FDH FINANCIAL HOLDINGS LIMITED

Consolidated and company financial statements for the
Year ended 31 December 2012

FDH FINANCIAL HOLDINGS LIMITED
FINANCIAL STATEMENTS
For the year ended 31 December 2012

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FDH FINANCIAL HOLDINGS LIMITED
REPORT OF THE DIRECTORS
For the year ended 31 December 2012

The Directors have pleasure in presenting the Group and Company statements of financial position of FDH Financial Holdings Limited and its subsidiaries, First Discount House Limited, FDH Stockbrokers Limited, FDH Bank Limited and FDH Money Bureau Limited, together with the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended 31 December 2012.

ACTIVITIES
The Group operates a discount house, stockbroking business, banking and foreign exchange bureau through its wholly owned subsidiaries, First Discount House Limited, FDH Stockbrokers Limited, FDH Bank Limited and FDH Money Bureau Limited respectively. The discount house, the bank and the bureau are registered under the Banking Act, 2009 while the stockbroking company is registered under the Securities Act 2011.

RESULTS AND DIVIDENDS
The Directors report a consolidated profit for the year of K1.41bn (2011: K1.009bn). Dividend has been declared in the year 2012 amounting to K 729.9 million (2011: K 275 million)

SHARE CAPITAL
The authorised share capital of the company is K200, 000,000 divided into 200,000,000 Ordinary shares of K1 each. The issued share capital of the company is K189, 790,805) divided into 189,790,805 (2011: 189,790,805) Ordinary shares of K1 each. (2011: K1)

The shareholders and their respective holdings are:

	2012	**2011**
Kingdom Financial Holdings Limited (Zimbabwe)	-	38.15%
M Development Limited	55.00%	27.85%
T F Mpinganjira Trust	-	10.00%
Old Mutual Malawi	40.00%	19.00%
FDH ESOP Limited	5.00%	5.00%

DIRECTORS
The following Directors served in office during the year:

Mr. S.B. Tembenu	-	Chairman - All year
Dr. E.J. Sankhulani	-	All year
Mr. J A Regout	-	All year
Mr. M. Mikwamba	-	All year
Mr. T. F. Mpinganjira	-	All year
Mr. M.N. Katsala	-	All year

Half of the Directors shall retire at the Annual General Meeting. However, being eligible, the retiring directors offer themselves for re-election.

AUDITORS
Deloitte has expressed willingness to continue in office and a resolution is to be proposed at the forthcoming Annual General Meeting to re-appoint Deloitte as auditors in respect of the 31 December 2013 financial statements.

FOR AND ON BEHALF OF THE BOARD

Director: Kpsiugaujira ______________________

Director: ______________________

Date: 13 February 2013

FDH FINANCIAL HOLDINGS LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
For the year ended 31 December 2012

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 group as at the end of the financial year and of the operating results for that year.

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

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

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

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

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

Director: Kapinga-Njira

Director:

Date: 13 February 2013

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
FDH FINANCIAL HOLDINGS LIMITED

We have audited the consolidated annual financial statements and separate financial statements of FDH Financial Holdings Limited and its subsidiaries, which comprise the consolidated and separate statements of financial position as at 31 December 2012, and the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and consolidated and separate 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 5 to 44.

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 requirements of the Companies Act, 1984 and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In our opinion, these financial statements give a true and fair view of the consolidated and separate financial position of FDH Financial Holdings Limited and its subsidiaries as at 31 December 2012, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and the Companies Act, 1984, so far as concerns the members of the company.

Deloitte.

Certified Public Accountants
Blantyre, Malawi

18 February 2013

Audit .Tax . Consulting . Financial Advisory.

A member of
Deloitte Touche Tohmatsu

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

FDH FINANCIAL HOLDINGS LIMITED
STATEMENTS OF COMPREHENSIVE INCOME
For the year ended 31 December 2012

		Group		Company	
	Notes	**2012**	**2011**	**2012**	**2011**
		K'000	**K'000**	**K'000**	**K'000**
INCOME					
Interest earnings		4,719,099	1,627,179	-	-
Interest expense		(3,214,529)	(797,866)	-	-
Net interest income		1,504,570	829,313	-	-
Trading income on bills		716,473	424,639	-	-
Commissions and other fee income	5	2,211,325	1,630,499	-	-
Dividend income		474	1,800	729,900	293,633
Decrease in fair value of shares		(84)	(4,845)	-	-
Other income		256,335	206,272	129	13,235
Total income		4,689,093	3,087,678	730,029	306,868
EXPENDITURE					
Administrative costs		1,159,180	711,079	25	151
Staff costs		1,143,330	688,725	-	-
Interest on loan		-	-	-	13,067
Other trading costs		63,864	21,876	-	-
Bad debts provision		294,508	202,612	-	-
Total expenditure		2,660,882	1,624,292	25	13,218
Profit before tax	6	2,028,211	1,463,386	730,004	293,650
Income tax expense	7	615,856	453,950	-	29,380
PROFIT FOR THE YEAR		1,412,355	1,009,436	730,004	264,270
Basic earnings per share (tambala)	8	744t	532t		

The group had no other comprehensive income.

FDH FINANCIAL HOLDINGS LIMITED
STATEMENTS OF FINANCIAL POSITION
As at 31 December 2012

	Notes	Group 2012 K'000	Group 2011 K'000	Company 2012 K'000	Company 2011 K'000
ASSETS					
NON-CURRENT ASSETS					
Plant and equipment	9	1,741,404	959,800	181	215
Intangible assets	10	278,356	137,222	-	-
Investments in subsidiary companies	11	-	-	774,675	774,675
Deferred tax asset	12	11,830	11,761	-	-
Goodwill on acquisition	13	131,784	131,784	-	-
Total non-current assets		2,163,374	1,240,567	774,856	774,890
CURRENT ASSETS					
Receivables and prepayments		420,124	284,511	-	624
Tax recoverable		3,451	3,405	15	-
Share investments held for trading		119	4,934	-	-
Treasury and RBM bills	14	5,285,576	2,667,073	-	-
Commercial Papers		1,048,917	711,298	-	-
Bills on buy back and loans	15	16,895,789	12,011,912	-	-
Bank balances and cash		3,649,068	3,658,954	1,313	176
Total current assets		27,303,044	19,342,087	1,328	800
TOTAL ASSETS		29,466,418	20,582,654	776,184	775,690
EQUITY AND LIABILITIES					
SHAREHOLDERS' EQUITY					
Share capital		189,791	189,791	189,791	189,791
Share premium		178,879	178,879	178,879	178,879
Capital reserve		379,678	379,678	-	-
Retained earnings		1,908,109	1,225,654	16,441	16,337
Total shareholders' equity		2,656,457	1,974,002	385,111	385,007
NON-CURRENT LIABILITIES					
Deferred tax	12	78,665	59,191	-	-
Total non-current liabilities		78,665	59,191	-	-
CURRENT LIABILITIES					
Current portion of borrowings		-	-	1,822	45,411
Payables and accruals	16	204,089	191,969	5,575	2,610
Provisions	17	153,135	111,752	-	-
Customer deposits		19,004,854	13,207,360	-	-
Related party balances	18	-	-	383,676	342,662
Bills on buy back and repurchase agreements	19	7,136,669	4,829,207	-	-
Taxation payable		232,549	209,173	-	-
Total current liabilities		26,731,296	18,549,461	391,073	390,683
TOTAL EQUITY AND LIABILITIES		29,466,418	20,582,654	776,184	775,690

The financial statements were approved and authorised for issue by the Board of Directors on 13 February 2013 and were signed on its behalf by

……………………………… Director

……………………………… Director

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Share Capital K'000	Share premium K'000	Capital reserve K'000	Loan loss reserve K'000	Retained profit/ (accumulated loss) K'000	Total K'000
Company						
2011						
At the beginning of the year	189,791	178,879	-	-	(433)	368,237
Profit for the year	-	-	-	-	264,270	264,270
Dividends during the year	-	-	-	-	(247,500)	(247,500)
As at 31 December 2011	189,791	178,879	-	-	16,337	385,007
2012						
At the beginning of the year	189,791	178,879	-	-	16,337	385,007
Profit for the year	-	-	-	-	730,004	730,004
Dividends during the year	-	-	-	-	(729,900)	(729,900)
As at 31 December 2012	189,791	178,879	-	-	16,441	385,111
Group						
2011						
At the beginning of the year	189,791	178,879	379,678	32,517	458,701	1,239,566
Profit for the year	-	-	-	-	1,009,436	1,009,436
Dividends during the year	-	-	-	-	(275,000)	(275,000)
Transfer to loan loss reserve	-	-	-	(32,517)	32,517	-
As at 31 December 2011	189,791	178,879	379,678	-	1,225,654	1,974,002
2012						
At the beginning of the year	189,791	178,879	379,678	-	1,225,654	1,974,002
Profit for the year	-	-	-	-	1,412,355	1,412,355
Dividends during the year	-	-	-	-	(729,900)	(729,900)
As at 31 December 2012	189,791	178,879	379,678	-	1,908,109	2,656,457

Analysis of loan loss reserve

This relates to the excess of required provisions per Reserve Bank of Malawi Requirements over loan impairment losses as per IAS 39. The excess provisions, if any, are set aside as a non-distributable reserve as they cannot reduce reported profits under International Financial Reporting Standards.

FDH FINANCIAL HOLDINGS LIMITED
STATEMENTS OF CASHFLOWS
For the year ended 31 December 2012

	Group		Company	
	2012	2011	2012	2011
	K'000	K'000	K'000	K'000
Cash flows from operating activities				
Profit before tax	2,028,211	1,463,386	730,004	293,650
Adjustments for:				
• Depreciation of plant and equipment	230,322	149,171	34	34
• Amortisation of intangible assets	49,036	34,704	-	-
• Reversal of severance allowance provision	-	(3,196)	-	-
• Dividend income	(474)	(1,800)	(729,900)	(293,633)
• Net fair value losses on shares held for trading	84	4,845	-	-
• Profit on disposal of plant and equipment	(3,948)	(3,577)	-	-
• Interest on loan	-	-	-	13,067
• Movement in share investments held for trading net of fair value changes	4,731	42,398	-	-
• Movement in receivables and prepayments	(135,613)	(128,362)	624	3,641
• Movement in Treasury and RBM Bills	(1,083,341)	(2,092,358)	-	-
• Movement in bills on buy back and loans	(4,883,877)	(7,417,137)	-	-
• Movement in payables, accruals and provisions	53,503	119,209	2,965	(2,324)
• Movement in related party payables	-	-	41,014	17,449
• Movement in customer deposits	5,797,494	8,643,820	-	-
• Movement in bills on buy back and repurchase agreements	2,307,462	3,196,622	-	-
• Movement in property held for sale	-	187,601	-	-
Cash generated from operations	4,363,590	4,195,326	44,741	31,884
Interest paid	-	-	-	(13,067)
Taxation paid	(573,121)	(295,509)	(15)	(29,380)
Net cash flow generated from/(used in) operating activities	3,790,469	3,899,817	44,726	(10,563)
Investing activities				
Dividends received	474	1,800	729,900	293,633
Purchase of intangible assets	(190,170)	(19,100)	-	-
Purchase of plant and equipment	(1,014,539)	(377,610)	-	-
Proceeds from disposal of plant and equipment	6,561	12,844	-	-
Net cash flow (used in)/from investing activities	(1,197,674)	(382,066)	729,900	293,633
Financing activities				
Dividends paid	(729,900)	(275,000)	(729,900)	(247,500)
FDH Bank loan repaid	-	-	(43,589)	(35,440)
Net cash flow used in financing activities	(729,900)	(275,000)	(773,489)	(282,940)
Net increase in cash and cash equivalents	1,862,895	3,242,751	1,137	130
Cash and cash equivalents at beginning of the year	4,686,173	1,443,422	176	46
Cash and cash equivalents at end of the year	6,549,068	4,686,173	1,313	176
Cash and cash equivalents comprise:-				
Bank balances and cash	3,649,068	3,658,954	1,313	176
Malawi Government Treasury Bills (maturity within 3 months) (note 14)	2,900,000	1,027,219	-	-
	6,549,068	4,686,173	1,313	176

1. General information

The Group comprises of the company and its four wholly owned subsidiaries: First Discount House Limited, a discount house registered under the Banking Act, 2011; FDH Bank Limited, a bank registered under the Banking Act, 2011; FDH Stockbrokers Limited, a company registered under the Securities Act, 2011 and FDH Bureau Limited, a company registered under the Banking Act, 2011. The holding company, which was incorporated in Malawi, is an investment company registered under the Companies Act, 1984. The company's registered office and principal place of business is Upper Ground Floor, Umoyo House, 8 Victoria Avenue North, P.O. Box 512, Blantyre, Malawi.

2. Adoption of new and revised International Financial Reporting Standards

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

In the current year, the company has adopted those new and revised Standards and Interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee of the International Accounting Standards Board that are relevant to its operations and are effective for annual reporting periods beginning on 1 January 2012.

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

2.2 Standards and Interpretations in issue, not yet effective

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

2.2.1 *IAS 27 Separate Financial Statements* - effective for annual reporting periods beginning on or after 1 January 2013.
2.2.2 *IAS 28 Investments in Associates and Joint Ventures* - effective for annual reporting periods beginning on or after 1 January 2013.
2.2.3 *IFRS 9 Financial Instruments* – effective for annual reporting periods beginning on or after 1 January 2015.
2.2.4 *IFRS 10 Consolidated Financial Statements* - effective for annual periods beginning on or after 1 January 2013.
2.2.5 *IFRS 11 Joint Arrangements* - effective for annual periods beginning on or after 1 January 2013.
2.2.6 *IFRS 12 Disclosure of Interests in Other Entities* - effective for annual periods beginning on or after 1 January 2013).
2.2.7 *IFRS 13 Fair Value Measurement* - effective for annual periods beginning on or after 1 January 2013.
2.2.8 *IAS 19 Employee Benefits* - Amended Standard effective for annual periods beginning on or after 1 January 2013.
2.2.9 *Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)* – effective for annual periods beginning on or after 1 July 2012.

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

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

2.2.10 *Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)* – beginning on or after 1 January 2013 and interim periods within those periods.
2.2.11 *Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)* – effective for annual periods beginning on or after 1 January 2014.
2.2.12 *Government Loans (Amendments to IFRS 1)* – effective for annual periods beginning on or after 1 January 2013.
2.2.13 *Annual Improvements 2009 – 2011 Cycle – (Amendments to IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34)* - effective for annual periods beginning on or after 1 January 2013.
2.2.14 *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, 11 & 12)* - effective for annual periods beginning on or after 1 January 2013.
2.2.15 *Investment Entities (Amendments to IFRS 10, IFRS 12 & IAS 27)* - effective for annual periods beginning on or after 1 January 2014.
2.2.16 *IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine* (effective for annual periods beginning on or after 1 January 2013).

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

3. Significant accounting policies

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

Basis of preparation
The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are disclosed at valuation. No other procedures are adopted to reflect the impact on the consolidated financial statements of specific price changes or changes in the general level of prices.

3.1 *Basis of consolidation*

The consolidated financial statements incorporate financial statements of FDH Holdings Limited and its 100% subsidiaries as outlined in note 1 above.

Subsidiaries

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

3. Accounting policies (Continued)

3.1 *Basis of consolidation* (Continued)

Subsidiaries (Continued)

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

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

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

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

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

3.2 *Business combination*

Acquisition of subsidiaries and businesses are accounted for using the purchase method. The cost of business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

The acquiree's identified assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business combinations* are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non- current assets held for sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

3. Accounting policies (Continued)

3.2 *Business combination* (Continued)

Goodwill arising from acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised if, after reassessment, the Group's interest in the net fair value of the aqcuiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

3.3 *Foreign Currencies*

The consolidated financial statements are presented in Malawi Kwacha (rounded to the nearest thousand), the currency of the primary economic environment in which the Group operates and its functional currency.

In preparing the consolidated financial statements, transactions in currencies other than Malawi Kwacha (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the statement of financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in other comprehensive income.

3.4 *Plant and equipment*

Plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Plant and equipment are depreciated on the straight-line basis at rates that will reduce book amounts to estimated residual values over the anticipated useful lives of the assets.

The assets' residual values, useful lives, and depreciation method are reviewed, and adjusted if appropriate, at each statement of financial position date.

Subsequent expenditure on an asset is capitalised only when it increases the future economic benefits embodied in an item of plant and equipment. All other expenditure is recognised in profit and loss as an expense as incurred.

3.5 *Intangible assets*

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

3. Significant accounting policies (continued)

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

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

3.7 *Financial instruments*

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

i. <u>Financial assets at fair value through profit or loss</u>
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified in this category if acquired or incurred principally for the purpose of selling in the short term or if is part of a portfolio of identified financial investments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking. Derivatives are also categorised as held for trading unless they are designated as hedges.

ii <u>Loans and receivables</u>
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

3. Significant accounting policies (continued)

3.7 *Financial instruments* (continued)

iii Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.

iv Available-for-sale

Available-for-sale investments include those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

"Regular way" purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest rate method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. At this time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However, interest calculated using the effective interest rate method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the entity's right to receive payment is established.

3. Significant accounting policies (continued)

3.8 *Impairment of financial assets*

(a) Assets carried at amortised cost

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

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

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

3. Significant accounting policies (continued)

3.8 *Impairment of financial assets* (continued)

(a) Assets carried at amortised cost (continued)

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

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

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

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

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

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

3. Significant accounting policies (Continued)

3.8 *Impairment of financial assets* (Continued)

(b) Assets carried at fair value

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

3.9 *Financial liabilities and equity*

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

i. Liabilities to customers and financial institution

These are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. They are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest rate method.

i. Balances due to banks abroad

Balances due to banks abroad represent cash liabilities to correspondent banks and are carried at fair value on recognition and subsequently at amortised cost, using the effective interest rate method.

ii. Other payables

Other payables comprise letters of credit and sundry accruals which are carried at fair value on recognition and subsequently at amortised cost, using the effective interest rate method.

iii. Equity instruments

Equity instruments issued by the Company are recorded at the face value of proceeds received.

3. Significant accounting policies (Continued)

3.10 *Offsetting financial instruments*

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

3.11 *Sale and repurchase agreements*

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate.

Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest rate method. Securities lent to counterparties are also retained in the consolidated financial statements.

3.12 *Cash and cash equivalents*

Cash and cash equivalents comprise treasury bills maturing within 3 months, cash balances and funds with Reserve Bank of Malawi and call deposits with other banks and discount houses, that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

3.13 *Other receivables*

Other receivables comprise prepayments and sundry non-trade receivables and are stated at their cost less impairment losses.

3.14 *Provisions*

Provisions are recognised when the Group has a present obligation (constructive or legal) as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Liabilities that do not meet these recognition criteria are disclosed in the financial statements as contingent liabilities.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

3. Significant accounting policies (Continued)

3.15 *Assets classified as held for sale*

Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as completed within one year from the date of classification.

Assets classified as held for sale are measured at the lower of the asset's previous carrying amount and fair value less costs to sell.

3.16 *Revenue recognition*

3.16.1 Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income for all instruments measured at amortised cost using the effective interest rate method.

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

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

3.16.2 Fees and commissions income

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

3.16.3 Sale of foreign exchange

Revenue from the sale of foreign currency is recognized once the foreign currency cash or cheques are delivered and consideration received.

3.16.4 Other banking services

Revenue from the provision of other banking services is recognized once the related service is completed.

3. Significant accounting policies (Continued)

3.17 *Taxation*

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

<u>Current tax</u>

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

<u>Deferred tax</u>

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilise the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3. Significant accounting policies (Continued)

3.18 *Goodwill*

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from synergies of the business combinations. Cash generating units to which goodwill has been allocated are tested for impairment annually or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.19 *Retirement benefit costs*

The Group operates a defined contribution retirement benefit plan. Contributions to the scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

3.20 *Earnings per share*

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

4. Critical accounting judgements and key sources of estimation uncertainty

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

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

4.1 *Critical judgements in applying the Bank's accounting policies*

Critical judgements made by the directors during the current period which would have a material impact on the consolidated financial statements relate to the recoverability of loans and advances to customers. The details of credit risk management policies are outlined in note 26 below.

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

4.2 *Key sources of estimation uncertainty*

4.2.1 Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash generating units and a suitable discount rate in order to calculate the present value.

4.2.2 Useful lives and residual values of plant and equipment

The Group reviews the estimated useful lives and residual values of plant and equipment at the end of each annual reporting period. These estimates are subjective by nature as they require assessment of financial and non-financial information in arriving at the residual values and useful lives which can only be borne out by future events.

4.2.3 Impairment losses on loans and advances

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

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

Key assumptions used:

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

	Group		Company	
	2012	**2011**	**2012**	**2011**
	K'000	**K'000**	**K'000**	**K'000**
5. Commission and fee income				
Commission	2,048,055	1,494,917	-	-
Arrangement and other fee income	163,270	135,582	-	-
Total fee and commission income	2,211,325	1,630,499	-	-

6. Profit before tax

Profit before tax is arrived at after taking into account the following:

	Group 2012 K'000	Group 2011 K'000	Company 2012 K'000	Company 2011 K'000
Auditors' remuneration	28,996	18,820	1,764	1,260
Depreciation of plant and equipment	230,322	149,171	34	34
Amortisation of intangible assets	49,036	34,704	-	-
Directors' fees	20,558	17,967	-	-
Profit on disposal of plant and equipment	3,948	3,577	-	-
Pension contributions	72,776	28,346	-	-

7. Income tax expense

	Group 2012 K'000	Group 2011 K'000	Company 2012 K'000	Company 2011 K'000
Income tax	596,451	450,581	-	29,380
Deferred tax	19,405	3,369	-	-
Total income tax expense	615,856	453,950	-	29,380
Reconciliation of rate of tax	**%**	**%**	**%**	**%**
Standard rate of tax	30	30	-	30
Permanent differences	-	1	-	(20)
Effective rate of tax	30	31	-	10

8. Earnings per share

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the company is based on the following data:

	2012	**2011**
	K'000	**K'000**
Earnings		
Earnings for the purposes of basic/diluted earnings per share	1,412,355	1,009,436
Number of shares		
Weighted average number of ordinary shares for the purposes of basic/diluted earnings per share	189,781	189,781
Basic earnings per share (tambala)	744t	532t

9. Plant and equipment

	Computer equipment K'000	Motor vehicles K'000	Furniture & office equipment K'000	Capital work in progress K'000	Total K'000
Group					
2011					
Cost					
At beginning of the year	123,945	148,660	463,233	173,667	909,505
Additions	25,073	95,354	66,038	191,145	377,610
Transfers	6,810	-	178,303	(185,113)	-
Disposal	-	(31,671)	-	-	(31,671)
At end of the year	155,828	212,343	707,574	179,699	1,255,444
Depreciation					
At beginning of the year	44,507	65,203	59,167	-	168,877
Charge for the year	22,477	42,126	84,569	-	149,172
Disposals	-	(22,405)	-	-	(22,405)
At end of the year	66,984	84,924	143,736	-	295,644
Net book value					
At end of the year	88,844	127,419	563,838	179,699	959,800
2012					
Cost					
At beginning of the year	155,828	212,343	707,574	179,699	1,255,444
Additions	56,144	217,043	164,828	576,524	1,014,539
Transfers	14,033	-	278,476	(292,509)	-
Disposal	(199)	(32,161)	(845)	-	(33,205)
At end of the year	225,806	397,225	1,150,033	463,714	2,236,778
Depreciation					
At beginning of the year	66,984	84,924	143,736	-	295,664
Charge for the year	32,425	72,120	125,777	-	230,322
Disposals	-	(30,475)	(118)	-	(30,592)
At end of the year	99,409	126,569	269,395	-	495,374
Net book value					
At end of the year	126,397	270,656	880,638	463,714	1,741,404

9. Plant and equipment (Continued)

	2012 K'000	2011 K'000
Company		
Furniture and fittings		
At the beginning of the year	343	343
Depreciation		
At the beginning of the year	128	94
Charge for the year	34	34
At end of the year	162	128
Net book value		
At end of the year	181	215

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

Computer equipment	-	5 years
Motor vehicles	-	5 years
Office equipment	-	5 years
Furniture and fittings	-	10 years

10. Intangible assets

	Computer Software K'000	work in progress K'000	Total K'000
Group			
2011			
Cost			
At the beginning of the year	131,513	51,174	182,687
Transfers	51,174	(51,174)	-
Additions	13,125	5,975	19,100
At 31 December 2011	195,812	5,975	201,787
Amortisation			
At the beginning of the year	29,861	-	29,861
Charge for the year	34,704	-	34,704
At 31 December 2011	64,565	-	64,565
Net book value			
At 31 December 2011	131,247	5,975	137,222

10. Intangible assets (Continued)

	Computer Software K'000	work in progress K'000	Total K'000
2012			
Cost			
At the beginning of the year	195,812	5,975	201,787
Transfers	79,159	(79,159)	-
Additions	7,494	182,676	190,170
At 31 December 2012	282,465	109,492	391,957
Amortisation			
At the beginning of the year	64,565	-	64,565
Charge for the year	49,036	-	49,036
At 31 December 2012	113,601	-	113,601
Net book value			
At 31 December 2012	168,864	109,492	278,356

The computer software is ammortised over a period of five years.

	Group 2012 K'000	Group 2011 K'000	Company 2012 K'000	Company 2011 K'000
11. Subsidiary companies				
First Discount House Limited	-	-	120,000	120,000
FDH Bank Limited		-	640,675	640,675
FDH Stockbrokers Limited	-	-	14,000	14,000
Total subsidiary companies	-	-	774,675	774,675

12. Deferred tax

	Group 2012 K'000	Group 2011 K'000	Company 2012 K'000	Company 2011 K'000
Assets				
At beginning of the year	11,761	9,678	-	-
Income tax credit	69	2,083	-	-
At end of the year	11,830	11,761	-	-
Analysed as:				
Accelerated capital allowances	1,639	2,706		-
Tax losses	42	1,673		-
Other temporary difference	10,149	7,382		-
Total deferred tax asset	11,830	11,761		-
Liability				
At the beginning of the year	59,191	53,739		-
Income tax charge	19,474	5,452		-
At end of the year	78,665	59,191		-
Analysed as:				
Accelerated capital allowances	79,617	78,691		-
Other temporary differences	(952)	(19,500)		-
Total deferred tax liability	78,665	59,191		-

13. Goodwill (Group)

	2012 K'000	2011 K'000
Cost		
Balance at beginning and end of year	131,784	131,784

Goodwill arose in the business combination because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of FDH Money Bureau Limited. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

Annual test for impairment

Goodwill has been allocated for impairment testing purposes to the FDH Money Bureau Limited as a cash-generating unit. During the period, the Group assessed the recoverable amount of goodwill, and determined that goodwill associated with the cash generating unit's activities was not impaired. The recoverable amount of the relevant cash generating unit was assessed by reference to its value in use.

	Group		Company	
	2012	**2011**	**2012**	**2011**
	K'000	**K'000**	**K'000**	**K'000**

14. Treasury and RBM bills

Treasury and RBM Bills at cost	5,222,316	2,651,581	-	-
Accrued interest on bills	63,260	15,492	-	-
Total Treasury and RBM Bills	5,285,576	2,667,073	-	-

Maturity profiles and average interest rates of Treasury and RBM Bills are disclosed in note 21. Included in Treasury and RBM Bills at cost are Malawi Government Treasury Bill amounting to K2.9 billion (2011: K1.027 million) maturing within 3 months from year end.

15. Bills on buy back and loans

Loans	15,709,400	11,146,655	-	-
Bills on buy back	1,186,389	865,257	-	-
Total bills on buy back and loans	16,895,789	12,011,912	-	-

Maturity profiles and average interest rates of bills on buyback have been disclosed in note 21.

Included in loans are principal and interest past due but not impaired as follows:

Past due amounts principal	579,502	277,483	-	-
Past due amounts interest	253,261	78,119	-	-
Non-accruals basis principal	362,769	378,978	-	-
Non-accrual basis interest	119,070	67,431	-	-
	1,314,602	802,011	-	-
Amounts past due and impaired	(520,629)	(224,815)	-	-
Amounts past due but not impaired	793,973	577,196	-	-

16. Payables and accruals

Sundry accruals	153,906	179,925	5,575	2,610
Staff pension	10,458	3,649	-	-
Withholding tax	39,725	8,395	-	-
Value added Tax payable	-	-	-	-
Total payables and accruals	204,089	191,969	5,575	2,610

17. Provisions

	At the beginning of the year K'000	Additions in the year K'000	Utilised during the year K'000	At end of the year K'000
Group				
2011				
Profit share	41,435	95,748	(41,435)	95,748
Audit fees	12,936	18,820	(16,630)	15,126
Gratuity	6,246	878	(6,246)	878
Total	60,617	115,446	(64,311)	111,752
2012				
Profit share	95,748	119,016	(95,748)	119,016
Audit fees	15,126	30,535	(12,112)	33,549
Gratuity	878	11,345	(11,653)	570
Total	111,752	160,896	(119,513)	153,135

18. Related party balances and transactions

The Group transacts a portion of its business with its shareholders. Balances with shareholders included in bills on buyback and repurchase agreements (note 22) as at the end of the period were as follows:

	Group		Company	
	2012 K'000	2011 K'000	2012 K'000	2011 K'000
Old Mutual Life Assurance	1,016,605	682,919	-	-
Directors	26,990	31,446	-	-
T F Mpinganjira Trust	1,961	9,103	-	-
	1,045,556	723,468	-	-
Group Company balances				
First Discount House Limited	-	-	261,034	264,116
FDH Bank Group	-	-	122,642	78,546
Total group company balances	-	-	383,676	342,662

18. Related party balances and transactions (Continued)

Transactions are carried out with related parties on normal trade terms. The following are transactions with related parties:

	Group		Company	
	Income K'000	Expense K'000	Income K'000	Expense K'000
2011				
Interest				
T.F. Mpinganjira Trust	1,398	720	-	-
Old Mutual Life Assurance (Malawi) Limited	30,813	17,414	-	-
Totals	32,211	18,134	-	-
2012				
Interest				
Old Mutual Life Assurance (Malawi) Limited	30,813	17,414	-	-
Totals	30,813	17,414	-	-

	2012 K'000	2011 K'000	2012 K'000	2011 K'000
Trading income				
Old Mutual Life Assurance (Malawi) Limited	71,897	40,633	-	-
Rent paid to TF Mpinganjira Trust	27,047	28,836	-	-
Compensation of key management personnel				
The remuneration of executive directors and other members of key management during the year was as follows:				
Short-term employee benefits	304,580	178,461	-	-

	Group		Company	
	2012 K'000	2011 K'000	2012 K'000	2011 K'000
19. Bills on buy back and repurchase agreements				
Repurchase agreements	4,962,969	1,590,279	-	-
Bills on buy back	1,186,389	865,258	-	-
Other money market liabilities	987,311	2,373,670	-	-
Total	7,136,669	4,829,207	-	-

Maturity profiles and average interest rates of bills on buy back and repurchase agreements are disclosed in note 21.

20. Financial assets and liabilities

Accounting classifications and fair values

The following table details the Group's categorisation of its financial instruments:

	Held for trading K'000	Held to maturity K'000	Loans and receivables K'000	Other Amortised cost K'000	Total Carrying amount K'000
2012					
Assets					
Cash and bank balances	96,175	-	3,552,893	-	3,649,068
Malawi Government and Reserve Bank of Malawi Bills	-	5,285,376	-	-	5,285,576
Commercial Papers	1,048,917	-	-	-	1,048,917
Share investments held for trading	119	-	-	-	119
Bills on buy back and loans	-	-	16,895,789	-	16,895,789
Receivables and prepayments	-	-	420,124	-	420,124
Total financial assets	1,145,211	5,285,576	20,868,806	-	27,299,593
Liabilities					
Bill on buy back and repurchase agreements	-	-	-	7,136,669	7,136,669
Customer deposits	-	-	-	19,004,854	19,004,854
Other payables	-	-	-	357,224	357,224
Total financial liabilities	-	-	-	26,498,747	26,498,747
2011					
Assets					
Cash and bank balances	9,241	-	3,649,713	-	3,658,954
Malawi Government and Reserve Bank of Malawi Bills	-	2,667,073	-	-	2,667,073
Commercial Papers	711,298	-	-	-	-
Share investments held for trading	4,934	-	-	-	4,934
Bills on buy back and loans	-	-	12,011,912	-	12,011,912
Receivables and prepayments	-	-	284,511	-	284,511
Total financial assets	725,473	2,667,073	15,946,136	-	19,338,682
Liabilities					
Bill on buy back and repurchase agreements	-	-	-	4,829,207	4,829,207
Customer deposits	-	-	-	13,207,360	13,207,360
Other payables	-	-	-	303,721	303,721
Total financial liabilities	-	-	-	18,340,288	18,340,288

20. Financial assets and liabilities (Continued)

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

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

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

20.2 Fair value measurements recognised in the statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2012 **K'000**	**2011** **K'000**
Financial assets at fair value through profit or loss		
Non-derivative financial assets held for trading		
Level 1 (cash, cash equivalents and share investments)	1,145,211	725,473
Level 2 (Reserve Bank of Malawi Bills)	5,285,576	2,667,073
Total	6,430,787	3,392,546

21. Financial risk management

a) *Introduction and overview*

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risks
- Operational risks

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

Risk measurement and control
The effective management of risk is critical to earnings and statement of financial position growth within the Group where the culture encourages sound commercial decision making which adequately balances risks and rewards.

a) *Introduction and overview*

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

Risk appetite and risk tolerance
Risk appetite is the quantum of risk the Group is willing to accept in the normal course of business in pursuit of its strategic and financial objectives. Risk taken within "appetite" may give rise to expected losses, but these should be covered by expected earnings.

Risk tolerance is an assessment of the maximum risk the Group is willing to sustain for short periods of time. It emphasises the "downside" of the risk distribution, and the Group's capacity to survive unexpected losses. The capacity to take unexpected losses depends on having sufficient capital and liquidity available to avoid insolvency. Risk tolerance typically provides a useful upper boundary for the Group's risk appetite.

The Group's board of directors has ultimate responsibility for risk management, which includes evaluating key risk areas and ensuring the process for risk management and systems of internal control are implemented. It has delegated its risk-related responsibilities primarily to three committees, the Risk Management Committee, the Audit Committee and the Remuneration Committee, with each committee focusing on different aspects of risk management.

Senior management in the Group is responsible for implementing strategies in a manner that limits risks associated with each strategy and that ensures compliance with rules and regulations, both on long term and day to day basis. Responsibility for the management of these risks is vested in the Group's Asset and Liability Committee (ALCO). The ALCO is responsible for formulating high-level risk policies, setting standards, monitoring concentrations and providing an independent review.

Risk Management
Naturally, the Group faces a number of risks when conducting its business which it may choose to take, transfer or mitigate.

21. Financial risk management (Continued)

b) *Credit risk*

Credit risk is the probability that a financial obligation will not be honoured by a counterparty and exists in lending and other trading activities. The risk covers both statement of financial position and off statement of financial position activities.

The Group mitigates credit risk by proactively managing it. Lending and other facilities are granted only if the level of risk is acceptable. This is achieved by thoroughly evaluating customers' credit worthiness before facilities are granted. Even after the facilities are granted, the Group continues to monitor customers' performance so that timely corrective action can be taken should circumstances demand. Various committees and structures are in place for sanctioning large facilities and monitoring customers' performances.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Credit Committee and is responsible for oversight of the credit risk, including:

- ***Formulating credit policies*** in consultation with business units, 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 approvals and renewals of credit facilities. Authorisation limits are provided to credit officers. Larger credit limits require approval by the head of credit department, the credit committee or the Board.

- ***Reviewing and assessing credit risk.*** The credit committee assesses all credit exposures and prepares a watch list which includes all those that have exceeded their limits and repayments are lagging behind.

- ***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*** so that exposure limits remain within the acceptable range.

- ***Providing advice, guidance and specialist skills*** to business units to promote best practice throughout the Group in the management of credit risk.

The Group's principal financial assets are cash and balances with banks, treasury bills and other loans and advances and corporate lending. The Group's credit risk is primarily attributable to these assets. The credit risks on balances with banks and treasury bills are limited because the counterparties are institutions with high credit ratings.

21. Financial risk management (Continued)

b) *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*. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	2012 K'000	2011 K'000
Gross maximum exposure		
Funds with the Reserve Bank of Malawi	1,841,081	3,307,765
Funds with other banks	1,807,987	351,189
Malawi Government Treasury Bills and Bonds	5,285,576	2,667,073
Commercial Papers	1,048,917	711,298
Share investments held for trading	119	4,934
Receivables and prepayments	420,124	284,511
Bills on buybacks and loans	16,951,984	12,011,912
Total credit risk exposure	27,355,788	19,338,682

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

Commercial property	4,129,000	2,280,084
Residential property	3,424,408	4,560,168
Cash deposits	171,054	204,150
Guarantees	281,000	28,110
Investments	12,870	15,104
Equipment and vehicles	8,354,387	2,991,239
Total	16,372,719	10,078,855

The Group's policy is to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding loans.

21. Financial risk management (Continued)

b) *Credit risk* (Continued)

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

In respect of certain financial assets, the Group 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 currently not mitigated by any asset offset arrangements.

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

Loans and advances to customers

	2012 **K'000**	**2011** **K'000**
Segmental analysis-Industry		
Agriculture	2,003,377	705,575
Construction	723,445	907,744
Finance, real estate and other business services	2,202,357	4,824,967
Transport, storage and communications	3,020,675	1,561,293
Individuals	2,034,412	1,506,239
Manufacturing	962,273	386,253
Other services	2,093,984	976,695
	13,040,523	10,868,766

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

To manage the level of credit risk, the Group deals with counter-parties of good credit standing, and when appropriate, obtains collateral.

c) *Liquidity risk*

Liquidity risk arises where the operations of the Group cannot be funded due to mismatches in the cash flows of assets and liabilities within the statement of financial position. The Asset and Liability Committee reviews the potential for these mismatches and takes measures to alter certain maturity profiles where necessary with a view to minimising the impact of such mismatches.

21. Financial risk management (Continued)

c) *Liquidity risk* (Continued)

Management of Liquidity risk

The Group has access to a diverse funding base. Funds are raised mainly from deposits and shareholders. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Group strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meeting business objectives. In addition the Group holds a portfolio of liquid assets as part of its liquidity risk management strategy. The table below analyses assets and liabilities into relevant maturity profiles based on the remaining period at 31 December 2012 to the contractual maturity date.

Group	Up to 1 month K'000	1-3 months K'000	3-12 months K'000	Over 1 year K'000	Total K'000	Carrying value K'000
As at 31 December 2012						
Assets						
Receivables and prepayments	420,124	-	-	-	420,124	420,124
Bank balances and cash	3,649,068	-	-	-	3,649,068	3,649,068
Shares investments held for trading	119	-	-	-	119	119
Treasury and RBM Bills	-	2,900,000	2,514,583	-	5,414,583	5,285,576
Commercial Papers	1,048,917	-	-	-	1,048,917	1,048,917
Bills on buyback and loans	5,911,745	1,311,945	3,686,010	14,354,083	25,263,783	16,895,789
Total assets	11,029,973	4,211,945	6,200,593	14,354,083	35,796,594	27,299,593
Liabilities						
Bills on buy back and repurchase agreements	6,775,438	353,545	7,686	-	7,136,669	7,136,669
Customer deposits	15,604,549	3,331,487	68,818	-	19,004,854	19,004,854
Payables and accruals	312,983	34,809	9,432	-	357,224	357,224
Total liabilities and equity	22,692,970	3,719,841	85,936	-	26,498,747	26,498,747
Contractual liquidity mismatch	**(11,662,997)**	**492,104**	**6,114,657**	**14,354,083**	**9,297,847**	**800,846**
Cumulative liquidity mismatch	**(11,662,997)**	**(11,170,893)**	**(5,056,236)**	**9,297,847**	**9,297,847**	**800,846**

21. Financial risk management (Continued)

c) ***Liquidity risk*** **(**Continued)

Management of Liquidity risk (Continued)

Group	Up to 1 month K'000	1-3 months K'000	3-12 months K'000	Over 1 year K'000	Total K'000	Carrying value K'000
As at 31 December 2011						
Assets						
Receivables and prepayments	284,511	-	-	-	284,511	284,511
Bank balances and cash	3,658,954	-	-	-	3,658,954	3,658,954
Shares investments held for trading	4,934	-	-	-	4,934	4,934
Treasury and RBM Bills	-	1,027,219	1,676,254	-	2,703,473	2,667,073
Commercial Papers	711,298	-	-	-	711,298	711,298
Bills on buyback and loans	4,595,641	1,777,264	2,455,247	3,454,137	12,282,289	12,011,912
Total assets	9,255,338	2,804,483	4,131,501	3,454,137	19,645,459	19,338,682
Liabilities						
Bills on buy back and repurchase agreements	2,852,041	1,235,681	741,485	-	4,829,207	4,829,207
Customer deposits	9,497,512	3,623,930	85,918	-	13,207,360	13,207,360
Payables and accruals	263,605	36,098	4,018	-	303,721	303,721
Total liabilities and equity	12,613,158	4,895,709	831,421	-	18,340,288	18,340,288
Contractual liquidity mismatch	**(3,357,820)**	**(2,091,226)**	**3,300,080**	**3,454,137**	**1,305,171**	**998,394**
Cumulative liquidity Mismatch	**(3,357,820)**	**(5,449,046)**	**(2,148,966)**	**1,305,171**	**1,305,171**	**998,394**

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

d) ***Market risk***
Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and credit spreads will affect the Group's income or the value of holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks
Overall authority for market risk management is vested in the ALCO.

Interest rate risks
The Group is exposed to interest rate risk as the entity trades in government securities and also borrows from other money market players to settle trading positions. The risk is managed by maintaining an appropriate mix of instruments and maturities. Trading activities are evaluated regularly to align with interest rate projections. Optimal trading strategies are applied, by either positioning the statement of financial position or protecting interest expenses through different interest rate cycles.

21. Financial risk management (Continued)

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the table below.

	Weighted average effective interest rate %	Less than 1 month K'000	1 - 3 months K'000	3 – 12 months K'000	Over 1 year K'000	Total K'000	Carrying amount K'000
2012							
Assets							
Receivables and prepayments		420,124	-	-	-	420,124	420,124
Bank balances and cash		3,649,068	-	-	-	3,649,068	3,649,068
Shares investments held for Trading		119	-	-	-	119	119
Treasury and RBM Bills	19.6	-	2,900,000	2,514,583	-	5,414,583	5,285,576
Commercial Papers	19.6	1,048,917	-	-	-	1,048,917	1,048,917
Bills on buybacks and loans	32.8	5,911,745	1,311,945	3,686,010	14,354,083	25,263,783	16,895,789
Total assets		11,029,973	4,211,945	6,200,593	14,354,083	35,796,594	27,299,593
Liabilities							
Bills on buy back and repurchase agreements	19.6	6,775,438	353,545	7,686	-	7,136,669	7,136,669
Customer deposits	19.6	15,604,549	3,331,487	68,818	-	19,004,854	19,004,854
Payables and accruals		312,983	34,809	9,432	-	357,224	357,224
Total liabilities		22,692,970	3,719,841	85,936	-	26,498,747	26,498,747
Interest rate sensivity gap		**(11,662,997)**	**492,104**	**6,114,657**	**14,354,083**	**9,297,847**	**800,846**
Cumulative interest rate sensivity gap		**(11,662,997)**	**(11,170,893)**	**(5,056,236)**	**9,297,847**	**9,297,847**	**800,846**
2011							
Assets							
Receivables and prepayments		284,511	-	-	-	284,511	284,511
Bank balances and cash		3,658,954	-	-	-	3,658,954	3,658,954
Shares investments held for trading		4,934	-	-	-	4,934	4,934
Treasury and RBM Bills	7.5	-	1,027,219	1,676,254	-	2,703,437	2,667,073
Commercial Papers	7.5	711,298	-	-	-	711,298	711,298
Bills on buybacks and loans	12.0	4,595,641	1,777,264	2,455,247	3,454,137	12,282,289	12,011,912
Total assets		9,255,338	2,804,483	4,131,501	3,454,137	19,645,459	19,338,682
Liabilities							
Bills on buy back and repurchase agreements	7.5	2,852,041	1,235,681	741,485	-	4,829,207	4,829,207
Customer deposits	7.5	9,497,512	3,623,930	85,918	-	13,207,360	13,207,360
Payables and accruals		263,605	36,098	4,018	-	303,721	303,721
Total liabilities		12,613,158	4,895,709	831,421	-	18,340,288	18,340,288
Interest rate sensitivity gap		**(3,357,820)**	**(2,091,226)**	**3,300,080**	**3,454,137**	**1,305,171**	**998,394**
Cumulative interest rate sensivity gap		**(3,357,820)**	**(5,449,046)**	**(2,148,966)**	**1,305,171**	**1,305,171**	**998,394**

21. Financial risk management (Continued)

Currency risk

The Group undertakes certain transactions denominated in foreign currencies. Hence exposures to exchange rate fluctuations arise. The Group has the following currency positions:

Group	USD	GBP	Euro	ZAR	MK	Total
At 31 December 2012						
Assets						
Cash balances with Reserve Bank of Malawi	204,397	4,911	657	1,880	1,629,236	1,841,081
Placements with other banks	932,231	143,773	60,908	62,733	608,342	1,807,987
Bills on buy back and loans	-	-	-	-	16,895,789	16,895,789
Treasury and RBM Bills	-	-	-	-	5,285,576	5,285,576
Commercial Papers	-	-	-	-	1,048,917	1,048,917
Other receivables and prepayments	-	-	-	-	420,124	420,124
Share investments	-	-	-	-	119	119
Total assets	1,136,628	148,684	61,565	64,614	25,888,103	27,299,593
Liabilities						
Bills on buy back and repurchase agreements	-	-	-	-	7,136,669	7,136,669
Liabilities customers	-	-	-	-	19,004,854	19,004,854
Other liabilities	-	-	-	-	357,224	357,224
Total liabilities	-	-	-	-	26,498,747	26,498,747
Net balance open position	**1,136,628**	**148,684**	**61,565**	**64,613**	**(610,644)**	**800,846**
At 31 December 2011						
Assets						
Cash balances with Reserve Bank of Malawi	13,668	40	-	4	3,294,053	3,307,765
Placements with other banks	292,875	2,739	42,185	13,390	-	351,189
Bills on buy back and loans	-	-	-	-	12,011,912	12,011,912
Treasury and RBM Bills	-	-	-	-	2,667,073	2,667,073
Commercial Papers	-	-	-	-	711,298	711,298
Other receivables and prepayments	-	-	-	-	284,511	284,511
Share investments	-	-	-	-	4,934	4,934
Total assets	306,543	2,779	42,185	13,394	18,973,781	19,338,682
Liabilities						
Bills on buy back and repurchase Agreements	-	-	-	-	4,829,207	4,829,207
Liabilities customers	-	-	-	-	13,207,360	13,207,360
Other liabilities	-	-	-	-	303,721	303,721
Total liabilities	-	-	-	-	18,340,288	18,340,288
Net balance open position	**306,543**	**2,779**	**42,185**	**13,394**	**633,493**	**998,394**

5% increase in foreign currency will result in a profit of K70.5 million as at 31 December 2012 (31 December 2011: K18.2 million).

21. Financial risk management (Continued)

e) *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, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business entities.

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

The Group has an internal audit department with the mandate of conducting audits to provide independent assurance on the adequacy and effectiveness of the management of operational risk, including, but not limited to, the processes, systems and controls.

f) *Compliance risk*

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

The management of compliance risk is a distinct discipline within the Group's overall risk management framework. Ultimate responsibility for this risk lies with the Board of Directors. A combination of key activities are undertaken to manage the risk such as identifying the regulatory environment and developing compliance management plans, training staff and other stakeholders on relevant regulatory requirements, and monitoring compliance.

The Group is subject to extensive supervisory and regulatory regimes, and the executive management remains responsible for overseeing the management of the Group's compliance risk.

<u>Statutory requirements for banks</u>
In accordance with Section 38 of the Banking Act, 2009, the Reserve Bank of Malawi has established the following requirements as at the statement of financial position date:

<u>Liquidity reserve requirement</u>
A bank is required to maintain a liquidity reserve with the Reserve Bank of Malawi equivalent to no less than 15.5% (2011: 15.5%) of total customer deposits. At the end of the year the Group's banking unit, FDH Bank Limited had liquidity reserves equivalent to 15.5% of customer deposits.

<u>Capital adequacy requirement as per Section 10(1) of the Banking Act, 2009</u>
Capital adequacy requirements applicable to the group's banking unit are outlined in note 21 (g) below.

21. Financial risk management (Continued)

f) ***Compliance risk*** (Continued

Prudential aspects of bank liquidity
As a complement to Section 38 of the Banking Act, 2009, the Reserve Bank of Malawi had issued the following guidelines on the management of liquidity as at the statement of financial position date:

- Liquidity Ratio I - Net liquidity (total liquid asset less suspense accounts in foreign currency) divided by total deposits must be at least 30%; and
- Liquidity Ratio II - Net liquidity (total liquid assets less suspense accounts in foreign currency and cheques in the course of collection) divided by total deposits must be at least 20%.

Liquidity Ratios
At the end of the period, FDH Bank's liquidity ratio I was 27.35% (2011:35.89 %) and liquidity ratio II was 27.35% (2011:35.89%).

Prudential requirements for discount houses in Malawi

The Reserve Bank of Malawi has issued the following guidelines in respect of discount houses:

(i) Borrowing liability ratio
As a measure to avoid over exposure, discount houses are required to maintain a reasonable level of borrowing relative to their capital base. The borrowing liability ratio states that call money plus borrowings should not exceed 30 times the capital base. As at 31 December 2012 First Discount House Limited borrowing liability ratio was 0.00 (2011:0.47) times.

(ii) Short-term asset ratio
The short-term nature of the liabilities of a discount house requires that its assets be predominantly liquid. This ratio requires the company to have at least 70% of its adjusted total assets (excluding property, plant and equipment) invested in short-term securities. As at 31 December 2012, the short-term asset ratio for First Discount House Limited was 95% (2011: 99%).

(iii) Reporting requirements
To ensure compliance with controlling ratios and also to monitor its activities in the money market, the Discount House submits daily, weekly and monthly reports to the Reserve Bank of Malawi.

21. Financial risk management (Continued)

g) *Capital management*

Reserve Bank of Malawi sets and monitors the capital requirements for banks. In implementing current capital requirements, Reserve Bank of Malawi requires banks to maintain a minimum ratio of 6% core (tier 1) capital and 10% of total (tier 2) capital to risk-weighted assets. The regulatory capital for the Group's banking unit is analysed as follows:-

- Tier I capital, which comprises ordinary share capital, share premium, retained profits from prior periods, share premiums, and 60% of after-tax profits in the current period-to-date, less any unconsolidated investment in financial companies; and
- Tier II capital, which also includes share revaluation reserves, investment revaluation reserve, property revaluation reserve and loan loss reserve.

The calculation of the above ratios is given below:-

	2012 K'000	2011 K'000
Tier 1 capital		
Share capital	249,000	249,000
Share premium	601,000	601,000
Retained earnings brought forward	519,602	181,651
Net income (60% of current period)	616,782	497,371
	1,986,384	1,529,022
Tier 2 capital		
Loan loss reserve	-	-
Total regulatory capital	1,986,384	1,529,022
Risk weighted assets	18,263,226	12,509,602
Capital ratio		
Total regulatory capital (tier 2) expressed as a percentage of total risk weighted assets	10.88%	12.2%
Total Tier 1 capital expressed as a percentage of total risk weighted assets	10.88%	12.2%

Over and above the tier 1 and tier 2 ratios, the Reserve Bank of Malawi has also set new minimum share capital and share premium requirements. The sum of share capital and share premium must be at least K850 million for all registered banks. FDH Bank complies with this regulatory requirement.

22. Exchange rates and inflation

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

	2012	**2011**
Kwacha/GBP	559.07	258.08
Kwacha/Rand	41.80	20.32
Kwacha/US Dollar	336.14	166.95
Kwacha/Euro	460.84	216.05
Inflation rate (%)	34.6	9.8

As at 18 February 2013, the above noted rates had moved as follows:

Kwacha/GBP	598.68
Kwacha/Euro	526.41
Kwacha/US Dollar	365.16
Kwacha/Rand	45.44
Inflation rate (%) (December 2012)	34.6

23. Retirement benefit plans

The employees of the Group are members of a compulsory retirement benefit plan. The Group is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

The total expense recognised in the income statement of K72.7m (December 2011: K28.3m) represents contributions payable to the plan by the Group at rates specified in the rules of the plan. As at 31 December 2012, there was K10.5 million due in respect of the 2012 period that had not been paid over to the plan.