards and comply with all legislation and regulations relevant to our activities. A separate statement on corporate governance is included in this report.

Outlook

It seems unlikely that growth momentum in the key agricultural sector will be maintained in 2012. Erratic rainfall in the early part of the crop season will adversely impact maize production especially where farmers were compelled to replant often with inferior inputs. A major government sponsored initiative to increase the area under cotton cultivation appears to have led to a more than doubling in seed cotton production. (though a risk remains that the eventual harvest may be lower due to boll infestation as pesticides were applied late in some cotton growing areas.) Unfortunately, a severe downturn in the world cotton price may negate some of the benefit of any increased crop.

Latest estimates show a marked fall in tobacco production to around 150,000 tonnes, with some commentators predicting an even lower final crop output. Early indications are that, in light of the short crop, the market will be firmer than 2011 with good demand for virginia and higher nicotine content grades of burley leaf. However, it is unlikely that overall auction floor realizations will get back to anywhere near the annual US$400 million plus achieved in the period 2008 to 2010.

The mining and quarrying sector is expected to show strong growth. Although no new mining projects are scheduled to come on stream in 2012, uranium output from the existing mine is expected to grow strongly and world uranium prices should firm considerably in the second half of 2012. Quarrying output will increase to meet increased demand arising from construction sector growth. Major scheduled construction projects include a greenfield stretch of railway line to open up a route through Malawi to Nacala port for coal mined in Tete province of Mozambique. In addition, a number of new government sponsored projects are planned including a new national stadium to be built with funding from China.

The financial services, information and communication sectors should continue to perform well. Wholesale and retail trade growth will remain sluggish due to continued foreign exchange shortages and the manufacturing sector will continue to suffer under the combined burden of the same foreign exchange shortages and unreliable utility and fuel supplies. The transport sector will see reduced import volumes but, in due course, a major growth opportunity may emanate from the transshipment of Mozambique coal production through Malawi.

Despite the many challenges, 2012 export proceeds look on line to exceed US1 billion, possibly leading to a contraction in the current account deficit as import demand remains subdued. Import demand will be restricted by low foreign exchange availability due to limited inflows on the capital account. Although there are a number of unfulfilled conditionalities, movement towards liberalization of the foreign exchange market appears to be the key trigger for the resumption of the ECF programme with the IMF and the restoration of donor balance of payments support to the economy.

The newly sworn in head of state has intimated a strong commitment to see an end to the current impasse between government and its traditional development partners. The new regime inherits an increasing budgetary deficit, financed by domestic borrowing with concomitant money supply expansion and mounting inflationary pressures in the economy. The currency has been under severe pressure for some time and parallel markets have proliferated in their depth and diversity as the private sector sought to innovate its way to a market determined exchange rate. Radical measures will be required which could include, in addition to an adjustment to a market related exchange rate, a move to bring interest rates back into positive real territory. A period of continuing economic turbulence is almost inevitable before the positive benefits of any corrective measures begin to be felt.

If the official exchange adjusts to reflect market realities we should expect an increase in the volumes of foreign exchange traded in the formal market in accordance with regulatory guidelines.

Our earnings from foreign exchange trading may, accordingly, begin to recover over the course of the year ahead. In addition, excess domestic liquidity will, in the short term, continue to hold down money market yields and cause a narrowing in interest spreads. In due course the market should cease to be distracted by liquidity and pricing of debt should adjust over time to reflect a realistic country economic risk premium.

In the forthcoming year we will maintain a conservative lending policy with a prudent liquidity buffer against potential economic shocks. This policy, coupled with competitive pressure on interest spreads and reduced foreign exchange trading volumes, will adversely affect potential returns from our traditional corporate client base. We are, however, optimistic that this will be compensated by increased transactional income from our growing retail customer base and range of product offerings.

Acknowledgements

We gratefully acknowledge the continued support of our customers, shareholders and all other stakeholders over the past year and look forward to their continued support in the future. We also wish to acknowledge the support and guidance received from the Reserve Bank of Malawi and Bank of Botswana. My sincere thanks also go to my fellow directors, management and staff for their dedicated service throughout the year.

My sincere thanks go to all directors, management and staff for their dedication and commitment throughout the year.

R.C. Kantaria
Chairman

Milestones

THE MALAWI CONFEDERATION OF CHAMBERS OF COMMERCE AND INDUSTRY

This is to certify that the Exbihit mounted by

FIRST MERCHANT BANK

at

THE 23rd MALAWI INTERNATIONAL TRADE FAIR

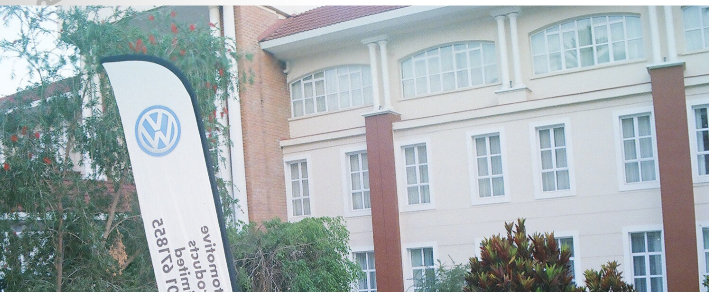
held at the Chichiri Trade Fair Grounds in Blantyre
from 20th to 29th May, 2011
under the theme ***Accelerating Trade through Innovation***
won the **GOLD** award in the category of

SERVICE

PRESIDENT

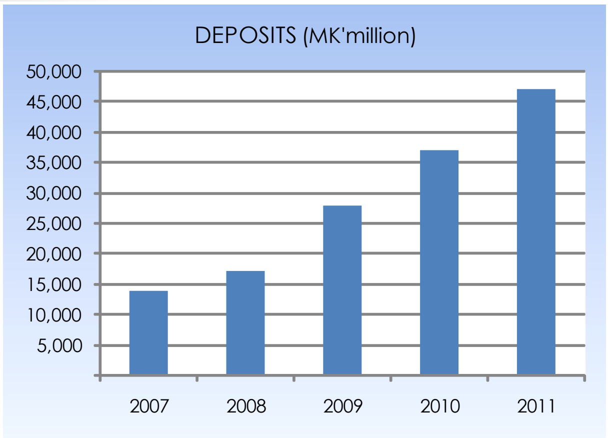
CHIEF EXECUTIVE

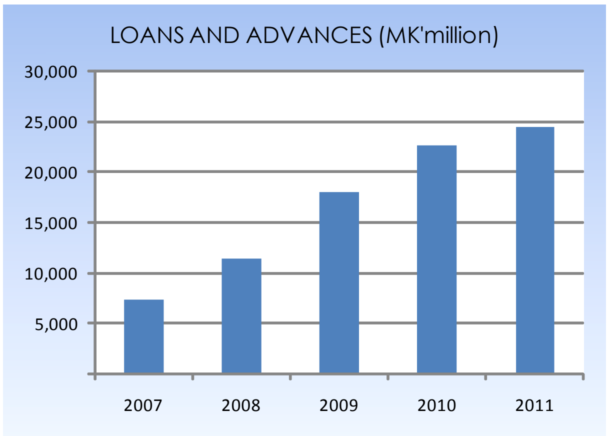
FMB's Vice Chairman, Hitesh Anadkat receives a trophy for the GOLD Award in the Service Category from the late State President Ngwazi Professor Bingu wa Mutharika at the 23rd Annual Trade Fair in May 2011.

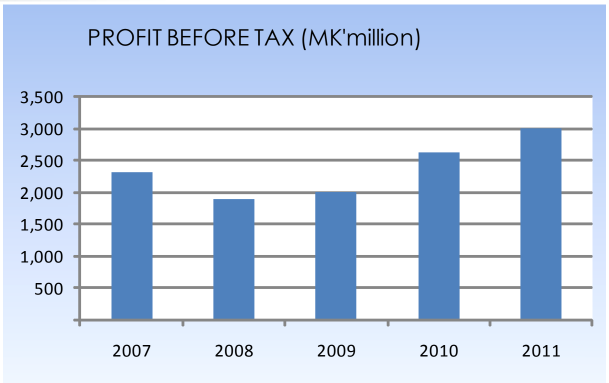


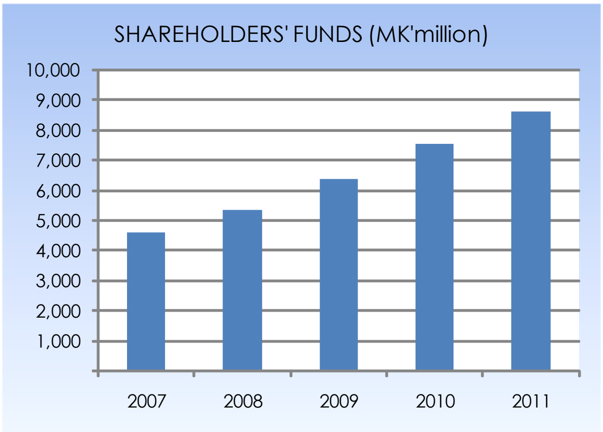
The Launch of the Amarok Leasing Partnership between Leasing & Finance Company and Automotive Products Limited in June 2011

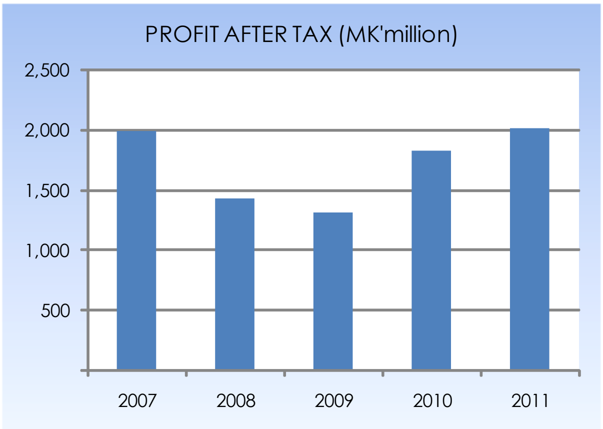
Financial Performance Highlights







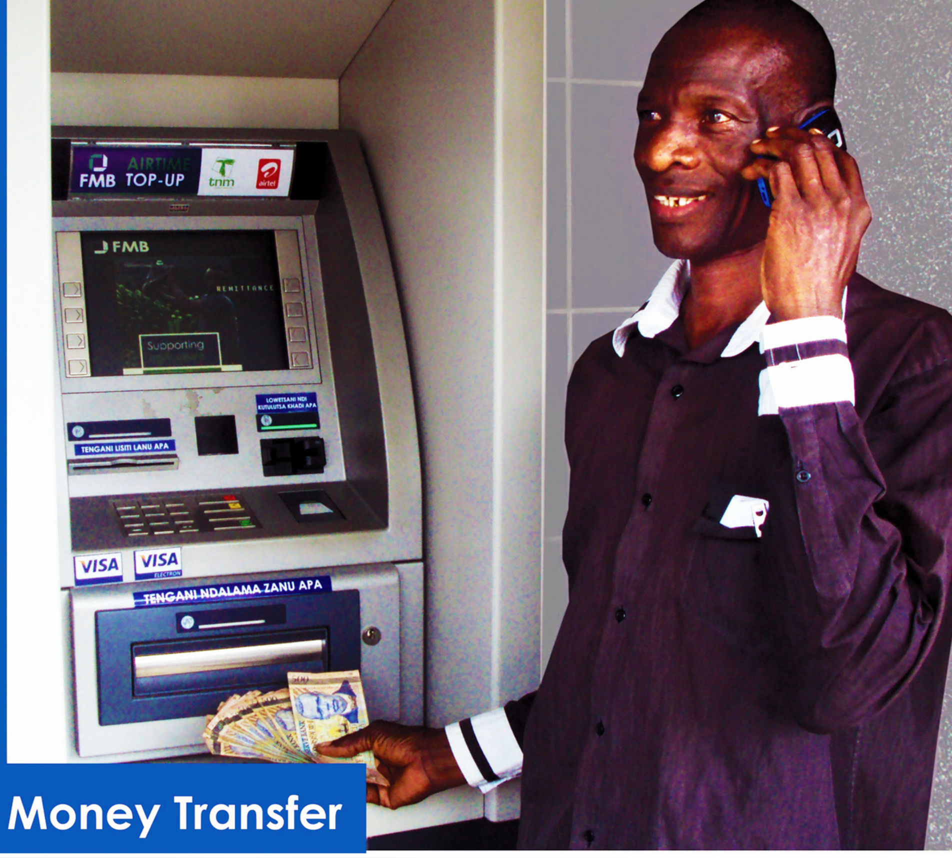




Getting even closer to people through **convenient** products and services

Bill Payments

First C

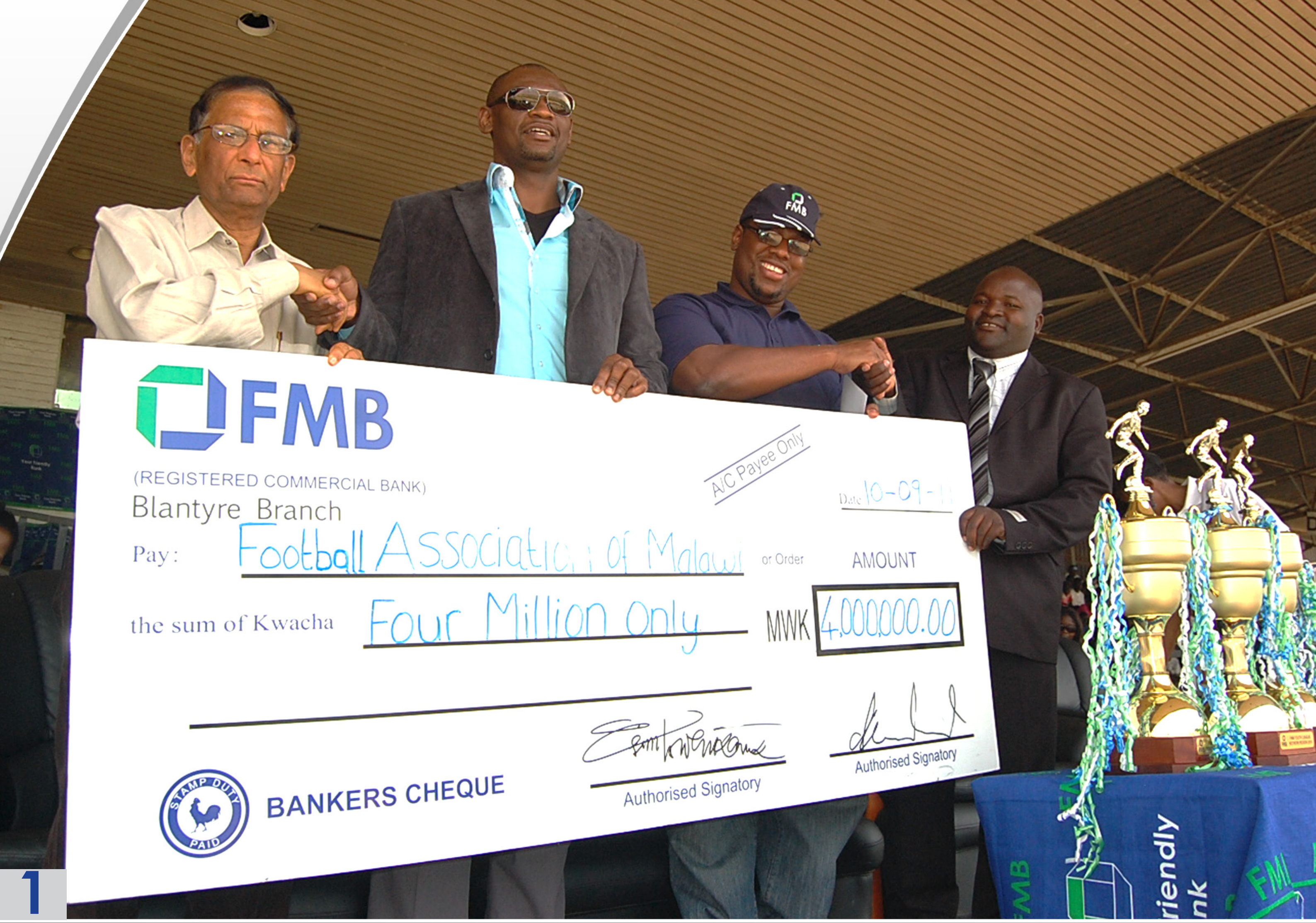


FMB Ziri M'manja Money Transfer

Unique customer service delivery coupled with efficiency and great ambience

Club

Spacious Banking Hall



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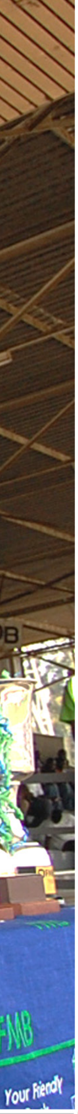
4

1. Launch of 2011 Under-20 Youth Football League at Kamuzu Stadium in September 2011.

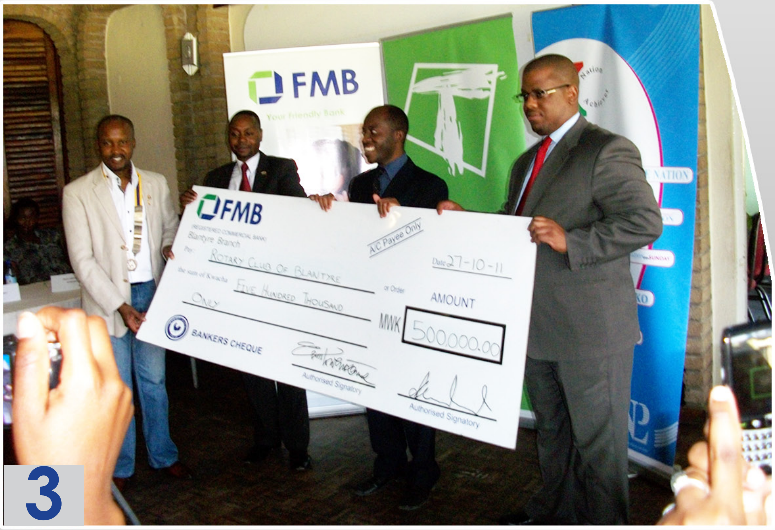
2. FMB participated in the African Bible College Basketball Championship in Lilongwe.

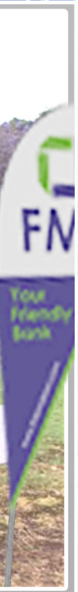
3. A chance for our customers to 'unwind' on the golf course.

4. FMB sponsored the T-20 Cricket Tournament for the fifth year running.



1. A Jacaranda pupil expresses gratitude for FMB's contribution towards the science lab project.
2. 'Learning through pictures'. One example of the 'Happy Classrooms' project by Bongo which FMB donated to.
3. 'Mudi River Cleanup'. FMB was among the first corporate organisations to make a commitment towards this initiative.
4. Mr. N.G. Anadkat and Mr. Dheeraj Dikshit led FMB staff nationwide in cheering the sick during christmas





FMB

Consolidated and Separate Financial Statements

for the year ended 31December 2011

FIRST MERCHANT BANK LTD 2011 ANNUAL REPORT

Directors' Report

The Directors have pleasure in submitting their report together with the audited Consolidated and Separate Financial Statements of First Merchant Bank Limited for the year ended 31 December 2011.

NATURE OF BUSINESS, INCORPORATION AND REGISTERED OFFICE

First Merchant Bank Limited is a public limited liability company incorporated in Malawi under the Malawi Companies Act, 1984. It is listed on the Malawi Stock Exchange and is registered as a commercial bank under the Banking Act 1989. It has three wholly owned subsidiaries incorporated in Malawi, The Leasing and Finance Company of Malawi Limited, a licensed Financial Institution engaged in deposit taking and asset finance, FMB Pensions Limited, a company administering pension funds and FMB Forex Bureau Limited, a licensed foreign exchange bureau. First Merchant Bank Limited also holds a 53.76% (2010:53.76%) shareholding in Capital Bank Limited, a licensed commercial bank incorporated in Botswana.

The physical address of the holding company's registered office is:-
Livingstone Towers,
Private Bag 122,
Glyn Jones Road,
Blantyre,
Malawi.

FINANCIAL PERFORMANCE

The results and state of affairs of the Group and Company are set out in the accompanying consolidated and separate statements of financial position, consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity, consolidated and separate statements of cash flows and associated accounting policies and notes.

DIVIDENDS

Last year's second interim dividend of MK116.813 million (5 tambala per share) and final dividend of MK46.725 million (2 tambala per share) were paid during the year. On 26 May 2011, the Directors declared a first interim dividend of MK584.063 million (25 tambala per share) for the year 2011 and a second interim dividend of MK116.813 million (5 tambala per share) was declared on 21 March 2012. The Directors also propose a final dividend of MK46.725million (2 tambala per share) for approval at the forthcoming Annual General Meeting.

DIRECTORATE AND SECRETARY

The following Directors and Secretary served during the year:

Mr. R.C. Kantaria	Chairman – Non Executive	Throughout the year
Mr. H.N. Anadkat	Vice Chairman – Non Executive	Throughout the year
Mr. K. Chartuvedi	Managing Director	Up to September 2011
Mr. J.M. O'Neill	Executive Director	Throughout the year
Mr. N.G. Anadkat	Director – Non Executive	Throughout the year
Mr. B. Jani	Director – Non Executive	Throughout the year
Mr. M. Msisha	Director – Non Executive	Throughout the year
Mr. S.G. Malata	Director – Non Executive	Throughout the year
Mr. C. Chuka	Director – Non Executive	From September 2011
Mr. F. Chipembere	Company Secretary	Throughout the year

In accordance with the Company's Articles of Association, Messrs R.C. Kantaria, H.N. Anadkat and S.G. Malata retired by rotation at the last Annual General Meeting on 21 May 2011 and were re-appointed. Messrs J.M. O'Neill and B. Jani retire by rotation at the forthcoming Annual General Meeting but being eligible for re-appointment they offer themselves for re-election.

Members are also being requested to confirm the reappointment of Mr Charles Chuka who was co-opted to the Board in September, 2011.

SHAREHOLDING ANALYSIS

Shareholder Name	2011 (%)	2010 (%)
Zambezi Investments Limited	44.94	44.94
Simsbury Holdings Limited	22.69	22.47
Prime Capital and Credit Limited	11.24	11.24
Prime Bank Limited	11.24	11.24
General Public	9.89	10.11
	100.00	**100.00**

AUDITORS

A resolution will be proposed at the forthcoming Annual General Meeting to re-appoint Messrs. KPMG, Certified Public Accountants and Business Advisors (Malawi) as auditors in respect of the Company's 31 December 2012 financial statements.

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J.M. O'Neill
DIRECTOR

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M. Msisha
DIRECTOR

22 March 2012

Statement on Corporate Governance

THE BOARD

The Bank has a unitary Board of Directors comprising a Non-Executive Chairman, 7 Non-Executive Directors and 1 Executive Director. The Board has adopted without modification the major principles of modern corporate governance as contained in the reports of Cadbury and King II, and the Basel Committee on Banking Supervision.

The Board meets 4 times a year. There are adequate and efficient communication and monitoring systems in place to ensure that the Directors receive all relevant, accurate information to guide them in making necessary strategic decisions, and providing effective leadership, control and strategic direction over the Bank's operations, and in ensuring that the company fully complies with relevant legal, ethical and regulatory requirements.

Board meetings - Meeting Attendance

Member	26-Feb-11	26-May-11*	28-Sep-11	9-Dec-11
Mr. R.C. Kantaria - Chairman	√	√	√	√
Mr. H.N. Anadkat - Vice Chairman	√	√	√	√
Mr. K.N. Chaturvedi	√	√	√	N/A
Mr. J.M. O'Neill	√	√	√	√
Mr. N.G. Anadkat	√	√	√	√
Mr. M. Msisha	√	√	√	√
Mr. S.G. Malata	√	√	√	A
Mr. B. Jani	√	√	√	A
Mr. C. Chuka	N/A	N/A	√	√

Key
* = Adhoc Meeting
√ = Attendance
A = Apology

N/A for Mr.K.N. Chaturvedi after he had retired and for Mr. C. Chuka before appointment as director.

BOARD AND MANAGEMENT COMMITTEES

There is one permanent management committee namely, the Asset and Liability Management Committee ("ALCO"), four permanent board committees, the Audit Committee, Credit Committee, the Appointments and Remuneration Committee and a Risk Committee comprising both Directors and senior management. Additionally, there is an informal Business Promotion Committee which comprises branch managers, senior management, 2 Non-Executive Directors and 1 Executive Director. This Committee meets regularly, usually once a month, and reviews the Bank's market position relative to its peers and sets operational strategy to maintain and grow market share.

Asset and Liability Management Committee (ALCO)
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The primary objective of the ALCO is to ensure a proper balance in terms of maturity profile, cost and yield, risk exposure etc. between funds mobilized and funds deployed. The ALCO seeks to manage risks in order to minimize the volatility of net interest income and protect the long term economic value of the Bank. The committee also monitors the capital adequacy of the Bank.

Key functions of the ALCO include setting pricing guidelines for assets and liabilities, setting limits and managing liquidity risk and interest rate risk and ensuring that contingency funding plans are in place to avert funding crises. The ALCO is composed of Chief Executive Officer and 6 members of management and meets regularly, usually once a month. The members of the ALCO are:

Mr. L. Kondowe	General Manager – Finance, Planning and Business Intelligence (Chairman)
Mr. D Dikshit	Chief Executive Officer
Mr. T. Kadantot	General Manager, Corporate and International Banking
Miss. A. Jazza	Head of Credit
Mr. M. Banda	Finance Manager
Ms. M. Nyasulu	Treasury Manager
Ms. C. Chirwa	Manager, Risk and Compliance

Audit Committee

The Audit Committee assists the Board in discharging its duties in relation to financial reporting, asset management, risk management, internal control systems, processes and procedures and monitors the quality of both the external and internal audit functions. The Bank's External Auditors and Internal Auditors report to the committee in their independent, private meetings to discuss risk exposure areas. Where the committee's monitoring and review activities reveal causes for concern or scope for improvement, it makes recommendations to the Board on required remedial actions.

The Audit Committee comprises 3 non-executive Directors, 1 of whom acts as Chairman. The committee meets 4 times a year. The members of the Audit Committee are:

Mr M. Msisha	Non-Executive Director (Chairman)
Mr B. Jani	Non-Executive Director
Mr S.G. Malata	Non-Executive Director

Meeting Attendance

Members	25 February 2011	25 May 2011	27 September 2011
Mr. M. Msisha - Chairman	√	√	√
Mr. S.G. Malata	√	√	√
Mr B.Jani	√	√	√

Key
* = Adhoc Meeting
√ = Attendance
A = Apology

Credit Committee

The Credit Committee comprises 3 local Directors with a good knowledge of the Malawi economy and business environment. Its overall responsibility is to ensure the soundness of the Bank's credit portfolio (including advances, guarantees and other facilities). Specific responsibilities include:

- Ratification of terms and conditions of all credit facilities granted by management under its discretionary powers;
- Approval of all credit facilities above the discretionary limits set for management save for those facilities requiring full board approval in accordance with Reserve Bank of Malawi directives; and
- Review of non-performing assets and recovery procedures initiated in respect thereof and establishment of appropriate levels of provisioning where required.

The Chief Executive Officer, Head of Credit and Branch Managers attend all Credit Committee meetings in a non-voting capacity. The Credit Committee meets regularly, usually once a quarter and comprises the following members:

Meeting Attendance

Members	19 May 2011	09 August 2011	22 September 2011
Mr. H. N. Anadkat - Chairman	√	√	√
Mr. J.M O'Neill	√	√	√
Mr. N.G. Anadkat	A	√	A

Key
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√ = Attendance
A = Apology

Appointments and Remuneration Committee

The Appointments and Remuneration Committee nominates persons to be appointed Directors (subject to shareholders' approval) and recommends to the Board, Executive and Non-Executive Directors and senior management remuneration.

The Committee also approves overall human resource and remuneration policies and strategies. The Appointments and Remuneration Committee meets twice a year and comprises the following members:-

Meeting Attendance

Member	25 February 2011	21 -Jun-11	24 - Sep-11
Mr H. N. Anadkat -Chairman	√	√	√
Mr M. Msisha	√	√	√

Key
* = Adhoc Meeting
√ = Attendance
A = Apology

Risk Committee

The risk management committee assists the board in assessing, mitigating and controlling risks. The committee reviews the risk, reveal causes of concern or scope of improvement. The committee makes recommendations to the board for remedial action.

The risk committee comprise of one non-executive director, who is chairman of the committee and one executive director, the Chief Executive Officer, General Manager Finance, Planning and Business Intelligence and Manager Risk and Compliance. Members of the committee are:-

Mr. S. Malata	Non-Executive Director (Chairman)
Mr. K.N. Chaturvedi	Managing Director (Up to September 2011)
Mr. L. Kondowe	General Manager – Finance, Planning & Business Intelligence

Ms. C. Chirwa	Manager, Risk and Compliance
Mr. J.M O'Neill	Executive Director
Mr. D. Dikshit	Chief Executive Officer (From November 2011)

FMB Risk Committee - Meeting Attendance

Member	25 February 2011	26 May 2011	23 August 2011	28 September 2011
Mr. S. Malata - Chairman	√	√	√	√
Mr. B Jani	√	√	A	√
Mr. J.M. O'Neill	A	√	√	√
Mr. D. Dikshit	A	A	√	√
Mr. L. Kondowe	√	√	√	√
Ms. C. Chirwa	√	√	√	√

Key
* = Adhoc Meeting
√ = Attendance
A = Apology

DIRECTORS QUALIFICATIONS

R.C.Kantaria, BSc (Econ)	Chairman
H.N.Anadkat, BSc (Econ), MBA	Vice-Chairman
J.M.O'Neill, BSc (Maths & Mgt Sc) FCA, CPA (Mw)	Executive Director
M.Msisha SC LLM (Toronto), LLB (Hons) Mw	Director
C. Chuka, B. Soc Sc. MA Phil (Econ)	Director
S.Malata, MA (Acc & Fin)	Director
B. Jani, Post Grad. (Commerce), BSc (Banking & Fin. Mgt)	Director
N.G.Anadkat	Director
K. Chaturvedi MSc (Maths)	Managing Director (up to September 2011)

ETHICAL STANDARDS

The Board is fully committed to ensuring the Group's affairs are conducted with integrity and that the highest ethical standards are maintained. All employees of the Group are required to abide by a code of conduct containing detailed guidelines governing ethics and integrity in the workplace.

Directors' Responsibility Statement

The Directors are responsible for the preparation and fair presentation of the annual financial statements of First Merchant Bank Limited, comprising the consolidated and separate statement of financial position at 31 December 2011, and the consolidated and separate statements of comprehensive income, consolidated and statement of changes in equity and consolidated and statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with International Financial Reporting Standards, and in the manner required by the Malawi Companies Act, 1984.

The Act also requires the directors to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and ensure the financial statements comply with the Malawi Companies Act, 1984.

In preparing the financial statements, the directors accept responsibility for the following:-

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

The directors are also responsible 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 and for maintaining adequate accounting records and an effective system of risk management.

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

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

The auditor is responsible for reporting on whether the annual financial statements are fairly presented in accordance with applicable financial reporting framework.

Approval of financial statements

The financial statements of the Bank, as indicated above, were approved by the Board of Directors on **22 March 2012** and are signed on its behalf by.

By order of the Board

....	....
J.M. O'Neill	M. Msisha
DIRECTOR	**DIRECTOR**

Independent Auditors' Report to the Shareholders of First Merchant Bank Limited

Report on the financial statements

We have audited the accompanying consolidated and separate financial statements of First Merchant Bank Limited and its subsidiaries, which comprise the statements of financial position as at 31 December 2011, and the statements of comprehensive income, the statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 27 to 93.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in a manner required by the Malawi Companies Act 1984 and for such controls as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error. This responsibility includes: designing, implementing and maintaining internal control systems relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' 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 judgment, 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 systems relevant to the entity's preparation 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 systems. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, these financial statements fairly present, in all material respects, of the consolidated and separate financial position of First Merchant Bank Limited at 31 December 2011, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and with the provisions of the Malawi Companies Act 1984, so far as concerns members of the company.

KPMG

Certified Public Accountants and Business Advisors
Blantyre

22 March 2012

STATEMENTS OF FINANCIAL POSITION

In thousands of Malawi Kwacha

		Group		Company	
		2011	2010	2011	2010
ASSETS	**Note**				
Cash and cash equivalents	7	13,938,583	5,321,760	6,453,389	2,574,571
Money market investments	8	10,291,645	13,379,327	2,349,453	3,432,206
Loans and advances to customers	9	24,421,580	22,597,545	15,407,652	15,706,161
Finance lease receivables	10	5,308,046	3,639,703	-	-
Other assets	11	533,833	387,715	613,483	347,640
Investments in listed companies	12	2,128,795	1,308,968	2,128,795	1,308,968
Investment in subsidiaries	13	-	-	785,968	785,968
Property and equipment	14	3,297,374	2,868,941	2,609,967	2,116,204
Deferred tax assets	15	144,031	174,041	24,777	54,787
Total assets		**60,063,887**	**49,678,000**	**30,373,484**	**26,326,505**
LIABILITIES AND EQUITY					
Liabilities					
Customer deposits	16	47,027,658	37,127,432	19,954,221	15,824,702
Balances due to other Banks	17	1,466,070	1,838,605	1,466,070	1,838,605
Income tax payable		180,943	329,539	45,208	258,354
Other liabilities	18	1,605,797	1,689,680	1,329,040	1,529,922
Employee benefits liabilities	19	59,149	190,108	59,149	170,556
Deferred tax liabilities	15	384,940	334,483	242,649	184,951
Total liabilities		**50,724,557**	**41,509,847**	**23,096,337**	**19,807,090**
Equity					
Issued capital	20	116,813	116,813	116,813	116,813
Share premium	20	1,565,347	1,565,347	1,565,347	1,565,347
Property revaluation reserve	21	523,198	540,731	485,599	502,062
Investment revaluation reserve	22	1,381,407	1,124,130	1,381,407	1,124,130
Loan loss reserve	23	114,638	40,032	16,898	16,898
Non distributable reserves		350,000	350,000	-	-
Translation reserve		(44,187)	10,778	-	-
Retained earnings		4,593,039	3,790,550	3,711,083	3,194,165
Total equity attributable to equity holders of the company		**8,600,255**	**7,538,381**	**7,277,147**	**6,519,415**
Non Controlling Interest		739,075	629,772	-	-
Total equity		**9,339,330**	**8,168,153**	**7,277,147**	**6,519,415**
Total equity and liabilities		**60,063,887**	**49,678,000**	**30,373,484**	**26,326,505**

The financial statements of the Group and Company were approved for issue by the Board of Directors on 22 March 2012 and were signed on its behalf by:

....

J.M. O'Neill
DIRECTOR

M. Msisha
DIRECTOR

The financial statements are to be read in conjunction with the notes from pages 33 to 93.
The independent auditor's report is on page 26.

STATEMENTS OF COMPREHENSIVE INCOME

In thousands of Malawi Kwacha

	Note	Group 2011	Group 2010	Company 2011	Company 2010
Interest income	24	6,068,358	5,113,901	3,264,171	2,988,048
Interest expense on deposits and other accounts		(1,799,469)	(1,452,842)	(400,420)	(374,174)
Net interest income		4,268,889	3,661,059	2,863,751	2,613,874
Fees and commissions		1,245,391	1,162,620	1,041,784	1,054,615
Income from investments	25	354,609	104,359	479,609	204,359
Gain on foreign exchange transactions		752,859	672,984	661,719	583,941
Net trading income		**6,621,748**	**5,601,022**	**5,046,863**	**4,456,789**
Other operating income	26	83,923	43,040	12,584	521
Total operating income		**6,705,671**	**5,644,062**	**5,059,447**	**4,457,310**
Staff and training costs	27	1,586,407	1,454,562	1,273,043	1,154,870
Premises and equipment costs		535,613	346,363	479,808	315,321
Depreciation expense	14	400,689	331,936	318,042	250,771
Other expenses	28	1,083,487	816,031	827,235	607,831
Impairment loss on financial assets		88,823	78,681	26,044	39,003
Total expenses		**3,695,019**	**3,027,573**	**2,924,172**	**2,367,796**
Profit before income tax expense		**3,010,652**	**2,616,489**	**2,135,275**	**2,089,514**
Income tax expense	29	(995,620)	(787,894)	(636,999)	(608,244)
PROFIT FOR THE YEAR		**2,015,032**	**1,828,595**	**1,498,276**	**1,481,270**
Other comprehensive income					
Revaluation surplus on property, plant and equipment		-	-	-	-
Tax on other comprehensive income		5,986	8,426	7,056	6,414
Translation difference for foreign operations		(102,241)	69,391	-	-
Total other comprehensive income for the year		**(96,255)**	**77,817**	**7,056**	**6,414**
Total comprehensive income for the year		**1,918,777**	**1,906,412**	**1,505,332**	**1,487,684**
Profit attributable to:					
Owners of the parent		1,858,453	1,766,992	1,498,276	1,481,270
Non controlling interest		156,579	61,603	-	-
Profit for the year		**2,015,032**	**1,828,595**	**1,498,276**	**1,481,270**
Total comprehensive income attributable to:					
Owners of the parent		1,809,474	1,812,723	1,505,332	1,487,684
Non controlling interest		109,303	93,689	-	-
Total comprehensive income for the year		**1,918,777**	**1,906,412**	**1,505,332**	**1,487,684**
Basic and diluted earnings per share (tambala	30	**80**	**76**		

The financial statements are to be read in conjunction with the notes from pages 33 to 93.
The independent auditor's report is on page 26.

Consolidated and Separate Financial Statements in Changes in Equity

In thousands of Malawi Kwacha

GROUP	Share Capital	Share premium	Trans-lation reserve	Property revalua-tion Reserve	Investment revaluation Reserve	Loan loss reserve	Non dis-tributable reserve	Retained Earnings	Attributable to owners of the parent	Non control-ling Interest	Total Equity
Balance at 1 January 2010	**116,813**	**1,565,347**	**(26,527)**	**553,685**	**1,127,626**	**33,406**	**350,000**	**,636,102**	**6,356,452**	**536,083**	**6,892,535**
Total comprehensive income for the year											
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,766,992**	**1,766,992**	**61,603**	**1,828,595**
Other Comprehensive income											
Deferred tax on property revaluation	-	-	-	8,426	-	-	-	-	8,426	-	8,426
Arising on consolidation of subsidiary	-	-	37,305	-	-	-	-	-	37,305	32,086	69,391
Transfer from/to investment revaluation reserve					(3,701)			3,701			
Depreciation on re-valued assets	-	-	-	(21,380)	-	-	-	21,380	-	-	-
Movement in loan loss reserve	-	-	-	-	-	6,626		(6,626)	-	-	-
Realised on disposals of shares	-	-	-	-	205	-	-	(205)	-	-	-
Total other comprehensive income	**-**	**-**	**37,305**	**(12,954)**	**(3,496)**	**6,626**	**-**	**18,250**	**45,731**	**32,086**	**77,817**
Total comprehensive income for the year	**-**	**-**	**37,305**	**(12,954)**	**(3,496)**	**6,626**	**-**	**1,785,242**	**1,812,723**	**93,689**	**1,906,412**
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners											
Dividends to owners of the parent	-	-	-	-	-	-	-	(630,794)	(630,794)	-	(630,794)
	-	-	-	-	-	-	-	(630,794)	(630,794)	-	(630,794)
Balance at 31 December 2010	**116,813**	**1,565,347**	**10,778**	**540,731**	**1,124,130**	**40,032**	**350,000**	**3,790,550**	**7,538,381**	**629,772**	**8,168,153**

The financial statements are to be read in conjunction with the notes from pages 33 to 93.
The independent auditor's report is on page 26.

Consolidated and Separate Financial Statements in Changes in Equity

In thousands of Malawi Kwacha

GROUP	Share Capital	Share premium	Translation reserve	Property revaluation Reserve	Investment revaluation Reserve	Loan loss reserve	Non distributable reserve	Retained Earnings	Attributable to owners of the parent	Non controlling Interest	Total Equity
Balance at 1 January 2011	**116,813**	**1,565,347**	**10,778**	**540,731**	**1,124,130**	**40,032**	**350,000**	**3,790,550**	**7,538,381**	**629,772**	**8,168,153**
Total comprehensive income for the year											
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,858,453**	**1,858,453**	**156,579**	**2,015,032**
Other Comprehensive income											
Transfer from deferred tax	-	-	-	(1,070)	-	-	-	-	(1,070)	-	(1,070)
Arising on consolidation of subsidiary	-	-	(54,965)	-	-	-	-	-	(54,965)	(47,276)	(102,241)
Transfer from/to investment revaluation reserve	-	-	-	-	257,277		-	(257,277)	-		-
Depreciation on re-valued assets	-	-	-	(23,519)	-	-	-	23,519	-	-	-
Deferred tax on excess depreciation on revaluation	-	-	-	7,056	-	-	-	-	7,056	-	7,056
Movement in loan loss reserve	-	-	-	-	-	74,606	-	(74,606)	-	-	-
Realised on disposals of shares	-	-	-	-	-	-	-	-	-	-	-
Total other comprehensive income	**-**	**-**	**(54,965)**	**(17,533)**	**257,277**	**74,606**	**-**	**(308,364)**	**(48,979)**	**(47,276)**	**(96,255)**
Total comprehensive income for the year	**-**	**-**	**(54,965)**	**(17,533)**	**257,277**	**74,606**	**-**	**1,550,089**	**1,809,474**	**109,303**	**1,918,777**
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners											
Dividends to owners of the parent	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(747,600)**	**(747,600)**	**-**	**(747,600)**
	-	**-**	**-**	**-**	**-**	**-**	**-**	**(747,600)**	**(747,600)**	**-**	**(747,600)**
Balance at 31 December 2011	**116,813**	**1,565,347**	**(44,187)s**	**523,198**	**1,381,407**	**114,638**	**350,000**	**4,593,039**	**8,600,255**	**739,075**	**9,339,330**

The financial statements are to be read in conjunction with the notes from pages 33 to 93.
The independent auditor's report is on page 26.

STATEMENTS OF CHANGES IN EQUITY

In thousands of Malawi Kwacha

COMPANY	Share capital	Share premium	Property revaluation reserve	Investment revaluation reserve	Loan loss reserve	Retained earnings	Total
Balance at 1 January 2010	**116,813**	**1,565,347**	**517,028**	**1,127,626**	**16,898**	**2,318,813**	**5,662,525**
Total comprehensive income for the year							
Profit for the year	**-**	**-**	**-**	**-**		**1,481,270**	**1,481,270**
Other comprehensive income							
Depreciation on revalued asset	-	-	(21,380)	-	-	21,380	-
Deferred tax on property revaluation	-	-	6,414	-	-	-	6,414
Realised on disposal of shares	-	-	-	205	-	(205)	-
Transfer from / to revaluation reserve	-	-	-	(3,701)	-	3,701	-
Total other comprehensive income			**(14,966)**	**(3,496)**	**-**	**24,876**	**6,414**
Total comprehensive income for the year	**-**	**-**	**(14,966)**	**(3,496)**	**-**	**1,506,146**	**1,487,684**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends paid	-	-	-	-	-	(630,794)	(630,794)
Balance at 31 December 2010	**116,813**	**1,565,347**	**502,062**	**1,124,130**	**16,898**	**3,194,165**	**6,519,415**

COMPANY	Share capital	Share premium	Property revaluation reserve	Investment revaluation reserve	Loan loss reserve	Retained earnings	Total
Balance at 1 January 2011	**116,813**	**1,565,347**	**502,062**	**1,124,130**	**16,898**	**3,194,165**	**6,519,415**
Total comprehensive income for the year							
Profit for the year	**-**	**-**	**-**	**-**	**-**	**1,498,276**	**1,498,276**
Other comprehensive income							
Depreciation on revalued asset	_	_	(23,519)	-	-	23,519	_
Deferred tax on property revaluation			7,056	-	-	-	7,056
Transfer from / to revaluation reserve	-	-	-	257,277	-	(257,277)	-
Total other comprehensive income			**(16,463)**	**257,277**	**-**	**(233,758)**	**7,056**
Total comprehensive income for the year	**-**	**-**	**(16,463)**	**257,277**	**-**	**1,264,518**	**1,505,332**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends paid	-	-	-	-	-	(747,600)	(747,600)
Balance at 31 December 2011	**116,813**	**1,565,347**	**485,599**	**1,381,407**	**16,898**	**3,711,083**	**7,277,147**

The financial statements are to be read in conjunction with the notes from pages 33 to 93.
The independent auditor's report is on page 26.

STATEMENTS OF CASH FLOWS

In thousands of Malawi Kwacha

	Note	Group 2011	Group 2010	Company 2011	Company 2010
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest and fees received		8,150,531	6,176,872	4,975,290	4,623,829
Interest paid		(1,778,713)	(1,449,630)	(379,664)	(370,962)
Cash paid to suppliers and employees		(3,467,078)	(1,977,601)	(2,928,044)	(1,896,385)
		2,904,740	**2,749,641**	**1,667,582**	**2,356,482**
Increase/(decrease) in customer balances		5,846,534	746,444	3,804,873	(1,301,583)
Cash generated from operations		8,751,275	3,496,085	5,472,455	1,054,899
Income taxes paid		(1,144,216)	(478,299)	(755,766)	(357,187)
Net cash from operating activities		**7,607,059**	**3,017,786**	**4,716,689**	**697,712**
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES					
Maturities/(Purchases) of money market investments		3,087,682	(1,160,304)	1,082,753	666,848
Proceeds from sale of shares and other investments		17,560	296	17,560	296
Proceeds from sale of equipment		2,423	815	385	799
Acquisition of property and equipment	14	(867,926)	(1,145,246)	(833,594)	(662,268)
Gross dividend received		97,896	108,064	222,896	208,064
Acquisition/purchases of equity investments		(580,111)	-	(580,111)	-
Net cash from/ (used in) investing activities		**1,757,524**	**(2,196,375)**	**(90,111)**	**213,739**
CASH FLOWS TO FINANCING ACTIVITIES					
Dividend paid		(747,600)	(630,794)	(747,600)	(630,794)
Net cash used in financing activities		(747,600)	(630,794)	(747,600)	(630,794)
Net increase in cash and cash equivalents		**8,616,983**	**190,617**	**3,878,978**	**280,657**
Cash and cash equivalents at beginning of the year		**5,321,066**	**5,130,449**	**2,573,877**	**2,293,220**
Cash and Cash Equivalents at End of the Year	7	13,938,049	5,321,066	6,452,855	2,573,877
ADDITIONAL STATUTORY DISCLOSURE					
Net movement in working capital		**1,514,892**	**1,275,618**	**744,864**	**856,890**

The financial statements are to be read in conjunction with the notes from pages 33 to 93.
The independent auditor's report is on page 26.

1. Reporting Entity

First Merchant Bank Limited is a public limited liability company incorporated in Malawi and is listed on the Malawi Stock Exchange. The Consolidated and Separate Financial Statements as at and for the year ended 31 December 2011 comprise the Bank and its subsidiaries, The Leasing and Finance Company of Malawi Limited incorporated in Malawi, Capital Bank Limited incorporated in Botswana, FMB Pensions Limited incorporated in Malawi and FMB Forex Bureau Limited incorporated in Malawi, (together referred to as the "Group". The Group is involved in corporate and retail banking, administration of pension funds, forex transactions and asset financing.

2. Basis of preparation

(i) Statement of compliance

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and the provisions of the Malawi Companies Act, 1984, Banking Act 2010 and Financial Services Act 2010.

(ii) Basis of measurement

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

- land and buildings which are revalued;
- financial instruments at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value.

(iii) Functional and presentation currency

These consolidated and separate financial statements are presented in Malawi Kwacha, which is the Bank's functional and presentation currency. Except as indicated, financial information presented in Malawi Kwacha, has been rounded to the nearest thousand.

(iv) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs require management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes.

- Note 9 - Loans and advances to customers - impairment
- Note 10 - Finance leases - impairment
- Note 14 – Depreciation of property and equipment
- Notes 8,12 – Fair value measurement

3. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2011, and have not been applied in preparing these financial statements:

- **IFRS 7 Financial Instruments Disclosures;** Amendments enhancing disclosures about transfers of financial assets. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The effective date is annual periods beginning on or after 1 July 2013.

- **IFRS 9 Financial Instruments;** This standard forms part of the IASB's project to replace the existing standard on the recognition and measurement of financial instruments. The standard defines two measurement categories for financial assets: amortised cost and fair value. A financial asset may only be measured at amortised cost if it has basic loan features and is managed on a contractual yield basis. The standard also differs from existing requirements for accounting for financial assets in various other areas, such as embedded derivatives and the recognition of fair value adjustments in other comprehensive income. The standard will be applied retrospectively (subject to the standard's transitional provisions). The impact on the financial statements will require reclassification of financial assets. The effective date is annual periods beginning on or after 1 January 2015.

- **IFRS 10 Consolidated Financial Statements;** This standard requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements, it defines the principle of control, and establishes control as the basis for consolidation, it set out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee and it sets out the accounting requirements for the preparation of consolidated financial statements. The effective date is annual periods beginning on or after 1 January 2013.

- **IFRS 11 Joint Arrangements;** The core principle of IFRS 11 is that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. The effective date is annual periods beginning on or after 1 January 2013.

- **IFRS 12 Disclosure of Interest in other Entities;** The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate, the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. The effective date is annual periods beginning on or after 1 January 2013.

- **IFRS 13 Fair Value Measurement;** IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements). The effective date is annual periods beginning on or after 1 January 2013.

3. New standards and interpretations not yet adopted (continued)

- **IAS 1 Presentation of Financial Statements;** Amendments to revise the way other comprehensive income is presented. The amendments to IAS 1 retain the 'one or two statement' approach at the option of the entity and only revise the way other comprehensive income is presented: requiring separate subtotals for those elements which may be 'recycled' (e.g. cash-flow hedging, foreign currency translation), and those elements that will not (e.g. fair value through OCI items under IFRS 9). The effective date is annual periods beginning on or after 1 July 2012.

- **IAS 12 Income Taxes;** Amendments to revise the way other IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will, normally be , be through sale. As a result of the amendments, SIC-21 Income Taxes—Recovery of revalued Non-Depreciable Assets would no longer apply to investment properties carried at fair value. The effective date is annual periods beginning on or after 1 January 2012.

- **IAS 19 Employee Benefits;** Amended Standard resulting from the Post-Employment Benefits and Termination Benefits projects, requires recognition of changes in the net defined benefit liability (asset) including immediate recognition of defined benefit cost, disaggregation of defined benefit cost into components, recognition of remeasurements in other comprehensive income, plan amendments, curtailments and settlements. It introduces enhanced disclosures about defined benefit plans, modifies accounting for termination benefits, including distinguishing benefits provided in exchange for service and benefits provided in exchange for the termination of employment and affect the recognition and measurement of termination benefits, clarifies miscellaneous issues, including the classification of employee benefits, current estimates of mortality rates, tax and administration costs and risk-sharing and conditional indexation features. The effective date is annual periods beginning on or after 1 January 2013.

- **IAS 27 Consolidated and Separate Financial Statements;** Reissued as IAS 27 Separate Financial Statements (as amended in 2011), Consolidation requirements previously forming part of IAS 27 (2008) have been revised and are now contained in IFRS 10 Consolidated Financial Statements. The effective date is annual periods beginning on or after 1 January 2013.

- **IAS 28 Investments in Associates;** Reissued as IAS 28 Investments in Associates and Joint Ventures (as amended in 2011), the objective of IAS 28 (as amended in 2011) is to prescribe the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture). The effective date is annual periods beginning on or after 1 January 2013.

4. Significant accounting policies

The accounting policies have been consistently applied by the group and are consistent with those used in the previous year.

(a) Basis of consolidation

The Consolidated and Separate Financial Statements incorporate the financial statements of the Bank and its subsidiaries, the Leasing and Finance Company of Malawi Limited, FMB Forex Bureau Limited, FMB Pensions Limited and Capital Bank Limited (together referred to as 'the Group').

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account. The financial statements of subsidiaries are included in the Consolidated and Separate Financial Statements from the date that control commences until the date that control ceases. Uniform accounting policies have been applied throughout the Group.

(ii) Funds management

The Group manages and administers assets held in investment vehicles on behalf of investors. The financial statements of these entities are not included in these Consolidated and Separate Financial Statements except when the Group controls the entity.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated and Separate Financial Statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to Malawi Kwacha at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Malawi Kwacha at the foreign exchange rate (mid-rate) ruling at that date. Foreign exchange differences arising on translation are recognised in the profit /loss. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Malawi Kwacha at foreign exchange rates ruling at the dates the fair values were determined.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Malawi Kwacha at exchange rates (mid-rate) ruling at the reporting date. The income and expenses of foreign operations are translated to Malawi Kwacha at average exchange rates during the year.

Exchange difference arising on the translation of the assets and liabilities of foreign operations are recognised directly in other comprehensive income. When a foreign operation is disposed of in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

4. Significant accounting policies (continued)

Foreign exchange gains or losses arising from monetary items receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future and which in substance is considered to from a part of the net investment in foreign operation, are recognised directly in the foreign currency translation reserve

(c) Financial assets and liabilities

(i) Recognition and measurement

The group initially recognising loans debt securities issued and subordinate receivables. All other financial asset or financial liabilities are recognised in the statement of financial position when and only when, the entity becomes a party to the contractual provisions of the instrument. A financial assets or financial liabilities are recognised in the statement of financial position. A financial asset or liability is initially measured at fair value plus (for an item not classified at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

(ii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. In the statement of financial position on derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred) and the consideration received including any new accounts obtained less any new liability assumed) is recognised in profit or loss.

The Group also derecognises certain assets when they are deemed to be uncollectible.

(iii) Offsetting

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

Income and expenses are presented on a net basis only when permitted by accounting standards, or for gains and losses arising from a group of similar transactions within the Group's trading activity.

(iv) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method applied to the difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

4. Significant accounting policies (continued)

(v) Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist and valuation models.

The value produced by a model or other valuation technique is adjusted to take into account a number of factors as appropriate because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to take into account model risks, bid-ask spreads, liquidity risks as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments measured at fair value on the statement of financial position.

When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

(vi) Identification and measurement of impairment

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

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

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

4. Significant accounting policies (continued)

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

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

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss. Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised out of other comprehensive income to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale security is recognised directly in other comprehensive income. Any changes in impairment provisions attributable to time value are reflected as a component of interest income.

(viii) Designation at fair value through profit or loss

The Group has designated financial assets and liabilities at fair value through profit or loss when either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

Investments in listed companies (see note 12) have been described at fair value through profits or loss

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents are measured at amortised cost in the statement of financial position.

(e) Other assets

Other financial assets are subsequently measured at amortised cost using the effective interest method less impairment losses.

Other assets comprise interbranch accounts, interest receivables, prepayments and staff advances.

(f) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

4. Significant accounting policies (continued)

(f) Loans and advances (continued)

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo or stock borrowing"), the arrangement is accounted for as a loan to the other party, and the underlying asset is not recognised in the Group's financial statements.
Loans and advances are initially measured at fair value, and subsequently measured at their amortised cost using the effective interest method.

(g) Investments

Investment securities are initially measured at fair value plus incremental direct transaction costs, for investments not at fair value through profit and loss. Subsequent to initial recognition investment securities are accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

(i) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are measured at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available- for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

(ii) Fair value through profit or loss

The Group recognises some investment securities at fair value, with fair value changes recognised immediately in profit or loss as described in accounting policy (c).

(iii) Available for sale

Available-for-sale investments are non-derivative investments that are designed available for sale or are not classified as another category of financial assets. Unquoted available for sale securities whose fair value cannot be reliably measured, are measured at cost. All other available-for-sale investments are measured at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the group becomes entitled to the dividend. Foreign exchange gains or losses on available for sale debt security investments are recognised in profit or loss.

Fair value changes are recognised directly in other comprehensive income until the investment is sold or impaired where upon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment and the balance is recognised in profit or loss.

(h) Investment in subsidiaries

Investments in subsidiaries are recognised at cost in the company financial statements less any impairment losses.

4. Significant accounting policies (continued)

(i) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost except for freehold property and leasehold improvements which are stated at latest valuation less accumulated depreciation and impairment losses as described in accounting policy (k).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, qualifying borrowing costs, the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognised net within other income in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

All properties are subject to revaluation every three years, with surpluses on revaluation being transferred to a non-distributable property revaluation reserve.

(ii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditure is capitalised. Other subsequent expenditure is capitalised only when it is probable that the future economic benefits embodied within the part will flow to the entity and its costs can be measured reliably. All other expenditure is recognised in the profit and loss as an expense as incurred.

(iii) Depreciation

Property and equipment are depreciated on a straight-line basis at rates that would reduce carrying amounts to their residual values, estimated at the date of purchase, over the initially anticipated useful lives of the assets. The group re-assesses the useful lives, the depreciation method and the residual values of the assets at each reporting date. Any changes in the useful lives, depreciation method or estimated residual values are accounted for prospectively as a change in accounting estimate in accordance with IAS 8: Accounting policies changes in accounting estimates and errors.

Depreciation is recognised in profit or loss.
The depreciation rates for the current and comparative period are:

• leasehold properties	2.5% (or period of lease if shorter)
• freehold properties	2.5%
• motor vehicles	25%
• furniture, fixtures and fittings, computers, office equipment	20%

Freehold land is not depreciated.

4. Significant accounting policies (continued)

(j) Capital work in progress

Capital work in progress represent gross amount spent to date in carrying out work of a capital nature. It is measured at cost recognised to date.

Capital work in progress is presented as part of property and equipment in the statement of financial position. If the project is completed the expenditure is capitalised to the relevant items of plant and equipment. Capital work in progress is not depreciated.

(k) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups of assets. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the units on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

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

An impairment loss is recognised in profit or loss unless it concerns property carried at revalued amount in which case it is treated as a revaluation decrease. If the impairment loss exceeds the revaluation reserve in respect of the impaired asset, the excess is recognised in profit or loss.

A reversal of an impairment loss is recognised in profit or loss, unless it relates to property carried at revalued amounts, in which case the excess of the reversal over the amount recognised in profit or loss is treated as a revaluation increase.

(l) Liabilities to customers and other banks

When the Group sells a financial asset and simultaneously enters into a "repo" or "stock lending" agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's financial statements.

4. Significant accounting policies (continued)

(l) Liabilities to customers and other banks (continued)

Deposits are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group chooses to account for the financial liabilities at fair value through profit or loss.

(m) Provisions

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

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

(n) Other payables

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

(o) Share capital

Share issue costs
Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

(p) Employee benefits

(i) Defined contribution plans
Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

(ii) Other long-term employee benefits
The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted.

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

4. Significant accounting policies (continued)

(p) Employee benefits (continued)

(iii) Short-term benefits (continued)

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

(q) Net interest income

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the profit or loss include:
- interest on financial assets and liabilities at amortised cost on an effective interest rate basis
- interest on available-for-sale investment securities on an effective interest rate basis.

Interest income is suspended and hence not included in net interest income when the collection of loans becomes doubtful.

Income from leasing is included in net interest income as further described in accounting policy (r).

(r) Leases

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

(i) The group as a 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.

(ii) The group as a lessee
Rentals payable under operating leases are recognised in profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

4. Significant accounting policies (continued)

(s) Fees and commissions income

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, account service fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are performed.

(t) Income from investments

Income from investments includes dividend income and increase in fair value of investments.

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for available for sale securities.

Increase in fair value of investments designated at fair value through profit or loss includes all realised and unrealised fair value changes.

(u) Other income

Other income includes rentals receivable and net gains on the sale of assets and is recognised on the accruals basis.

(v) Income tax

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

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

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is recognised for all temporary differences. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current assets, and they relate to income taxes levied in the same tax authority on the same taxable entity, or on different entities but they intend to settle current liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

4. Significant accounting policies (continued)

(w) Earnings per share

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

(x) Financial guarantees

Financial guarantee contracts require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

These financial guarantee contracts are classified as insurance contracts as defined in IFRS 4 Insurance Contracts. A liability is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle the contract and a reliable estimate can be made of the amount of the obligation. The amount recognised is the best estimate of the expenditure required to settle the contract at the statement of financial position date. Where the effect of discounting is material, the liability is discounted. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(y) Determination of fair values

- The fair values of investments in the listed equities are derived from price ruling at reporting date.
- The fair values of properties are estimated by a qualified valuer on an open market value basis.

5. Financial risk management

The board of directors of the Bank has ultimate responsibility for the level of risk taken by the bank and accordingly they have approved the overall business strategies and significant policies of the bank, including those related to managing and taking risk. Senior management in the bank is responsible for implementing strategies in a manner that limits risks associated with each strategy and that ensures compliance with applicable rules and regulation, both on a long term and day to day basis. The bank has a risk management department, which is independent of those who accept risks in the bank. The risk management department is tasked to:-

- identify current and emerging risks
- develop risk assessment and measurement systems
- establish policies, practices and other control mechanisms to manage risks
- develop risk tolerance limits for senior management and board approval
- monitor positions against approved risk tolerance limits
- report results of risk monitoring to senior management and the board.

To ensure that risk management is properly explained to and understood by all business lines the board has established the following risk management policies:-

In thousands of Malawi Kwacha

5. Financial risk management (continued)

- Credit Risk Management Policy
- Liquidity Risk Management Policy
- Operational Risk Management Policy
- Capital Risk Management Policy
- Market Risk Policy

(a) Credit risk

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

Management of credit risk

The Boards of Directors of the Group have delegated responsibility for the management of credit risk to their Credit Committees to whom separate Credit departments report. The Credit Committees are responsible for oversight of credit risk, including:-

- **Formulating credit policies,** covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- **Establishing the authorisation structure** for the approval and renewal of credit facilities. All credit facilities are authorized by Head Office management. Larger facilities require approval by The Credit Committee or the Board of Directors as appropriate
- **Reviewing and assessing credit risk.** The Credit Department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the branches concerned. Renewals and reviews of facilities are subject to the same review process.
- **Limiting concentrations of exposure** to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- **Reviewing compliance** of business units with agreed exposure limits.

Exposure to credit risk

The Group's exposure to credit risk principally comprises loans and advances to customers and finance lease receivable analysed as follows:

	Group		Company	
	2011	**2010**	**2011**	**2010**
Standard (fully performing)	27,554,096	23,753,809	14,935,694	14,396,025
Past due but not impaired	1,651,083	1,825,552	635,067	1,059,300
Impaired (Note 9 & 10)	1,433,794	1,467,016	425,652	834,601
	30,638,973	**27,046,377**	**15,996,413**	**16,289,926**

Past due but not impaired loans and advances comprise:

30-60 days	542,620	677,046	205,263	446,506
61-90 days	772,977	232,709	94,318	612,794
>90 days	335,486	915,797	335,486	-
	1,651,083	**1,825,552**	**635,067**	**1,059,300**

In thousands of Malawi Kwacha

5. Financial risk management (continued)

(a) Credit risk (continued)

Exposure to credit risk (continued)

An estimate of the fair value of collateral held against loans and advances to customers is shown below:

	Group		Company	
	2011	**2010**	**2011**	**2010**
Against individually impaired				
Property	1,161,307	728,779	277,407	16,507
Motor vehicles	212,921	335,603	148,245	69,777
Against past due but not impaired				
Property	1,939,560	1,335,943	998,550	743,735
Motor vehicles	1,363,578	1,208,521	649,592	1,057,075
Against neither past due nor impaired				
Property	24,586,434	13,168,176	10,342,123	14,096,446
Motor vehicles	22,814,639	24,390,438	15,296,311	11,709,335
	52,078,439	**41,167,460**	**27,712,228**	**27,692,875**

The Group's policy is to pursue the timely realisation of the collateral in an orderly manner. The Group generally does not use the non-cash collateral for its own operations.

Impaired loans and securities
Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and/or interest due according to the contractual terms of the loan / securities agreements.

Past due but not impaired loans
These are loans and securities where contractual interest or principal payments are past due but the Bank 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 Bank.

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

In thousands of Malawi Kwacha

5. Financial risk management (continued)

(a) Credit risk (continued)

Impairment policy

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

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

	Group		Company	
	2011	**2010**	**2011**	**2010**
Agriculture	2,557,209	2,546,672	2,457,535	2,417,630
Mining	28,191	33,594	28,191	33,594
Finance and Insurance	6,074,964	5,724,926	65,995	14,721
Construction	4,171,995	3,545,307	3,001,985	2,871,423
Manufacturing	3,609,636	3,563,330	2,476,577	2,819,390
Wholesale and retail	4,455,213	4,146,575	3,934,983	3,655,190
Tourism and leisure	832,404	671,643	448,083	476,198
Transport	5,363,314	3,922,307	1,919,711	2,050,358
Others	3,546,047	2,892,023	1,663,353	1,951,422
	30,638,973	**27,046,377**	**15,996,413**	**16,289,926**

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.

In thousands of Malawi Kwacha

5. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank. The table below shows the credit quality by class of financial asset for credit risk related items

GROUP	Performing loans		Non - Performing Loans					
2011 Credit Quality	**Standard**	**Special Mention**	**Sub Standard**	**Doubtful**	**Loss**	**Total**	**Security against impaired loans**	**Net impaired loans**
Loans, advances and leases to customers:								
Personal and Business Banking								
• Mortgage Lending • Instalment sales and finance leases • Other loans and advances	2,319,298	41,304	44,340	91,851	71,944	2,568,737	201,143	28,202
Corporate and Investment Banking • Corporate lending	25,403,798	465,135	1,407,682	243,635	549,986	28,070,236	998,377	738,915
Total recognised financial instruments	**27,723,096**	**506,439**	**1,452,022**	**335,486**	**621,930**	**30,638,973**	**1,199,520**	**767,117**

The credit quality of financial assets is managed by the Bank. The table below shows the credit quality by class of financial asset for credit risk related items.

COMPANY	Performing loans		Non - Performing Loans					
2011 Credit Quality	**Standard**	**Special Mention**	**Sub Standard**	**Doubtful**	**Loss**	**Total**	**Security against impaired loans**	**Not impaired loans**
Loans and advances to customers: *Personal and Business Banking:*								
• Other loans and advances	1,973,790	21,210	42,365	91,851	71,944	2,201,161	201,143	26,228
Corporate and Investment Banking • *Corporate lending*	12,961,904	184,053	51,952	243,635	353,708	13,795,252	94,433	738,915
Total recognised financial instruments	**14,935,694**	**205,263**	**94,317**	**335,486**	**425,652**	**15,996,413**	**295,576**	**765,143**

In thousands of Malawi Kwacha

5. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank. The table below shows the credit quality by class of financial asset for credit risk related items

GROUP	Performing loans		Non - Performing Loans					
2010 Credit Quality	**Standard**	**Special Mention**	**Sub Standard**	**Doubtful**	**Loss**	**Total**	**Security against impaired loans**	**Net impaired loans**
Loans, advances and leases to customers:								
Personal and Business Banking								
• Mortgage Lending	310,625	-	-	-	-	310,625	-	-
• Instalment sales and finance leases	3,436,665	274,961	64,616	40,759	36,367	3,853,368	-	-
• Other loans and advances	3,102,726	207,171	11,325	2,369	38,623	3,362,214	3,805	43,661
Corporate and Investment Banking								
• Corporate lending	16,797,716	730,626	1,198,220	387,447	406,161	19,520,170	1,502,126	263,575
Total recognised financial instruments	**23,647,732**	**1,212,758**	**1,274,161**	**430,575**	**481,151**	**27,046,377**	**1,505,931**	**307,236**

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank. The table below shows the credit quality by class of financial asset for credit risk related items.

COMPANY	Performing Loans		Non - Performing Loans					
2010 Credit Quality	**Standard**	**Special Mention**	**Sub Standard**	**Doubtful**	**Loss**	**Total**	**Security against impaired loans**	**Net impaired loans**
Loans, advances and leases to customers:								
Personal and Business Banking								
• Other loans and advances	2,879,586	185,917	4,852	2,369	38,624	3,111,348	3,123	37,870
Corporate and Investment Banking								
• Corporate lending	11,516,439	260,589	607,942	387,447	406,161	13,178,578	530,033	263,575
Total recognised financial instruments	**14,396,025**	**446,506**	**612,794**	**389,816**	**444,785**	**16,289,926**	**533,156**	**301,445**

In thousands of Malawi Kwacha

5. Financial risk management (continued)

(a) Credit risk (continued)

Maximum exposure to credit risk without taking into account any collateral

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 presented gross, before the effect of mitigation through the use of master netting and collateral agreements.

GROUP	Gross Maximum Exposure	
	2011	2010
Balances with central banks	2,544,670	813,937
Balances with other banks	6,611,295	1,430,354
Balance with foreign banks	2,835,199	1,736,001
Money market investments	10,291,645	13,379,327
Personal and Business Banking		
• Mortgage lending	1,980,977	310,625
• Instalment sales and finance leases	3,519,398	3,853,368
• Other loans and advances	2,568,737	3,362,214
Corporate and Investment Banking		
• Corporate lending	22,569,861	19,520,170
Total recognised financial instruments	**52,921,782**	**44,405,996**
Letters of credit	199,747	987,492
Financial guarantees	8,205,328	9,427,725
Total unrecognised financial instruments	**8,405,075**	**10,415,217**
Total credit risk exposure	**61,326,857**	**54,821,213**

In thousands of Malawi Kwacha

5. Financial risk management (continued)

(a) Credit risk (continued)

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

COMPANY	Gross Maximum Exposure	
	2011	2010
Balances with central banks	1,059,160	86,905
Balances with other banks	1,318,227	-
Balance with foreign banks	2,434,976	1,476,474
Money market investments	2,349,453	3,432,206
Personal and Business Banking		
• Other loans and advances	2,201,161	3,111,348
Corporate and Investment Banking		
• Corporate lending	13,795,252	13,178,578
Total recognised financial instruments	**23,158,229**	**21,285,511**
Letters of credit	160,294	875,681
Financial guarantees	5,030,825	5,743,590
Total unrecognised financial instruments	**5,191,119**	**6,619,271**
Total credit risk exposure	**28,349,348**	**27,904,782**

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

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:

In thousands of Malawi Kwacha

5. Financial risk management (continued)

(a) Credit risk (continued)

GROUP	At 31 December 2011	
Gross maximum exposure	**Carrying amount**	**Net exposure to credit risk**
Cash and balances with banks	6,715,272	6,715,272
Loans and advances to banks	5,275,893	5,275,893
Loans and advances to customers and finance leases	30,638,973	30,638,973
	42,630,138	**42,630,138**

GROUP	At 31 December 2010	
Gross maximum exposure	**Carrying amount**	**Net exposure to credit risk**
Cash and balances with banks	3,845,300	3,845,300
Loans and advances to banks	1,414,158	1,414,158
Loans and advances to customers and finance leases	27,046,377	27,046,377
	32,305,835	**32,305,835**

COMPANY	At December 31 2011	
Gross maximum exposure	**Carrying amount**	**Net exposure to credit risk**
Cash and balances with banks	2,602,319	2,602,319
Loans and advances to banks	3,753,202	3,753,202
Loans and advances to customers and finance leases	15,996,413	15,996,413
	22,351,934	**22,351,934**

COMPANY	At December 31 2010	
Gross maximum exposure	**Carrying amount**	**Net exposure to credit risk**
Cash and balances with banks	1,035,795	1,035,795
Loans and advances to banks	1,476,474	1,476,474
Loans and advances to customers and finance leases	16,289,926	16,289,926
	18,802,195	**18,802,195**

5. **Financial risk management (continued)**

(b) Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in meeting obligations arising 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, both under stressed and normal conditions, without causing damage to the group's reputation.

The daily liquidity position is monitored. It is assumed that under normal circumstances customer demand deposits will remain stable or increase in value and unrecognised loan/ overdraft commitments are not expected to be immediately drawn down in their entirety. Regular stress testing is done under normal and severe, market conditions and the results are discussed with ALCO and the Risk Committee.

All liquidity policies and procedures are subject to review and approval by the Asset Liability Committees (ALCO). These are management committees which meet once a month or more often if necessary. The daily monitoring of liquidity is the responsibility of an integrated treasury department which monitors the level of mismatches in the maturity positions of assets and liabilities. The maturity gap analyses as at 31 December 2011 and 31 December 2010 are given below:-

Asset and Liability Management Committee (ALCO)
The primary objective of the ALCO is to ensure a proper balance in terms of maturity profile, cost and yield, risk exposure etc. between funds mobilized and funds deployed. The ALCO seeks to manage risks in order to minimize the volatility of net interest income and protect the long term economic value of the Bank. The committee also monitors the capital adequacy of the Bank.

Key functions of the ALCO include setting pricing guidelines for assets and liabilities, setting limits and managing liquidity risk and interest rate risk and ensuring that contingency funding plans are in place to avert funding crises.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

5. Financial risk management (continued)

(b) Liquidity risk (continued)

GROUP 2011	Carrying amount	Gross Nominal inflow/ (outflow)	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 5 years
ASSETS								
Cash and cash equivalents	13,938,583	13,938,583	13,348,583	590,000	-	-	-	-
Money market investments	10,291,645	10,291,645	6,834,946	2,809,019	647,680	-	-	-
Gross loans, advances and leases	30,638,973	30,638,973	12,247,374	2,021,582	6,421,104	-	7,147,274	2,801,639
Investment in listed companies	2,128,795	2,128,795	-	-	-	-	-	2128795
Other assets	128,602	128,602	128,602	-	-	-	-	-
Total assets	**57,126,598**	**57,126,598**	**32,559,505**	**5,420,601**	**7,068,784**	**-**	**7,147,274**	**4,930,434**
LIABILITIES								
Current and savings account	(18,010,968)	(18,010,968)	(5,680,890)	(1,014,097)	(11,315,981)	-	-	-
Foreign currency accounts	(4,203,453)	(4,203,453)	(2,051,443)	(2,152,010)	-	-	-	-
Term deposit accounts	(24,813,237)	(24,813,237)	(15,600,833)	(5,461,334)	(3,751,070)	-	-	-
Total liabilities to customers	**(47,027,658)**	**(47,027,658)**	**(23,333,166)**	**(8,627,441)**	**(15,067,051)**	**-**	**-**	**-**
Balances due to other banks	(1,466,070)	(1,466,070)	(1,466,070)	-	-	-	-	-
Total liabilities	**(48,493,728)**	**(48,493,728)**	**(24,799,236)**	**(8,627,441)**	**(15,067,051)**	**-**	**-**	**-**
Net Liquidity Gap	**8,632,870**	**8,632,870**	**7,760,269**	**(3,206,840)**	**(7,998,267)**	**-**	**7,147,274**	**4,930,434**
Cumulative Liquidity Gap	**8,632,870**	**8,632,870**	**7,760,269**	**4,553,429**	**(3,444,838)**	**(3,444,838)**	**3,702,436**	**8,632,870**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

5. Financial risk management (continued)

(b) Liquidity risk (continued)

COMPANY 2011	Carrying amount	Gross Nominal inflow/ (outflow)	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 5 years
ASSETS								
Cash and cash equivalents	6,453,389	6,453,389	6,453,389	-	-	-	-	-
Money market investments	2,349,453	2,349,453	-	2,304,453	-	45,000	-	-
Gross loans, advances and leases	15,996,413	15,996,413	6,088,718	1,856,986	-	5,454,415	1,807,012	789,282
Investment in listed companies	2,128,795	2,128,795	-	-	-	-	2,128,795	-
Other assets	128,602	128,602	128,602	-	-	-	-	-
Total assets	**27,056,652**	**27,056,652**	**12,670,709**	**4,161,439**	**-**	**5,499,415**	**3,935,807**	**789,282**
LIABILITIES								
Current and savings account	(13,868,495)	(13,868,496)	(2,773,699)	-	(11,094,797)	-	-	-
Foreign currency accounts	(2,690,013)	(2,690,013)	(538,003)	(2,152,010)	-	-	-	-
Term deposit accounts	(3,395,713)	(3,395,713)	-	(3,269,188)	-	(126,525)	-	-
Other liabilities	(1,221,557)	(1,221,557)	(1,221,557)	-	-	-	-	-
Total liabilities to customers	**(21,175,778)**	**(21,175,779)**	**(4,533,259)**	**(5,421,198)**	**(11,094,797)**	**(126,525)**	**-**	**-**
Deposits due to other banks	(1,466,070)	(1,466,070)	(1,466,070)	-	-	-	-	-
Total liabilities	**(22,641,848)**	**(22,641,849)**	**(5,999,329)**	**(5,421,198)**	**(11,094,797)**	**(126,525)**	**-**	**-**
Net Liquidity Gap	**4,414,804**	**4,414,803**	**6,671,380**	**(1,259,759)**	**(11,094,797)**	**5,372,890**	**3,935,807**	**789,282**
Cumulative Liquidity Gap	**4,414,804**	**4,414,803**	**6,671,380**	**5,411,621**	**(5,683,176**	**-310,286**	**3,625,521**	**4,414,803**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

5. Financial risk management (continued)

(b) Liquidity risk (continued)

GROUP 2010	Carrying amount	Gross Nominal inflow/ (outflow)	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 5 years
ASSETS								
Cash and cash equivalents	5,321,760	5,321,760	5,321,760	-	-	-	-	-
Money market investments	13,379,327	13,379,327	3,811,747	997,414	3,160,768	-	95,000	5,314,398
Gross loans, advances and leases	27,046,377	27,046,377	7,631,882	618,474	1,720,450	413,290	2,650,483	14,011,798
Investment in listed companies	1,308,968	1,308,968	-	-	-	-	1308968	-
Other assets	387,715	387,715	387715	-	-	-	-	-
Total assets	**47,444,147**	**47,444,147**	**17,153,104**	**1,615,888**	**4,881,218**	**413,290**	**4,054,451**	**19,326,196**
LIABILITIES								
Current and savings account	-14,798,279	-14,798,279	-2,959,656	-	-11,838,623	-	-	-
Foreign currency accounts	-3,048,606	-3,048,606	-609,721	-2,438,885		-	-	-
Term deposit accounts	-19,280,547	-19,280,547	-8,193,835	-9,845,823	-855,642	-385,247	-	-
Total liabilities to customers	**-37,127,432**	**-37,127,432**	**-11,763,212**	**-12,284,708**	**-12,694,265**	**-385,247**	**-**	**-**
Deposits due to other banks	-1,838,605	-1,838,605	-1,838,605	-	-	-	-	-
Other payables	-1,689,680	-1,689,680	-1,689,680	-	-	-	-	-
Total liabilities	-40,655,717	-40,655,717	-15,291,497	-12,284,708	-12,694,265	-385,247	0	0
Net Liquidity Gap	6,788,430	6,788,430	1,861,607	-10,668,820	-7,813,047	28,043	4,054,451	19,326,196
Cumulative Liquidity Gap	6,788,430	6,788,430	1,861,607	-8,807,213	-16,620,260	-16,592,217	-12,537,766	6,788,430

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
In thousands of Malawi Kwacha

5. Financial risk management (continued)

(b) Liquidity risk (continued)

COMPANY 2010	Carrying amount	Gross Nominal inflow/ (outflow)	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 5 years
ASSETS								
Cash and cash equivalents	2,574,571	2,574,571	2,574,571	-	-	-	-	-
Money market investments	3,432,206	3,432,206	-	791,992	2,545,214	-	95,000	-
Gross loans, advances and leases	16,289,926	16,289,926	6,082,396	3,840,348	1,904,445	1,675,331	557,943	2,229,463
Investment in listed companies	1,308,968	1,308,968	-	-	-	-	1308968	-
Investment in subsidiaries	785,968	785,968	-	-	-	-	-	785968
Other assets	347,640	347,640	347640	-	-	-	-	-
Total assets	**24,739,279**	**24,739,279**	**9,004,607**	**4,632,340**	**4,449,659**	**1,675,331**	**1,961,911**	**3,015,431**
LIABILITIES								
Current and savings account	-11,229,536	-11,229,536	-2,245,907	-	-8,983,629	-	-	-
Foreign currency accounts	-1,944,088	-1,944,088	-388,818	-1,555,270	-	-	-	-
Term deposit accounts	-2,651,078	-2,651,078	-	-2,504,483	-146,595	-	-	-
Total liabilities to customers	**-15,824,702**	**-15,824,702**	**-2,634,725**	**-4,059,753**	**-9,130,224**	**-**	**-**	**-**
Deposits due to other banks	-1,838,605	-1,838,605	-1,838,605	-	-	-	-	-
Other payables	-1,529,922	-1,529,922	-1,529,922	-	-	-	-	-
Total liabilities	**-19,193,229**	**-19,193,229**	**-6,003,252**	**-4,059,753**	**-9,130,224**	**-**	**-**	**-**
Net Liquidity Gap	**5,546,050**	**5,546,050**	**3,001,355**	**572,587**	**-4,680,565**	**1,675,331**	**1,961,911**	**3,015,431**
Cumulative Liquidity Gap	**5,546,050**	**5,546,050**	**3,001,355**	**3,573,942**	**-1,106,623**	**568,708**	**2,530,619**	**5,546,050**

In thousands of Malawi Kwacha

5. Financial risk management (continued)

(b) Liquidity risk (continued)

The previous table shows the undiscounted cash flows on the group's financial assets and liabilities on the basis of their expected maturities as opposed to their earliest possible contractual maturity. Out of these, 20% are demand deposits and overdrafts, and are classified in the up to one month category with the balance in the over 5 years category as the Group's expected cash flows on these instruments varies significantly from their contractual maturity profile.

The Reserve Bank of Malawi has issued the following guidelines on the management of liquidity:

- Liquidity Ratio 1: Net liquidity (total liquid assets less suspense accounts in foreign currency) divided by total deposits must be at least 30 percent.

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

Liquidity Ratios 1 and 2 were as specified below:-

	31 December 2011	31 December 2010
First Merchant Bank Limited		
Liquidity Ratio I	37.94%	50.37%
Liquidity Ratio II	37.38%	50.20%
The Leasing and Finance Company of Malawi Limited		
Liquidity Ratio I	55%	32.44%
Liquidity Ratio II	55%	31.99%
Capital Bank Limited		
Liquidity Ratio I	48%	59%
Liquidity Ratio II	48%	59%

5. Financial risk management (continued)

(c) Operational risks

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

The objective of the group is to manage operational risks so as to balance the avoidance of financial losses and damages to the bank's reputation with overall cost effectiveness and to 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 branch. The responsibility is supported by the development of overall standards in the group for the management of operational risks 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.
- development of contingency plans
- training and professional development
- ethical and business standards
- implementation of anonymous hotline for reporting fraud and other inappropriate conduct as per fraud risk policy

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

Risk management function also assesses operational risks and discusses the results with senior management and the risk committee.

(d) Capital management

Reserve Bank of Malawi sets and monitors the capital requirements for the group and requires the bank to maintain a minimum of 6 percent and 10 percent for core and total capital respectively. These requirements have remained consistent from prior year. The group's regulatory capital is analysed in two parts:-

- Tier I capital, which includes paid-up share capital, share premium, retained earnings, and other reserves less investment in subsidiaries

- Tier II capital, which includes investment revaluation reserve, property revaluation reserve and loan loss reserve.

in thousands of Malawi Kwacha

5. Financial risk management (continued)

(c) Capital management (continued)

The calculation of both the above ratios is given below:-

	Group		Company	
Tier 1 capital	**2011**	**2010**	**2011**	**2010**
Share capital	116,813	116,813	116,813	116,813
Share premium	1,565,347	1,565,347	1,565,347	1,565,347
Retained earnings	4,593,039	3,790,550	3,711,083	3,194,165
Investment in unconsolidated subsidiaries	-	-	(785,968)	(785,968)
Investment in equities of financial institutions	(280,746)	(50,442)	-	(50,442)
	5,994,453	**5,422,268**	**4,607,275**	**4,039,915**
Tier 2 capital				
Reserves	**2,325,056**	**2,065,671**	**1,883,904**	**1,643,090**
Total regulatory capital	**8,319,509**	**7,487,939**	**6,491,179**	**5,683,005**
Risk weighted assets	**44,215,839**	**30,592,673**	**23,475,548**	**22,817,328**
Capital ratios				
Tier 1 capital expressed as a percentage of total risk-weighted assets	**14.12**	**17.0**	**17.88**	**17.71**
Total capital expressed as a percentage of total risk weighted assets.	**18.69**	**24.0**	**24.88**	**24.91**

Bank of Botswana sets and monitors the capital requirements for the Bank and requires the bank to maintain a minimum of 15 percent of risk weighted assets. The Bank's regulatory capital is analysed into two parts:-

- Tier I capital, which includes paid-up share capital, share premium, retained earnings and other reserves less investment in subsidiaries.
- Tier II capital, which includes investment revaluation reserve, property revaluation reserve and loan loss reserve.

5. Financial risk management (continued)

(e) **Market risk management policy**

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and other available for sale financial assets prices will affect the group income or the value of its holding of financial instruments. The objective of the group's market risk management policy is to manage and control market risk exposures within acceptable parameters while optimizing the return on risk.

Investments in shares
The Board of Directors sets and regularly reviews exposure limits for investment in equity instruments. The performance of the equity market in general and the group's equity investments in particular are closely monitored and appropriate risk mitigation measures are implemented where necessary.

The group measures its investment in equities at fair value, with fair value changes recognized immediately in accordance with accounting policy (g).

Foreign Exchange Risk
Foreign exchange risk is the exposure of group's financial condition to adverse movements in foreign exchange rates. It arises from change in value of local currency against foreign currencies.

Foreign currency transactions and positions are monitored by senior management and ALCO.

Foreign Exchange Rate Risk Management

The responsibilities of the Integrated Treasury Department include monitoring of foreign exchange risk. Foreign exchange rate risk is the potential impact of adverse currency rates movements on earnings and economic value. This involves the risks of the group incurring financial loss on settlement of foreign exchange positions taken in both the trading and banking books. The foreign exchange positions arise from the following activities:-

- Trading in foreign currencies through spot, forward and option transactions as a market maker or position taker, including the unhedged position arising from customer driven foreign exchange transactions.
- holding foreign currency position in the bank books (e.g. in the form of loans, deposits, cross border investments, etc)
- Engaging in derivative transactions that are denominated in foreign currency for trading or hedging purposes.

The treasury department is responsible for:-

- Setting the foreign exchange risk management strategy and tolerance levels.
- Ensuring that effective risk management systems and internal controls are in place.
- Monitoring significant foreign exchange exposure.
- Ensuring that foreign exchange operations are supported by adequate management information systems which complement the risk management strategy
- Reviewing the policies, procedures and currency limits regularly in line with changes in the economic environment.

in thousands of Malawi Kwacha

5. Financial risk management (continued)

(e) Market risk management policy (continued)

The ALCO regularly monitors the controls put in place by the treasury department, which are approved and reviewed by the board from time to time.

The group does not perform a sensitivity analysis on its foreign exchange exposure but manages its foreign exchange risk mainly by hedging assets in foreign exchange with liabilities in foreign exchange. The group's foreign exchange exposures at the reporting date were as follows:

	2011			2010		
GROUP	**Assets**	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
USD	80,749	74,552	**6,197**	48,635	48,337	**298**
GBP	2,192	2,457	**(264)**	2,384	2,123	**261**
EUR	6,622	12,172	**(5,550)**	4,130	3,926	**204**
ZAR	6,953	5,338	**1,615**	3,209	1,944	**1,265**
INR	41	-	**41**	-	-	**-**
JPY	-	6	**(6)**	-	-	**-**
COMPANY						
USD	19,017	13,745	**5,272**	16,988	12,301	**4,687**
GBP	-	356	**(356)**	692	379	**313**
EUR	1,759	7,497	**(5,738)**	2,303	1,600	**703**
ZAR		1,155	**(1,155)**	11,938	3,138	**8,800**
INR			**-**	-	-	**-**
JPY			**-**	-	-	**-**

Interest Rate Risk

Interest Rate risk is the exposure of group's financial condition to adverse movements in interest rates. It basically arises from timing differences in the maturity of re-pricing of the group's assets and liabilities. Changes in interest rates can have adverse effects on the group's earnings and its economic value. The relevant Asset and Liability Committee (ALCO) monitors interest rate risk in the group. Interest rate sensitivity analyses as on the reporting date are set out below:-

Stress testing on the three elements of market risk is done by an independent risk function. The results are discussed with ALCO and the Risk Committee and appropriate risk mitigation measures and contingency plans are implemented.

in thousands of Malawi Kwacha

5. Financial risk management (continued)

(e) Market risk management policy (continued)

GROUP 2011	Zero rate	Floating rate	Fixed Rate Instruments 0-3 months	3-6 months	6-9 months	9-12 months	Over 12 months	Total
Total assets	**11,116,867**	**34,677,381**	**13,621,959**	**602,680**	**-**	**45,000**	**-**	**60,063,887**
Total liabilities and shares	**12,463,432**	**29,382,728**	**17,793,714**	**208,644**	**215,369**	**-**	**-**	**60,063,887**
Interest sensitivity gap	(1,346,565)	5,294,653	(4,171,755)	394,036	(215,369)	45,000	-	-
Impact on profit of increase of interest rate 1%	-	52,947	(41,718)	3,940	(2,154)	450	-	-
Impact on profit of decrease of interest rate 1%	-	(52,947)	41,718	(3,940)	2,154	(450)	-	-

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
in thousands of Malawi Kwacha

5. Financial risk management (continued)

(e) Market risk management policy (continued)

GROUP 2010	Zero rate	Floating rate	Fixed Rate Instruments 0-3 months	3-6 months	6-9 months	9-12 months	Over 12 months	Total
Total assets	**6,604,064**	**28,819,664**	**11,005,161**	**2,870,211**	**283,900**	**-**	**95,000**	**49,678,000**
Total liabilities and shares	**10,808,303**	**23,713,598**	**14,969,118**	**157,429**	**22,520**	**7,032**	**-**	**46,678,000**
Interest sensitivity gap	(4,204,242)	5,106,066	(3,963,957)	2,712,782	261,383	(7,032)	95,000	-
Impact on profit of increase of interest rate 1%	-	51,061	(34,685)	16,955	2,755	(9)	950	37,027
Impact on profit of decrease of interest rate 1%	-	(200,803)	34,685	(16,955)	(2,755)	9	(950)	(186,769)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
in thousands of Malawi Kwacha

5. Financial risk management (continued)

(e) Market risk management policy (continued)

COMPANY 2011	Zero rate	Floating rate	Fixed Rate Instruments 0-3 months	3-6 months	6-9 months	9-12 months	Over 12 months	Total
Total assets	**12,498,758**	**15,407,652**	**1,701,773**	**602,680**	**-**	**45,000**	**-**	**30,255,863**
Total liabilities and shareholders funds	**10,301,641**	**16,558,509**	**2,971,700**	**208,644**	**215,369**	**-**	**-**	**30,255,863**
Interest sensitivity gap	2,197,117	(1,150,857)	(1,269,927)	394,036	(215,369)	45,000	-	-
Impact on profit of increase of interest rate 1%	-	(11,509)	(12,699)	3,940	(2,154)	450	-	-
Impact on profit of decrease of interest rate 1%	-	11,509	12,699	(3,940)	2,154	(450)	-	-

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

in thousands of Malawi Kwacha

5. Financial risk management policy (continued)

(e) Market risk management policy (continued)

COMPANY 2010	Zero rate	Floating rate	Fixed Rate Instruments 0-3 months	3-6 months	6-9 months	9-12 months	Over 12 months	Total
Total assets	**7,188,138**	**15,706,161**	**791,992**	**2,545,214**	**-**	**-**	**95,000**	**26,326,505**
Total liabilities and shareholders funds	**8,663,197**	**15,012,229**	**2,504,483**	**146,596**	**-**	**-**	**-**	**26,326,505**
Interest sensitivity gap	(1,475,059)	693,932	(1,712,491)	2,398,618	-	-	95,000	-
Impact on profit of increase of interest rate 1%	-	6,399	-	14,991	-	-	950	22,340
Impact on profit of decrease of interest rate 1%	-	(93,447)	14,984	(14,991)	-	-	(950)	(94,404)

5. Financial risk management(continued)

e) Market risk management policy (continued)

Effective interest rates of financial assets and liabilities
The effective interest rates for the principal financial assets and liabilities at 31 December 2011 and 2010 were in the following ranges:-

	2011	2010
	%	%
Assets:		
Government securities	6.00 – 8.00	6.00 - 7.60
Deposits with banking institutions	2.50 – 13.0	2.00 - 8.00
Loans and advances to customers (base rate)	17.75	17.75
Liabilities:		
Customer deposits	0.50-8.00	0.50-8.00

(f) Compliance risk

The office of Compliance Officer is an independent risk management activity, which also has unrestricted access to the managing director and the chairman of the Risk Committee. The Group is subject to extensive supervisory and regulatory regimes, and the executive management remains responsible for overseeing the management of the bank's compliance risk.

Money laundering controls are managed within the compliance function. 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.

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

in thousands of Malawi Kwacha

6. Financial assets and liabilities

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

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Group
31 December 2011

Financial assets	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	13,938,583	-	-	**13,938,583**
Money market investments	-	10,219,645	-	**10,219,645**
Loans and advances to customers	-		24,421,580	**24,421,580**
Finance lease receivables	-	-	5,305,046	**5,305,046**
Investments in listed companies	2,128,795	-	-	**2,128,795**
	16,067,378	**10,219,645**	**29,726,626**	**56,013,649**
Financial liabilities				
Deposits from banks	1,466,070	-	-	**1,466,070**
Deposits from customers	-	-	47,027,658	**47,027,658**
	1,466,070	**-**	**47,027,658**	**48,493,728**

Group
31 December 2010

Financial assets	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	5,321,760	-	-	**5,321,760**
Money market investments	-	13,379,327	-	**13,379,327**
Loans and advances to customers	-	-	22,599,044	**22,599,044**
Finance lease receivables	-	-	3,639,703	**3,639,703**
Investments in listed companies	1,309,968	-	-	**1,309,968**
	6,631,728	**13,379,327**	**26,238,747**	**46,248,802**
Financial liabilities				
Deposits from banks	1,838,605	-	-	**1,838,605**
Deposits from customers	-	-	37,127,432	**37,127,432**
	1,838,605	**-**	**37,127,432**	**38,966,037**

in thousands of Malawi Kwacha

6. Financial assets and liabilities

Company
31 December 2011

Financial assets	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	6,453,389	-	-	**6,453,389**
Money market investments	-	2,349,453	-	**2,349,453**
Loans and advances to customers	-		15,407,652	**15,407,652**
Finance lease receivables	-	-	-	**-**
Investments in listed companies	2,128,795	-	-	**2,128,795**
	8,582,184	**2,349,453**	**15,407,652**	**26,339,289**
Financial liabilities				
Deposits from banks	1,466,070	-	-	**1,466,070**
Deposits from customers	-	-	19,954,221	**19,954,221**
	1,466,070	**-**	**19,954,221**	**21,420,291**

Company
31 December 2010

Financial assets	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	2,574,571	-	-	**2,574,571**
Money market investments	-	3,432,206	-	**3,432,206**
Loans and advances to customers	-	-	15,706,161	**15,706,161**
Finance lease receivables	-	-	-	**-**
Investments in listed companies	1,308,968	-	-	**1,308,968**
	3,883,539	**3,432,206**	**15,706,161**	**23,021,906**
Financial liabilities				
Deposits from banks	1,838,605	-	-	**1,838,605**
Deposits from customers	-	-	15,824,702	**15,824,702**
	1,838,605	**-**	**15,824,702**	**17,663,307**

7. Cash and cash equivalents

	Group		Company	
	2011	**2010**	**2011**	**2010**
Liquidity reserve deposits				
- Central Banks	2,544,670	813,937	1,059,160	86,905
Placements with other banks	5,275,893	1,414,158	-	-
Balances with banks abroad	2,835,199	1,736,001	2,434,975	1,476,474
Balances with local banks	1,335,403	16,196	1,318,227	-
Cheques in course of clearing	97,321	62,302	97,321	62,302
Cash balances	1,850,097	1,279,166	1,543,706	948,890
	13,938,583	**5,321,760**	**6,453,389**	**2,574,571**
Balance due to banks abroad (Note 18)	**(534)**	**(694)**	**(534)**	**(694)**
	13,938,049	**5,321,066**	**6,452,855**	**2,573,877**

in thousands of Malawi Kwacha

8. Money market investments

	Group		Company	
	2011	**2010**	**2011**	**2010**
Bank of Botswana Certificates	6,746,580	8,863,936	-	-
Malawi Government Treasury Bills	3,450,065	4,370,391	2,254,453	3,287,206
Local Registered Stocks	95,000	145,000	95,000	145,000
	10,291,645	**13,379,327**	**2,349,453**	**3,432,206**

The interest rate on local registered stock approximates the market interest rate and hence the carrying amount approximates the fair value. All money market investments mature between 2 and 12 months except for local registered stocks which mature after 12 months.

9. Loans and advances to customers

	Group		Company	
Loans and advances are receivable as follows:	**2011**	**2010**	**2011**	**2010**
Maturing within 3 months	13,105,264	10,770,578	7,945,704	9,922,744
Maturing between 3 and 12 months	6,076,908	4,195,729	5,454,415	3,579,776
Maturing after 12 months	5,956,426	8,298,626	2,596,294	2,787,406
	25,138,598	**23,264,933**	**15,996,413**	**16,289,926**
Segmental analysis by industry:				
Agriculture	2,457,534	2,417,630	2,457,535	2,417,630
Mining	28,191	33,594	28,191	33,594
Finance and insurance	6,057,478	5,818,046	65,995	14,721
Construction	3,871,767	3,199,069	3,001,985	2,871,423
Manufacturing	3,553,426	3,099,405	2,476,577	2,819,390
Wholesale and retail	3,934,983	3,655,190	3,934,983	3,655,190
Tourism and leisure	448,083	476,198	448,083	476,198
Transport	2,176,049	2,353,292	1,919,711	2,050,358
Others	2,611,087	2,212,509	1,663,353	1,951,422
	25,138,598	**23,264,933**	**15,996,413**	**16,289,926**
Specific allowances for impairment:				
Balance at 1 January	(266,781)	(196,906)	(227,103)	(196,906)
Charge for the year	(212,158)	(233,142)	(171,473)	(193,464)
Write offs	1,509	8,806	1,509	8,806
Recoveries	145,429	154,461	145,429	154,461
Balance at 31 December	**(332,001)**	**(266,781)**	**(251,638)**	**(227,103)**
Interest in suspense:				
Balance at 1st January	**(400,607)**	**(243,375)**	**(356,662)**	**(243,375)**
Charge for the year	15,590	(157,232)	19,539	(113,287)
Balance at 31 December	**(385,017)**	**(400,607)**	**(337,123)**	**(356,662)**
Net loans and advances	**24,421,580**	**22,597,545**	**15,407,652**	**15,706,161**

The directors consider that the carrying amount of loans and advances approximates to their fair value. Impairment of loans and advances has been calculated as disclosed in note 5a.

in thousands of Malawi Kwacha

10. Finance Lease Receivables

	Group		Company	
	2011	2010	2011	2010
Investment in finance leases, receivable:				
Less than one year	1,757,572	829,647	-	-
Between one and five years	3,529,085	2,768,055	-	-
More than five years	213,718	183,742	-	-
Balance at 31 December	**5,500,375**	**3,781,444**	**-**	**-**
Specific allowances for impairment:				
Balance at 1 January	(60,063)	(60,583)	-	-
Charge for the year	(34,558)	-	-	-
Write-offs	2,519	520	-	-
Recoveries	12,464	-	-	-
Balance at 31 December	**(79,638)**	**(60,063)**	-	-
Interest in suspense:				
Balance at 1 January	(81,678)	(43,373)	-	-
Charge for the year	(31,013)	(38,305)	-	-
Balance at 31 December	**(112,691)**	**(81,678)**	-	-
Net finance lease receivables	**5,308,046**	**3,639,703**	**-**	**-**

The directors consider that the carrying amount of lease receivables approximates to their fair value.

11. Other assets

	Group		Company	
	2011	2010	2011	2010
Cheques in course of collection	116,050	21,662	116,050	21,662
Interest receivable	55,009	17,634	55,009	17,634
Prepayments	40,357	47,857	29,004	40,341
Dividend receivable	17,244	-	17,244	-
Stock of consumable stationery	79,219	41,066	77,630	38,791
Stock of computer spares	8,970	-	8,970	-
FMB Forex Bureau Limited	-	-	82,342	55,201
Receivables	101,048	259,496	111,298	174,011
Due from Thomas Cook	115,936	-	115,936	-
	533,833	**387,715**	**613,483**	**347,640**

in thousands of Malawi Kwacha

12. Investments in listed companies

	Group and Company			
	2011		2010	
	Valuation	Cost	Valuation	Cost
Balance brought forward	1,308,968	184,837	1,312,969	185,342
Additions during the year	580,111	580,111	-	-
Change in fair value during the year	257,277	-	(3,701)	-
Disposals during the year	(17,561)	(17,561)	(300)	(505)
	2,128,795	**747,387**	**1,308,968**	**184,837**

All investments in quoted companies are held for trading. The increase in fair value is taken to profit or loss. The investments have been designated at fair value through profit and loss upon initial recognition.

13. Investment in subsidiaries

	Shareholding percentage		Shareholding value at cost	
At Cost	**2011**	**2010**	**2011**	**2010**
The Leasing and Finance Company of Malawi Limited	100%	100%	65,911	65,911
Capital Bank Limited (Botswana)	53.76%	53.76%	710,057	710,057
FMB Pension Fund Limited	100%	100%	-	-
FMB Forex Bureau Limited	100%	100%	10,000	10,000
Total investment in subsidiaries			**785,968**	**785,968**
Movement during the year:				
Balance at 1 January and 31 December			**785,968**	**785,968**

in thousands of Malawi Kwacha

14. Property and equipment

GROUP	Freehold property	Leasehold improvements	Motor vehicles	Equipment fixture & fittings	Capital work in progress	Total
Cost or valuation						
Balance at 1 January 2011	**1,075,495**	**535,922**	**190,749**	**1,985,224**	**250,116**	**4,037,506**
Additions	24,750	54,969	26,546	458,052	303,609	**867,926**
Disposals	-	-	(4,819)	-	-	**(4,819)**
Write offs	-	(8,416)	-	(18,783)	-	**(27,199)**
Balance at 31 December 2011	**1,100,245**	**582,475**	**212,476**	**2,424,493**	**553,725**	**4,873,414**
Accumulated depreciation and impairment losses						
Balance at 1 January 2011	**12,840**	**10,323**	**95,606**	**1,049,796**	**-**	**1,168,565**
Charge for the year	23,666	10,774	36,282	329,967	-	**400,689**
Translation loss	624	-	753	15,330	-	**16,707**
Released on disposals/write offs	-	(186)	(5,143)	(4,592)	-	**(9,921)**
Balance at 31 December 2011	**37,130**	**20,911**	**127,498**	**1,390,501**	**-**	**1,576,040**
Carrying amount						
At 31 December 2011	**1,063,115**	**561,564**	**84,978**	**1,033,992**	**553,725**	**3,297,374**
Cost or valuation						
Balance at 1 January 2010	**625,093**	**519,695**	**137,122**	**1,398,797**	**229,555**	**2,910,262**
Additions	432,322	1,171	55,268	520,305	136,180	**1,145,246**
Transfers	18,320	15,056	-	60,077	(93,453)	**-**
Retranslation gain/(loss)	-	-	286	6,066	-	**6,352**
Disposals	-	-	(1,927)	(21)	-	**(1,948)**
Reclassified to asset held for sale	(240)	-	-	-	-	**(240)**
Write offs	-	-	-	-	(22,166)	**(22,166)**
Balance at 31 December 2010	**1,075,495**	**535,922**	**190,749**	**1,985,224**	**250,116**	**4,037,506**
Accumulated depreciation and impairment losses						
Balance at 1 January 2010	**-**	**-**	**69,401**	**768,889**	**-**	**838,290**
Charge for the year	12,840	10,323	27,854	280,919		**331,936**
Released on disposals	-	-	(1,649)	(12)	-	**(1,661)**
Balance at 31 December 2010	**12,840**	**10,323**	**95,606**	**1,049,796**	**-**	**1,168,565**
Carrying amount						
At 31 December 2010	**1,062,655**	**525,599**	**95,143**	**935,428**	**250,116**	**2,868,941**

in thousands of Malawi Kwacha

14. Property and equipment (continued)

COMPANY	Freehold property	Leasehold improvements	Motor vehicles	Equipment fixture & fittings	Capital work in progress	Total
Cost or valuation						
Balance at 1st January 2011	**591,088**	**535,922**	**167,431**	**1,564,568**	**250,116**	**3,109,125**
Additions	18,100	54,969	15,440	484,463	260,622	**833,594**
Disposals/write offs	-	(8,416)	(219)	(18,783)	-	**(27,418)**
Balance at 31 December 2010	**609,188**	**582,475**	**182,652**	**2,030,248**	**510,738**	**3,915,301**
Accumulated depreciation and impairment						
Balance at 1 January 2011	**11,058**	**10,323**	**80,432**	**891,108**	**-**	**992,921**
Charge for the year	12,449	11,076	31,920	262,597	-	**318,042**
Released on disposal/write offs	-	(192)	(219)	(5,218)	-	**(5,629)**
Balance at 31 December 2011	**23,507**	**21,207**	**112,133**	**1,148,487**	**-**	**1,305,334**
Carrying amount						
At 31 December 2011	**585,681**	**561,268**	**70,519**	**881,761**	**510,738**	**2,609,967**
Cost or valuation						
Balance at 1st January 2010	**572,050**	**519,695**	**115,600**	**1,034,050**	**229,555**	**2,470,950**
Additions	718	1,171	53,758	470,441	136,180	**662,268**
Transfers	18,320	15,056	-	60,077	(93,453)	**-**
Disposals	-	-	(1,927)	-	-	**(1,927)**
Write off	-	-	-	-	(22,166)	**(22,166)**
Balance at 31 December 2010	**591,088**	**535,922**	**167,431**	**1,564,568**	**250,116**	**3,109,125**
Accumulated depreciation and impairment						
Balance at 1 January 2010	**-**	**-**	**58,740**	**685,059**	**-**	**743,799**
Charge for the year	11,058	10,323	23,341	206,049	-	**250,771**
Released on disposal	-	-	(1,649)	-	-	**(1,649)**
Balance at 31 December 2010	11,058	10,323	80,432	891,108	-	**992,921**
Carrying amount						
At 31 December 2010	**580,030**	**525,599**	**86,999**	**673,460**	**250,116**	**2,116,204**

Registers of land and buildings giving details as required under the Companies Act 1984, Schedule 3, Section 16 are maintained at the registered office of the company and are open for inspection by members or their duly authorised agents.

The freehold properties and leasehold improvements were last revalued on 31 December 2009 by Don Whayo BSc; MRICS; MSIM of Knight Frank Malawi Limited, independent valuers, not connected with the group, on an open market value basis. The resultant surplus of K255.237 million for the group and K239.143 million for the company were credited to revaluation reserve in 2009. This is not available for distribution until realised.

Capital work in progress represents development costs on the bank's various branches and Auto teller machines in the course of installation.

in thousands of Malawi Kwacha

15. Deferred tax

(i) GROUP

	Assets		Liabilities		Net	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Property and equipment	-	-	201,591	163,585	**201,591**	**163,585**
Accrued income	-	-	3,780	50,042	**3,780**	**50,042**
Revaluation of property	-	-	116,431	109,320	**116,431**	**109,320**
Tax losses	(118,774)	(118,774)	-	-	**(118,774)**	**(118,774)**
Operating Lease - accrual	(480)	(480)	-	-	**(480)**	**(480)**
Gratuity and severance pay liabilities	(24,777)	(54,787)	-	-	**(24,777)**	**(54,787)**
Accrued interest	-	-	34,091	4,803	**34,091**	**4,803**
Translation reserve	-	-	29,047	6,733	**29,047**	**6,733**
Tax (assets)/liabilities	**(144,031)**	**(174,041)**	**384,940**	**334,483**	**240,909**	**160,442**

(ii) COMPANY

	Assets		Liabilities		Net	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Property and equipment	-	-	50,991	31,270	**50,991**	**31,270**
Accrued income	-	-	3,780	50,042	**3,780**	**50,042**
Investment Revaluation	-	-	77,183	-	**77,183**	**-**
Property Revaluation	-	-	110,695	103,639	**110,695**	**103,639**
Gratuity and severance pay liabilities	(24,777)	(54,787)	-	-	**(24,777)**	**(54,787)**
Tax (assets)/liabilities	**(24,777)**	**(54,787)**	**242,649**	**184,951**	**217,872**	**130,164**

in thousands of Malawi Kwacha

15. Deferred tax liabilities

Movements in temporary differences during the year

GROUP 2011	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
Property and equipment	163,585	38,006	-	**201,591**
Accrued income	50,042	(46,262)	-	**3,780**
Revaluation of property	109,320	-	5,986	**115,306**
Tax losses	(118,774)	-	-	**(118,774)**
Operating lease	(480)	-	-	**(480)**
Gratuity and severance pay provisions	(54,787)	30,010	-	**(24,777)**
Accrued interest	4,803	29,288	-	**34,091**
Translation reserve	6,733	27,049	(4,735)	**29,047**
	160,442	**78,091**	**1,251**	**240,909**

GROUP 2010	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
Property and equipment	14,995	148,590	-	**163,585**
Accrued income	49,445	597	-	**50,042**
Revaluation of property	119,329	-	(10,009)	**109,320**
Tax losses	(60,881)	(57,893)	-	**(118,774)**
Operating lease	381	(861)	-	**(480)**
Gratuity and severance pay provisions	(45,749)	(9,038)	-	**(54,787)**
Accrued interest	19,865	(15,062)	-	**4,803**
Translation reserve	4,677	2,056	-	**6,733**
	102,062	**68,389**	**(10,009)**	**160,442**

COMPANY 2011	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
Property and Equipment	31,270	19,721	-	**50,991**
Accrued income	50,042	(46,262)	-	**3,780**
Revaluation of investment	-	77,183	-	**77,183**
Revaluation of Property	103,639	-	7,056	**110,695**
Gratuity and severance pay provisions	(54,787)	30,010	-	**(24,777)**
Tax (assets)/liabilities	**130,164**	**80,652**	**7,056**	**217,872**

COMPANY 2010	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
Property and equipment	(14,644)	45,914	-	**31,270**
Accrued income	49,445	597	-	**50,042**
Revaluation of property	110,053	-	(6,414)	**103,639**
Gratuity and severance pay provisions	(45,749)	(9,038)	-	**(54,787)**
Tax (assets)/liabilities	**99,105**	**37,473**	**(6,414)**	**130,164**

in thousands of Malawi Kwacha

16. Customer deposits

	Group		Company	
	2011	**2010**	**2011**	**2010**
Current and savings accounts	18,010,968	14,798,279	13,868,496	11,229,536
Foreign currency accounts	4,203,453	3,048,606	2,690,013	1,944,088
Term deposit accounts	24,813,237	19,280,547	3,395,712	2,651,078
	47,027,658	**37,127,432**	**19,954,221**	**15,824,702**
Payable as follows:				
Maturing within 3 months	42,424,692	28,920,301	17,137,684	13,586,206
Maturing after 3 months and above	4,602,966	8,207,131	2,816,537	2,238,496
	47,027,658	**37,127,432**	**19,954,221**	**15,824,702**

For information about interest rates refer to note 5

17. Balances due to other banks

	Group		Company	
	2011	**2010**	**2011**	**2010**
Local banks	-	426,291	-	426,291
European Investment Bank loan	1,055,165	1,117,620	1,055,165	1,117,620
Loans due to foreign banks	410,371	294,000	410,371	294,000
Other foreign banks (Note 7)	534	694	534	694
	1,466,070	**1,838,605**	**1,466,070**	**1,838,605**

18. Other liabilities

	Group		Company	
	2011	**2010**	**2011**	**2010**
Interest payable	30,042	9,286	30,042	9,286
Bankers cheques issued and uncleared	265,465	151,297	224,724	124,708
Margins on letters of credit and forward contracts	213,964	398,969	-	398,969
Bills payables	91,517	88,240	91,517	88,240
Trade payables	863,694	987,959	875,274	864,104
Accrued expenses	141,115	53,929	107,483	44,615
	1,605,797	**1,689,680**	**1,329,040**	**1,529,922**

19. Employee benefits liabilities

	Group		Company	
Severance pay liabilities	**2011**	**2010**	**2011**	**2010**
Balance at 1 January	190,108	167,679	170,556	156,341
Transfers to profit or loss	(109,552)	32,669	(90,000)	24,455
Payment made during the year	(21,407)	(10,240)	(21,407)	(10,240)
Balance at 31 December	**59,149**	**190,108**	**59,149**	**170,556**

Following the revision of the Employment Act 2010 which became effective on 1st June 2011, the provision requiring employers to account for severance allowance relating to future retirement costs was removed. The amended Act introduced an obligation on the part of employers to ensure that employees are covered by registered pension arrangements

In preparing the financial statements, the directors have considered the matter and have prepared these financial statements on the basis of the existing interpretation of the law.

in thousands of Malawi Kwacha

20.

(a) Share Capital

	2011	2010
Authorised, issued fully paid at 1 January and 31 December	116,813	116,813

(b) Share premium

	2011	2010
Authorised, issued fully paid at 1 January and 31 December	1,565,347	1,565,347

21. Property revaluation reserve

This represents the increase in fair value of property and equipment net of the related deferred taxation provision and is not available for distribution to the owners.

22. Investment revaluation reserve

This represents the unrealized increase in fair value of investments at fair value through profit and loss net of the related deferred taxation provision transferred from retained earnings and is not available for distribution to the owners.

23. Loan loss reserve

Arising from the changes to IAS 39: Financial Instruments: Recognition and Measurement, the 1% general provision against risk assets as required by the Reserve Bank of Malawi may no longer be offset against the gross value of the assets. The loan loss reserve is additional impairment made in excess of what IAS 39 requires and is made in order to comply with the Reserve Bank of Malawi requirements.

24. Interest income

	Group		Company	
	2011	2010	2011	2010
Loans and advances	4,098,761	3,278,939	2,970,459	2,571,280
Lease finance	927,321	733,711	-	-
Treasury bills	308,876	516,984	240,781	378,941
Bank of Botswana certificates	463,899	477,078	-	-
Local registered stocks	18,371	25,475	18,371	25,475
Placements with other banks	251,130	81,714	34,560	12,352
Total interest income	**6,068,358**	**5,113,901**	**3,264,171**	**2,988,048**

in thousands of Malawi Kwacha

25. Income from investments

	Group		Company	
	2011	**2010**	**2011**	**2010**
Dividend income	97,896	108,064	222,896	208,064
Movement in fair value of investments:				
• Unrealised	257,277	(3,701)	257,277	(3,701)
• Realised	(564)	(4)	(564)	(4)
	354,609	**104,359**	**479,609**	**204,359**

26. Other operating income

	Group		Company	
	2011	**2010**	**2011**	**2010**
Profit on disposal of motor vehicles and equipment	2,182	576	385	521
Cash transaction income	42,630	-	-	-
Fees for excesses	26,912	-	-	-
Other	12,199	42,464	12,199	-
	83,923	**43,040**	**12,584**	**521**

27. Staff and training costs

	Group		Company	
	2011	**2010**	**2011**	**2010**
Salaries and wage	1,035,365	850,987	715,983	566,102
Training and other staff costs	595,331	518,807	594,912	523,493
Provision for severance pay	(109,552)	32,669	(90,000)	24,455
Contributions to defined contribution plans	65,263	52,099	52,148	40,820
	1,586,407	**1,454,562**	**1,273,043**	**1,154,870**

in thousands of Malawi Kwacha

28. Other expenses

	Group		Company	
	2011	2010	2011	2010
Other costs include: Auditor's remuneration				
• Current audit fees	33,808	21,277	18,755	12,963
• Under provision in previous year	153	4,002	-	4,002
• Other services	-	2,866	-	2,376
Directors' remuneration	114,046	108,223	113,966	108,143
Others	935,480	679,713	694,514	480,347
Total other costs	**1,083,487**	**816,031**	**827,235**	**607,831**

29. Income tax expense

Recognised in the statement of comprehensive income

	Group		Company	
Current tax expense	2011	2010	2011	2010
Current year at 30% (2010: 30%) based on profits	897,338	700,013	536,156	551,279
Final tax on dividend	20,191	19,492	20,191	19,492
Deferred tax expense				
Origination and reversal of temporary differences (Note 15)	78,091	68,389	80,652	37,473
Total income tax expense in statement of Comprehensive income	**995,620**	**787,894**	**636,999**	**608,244**

Reconciliation of effective tax rate

Profit before income tax	**3,010,651**	**2,616,489**	**2,135,275**	**2,089,514**
Income tax using the domestic corporation tax rate 30% (2010: 30%) Capital Bank Limited rate 22%	903,196	784,946	640,583	626,854
Non-deductible expenses	139,110	49,521	43,102	27,963
Tax exempt income	(66,877)	(63,531)	(66,877)	(63,531)
Tax incentives	-	(2,534)	-	(2,534)
Dividend tax	20,191	19,492	20,191	19,492
Total income tax expense in income statement	**995,620**	**787,894**	**636,999**	**608,244**

in thousands of Malawi Kwacha

30. Basic and diluted earnings per share

	Group	
	2011	**2010**
Profit attributable to ordinary shareholders	1,858,453	1,766,992
Weighted average number of ordinary shares in issue (thousands)	2,336,250	2,336,250
Basic and diluted earnings per share (tambala)	**80**	**76**

There are no potential dilutive ordinary shares.

31. Dividends

Last year's second interim dividend of **MK116.813 million** (2010: MK140.181 million), final dividend of **MK46.725 million** (2010: MK46.725 million) and an interim dividend for the year of **MK584.063 million** (2010: MK443.88 million) were declared and paid during the year.

32. Related party transactions

The Group transacts part of its business with related parties including directors and parties related to or under the control of the directors. Details of related party transactions of the Group are set out below:

	Directors and their related parties	Employees	FMB Pension Fund	Total
2011				
Advances	35,724	267,499	-	**303,223**
Deposits	-	(38,551)	(12,745)	**(51,296)**
Net balances	**35,724**	**228,948**	**(12,745)**	**251,927**
Interest received	-	2,083	-	2,083
Fees and Commission Received			35	35
Interest paid	-	(782)	(39)	(821)
		1,301	**(4)**	**1297**
2010				
Advances		241,440	-	**1,027,582**
Deposits	-	(31,826)	(14,389)	**(46,215)**
Net balances	**-**	**209,614**	**(14,389)**	**981,367**
Interest received	-	362	36	398
Interest paid	-	(72)	(33)	(105)
	-	290	3	293

Advances to directors and parties related thereto are in the normal course of business and considered to be adequately secured.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
in thousands of Malawi Kwacha

32. Related party transactions (continued)

Advances to employees include **MK4,947,000** (2010: MK1,718,000) of interest free advances and **MK267,499,000** (2010: MK255,935,000) of advances which carry interest at one quarter of the prevailing prime lending rate of the Bank. All other transactions with related parties are carried out on an arms length basis on normal commercial terms.

In accordance with the Group's accounting policy, advances to related parties at concessionary rates of interest are valued at the present value of expected future repayments of the advances discounted at a pre-tax discount rate that equates to the interest rate charged by the Bank on similar loans to non-related parties. As a result an allowance for impairment losses of **MKnil** (2010: MK32,346,343) has been made against concessionary advances to related parties. No other impairment losses have been recorded against loans to related parties.

Details of related party transactions between the Bank and its wholly owned subsidiaries, The Leasing and Finance Company of Malawi Limited (LFC), Capital Bank Limited, FMB Forex Bureau Limited and FMB Pension Fund which have been eliminated on consolidation, are as follows:

	2011	**2010**
Deposits by LFC Limited with FMB Limited	10,308	74,871
Loan syndications	188	(134,000)
Short term deposits	1,319,983	800,000
Fees and commissions received	4,162	5,507
Interest received	11,343	9,720
Interest paid	5,090	10,513
Management fees (Capital Bank Limited)	6,134	16,752

Key management personnel compensation:

	Executive Directors		**Non-Executive Directors**	
	2011	**2010**	**2011**	**2010**
Salaries	45,133	40,583	-	-
Bonuses	34,000	38,000	-	-
Fees	-	-	34,913	29,640
	79,133	**78,583**	**34,913**	**29,640**

In addition to their salaries, the Group also provides non-cash benefits to executive directors. The estimated value of total non-cash benefits to directors amounts to **MK2.7 million** (2010: MK7.061 million).

in thousands of Malawi Kwacha

Directors' interests

As at 31 December 2011, the total direct and indirect interests of the directors and parties related thereto in the issued share capital of the company were as follows:

	Ordinary Shares	
	2011	**2010**
R. C. Kantaria	1,055,000,000	1,050,000,000
H. N. and N. G. Anadkat	1,050,000,000	1,050,000,000
J. M. O'Neill	4,649,391	4,649,391
M. Msisha	1,050,000	1,050,000
S.G. Malata	47,250	47,250

33. Capital commitments and contingent liabilities

In common with other banks, the Bank conducts business involving acceptances, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

The contractual amounts of the Bank's off balance sheet financial instruments that commit it to extend credit to customers are as follows:

	Group		Company	
	2011	**2010**	**2011**	**2010**
Contingent liabilities				
Acceptances and letters of credit	199,747	987,492	160,294	875,681
Financial guarantees	8,205,328	9,427,725	5,030,825	5,743,590
	8,405,075	**10,415,217**	**5,191,119**	**6,619,271**

Contingencies in respect of letters of credit will only crystallise into an asset or a liability when bills are presented in accordance with the terms and conditions of payment of the individual letters of credit.

Contingencies in respect of guarantees and performance bonds issued will only crystallise into an asset and a liability in the event of default by the relevant counterparty.

Contingencies in respect of civil litigation and labour matters will crystallise into a liability only in the unlikely event of an unfavourable judgement.

Capital commitments

	2011	**2010**
Capital expenditure: Authorised but not contracted	281,740	281,740

in thousands of Malawi Kwacha

34. Statutory requirements

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

(i) Liquidity Reserve Requirement
The Bank is required to maintain a liquidity reserve as defined by the Reserve Bank of Malawi, calculated on a weekly average basis, of not less than 15.5% (2010: 15.5%) of the preceding weeks total deposit liabilities. In the last week of December 2010, the liquidity reserve was 21.50% (2010: 17.44%) of total customer deposits.

(ii) Capital Adequacy Requirement
The Bank's available capital is required to be a minimum of 10% of its risk bearing assets and contingent liabilities. At 31 December 2011, the Bank's available capital was 18.08% (2010: 15.08%) of its risk bearing assets and contingent liabilities.

35. Exchange rates and inflation

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

Exchange rates	**2011 MK**	**2010 MK**	**2009 MK**
Kwacha/GBP	255.0	235.6	237.0
Kwacha/Rand	22.2	23.8	19.9
Kwacha/US Dollar	165.4	150.8	146.0
Kwacha/Euro	214.4	202.9	211.8
Kwacha/Pula	21.7	22.7	21.9
Inflation rate %	9.8%	7.4%	7.6%

At the time of signing these financial statements the exchange rates moved as under:

Kwacha/GBP	258.2
Kwacha/Rand	21.4
Kwacha/US Dollar	164.7
Kwacha/Euro	214.7
Kwacha/Pula	22.5

in thousands of Malawi Kwacha

36. Effective interest rates of financial assets and liabilities

The effective interest rates for the principal financial assets and liabilities at 31 December were in the following ranges:

	2011
Assets	
Government securities	6.00 - 8.00%
Deposits with banking institutions	2.50 - 13.00%
Loans and advances to customers	17.75 – 31.75%
Liabilities	
Customer deposits	0.5 - 8.0 %
	2010
Assets	
Government securities	6.00 - 7.60 %
Deposits with banking institutions	2.00 - 8.00 %
Loans and advances to customers	17.75 – 31.75%
Liabilities	
Customer deposits	0.5 - 8.0%

37. Segmental Reporting

Separate financial information is presented to the Group's chief operating decision makers in respect of the individual legal entities comprised in the Group, namely:

- First Merchant Bank Limited – corporate and retail banking in Malawi
- The Leasing and Finance Company of Malawi Limited - deposit taking and asset finance in Malawi
- FMB Forex Bureau Limited – operation of foreign exchange bureaux in Malawi
- Capital Bank Limited – corporate and retail banking in Botswana
- FMB Pensions Limited – Administration of Pension Funds

In the case of First Merchant Bank Limited information on income and expenditure, assets and liabilities is further disaggregated between its various individual branches and agencies and its head office operations. Head office income includes group treasury income from dealing in foreign currency and trading in financial instruments and income from funds management, corporate advisory and transfer secretarial services. Head office expenditure includes all head office staff, premises and overhead costs including the costs of group treasury and capital market operations which are not separately identified in internal reports.

Branches and agencies of First Merchant Bank are all engaged in corporate and retail banking, offer similar products and services to similar classes of customer and are governed by the same regulatory environment. Given their common economic characteristics, these individual segments are aggregated and presented in a single segment, Malawi corporate and retail banking, in these financial statements.

37. Segmental Reporting (continued)

FMB pension Fund Limited does not meet any of the quantitative thresholds set out in IFRS 8 Segment Reporting for separate disclosure and reporting and this segment has been aggregated into the Malawi corporate and retail banking segment information presented below.

Income tax expense, assets and liabilities are not disaggregated but allocated in full to head office.

Included in external interest income is income from placements with banks abroad of **MK5.02 million** (2010: MK8.9 million). All other revenues are attributable to the country in which the respective operating segment is domiciled.

During the year the Group earned **MK791.1 million** (2010: MK81.0 million) interest on Government of Malawi treasury bills, Bank of Botswana Certificates and local registered stock; **MKnil** (2010: MK nil) interest on Reserve Bank of Malawi bills; **MK184.6 million** (2010: MK109.5 million) interest on loans and advances to enterprises controlled by Government of Malawi and Government of Botswana; and fees and commissions of **MK0.761million** (2010: MK120.605 million) from accounts of enterprises controlled by Government of Malawi and Government of Botswana.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

in thousands of Malawi Kwacha

37. Segmental Reporting (continued)

31 December 2011

	Malawi Corporate and Retail banking	FMB Forex Bureau	Malawi asset finance	Total Malawi	Botswana Corporate and Retail Banking	Total before adjustments	Consolidated adjustments	Total
Interest Income - External	3,264,171	157	1,227,366	4,491,694	1,593,256	6,084,950	(16,592)	6,068,358
Total Interest Income	**3,264,171**	**157**	**1,227,366**	**4,491,694**	**1,593,256**	**6,084,950**	**(16,592)**	**6,068,358**
Interest Expense - External	(400,420)	(806)	(546,170)	(947,396)	(868,665)	(1,816,061	16,592	(1,799,469)
Total Interest Expense	(400,420)	(806)	(546,170)	(947,396)	(868,665)	(1,816,061)	16,592	(1,799,469)
NET INTEREST INCOME	**2,863,751**	**(649)**	**681,196**	**3,544,298**	**724,591**	**4,268,889**	**-**	**4,268,889**
Fees and Commissions	109,195	281	11,644	121,120	192,100	313,220	(417)	312,803
Other external Fees and Commissions	932,588	-	-	932,588	-	932,588	-	932,588
Total Fees and Commission	**1,041,783**	**281**	**11,644**	**1,053,708**	**192,100**	**1,245,808**	**(417)**	**1,245,391**
Income from Investments	479,609		-	479,609		479,609	(125,000)	354,609
Gain on foreign exchange transactions	661,719	43,692	-	705,411	47,448	752,859	-	752,859
Other Operating Income	122,136	-	3,235	125,371	77,583	202,954	(9,479)	83,923
Total Operating income	**5,168,998**	**43,324**	**696,075**	**5,908,397**	**1,041,722**	**6,950,119**	**(134,896)**	**6,705,671**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

in thousands of Malawi Kwacha

37. Segmental Reporting (continued)

31 December 2011

	Malawi Corporate and Retail banking	FMB Forex Bureau	Malawi asset finance	Total Malawi	Botswana Corporate and Retail Banking	Total before adjustments	Consolidated adjustments	Total
Staff and Training costs	(1,388,517)	(11,850)	(54,358)	(1,454,725)	(241,234)	(1,695,959)	-	**(1,695,959)**
Premises and Equipment	(480,093)	(3,180)	-	(483,273)	(52,340)	(535,613)	-	**(535,613)**
Depreciation	(320,341)	(1,656)	(4,732)	(326,729)	(73,960)	(400,689)	-	**(400,689)**
Other expense	(848,200)	(5,392)	(53,488)	(907,080)	(186,303)	(1,093,383)	9,896	**(1,083,487)**
Impairment of financial assets	(26,044)	-	(22,759)	(48,803)	(40,020)	(88,823)	-	**(88,823)**
Total Expenditure	**(3,063,195)**	**(22,078)**	**(135,337)**	**(3,220,610)**	**(593,857)**	**(3,814,467)**	**9,896**	**(3,804,571)**
Profit before income tax expense	**2,105,803**	**21,246**	**560,738**	**2,687,787**	**447,865**	**3,135,652**	**(125,000)**	**3,010,652**
Income tax expense	(636,999)	(6,271)	(170,006)	(813,276)	(89,664)	(902,940)	(92,680)	**(995,620)**
Profit for the year	**1,468,804**	**14,975**	**390,732**	**1,874,511**	**358,201**	**2,232,712**	**(217,680)**	**2,015,032**
Other Comprehensive Income								
Tax on other Comprehensive income	7,056	-	(1,070)	5,986	-	5,986	-	5,986
	-	**-**	**-**	**-**	**(102,241)**	**(102,241)**	**-**	**(102,241)**
Total other Comprehensive Income for the period	**7,056**	**-**	**(1,070)**	**5,986**	**(102,241)**	**(96,255)**	**-**	**(96,255)**
Total comprehensive income for the period	**1,475,860**	**14,975**	**389,662**	**1,880,497**	**255,960**	**2,136,457**	**(217,680)**	**1,918,777**
Total Segment assets	**30,255,863**	**120,675**	**10,846,970**	**41,223,508**	**19,592,835**	**60,816,343**	**(747,412)**	**60,068,931**
Total Segment Liabilities	**23,096,337**	**89,860**	**9,536,411**	**32,722,608**	**18,017,003**	**50,739,611**	**(15,054)**	**50,724,557**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
in thousands of Malawi Kwacha

37. Segmental Reporting (continued)

31 December 2010

	Malawi Corporate and Retail banking	FMB Forex Bureau	Malawi asset finance	Total Malawi	Botswana Corporate and Retail Banking	Total before adjustments	Consolidated adjustments	Total
Interest Income – External	2,988,048	23	56,841	3,944,912	1,195,119	5,140,031	(26,130)	**5,113,901**
Total Interest Income	**2,988,048**	**23**	**956,841**	**3,944,912**	**1,195,119**	**5,140,031**	**(26,130)**	**5,113,901**
Interest Expense – External	(374,174)	(5,874)	(421,227)	(801,275)	(677,697)	(1,478,972)	26,130	**(1,452,842)**
Total Interest Expense	(374,174)	(5,874)	(421,227)	(801,275)	(677,697)	(1,478,972)	26,130	(1,452,842
NET INTEREST INCOME	**2,613,874**	**(5,851)**	**535,614**	**3,143,637**	**517,422**	**3,661,059**	**-**	**3,661,059**
Fees and Commissions	1,037,863	-	7,827	1,045,690	121,716	1,167,406	(21,538)	1,145,868
Other external Fees and Com-missions	16,752	-	-	16,752	-	16,752	-	**16,752**
Total Fees and Commission	**1,054,615**	**-**	**7,827**	**1,062,442**	**121,716**	**1,184,158**	**(21,538)**	**1,162,620**
Income from Investments	204,359	-	-	204,359	-	204,359	(100,000)	**104,359**
Gain on foreign exchange trans-actions	583,941	43,920	-	627,861	45,123	672,984	-	**672,984**
Other Operating Income	521	-	55	576	42,464	43,040	-	**43,040**
Total Operating income	**4,457,310**	**38,069**	**543,496**	**5,038,875**	**726,725**	**5,765,600**	**(121,538)**	**5,644,062**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

in thousands of Malawi Kwacha

37. Segmental Reporting (continued)

31 December 2010

	Malawi Corporate and Retail banking	FMB Forex Bureau	Malawi asset finance	Total Malawi	Botswana Corporate and Retail Banking	Total before adjustments	Consolidated adjustments	Total
Staff and Training costs	(1,154,870)	(11,468)	(56,819)	(1,223,157)	(231,405)	(1,454,562)	-	**(1,454,562)**
Premises and Equipment	(315,321)	(1,110)	-	(316,431)	(29,932)	(346,363)	-	**(346,363)**
Depreciation	(250,771)	(2,321)	(4,706)	(257,798)	(74,138)	(331,936)	-	**(331,936)**
Other expense	(607,831)	(10,344)	(43,555)	(661,730)	(175,839)	(837,569)	21,538	**(816,031)**
Impairment of financial assets	(39,003)	-	-	(39,003)	(39,678)	(78,681)	-	**(78,681)**
Total Expenditure	**(2,367,796)**	**(25,243)**	**(105,080)**	**(2,498,119)**	**(550,992)**	**(3,049,111)**	**21,538**	**(3,027,573)**
Profit before income tax expense	**2,089,514**	**12,826**	**438,416**	**2,540,756**	**175,733**	**2,716,489**	**(100,000)**	**2,616,489**
Income tax expense	(608,244)	(3,848)	(133,294)	(745,386)	(42,508)	(787,894)	-	**(787,894)**
Profit for the year	**1,481,270**	**8,978**	**305,122**	**1,795,370**	**133,225**	**1,928,595**	**(100,000)**	**1,828,595**
Other Comprehensive Income								
Tax on other Comprehensive income	6,414	-	2,012	8,426	-	8,426	-	**8,426**
Translation difference foe foreign operations	-	-	-	-	69,391	69,391	-	**69,391**
Total other Comprehensive Income for the period	**6,414**	**-**	**2,012**	**8,426**	**69,391**	**77,817**	**-**	**77,817**
Total comprehensive income for the period	**1,487,684**	**8,978**	**307,134**	**1,803,796**	**202,616**	**2,006,412**	**(91,574)**	**1,906,412**
Total Segment assets	**26,263,450**	**123,594**	**6,145,655**	**32,532,699**	**12,631,971**	**45,164,670**	**-**	**-**
Total Segment Liabilities	**26,263,450**	**123,594**	**6,145,655**	**32,532,699**	**11,445,850**	**43,978,549**	**-**	**-**

38. Subsequent events

Subsequent to year end, no significant events have occurred necessitating adjustments or disclosures in these consolidated and separate financial sttatements.

SHAREHOLDER STATISTICS

INDUSTRY	HOLDERS	HOLDER %	TOTAL SHARES	SHARES %
LOCAL COMPANIES	75	3.77%	1,610,846,414	68.95%
FOREIGN COMPANIES	6	0.30%	534,058,245	22.86%
CITIZEN RESIDENT INDIVIDUALS	1,627	81.80%	108,923,735	4.66%
PENSION FUNDS	38	1.91%	43,970,805	1.88%
BANKS	5	0.25%	9,358,223	0.40%
EMPLOYEES	126	6.33%	7,122,842	0.30%
NOMINEES LOCAL	39	1.96%	5,096,335	0.22%
INVESTMENT COMPANIES & TRUSTS	22	1.11%	4,749,200	0.20%
NON RESIDENTS	25	1.26%	4,296,108	0.18%
INSURANCE COMPANIES	4	0.20%	3,597,908	0.15%
OTHER ORGANISATIONS	8	0.40%	2,327,850	0.10%
PERMANENT RESIDENT	1	0.05%	984,152	0.04%
LEASING AND FINANCE	9	0.45%	499,600	0.02%
NON RESIDENT CITIZENS	3	0.15%	414,383	0.02%
DECEASED ESTATES	1	0.05%	4,200	0.00%
GRAND TOTAL	**1,989**	**100.00%**	**2,336,250,000**	**100.00%**

COUNTRY	HOLDERS	HOLDER %	TOTAL SHARES	SHARES %
BOTSWANA	1	0.05%	10,500	0.00%
CAYMAN ISLANDS	1	0.05%	990	0.00%
KENYA	3	0.15%	525,057,750	22.47%
MALAWI	1,948	97.94%	1,806,531,644	77.33%
PORTUGAL	8	0.40%	2,335,200	0.10%
SOUTH AFRICA	3	0.15%	298,515	0.01%
TANZANIA	1	0.05%	195,969	0.01%
UNITED KINGDOM	3	0.15%	955,896	0.04%
USA	5	0.25%	659,268	0.03%
WARRANT NOT PRESENTABLE	15	0.75%	203,848	0.01%
ZIMBABWE	1	0.05%	420	0.00%
GRAND TOTAL	**1,989**	**100.00%**	**2,336,250,000**	**100.00%**

RANGES	HOLDERS	HOLDER %	TOTAL SHARES	SHARES %
1-5000	430	21.62%	1,134,882	0.05%
5001-10000	275	13.83%	1,854,167	0.08%
10001-25000	481	24.18%	7,621,052	0.33%
25001-50000	214	10.76%	8,120,650	0.35%
50001-100001	163	8.20%	10,975,491	0.47%
100001-200000	160	8.04%	19,561,300	0.84%
200001-500000	191	9.60%	55,881,054	2.39%
500001-1000000	43	2.16%	29,411,554	1.26%
1000001and Above	32	1.61%	2,201,689,850	94.24%
GRAND TOTAL	**1,989**	**100.00%**	**2,336,250,000**	**100.00%**

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