FIRST MERCHANT BANK LIMITED

Consolidated Financial Statements

For the year ended

31 DECEMBER 2008

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The Directors have pleasure in submitting their report together with the Consolidated Financial Statements of First Merchant Bank Limited for the year ended 31 December 2008.

NATURE OF BUSINESS

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. Its wholly owned subsidiary, The Leasing and Finance Company of Malawi Limited is engaged in the provision of lease finance. First Merchant Bank Limited also holds a 52.64 percent 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 balance sheets, income statements, statements of changes in equity, statements of cash flows and associated accounting policies and notes.

DIVIDENDS

Last year's second interim dividend of MK133.5 million and final dividend of MK44.5 million were paid during the year. On 23 May 2008 the directors declared a first interim dividend of MK400.5 million for the year 2008. On 26 February 2009, the directors declared a second interim dividend of MK155.75 million. The directors also proposed a final dividend of MK66.75 million 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
Mr. H.N. Anadkat	Vice Chairman
Mr. K. N. Chaturvedi	Managing Director
Mr. S. Srinivasan	Deputy Managing Director and Company Secretary
Mr. J.M. O'Neill	Executive Director
Mr. N.G. Anadkat	Director
Mr. A. Abdallah	Director
Mr. V.K. Shetty	Director (up to 12 December 2008)
Mr. B. Jani	Director – Member of Audit Committee (from 13 December 2008)
Mr. M. Msisha	Director – Chairman of Audit Committee
Mr. S.G. Malata	Director – Member of Audit Committee

In accordance with the Company's Articles of Association, Messrs. R.C. Kantaria, H.N. Anadkat, K.N. Chaturvedi and S.G. Malata retired by rotation at the last Annual General Meeting on 23 May 2008 and were re-appointed. Messr's. A. Abdallah, S. Srinivasan, 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.

AUDITORS

A resolution will be proposed at the forthcoming Annual General Meeting to re-appoint Messrs. KPMG, Certified Public Accountants (Malawi) and Business Advisors as auditors in respect of the Company's 31 December 2009 financial statements.

....	....
K.N. Chaturvedi	**J.M. O'Neill**
DIRECTOR	**DIRECTOR**

26 February 2009

THE BOARD

The Bank has a unitary Board of Directors comprising a Non-Executive Chairman, 6 Non-Executive Directors and 3 Executive Directors.

The Board has adopted without modification the major principles of modern corporate governance as contained in the Cadbury and King reports, and the Basel Committee on Banking Supervision.

The Board meets at least 3 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 AND MANAGEMENT COMMITTEES

There is one permanent management committee namely, the Asset and Liability Management Committee ("ALCO") and three permanent board committees, the Audit Committee, Credit Committee and the Appointments and Remuneration Committee. Additionally, there is an informal Business Promotion Committee which comprises branch managers, senior management, 2 non-executive directors and 3 executive directors. 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)

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 2 executive directors and 3 members of management and meets regularly, usually once a month. The members of the ALCO are:

Mr S. Srinivasan	Deputy Managing Director (Chairman)
Mr .K. Chaturvedi	Managing Director
Miss. A. Jazza	Acting Head of Credit
Mr. R. Kamath	Chief Manager – Risk Management, Compliance and Security
Mr M. Banda	Finance Manager
Mr. M. Nyasulu	Acting Treasury Manager

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 risky 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 at least 4 times a year. The members of the Audit Committee are:

Mr M. Msisha	Non-Executive Director (Chairman)
Mr B. Jani	Non-Executive Director (From 13 December 2008)
Mr S.G. Malata	Non-Executive Director
Mr. V.K. Shetty	Non-Executive Director (Upto 12 December 2008)

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 facilities and recovery procedures initiated in respect thereof and establishment of appropriate levels of provisioning where required.

The Managing Director, Deputy Managing Director, Head of Credit and Branch Managers attend all Credit Committee meetings in a non-voting capacity.

The Credit Committee meets regularly, usually once a month and comprises the following members:

Mr H. N. Anadkat	Non-Executive Vice Chairman (Chairman)
Mr N. G. Anadkat	Non-Executive Director
Mr J. M. O'Neill	Executive Director

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:-

Mr H. N. Anadkat	Non-Executive Vice Chairman (Chairman)
Mr M. Msisha	Non-Executive Director

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.

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

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

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

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

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

Nothing has come to the attention of the Directors to indicate that the Company and Group will not remain a going concern for at least the next twelve months from the date of this statement.

The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and Group and of their operating results.

The financial statements of the Group and Company were approved for issue by the Board of Directors on 2**6 February 2009.**

Director: ______________________________
K.N. Chaturvedi

Director: ______________________________
J.M. O'Neill

INDEPENDENT AUDITOR'S 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 balance sheets as at 31 December 2008, and the income statements, 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 12 to 70.

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 the Malawi Companies Act 1984. 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.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 give a true and fair view of the consolidated and separate financial position of First Merchant Bank Limited at 31 December 2008, and of its consolidated and separate financial performance and its consolidated and separate cashflows for the year then ended in accordance with International Financial Reporting Standards and are in compliance 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

26 February 2009

BALANCE SHEETS
At 31 December 2008
In thousands of Malawi Kwacha

	Note	GROUP 2008	GROUP 2007	COMPANY 2008	COMPANY 2007
ASSETS					
Cash and cash equivalents	15	**4,401,956**	4,782,997	**3,976,178**	4,363,225
Money market investments	16	**5,509,039**	5,059,572	**2,133,609**	3,929,274
Loans and advances to customers	17	**8,875,037**	5,826,047	**8,131,407**	5,754,910
Finance lease receivables	18	**2,153,526**	1,301,092	**-**	-
Other assets	19	**104,758**	87,231	**82,126**	81,819
Investments in listed companies	20	**1,602,650**	1,625,683	**1,602,650**	1,625,683
Investment in subsidiaries	21	**-**	-	**548,953**	309,275
Property and equipment	22	**1,484,080**	1,215,898	**1,209,017**	1,115,672
Deferred tax assets	26	**100,373**	50,949	**61,074**	48,919
Total assets		**24,231,419**	19,949,469	**17,745,014**	17,228,777
LIABILITIES AND EQUITY					
Liabilities					
Loans and advances from customers	23	**17,113,667**	13,888,493	**11,539,513**	11,779,006
Income tax payable		**120,230**	90,783	**80,799**	76,561
Other liabilities	24	**1,030,854**	884,037	**874,587**	863,093
Severance pay liabilities	25	**137,457**	106,610	**122,320**	95,240
Deferred tax liabilities	26	**101,430**	128,180	**76,297**	110,252
Total liabilities		**18,503,638**	15,098,103	**12,693,516**	12,924,152
Equity					
Issued capital	27	**111,250**	111,250	**111,250**	111,250
Share premium	27	**514,035**	514,035	**514,035**	514,035
Property revaluation reserve	28	**375,019**	389,906	**349,628**	364,183
Investment revaluation reserve	29	**1,400,970**	1,489,897	**1,400,970**	1,489,897
Loan loss reserve	30	**27,029**	66,606	**16,898**	57,034
Translation reserve		**(144,688)**	(4,635)	**-**	-
Retained earnings		**3,065,146**	2,054,586	**2,658,717**	1,768,226
Total equity attributable to equityholders of the company		**5,348,761**	4,621,645	**5,051,498**	4,304,625
Minority interest		**379,020**	229,721	**-**	-
Total equity		**5,727,781**	4,851,366	**5,051,498**	4,304,625
Total equity and liabilities		**24,231,419**	19,949,469	**17,745,014**	17,228,777

The financial statements of the Group and Company were approved for issue by the Board of Directors on **26 February 2008** and were signed on its behalf by:

…………………………………………Director
K.N. Chaturvedi

…………………………………………Director
J.M. O'Neill

The financial statements are to be read in conjunction with the notes from pages 12 to 70.

The independent auditor's report is on page 6.

INCOME STATEMENTS

In thousands of Malawi Kwacha

		GROUP		COMPANY	
	Note	**2008**	2007	**2008**	2007
Interest income	7	**2,521,594**	1,972,093	**1,874,678**	1,534,635
Interest expense on deposits and other accounts		**(497,898)**	(493,978)	**(230,065)**	(295,737)
Net interest income		**2,023,696**	1,478,115	**1,644,613**	1,238,898
Fees and commissions		**732,483**	473,625	**722,786**	463,525
Income from investments	8	**350,819**	1,358,326	**350,819**	1,358,326
Gain on foreign exchange transactions		**696,783**	481,137	**688,106**	481,137
Net trading income		**3,803,781**	3,791,203	**3,406,324**	3,541,886
Other operating income	9	**3,863**	2,130	**2,856**	1,337
Total operating income		**3,807,644**	3,793,333	**3,409,180**	3,543,223
Staff and training costs	10	**959,733**	748,277	**830,170**	704,890
Premises and equipment costs		**251,887**	159,084	**228,360**	155,136
Depreciation	22	**153,043**	138,706	**132,014**	133,983
Other expenses	11	**491,605**	352,797	**409,248**	306,540
Net impairment loss on financial assets		**55,831**	79,586	**28,674**	73,331
Profit before income tax expense		**1,895,545**	2,314,883	**1,780,714**	2,169,343
Income tax expense	12	**(503,761)**	(321,926)	**(461,579)**	(275,006)
PROFIT FOR THE YEAR		**1,391,784**	1,992,957	**1,319,135**	1,894,337
ATTRIBUTABLE TO:					
Equity holders of the company		**1,437,204**	1,992,602	**1,319,135**	1,894,337
Minority interest		**(45,420)**	355	**-**	-
Basic and diluted earnings per share (tambala)	13	**64**	90	**-**	-

The financial statements are to be read in conjunction with the notes from pages 12 to 70.

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STATEMENTS OF CHANGES IN EQUITY
In thousands of Malawi Kwacha

GROUP	**Share Capital**	**Share premium**	**Translation reserve**	**Property revaluation reserve**	**Investment revaluation reserve**	**Loan loss reserve**	**Retained earnings**	**Attributable to equity holders of parent**	**Minority interest**	**Total Equity**
Balance at 1 January 2007	111,250	514,035	-	148,154	711,359	66,606	1,307,497	2,858,901	-	2,858,901
Surplus on revaluation of properties	-	-	-	270,872	-	-	-	270,872	-	270,872
Deferred tax on property revaluation	-	-	-	(28,845)	-	-	-	(28,845)	-	(28,845)
Arising on consolidation of subsidiary	-	-	(4,635)	-	-	-	-	(4,635)	(4,454)	(9,089)
Income and expense recognised directly in equity	**-**	**-**	**(4,635)**	**242,027**	**-**	**-**	**-**	**237,392**	**(4,454)**	**232,938**
Profit for the year	-	-	-	-	-	-	1,992,602	1,992,602	355	1,992,957
Total recognised income and expense	**-**	**-**	**(4,635)**	**242,027**	**-**	**-**	**1,992,602**	**2,229,994**	**(4,099)**	**2,225,895**
Transfer to investment revaluation reserve	-	-	-	-	999,910	-	(999,910)	-	-	-
Minority interest in subsidiary acquired	-	-	-	-	-	-	-	-	233,820	233,820
Realised on disposals	-	-	-	(275)	(221,372)	-	221,647	-	-	-
Dividends paid	-	-	-	-	-	-	(467,250)	(467,250)	-	(467,250)
Balance at 31 December 2007	**111,250**	**514,035**	**(4,635)**	**389,906**	**1,489,897**	**66,606**	**2,054,586**	**4,621,645**	**229,721**	**4,851,366**
Balance at 1 January 2008	111,250	514,035	(4,635)	389,906	1,489,897	66,606	2,054,586	4,621,645	229,721	4,851,366
Depreciation on revalued assets	-	-	-	(21,267)	-	-	21,267	-	-	-
Deferred tax on property revaluation	-	-		6,380	-	-		6,380		6,380
Arising on consolidation of subsidiary	-	-	(140,053)	-	-	-	2,085	(137,968)	(2,085)	(140,053)
Income and expense recognised directly in equity	**-**	**-**	**(140,053)**	**(14,887)**	**-**	**-**	**23,352**	**(131,588)**	**(2,085)**	**(133,673)**
Profit for the year	-	-	-	-	-	-	**1,437,204**	**1,437,204**	(45,420)	**1,391,784**
Total recognised income and expense	**-**	**-**	**(140,053)**	**(14,887)**	**-**	**-**	**1,460,556**	**1,305,616**	**(47,505)**	**1,258,111**
Transfer to investment revaluation reserve	-	-	-	-	(313,244)	-	313,244	-	-	-
Transfer to loan loss reserve	-	-	-	-	-	559	(559)	-	-	-
Minority's subscription for shares in subsidiary	-	-	-	-	-	-	-	-	196,804	**196,804**
Movement in loan loss reserve	-	-	-	-	-	(40,136)	40,136	-	-	-
Realised on disposals of shares	-	-	-	-	224,317	-	(224,317)	-	-	
Dividends paid	-	-	-	-	-	-	(578,500)	**(578,500)**	-	(578,500)
Balance at 31 December 2008	**111,250**	**514,035**	**(144,688)**	**375,019**	**1,400,970**	**27,029**	**3,065,146**	**5,348,761**	**379,020**	**5,727,781**

The financial statements are to be read in conjunction with the notes from pages 12 to 70.
The independent auditor's report is on page 6.

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 2007	111,250	514,035	134,247	711,359	57,034	1,119,677	2,647,602
Property revaluation of surplus	-	-	256,786	-	-	-	256,786
Deferred tax on property revaluation	-	-	(26,850)	-	-	-	(26,850)
Income and expense recognised directly in equity	**-**	**-**	**229,936**	**-**	**-**	**-**	**229,936**
Profit for the year	-	-	-	-	-	1,894,337	1,894,337
Total recognised income and expense	**-**	**-**	**229,936**	**-**	**-**	**1,894,337**	**2,124,273**
Transfer to revaluation reserve	-	-	-	999,910	-	(999,910)	-
Realised on disposals of shares	-	-	-	(221,372)	-	221,372	-
Dividends paid	-	-	-	-	-	(467,250)	(467,250)
Balance at 31 December 2007	**111,250**	**514,035**	**364,183**	**1,489,897**	**57,034**	**1,768,226**	**4,304,625**
Balance at 1 January 2008	111,250	514,035	364,183	1,489,897	57,034	1,768,226	4,304,625
Depreciation on revalued asset	-	-	(20,793)	-	-	20,793	-
Deferred tax on property revaluation	-	-	6,238	-	-	-	6,238
Income and expense recognised directly in equity	**-**	**-**	**(14,555)**	**-**	**-**	**20,793**	**6,238**
Profit for the year	-	-	-	-	-	1,319,135	1,319,135
Total recognised income and expense	**-**	**-**	**(14,555)**	**-**	**-**	**1,339,928**	**1,325,373**
Movement in loan loss reserve	-	-	-	-	(40,136)	40,136	-
Realised on disposal of shares	-	-	-	224,317	-	(224,317)	-
Transfer to revaluation reserve	-	-	-	(313,244)	-	313,244	-
Dividends paid	-	-	-	-	-	(578,500)	(578,500)
Balance at 31 December 2008	**111,250**	**514,035**	**349,628**	**1,400,970**	**16,898**	**2,658,717**	**5,051,498**

The financial statements are to be read in conjunction with the notes from pages 12 to 70.

The independent auditor's report is on page 6.

STATEMENTS OF CASH FLOWS

In thousands of Malawi Kwacha

	Note	GROUP 2008	GROUP 2007	COMPANY 2008	COMPANY 2007
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest and fees received		**3,952,450**	2,973,442	**3,294,370**	2,528,750
Interest paid		**(464,097)**	(498,490)	**(232,506)**	(300,249)
Cash paid to suppliers and employees		**(1,606,081)**	(1,303,037)	**(1,468,790)**	(1,224,636)
		1,882,272	1,171,915	**1,593,074**	1,003,865
Increase in net customer balances		**(838,271)**	2,537,588	**(2,668,663)**	2,132,320
Cash generated from operations		**1,044,001**	3,709,503	**(1,075,589)**	3,136,185
Income taxes paid		**(414,460)**	(316,254)	**(366,134)**	(278,660)
Net cash from/(to) operating activities		**629,541**	3,393,249	**(1,441,723)**	2,857,525
CASH FLOWS USED IN INVESTING ACTIVITIES					
(Purchases)/maturities of money market investments		**(449,467)**	(2,324,883)	**1,795,665**	(1,790,008)
Proceeds from sale of shares and other investments		**384,684**	506,007	**384,684**	506,007
Proceeds from sale of equipment		**2,997**	1,562	**2,858**	895
Acquisition of property and equipment	22	**(495,468)**	(228,503)	**(299,521)**	(178,617)
Acquisition of subsidiaries	21	**-**	-	**(239,678)**	(243,364)
Dividend received		**66,245**	82,214	**66,245**	82,214
Purchase of shares in listed companies	20	**(77,077)**	(61,551)	**(77,077)**	(61,551)
Net cash (used in)/from investing activities		**(568,086)**	(2,025,154)	**1,633,176**	(1,684,424)
CASH FLOWS TO FINANCING ACTIVITIES					
Net proceeds of issue of shares		**136,004**	224,731	**-**	-
Dividend paid		**(578,500)**	(467,250)	**(578,500)**	(467,250)
Net cash used in financing activities		**(442,496)**	(242,519)	**(578,500)**	(467,250)
Net (decrease)/increase in cash and cash equivalents		**(381,041)**	1,125,576	**(387,047)**	705,851
Cash and cash equivalents at beginning of the year		**4,782,997**	3,657,421	**4,363,225**	3,657,374
Cash and cash equivalents at end of the period	15	**4,401,956**	4,782,997	**3,976,178**	4,363,225
ADDITIONAL STATUTORY DISCLOSURE					
Net movement in working capital		**562,906**	1,750,089	**634,498**	1,462,087

The financial statements are to be read in conjunction with the notes from pages 12 to 70.

The independent auditor's report is on page 6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 financial statements for the year ended 31 December 2008 comprise the bank and its subsidiaries, The Leasing and Finance Company of Malawi Limited incorporated in Malawi and Capital Bank Limited incorporated in Botswana (together referred to as the “Group”). The Group is involved in corporate and retail banking and asset management services.

2. Basis of preparation

(i) **Statement of compliance**
The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS’s) as issued by the International Accounting Standards Board (IASB) and provisions of the Malawi Companies Act 1984.

(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 requires 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 amount recognised in the financial statements are described in the following notes.

- Note 17 - Loans and advances to customers
- Note 18 - Finance leases
- Note 25 - Severance pay liabilities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2008, and have not been applied in preparing these consolidated financial statements:

- IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's management in order to assess each segment's performance and to allocate resources to them.

- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 which will become mandatory for the Group's 2009 financial statements is not expected to have any impact on the consolidated financial statements.

- IFRIC 13 *Consumer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group's 2009 financial statements, is not expected to have any impact on the consolidated financial statements.

- Revised IAS 1 *Presentation of Financial Statement (2007)* introduces the term "total comprehensive income", which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity, in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Group's 2009 financial statements, is expected to have a significant impact on the presentation of the consolidated financial statements.

- Amended IAS 27 *Consolidated Separate Financial Statements (2008)* requires accounting for changes in ownership interests in a subsidiary that occur without loss of control, to be recognised as an equity transaction. When the group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendment to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements are not expected to have a significant impact on the consolidated financial statements.

- Amendments to IAS 32 and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* require puttable instruments and instruments that impose on the entity an obligation to deliver to another party a prorate share of the net assets of the entity only on liquidation be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group's 2009 consolidated financial statements with retrospective application required are not expected to have any significant impact on the consolidated financial statements.

- International Accounting Standards Board made certain amendments to existing standards as part of its annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Group's 2009 consolidated financial statements. The Group does not expect these amendments to have any significant impact on the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

- Amendments to IAS 39; *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* classifies the application of existing principles that determine whether specific risk or portions of cashflows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Group's 2010 consolidated financial statements, with retrospective application required. The Group is currently in the process of evaluating the potential effect of this amendment.

- IFRIC 16 *Hedges of a net investment in a Foreign Operation* clarifies that:
  - net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation;

  - The hedging instrument may be held by an entity within the Group except the foreign operation that is being hedged;

  - On disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is classified to profit or loss.

  The interpretation allows an entity that uses the step-by-step method of consolidation an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation had been used. IFRIC 16, which becomes mandatory for the Group's 2009 consolidated financial statements, applies prospectively to the Group's hedge relationships and net investments. The Group is currently in the process of evaluating the potential effect of this interpretation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 financial statements incorporate the financial statements of the bank and its subsidiaries, The Leasing and Finance Company of Malawi 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 presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements have been prepared using the uniform accounting policies for like transactions and other events in similar circumstances.

(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 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 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 balance sheet date are translated to Malawi Kwacha at the foreign exchange rate (mid-rate) ruling at the reporting date. Foreign exchange differences arising on translation are recognised in the income statement. 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 exchange rates ruling at the dates of the transactions.

Exchange difference arising on the translation of the assets and liabilities of foreign operations are recognised directly in equity in a foreign currency translation reserve. 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.

Foreign exchange gains or losses arising from a 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Significant accounting policies (Continued)

(c) Financial assets and liabilities

(i) Recognition

A financial asset or liability is initially measured at fair value plus (for an item not subsequently measured 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.

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 balance sheet 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.

(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 allow for 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 allow for 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 carried at fair value on the balance sheet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Significant accounting policies (Continued)

(c) Financial assets and liabilities (Continued)

(vi) Identification and measurement of impairment

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

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. 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.

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 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 at the 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 difference between the amortised acquisition cost and current fair value out of equity 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 equity security is recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Significant accounting policies (Continued)

(c) Financial assets and liabilities (Continued)

(vii) 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 20) have been designated at fair value through profit 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 carried at amortised cost in the balance sheet.

(e) Other assets

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

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

(f) Loans receivables

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.

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 borrowing from or 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, except when the Group chooses to carry the loans and advances at fair value through profit or loss as described in accounting policy (c).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Significant accounting policies (Continued)

(g) Investments (Continued)

(i) Held-to-maturity

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

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 carried 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 not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

Other fair value changes are recognised directly in equity until the investment is sold or impaired and the balance in equity is recognised in profit or loss.

(h) Investment in subsidiaries

Investments in subsidiaries are recognised at cost in the company financial statements.

(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).

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.

All properties are subject to revaluation every two years, with surpluses on revaluation being transferred to a non-distributable property revaluation reserve. On disposal of the asset, the appropriate portion of the non-distributable reserve is transferred to retained earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Significant accounting policies (Continued)

(i) Property and equipment (Continued)

(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 increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

(iii) Depreciation

Property and equipment are depreciated on the straight-line basis at rates that would reduce book amounts to residual values, estimated at purchase, over the initially anticipated useful lives of the assets. The group re-assesses both the useful lives and the residual values of the assets at the reporting date. Any changes in either useful lives or estimated residual values is accounted for prospectively as a change in accounting estimate in accordance with IAS 16 *Property, Plant and Equipment* (revised).

Depreciation is recognised in profit or loss.
The depreciation rates for the current 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.

(j) Capital work in progress

Capital work in progress represent gross amount spent to date in carrying out work of capital in nature. It is measured at cost recognised to date. Cost includes all expenditure related directly to the specific project.

Capital work in progress is presented as part of property and equipment in the balance sheet. If the project is completed the expenditure is capitalised to the various items of plant and equipment. Capital work in progress is not depreciated.

4. Significant accounting policies (Continued)

(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 concerns property carried at revalued amounts, in which case the reversal of the impairment loss is treated as a revaluation increase.

(l) Liabilities to customers and other banks

Liabilities to customers and other banks are the Group's sources of debt funding.

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.

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

4. Significant accounting policies (Continued)

(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.

A provision 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Significant accounting policies (Continued)

(q) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

(r) Net interest income

Interest income and expense are recognised in the income statement 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 income statement 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 (s).

(s) 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 charged to income statement 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Significant accounting policies (Continued)

(t) 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, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed.

(u) 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 equity securities.

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

(v) Other income

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

(w) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is provided using the balance sheet 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
In thousands of Malawi Kwacha

4. Significant accounting policies (Continued)

(x) 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.

(y) 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 balance sheet 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.

(z) Determination of fair values

- Investment in listed companies fair values are derived from price ruling at reporting date.

- Property fair values are estimated by a qualified valuer on a market basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
In thousands of Malawi Kwacha

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 rule 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:-

- Credit Risk Management Policy
- Liquidity Risk Management Policy
- Operational Risk Management Policy
- Capital Risk Management Policy
- Market Risk Policy
  - Equity
  - Interest Rate
  - Foreign Exchange

5(a) Credit risk

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its 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. Separate Credit departments, reporting to the Credit Committees are responsible for oversight of the 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. Authorisation limits are allocated to Branch Managers. Larger facilities require approval by Head Office Management, The Credit Committee or the Board of Directors as appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
In thousands of Malawi Kwacha

5. Financial risk management (Continued)

5(a) Credit risk (Continued)

- *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 comprises loans and advances to customers and finance leases receivable analysed as follows:

	Group		Company	
	2008	2007	**2008**	2007
Standard (fully performing)	**10,773,461**	6,799,590	**8,090,647**	5,529,306
Past due but not impaired	**431,870**	236,154	**217,358**	134,209
Impaired	**250,594**	409,325	**188,461**	382,987
	11,455,925	7,445,069	**8,496,466**	6,046,502
Past due but not impaired loans and advances comprise:				
30-60 days	**87,698**	112,522	**56,783**	51,222
61-90 days	**344,172**	123,632	**160,575**	82,987
	431,870	236,154	**217,358**	134,209
An estimate of the fair value of collateral held against loans and advances to customers is shown below:				
Against individually impaired				
Property	**249,140**	484,772	**238,640**	467,922
Others	**10,945**	13,089	**4,595**	9,189
Against past due but not impaired				
Property	**1,107,121**	542,950	**324,928**	349,450
Others	**749,580**	209,509	**146,976**	104,487
Against neither past due nor impaired				
Property	**13,424,706**	10,525,671	**12,691,756**	10,079,271
Others	**7,677,197**	3,246,469	**5,157,849**	2,006,343
	23,218,689	15,022,460	**18,564,744**	13,016,662

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
In thousands of Malawi Kwacha

5. Financial risk management (Continued)

5(a) Credit risk (Continued)

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 interest due according to the contractual terms of the loan / securities agreements.

Past due but not impaired loans
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.

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

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, and a collective loan loss allowance established for Banks of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
In thousands of Malawi Kwacha

5. Financial risk management (Continued)

5(a) Credit risk (Continued)

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

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

	Group		Company	
	2008	2007	**2008**	2007
Agriculture	**1,454,200**	571,148	**1,317,940**	571,148
Construction	**336,794**	208,085	**308,843**	208,085
Energy	**39,745**	25,950	**39,745**	25,950
Finance, real estate and other business services	**192,777**	179,666	**461,306**	302,055
Individuals	**1,287,310**	451,286	**690,114**	451,286
Manufacturing	**1,706,555**	1,332,894	**1,644,098**	1,332,894
Mining	**20,614**	235,403	**20,614**	41,876
Transport	**1,073,277**	228,568	**929,729**	228,568
Wholesale	**3,128,824**	2,884,640	**3,084,077**	2,884,640
	9,240,096	6,117,640	**8,496,466**	**6,046,502**

The risk that counterparties to trading instruments might default on their obligations is monitored on an on-going basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and the volatility of the fair value of trading instruments.

To manage the level of credit risk, the Bank deals with counter-parties of good credit standing, enters into master netting agreements whenever possible, and when appropriate, obtains collateral. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
In thousands of Malawi Kwacha

5. Financial risk management (Continued)

5(a) Credit risk (Continued)

Credit quality per class of financial assets

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

GROUP	Performing Loans		Non - Performing Loans				Security against	Net
2008		Special	Sub-				impaired	impaired
Credit quality	Standard	Mention	Standard	Doubtful	Loss	Total	loans	loans
Loans and advances to customers	880,813	-	-	-	-	**880,813**	-	-
Personal and Business Banking								
- Mortgage Lending	170,352	2	63,836	-	-	**234,190**	-	-
- Finance leases	1,768,661	30,913	101,822	17,939	62,303	**1,981,638**	16,850	45,458
- Other loans and advances	5,994,930	115,271	114,068	217,358	188,815	**6,630,442**	243,235	187,796
Corporate and Investment Banking								
- Corporate lending	1,619,286	108,890	-	-	495	**1,728,671**	-	495
Total recognized financial instruments	**10,434,042**	**255,076**	**279,726**	**235,297**	**251,613**	**11,455,754**	**260,085**	**233,749**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
In thousands of Malawi Kwacha

5. Financial risk management (Continued)

5(a) Credit risk (Continued)

Credit quality per class of financial assets

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

COMPANY	**Performing Loans**		**Non - Performing Loans**					
2008 Credit quality	**Standard**	**Special Mention**	**Sub-Standard**	**Doubtful**	**Loss**	**Total**	**Security against impaired loans**	**Net impaired loans**
Loans and advances to customers								
Personal and Business Banking:								
- Other loans and advances	6,132,283	115,271	114,068	217,358	188,815	**6,767,795**	243,235	187,796
Corporate and Investment Banking								
- Corporate lending	1,619,286	108,890	-	-	495	**1,728,671**	-	495
Total recognized financial instruments	7,751,569	224,161	114,068	217,358	189,310	**8,496,466**	243,235	188,291

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
In thousands of Malawi Kwacha

5. Financial risk management (Continued)

5(a) Credit risk (Continued)

Credit quality per class of financial assets

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

GROUP 2007 Credit quality	Performing Loans Standard	 Special Mention	Non – Performing Loans Sub-Standard	 Doubtful	 Loss	Total	Security against impaired loans	Net impaired loans
Loans and advances to customers	89,157					89,157		
Personal and Business Banking								
- Instalment sales and finance leases	1,199,147	61,300	40,645	-	26,338	**1,327,430**	20,750	19,360
- Other loans and advances	4,280,888	51,222	82,987	232,036	150,588	**4,797,721**	477,111	279,908
Corporate and Investment Banking								
- Corporate lending	1,230,398	-	-	363	-	**1,230,761**	-	-
Total recognized financial instruments	6,799,590	112,522	123,632	232,399	176,926	**7,445,069**	497,861	299,268

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
In thousands of Malawi Kwacha

5. Financial risk management (Continued)

5(a) Credit risk (Continued)

Credit quality per class of financial assets

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

COMPANY 2007 Credit quality	Performing Loans Standard	Special Mention	Non - Performing Loans Sub-Standard	Doubtful	Loss	Total	Security against impaired loans	Net impaired loans
Loans and advances to customers								
Personal and Business Banking								
- Other loans and advances	4,298,908	51,222	82,987	232,036	150,588	**4,815,741**	477,111	279,908
Corporate and Investment Banking								
- Corporate lending	1,230,398	-	-	363	-	**1,230,761**	-	-
Total recognized financial instruments	5,529,306	51,222	82,987	232,399	150,588	**6,046,502**	477,111	279,908

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
In thousands of Malawi Kwacha

5. Financial risk management (Continued)

5(a) Credit risk (Continued)

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

The table below shows the maximum exposure to credit risk by class of financial instrument. Financial instruments include financial instruments defined and recognised under IAS 39 Financial Instruments: recognition and measurement as well as other financial instruments not recognised. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

GROUP	**Gross maximum exposure**	
Gross maximum exposure	**2008**	2007
Cash and balances with central banks	**186,101**	355,112
Investment in BOB Certificates	**1,830,289**	-
Personal and Business Banking		
- Mortgage Lending	**234,190**	-
- Instalment sales and finance leases	**1,981,638**	1,327,430
- Other loans and advances	**6,630,442**	4,797,721
Corporate and Investment Banking		
- Corporate lending	**1,728,671**	1,230,761
Total recognised financial instruments	**12,591,331**	7,711,024
Letters of credit	**1,010,408**	785,330
Financial guarantees	**2,138,524**	3,339,511
Total unrecognised financial instruments	**3,148,932**	4,124,841
Total credit risk exposure	**15,740,263**	11,835,865

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
In thousands of Malawi Kwacha

5. Financial risk management (Continued)

5(a) Credit risk (Continued)

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

COMPANY	**Gross maximum exposure**	
Gross maximum exposure	**2008**	2007
Cash and balances with central banks	**148,393**	355,112
Personal and Business Banking		
- Other loans and advances	**6,767,795**	4,815,741
Corporate and Investment Banking		
- Corporate lending	**1,728,671**	1,230,761
Total recognised financial instruments	**8,644,859**	6,401,614
Letters of credit	**805,023**	785,330
Financial guarantees	**2,138,524**	3,339,511
Total unrecognised financial instruments	**2,943,547**	4,124,841
Total credit risk exposure	**11,588,406**	10,526,455

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
In thousands of Malawi Kwacha

5 Financial risk management (Continued)

5(a) Credit risk (Continued)

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

The Bank holds mortgages over property, registered securities and guarantees as collateral within the following classes:

	Group		Company	
	2008	2007	**2008**	2007
Personal and Business Banking				
- Mortgage Lending	**234,190**	-	-	-
- Instalment sales and finance leases	**1,981,639**	1,327,430	-	-
- Other loans and advances	**16,457,744**	11,539,271	**16,457,744**	11,539,271
Corporate and Investment Banking				
- Corporate lending	**2,107,000**	1,477,391	**2,107,000**	1,477,391
	20,780,573	14,344,092	**18,564,744**	13,016,662
Collateral repossessed				
Nature of assets				
Residential property	**(1,500)**	4,800	**(1,500)**	4,800
Commercial property	**(11,500)**	-	**(11,500)**	-
	(13,000)	4,800	**(13,000)**	4,800

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

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

In respect of certain financial assets, the Bank has legally enforceable rights to offset them with financial liabilities. However, in normal circumstances, there would be no intention of settling net, or of realising the financial assets and settling the financial liabilities simultaneously. Consequently, the financial assets are not offset against the respective financial liabilities for financial reporting purposes. However, the exposure to credit risk relating to the respective financial assets is mitigated as follows:

GROUP	**At 31 December 2008**		
	Carrying amount	**Offset**	**Net exposure to credit risk**
Cash and balances with banks	**1,907,498**	**-**	**1,907,498**
Trading assets	**1,830,289**	**-**	**1,830,289**
Loans and advances to banks	**1,300,000**	**-**	**1,300,000**
Loans and advances to customers	**9,240,096**	**-**	**9,240,096**
	14,277,883	**-**	**14,277,883**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
In thousands of Malawi Kwacha

5. Financial risk management (Continued)

5(a) Credit risk (Continued)

	At 31 December 2007		
	Carrying amount	Offset	Net exposure to credit risk
Cash and balances with banks	1,239,723	-	1,239,723
Loans and advances to banks	1,865,115	-	1,865,115
Loans and advances to customers	6,117,639	-	6,117,639
	9,222,477	-	9,222,477

COMPANY	**At 31 December 2008**		
	Carrying amount	**Offset**	**Net exposure to credit risk**
Cash and balances with banks	**1,761,584**	**-**	**1,761,584**
Trading assets	**-**	**-**	**-**
Loans and advances to banks	**1,300,000**	**-**	**1,300,000**
Loans and advances to customers	**8,496,466**	**-**	**8,496,466**
	11,558,050	**-**	**11,558,050**

	At 31 December 2007		
	Carrying amount	Offset	Net exposure to credit risk
Cash and balances with banks	1,239,723	-	1,239,723
Loans and advances to banks	1,865,115	-	1,865,115
Loans and advances to customers	6,046,502	-	6,046,502
	9,151,340	-	9,151,340

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
In thousands of Malawi Kwacha

5. Financial risk management (Continued)

5 (b) Liquidity risk

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

Management of liquidity risk
The group's approach to managing liquidity is to ensure as far as possible that it will always have sufficient liquidity to meet its liabilities when due, both under stressed and normal conditions, without causing damage to the group's reputation.

The daily liquidity position is monitored and regular stress testing is done under normal and severe, market conditions. However, it is assumed that under normal circumstances customer demand deposits will remain stable or increase in value and unrecognized loan/ overdraft commitments are not expected to be immediately drawn down in their entirety.

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 2008 and 31 December 2007 are given below:-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
In thousands of Malawi Kwacha

5. Financial risk management (Continued)

5 (b) Liquidity risk (Continued)

Group - 31 December 2008

	Carrying amount	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 5 years	Gross Nominal inflow/ (outflow)
ASSETS								
Cash and cash equivalents	4,401,956	4,401,956	-	-	-	-	-	4,401,956
Money market investments	5,507,307	2,735,923	1,384,611	549,999	330,624	461,150	45,000	5,507,307
Loans, advances and leases	11,028,563	612,593	1,256,681	6,774,667	290,804	1,713,456	380,362	11,028,563
Investment in listed companies	1,602,650	-	-	-	-	-	1,602,650	1,602,650
Property, plant and equipment	1,484,079	-	-	-	-	-	1,484,079	1,484,079
Other assets	106,491	83,858	-	-	-	22,292	341	106,491
Total assets	**24,131,046**	**7,834,330**	**2,641,292**	**7,324,666**	**621,428**	**2,196,898**	**3,512,432**	**24,131,046**
LIABILITIES								
Current and savings account	(8,678,934)	(1,720,825)	-	-	-	-	(6,958,109)	(8,678,934)
Foreign currency accounts	(2,412,388)	(482,478)	-	-	-	-	(1,929,910)	(2,412,388)
Term deposit accounts	(6,022,345)	(2,332,926)	(3,051,182)	(545,864)	(92,373)	-	-	(6,022,345)
Total liabilities to customers	(17,113,667)	(4,536,229)	(3,051,182)	(545,864)	(92,373)	-	(8,888,019)	(17,113,667)
Income tax payable	(120,230)	-	(120,230)	-	-	-	-	(120,230)
Other payables	(997,770)	(997,770)	-	-	-	-	(997,770)	(997,770)
Provisions	(170,521)	-	-	-	-	-	(170,521)	(170,521)
Total liabilities	**(18,402,188)**	**(5,533,999)**	**(3,171,412)**	**(545,864)**	**(92,373)**	**-**	**(9,058,540)**	**(18,402,188)**
Net Liquidity Gap	**5,728,858**	**2,300,331**	**(530,120)**	**6,778,802**	**529,055**	**2,196,898**	**(5,546,108)**	**5,728,858**
Cumulative Liquidity Gap	**5,728,858**	**2,300,331**	**1,770,211**	**8,549,013**	**9,078,068**	**11,274,966**	**5,728,858**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
In thousands of Malawi Kwacha

5. Financial risk management (Continued)

5 (b) Liquidity risk (Continued)

Company - 31 December 2008

	Carrying amount	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 5 years	Gross nominal inflow/ (outflow)
ASSETS								
Cash and cash equivalents	3,976,178	3,976,178						3,976,178
Money market investments	2,131,877	848,520	777,207	-	-	461,150	45,000	2,131,877
Loans, advances and leases	8,131,407	172,225	1,058,602	6,669,635	-	91,454	139,491	8,131,407
Investment in listed companies	1,602,650	-	-	-	-	-	1,602,650	1,602,650
Investment in subsidiaries	548,953	-	-	-	-	-	548,953	548,953
Property, plant and equipment	1,209,017	-	-	-	-	-	1,209,017	1,209,017
Other assets	83,858	83,858	-	-	-	-	-	83,858
Total assets	17,683,940	5,080,781	1,835,809	6,669,635	-	552,604	3,545,111	17,683,940
LIABILITIES								
Current and savings account	(8,120,944)	(1,624,189)	-	-	-	-	(6,496,755)	(8,120,944)
Foreign currency accounts	(2,346,451)	(469,291)				-	(1,877,160)	(2,346,451)
Term deposit accounts	(1,072,118)	-	(1,040,077)	(32,041)	-	-	-	(1,072,118)
Total liabilities to customers	(11,539,513)	(2,093,480)	(1,040,077)	(32,041)	-	-	(8,373,915)	(11,539,513)
Income tax payable	(80,799)	-	(80,799)	-	-	-	-	(80,799)
Deposits from other banks								
Other payables	(874,587)	(874,587)	-	-	-	-	-	(874,587)
Provisions	(122,320)		-	-	-	(122,320)	-	(122,320)
Total liabilities	(12,617,219)	(2,968,067)	(1,120,876)	(32,041)	-	-	(8,496,235)	(12,617,219)
Net Liquidity Gap	**5,066,721**	**2,112,714**	**714,933**	**6,637,594**	**-**	**430,284**	**(4,828,804)**	**5,066,721**
Cumulative Liquidity Gap	**5,066,721**	**2,112,714**	**2,827,647**	**9,465,241**	**9,465,241**	**9,895,525**	**5,066,721**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
In thousands of Malawi Kwacha

5. Financial risk management (Continued)

5 (b) Liquidity risk (Continued)

Group - 31 December 2007

	Carrying amount	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 5 years	Gross Nominal inflow/ (outflow)
ASSETS								
Cash and cash equivalents	4,782,997	4,782,997	-	-	-	-	-	4,782,997
Money market investments	5,059,572	-	3,047,878	1,916,362		45,332	50,000	5,059,572
Loans, advances and leases	7,127,139	537,128	4,469,532	495,737	799,202	825,540	-	7,127,139
Investment in listed companies	1,625,683	-	-	-	-	-	1,625,683	1,625,683
Property, plant and equipment	1,215,898	-	-	-	-	-	1,215,898	1,215,898
Other assets	87,231	87,231	-	-	-	-	-	87,231
Total assets	19,898,520	5,407,356	7,517,410	2,412,099	799,202	870,872	2,891,581	19,898,520
LIABILITIES								
Current and savings account	(7,429,028)	(1,485,806)	-	-	-	-	(5,943,222)	(7,429,028)
Foreign currency accounts	(2,906,151)	(581,230)	-	-	-	-	(2,324,921)	(2,906,151)
Term deposit accounts	(3,553,314)	(134,062)	(3,198,832)	(220,420)	-	-	-	(3,553,314)
Total liabilities to customers	(13,888,493)	(2,201,098)	(3,198,832)	(220,420)	-	-	(8,268,143)	(13,888,493)
Income tax payable	(90,783)	-	(90,783)	-	-	-	-	(90,783)
Deposits from other banks	(152)	(152)	-	-	-	-	-	(152)
Other payables	(883,885)	(883,885)	-	-	-	-	-	(883,885)
Provisions	(106,610)	-	-	-	-	-	(106,610)	(106,610)
Total liabilities	(14,969,923)	(3,085,135)	(3,289,615)	(220,420)	-	-	(8,374,753)	(14,969,923)
Net Liquidity Gap	**4,928,597**	**2,322,221**	**4,227,795**	**2,191,679**	**799,202**	**870,872**	**(5,483,172)**	**4,928,597**
Cumulative Liquidity Gap	**4,928,597**	**2,322,221**	**6,550,016**	**8,741,695**	**9,540,897**	**10,411,769**	**4,928,597**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
In thousands of Malawi Kwacha

5. Financial risk management (Continued)

5 (b) Liquidity risk (Continued)

Company - 31 December 2007

	Carrying amount	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 5 years	Gross nominal inflow/ (outflow)
ASSETS								
Cash and cash equivalents	4,363,225	4,363,225	-	-	-	-	-	4,363,225
Money market investments	3,929,274	1,917,912	1,916,362	-	-	45,000	50,000	3,929,274
Loans, advances and leases	5,754,910	1,518	5,720,421	32,971	-	-	-	5,754,910
Investment in listed companies	1,625,683	-	-	-	-	-	1,625,683	1,625,683
Investment in subsidiaries	309,275	-	-	-	-	-	309,275	309,275
Property, plant and equipment	1,115,672	-	-	-	-	-	1,115,672	1,115,672
Other assets	81,819	81,819	-	-	-	-	-	81,819
Total assets	17,179,858	6,364,474	7,636,783	32,971	-	45,000	3,100,630	17,179,858
LIABILITIES								
Current and savings account	(7,435,955)	(1,487,191)	-	-	-	-	(5,948,764)	(7,435,955)
Foreign currency accounts	(2,906,151)	(581,230)	-	-	-	-	(2,324,921)	(2,906,151)
Term deposit accounts	(1,436,900)	(134,062)	(1,273,291)	(29,547)	-	-	-	(1,436,900)
Total liabilities to customers	(11,779,006)	(2,202,483)	(1,273,291)	(29,547)	-	-	(8,273,685)	(11,779,006)
Income tax payable	(76,561)	(76,561)	-	-	-	-	-	(76,561)
Deposits from other banks	-	-	-	-	-	-	-	-
Other payables	(863,093)	(863,093)	-	-	-	-	-	(863,093)
Provisions	(95,240)	-	-	-	-	-	(95,240)	(95,240)
Total liabilities	(12,813,900)	(3,142,137)	(1,273,291)	(29,547)	-	-	(8,368,925)	(12,813,900)
Net Liquidity Gap	**4,365,958**	**3,222,337**	**6,363,492**	**3,424**	**-**	**45,000**	**(5,268,295)**	**4,365,958**
Cumulative Liquidity Gap	**4,365,958**	**3,222,337**	**9,585,829**	**9,589,253**	**9,589,253**	**9,634,253**	**4,365,958**	**-**

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5. Financial risk management (Continued)

5 (b) Liquidity risk (Continued)

Analysis of financial assets and liabilities by remaining contractual maturities

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

GROUP

	Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 6 months but within 12 months	Maturing after 12 months but within 5 years	Total
2008						
Financial assets						
Cash and balances with Central Bank	37,708	148,393	-	-	-	186,101
BOB Financial Investments	1,830,289	-	-	-	-	1,830,289
Loans and advances to banks	-	1,395,455	-	-	-	1,395,455
Loans and advances to customers	365,714	177,328	1,077,941	6,705,777	548,277	8,875,037
Financial liabilities						
Deposits from customers	13,871,946	48,028	2,554,664	113,861	525,168	17,113,667
Total recognised financial instruments	16,105,657	1,769,204	3,632,605	6,819,638	1,073,445	29,400,549
Letters of credit	205,385	805,023	-	-	-	1,010,408
Financial guarantees	-	4,153,553	-	-	-	4,153,553
Total unrecognised financial instruments	205,385	4,958,576	-	-	-	5,163,961
Total	**16,311,042**	**6,727,780**	**3,632,605**	**6,819,638**	**1,073,445**	**34,564,510**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
In thousands of Malawi Kwacha

5. Financial risk management (Continued)

5 (b) Liquidity risk (Continued)

Analysis of financial assets and liabilities by remaining contractual maturities

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

COMPANY

	Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 6 months but within 12 months	Maturing after 12 months but within 5 years	Total
2008						
Financial assets						
Cash and balances with Central Bank	-	-	148,393	-	-	148,393
Loans and advances to banks	-	1,300,000	-	-	-	1,300,000
Loans and advances to customers	-	172,225	1,058,601	6,669,636	230,945	8,131,407
Financial liabilities						
Deposits from customers	10,435,354	-	1,072,118	32,041	-	11,539,513
Total recognised financial instruments	10,435,354	1,472,225	2,279,112	6,701,677	230,945	21,119,313
Letters of credit and financial guarantees	-	805,023	-	-	-	805,023
Financial guarantees	-	4,153,553	-	-	-	4,153,553
Total unrecognised financial instruments	-	4,958,576	-	-	-	4,958,576
Total	**10,435,354**	**6,430,801**	**2,279,112**	**6,701,677**	**230,945**	**26,077,889**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
In thousands of Malawi Kwacha

5. Financial risk management (Continued)

5 (b) Liquidity risk (Continued)

Analysis of financial assets and liabilities by remaining contractual maturities

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

GROUP

	Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Total
2007				
Financial assets				
Cash and balances with Central Bank	-	355,112	-	355,112
Loans and advances to banks	-	1,865,115	-	1,865,115
Loans and advances to customers	5,793,076	-	32,971	5,826,047
Financial liabilities				
Deposits from customers	12,451,593	1,407,353	29,547	13,888,493
Total recognised financial instruments	18,244,669	3,627,580	62,518	21,934,767
Letters of credit and financial guarantees	-	785,330	-	785,330
Financial guarantees	-	3,339,511	-	3,339,511
Total unrecognised financial instruments	-	4,124,841	-	4,124,841
Total	**18,244,669**	**7,752,421**	**62,518**	**26,059,608**

In thousands of Malawi Kwacha

5. Financial risk management (Continued)

5 (b) Liquidity risk (Continued)

Analysis of financial assets and liabilities by remaining contractual maturities

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

COMPANY

	Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Total
2007				
Financial assets				
Cash and balances with Central Bank	-	355,112	-	355,112
Loans and advances to banks	-	1,865,115	-	1,865,115
Loans and advances to customers	5,721,939	-	32,971	5,754,910
Financial liabilities				
Deposits from customers	10,342,106	1,407,353	29,547	11,779,006
Total recognised financial instruments	16,064,045	3,627,580	62,518	19,754,143
Letters of credit and financial guarantees	-	785,330		785,330
Financial guarantees	-	3,339,511	-	3,339,511
Total unrecognised financial instruments	-	4,124,841	-	4,124,841
Total	**16,064,045**	**7,752,421**	**62,518**	**23,878,984**

In thousands of Malawi Kwacha

5. Financial risk management (Continued)

5 (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 20% of demand deposits and overdrafts 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:-

First Merchant Bank Limited	**31 December 2008**	31 December 2007
Liquidity Ratio	**49.99%**	80.02%
Liquidity Ratio II	**48.37%**	77.38%
The Leasing and Finance Company Limited		
Liquidity Ratio I	**49.01%**	52.0%
Liquidity Ratio II	**49.04%**	52.0%
Capital Bank		
Liquidity Ratio I	**51.0%**	-
Liquidity Ratio II	**51.0%**	-

5 (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 bank'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 authorization of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures

In thousands of Malawi Kwacha

5. Financial risk management (Continued)

5 (c) Operational risks (Continued)

- 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

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 relevant Audit Committees.

5 (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 analyzed 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.

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

	Group		Company	
	2008	2007	**2008**	2007
Tier 1 capital				
Share capital	**111,250**	111,250	**111,250**	111,250
Share premium	**514,035**	514,035	**514,035**	514,035
Retained earnings	**3,003,743**	2,054,586	**2,597,788**	1,768,226
Investment in unconsolidated subsidiaries	**-**	-	**(548,953)**	(309,275)
Investment in equities of financial institutions	**(50,947)**	(50,947)	**(50,947)**	(50,947)
	3,578,081	2,628,924	**2,623,173**	2,033,289
Tier 2 capital				
Reserves	**1,772,335**	1,454,069	**1,815,949**	1,911,114
Total regulatory capital	**5,350,416**	4,082,993	**4,439,122**	3,944,403
Risk weighted assets	**17,530,828**	11,353,997	**13,768,802**	9,903,225
Capital ratios				
Tier 1 capital expressed as a percentage of total risk-weighted assets	**20.41**	23.15	**19.05**	20.53
Total capital expressed as a percentage of total risk weighted assets.	**30.52**	35.96	**32.24**	39.83

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

5. Financial risk management (Continued)

5 (e) Market risk management policy

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity 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).

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:-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
In thousands of Malawi Kwacha

5. Financial risk management (Continued)

5 (e) Market risk management policy (Continued)

GROUP
31 December 2008

			Fixed Rate Instruments					
	Zero rate	**Floating rate**	**0-3 months**	**3-6 months**	**6-9 months**	**9-12 months**	**Over 12 months**	**Total**
Total assets	2,360,294	4,819,731	3,211,487	2,656,409	7,081,167	461,150	3,637,770	24,228,008
Total liabilities and shareholders funds	6,771,542	11,447,951	5,369,465	543,698	54,684	40,668	-	24,228,008
Interest sensitivity gap	**(4,411,248)**	**(6,628,220)**	**(2,157,978)**	**2,112,711**	**7,026,483**	**420,482**	**3,637,770**	**-**
Impact on profit of increase of interest rate								
1%		**(66,282)**	**(22,856)**	**13,204**	**70,607**	**4,561**	**36,378**	**28,469**
2%		**(132,564)**	**(45,712)**	**26,409**	**141,213**	**9,121**	**72,755**	**56,938**
3%		**(198,847)**	**(68,569)**	**39,613**	**211,820**	**13,682**	**109,133**	**85,406**
Impact on profit of decrease of interest rate								
1%		**66,282**	**21,994**	**(14,365)**	**(70,265)**	**(4,205)**	**(36,378)**	**(186,663)**
2%		**132,564**	**43,986**	**(28,729)**	**(140,530)**	**(8,410)**	**(72,755)**	**(549,863)**
3%		**198,847**	**65,979**	**(43,093)**	**(210,794)**	**(12,614)**	**(109,133)**	**(913,064)**

The effect on equity will be 70 percent of the above impact.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
In thousands of Malawi Kwacha

5. Financial risk management (Continued)

5 (e) Market risk management policy (Continued)

COMPANY

31 December 2008

			Fixed Rate Instruments					
	Zero rate	Floating rate	0-3 months	3-6 months	6-9 months	9-12 months	Over 12 months	Total
Total assets	2,521,792	1,598,112	1,021,145	1,835,409	6,669,636	461,150	3,637,770	17,745,014
Total liabilities and shareholders funds	6,205,501	10,467,395	1,040,077	32,041				17,745,014
Interest sensitivity gap	**(3,683,709)**	**(8,869,283)**	**(18,932)**	**1,803,368**	**6,669,636**	**461,150**	**3,637,770**	**-**
Impact on profit of increase of interest rate								
1%	**-**	**(90,322)**	**(166)**	**11,271**	**66,696**	**4,612**	**36,378**	**28,469**
2%	**-**	**(180,644)**	**(331)**	**22,542**	**133,393**	**9,223**	**72,755**	**56,938**
3%	**-**	**(270,966)**	**(497)**	**33,813**	**200,089**	**13,835**	**109,133**	**85,406**
Impact on profit of decrease of interest rate								
1%	**-**	**90,322**	**166**	**200**	**(66,696)**	**(4,612)**	**(36,378)**	**(62,221)**
2%	**-**	**180,644**	**331**	**401**	**(133,393)**	**(9,223)**	**(72,755)**	**(183,288)**
3%	**-**	**270,966**	**497**	**601**	**(200,089)**	**(13,835)**	**(109,133)**	**(304,355)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
In thousands of Malawi Kwacha

5. Financial risk management (Continued)

5 (e) Market risk management policy (Continued)

COMPANY

Effective interest rates of financial assets and liabilities

The effective interest rates for the principal financial assets and liabilities at 31 December 2008 and 2007 were in the following ranges:-

	2008	2007
	%	%
Assets:		
Government securities	**13.15-16.93**	8-9.50
Deposits with banking institutions	**0.25-2.5**	0.5-4
Loans and advances to customers (base rate)	**19.5**	19.5
Liabilities:		
Customer deposits	**0.25-11.0**	0.5-11

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
In thousands of Malawi Kwacha

5. Financial risk management (Continued)

5 (e) Market risk management policy (Continued)

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.

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:

GROUP		**2008**			**2007**	
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
USD	**21,736**	**13,952**	**7,784**	17,253	15,612	1,641
GBP	**2,612**	**2,178**	**439**	1,425	1,575	(150)
EUR	**4,140**	**1,513**	**2,627**	1,953	1,504	449
ZAR	**20,008**	**9,162**	**10,846**	1,719	95	1,624
COMPANY						
USD	**17,845**	**12,122**	**5,723**	17,253	15,612	1,641
GBP	**1,764**	**1,582**	**182**	1,425	1,575	(150)
EUR	**3,224**	**952**	**2,272**	1,953	1,504	449
ZAR	**19,336**	**8,639**	**10,697**	1,719	95	1,624

5. Financial risk management (Continued)

5 (f) Compliance risk

Compliance is an independent core risk management activity, which also has unrestricted access to the managing director and the chairman of the board. The bank 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 control and occupational health and safety (including aspect of environmental risk management) are managed within the compliance function and there are increasingly onerous legislative requirements being imposed in both these areas. The Bank 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 / directives.

The management of compliance risk has become a distinct discipline within the bank'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 bank especially in 2007. The bank has a dedicated Money Laundering Control Officer who consults the country's newly established Financial Intelligence Unit on money laundering and anti-terrorist financing matters.

In thousands of Malawi Kwacha

6. Financial assets and liabilities

The estimated fair values (excluding accrued interest) of the group's financial assets and liabilities are summarised below:-

	Group		Company	
	2008	2007	**2008**	2007
Financial assets				
Cash and cash equivalents	**4,401,956**	4,782,997	**3,976,178**	4,363,225
Money market investments	**5,509,039**	5,059,572	**2,133,609**	3,929,274
Loans and advances to customers	**8,875,037**	5,826,047	**8,131,407**	5,754,910
Finance lease receivables	**2,153,526**	1,301,092	**-**	-
Investment in listed companies	**1,602,650**	1,625,683	**1,602,650**	1,625,683
	22,542,208	18,595,391	**15,843,844**	15,673,092
Financial liabilities				
Deposits from banks	**-**	152	**-**	-
Deposits from customers	**17,113,667**	13,888,493	**11,539,513**	11,779,006
	17,113,667	13,888,645	**11,539,513**	11,779,006

In the opinion of directors, the fair values of the group's financial assets and liabilities approximate the respective carrying amounts, due to the generally short period to contractual repricing or maturity dates. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that directors expect would be available to the group at the balance sheet date.

7. Interest income

	Group 2008	Group 2007	Company 2008	Company 2007
Loans and advances	**1,440,470**	1,019,147	**1,399,958**	1,002,554
Lease finance	**363,109**	240,421	**-**	-
Treasury bills	**524,122**	490,939	**310,807**	343,588
Local registered stocks	**27,079**	19,079	**27,079**	19,079
Placements with other banks	**166,814**	202,507	**136,834**	169,414
Total interest income	**2,521,594**	1,972,093	**1,874,678**	1,534,635

8. Income from investments

	Group 2008	Group 2007	Company 2008	Company 2007
Dividend income	**66,245**	58,627	**66,245**	58,627
Increase in fair value of investments:				
-Unrealised	**231,353**	1,097,716	**231,353**	1,097,716
-Realised	**53,221**	201,983	**53,221**	201,983
	350,819	1,358,326	**350,819**	1,358,326

9. Other operating income

	Group 2008	Group 2007	Company 2008	Company 2007
Profit on disposal of motor vehicles and equipment	**2,914**	1,171	**2,856**	894
Other	**949**	959	**-**	443
	3,863	2,130	**2,856**	1,337

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	Group		Company	
10. Staff and training costs	**2008**	**2007**	**2008**	**2007**
Salaries and wages	**786,621**	609,862	**699,135**	579,183
Training costs and other staff costs	**107,062**	53,861	**75,354**	48,275
Provision for severance pay	**33,025**	61,954	**29,258**	56,366
Contributions to defined contribution plans	**33,025**	22,600	**26,423**	21,066
	959,733	748,277	**830,170**	704,890

11. Other costs

	Group 2008	Group 2007	Company 2008	Company 2007
Other costs include:				
Auditor's remuneration- Current audit fees	**17,036**	11,722	**11,030**	8,900
- Under provision in previous year	**812**	178	**-**	-
- Other services and VAT	**4,122**	4,194	**3,544**	3,715
Director's remuneration	**124,823**	104,941	**124,703**	104,776
Others	**344,812**	231,762	**269,971**	189,149
Total other costs	**491,605**	352,797	**409,248**	306,540

12. Income tax expense

Recognised in the income statement

	Group 2008	Group 2007	Company 2008	Company 2007
Current tax expense				
Current year at 30% (2007: 30%) based on profits	**556,943**	305,364	**484,839**	264,966
Prior periods under provision	-	2,685	**-**	-
Dividend tax expense	**6,234**	5,600	**6,234**	5,600
Deferred tax (credit)/expense				
Origination and reversal of temporary differences (Note 26)	**(69,794)**	8,277	**(39,872)**	4,440
Prior year adjustment	**10,378**	-	**10,378**	-
Total income tax expense in income statement	**503,761**	321,926	**461,579**	275,006

Reconciliation of effective tax rate

	Group 2008	Group 2007	Company 2008	Company 2007
Profit before income tax	**1,895,545**	2,314,883	**1,780,715**	2,169,343
Income tax using the domestic corporation tax rate 30% (2007:30%) Capital Bank Limited rate 25%	**575,419**	694,465	**534,214**	650,803
Non-deductible expenses	**20,829**	13,513	**19,852**	12,824
Tax exempt income	**(98,210)**	(393,024)	**(98,210)**	(392,908)
Tax incentives	**(511)**	(1,313)	**(511)**	(1,313)
Dividend tax	**6,234**	5,600	**6,234**	5,600
Underprovided in prior years	**-**	2,685	**-**	-
Total income tax expense in income statement	**503,761**	321,926	**461,579**	275,006

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13. Basic and diluted earnings per share

	Group	
	2008	2007
Profit attributable to ordinary shareholders	**1,437,204**	1,992,602
Weighted average number of ordinary shares in issue (thousands)	**2,225,000**	2,225,000
Basic earnings per share (tambala)	**64**	90
Diluted earnings per share (tambala)	**64**	90

There are no potential dilutive ordinary shares.

14. Dividends

Last year's final dividend of MK133.5 million and an interim dividend for this year of MK333.75 million were declared and paid during the year.

15. Cash and cash equivalents

	Group		Company	
	2008	2007	**2008**	2007
Liquidity Reserve Deposits:				
- Central Banks	**186,101**	355,112	**148,393**	355,112
- Registered discount houses	**-**	102,000	**-**	102,000
	186,101	457,112	**148,393**	457,112
Placements with other banks	**1,395,455**	1,865,115	**1,300,000**	1,865,115
Balances with banks abroad	**1,835,874**	1,137,392	**1,761,481**	1,137,392
Balances with local banks	**15,160**	331	**103**	331
Cheques in course of clearing	**154,620**	310,322	**148,585**	310,322
Cash balances	**814,746**	1,012,725	**617,616**	592,953
	4,401,956	4,782,997	**3,976,178**	4,363,225

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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16. Money market investment	**Group**		**Company**	
	2008	2007	**2008**	2007
Malawi Government treasury bills	**5,364,039**	4,964,240	**1,988,609**	3,834,274
Local registered stocks	**145,000**	95,332	**145,000**	95,000
	5,509,039	5,059,572	**2,133,609**	3,929,274

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.

17. Loans and advances to customers	**Group**		**Company**	
	2008	2007	**2008**	2007
Loans and advances are receivable as follows:				
Maturing within 3 months	**225,540**	830,258	**175,912**	782,009
Maturing between 3 and 12 months	**8,770,508**	4,791,644	**8,089,439**	4,772,587
Maturing after 12 months	**244,048**	495,737	**231,115**	491,906
	9,240,096	6,117,639	**8,496,466**	6,046,502
Segmental analysis by industry:				
Agriculture	**1,454,200**	571,148	**1,317,940**	571,148
Mining	**20,614**	41,876	**20,614**	41,876
Finance and insurance	**192,777**	107,414	**93,409**	107,414
Construction	**1,706,555**	1,332,894	**308,843**	208,085
Manufacturing	**336,794**	208,085	**1,644,098**	1,332,894
Wholesale and retail	**3,128,824**	2,884,640	**3,083,907**	2,884,640
Tourism and leisure	**238,810**	235,403	**238,810**	253,423
Transport	**1,073,277**	228,568	**929,729**	228,568
Others	**1,088,245**	507,611	**859,116**	418,454
	9,240,096	6,117,639	**8,496,466**	6,046,502
Specific allowances for impairment:				
Balance at 1 January	**(189,810)**	(152,721)	**(189,810)**	(152,721)
Charge for the year	**(106,268)**	(80,879)	**(106,268)**	(80,879)
Write offs	**7,767**	36,242	**7,767**	36,242
Recoveries	**77,594**	7,548	**77,594**	7,548
Balance at 31 December	**(210,717)**	(189,810)	**(210,717)**	(189,810)
Interest in suspense:				
Balance at 1st January	**(101,782)**	(157,512)	**(101,782)**	(157,512)
Charge for the year/recoveries	**(52,560)**	55,730	**(52,560)**	55,730
Balance at 31st December	**(154,342)**	(101,782)	**(154,342)**	(101,782)
Net loans and advances	**8,875,037**	5,826,047	**8,131,407**	5,754,910

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.

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18. Finance leases

	Group		Company	
	2008	2007	**2008**	2007
Investment in finance leases, receivable:				
Less than one year	**525,484**	501,890	**-**	-
Between one and five years	**1,679,641**	814,180	**-**	-
More than five years	**10,704**	11,360	**-**	-
Balance at 31 December	**2,215,829**	1,327,430	-	-
Specific allowances for impairment:				
Balance at 1 January	**(19,360)**	(14,990)	-	-
Charge for the year	**(29,419)**	(7,599)	-	-
Writeoffs	**1,059**	1,885	**-**	-
Recoveries	**2,262**	1,344	**-**	-
Balance at 31 December	**(45,458)**	(19,360)	-	-
Unearned finance income:				
Balance at 1 January	**(6,978)**	(7,236)	-	-
Charge for the year /recoveries	**(9,867)**	258	**-**	-
Balance at 31 December	**(16,845)**	(6,978)	-	-
Net finance lease receivables	**2,153,526**	1,301,092	**-**	-

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

19. Other assets

	Group		Company	
	2008	2007	**2008**	2007
Items in transit	**215**	5,857	**215**	5,857
Interest receivable	**14,378**	24,828	**14,378**	21,445
Prepayments	**13,511**	5,343	**1,520**	3,964
Stock of consumable stationery	**30,173**	18,694	**28,770**	18,695
Others	**46,481**	32,509	**37,243**	31,858
	104,758	87,231	**82,126**	81,819

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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20. Investments in listed companies

Group

	2008		2007	
	Valuation	**Cost**	Valuation	Cost
Investments in listed companies	**1,602,650**	**186,847**	1,625,683	127,990

Company

	2008		2007	
	Valuation	**Cost**	Valuation	Cost
Investments in listed companies	**1,602,650**	**186,847**	1,625,683	127,990

All investments in quoted companies are held for trading. The increase in fair value is taken to income statement.

Movement during the year	**Group**		**Company**	
	Valuation	Cost	Valuation	Cost
Balance at 1 January 2008	1,625,683	127,990	1,625,683	127,990
Shares bought during the year	77,077	77,077	77,077	77,077
Increase in fair value	231,354	-	231,354	-
Shares disposed of during the year	(331,464)	(18,220)	(331,464)	(18,220)
Balance at 31 December 2008	**1,602,650**	**186,847**	**1,602,650**	**186,847**

21. Investment in subsidiaries

	Shareholding		**Company**	
At cost	**2008**	2007	**2008**	2007
The Leasing and Finance Company of Malawi Limited	**100%**	100%	**65,911**	65,911
Capital Bank Limited	**52.64%**	51%	**483,042**	243,364
Total investment in subsidiaries			**548,953**	309,275
Movement during the year:				
Balance at 1 January			**309,275**	65,911
Increase in shareholding of Capital Bank Limited			**239,678**	243,364
Balance at 31 December			**548,953**	309,275

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22. 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 2007	286,465	295,672	57,008	567,332	15,025	1,221,502
Additions	4,066	-	9,760	93,739	120,938	228,503
Transfers	38,063	-	-	14,188	(52,251)	-
Revaluation surplus	137,129	108,140	-	-	-	245,269
Disposals	(380)	-	(2,207)	(651)	-	(3,238)
Write off to expenses	-	-	-	-	(19,263)	(19,263)
Balance at 31 December 2007	465,343	403,812	64,561	674,608	64,449	1,672,773
Depreciation and impairment losses						
Balance at 1 January 2007	6,019	7,230	28,389	305,418	-	347,056
Charge for the year	5,951	6,839	10,776	115,140	-	138,706
Impairment loss/(reversal)	-	(436)	-	-	-	(436)
Eliminated on revaluation	(11,970)	(13,633)	-	-	-	(25,603)
Released on disposals	-	-	(2,206)	(642)	-	(2,848)
Balance at 31 December 2007	-	-	36,959	419,916	-	456,875
Cost or valuation						
Balance at 1 January 2008	465,343	403,812	64,561	674,608	64,449	1,672,773
Additions	245	-	54,880	327,188	113,155	495,468
Transfers	-	20,035	-	63,847	(83,882)	-
Disposals	-	-	(4,390)	(1,232)	(7,214)	(12,836)
Write Offs	-	-	-	(56,240)	(10,706)	(66,946)
Balance at 31 December 2008	**465,588**	**423,847**	**115,051**	**1,008,170**	**75,802**	**2,088,459**
Depreciation and impairment losses						
Balance at 1 January 2008	-	-	36,959	419,916	-	456,875
Charge for the year	10,223	9,841	15,613	117,366	-	153,043
Released on disposals	-	-	(4,389)	(1,150)	-	(5,539)
Balance at 31 December 2008	**10,223**	**9,841**	**48,183**	**536,132**	**-**	**604,379**
Carrying amount						
At 31 December 2008	**455,365**	**414,006**	**66,868**	**472,039**	**75,802**	**1,484,080**
At 31 December 2007	465,343	403,812	27,602	254,692	64,449	1,215,898

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22. Property, plant 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 2007	261,195	295,672	48,643	552,468	15,025	1,173,003
Additions	4,066	-	2,356	91,544	80,651	178,617
Transfers	38,063	-	-	14,188	(52,251)	-
Revaluation surplus	123,879	108,140	-	-	-	232,019
Disposals	-	-	(2,029)	(624)	-	(2,653)
Write off to expenses	-	-	-	-	* (19,263)	(19,263)
Balance at 31 December 2007	427,203	403,812	48,970	657,576	24,162	1,561,723
Accumulated depreciation						
Balance at 1 January 2007	5,567	7,230	27,443	299,683	-	339,923
Charge for the year	5,567	6,839	8,659	112,918	-	133,983
Impairment (reversal)	-	(436)	-	-	-	(436)
Eliminated on revaluation	(11,134)	(13,633)	-	-	-	(24,767)
Released on disposal	-	-	(2,028)	(624)	-	(2,652)
Balance at 31 December 2007	-	-	34,074	411,977	-	446,051
Cost or valuation						
Balance at 1st January 2008	427,203	403,812	48,970	657,576	24,162	1,561,723
Additions	-	-	49,846	136,520	113,155	299,521
Transfers	-	20,035	-	31,513	(51,548)	-
Disposals	-	-	(4,390)	(1,093)	(7,214)	(12,697)
Writeoffs	-	-	-	(56,240)	(10,706)	(66,946)
Balance at 31 December 2008	**427,203**	**423,847**	**94,426**	**768,276**	**67,849**	**1,781,601**
Accumulated depreciation and impairment						
Balance at 1 January 2008	-	-	34,074	411,977	-	446,051
Charge for the year	9,505	9,841	12,030	100,638	-	132,014
Released on disposal	-	-	(4,389)	(1,092)	-	(5,481)
Balance at 31 December 2008	**9,505**	**9,841**	**41,715**	**511,523**	**-**	**572,584**
Carrying amount						
At 31 December 2008	**417,698**	**414,006**	**52,711**	**256,753**	**67,849**	**1,209,017**
At 31 December 2007	427,203	403,812	14,896	245,599	24,162	1,115,672

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 31st December 2007 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 K270.872 million for the group and K256.786 million for the company were credited to revaluation reserve.

Capital work in progress represents development costs on the bank's various branches.

Write-offs represent equipment which was acquired for a specific fully financed project whose assets in excess were no longer required at the close of the project. The Bank's realised income was credited to the income statement under fees and commission.

* Operating expenses on the FINCA Project that were written off to the income statements at its conclusion.

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		Group		Company	
23.	**Loans and advances from customers**	**2008**	2007	**2008**	2007
	Current and savings accounts	8,678,934	7,429,028	8,120,944	7,435,955
	Foreign currency accounts	2,412,388	2,906,151	2,346,451	2,906,151
	Term deposit accounts	6,022,345	3,553,314	1,072,118	1,436,900
		17,113,667	13,888,493	**11,539,513**	11,779,006
	Payable as follows:				
	Maturing within 3 months	**16,475,430**	13,668,073	**11,507,472**	11,678,117
	Maturing between 3 and 12 months	**638,237**	220,420	**32,041**	100,889
		17,113,667	13,888,493	**11,539,513**	11,779,006

For information about interest rates refer to note 5.

24.	**Other liabilities**				
	Interest payable	**38,203**	7,504	**5,063**	7,504
	Bankers cheques issued and uncleared	**175,543**	172,380	**166,346**	170,608
	Margins on letters of credit and forward contracts	**251,639**	300,333	**251,639**	300,333
	Bills payable	**73,892**	51,289	**73,892**	51,289
	Trade payable	**165,234**	255,527	**165,234**	255,527
	Accrued expenses	**222,980**	90,348	**184,383**	76,328
	Others	**103,363**	6,656	**28,030**	1,504
		1,030,854	884,037	**874,587**	863,093

25.	**Severance pay liabilities**				
	Balance at 1 January	**106,610**	44,656	**95,240**	38,874
	Current year charge	**33,025**	61,954	**29,258**	56,366
	Payment made	**(2,178)**	-	**(2,178)**	-
	Balance at 31 December	**137,457**	106,610	**122,320**	95,240

In terms of the current interpretation by the courts of the Employment Act, severance allowance is payable in full to employees on termination of employment by mutual agreement, death, retirement, voluntary retirement, retrenchment or redundancy without allowing any set off of employer's pension scheme contributions against severance allowance due.

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. The amount has not been subject to actuarial valuation as in the directors' opinion, it represents the best estimate based on assumptions.

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26. Deferred tax

	Assets		Liabilities		Net	
	2008	2007	**2008**	2007	**2008**	2007
(i) **GROUP**						
Property and equipment	**(18,906)**	(16,234)	**7,134**	-	**(11,772)**	(16,234)
Accrued income	**-**	-	**36,706**	71,246	**36,706**	71,246
Revaluation of property	**-**	-	**42,758**	49,138	**42,758**	49,138
Tax losses	**(34,601)**	-	**-**	-	**(34,601)**	-
Operating Lease	**(1,287)**	-	**-**	-	**(1,287)**	-
Revaluation on investments	**-**	-	**14,832**	7,796	**14,832**	7,796
Gratuity and severance pay liabilities	**(45,579)**	(34,715)	**-**	-	**(45,579)**	(34,715)
Tax (assets)/liabilities	**(100,373)**	(50,949)	**101,430**	128,180	**1,057**	77,231
(ii) **COMPANY**						
Property and equipment	**(18,906)**	(17,615)	-	-	**(18,906)**	(17,615)
Accrued income	**-**	-	**23,155**	57,908	**23,155**	57,908
Revaluation of property	**-**	-	**38,310**	44,548	**38,310**	44,548
Revaluation of investments	**-**	-	**14,832**	7,796	**14,832**	7,796
Gratuity and severance pay liabilities	**(42,168)**	(31,304)	**-**	-	**(42,168)**	(31,304)
Tax (assets)/liabilities	**(61,074)**	(48,919)	**76,297**	110,252	**15,223**	61,333

Movements in temporary differences during the year

GROUP	**Opening balance**	**Recognised in profit or loss**	**Recognised in equity**	**Closing balance**
2008				
Property and equipment	**(16,234)**	**4,462**	**-**	**(11,772)**
Accrued income	**71,246**	**(34,540)**	**-**	**36,706**
Revaluation of property	**49,138**	**-**	**(6,380)**	**42,758**
Tax losses	**-**	**(34,601)**	**-**	**(34,601)**
Operating lease	**-**	**(1,287)**		**(1,287)**
Revaluation of investments	**7,796**	**7,036**	**-**	**14,832**
Gratuity and severance pay provisions	**(34,715)**	**(10,864)**	**-**	**(45,579)**
	77,231	**(69,794)**	**6,380**	**1,057**
2007				
Property and equipment	(5,549)	(10,685)	-	(16,234)
Accrued income	34,085	37,161	-	71,246
Revaluation of property	20,293	-	28,845	49,138
Revaluation of investments	4,677	3,119	-	7,796
Gratuity and severance pay provisions	(13,397)	(21,318)	-	(34,715)
	40,109	8,277	28,845	77,231

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26. Deferred tax liabilities (Continued)

COMPANY

	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
2008				
Property and equipment	**(17,615)**	**(1,291)**	**-**	**(18,906)**
Accrued income	**57,908**	**(34,753)**	**-**	**23,155**
Revaluation of property	**44,548**	**-**	**(6,238)**	**38,310**
Revaluation of investments	**7,796**	**7,036**	**-**	**14,832**
Gratuity and severance pay provisions	**(31,304)**	**(10,864)**	**-**	**(42,168)**
Tax (assets)/liabilities	**61,333**	**(39,872)**	**(6,238)**	**15,223**
2007				
Property and equipment	(7,183)	(10,432)	-	(17,615)
Accrued income	26,513	31,395	-	57,908
Revaluation of property	17,698	-	26,850	44,548
Revaluation of investments	4,677	3,119	-	7,796
Gratuity and severance pay provisions	(11,662)	(19,642)	-	(31,304)
Tax (assets)/liabilities	30,043	4,440	26,850	61,333

27 (a). Share capital

	2008	2007
Authorised, issued and fully paid 2,225,000,000 ordinary shares of 5 tambala each	**111,250**	111,250

27 (b). Share premium

On 19th June 2006, following an offer to the public, 225,000,000 ordinary shares of 5 tambala each were allotted at a premium of 245 tambala per share.

The resultant premium on issue of MK551,250,000 less offer expenses of MK37,215,000 was credited to share premium account.

28. Property revaluation reserve

This represents the increase in fair value of property, plant and equipment net of the related deferred taxation provision and is not available for distribution to the Bank's shareholders.

29. 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 and is not available for distribution to the Bank's shareholders.

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30. 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.

In order to comply with Reserve Bank of Malawi capital adequacy requirements, a statutory loan loss reserve has been created. The portion of the loan loss reserve for the Group which relates to this statutory requirement and is non distributable amounts to K27 million as at 31 December 2008 (2007: K67 million).. The remaining balance of the loan loss reserve should be regarded as distributable.

31. Contingencies

	Group		Company	
	2008	2007	**2008**	2007
Letters of credit	**805,023**	785,330	**805,023**	785,330
Guarantees and performance bonds	**4,359,029**	3,339,511	**4,153,553**	3,339,511
	5,164,052	4,124,841	**4,958,576**	4,124,841

Contingencies in respect of letters of credit will only crystallise into an asset and 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.

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
2007				
Advances	381	120,864	-	121,245
Deposits	(17,979)	(21,692)	(4,586)	(44,257)
Net balances	(17,598)	99,172	(4,586)	76,988
Interest received	1,497	7,486	-	8,983
Fees and commission received	132	-	20	152
Interest paid	(185)	(169)	(17)	(371)
Operating expenditure	(3,725)	-	-	(3,725)
Capital expenditure	(6,545)	-	-	(6,545)
2008				
Advances	**6,912**	**143,018**	**-**	**149,930**
Deposits	**(11,634)**	**(29,351)**	**(5,417)**	**(46,402)**
Net balances	**(4,722)**	**113,667**	**(5,417)**	**103,528**
Interest received	**845**	**9,307**	**-**	**10,152**
Fees and commission received	**170**	**-**	**26**	**196**
Interest paid	**(183)**	**(320)**	**(16)**	**(519)**
Operating expenditure	**(3,631)**	**-**	**-**	**(3,631)**
Capital expenditure	**(1,957)**	**-**	**-**	**(1,957)**

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

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32. Related party transactions (Continued)

Advances to employees include M**K4,089** (2007: MK2,975) of interest free advances and M**K119,586** (2007: MK73,065) 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 M**K23,192** (2007: MK23,192) 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 subsidiary, The Leasing and Finance Company of Malawi Limited (LFC) and Capital Bank Limited, which have been eliminated on consolidation, are as follows:

	2008	2007
	M**K'000**	MK'000
Deposits by LFC with FMB	**187,703**	6,972
Loan syndications	**(137,183)**	18,020
Fees and commissions received	**1,953**	1,770
Interest received	**7,380**	3,191
Interest paid	**708**	(7,217)
Management fees (Capital Bank Limited)	**20,281**	-

Key management personnel compensation:

	Executive Directors		**Non-Executive Directors**	
	2008	2007	**2008**	**2007**
Salaries	**43,921**	43,406	-	-
Bonuses	**56,500**	37,000	-	-
Fees	-	-	**24,282**	24,370
	100,421	80,406	**24,282**	24,370

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 **MK7.1 million** (2007: MK6.6 million).

Directors' interests

As at 31 December 2008, the total direct and indirect interests of the directors and parties related thereto in the issued share capital of the company were as follows:

R. C. Kantaria	1,000,000,000 ordinary shares
H. N. and N. G. Anadkat	1,000,000,000 ordinary shares
K. N. Chaturvedi	2,328,000 ordinary shares
J. M. O'Neill	4,428,021 ordinary shares
M. Msisha	1,000,000 ordinary shares
S.G. Malata	40,000 ordinary shares

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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	
	2008	2007	2008	2007
Contingent liabilities				
Acceptances and letters of credit	**805**	785	**805**	785
Employee Terminal Benefits	**4,154**	3,340	**4,154**	3,340
	4,959	4,125	**4,959**	4,125
Commitments				
Undrawn formal stand-by facilities, credit lines and other commitments to lend:				
Authorised and contracted capital commitments	**77,715**	11,801	**77,715**	11,801

As at 31 December 2008, the authorised but not yet contracted capital commitments were **MK76,500** (2007: MK Nil).

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 balance sheet 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%** (2007: 15.5%) of the preceding weeks total deposit liabilities. In the last week of December 2008, the liquidity reserve was **17.44%** (2007: 21.8%) 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 2008, the Bank's available capital was **20.41%** (2007: 19.34%) of its risk bearing assets and contingent liabilities.

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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	**2008**	2007	2006
	MK	MK	MK
Kwacha/GBP	**216.5**	285.9	279.8
Kwacha/Rand	**15.9**	21.1	20.5
Kwacha/US Dollar	**141.5**	140.3	139.3
Kwacha/Euro	**210.1**	209.7	186.6
Inflation rate %	**9.9**	8.0	13.9

At the time of signing these financial statements there were no significant movements in the above rates.

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:

	2008 In MK
Assets	
Government securities	**13.15-16.95**
Deposits with banking institutions	**0.25-2.50**
Loans and advances to customers	**19.5**
Liabilities	
Customer deposits	**0.5-11**

	2007 In MK
Assets	
Government securities	8-9.50
Deposits with banking institutions	0.5-4
Loans and advances to customers	19.5
Liabilities	
Customer deposits	0.5-11

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37. Segmental Reporting

Business Segments
The primary business of the Group is retail and corporate banking including the acceptance of current, savings and term deposits and the provision of loans, overdrafts and lease finance. The Group's treasury activities include trading in financial instruments and dealing in foreign currency are considered to be an integral part of the Group's retail and corporate banking operations. Other operations of the Group which include fund management and corporate advisory services are not significant in the context of the Group's operations as a whole.

Geographical segment
From 2007 the group conducts its business operations in Malawi and Botswana.

Group	Malawi	Botswana	Consolidated
External interest income	2,395,324	126,220	2,521,594
Segment result before tax	2,022,229	(126,684)	1,895,545
Segment assets	21,172,667	3,055,341	24,226,008
Segment liabilities	16,124,881	2,387,822	18,512,703
Capital expenditure	300,147	227,654	527,801

38. Subsequent events

Subsequent to year end, the Reserve Bank of Malawi increased the minimum capital requirement for commercial banks to K850 million effective 1 January 2010.