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

We have audited the company and consolidated financial statements of National Bank of Malawi and its subsidiaries (the Group) as set out on pages 45 to 109, which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in accordance with the provisions of the Companies Act, 1984, so far as concerns the members of the company.



31 March 2011

Audit • Tax • Consulting • Financial Advisory •

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

A member of
Deloitte Touche Tohmatsu

STATEMENTS OF FINANCIAL POSITION

31 December 2010



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

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

Chairman: Dr. M.A.P. Chikaonda

Director: Mr. G.B. Partridge

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

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

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2010



	Share capital K'm	Share premium K'm	Loan Loss reserve K'm	Revaluation reserve K'm	Retained earnings K'm	Equity attributable to equity holders of the parent K'm	Non-controlling interests K'm	Total K'm
GROUP								
2009								
As at 1 January 2009	457	49	255	1,640	7,356	9,757	8	9,765
Comprehensive income:								
- Profit for the year	-	-	-	-	3,811	3,811	(9)	3,802
- Other comprehensive income	-	-	-	23	-	23	-	23
- Transfer of excess depreciation	-	-	-	(9)	9	-	-	-
- Transfer to loan loss reserve	-	-	120	-	(120)	-	-	-
Total comprehensive income	-	-	120	14	3,700	3,834	(9)	3,825
2008 final dividend proposed and paid	-	-	-	-	(1,002)	(1,002)	-	(1,002)
2009 interim dividend proposed and paid	-	-	-	-	(671)	(671)	-	(671)
Issue of shares under employee share ownership plan	1	27	-	-	-	28	-	28
Issue of bonus shares	8	487	-	-	(495)	-	-	-
As at 31 December 2009	466	563	375	1,654	8,888	11,946	(1)	11,945
2010								
As at 1 January 2010	466	563	375	1,654	8,888	11,946	(1)	11,945
Comprehensive income:								
- Profit for the year	-	-	-	-	3,447	3,447	(18)	3,429
- Other comprehensive income	-	-	-	99	-	99	-	99
- Transfer of excess depreciation	-	-	-	(13)	13	-	-	-
- Transfer to loan loss reserve	-	-	36	-	(36)	-	-	-
- Transfer on disposal	-	-	-	(69)	69	-	-	-
Total comprehensive income	-	-	36	17	3,493	3,546	(18)	3,528
2009 final dividend proposed and paid	-	-	-	-	(1,250)	(1,250)	-	(1,250)
2010 interim dividend proposed and paid	-	-	-	-	(700)	(700)	-	(700)
Issue of shares under employee share ownership plan	1	34	-	-	-	35	-	35
Issue of preference shares	-	-	-	-	-	-	26	26
As at 31 December 2010	467	597	411	1,671	10,431	13,577	7	13,584

STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2010

	Share capital K'm	Share premium K'm	Loan Loss reserve K'm	Revaluation reserve K'm	Retained earnings K'm	Total K'm
COMPANY						
2009						
As at 1 January 2009	457	49	255	1,640	7,325	9,726
Comprehensive income:						
- Profit for the year	-	-	-	-	3,823	3,823
- Other comprehensive income	-	-	-	23	-	23
- Transfer of excess depreciation	-	-	-	(9)	9	-
- Transfer to loan loss reserve	-	-	120	-	(120)	-
Total comprehensive income	-	-	120	14	3,712	3,846
2008 final dividend proposed and paid	-	-	-	-	(1,002)	(1,002)
2009 interim dividend proposed and paid	-	-	-	-	(671)	(671)
Issue of shares under employee share ownership plan	1	27	-	-	-	28
Issue of bonus shares	8	487	-	-	(495)	-
As at 31 December 2009	466	563	375	1,654	8,869	11,927
2010						
As at 1 January 2010	466	563	375	1,654	8,869	11,927
Comprehensive income:						
- Profit for the year	-	-	-	-	3,472	3,472
- Other comprehensive income	-	-	-	99	-	99
- Transfer of excess depreciation	-	-	-	(13)	13	-
- Transfer to loan loss reserve	-	-	36	-	(36)	-
- Transfer on disposal	-	-	-	(69)	69	-
Total comprehensive income	-	-	36	17	3,518	3,571
2009 final dividend proposed and paid	-	-	-	-	(1,250)	(1,250)
2010 interim dividend proposed and paid	-	-	-	-	(700)	(700)
Issue of shares under employee share ownership plan	1	34	-	-	-	35
As at 31 December 2010	467	597	411	1,671	10,437	13,583

ANALYSIS OF SHARE CAPITAL

	2010 K'm	2009 K'm
<u>Authorised</u>		
500,000,000 Ordinary shares of K1 each	500	500
<u>Issued and fully paid</u>		
466,635,738 (2009: 466,019,038) Ordinary shares of K1 each	467	466