

REAL INSURANCE COMPANY OF MALAWI LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

REAL INSURANCE COMPANY OF MALAWI LIMITED

FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2009

GENERAL

Real Insurance Company of Malawi Limited is a public limited company listed on the Malawi Stock Exchange on 29 September 2008. Real Insurance Company Limited, incorporated in Kenya is the holding company with a 65% shareholding.

The principal activity of the company which is incorporated in Malawi is the transaction of non-life insurance business other than aviation insurance business. The group results include the results of the employee share option scheme.

DIRECTORS

Thomas O B Kanyuka	Chairman
Samson K Kamau	
Joe Muchekehu	
Pius P Mulipa	
Constance Gakonyo	
Stanley E Nkumba	Retired on 15 March 2009
Robert G Ndungu	Retired on 9 September 2009
Dr Rex Harawa	Appointed on 4 August 2009
Esther Chioko	Appointed on 4 August 2009

CHIEF EXECUTIVE OFFICE

S W Karanja	Joined on 1 October 2009
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COMPANY SECRETARY

D K Ndawala

REGISTERED OFFICE

Delamere House
Victoria Avenue
P O Box 442
Blantyre

AUDITORS

PricewaterhouseCoopers
First House
Cnr Glyn Jones Road and Chilembwe Avenue
Blantyre

BANKERS

National Bank of Malawi
Standard Bank (Malawi) Limited

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REAL INSURANCE COMPANY OF MALAWI LIMITED**FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2009****CHAIRMAN'S STATEMENT**

I am pleased to present the Company's Tenth Annual Report and Audited Financial Statements for the year ended 31 December 2009.

During the year, we moved our Head Office to Delamere House along the main Victoria Avenue, Blantyre, which is a more spacious and visible location. We also opened a new branch in Zomba and are moving our Lilongwe and Mzuzu offices to better locations to enhance customer service. The company also reorganised its structure and strengthened its management team to take advantage of the ongoing strong marketing campaign and thereby raise public awareness of our brand. All these measures have been put in place to enable the Company to increase its market share and profitability in the future.

The company attained a premium growth of 16% from K828 million written in Year 2008 to K961 million in Year 2009. However, the growth in premium was eroded by the sharp increase in claims of K410 million against K295million in the previous year. The management expenses increased substantially to K327 million in Year 2009 compared to K211 million in Year 2008. Investment income at K17m is lower compared to K19m earned in Year 2008. In addition, our investments in shares on the Malawi stock Exchange were adversely affected by the global financial crisis and a fair value loss of K8.9m was recorded.

The trading climate for the Company and the market as a whole was difficult especially under the motor classes where prices of spare parts remained very high. Workmen's compensation and other accident classes also recorded high claims. Fraud remains a challenge and the industry has come together to tackle this as it affects the entire market. These challenges have resulted in the reduction of the Profit before tax for the year to K8 million from K64million in the previous year.

Therefore, the Board recommended that no dividend be paid for Year 2009.

I wish to inform you that the long awaited Insurance Act that has replaced the 1957 Act, has now been enacted into law.

During the year, our long serving Managing Director, Mr. Robert Ndungu retired and was replaced by Ms Sophie Karanja who joined us in October 2009 as the Chief Executive Officer.

I wish to thank our clients and intermediaries for their support and assure them of our continued commitment to meet all stakeholders' expectations. I wish to thank management and staff for their efforts and dedication under a very difficult economic environment.

Finally, I wish to thank my colleagues on the Board for their invaluable support and contribution during the year.

Thomas O B Kanyuka
Chairman

25th March 2010

REAL INSURANCE COMPANY OF MALAWI LIMITED

FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2009

DIRECTORS' REPORT

The Directors of Real Insurance Company of Malawi Limited submit their annual report and the audited financial statements for the year ended 31 December 2009

PRINCIPAL ACTIVITY

The principal activity of the Company is the transaction of the General Insurance Business.

RESULTS AND DIVIDEND

The pre tax profit for the year amounted to K8 million against a profit of K64 million in the year 2008.

The Directors considered the performance in the year 2009 and declared no dividend.

DIRECTORS

The directors who held office during the year and to the date of this report were:-

Thomas O B Kanyuka	Chairman
Samson K Kamau	
Joe Muchekehu	
Pius P Mulipa	
Constance Gakonyo	
Stanley E Nkumba	Retired on 15 March 2009
Robert G Ndungu	Retired on 9 September 2009
Dr Rex Harawa	Appointed on 4 August 2009
Esther Chioko	Appointed on 4 August 2009

CHIEF EXECUTIVE OFFICER

Sophie W Karanja Joined on 1st October 2009

AUDITORS

As part of Real Insurance Corporate Governance rotation policy, PricewaterhouseCoopers Malawi will cease to be the Company's External Auditors with effect from Annual General Meeting date in May 2010 and we have proposed KPMG to be the Company's External Auditors in the year 2010.

BY ORDER OF THE BOARD

Daniel K Ndawala
Company Secretary

25th March 2010

REAL INSURANCE COMPANY OF MALAWI LIMITED**STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS**

The directors are responsible for the preparation, integrity, and fair presentation of the financial statements of Real Insurance Company of Malawi Limited and its subsidiary. The financial statements presented on pages 7 to 56 have been prepared in accordance with International Financial Reporting Standards (IFRSs), and include amounts based on judgement and estimates made by management.

The directors consider that in preparing the financial statements they have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and all that they consider to be applicable have been followed. The directors are satisfied that the information contained in the financial statements fairly presents the results of operations for the year and the financial position of the Group and Company at year end.

The directors have responsibility for ensuring that proper accounting records are kept. The accounting records should disclose with reasonable accuracy the financial position of the Group and Company to enable the directors to ensure that the financial statements comply with the relevant legislation.

Real Insurance Company of Malawi Limited operated in a good control environment, which is regularly reviewed. This incorporates risk management and internal control procedures which are designed to provide reasonable, but not absolute assurance that assets are safeguarded and the risks facing the business including fraud risks are being controlled.

The going-concern basis has been adopted in preparing the financial statements. The directors have no reason to believe that the Group and company will not be a going concern in the foreseeable future.

The Group's external auditors, PricewaterhouseCoopers, audited the financial statements and their report is represented on page 5 and 6.

The financial statements were authorised for issue by the board of directors and are signed on its behalf on the balance sheet.

Thomas O B Kanyuka
Chairman

Samson K Kamau
Director

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
REAL INSURANCE COMPANY OF MALAWI LIMITED

Report on the financial statements

We have audited the accompanying financial statements of Real Insurance Company of Malawi Limited which comprise the consolidated and company statements of financial position as at 31 December 2009 and the statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended and a summary of significant accounting policies and of the explanatory notes on pages 7 to 56.

Directors' responsibility for the financial statements

The directors of the company are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. The responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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 the financial statements of the group and the company give a true and fair view of the financial position of the company and group as at 31 December 2009 and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies Act, Cap. 46:03.

PricewaterhouseCoopers
Certified Public Accountants

Blantyre

Date _____

REAL INSURANCE COMPANY OF MALAWI LIMITED

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2009

	<u>Note</u>	GROUP		COMPANY	
		<u>2009</u> K'000	<u>2008</u> K'000	<u>2009</u> K'000	<u>2008</u> K'000
ASSETS					
Property, plant and equipment	4	68,608	36,419	68,608	36,419
Intangible assets	5	9,585	11,412	9,585	11,412
Deferred income tax	19	12,968	8,449	12,968	8,449
Financial assets:					
- government securities held to maturity	6	67,871	123,432	67,871	123,432
- equity investments at fair value through profit or loss	8	22,749	31,735	39,281	31,735
Loans and receivables					
- Deposits with financial institutions	7	66,887	148,614	66,887	148,614
- Other loans and receivables	9	5,682	8,668	5,682	8,668
Insurance receivables	10	356,145	250,338	356,145	250,338
Reinsurance contracts	11	140,626	132,094	140,626	132,094
Amounts due from related parties	12	9,822	2,078	9,822	2,078
Other receivables	13	23,496	3,162	16,864	3,162
Deferred acquisition costs	14	25,963	32,394	25,963	32,394
Cash and cash equivalents	15	19,422	96,915	19,422	96,915
Total assets		<u>829,824</u>	<u>885,710</u>	<u>839,724</u>	<u>885,710</u>
EQUITY					
Capital and reserves attributable to the Group's equity holders					
Share capital	16	100,000	100,000	100,000	100,000
Share premium	16	14,875	14,875	14,875	14,875
Treasury shares	16	(9,900)	(22,000)	-	-
Revaluation reserve		9,148	9,226	9,148	9,226
Retained earnings		19,760	36,300	19,760	36,300
Total equity		<u>133,883</u>	<u>138,401</u>	<u>143,783</u>	<u>160,401</u>
LIABILITIES					
Borrowings	15	30,285	-	13,753	-
Insurance contracts	17	374,125	292,212	374,125	292,212
Reinsurance contracts	11	181,744	234,422	181,744	234,422
Amounts due to related parties	12	7,092	128,880	7,092	106,880
Trade and other payables	18	64,883	38,708	81,415	38,708
Deferred income tax	19	9,028	3,324	9,028	3,324
Employee benefit obligations	20	28,275	31,975	28,275	31,975
Current income tax liabilities		509	17,788	509	17,788
Total liabilities		<u>695,941</u>	<u>747,309</u>	<u>695,941</u>	<u>725,309</u>
Total equity and liabilities		<u>829,824</u>	<u>885,710</u>	<u>839,724</u>	<u>885,710</u>

The financial statements were authorised for issue by the board of directors on 16 April 2009 and are signed on its behalf by:

.....)
) **DIRECTORS**

REAL INSURANCE COMPANY OF MALAWI LIMITED

**STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009**

	<u>Note</u>	GROUP		COMPANY	
		<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
		K'000	K'000	K'000	K'000
Insurance premium revenue	21	961,133	828,577	961,133	828,577
Insurance premium ceded to reinsurers - net	21	(178,190)	(192,862)	(178,190)	(192,862)
Change in unearned premium provision	21	(11,329)	(39,926)	(11,329)	(39,926)
Net insurance premium revenue		<u>771,614</u>	<u>595,789</u>	<u>771,614</u>	<u>595,789</u>
Investment income	22	17,495	19,444	17,495	19,444
Fair value (loss)/gains on financial assets	23	(8,949)	(272)	(8,949)	(272)
Net income		<u>780,160</u>	<u>614,961</u>	<u>780,160</u>	<u>614,961</u>
Insurance claims	24	(409,887)	(294,833)	(409,887)	(294,833)
Profit /(Loss) on disposal of plant and equipment		3,662	(119)	3,662	(119)
Administrative and marketing expenses	25	(326,657)	(211,062)	(326,657)	(211,062)
Expenses for the acquisition of insurance contracts	26	(39,183)	(44,368)	(39,183)	(44,368)
Profit before tax		<u>8,095</u>	<u>64,579</u>	<u>8,095</u>	<u>64,579</u>
Income tax expense	27	(4,746)	(23,267)	(4,746)	(23,267)
Profit for the year		<u>3,349</u>	<u>41,312</u>	<u>3,349</u>	<u>41,312</u>
Other comprehensive income		-	-	-	-
Depreciation transfer on land and buildings		111	143	111	143
Total comprehensive income for the year		<u><u>3,460</u></u>	<u><u>41,455</u></u>	<u><u>3,460</u></u>	<u><u>41,455</u></u>
Earnings per share for profit attributable to equity holders of the company.					
- Basic earnings per share (Kwacha)	28	0.01	0.69	0.01	0.69
- Diluted earnings per share (Kwacha)	28	0.01	0.69	0.01	0.69

REAL INSURANCE COMPANY OF MALAWI LIMITED

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009

COMPANY	<u>Share Capital</u> K'000	<u>Share premium</u> K'000	<u>Revaluation reserve</u> K'000	<u>Retained earnings</u> K'000	<u>Total</u> K'000
Balance at 1 January 2008	50,000	14,875	9,326	845	75,046
Comprehensive income					
Profit for the year	-	-	-	41,312	41,312
Other comprehensive income					
Deferred tax	-	-	43	-	43
Depreciation transfer on land and buildings	-	-	(143)	143	-
Total other comprehensive income	-	-	(100)	143	43
Total comprehensive income	-	-	(100)	41,455	41,355
Transactions with owners					
Issuance of share capital	50,000	-	-	-	50,000
Dividends: Paid					
2008 interim dividend declared and paid	-	-	-	(6,000)	(6,000)
At 31 December 2008	<u>100,000</u>	<u>14,875</u>	<u>9,226</u>	<u>36,300</u>	<u>160,401</u>
Balance at 1 January 2009	100,000	14,875	9,226	36,300	160,401
Comprehensive income					
Profit for the year	-	-	-	3,349	3,349
Other comprehensive income					
Deferred tax	-	-	33	-	33
Depreciation transfer on land and buildings	-	-	(111)	111	-
Total other comprehensive income	-	-	(78)	111	33
Total comprehensive income	-	-	(78)	3,460	3,382
Transactions with owners					
Dividends: Paid					
2008 final dividend declared and paid	-	-	-	(20,000)	(20,000)
At 31 December 2009	<u>100,000</u>	<u>14,875</u>	<u>9,148</u>	<u>19,760</u>	<u>143,783</u>

REAL INSURANCE COMPANY OF MALAWI LIMITED

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009

	<u>Share Capital</u>	<u>Treasury Shares</u>	<u>Share premiu m</u>	<u>Revaluation reserve</u>	<u>Retained earnings</u>	<u>Total</u>
	K'000	K'000	K'000	K'000	K'000	K'000
GROUP						
Balance at 1 January 2008	50,000	-	14,875	9,326	845	75,046
Comprehensive income						
Profit for the year	-	-	-	-	41,312	41,312
Other comprehensive income						
Deferred tax	-	-	-	43	-	43
Depreciation transfer on land and buildings	-	-	-	(143)	143	-
Total other comprehensive income	-	-	-	(100)	143	43
Total comprehensive income	-	-	-	(100)	41,455	41,355
Transactions with owners						
Issuance of share capital	50,000	-	-	-	-	50,000
Treasury shares	-	(22,000)	-	-	-	(22,000)
Dividends: Paid	-	-	-	-	-	-
2008 interim dividend declared and paid	-	-	-	-	(6,000)	(6,000)
At 31 December 2008	<u>100,000</u>	<u>(22,000)</u>	<u>14,875</u>	<u>9,226</u>	<u>36,300</u>	<u>138,401</u>
Balance at 1 January 2009	100,000	(22,000)	14,875	9,226	36,300	138,401
Comprehensive income						
Profit for the year	-	-	-	-	3,349	3,349
Other comprehensive income						
Deferred tax	-	-	-	33	-	33
Depreciation transfer on land and buildings	-	-	-	(111)	111	-
Total other comprehensive income	-	-	-	(78)	111	33
Total comprehensive income	-	-	-	(78)	3,460	3,382
Transactions with owners						
Treasury shares – allocated	-	12,100	-	-	-	12,100
Dividends: Paid	-	-	-	-	-	-
2008 final dividend declared and paid	-	-	-	-	(20,000)	(20,000)
At 31 December 2009	<u>100,000</u>	<u>(9,900)</u>	<u>14,875</u>	<u>9,148</u>	<u>19,760</u>	<u>133,883</u>

REAL INSURANCE COMPANY OF MALAWI LIMITED

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	GROUP		COMPANY	
		2009 K'000	2008 K'000	2009 K'000	2008 K'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before income tax		8,095	64,579	8,095	64,579
Adjustment for non cash items: Depreciation	4	9,591	5,066	9,591	5,066
Amortisation	5	4,840	4,904	4,840	4,904
Write backs		37	-	37	-
(Profit)/loss on disposal of plant and equipment		(3,662)	119	(3,662)	119
Deferred acquisition costs	14	6,431	(8,029)	6,431	(8,029)
Increase in insurance contracts payable		81,913	84,291	81,913	84,291
Investment income	22	(17,495)	(19,444)	(17,495)	(19,444)
Net losses on financial assets	23	8,949	272	8,949	272
Change in employee benefits provision	20	(3,700)	(3,025)	(3,700)	(3,025)
Cash generated from operations before changes in working capital		94,999	128,733	94,999	128,733
Decrease/(increase) in loans and receivables		2,986	(1,765)	2,986	(1,765)
Increase in insurance receivables		(105,807)	(124,574)	(105,807)	(124,574)
Increase in amounts due from related parties		(7,744)	(2,034)	(7,744)	(2,034)
Decrease/(increase) in amounts due from reinsurance contracts		(8,532)	(122,149)	(8,532)	(122,149)
Increase in other receivables		(20,334)	1,084	(13,702)	1,084
(Decrease)/increase in amounts payable on reinsurance contracts		(52,678)	121,844	(52,678)	121,844
(Decrease)/increase in amounts due to related parties		(121,788)	117,050	(99,788)	95,050
Increase in trade and other payables		42,707	23,232	42,707	23,232
		(176,191)	141,421	(147,559)	119,421
Income tax paid		(20,806)	(18,440)	(20,806)	(18,440)
Net cash (out flow)/inflow from operating activities		(196,997)	122,981	(168,365)	100,981
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment income received		17,495	19,444	17,495	19,444
Realised gains on financial assets		-	250	-	250
Redemption of (purchase) of government securities and other investments		55,561	(8,533)	39,029	(8,533)
Purchase of property, plant and equipment	4	(42,353)	(15,642)	(42,353)	(15,642)
Proceeds from sale of property, plant and equipment		4,234	555	4,234	555
Purchase of intangible assets	5	(3,013)	-	(3,013)	-
Net cash inflow/(out flow) from investing activities		31,924	(3,926)	15,392	(3,926)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid		(20,000)	(6,000)	(20,000)	(6,000)
Proceeds from issuance of share capital		-	50,000	-	50,000
Sales/(purchase) of treasury shares		12,100	(22,000)	-	-
		(7,900)	22,000	(20,000)	44,000
Net (decrease)/increase in cash and cash equivalents for the year		(172,973)	141,055	(172,973)	141,055
Cash and cash equivalents at the beginning of the year		245,529	104,474	245,529	104,474
Cash and cash equivalents at the end of the year	15	72,556	245,529	72,556	245,529
STATUTORY DISCLOSURE					
Increase in net working capital		(9,900)	(22,000)	(50,644)	77,194
Excess of current assets and investments over current liabilities 2009		74,352	117,420	85,452	139,420
Excess of current asset and investments over current liabilities 2008		117,420	139,420	136,096	62,226

REAL INSURANCE COMPANY OF MALAWI LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

1.1 Basis of preparation

The consolidated financial statements of Real Insurance Company of Malawi Limited have been prepared in accordance with International Financial Reporting Standards (IFRSs) as defined by IAS 1 Revised: Presentation of financial statements. They have been prepared under the historical cost convention as modified by the revaluation of land and buildings and financial assets which are stated at fair value through profit or loss.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

All amounts in the notes are shown in thousands of Kwacha rounded to the nearest thousand, unless otherwise stated.

(a) *Standards, amendments to published standards and interpretations effective on or after 1 January 2009*

Standard/ Interpretation	Content	Applicable for financial years beginning on/after
IAS 23	Borrowing costs	1 January 2009
IAS 39	Amendments to IAS 39 and IFRS 7 – Reclassification of financial assets	1 July 2008
IAS 40	Investment property (and consequential amendments to IAS 16)	1 January 2009
IFRS 2	Share-based payments – Vesting conditions and cancellations	1 January 2009
IFRS 7	Improving disclosures about financial instruments	1 January 2009
IFRS 8	Operating segments	1 January 2009
IAS 1	Presentation of financial statements	1 January 2009
IFRIC 16	Hedges of a net investment in a foreign operation	1 October 2008

REAL INSURANCE COMPANY OF MALAWI LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****1.1 Basis of preparation (Continued)**

(a) *Standards, amendments to published standards and interpretations effective on or after 1 January 2009 (Continued)*

- IAS 23 (amendment), 'Borrowing costs'. The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. IAS 23 (amendment) does not have an impact on the Group's financial statements in the current year, as there were no qualifying assets for the periods reported on.
- IAS 39 and IFRS 7, 'Reclassification of financial assets' (amendment), permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through income by the entity upon initial recognition) out of the fair value through income category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future.
- IAS 40 (amendment), 'Investment property' (and consequential amendments to IAS 16). The amendment is part of the IASB's annual improvement project published in May 2008. Property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed or the date at which fair value becomes reliably measurable. There has been no impact on the Company's financial statements in the current year, as there were no investment properties under construction at the time of adoption of this amendment.
- IFRS 2 (amendment), 'Share-based payment', deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group has adopted IFRS 2 (amendment) from 1 January 2009. The amendment does not have a material impact on the Group's financial statements.

REAL INSURANCE COMPANY OF MALAWI LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.1 Basis of preparation (Continued)

(a) Standards, amendments to published standards and interpretations effective on or after 1 January 2009 (Continued)

- IFRS 7, 'Financial instruments – Disclosures' (amendment), requires enhanced disclosures about fair value measurement and liquidity risk. The Group adopted the amendment to IFRS 7 with effect from 1 January 2009. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:
 - Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The adoption of the amendment results in additional disclosures, there is no impact on earnings per share

- IFRS 8, 'Operating segments'. IFRS 8 replaces IAS 14, 'Segment reporting', with its requirement to determine primary and secondary reporting segments. Under the requirements of the new standard, the Group's external segment reporting will be based on the internal reporting to the Group Executive Board (in its function as the chief operating decision-maker), which makes decisions on the allocation of resources and assess the performance of the reportable segments. The application of IFRS 8 does not have any material effects for the Group but has an impact on segment disclosure (for example, goodwill allocation) and on the measurement bases within segments.
- IAS 1 (revised), 'Presentation of financial statements', effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also conforms to the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

REAL INSURANCE COMPANY OF MALAWI LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.1 Basis of preparation (Continued)

(a) *Standards, amendments to published standards and interpretations effective on or after 1 January 2009 (Continued)*

- IFRIC 16, ‘Hedges of a net Investment in a foreign operation’, clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of IAS 21, ‘The effects of changes in foreign exchange rates’, do apply to the hedged item. This interpretation does not have any impact on the Group’s financial statements.

(b) *Standards, amendments to published standards and interpretations early adopted by the Group*

In 2009, the Group did not early adopt any new, revised or amended standards.

(c) *Standards and interpretations effective in 2009 but not relevant to the Group’s operations*

Standard/ Interpretation	Content	Applicable for financial years beginning on/after
IAS 16	Property, plant and equipment (and consequential amendment to IAS 7)	1 January 2009
IAS 20	Accounting for government grants and disclosure of government assistance (amendment)	1 January 2009
IAS 29	Financial reporting in hyperinflationary economies	1 January 2009
IAS 31	Interests in joint ventures (and consequential amendments to IAS 32 and IFRS 7)	1 January 2009
IAS 32 and IAS 1	Puttable financial instruments and obligations arising on liquidation	1 January 2009
IAS 38	Intangible assets	1 January 2009
IAS 41	Agriculture	1 January 2009
IFRIC 13	Customer loyalty programmes	1 July 2008
IFRIC 15	Agreements for the construction of real estate	1 January 2009

REAL INSURANCE COMPANY OF MALAWI LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.1 Basis of preparation (Continued)

(d) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

Standard/ Interpretation	Content	Applicable for financial years beginning on/after
IAS 1	Presentation of financial statements (amendment)	1 July 2009
IAS 24	Related party disclosures (amendment)	1 January 2011
IAS 27	Consolidated and separate financial statements (revised)	1 July 2009
IAS 38	Intangible assets (amendment)	1 July 2009
IAS 32	Classification of rights issues (amendment)	1 February 2010
IAS 39	Financial instruments: Recognition and measurement – Eligible hedged items	1 July 2009
IFRS 3	Business combinations (revised)	1 July 2009
IFRS 5	Measurement of non-current assets (or disposal groups) classified as held for sale (amendment)	1 July 2009
IFRS 9	Financial instruments	1 January 2013
IFRIC 17	Distribution of non-cash assets to owners	1 July 2009
IFRIC 18	Transfers of assets from customers	1 July 2009

- IAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group will apply IAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's financial statements.
- IAS 24 (amendment), 'Related party disclosures'. The amendment relaxes the disclosures of transactions between government- related entities and clarifies related-party definition. The amendment is not expected to have an impact on the Group's financial statements.

REAL INSURANCE COMPANY OF MALAWI LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****1.1 Basis of preparation (Continued)**

(e) *Standards and interpretations effective in 2009 but not relevant to the Group's operations (Continued)*

- IAS 27 (revised), 'Consolidated and separate financial statements'. The revised standard requires the effects of all transactions with minority interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The group will apply IAS 27 (revised) prospectively to transactions with minority interests from 1 January 2010.
- IAS 32 (amendment), 'Classification of rights issues'. The amended standard allows rights issues to be classified as equity when the price is denominated in a currency other than the entity's functional currency. The amendment is effective for annual periods beginning on or after 1 February 2010 and should be applied retrospectively. The amendment is not expected to have an impact on the Group's financial statements.
- IAS 38 (amendment), 'Intangible assets'. The amendment is part of the IASB's annual improvements project published in April 2009. The Group will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the Group's financial statements.
- IAS 39 (amendment), 'Financial instruments: Recognition and measurement – Eligible hedged items'. The amendment was issued in July 2008. It provides guidance in two situations: on the designation of a one-sided risk in a hedged item, IAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted unless in particular situations. It is not expected to have a material impact on the Group's financial statements.

REAL INSURANCE COMPANY OF MALAWI LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.1 Basis of preparation (Continued)

(e) *Standards and interpretations effective in 2009 but not relevant to the Group's operations (Continued)*

- IFRS 3 (revised), 'Business combinations'. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the minority interest in the acquiree either at fair value or at the minority interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.
- IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held for sale'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5, 'Non-current assets held for sale and discontinued operations', specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly IAS 1 paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty). The Group will apply IFRS 5 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's financial statements.
- IFRS 9, 'Financial instruments'. IFRS 9 addresses classification and measurement of financial assets and is available for early adoption immediately. IFRS 9 replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. IFRS 9 represents the first milestone in the IASB's planned replacement of IAS 39. IFRS 9 is expected to have a significant impact on the Group's financial statements.
- IFRIC 17, 'Distribution of non-cash assets to owners'. The interpretation is part of the IASB's annual improvements project published in April 2009. It provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. It is not expected to have a material impact on the Group's financial statements.

REAL INSURANCE COMPANY OF MALAWI LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****1.1 Basis of preparation (Continued)**

(e) *Standards and interpretations effective in 2009 but not relevant to the Group's operations (Continued)*

- IFRIC 18, 'Transfers of assets from customers', was issued in January 2009. It clarifies how to account for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use that item to provide the customer with ongoing access to supply of goods and/or services. The Group is not impacted by applying IFRIC 18.

1.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker (CODM) for the group is the Chief Executive Officer (CEO) who is responsible for allocating resources and assessing performance of the operating segments.

The basis of determining reportable segments for the group is by geographical location of revenue earned from insurance contracts in relation to the type of insurance risk accepted.

The information reported to the CODM is revenue and claims incurred per branch based on lines of business, operating expenses and underwriting results. Expenses are analysed at group level and are not reported per segment. Further segment information is disclosed in notes 21 and 24.

1.3 Foreign currency translation**(a) Functional and presentation currency**

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

REAL INSURANCE COMPANY OF MALAWI LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.4 Property, plant and equipment

All property, plant and equipment items are initially recorded at cost. Land and buildings are subsequently shown at market value based on triennial valuations by external independent valuers less subsequent depreciation. Plant and equipment are stated at historical cost less accumulated depreciation.

Increases in the carrying amount arising on revaluation are credited to a revaluation reserve. Decreases that offset previous increases of the same asset are charged against the revaluation reserve. All other decreases are charged to the statement of comprehensive income. On disposal of revalued assets, amounts in the revaluation reserve relating to those assets are transferred to the retained earnings. A transfer to retained earnings is made for the depreciation of assets from the revaluation reserve.

Depreciation is calculated on the straight line basis to write down the cost of each asset or the revalued amount to its estimated residual value over its estimated useful life as follows:

Buildings	100 years
Furniture, fixtures, fittings and equipment	8 years
Computer equipment	3 years
Motor vehicles	4 years

Long term leasehold and freehold land is not depreciated.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and recognised in the statement of comprehensive income where revalued assets are sold, the amounts included in revaluation reserves are transferred to retained earnings.

1.5 Intangible assets

Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Purchased systems are capitalised as intangible assets and amortised over the systems' useful lives which does not exceed 3 – 5 years.

REAL INSURANCE COMPANY OF MALAWI LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****1.6 Financial assets****1.6.1 Classification and measurement**

Investments are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

i) Financial assets at fair value through profit and loss

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 at inception if acquired principally for the purpose of selling in the short term; if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking; or if so designated by management. Equity investments are classified in this category (Note 8).

ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets except for maturities greater than 12 months after the balance sheet date. The loans and receivables comprise insurance receivables, amounts due from reinsurance contracts, amounts due from related parties, other receivables, fixed deposits with financial institutions and; cash and cash equivalents in the balance sheet.

iii) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities – other than those that meet the definition of loans and receivables that management has the positive intention and ability to hold to maturity. Government securities are classified in this category (note 6).

iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. The Group had no financial assets classified in this category.

Regular purchases and sales of investments are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus, in the case of all financial assets not carried at fair value through profit or loss, transaction costs. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the Group has also transferred substantially all risks and rewards of ownership.

REAL INSURANCE COMPANY OF MALAWI LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.6 Financial assets (continued)

iv) Available-for-sale financial assets (Continued)

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 financial assets are carried at amortised cost using the effective interest method. Realised and unrealised 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 the statement of comprehensive income in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the statement of comprehensive income as net realised gains/losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

1.6.2 Reclassification of financial assets

Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

1.7 Impairment of assets

(a) Financial assets carried at amortised cost

The Group assesses at each end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has 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 events:

REAL INSURANCE COMPANY OF MALAWI LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****1.7 Impairment of assets (continued)***(a) Financial assets carried at amortised cost (continued)*

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments;
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flow 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, including:
 - adverse changes in the payment status of issuers or debtors in the Group; or
 - 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. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and **receivables** or held-to-maturity investments carried at amortised cost, 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 been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. If a held-to-maturity investment or a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Group's grading process that considers asset type, industry, geographical location, 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 issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated.

REAL INSURANCE COMPANY OF MALAWI LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****1.7 Impairment of assets (continued)***(a) Financial assets carried at amortised cost (continued)*

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 improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

(b) Assets classified as available for sale

The Group assesses at each date of the consolidated statement of financial position 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 an objective evidence of impairment resulting in the recognition of an impairment loss. In this respect, a decline of 20% or more is regarded as significant, and a period of 12 months or longer is considered to be prolonged. If any such quantitative evidence exists for available-for-sale financial assets, the asset is considered for impairment, taking qualitative evidence into account. The cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. 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 profit or loss, the impairment loss is reversed through the consolidated statement of comprehensive income.

(c) Impairment of other non-financial assets

Assets that have an indefinite useful life – for example, land – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

REAL INSURANCE COMPANY OF MALAWI LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****1.8 Offsetting financial instruments**

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

1.9 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and bank overdrafts. Bank overdrafts are shown within current liabilities on the balance sheet.

1.10 Share capital

Ordinary shares are classified as equity. Treasury shares owned by the Real Employee Share Ownership Plan are deducted from share capital at the value of consideration paid plus cost until re-issued or cancelled.

1.11 Trade payables

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

1.12 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the Malawi, the country where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authority.

REAL INSURANCE COMPANY OF MALAWI LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****1.12 Current and deferred income tax (Continued)**

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

1.13 Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which they are declared.

1.14 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the best estimate of the expenditures required to settle the obligation. With the exception of employee benefit obligations which are discounted.

REAL INSURANCE COMPANY OF MALAWI LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****1.15 Revenue recognition**

Premiums written relate to business incepted during the year after taking account of reinsurance business ceded. The portion of premium that relate to unexpired risk at balance sheet date is deferred as unearned premiums.

Investment income is shown gross and is recognised on the accruals basis.

Dividend income is recognised when the right to receive payment is established.

Interest income is recognised on a time proportion basis that takes into account the effect of yield on the asset.

1.16 Employee benefits**(a) Pension plan costs**

The Group operates a defined contribution pension scheme which is externally managed. The Group's contributions are charged to the income statement in the year in which they are incurred. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

(b) Defined benefit-severance allowance

The liability for employee benefits in the form of legislated severance allowance is recognised based on the projected unit credit method as set out in note 19. Severance is payable on retirement, death and mutual consent for termination, only. This obligation is wholly unfunded.

1.17 Insurance contracts

The Group issues contracts that transfer insurance risk. Insurance contracts are those that transfer significant insurance risk. As a general guideline the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

REAL INSURANCE COMPANY OF MALAWI LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****1.17 Insurance contracts (continued)****1.17.1 Insurance contracts – classification**

Insurance contracts are classified mainly as short term insurance contracts based on the duration of risk.

(i) Short term insurance contracts

These contracts comprise of fire, accident, engineering, motor and marine insurance contracts.

- (a)** Accident (casualty) insurance contracts protect policyholders against the risk of causing harm to themselves and third parties as a result of their legitimate business activities. Damages covered include both contractual and non contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employer liability) and for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability).
- (b)** Engineering (property) insurance contracts mainly compensate policy holders for damage suffered to their properties or project works (cover for loss or damage over structures being erected or construction works or for the value of property lost). Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use their insured properties in their business activities (business interruption and loss of profits cover).
- (c)** Motor insurance contracts protect policy holders against the risk of road accidents causing harm to themselves or third parties. (Own damage and third party cover). The typical protection includes insurance for death, bodily injury and property damage. Cover also includes physical material damage to vehicles arising from extraneous risks such as fire and theft of any part or the whole vehicle.

REAL INSURANCE COMPANY OF MALAWI LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.17 Insurance contracts (continued)

1.17.1 Insurance contracts – classification (continued)

(i) Short term insurance contracts (continued)

- (d)** Marine insurance contracts protect policy holders against loss or damage to insured property whilst in transit between other countries and Malawi and vice versa that are caused by perils at sea.

For all these contracts premiums are recognised as revenue (earned premium) proportionally over the period of coverage. The portion of premium received on in force contracts that relate to un-expired risks at the balance sheet date is reported as the unearned premium liability as explained in note 1.17.2. Premiums are shown before deduction of commission and are net of taxes levied on them.

- (e)** Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders.

Claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during the year or earlier years. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Group.

The Group does not discount its liabilities for unpaid claims. Liabilities for outstanding claims are estimated using the input of assessments for individual cases reported to the Group and historic analyses for claims incurred but not reported (IBNR). These, in addition to other factors, are also used to estimate the expected ultimate cost of more complex claims that may be affected by external factors such as court decisions.

1.17.2 Unearned premium

Unearned premiums represent the proportion of the premiums written during the year which relate to the unexpired terms of policies in force at the balance sheet date. Except for marine business, for which unearned premiums are calculated on the 1/6th basis, unearned premiums are calculated on the 1/365th basis for all the other classes of business. This basis best represents the unearned risk profile of the underlying business in question.

REAL INSURANCE COMPANY OF MALAWI LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****1.17 Insurance contracts (continued)****1.17.3 Commissions and administration expenses**

Commissions and administration expenses are allocated to the relevant revenue accounts as incurred in the management of each class of business. Commission is shown net of commission received in respect of reinsurance business ceded.

1.17.4 Deferred policy acquisition costs (DAC)

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as an intangible asset (DAC). A weighted average calculation based on type of unexpired risk contracts is used to calculate the DAC. All other costs are recognised as expenses when incurred. The DAC is amortised over the life of the policies.

1.17.5 Reinsurance contracts held

Contracts entered into by the Group with re-insurers under which the Group is compensated for losses on contracts issued by the Group and that meet the classification requirements for reinsurance contracts are classified as reinsurance contracts held. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included within insurance contracts.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as re-insurance assets. Amounts recoverable from or due to re-insurers are measured (consistently) with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each re-insurance contract. Reinsurance liabilities are primarily premiums payable for re-insurance contracts and are recognised as expenses (netted of against gross premiums) when due.

1.17.6 Receivables and payables relating to insurance contracts

Receivables and payables relating to insurance contracts are recognised when due. These include amounts due to and from agents, brokers and direct insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the statement of comprehensive income.

REAL INSURANCE COMPANY OF MALAWI LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****1.17 Insurance contracts (continued)****1.17.7 Liability adequacy test**

At each end of the reporting period, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related Deferred Acquisition Costs.

In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss.

No additional amounts have been charged to profit and loss in the current year and high loss ratios were absorbed in the current year.

1.18 Comparative information

The comparative amounts on the balance sheet, income statement and cash flow statement have been restated as a result of disclosure reclassifications as follows:

Statement of comprehensive income and statement of changes in equity

These have been represented in line with requirements of IAS 1 Revised: Presentation of Financial Statements.

1.19 Financial guarantees

Financial guarantees issued by the company are recognised as a liability at fair value that is the expected cash outflow for the company should the Trust default on its borrowings to the bank.

1.20 Consolidation

The company consolidates its share incentive trust as a result of the control the board exercise over the trust. Transactions and balances between the company and trust are eliminated upon consolidation. The investment in the Trust per note 8 represents the value of the guarantees provided and is carried at cost less provision for permanent impairment.

REAL INSURANCE COMPANY OF MALAWI LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009****2 MANAGEMENT OF INSURANCE AND FINANCIAL RISK****2.1 Insurance risk**

The Group issues contracts that transfer insurance risk.

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts the principle risk that the Group faces is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated.

Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using historic trends.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition a more diversified portfolio is less likely to be affected by a change in any component of the portfolio. The Group has established its underwriting strategy to diversify the type of insurance risk accepted to reduce the variability for the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

2.1.1 Insurance risk management

The Group manages insurance risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Group has the right not to renew individual policies and it has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle the Group to pursue third parties for payment of some or all costs.

The group has a policy that certain high risk sectors such as the minibus transport sector is not underwritten in order to mitigate claims risk.

The Group has specialised assessors dealing with the mitigation of risks surrounding known claims with respect to amounts claimed. They also assess insured values.

REAL INSURANCE COMPANY OF MALAWI LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

2. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

2.1 Insurance risk (continued)

2.1.1 Insurance risk management (continued)

Assessors investigate and adjust amounts of all reported claims and sums insured in order to mitigate fraudulent claims and insured values.

The group's reinsurance arrangements are entered into with only financially stable reinsurers which have a minimum rating of BBB as assessed by Poors, Moody and Fitch rating agencies.

The outstanding claims provision is reviewed individually at least semi-annually and adjusted to reflect the latest information on the underlying facts, contractual terms and conditions, and other relevant factors.

2.1.2 Concentration of insurance risk

The concentration of insurance risk before and after reinsurance by type of insurance risk accepted is summarised below, with reference to amount of premium earned and sums insured arising from insurance contracts:

	Insurance risk concentration					
	2009			2008		
	Premium earned	Sum Insured	Concentration	Premium earned	Sum Insured	Concentration
	K thousand	K million		K thousand	K million	
Fire	165,391	409,253	64%	149,852	154,831	66%
Motor	528,273	62,152	10%	457,989	67,188	10%
Accident	143,652	92,712	15%	125,685	15,107	14%
Engineering	106,374	61,342	10%	76,951	101,561	8%
Other (Marine)	17,443	10,099	2%	18,100	3,333	2%
	<u>961,133</u>	<u>635,558</u>	<u>100%</u>	<u>828,577</u>	<u>560,656</u>	<u>100%</u>

REAL INSURANCE COMPANY OF MALAWI LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009****2. MANAGEMENT OF INSURANCE AND FINANCIAL RISK****2.1 Insurance risk (continued)****2.1.3 Sources of uncertainty in the estimation of future claim payments**

Claims on insurance contracts are payable on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, the claims provision relates includes incurred but not reported claims (IBNR).

There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopted.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of other recoveries.

The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The liability for these contracts comprises a provision for IBNR, and a provision for reported claims not yet paid at the end of the reporting period.

In calculating the estimated cost of unpaid claims (both reported and not), the Group estimation techniques are a combination of loss-ratio-based estimates (where the loss ratio is defined as the ratio between the ultimate cost of insurance claims and insurance premiums earned in a particular financial year in relation to such claims) and an estimate based upon actual claims experience based on past trends as time passes.

2.1.4 Change in assumptions and sensitivity analysis

There has been an additional insurance reserve arising in respect of prior years of K20 million that has arisen due to changes in the assumptions used to estimate the ultimate cost of total claims payment for 2008.

This is due to the fact that the assumptions used to estimate these liabilities require judgement and are subject to great uncertainty.

These projections have been updated to take account of claims experience during the year.

REAL INSURANCE COMPANY OF MALAWI LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

2 MANAGEMENT OF INSURANCE AND FINANCIAL RISK

2.1 Insurance risk (continued)

2.1.5 Sensitivity analysis of claims and development tables

Claims estimates are sensitive to several factors such as increased economic activity, an active political and social environment, general environmental conditions and natural catastrophes.

The estimation of claims is therefore complex and the changes in estimates are made based on analysing past trends.

Changes in these factors have an impact on profit or loss before tax which has not been quantified.

Detailed claims development analyses have not been performed but presented below are details of actual claims against budget:

Year	Budget	Actual	Variance
2009	363,450	409,887	13%
2008	258,000	294,833	14%
2007	201,050	219,668	9%
2006	168,000	187,010	11%

2.1.6 Sensitivity analysis

2.1.6.1 Interest-rate risk

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

Management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios due to an interest movement of at least 2%.

An increase or decrease of 2% in interest rates would result in an increase or decrease in profits for the period of K3 million in 2009. (2008: K3.4 million increase or decrease).

REAL INSURANCE COMPANY OF MALAWI LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009****2. MANAGEMENT OF INSURANCE AND FINANCIAL RISK****2.1 Insurance risk (continued)****2.1.6 Sensitivity analysis (continued)****2.1.6.2 Equity risk**

The sensitivity analysis for equity risk illustrates how changes in the fair value of equity securities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded in the market.

Management monitors movements of financial assets and equity price risk movements on a monthly basis by assessing the expected changes in the different portfolios due to movements of a 15% increase or decrease in the Malawi Stock Exchange index, the Malawi all share index (MASI).

An increase and a decrease in 15% in the MASI would result in an impact on profits of approximately K1.3 million in 2009 (2008: K0.04 million).

2.1.6.3 Currency risk

The Group underwrites short-term insurance contracts in local currency only. This eliminates the foreign currency exchange rate risk.

2.2 Financial risk management*Credit risk*

The Group places deposits with board approved banks and financial institutions up to the board approved limits for each bank and financial institution. Provisions are made to impair receivable balances where necessary.

Management does not expect any losses from non-performance by these counterparties. Notes 7, 10-12 sets out in more detail, credit quality of receivables against which no collateral was taken.

The Group has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Group is exposed to credit risk are:

- Reinsurers' share of insurance liabilities;
- Amounts due from reinsurers in respect of claims already paid;
- Amounts due from insurance contract holders;
- Amounts due from insurance intermediaries;
- Amounts due from loans and receivables;
- Amounts due from money market and cash positions.

REAL INSURANCE COMPANY OF MALAWI LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

2. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

2.2. Financial risk management (continued)

The Group structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties, and to geographical and industry segments. Such risks are subject to an annual or more frequent review.

Limits on the level of credit risk by category and territory are approved quarterly by the Board of Directors.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

Management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies, where available, and other publicly available financial information.

Management analyses recent payment history and the status of any ongoing negotiations between Group and these third parties to assess credit worthiness.

Management maintain records of the payment history for significant contract holders with whom they conduct regular business. Management information reported to the Group includes details of provisions for impairment on loans and receivables and subsequent write-offs.

The financial analysis of reinsurers that is conducted at produces an assessment categorised by a Poors, Moody and Fitch rating.

Maximum exposure to credit risk before collateral held is analysed below

Financial Instruments	2009 MK	2008 MK
At fair value through profit and loss:		
– Government securities and bonds	67,871	123,432
– deposits with financial institutions	66,887	148,614
– Listed securities	22,749	31,735
Loans and receivables-staff loans	5,682	8,668
Amounts due from agents and policy holders	356,145	250,338
Amounts due from related parties	9,822	2,078
Other receivables excluding accrued interest	23,496	3,162
Reinsurance contracts	140,626	132,094
Cash and cash equivalents	19,422	96,915
Total assets bearing credit risk	712,700	797,036

REAL INSURANCE COMPANY OF MALAWI LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

2. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

2.2. Financial risk management (continued)

The above table represents a worse case scenario of credit risk exposure to the Group at 31 December 2009 and 2008, without taking account of any collateral held.

The assets above have not been rated with the exemption of reinsurance contracts that have a minimum rating of BBB ranging to AAA according to Poors, Moody and Fitch rating agencies.

2.3 Fair value hierarchy

The following table presents the Group's assets and liabilities measured at fair value at 31 December.

As at 31 December 2009

	Level 1	Level 2	Level 3	Total
Financial Instruments				
<i>At fair value through profit and loss</i>				
Government securities and bonds	-	67,871	-	67,871
deposits with financial institutions	-	-	66,887	66,887
– Listed securities	22,749	-	-	22,749
	<u>22,749</u>	<u>67,871</u>	<u>66,887</u>	<u>157,507</u>

As at 31 December 2008

	Level 1	Level 2	Level 3	Total
Financial Instruments				
<i>At fair value through profit and loss</i>				
Government securities and bonds	-	123,432	-	123,432
deposits with financial institutions	-	-	148,614	148,614
– Listed securities	31,735	-	-	31,735
	<u>31,735</u>	<u>123,432</u>	<u>148,614</u>	<u>303,781</u>

REAL INSURANCE COMPANY OF MALAWI LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009****2. MANAGEMENT OF INSURANCE AND FINANCIAL RISK****2.2. Financial risk management (continued)****Financial risk factors**

The Group's activities expose it to a variety of financial risks including the effects of changes in interest rates, and credit risk. The Group's financial risk management focuses on the identification and management of risks and seeks to minimise potential adverse effects on its financial performance. Risks are not hedged.

Market risk*(i) Foreign exchange risk*

The Group operates in Malawi only and has limited foreign exchange risk because the reinsurance contracts with external reinsurance companies are denominated in the Group's functional currency. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities in currency other than Malawi kwacha mainly with the parent company.

(ii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the balance sheet at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage the price risk arising from investments in equity securities, the Group diversifies its portfolio and the Board sets an upper limit of the total amount of equity investments that the Group can hold, which is periodically reviewed.

Profit for the year would increase or decrease as a result of gains or losses on equity securities classified as at fair value through profit or loss, should market prices change.

(iii) Cash flow and fair value interest rate risk

As the Group has significant fixed interest-bearing assets, and no significant interest bearing borrowings, the Group's income and operating cashflows are dependent on changes in market interest rates in the long-term. The Group's interest rate risk arises from future interest rate changes which depending on the changes could increase or decrease the Group's income and operating cashflows. Carrying amounts of bonds may also be affected by increased or decreased interest rates.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining financial assets that are easily convertible into cash. Management monitors the Group's liquidity requirements on the basis of expected cash flows which are driven mainly by expected premium collections, forecasted claims pay outs and forecasted payments for commissions and administration expenses.

REAL INSURANCE COMPANY OF MALAWI LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

2. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

2.2 Financial risk management (continued)

Liquidity risk (continued)

The table below analyses the Group's financial and insurance liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

	<u>30 Days</u>	<u>60 Days</u>	<u>90 Days</u>	<u>120 Days</u>	<u>Over 180 Days</u>
At 31 December 2008					
<i>Insurance liabilities</i>					
Outstanding claims	25,000,000	25,000,000	25,000,000	25,000,000	19,958,000
Amounts due to reinsurers	20,000,000	30,000,000	40,000,000	60,000,000	84,422,000
<i>Financial liabilities</i>					
Amounts due to related parties	-	30,000,000	20,000,000	30,000,000	44,168,000
Other payables	5,000,000	9,419,000	7,000,000	-	-
At 31 December 2009					
<i>Insurance liabilities</i>					
Outstanding claims	35,000,000	35,000,000	35,000,000	35,000,000	29,604,000
Amounts due to reinsurers	15,000,000	20,000,000	35,000,000	35,000,000	43,996,000
<i>Financial liabilities</i>					
Amounts due to related parties	-	-	10,000,000	6,992,000	-
Other payables	10,000,000	15,000,000	20,000,000	19,883,000	-

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, maintain the capital at above the legislated minimum capital requirements and to maintain an un-gearred capital structure. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, and issue new shares.

The group is required to maintain a minimum capital of K50 million and K100 million by the Reserve Bank of Malawi and Malawi Stock Exchange respectively and these requirements were met.

The group is required to maintain a bench mark solvency ratio of 20% and as at year end was below that minimum. The board is monitoring the solvency risk with parent undertaking and will implement measures to address ratio.

Fair value estimation

The carrying amounts of financial assets and liabilities carried at amortised cost approximate their fair values due to their short term maturity periods.

REAL INSURANCE COMPANY OF MALAWI LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009****3. CRITICAL ACCOUNTING ESTIMATES**

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will by definition rarely equal the actual results. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are analysed below:

Claims incurred but not reported (IBNR)

A provision for claims incurred but not reported is included in the outstanding claims reserve. The Group estimates the IBNR provision based on trends for the last four years and actual incidence of claims during the current year after balance sheet date.

Impairment of assets

The Group tests annually whether financial assets carried at amortised cost suffered impairment.

The impairment loss on financial assets carried at amortised cost is the difference between the asset carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. Management exercises judgement in determining the estimated future cash flows.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

4. PROPERTY, PLANT AND EQUIPMENT

COMPANY AND GROUP	Land and Buildings K'000	Office equipment K'000	Motor vehicles K'000	Furniture and fittings K'000	Work in Progress K'000	Total K'000
Year ended 31 December 2008						
Opening net book amount	17,000	5,553	1,306	2,658	-	26,517
Additions	471	5,276	9,150	745	-	15,642
Disposals - Net	-	(177)	(497)	-	-	(674)
Depreciation charge for the year	(184)	(3,084)	(1,335)	(463)	-	(5,066)
Closing net book amount	17,287	7,568	8,624	2,940	-	36,419
At 31 December 2008						
Cost/valuation	17,471	19,030	11,379	5,423	-	53,303
Accumulated depreciation	(184)	(11,462)	(2,755)	(2,483)	-	(16,884)
Net book amount	17,287	7,568	8,624	2,940	-	36,419
Year ended 31 December 2009						
Opening net book amount	17,287	7,568	8,624	2,940	-	36,419
Additions	-	7,785	7,387	3,909	23,272	42,353
Disposals						
-cost	-	(339)	-	(781)	-	(1,120)
-depreciation	-	46	-	501	-	547
Depreciation charge for the year	(181)	(5,057)	(3,672)	(681)	-	(9,591)
Closing net book amount	17,106	10,003	12,339	5,888	23,272	68,608
At 31 December 2009						
Cost/valuation	17,471	26,476	18,766	8,551	23,272	94,536
Accumulated depreciation	(365)	(16,473)	(6,427)	(2,663)	-	(25,928)
Net book amount	17,106	10,003	12,339	5,888	23,272	68,608

Cost/valuation further analysed as follows:

	At Valuation K'000	At Cost K'000	Total K'000
Leasehold land	600	-	600
Freehold land	800	-	800
Buildings	15,600	471	16071
Office equipment	-	26,476	26,476
Motor vehicles	-	18,766	18,767
Furniture and fittings	-	8,551	8,551
Work in progress	-	23,272	23,272
	17,000	77,536	94,536

Freehold and leasehold land and buildings were revalued as at 22 November 2007 by independent professional property valuers Knight Frank on an open market value basis.

The information required by section 16 of the Third Schedule of the Companies Act, Cap. 46:03 is contained in a register which is open for inspection by the members or their duly authorised agents at the registered office of the Company.

REAL INSURANCE COMPANY OF MALAWI LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

	COMPANY AND GROUP	
	<u>2009</u>	<u>2008</u>
	K'000	K'000
5. INTANGIBLE ASSET		
Computer software		
Opening net book amount	11,412	16,316
Additions	3,013	-
Amortisation	(4,840)	(4,904)
	<u>9,585</u>	<u>11,412</u>
Closing net book value	<u>9,585</u>	<u>11,412</u>
Cost/valuation	19,329	16,316
Accumulated amortisation	(9,744)	(4,904)
	<u>9,585</u>	<u>11,412</u>

The amount relates to the SIRIUS accounting and insurance software.

	2009		2008	
	Cost	Amortised	Cost	Amortised
	K'000	K'000	K'000	K'000
6. GOVERNMENT SECURITIES				
3 year Reserve Bank bond	10,000	10,507	10,000	10,000
182 day Treasury Bills	56,063	57,364	111,928	113,432
	<u>66,063</u>	<u>67,871</u>	<u>121,928</u>	<u>123,432</u>

The weighted average effective interest rate on Treasury Bills and Reserve Bank bonds during the year was 13% and 10% respectively.

	COMPANY AND GROUP	
	<u>2009</u>	<u>2008</u>
	K'000	K'000
7. DEPOSITS WITH FINANCIAL INSTITUTIONS		
Deposits with banks	50,858	134,511
Deposits with discount houses	16,029	14,103
	<u>66,887</u>	<u>148,614</u>

The weighted average effective interest rate on the bank deposits during the year was 8%.

REAL INSURANCE COMPANY OF MALAWI LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

	GROUP		COMPANY	
	<u>2009</u> K'000	<u>2008</u> K'000	<u>2009</u> K'000	<u>2008</u> K'000
8. EQUITY INVESTMENTS				
Carrying amount at 1 January	31,735	16,472	31,735	16,472
Additions	-	13,025	-	13,025
At fair value through profit and loss, unrealised gain	(8,986)	2,238	(8,986)	2,238
Investment in share trust – at cost	-	-	16,532	-
	<u>22,749</u>	<u>31,735</u>	<u>39,281</u>	<u>31,735</u>

Fair value is determined at level 1, quoted price for the investment at fair value above.

9. LOANS AND RECEIVABLES	GROUP AND COMPANY	
	<u>2009</u> K'000	<u>2008</u> K'000
Staff loans	5,682	8,668

Staff loans attract interest at 15% per annum, and comprise mainly vehicle loans. These loans are secured by vehicle title documents.

10. INSURANCE RECEIVABLES		
Receivables	367,371	253,638
Provision for impairment	(11,226)	(3,300)
	<u>356,145</u>	<u>250,338</u>
Neither past due and not impaired	176,134	156,256
Past due but not impaired	180,011	94,082
Impaired	11,226	3,300
Less allowance for impairment	(11,226)	(3,300)
	<u>356,145</u>	<u>250,338</u>

REAL INSURANCE COMPANY OF MALAWI LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

		COMPANY AND GROUP			
		<u>2009</u>		<u>2008</u>	
		K'000		K'000	
11.	REINSURANCE CONTRACTS				
11.1	Re-insurance contracts receivable				
	Amounts due from:				
	Aon Re (Pty) Limited claim recoveries		126,303		129,004
	Aon Re (Pty) Limited profit commission		14,323		3,090
			140,626		132,094
			140,626		132,094
	Neither past due and not impaired		14,323		3,090
	Past due but not impaired		126,303		129,004
	Impaired		-		-
	Less allowance for impairment		-		-
			140,626		132,094
			140,626		132,094
11.2	Reinsurance contracts payable				
	Amount due to:				
	Aon Re (Pty) Limited		98,057		104,764
	Other reinsurers' treaty premiums ceded		83,687		129,658
			181,744		234,422
			181,744		234,422
12.	RELATED PARTY BALANCES				
		GROUP		COMPANY	
		<u>2009</u>		<u>2008</u>	
		K'000		K'000	
12.1	Amounts due from:				
	Real Insurance Group Limited				
	- Quota share excess of loss premiums		-		-
	- Quota share claims		-		-
	- Intercompany account		9,822		2,078
			9,822		2,078
			9,822		2,078
	Neither past due and not impaired		9,822		2,078
	Past due but not impaired		-		-
	Impaired		-		-
	Less allowance for impairment		-		-
			9,822		2,078
			9,822		2,078
12.2	Amounts due to:				
	Real Insurance Group Limited				
	- Listing proceeds net balance		-		106,880
	- Management fees and other payables		7,092		128,880
			7,092		128,880
			7,092		128,880

REAL INSURANCE COMPANY OF MALAWI LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

12. RELATED PARTY BALANCES (Continued)

**COMPANY AND
GROUP**

2009 2008

K'000 K'000

12.3 Related party transactions

The following transactions were carried out with Real Insurance Company Limited

Management fees and expenses	7,092	2,490
Listing proceeds	-	200,250
Listing expenses	-	71,370

Real Insurance Company Limited incorporated in Kenya is the holding company. Loans are unsecured and interest free.

The directors are classified as key management and their remuneration is disclosed in note 25. Transactions with directors are as follows:

Non executive - J. Muchekehu	-	1,938
- C. Gakongyo	-	780
Executive - R. Ndungu	8,802	-
Key management remuneration	25,398	28,849

13. OTHER RECEIVABLES	GROUP		COMPANY	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	K'000	K'000	K'000	K'000
Staff advances	19,763	-	3,359	-
Prepaid expenses and others	3,733	1,764	3,733	1,764
VAT receivable	-	1,398	-	1,398
Share ownership plan	-	-	9,772	-
	<u>23,496</u>	<u>3,162</u>	<u>16,864</u>	<u>3,162</u>

14. DEFERRED ACQUISITION COSTS	COMPANY AND GROUP	
	<u>2009</u>	<u>2008</u>
	K'000	K'000
Opening balance	32,394	24,365
Movement for the year	(6,431)	8,029
Closing balance	<u>25,963</u>	<u>32,394</u>

REAL INSURANCE COMPANY OF MALAWI LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

	COMPANY AND GROUP	
	<u>2009</u>	<u>2008</u>
	K'000	K'000
15. CASH AND CASH EQUIVALENTS		
Current bank accounts	12,622	62,317
Foreign denominated accounts	2,124	8,324
Call accounts	4,546	24,869
Cash on hand	130	1,405
	<u>19,422</u>	<u>96,915</u>

	GROUP		COMPANY	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	K'000	K'000	K'000	K'000
Bank overdraft/loans				-
Real employee share ownership plan	(16,532)	-	-	-
Overdraft	(13,753)	-	(13,753)	-
	<u>(30,285)</u>	<u>-</u>	<u>(13,753)</u>	<u>-</u>

The bank overdraft represents unrepresented cheques

The Real Insurance ownership plan loan is secured by a guarantee provided by the company

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

Cash and bank balances	19,422	96,915	19,422	96,915
Deposits with financial institutions	66,887	148,614	66,887	148,614
Bank overdraft	(13,753)	-	(13,753)	-
	<u>72,556</u>	<u>245,529</u>	<u>72,556</u>	<u>245,529</u>

REAL INSURANCE COMPANY OF MALAWI LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

		COMPANY AND GROUP	
		<u>2009</u>	<u>2008</u>
		K'000	K'000
16.	SHARE CAPITAL		
	Authorised:		
	375,000,000 ordinary shares of 40 tambala each (2008: 375,000,000 shares of 40 tambala each)	150,000	150,000
		<u> </u>	<u> </u>
	Issued and fully paid:		
	250,000,000 ordinary shares of 40 tambala each (2008: 375,000,000 shares of 40 tambala each)	100,000	100,000
		<u> </u>	<u> </u>
16.2	Share premium		
	Arose on 250,000,000 ordinary shares of 40 tambala each (2008: 250,000,000 shares of 40 tambala each)	14,875	14,875
		<u> </u>	<u> </u>
16.3	Treasury shares	(9,900)	(22,000)
	The company through the Real Employees Share Ownership Plan, held 10,000,000 of its shares on listing and at 31 December 2008 representing 2.6% of the group. These shares had been offered to employees at K2.20 each. The employees have purchased 5,500,000 shares during the year. The balance of 4,500,000 shares is held as treasury shares and has been deducted from shareholders equity.	<u> </u>	<u> </u>
17.	INSURANCE CONTRACTS		
	Claims reported	169,604	119,957
	Claims incurred but not reported	31,225	10,500
	Unearned premiums	70,101	64,702
	Reinsurance portion of unearned premiums	103,195	97,053
		<u> </u>	<u> </u>
		<u>374,125</u>	<u>292,212</u>
	The claims reported and claims incurred but not reported are net of expected recoveries from reinsurance contracts.		

REAL INSURANCE COMPANY OF MALAWI LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

18. TRADE AND OTHER PAYABLES	GROUP		COMPANY	
	<u>2009</u> K'000	<u>2008</u> K'000	<u>2009</u> K'000	<u>2008</u> K'000
Bank guarantee	-	-	16,532	-
Accruals and other payables	14,011	32,758	14,011	32,758
Value added tax (long term)	46,633	-	46,633	-
Value added tax (short term)	4,239	5,950	4,239	5,950
	<u>64,883</u>	<u>38,708</u>	<u>81,415</u>	<u>38,708</u>

COMPANY AND GROUP

<u>2009</u> K'000	<u>2008</u> K'000
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19. DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally unforeseeable right to offset current tax assets against current liabilities and when the deferred income taxes relate to the same fiscal authority.

The offset amounts are as follows:

Deferred tax assets to be recovered within 12 months	(12,968)	(11,721)
Deferred tax liability to be recovered within 12 months	-	3,272
	<u>(12,968)</u>	<u>(8,449)</u>

The amounts that do not offset are as follows:

Deferred tax liability to be recovered after more than 12 months (arising on revaluation)	<u>9,028</u>	<u>3,324</u>
Net deferred income tax asset	<u>(3,940)</u>	<u>(5,125)</u>

The gross movement on the deferred income tax account is as follows:

At 1 January – deferred income tax asset	(5,125)	(4,987)
Income statement charge	1,218	(95)
Charge to equity	(33)	(43)
At 31 December – deferred income tax asset	<u>(3,940)</u>	<u>(5,125)</u>

REAL INSURANCE COMPANY OF MALAWI LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

COMPANY AND GROUP

2009 **2008**
K'000 **K'000**

20. EMPLOYEE BENEFIT OBLIGATIONS-SEVERANCE

Defined benefit-severance allowance	28,275	31,975
	<u> </u>	<u> </u>
Amounts further analysed as follows; Present value of unfunded obligations	28,275	31,975
	<u> </u>	<u> </u>
Current service cost	5,492	3,543
Past service cost	(9,192)	(6,568)
	<u> </u>	<u> </u>
Income statement credit	(3,700)	(3,025)
	<u> </u>	<u> </u>

The principal actuarial assumptions used were as follows:

<i>Discount rate</i>	11%	11%
Average salary increase rate	10%	10%
Timing of salary increases	Not a fixed month	Not a fixed month

Mortality rate

The national average life expectancy at the balance sheet date was 36 years.

Retirement age

Normal retirement age		
- male	60	60
- female	60	60

Early retirement age

-male	55	55
-female	55	55

Redundancy all ages

Withdrawal	2.5%	2.5%
	12.5% p.a. from age 20 reducing to 0% from age 50	12.5% p.a. from age 20 reducing to 0% from age 50

In terms of the Employment Act, severance allowance is payable to employees on termination of employment by mutual agreement, death, retirement, voluntary retrenchments or redundancies. The basis of accrual is as follows.

Number of years worked

More than 1 year but less than 10 years
More than 10 years

Severance pay

2 weeks pay for each completed year of service
4 weeks pay for each completed year of service

REAL INSURANCE COMPANY OF MALAWI LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

	COMPANY AND GROUP	
	<u>2009</u> K'000	<u>2008</u> K'000
21. NET PREMIUM REVENUE:		
Premium revenue from insurance contracts issued.	961,133	828,577
Change in unearned premium provision	(11,329)	(39,926)
Premium revenue ceded to reinsurers on insurance contracts issued	(299,955)	(223,418)
Write-back of prior years ceded premium provision	121,765	30,556
Net insurance premium revenue	<u>771,614</u>	<u>595,789</u>

There are no long-term insurance contracts.

21.1 SEGMENTAL ANALYSIS

Segmental analysis of revenue by geographical location from insurance contracts in relation to the type of insurance risk accepted is summarised below.

Year ended December 2009

Territory		Type of risk					Total K'000
		Fire K'000	Accident K'000	Engineering K'000	Motor K'000	Marine K'000	
Blantyre	Gross	153,640	117,812	93,297	380,117	17,214	762,080
Lilongwe	Gross	11,025	22,817	12,173	124,233	229	170,477
Mzuzu	Gross	508	2,567	904	21,343	-	25,322
Zomba	Gross	218	456	-	2,580	-	3,254
		<u>165,391</u>	<u>143,652</u>	<u>106,374</u>	<u>528,273</u>	<u>17,443</u>	<u>961,133</u>

Year ended December 2008

Territory		Type of risk					Total K'000
		Fire K'000	Accident K'000	Engineering K'000	Motor K'000	Marine K'000	
Blantyre	Gross	141,644	102,953	50,414	355,437	16,900	667,348
Lilongwe	Gross	7,860	21,644	26,261	92,054	1,164	148,983
Mzuzu	Gross	348	1,088	276	10,498	36	12,246
		<u>149,852</u>	<u>125,685</u>	<u>76,951</u>	<u>457,989</u>	<u>18,100</u>	<u>828,577</u>

For segmental information on claims refer to note 24.

REAL INSURANCE COMPANY OF MALAWI LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

	COMPANY AND GROUP					
	<u>2009</u> K'000	<u>2008</u> K'000				
22. INVESTMENT INCOME						
Held-to-maturity interest income	8,427	10,908				
Cash and cash equivalents interest income	8,404	7,474				
Loans and receivable interest income	125	634				
Dividend income	539	428				
	<u>17,495</u>	<u>19,444</u>				
	<u><u>17,495</u></u>	<u><u>19,444</u></u>				
23. FAIR VALUE (LOSS)/GAINS ON FINANCIAL ASSETS THROUGH PROFIT OR LOSS						
Unrealised fair value loss	(8,949)	(522)				
Realised fair value gains	-	250				
	<u>(8,949)</u>	<u>(272)</u>				
	<u><u>(8,949)</u></u>	<u><u>(272)</u></u>				
24 INSURANCE CLAIMS – COMPANY AND GROUP						
24.1 Segmental analysis						
	2009			2008		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	K'000	K'000	K'000	K'000	K'000	K'000
Fire	27,889	4,342	23,547	83,987	72,954	11,033
Motor	348,114	52,199	295,915	259,407	35,909	223,498
Accident	78,668	2,938	75,730	59,690	12,958	46,732
Engineering	20,545	7,633	12,912	38,737	25,820	12,917
Other (Marine)	11,658	9,874	1,783	719	66	653
	<u>486,874</u>	<u>76,986</u>	<u>409,887</u>	<u>442,540</u>	<u>147,707</u>	<u>294,833</u>
	<u><u>486,874</u></u>	<u><u>76,986</u></u>	<u><u>409,887</u></u>	<u><u>442,540</u></u>	<u><u>147,707</u></u>	<u><u>294,833</u></u>

For segmental information on revenue refer to note 21.

REAL INSURANCE COMPANY OF MALAWI LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

	COMPANY AND GROUP	
	<u>2009</u> K'000	<u>2008</u> K'000
24 INSURANCE CLAIMS – COMPANY AND GROUP (CONTINUED)		
24.2 Current /non current distinction		
Current	378,662	265,420
Non current (prior year)	31,225	29,413
	<u>409,887</u>	<u>294,833</u>
25. ADMINISTRATIVE AND MARKETING EXPENSES		
Auditors remuneration – break into audit	7,366	6,744
Depreciation	9,590	5,066
Amortisation	4,840	4,904
Director's emoluments:		
- fees	4,551	3,601
- expenses	18,644	15,983
- gratuity	-	3,769
Management fees	3,203	2,490
Staff costs (note 25.1)	149,929	78,267
Listing expenses	984	6,889
Other expenses	116,116	77,181
Rent	11,434	6,168
	<u>326,657</u>	<u>211,062</u>
25.1 STAFF COSTS		
Salaries and wages	89,914	51,657
Pension	9,412	3,153
Other benefits	54,303	26,482
Defined benefit severance allowance credit	(3,700)	(3,025)
	<u>149,929</u>	<u>78,267</u>

REAL INSURANCE COMPANY OF MALAWI LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

	COMPANY AND GROUP	
	2009	2008
	K'000	K'000
26. EXPENSES FOR THE ACQUISITION OF INSURANCE CONTRACTS		
Commission expense	43,394	55,487
Commission income	(10,642)	(3,090)
Change in deferred acquisition costs	6,431	(8,029)
	<u>39,183</u>	<u>44,368</u>
27. TAXATION		
27.1 Income tax expense		
Current income tax 30%	6,185	23,455
Prior year overprovision	(2,657)	(93)
Deferred income tax (credit)/charge	1,218	(95)
	<u>4,746</u>	<u>23,267</u>
27.2 Tax charge reconciliation		
The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the current tax rate as follows:		
Profit before income tax	<u>8,095</u>	<u>64,579</u>
Tax calculated tax rate applicable to profits 30%	2,429	19,374
Permanent differences	4,974	3,986
Prior year over provision	(2,657)	(93)
	<u>4,746</u>	<u>23,267</u>

REAL INSURANCE COMPANY OF MALAWI LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

28. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company and held as treasury shares or shares held by its subsidiaries.

	COMPANY AND GROUP	
	31 December	31 December
	<u>2009</u>	<u>2008</u>
	K'000	K'000
Profit attributable to equity holders of the company	3,349	41,312
Weighted average number of ordinary shares in issue (thousands)		60,042
- Group	245,500	-
- Company	250,000	-
Basic earnings per share (kwacha per share)		
- Group	0.01	0.69
- Company	0.01	0.68

(a) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume full issue of potential ordinary shares as follows:

Profit attributable to equity holders of the company used to determine diluted earnings per share	3,349	41,312
Weighted average number of ordinary shares in issue (thousands)	250,000	38
Issue of additional share capital of 50,000 shares	-	4
Additional shares assumed full issue of ordinary shares	-	60,042
	<hr/>	<hr/>
Weighted average number of ordinary shares in issue (thousands)	250,000	60,086
	<hr/>	<hr/>
Diluted earnings per share (kwacha per share)	0.01	0.69
Dividend		
Dividend paid and declared 2008	-	0.08

REAL INSURANCE COMPANY OF MALAWI LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009****29. CAPITAL COMMITMENTS**

Capital commitments at the balance sheet date amounted to K46 million (2007: K0.3 million). The capital commitments will be financed from internal resources.

30. CONTINGENCIES

There were legal proceedings both against the Group and initiated by the Group that were outstanding at 31 December 2009. The directors do not anticipate significant losses arising from the contingencies.

31. EVENTS AFTER THE BALANCE DATE

No events have occurred after the balance sheet date that would impact on results and the financial position at the balance sheet date.

REAL INSURANCE COMPANY OF MALAWI LIMITED

Appendix 1

OTHER EXPENSES

	2009	2008
	K'000	K'000
Advertising	10,146	1,957
AGM expenses	4,491	-
Bank charges	2,153	1,592
Building R & M	158	366
Car running	2,875	4,210
Computer stationery	3,595	3,846
Donations	430	601
Entertainment - Local	10,894	8,952
Licences	31	1,838
Marketing	3,444	14,045
Office expenses	584	331
Other Professional services	3,080	2,501
Postage and Telephone	14,118	10,813
Printing and Stationery	10,219	3,869
Relocation expenses	310	-
Repairs and maintenance	1,107	1,491
Security expenses	3,927	2,219
Sirius project expenses	3,791	774
Subscription	1,884	1,128
Sundry Miscellaneous	16,405	7,432
Travel expenses	13,204	6,508
Utilities	4,045	2,708
Bad debt written off	5,525	-
	<u>116,116</u>	<u>77,181</u>

This schedule is unaudited and does not form part of the annual financial statement.