MALAWI UNION OF SAVINGS
AND
CREDIT CO-OPERATIVES

FINANCIAL STATEMENTS

For the year ended

31 December 2009

MALAWI UNION OF SAVINGS AND CREDIT CO-OPERATIVES
FINANCIAL STATEMENTS
for the year ended 31 December 2009

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MALAWI UNION OF SAVINGS AND CREDIT CO-OPERATIVES
GENERAL INFORMATION
for the year ended 31 December 2009

Business:
The Malawi Union of Savings and Credit Co-operatives ("MUSCCO") is a national democratically controlled apex organization of Savings and Credit Co-operatives (SACCO) affiliated to it. MUSCCO was established in 1980 to promote, develop, support and service SACCO's in Malawi. MUSCCO is also a member of the World Council of Credit Unions. Currently there are 60 SACCO's affiliated to MUSCCO with a total SACCO membership of over 88,000.

Financial performance:
The results and state of affairs of the union are set out in the accompanying statement of financial position, statement of comprehensive income, statement of cash flows, significant accounting policies and notes.

Dividend:
A final dividend of **MK4.7 million** (**2008: MK 4.6 million**) was paid during the year.

Board of Directors:
The following Directors served office during the year

Mr. R. Gomiwa	-	President	Full year
Mr. J. Mwale	-	Vice President	Full year
Mr. B. Kantande	-	Secretary	Full year
Mr A. Mdoka	-	Treasurer	Half year
Mrs. E. Chingakule	-	Vice Secretary	Full year
Mrs. V. Chima	-	Member	Full year
Mr. M. Banda	-	Member	Full year
Mr. L. Chikadya	-	Member	Full year
Mr.P. Likongwe	-	Member	Full year
Mr. P. Zimpita	-	Member	Full year

Registered office:
MUSCCO House
P.O. Box 651.
LILONGWE

Independent auditors:
KPMG
Nurses Council Building
P.O. Box 30453
LILONGWE 3

Bankers:
First Discount House
FDH Bank
Continental Discount House
Malawi Savings Bank
National Bank of Malawi
Standard Bank of Malawi
Nedbank Malawi

Attorneys:
Likongwe & Company
P.O. Box 30171
LILONGWE 3

MALAWI UNION OF SAVINGS AND CREDIT CO-OPERATIVES
STATEMENT OF DIRECTORS' RESPONSIBILITIES
for the year ended 31 December 2009

The Directors are required under the Co-operative Societies Act of 1998 and By-laws of Malawi Union of Savings and Credit Co-operatives Limited, to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the Union as at the end of the financial period and of the surplus or deficit of the Union for that period.

The Directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgments and estimates have been made in the preparation of the financial statements for the year to 31st December 2009. The Directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Union and which enable them to ensure that the financial statements comply with the Cooperative Societies Act 1998. They are responsible for safeguarding the assets of the Union and, hence, for taking reasonable steps for the prevention and detection of fraud, error and other irregularities.

No matters have come to the attention of the Directors to indicate that the Union will not remain a going concern for at least the ensuing financial year.

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

Approval of financial statements
The financial statements of the Union were approved for issue by the Board of Directors on _____ 2010 and were signed on its behalf by:

_____
Board President

_____
Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MALAWI UNION OF SAVINGS AND CREDIT CO-OPERATIVES

Report on the financial statements

We have audited the accompanying financial statements of Malawi Union of Savings and Credit Co-operatives, which comprise the statement of financial position as at 31 December 2009, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements and other explanatory notes as set out on pages 10 to 32.

Directors' responsibility for the financial statements

Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and Co-operative Societies Act of 1998. This responsibility includes: designing, implementing and maintaining internal control systems relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Audit opinion

In our opinion, the financial statements give a true and fair view of the financial position of Malawi Union of Savings and Credit Co-operatives as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the provisions of the Co-operative Societies Act of 1998.

_____

Public Accountants and Business Advisors
Lilongwe, Malawi

Date: _____2010

MALAWI UNION OF SAVINGS AND CREDIT CO-OPERATIVES
STATEMENT OF FINANCIAL POSITION
As at 31 December 2009
In Malawi Kwacha

	Note	2009	2008
ASSETS			
Non current assets			
Property, plant and equipment	6	**146,302,294**	136,170,390
Investment property	7	**31,000,000**	21,768,160
Long term receivables	11	**4,148,072**	1,284,078
Total non-current assets		**181,450,366**	159,222,628
Current assets			
Inventories	8	**2,090,091**	1,486,122
Loans to SACCO	9	**272,656,199**	432,146,404
Investments	10	**113,359,872**	7,300,920
Receivables	11	**14,463,918**	21,668,764
Cash and cash equivalents	12	**91,790,655**	15,260,265
Assets classified as held for sale	13	**-**	2,505,293
Total current assets		**494,360,735**	480,367,768
Total assets		**675,811,101**	639,590,396
RESERVES AND LIABILITIES			
Reserves			
Reserves		**132,727,190**	167,778,453
Trusts funds	14	**34,969,399**	34,969,399
Capital contributions	15	**43,605,373**	43,605,373
Total reserves		**211,301,962**	246,353,225
Non current liabilities			
Obligations under finance lease	16	**16,880,441**	-
Loan	17	**53,000,000**	-
Members shares	18	**87,549,919**	75,818,962
SACCO Free Financial Protection Plan Fund	19	**41,513,643**	40,211,017
Employee benefits	20	**11,239,439**	17,654,000
Total non current liabilities		**210,183,442**	133,683,979
Current liabilities			
Obligations under finance lease	16	**4,334,330**	-
Payable	21	**113,169,371**	74,222,351
Deposits	22	**134,016,547**	127,111,865
Bank overdraft	12	**2,805,449**	58,218,976
Total current liabilities		**254,325,697**	259,553,192
Total liabilities		**464,509,139**	393,237,171
Total reserves and liabilities		**675,811,101**	639,590,396

These financial statements were approved by the Board of Directors on _____2010 and were signed on its behalf by:

_____BOARD PRESIDENT _____DIRECTOR

The notes on pages 10 to 32 are an integral part of these financial statements

The independent auditor's report is on page 5.

MALAWI UNION OF SAVINGS AND CREDIT CO-OPERATIVES
STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2009
In Malawi Kwacha

	Note	2009	2008
REVENUE			
Interest and similar income	23	**79,173,125**	59,840,724
Interest and similar expenses	24	**(12,173,765)**	(4,776,899)
Net interest income		**66,999,360**	55,063,825
Other income	25	**47,073,822**	34,752,823
Revenue grants	26	**79,891,250**	76,235,427
Project expenses	27	**(79,891,250)**	(76,235,427)
Operating income		**114,073,182**	89,816,648
EXPENSES			
Personnel expenses	28	**(57,102,958)**	(48,883,630)
Administration expenses	29	**(35,087,443)**	(21,797,886)
Organisation expenses	30	**(17,008,943)**	(13,211,245)
Total expenses		**109,199,344**	83,892,761
Profit before impairment losses on loans		**4,873,838**	5,923,887
(Reversal of provision)/provision for impairment of loans		**(35,176,466)**	3,573,383
(Loss)/profit for the year		**(30,302,628)**	9,497,270
Other comprehensive income			
Current year revaluation surplus		-	77,770,667
Total other comprehensive income		-	77,770,667
Total comprehensive income for the year		**(30,302,630)**	87,267,937

The notes on pages 10 to 32 are an integral part of these financial statements

The independent auditor's report is on page 5.

MALAWI UNION OF SAVINGS AND CREDIT CO-OPERATIVES
STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2009
In Malawi Kwacha

	Capital fund	Capital reserve	General reserve	Stabilisation reserve	Revaluation reserve	Retained earnings	Dividends paid	Total
Year ended 31 December 2008								
Balance as at 1 January 2008	255,452	3,897,651	13,221,483	125,148	29,447,425	26,247,087	-	73,194,246
Total comprehensive income for the year								
Profit or loss	-	-	-	-	-	9,497,270	-	9,497,270
Other comprehensive income								
Transfer to general reserve	-	-	1,222,371	-	-	(1,222,371)		-
Transfer to retained earnings	(1,897,655)	-	-	-	-	1,897,655	-	-
Current year revaluation surplus	-	-	-	-	77,770,667	-		77,770,667
Transfer of revaluation surplus to retained earnings	-	-	-	-	(2,144,362)	2,144,362	-	-
Total other comprehensive income	**(1,897,655)**	**-**	**1,222,371**	**-**	**75,626,305**	**2,819,646**	**-**	**77,770,667**
Total comprehensive income for the year	**(1,897,655)**	**-**	**1,222,371**	**-**	**75,626,305**	**12,316,916**	**-**	**87,267,937**
Transactions with members of the co-operative								
Additional capital fund	11,915,342	-	-	-	-	-	-	11,915,342
Dividends to members of the co-operative	-	-	-	-	-	-	(4,599,072)	(4,599,072)
Transactions with members of the co-operatives	**11,915,342**	**-**	**-**	**-**	**-**	**-**	**(4,599,072)**	**(7,316,270)**
Balance as at 31 December 2008	**10,273,139**	**3,897,651**	**14,443,854**	**125,148**	**105,073,730**	**38,564,003**	**(4,599,072)**	**167,778,453**
Year ended 31 December 2009								
Balance as at 1 January 2009	10,273,139	3,897,651	14,443,854	125,148	105,073,730	38,564,003	(4,599,072)	167,778,453
Total comprehensive income for the year								
Profit or loss	-	-	-	-	-	(30,302,628)	-	(30,302,628)
Other comprehensive income								
Transfer to retained earnings	(2,167,468)	-	-	-	-	2,167,468	-	-
Transfer of revaluation surplus to retained earnings	-	-	-	-	(2,101,475)	2,101,475	-	-
Total other comprehensive income	**(2,167,468)**	**-**	**-**	**-**	**(2,101,475)**	**4,268,943**	**-**	**-**
Total comprehensive income for the year	**(2,167,468)**	**-**	**-**	**-**	**(2,101,475)**	**(26,033,685)**	**-**	**(30,302,628)**
Transactions with members of the co-operative								
Dividends to members of the co-operatives	-	-	-	-	-	-	(4,748,635)	(4,748,635)
Balance as at 31 December 2009	**8,105,671**	**3,897,651**	**14,443,854**	**125,148**	**102,972,255**	**12,530,318**	**(9,347,707)**	**132,727,190**

The notes on pages 10 to 32 are an integral part of these financial statements

The independent auditor’s report is on page 5.

MALAWI UNION OF SAVINGS AND CREDIT CO-OPERATIVES
STATEMENT OF CASH FLOWS
for the year ended 31 December 2009
In thousands of Malawi Kwacha

	Note	2009	2008
Operating activities			
Profit for the year		**(30,302,628)**	9,497,270
Depreciation	6	**17,277,688**	6,514,041
Severance provision		**(6,414,561)**	3,786,250
Staff bonus provision		**-**	660,000
Accrued income		**(23,193,483)**	-
Loans provisions		**35,176,466**	(3,573,383)
		(7,456,518)	16,884,178
Change in trade and other receivables		**4,340,852**	761,927
Change in inventories		**(603,969)**	(10,190,321)
Change in trade and other payables		**38,947,020**	47,105,164
Net cash from operating activities		**35,277,385**	54,560,948
Investing activities			
Additions to property plant and equipment	6	**(24,904,299)**	(13,992,867)
SACCO loans repaid/ (issued)		**159,490,205**	(271,295,896)
Change in investments		**(106,058,952)**	93,327,847
Change in deposits		**6,904,682**	49,989,080
Net cash from / (used in) investing activities		**35,431,644**	(141,971,836)
Financing activities			
Donations for capital items	6	**-**	14,460,566
Change in member shares		**11,730,957**	4,374,105
Dividend paid		**(4,748,635)**	(4,599,072)
Loan received		**53,000,000**	
Change in SACCO free financial protection plan		**1,302,626**	3,850,647
Net cash from financing activities		**61,284,948**	18,086,246
Net increase / (decrease) in cash and cash equivalents		**131,943,977**	(69,324,642)
Cash and cash equivalents at the beginning of the year		**(42,958,771)**	26,365,931
Cash and cash equivalents at the end of the year	12	**88,985,206**	(42,958,711)
ADDITIONAL STATUTORY INFORMATION			
Increase in net working capital		**18,713,175**	23,241,724

The notes on pages 10 to 28 are an integral part of these financial statements

The independent auditor's report is on page 5.

MALAWI UNION OF SAVINGS AND CREDIT CO-OPERATIVES
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2009

1 REPORTING ENTITY

The principal activities of the Union are the promotion of Savings and Credit Co-operatives Societies ("SACCO's") in Malawi by providing technical, financial and banking facilities support. The Union is domiciled in Malawi and its registered office is MUSCCO House, Mandala Road, and P.O. Box 651, Lilongwe.

2. BASIS OF PREPARATION

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB"), Interpretations issued by the International Financial Reporting and Interpretations Committee and comply with the requirements of the Malawi Co-operatives Act 1998.

b) Basis of measurement

The financial statements have been prepared on the historical cost convention except for the following:

i) Property is measured at fair value;
ii) Investment property is measured at fair value; and
iii) Financial assets at fair value through profit or loss are measured at fair value

The methods used to measure fair values are discussed further in note 4.

c) Functional and presentation currency

These financial statements are presented in Malawi Kwacha, which is the union's functional currency.

d) Use of estimates and Judgments

Critical judgements in applying the union's accounting policies

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

Key sources of estimation uncertainty

The Union makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed in the following notes:

- Note 3.14 impairment of assets
- Note 5 determination of fair values

2. BASIS OF PREPARATION (continued)

e) Changes in accounting policies

Overview

Starting as of 1 January 2009, MUSCCO has changed its accounting policies in the following areas:-

i) Accounting for borrowing costs

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the Union capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Previously the Union immediately recognised all borrowing costs as an expense. This change in accounting policy was due to the adoption of IAS 23 *Borrowing Costs* (2007) in accordance with the transitional provisions of such standard; comparative figures have not been restated.

ii) Presentation of financial statement

The union applies revised IAS 1 *Presentation of Financial Statements* (2007), which became effective as of 1 January 2009. As a result, the union presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies of the union, which are set out below, have been applied consistently to all periods presented in these financial statements:

3.1 Revenue

Revenue arising from use by others of the union's assets yielding interest is recognised when it is probable that the economic benefits associated with the transaction will flow to the union and the amount of the revenue can be measured reliably. Grants received from the donors are treated as revenue grant in the year they are utilised. Unutilised balances are treated as deferred income. Grants received are recognised when the amounts are received and conditions attached to the grant agreement are complied with.

3.2 Property, plant and equipment

i) Recognition and measurement
Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Certain leasehold land, buildings, plant and equipment are revalued at periodic intervals.

ii) Subsequent costs

The expenditure incurred to replace a component of an item of property, plant and equipment is accounted for separately including the major inspections and overhaul costs. The subsequent expenditure on property, plant and equipment is capitalized only when the expenditure improves the condition of the asset resulting in increased future economies benefits. All other expenditures are expensed in the statement of comprehensive income as they are incurred

iii) Depreciation

No depreciation is provided on freehold land. Non current assets are depreciated on a straight line basis at annual rates estimated to reduce them to their anticipated residual value over their expected useful lives as follows:

Buildings	50%
Motor vehicles	5%
Furniture and fittings	10%

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if appropriate.

3.3 Investment property

Investment property is property held either to earn rental income, or for capital appreciation or for both but not for sale in ordinary course of business, use in the production and supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change therein recognised in profit and loss.

3.4 Receivables

Receivables are measured at amortized cost using the effective interest method, less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Inventories

Inventories are stated at the lower of cost and net realizable value on a first in first-out basis. Net realizable value is estimated selling price in the ordinary course of business, less estimated selling expenses.

3.6 Short term investments

Treasury bills are generally held until maturity. The investments are recognised in the financial statements at amortised cost. Fixed deposits are shown at cost plus interest receivable up to the year-end.

3.7 Capital contributions

Capital contributions represent the unamortized element of property plant and equipment and funds to be used for giving loans to SACCO donated by WOCC, USAID (READI project), the Malawi Government and DANIDA.

3.8 Capital reserve

The capital reserve comprises of surplus arising from assets and liabilities taken over at 1 January 1981 from the Promotion Education and Advisory Committee ("PEAC") and the subsequent surplus on revaluation of fixed assets. The reserve is non-distributable.

3.9 Capital fund

Capital grants are credited to capital fund and amortised over the estimated useful lives of the assets. On disposal, the unamortised balance is transferred to accumulated surplus.

3.10 General reserve

The general reserve consists of funds set aside for the purpose of guaranteeing the deposits of SACCO. 25% of surplus each year is transferred to this reserve as required by the Co-operatives Societies Act. The corresponding asset is part of investments owned by MUSCCO.

3.11 Stabilisation reserve

The stabilisation reserve was initially established from capital contributions previously provided by WOCCU, for purposes of guaranteeing the deposits of SACCO members. The corresponding asset is part of investments owned by the union.

3.12 Trust funds

These funds represent amounts entrusted to the union by the specified bodies for the disbursement of loans. The union charges a certain percentage as administration fees. Provisions for doubtful loans are debited to the respective funds. Proportion of interest received on loans is credited to the fund per respective agreements. Direct expenses are debited to the fund whenever the agreement permits. Fund balances are represented by corresponding assets such as loans and bank balances. A separate bank account is maintained for each fund.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 SACCO free financial protection plan (SFFP) fund

This fund was established to cater for insurance needs of SACCO since the termination of CUNA Mutual Insurance in the year to 31 March 1999. The first half of the year 2009, 85 % of premiums received are credited to the fund and 15% taken to income while in the second half of the year 80% of the premiums received were credited to the fund and 20% taken to income. Any further transfers to income need prior approval from the Board.

Claims paid are debited directly to the fund. Overhead expenses incurred in running the fund are not shown separately in the Statement of comprehensive income; these are shown together with the entity's expenses. A range of 15% to 20% of premiums is taken to income to cover these expenses. Premiums written comprise the premiums on insurance contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period.

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract. Claims incurred in respect of insurance contracts consist of claims and claims handling expenses paid during the financial year together with the movement in the provision for outstanding claims. Claims outstanding comprise provisions for the estimated cost of settling all claims incurred but unpaid at the Statement of financial position date whether reported or not, and related internal and external claims handling expenses.

3.14 Impairment of assets

i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are

equity securities, the reversal is recognised directly in equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Impairment of assets (continued)

ii) Non-financial assets

The carrying amounts of the union's non-financial assets, other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

3.15 Financial Instruments

The term financial instruments include assets and liabilities. Financial instruments are initially recognized at cost, which is fair value of the consideration paid or received to acquire the asset or liability respectively. Subsequent to initial recognition, all financial statements are measured at fair value except for the union's originated loans and receivables (not held for sale) held to maturity, investments and other financial assets whose fair value cannot be reliably measured. Where the assets have a fixed maturity date they are measured at amortised cost using the effective interest rate method. Those that do not have a fixed maturity date are measured at cost, less where applicable, permanent diminution in value.

Exposure to credit and interest rate arises in the normal course of the union's business.

3.16 Member shares

Member shares represent shares deposited with the union by each SACCO. Shares are held as security on loans disbursed to respective SACCO. Member shares are refundable upon disaffiliation of a SACCO and approval by the Registrar.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Employee service benefits

Employees are members of a defined contribution pension scheme. Employer's contributions are charged to the Statement of comprehensive income. Severance allowance is payable to employees on termination of employment by mutual agreement, death, retirement, voluntary retirement, retrenchment or redundancy and hence all provisions for severance allowances are charged to the Statement of comprehensive income.

3.18 Payables

Trade and other payables are measured at amortized cost using the effective interest method, less any impairment losses.

3.19 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short term investments.

3.20 Financing costs

Interest income is recognised in the statement of comprehensive income as it accrues, taking into account the effective yield on the asset. All interest and other costs incurred in connection with borrowings are expensed as incurred. The interest expense component of finance lease payments is recognized in the statement of comprehensive income.

3.21 Comparative information

Comparative information is restated in respect of changes in accounting policy, where applicable.

3.22 Foreign currency transactions

Transactions in foreign currencies are translated to Malawi Kwacha at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to Malawi Kwacha at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

3.23 Provisions

A provision is recognised in the statement of financial position when the union has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.24 Revaluation reserve

Surplus on the revaluation of assets is transferred to a non distributable revaluation reserve. Depreciation on revalued property, plant and equipment is charged to statement of comprehensive income. On the subsequent sale or retirement of a revalued property, the attributed revaluable surplus remaining in the property revaluation reserve is transferred directly to the surplus/ deficit reserve.

3.25 New standards and interpretation not yet adopted

Other than those adopted early as explained in note 2(e), a number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31

December 2009, and have not been applied in preparing these financial statements. None of these will have an effect on the financial statements of the union.

4. DETERMINATION OF FAIR VALUES

A number of the union's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

4.1 Property, plant and equipment

The buildings, property, plant and equipment held for use in the production and for administrative purposes, are stated in the statement of financial position at their depreciated replacement amounts, being the fair value at the revaluation date, less any subsequent accumulated depreciation and subsequent impairment losses.

Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that would be determined using fair values at the statement of financial position date.

Any revaluation increase arising on the revaluation is credited to the revaluation reserve and a decrease in carrying amount arising on the revaluation is charged to statement of comprehensive income to the extent that it exceeds the property's revaluation reserve relating to previous revaluations.

Depreciation on the revalued properties is charged to statement of comprehensive income. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property's revaluation reserve is transferred directly to retained earnings. Motor vehicles, fixtures and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Properties and plant in course of construction for production or administrative purposes are carried at cost, less any recognised impairment loss. Depreciation of these assets commences when the assets are ready for their intended purpose.

Depreciation is charged so as to write off the cost or revaluation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in the statement of comprehensive income.

4.2 Investment property

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the union's investment property every year. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.

4. DETERMINATION OF FAIR VALUES (CONTINUED)

4.3 Inventories

The fair values of inventories are stated at the lower of cost and net realizable value on a first in first out basis. Cost comprises overheads incurred in bringing the inventories to their present location and condition. Net realizable value is estimated selling price in the ordinary course of business, less estimated cost of completion and selling expense, and a reasonable profit margin based on the effort required to complete and sell the inventories.

4.4 Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

5. RISK MANAGEMENT

5.1 Financial risk management

The Union's activities expose it to a variety of financial risks including:

a) market risk;
b) credit risk; and
c) liquidity risk.

The union's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the union's financial performance.

Risk management is carried out by senior management under policies approved by the board of directors. The board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, and investment of excess liquidity.

5.1.1 Market risk

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

i) Foreign currency risk

The union is exposed to currency risk on transactions that are denominated in a currency other than the functional currencies of the Union. The currencies in which these transactions primarily are denominated are USD, CAD $, Euro and GBP. In respect of other monetary assets and liabilities denominated in foreign currencies, the union ensures that its net exposure is kept to an acceptable level.

At 31 December 2009 and 2008, the financial assets denominated in foreign currencies for union were:

	2009	2008
Cash and cash equivalents		
United States Dollar	**66,247,881**	3,620,524

The Union had no financial liabilities denominated in foreign currencies as at 31 December 2009 and 2008.

ii) Interest rate risk

Interest rate risk is the risk that fluctuating interest rates will unfavourably affect the union's earnings and the value of its assets, liabilities and capital.

Interest rate movement affects the union's profitability. Exposure to interest rate movement exist because the union has assets and liabilities on which interest rates change from time to time and exposure to interest rate movement arises when there is a mismatch between the rate of sensitive assets and liabilities. The union closely monitors interest rate movements and seeks to limit exposure by managing interest

rate and maturity structure of assets and liabilities carried on the statement of financial position.

5. RISK MANAGEMENT (CONTINUED)

5.1 Financial risk management (continued)

5.1.1 Market risk (continued)

ii) Interest rate risk

As at 31st December 2008 the table below summaries the exposure to interest rate risk of the union's interest-bearing financial instruments and the carrying amounts have been categorised by maturity dates:

Balance as at 31st December 2008

Assets	Up to 1 Month	1 – 3 Months	3 – 12 Months	Over 1 Year	Total
Loans to SACCOs	-	4,433,793	416,032,491	11,680,120	432,146,404
Short-term investments	7,300,920	-	-	-	7,300,920
Cash and cash equivalents	15,260,265	-	-	-	15,260,265
Totals assets	22,561,185	4,433,793	416,032,491	11,680,120	454,707,589

Balance as at 31st December 2009

Assets	Up to 1 Month	1 – 3 Months	3 – 12 Months	Over 1 Year	Total
Loans to SACCOs	-	-	316,829,629	6,458,618	323,288,247
Short-term investments	-	113,359,872	-	-	113,359,872
Cash and cash equivalents	91,790,655	-	-	-	91,790,655
Totals assets	**91,790,655**	**113,359,872**	**316,829,629**	**6,458,618**	**528,438,774**

The effective interest rate on these financial instruments is as follows:-

	2009	2008
Loans to SACCOs	**16%-25%**	16%-25%
Short-term investments	**8%-13%**	8%-13%
Cash and cash equivalent	**1%- 5%**	1% - 3%

iii) Profile

At the reporting date the interest rate profile of the union's interest-bearing financial instruments was:

In Malawi Kwacha	**2009**	2008
Fixed rate instruments		
Financial assets	**391,161,372**	441,016,823
Financial liabilities	**390,541,286**	335,372,154

iii) Equity price risk

Equity price risk arises from available-for-sale equity securities held on Malawi Stock Exchange. Management of the Union monitors the mix of its investment portfolio based on market indices. All decisions of buy or sell of its investments within the portfolio are approved by the Investment and Lending Committee.

The primary goal of the Union's investment strategy is to maximise investment returns and investment management is closely monitored by the Investment and Lending Committee. In accordance with its strategy equity investments are designated at fair value through profit or loss because their performance is actively monitored and they are

managed on a fair value basis.

5. RISK MANAGEMENT (CONTINUED)

5.1.2 Credit risk

Credit risk is the risk of financial loss to the union if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from lending and treasury.

The carrying amounts of cash and deposits with banks, treasury bills, SFFP fund and short-term loans to customers appearing on the Statement of financial position represent the maximum amount exposed to credit risk.

The union collects 10% collateral on agriculture loans disbursed and obtains a stop order arrangement for those associations with Auction Holdings. Furthermore, Liquidity loans are disbursed based on security from shares and deposits portfolio. On short-term investments, the union collects deal confirmation certificates which are secured under lock and key

i) Loans to SACCOs

The union extends credit/loans to SACCO based on security from deposits and shares portfolio. On agriculture loans, the union collects stop orders with Auction Holdings Ltd on the farmers' association to which credit has been extended in addition to the 10% collateral deposits that it collects from these associations.

ii) Short-term investments

The union limits its exposure to credit risk by depositing its excess cash only with reputable established commercial banks and discount houses accredited by the Reserve Bank of Malawi. Considering their high credit ratings and Reserve Bank close monitoring of these financial institutions, management does not expect any institution to fail to meet its obligations.

iii) Staff receivables

Staff receivables are recordable through payroll deductions and, on termination, terminal benefits.

iv) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

		Carrying amount	
In Malawi Kwacha	***Note***	**2009**	2008
Loans to SACCOs		**323,288,247**	432,146,404
Short term investments		**113,359,872**	7,300,920
Receivables	*11*	**18,611,990**	21,668,764
Cash and cash equivalents	*12*	**91,790,655**	15,260,265
Total		**547,050,764**	476,376,353

5. RISK MANAGEMENT (CONTINUED)

5.1.2 Credit risk (continued)

v) Impairment losses

The aging of loans to SACCOs as at the reporting date was:

In Malawi Kwacha	**Gross 2009**	**Impairment 2009**	Gross 2008	Impairment 2008
Past due 0-30 days	**240,924,985**	-	427,192,531	-
Past due 31-120 days	**62,263,711**	**30,532,496**	5,567,123	613,250
More than one year	**20,099,551**	**20,099,551**	17,401,262	17,401,261
Total	**323,288,247**	**50,632,047**	450,160,916	18,014,511

The movement in the allowance for impairment in respect of loans to SACCOs during the year was as follows:

In Malawi Kwacha	**2009**	2008
Balance at 1 January	**18,014,511**	19,954,495
Impairment loss/ (gain) recognized	**32,617,536**	(1,939,984)
Balance as at 31 December	**50,632,047**	18,014,511

Based on historic default rates, the union believes that no impairment allowance is necessary in respect of loans not past due or past due by up to 30 days representing 95 percent of the balance.

5.1.3 Liquidity risk

Liquidity risk is the risk that the union will not be able to meet its financial obligations as they fall due. The union's approach to managing liquidity is to ensure, as far as possible, that it will always have liquid assets to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the union's reputation.

The union ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the union maintains the following lines of credit:

i) Asset finance loan

MK21.2million loan was used to finance the senior management motor vehicles. The loans are expected to be fully paid in the year 2010. The vehicles act as security for the loans taken.

ii) CORDAID loan

MUSCCO got a credit line in November 2009 from CORDAID amounting to MK53 million with duration of 5 years and a grace period of 2 years to be repaid in 3 equal installments in the later 3 year time. The loan amount or outstanding amount thereof bears a fixed interest rate of 13% per annum payable semi annually.

5. RISK MANAGEMENT (CONTINUED)

5.1 Financial risk management (continued)

5.1.3 Liquidity risk (continued)

Balance as at 31st December 2009

Financial liabilities	**Up to 1 Month**	**1 – 3 Months**	**3 – 12 Months**	**Over 1 Year**	**Total**
Deposits	-	-	127,111,865	-	127,111,865
Other financial liabilities	58,218,976	74,222,351	-	75,818,962	208,260,289
Totals	**58,218,976**	**74,222,351**	**127,111,865**	**75,818,962**	**335,372,154**

Balance as at 31st December 2008

Financial liabilities	**Up to 1 Month**	**1 – 3 Months**	**3 – 12 Months**	**Over 1 Year**	**Total**
Deposits	-	-	134,016,547	-	134,016,547
Loans	-	-	-	53,000,000	53,000,000
Other financial liabilities	2,805,449	113,169,371	-	87,549,919	203,524,739
Totals	2,805,449	113,169,371	134,016,547	140,549,919	390,541,286

5.2 Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	31 December 2009		31 December 2008	
In Malawi Kwacha	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Loans to SACCOs	**272,656,199**	**272,656,200**	432,146,404	432,146,404
Short term investments	**113,359,872**	**113,359,872**	7,300,920	7,300,920
Receivables	**18,611,990**	**13,432,398**	22,952,842	22,952,842
Cash and cash equivalent	**91,790,655**	**88,984,953**	15,260,265	15,260,265
Loan	**(53,000,000)**	**(53,000,000)**	-	-
Deferred income	**(37,889,890)**	**(37,889,890)**	4,948,911	4,948,911
Payables	**(75,279,481)**	**(75,279,481)**	(74,222,351)	(74,222,351)
Deposits	**(134,016,547)**	**(134,016,547)**	(127,111,865)	(127,111,865)

The basis for determining fair values is disclosed in accounting number (4).

The daily monitoring of liquidity is the responsibility of the treasury section which monitors the level of mismatches in the maturity positions of assets and liabilities. The maturity gap analyses as at 31 December 2009 and 31 December 2008 are given below:-

5.3. Capital risk management

The Union's objectives when managing capital are to safeguard the union's ability to continue as a going concern in order to provide returns for the members and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the union may adjust the amount of dividends paid to shareholders, return capital to the shareholder, or sell assets to reduce debt.

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Motor Vehicles	Furniture & Equipment	Total
Cost or valuation					
As at 1 January 2008	1,714,000	35,015,666	26,012,830	12,209,360	74,951,856
Additions	-	783,027	10,837,342	2,372,498	13,992,867
Revaluation adjustments	-	77,770,667	-	-	77,770,667
Transfer to assets held for sale	-	-	(4,771,987)	-	(4,771,987)
As at 31 December 2008	**1,714,000**	**113,569,360**	**32,078,186**	**14,581,858**	**161,943,404**
Depreciation					
As at 1 January 2008	-	3,441,115	11,969,209	6,115,342	21,525,666
Charge for the year	-	711,729	4,483,663	1,318,649	6,514,041
Transfer to assets held for sale	-	-	(2,266,694)	-	(2,266,694)
As at 31 December 2008	**-**	**4,152,844**	**14,186,179**	**7,433,991**	**25,773,014**
Cost or valuation					
As at 1 January 2009	**1,714,000**	**113,569,360**	**32,078,186**	**14,581,858**	**161,943,404**
Additions	**-**	**357,179**	**22,924,450**	**1,622,670**	**24,904,299**
Transfer from asset held for sale	**-**	**-**	**4,771,987**	**-**	**4,771,987** **-**
As at 31 December 2009	**1,714,000**	**113,926,539**	**59,774,623**	**16,204,528**	**191,619,690**
Depreciation					
As at 1 January 2009	**-**	**4,152,844**	**14,186,179**	**7,433,991**	**25,773,014**
Charge for the year	**-**	**2,317,340**	**12,090,062**	**2,870,286**	**17,277,688**
Transfer from asset held for sale	**-**	**-**	**2,266,695**	**-**	**2,266,695**
As at 31 December 2009	**-**	**6,470,184**	**28,542,936**	**10,304,277**	**45,317,397**
Carrying amounts					
As at 1 January 2009	**1,714,000**	**109,416,516**	**17,892,007**	**7,147,867**	**136,170,390**
As at 31 December 2009	**1,714,000**	**107,456,355**	**31,231,688**	**5,900,251**	**146,302,294**
As at 1 January 2008	**1,714,000**	**31,574,551**	**14,043,621**	**6,094,018**	**53,426,190**
As at 1 December 2008	**1,714,000**	**109,416,516**	**17,892,007**	**7,147,867**	**136,170,390**

Land and buildings were revalued by Real Property and Development Consultants in December 2008 on market value basis. Under the method used, the revalued cost was treated as the new gross amount and accumulated depreciation was restated. The resultant surplus was taken to revaluation reserve

7. INVESTMENT PROPERTY

Cost –valuation	**2009**	2008
As at 1 January 2009	**21,768,160**	21,400,000
Addition	-	368,160
Change in fair value	**9,231,840**	-
As at 31 December 2009	**31,000,000**	21,768,160

The residential houses were revalued in 2009 by T.G. Msonda BSc.(L Admin). ARICS, IRRV, MSIM Chartered valuation surveyor on an open market value basis on. The values of investment property stated above are reasonable approximates of their fair values as at 31 December 2009

8. INVENTORIES

Stationery and equipment for sale	**2,090,091**	1,486,122

9. LOANS TO SACCO

MUSCCO loans	**271,075,368**	430,565,573
NORAD loans	**1,580,831**	1,580,831
Total loans	**272,656,199**	432,146,404

The loans are repayable within one year and represent amounts advanced to affiliated SACCO and Associations for their liquidity and institutional development and sub-lending to individual members and are subject to interest at rates varying from 16% to 25% per annum. The above balances are net of impairment loss on loans as follows:

MUSCCO loans		
As at 1 January	**16,433,679**	18,373,663
Impairment loss/ (gain) recognized	**32,617,536**	(1,939,984)
Balance as at 31 December	**49,051,215**	16,433,679
NORAD loans	**1,580,832**	1,580,832
	50,632,047	18,014,511

Impairment losses on the project loans are debited to the respective funds.

10. INVESTMENTS

Malawi Government treasury bills	**108,935,072**	-
TNM Shares	**4,424,800**	7,300,920
	113,359,872	7,300,920

Total interest earned on these investments is **MK5, 813, 410** (2008: MK 16,948,675). Interest rates ranged from 8% to 13%. Unearned interest MK1, 613,415 (2008:MK1, 490,411). Investment in TNM shares incurred a loss amounting to MK 2,876,120 (2008 gain MK2, 876,120). The share value gain/loss is recognized in the profit or loss as at the year end.

11. RECEIVABLES

	2009	2008
a) Short –term: receivable within 12 months		
Staff loans and advances	**997,229**	285,421
Prepayments and sundry receivables	**13,466,689**	21,383,343
	14,463,918	21,668,764
b) Long-term staff loans – receivable after 12 months	**4,148,072**	1,284,078
Total receivables	**18,611,990**	22,952,842

The staff loans are repayable within the period of one year to three years and represent amounts advanced to staff for educational and personal loans and are subject to interest at rates varying from 12% to 20% per annum Total interest received on staff loans was MK490,235 (2008: MK 341,228). The above staff receivables are net of impairment loss as follows:

As at 1 January	**573,322**	1,120,210
Movement to profit and loss	**2,558,928**	(546,888)
Balance as at 31 December	**3,132,250**	573,322

12. CASH AND CASH EQUIVALENTS

Current accounts	**16,207,049**	6,919,239
7 Day call accounts	**5,559,421**	183,756
Foreign current denominated accounts (“FCDA”)	**66,247,881**	5,148,058
Savings account	**3,774,579**	3,008,460
Cash in hand	**1,725**	752
	91,790,655	15,260,265
Bank overdraft	**(2,805,449)**	(58,218,976)
Cash and cash equivalents	**88,985,206**	(42,958,711)

The overdraft facility obtained from the National Bank of Malawi in the year 2009 got terminated in the same year. As at 31st December 2009 the Union did not have any overdraft facility.

13. ASSETS CLASSIFIED AS HELD FOR SALE

Cost	**4,771,987**	4,771,987
Transfer to property plant and equipment	**(4,771,987)**	-
Balance as at 31 December	-	4,771,987
Depreciation:		
Accumulated depreciation	**2,266,694**	1,908,795
Depreciation for year	-	357,899
Transfer to property plant and equipment	**(2,266,694)**	-
Balance as at 31 December	-	2,266,694
Carrying amount	-	2,505,293

The motor vehicle Peugeot 407 was earmarked for sale in the year since April 2008. However, as at 31st December 2009, the vehicle had not yet been sold. The vehicle has therefore been derecognized as asset held for sale.

14. TRUST FUNDS

	2009	2008
Father Roy	**322,303**	322,303
Women in Development	**76,096**	76,096
NORAD credit line	**34,571,000**	34,571,000
	34,969,399	34,969,399

These funds represent amounts entrusted with MUSCCO by the specified bodies for the disbursement of loans. MUSCCO charges administration fees. Impairment on loans is debited to the respective funds. Interest received from investing in NORAD Credit Line funds is recognized in profit or loss.

15. CAPITAL CONTRIBUTIONS

Capital contributions	**43,605,373**	43,605,373

The balance on capital contributions represents funds to be used for giving loans to SACCO donated by WOCC, USAID (READI project), the Malawi Government and DANIDA.

16. OBLIGATIONS UNDER FINANCE LEASE

This note provides information about the contractual terms of the union's finance lease liabilities, which are measured at amortised cost. For more information about the union's exposure to interest rate and liquidity risk, see note 5.

Non current liabilities		
Finance lease liabilities	**16,880,441**	-
Current liabilities		
Finance lease liabilities	**4,334,330**	-

Terms and conditions of the outstanding finance lease liabilities are:

	Nominal interest rate	Year of maturity	Face value	Carrying amount
Mitsubishi - Pajero	21%	2013	**18,897,060**	**13,484,178**
Mitsubishi - Spontero	21%	2014	**10,826,379**	**7,730,593**
			29,723,439	**21,214,771**

	Future minimum lease payments	Interest	Present value of minimum lease payments
As at 31 December 2009			
Less than one year	**8,281,437**	**3,947,107**	**4,334,330**
Between one and five years	**21,442,002**	**4,561,561**	**16,880,441**
	29,723,439	**8,508,668**	**21,214,771**

The lease attracts interest at 21% and it is secured over the motor vehicles purchased.

17. LOAN

	2009	2008
CORDAID loan	**53,000,000**	-

MUSCCO got a credit line in November 2009 from CORDAID amounting to MK53 million with duration of 5 years and a grace period of 2 years to be repaid in 3 equal installments in the later 3 year time. The loan amount or outstanding amount thereof bears a fixed interest rate of 13% per annum payable semi annually and the loan is secured by assets related to this loan (i.e. loans to SACCO's and deposits from SACCO's that are related to these loans). The loans have not yet been disbursed in form of loans to SACCOs as the funds were received in December 2009.

18. MEMBER SHARES

As at 1 January 2008	**75,818,962**	71,444,857
Additions: shares issued at par	**11,730,957**	4,374,105
As at 31 December 2009	**87,549,919**	75,818,962

Share certificates are not issued to shareholders instead share statements are sent to shareholders. Member shares are refundable to the members upon disaffiliation of the SACCO and approval by the Registrar. Members' shares are classified as non current liabilities since the Union does not have unconditional right to refuse withdrawal of member shares by its affiliates and as such they cannot be classified as equity. The Cooperative Societies Act does not restrict withdrawal of members' shares.

19. SACCO FREE FINANCIAL PROTECTION PLAN FUND

Opening balance	**40,211,017**	36,360,370
Premiums received	**17,891,752**	14,838,149
Claims paid	**(16,589,126)**	(10,987,502)
Closing fund balance	**41,513,643**	40,211,017

The fund was previously called the Risk Management Fund. This fund was established to cater for insurance needs of SACCO since the termination of CUNA Mutual Insurance in the year to 31 March 1999. SACCO pays monthly premiums of 0.4% of members' savings and loans. Claims for loans are up to a maximum of K225, 000 and for savings up to a maximum of MK100, 000 per SACCO member. Premiums recognised represent 85% of total premiums received during the year. Claims are debited directly to the fund and 15% of premiums are taken to profit or loss. SFFPP has been reclassified as a non current liability because by its very nature it cannot be part of equity. The Directors of the Union are of the opinion that the fund balance is adequate to meet any future liability arising from the SFFPP Programme.

20. EMPLOYEE BENEFITS

Pension Fund

The Union's pension scheme is the NICO Pension and Death Benefits Fund. The Trustees of the fund have effected a deposit administration contract with NICO Life Assurance Limited. The charge to the Statement of comprehensive income is **MK1, 645,050** (2008: MK 1,274,775).

Severance Allowance

Severance allowance is payable to employees on termination of employment by mutual agreement, death, retirement, voluntary retirement, retrenchment or redundancy. A full provision payable has been included in the accounts as a long-term liability in accordance with Employment Act Sections 35(1), 35 (6) and 59.

The severance computation has been based on each employee's gross remuneration package inclusive of all entitled benefits both in cash and in kind. The employees who have been in service for over 10 years, their severance allowance is computed based on a full monthly gross remuneration package multiplied by the number of years in service. For employees with less than 10 years in service, the computation is half the gross monthly remuneration package multiplied by number of years in service.

	2009	2008
Balance at the beginning of the year	**17,654,000**	13,867,750
(Over)/Under provision made during the period	**(6,414,561)**	3,786,250
Balance at the end of the year	**11,239,439**	17,654,000

21. PAYABLES

Deferred income	**37,889,890**	4,948,911
Sundry payables	**72,814,676**	66,808,635
Disaffiliated SACCO shares	**2,464,805**	2,464,805
	113,169,371	74,222,351

Disaffiliated SACCO shares represent member shares for SACCO that were disaffiliated from MUSCCO. The amount is refundable to the SACCO.

22. DEPOSITS

Ordinary demand deposits	**33,508,318**	51,538,116
Fixed deposits	**41,633,487**	11,399,165
Special deposits	**13,376,152**	18,505,772
Liquidity deposits	**20.685,934**	21,825,110
Statutory deposits	**24,812,656**	23,843,702
	134,016,547	127,111,865

23. INTEREST EARNED AND SIMILAR INCOME

Interest on investments	**5,813,410**	14,912,211
Change in fair value of equity instruments	**-**	2,876,120
Interest on loans	**65,398,065**	35,670,725
Bank interest	**269,360**	1,607,939
	7,692,290	4,773,729
	79,173,125	59,840,724

24	**INTEREST EXPENSE AND SIMILAR CHARGES**	**2009**	2008
	Ordinary deposits	**499,860**	1,368,429
	Fixed deposits	**474,101**	537,585
	Liquidity deposits	**417,913**	319,099
	Statutory deposits	**477,115**	374,905
	Special deposits	**164,189**	450,519
	Bank charges	**1,056,913**	1,726,362
	Interest on overdraft	**4,495,468**	-
	Interest on finance lease obligations	**1,712,086**	-
	Change in fair value of equity instruments	**2,876,120**	-
		12,173,765	4,776,899

25.	**OTHER INCOME**		
	MUSCCO dues received	**5,495,189**	5,670,000
	MUSCCO audit fees	**5,380,000**	7,903,000
	Net stationery sales	**798,798**	1,456,400
	Consultancy and trust funds and administration fees	**8,129,450**	10,416,259
	Change of fair value of investment property	**9,231,840**	-
	Rental income	**4,767,400**	4,368,000
	SACCO computer sales and services	**-**	206,000
	Government payroll administration fees	**692,048**	585,253
	Insurance expense allowance	**5,292,177**	2,647,318
	Interest on staff loans	**490,235**	341,228
	Sundry income	**6,796,685**	1,159,365
		47,073,822	34,752,823

26.	**REVENUE GRANT**		
	Included in income are revenue grant from the following donors:		
	Swedish Cooperative Center (“SCC”)	**36,163,268**	34,016,932
	Canadian Cooperative Association (“CCA”)	**17,025,255**	17,907,252
	HIVOS	**26,702,727**	24,311,243
		79,891,250	76,235,427

27. PROJECT EXPENSES

a) HIVOS

The HIVOS project's main purpose is to institutionalise risk management at the strategic level and structuring risk management in the organisation by setting up a systematic approach, policy and department to identify, measure, monitor and manage business risks in MUSCCO. The project agreement is for 2 years (from 12 Nov 2007 to 31 Dec 2009).

b) CCA

The Canadian Co-operatives Association (“CCA”) support to MUSCCO commenced in March 2006 to enhance MUSCCO's and participating SACCO's ability to provide accurate, timely and relevant information through the provision of software and computerisation of the SACCO. The Project agreement is for a period of 2 years.

c) SCC

The SCC project (Member Mobilisation and Capacity Building Project) commenced in June 2003 with the objective to ensure that members in the project implementation areas are aware of how their SACCO should operate and support the progress of the SACCO and to ensure that members of the SACCO Boards have the ability to guide and safeguard an efficient operation of their SACCO.

27. PROJECT EXPENSES (continued)

	2009	2008
Swedish Cooperative Center ("SCC")	**36,163,268**	34,016,932
Canadian Cooperative Association ("CCA")	**17,025,255**	17,907,252
HIVOS	**26,702,727**	24,311,243
	79,891,250	76,235,427

28. PERSONNEL EXPENSES

Gratuity	**5,916,925**	3,124,150
House allowance	**8,120,000**	4,972,995
Leave grant	**145,000**	132,500
Medical	**696,000**	674,650
Pension	**1,645,050**	1,274,775
Relocation	**451,592**	342,650
Severance allowance	**-**	3,786,250
Salaries	**31,779,939**	30,463,325
Staff benefits	**4,937,223**	3,186,241
Fringe benefit tax	**2,457,476**	266,094
Terminal benefits	**953,753**	-
Staff bonus	-	660,000
	57,102,958	48,883,630

29. ADMINISTRATION EXPENSES

Audit fees	**2,186,410**	2,000,000
Building maintenance	**992,903**	557,050
City rates	**610,653**	97,682
Computers and copier expenses	**292,760**	488,694
Depreciation charge	**17,237,687**	6,514,041
Equipment maintenance	**20,000**	149,523
Electricity	**488,322**	338,346
Entertainment allowance	**182,788**	36,600
Gifts and awards	**128,550**	164,163
General expenses	**530,329**	338,259
Foreign exchange loss	**79,685**	527,008
Internet expenses	**165,426**	39,259
Insurance - other	**2,117,399**	2,611,378
Legal expenses	**305,000**	35,000
Night guarding services	**813,115**	669,811
Office stationery	**486,270**	398,901
Office rent	**4,475,580**	2,693,353
Office cleaning	**260,878**	244,429
Postage and delivery	**439,879**	410,708
Subscription and levies	**326,501**	440,293
Telecommunication	**706,298**	980,736
Tea/coffee breaks	**194,353**	196,548
Uniforms	**-**	17,542
Vehicle maintenance & other	**1,389,028**	1,504,318
Water	**657,629**	344,244
	35,087,443	21,797,886

30. ORGANISATION EXPENSES

	2009	2008
Board expenses	**2,152,690**	1,603,293
Publicity and advertising	**400,343**	220,980
Local travel	**643,310**	529,362
Subsistence allowance	**3,068,581**	2,396,696
International SACCO day	**42,492**	22,000
WOCCU/ACCOSCA	**210,000**	354,729
International travel	**5,015,399**	4,199,772
Vehicle fuel	**1,246,473**	1,153,545
Local training and seminars	**3,103,314**	2,613,538
Consultancy	**1,046,341**	-
FINCOOP support	**80,000**	117,330
	17,008,943	13,211,245

31. RELATED PARTY TRANSACTIONS

Majority of the transactions engaged by the Union are with its members ("SACCOs"). These transactions which mostly relate deposits, loans and SACCO Free Financial Protection Plan are at arms length.

32. CAPITAL COMMITMENTS

The Union had no capital commitments at 31 December 2009 requiring disclosures in the financial statements.

33. TAXATION

MUSCCO is exempt from income taxes under the First Schedule, subsection (ix) to the Taxation Act as confirmed by the Principal Revenue Officer of the Malawi Revenue Authority.

34. CONTINGENT LIABILITIES

There are no contingent liabilities as at the year end requiring disclosures in the financial statements.

35. SUBSQUENT EVENTS

There are no events that have occurred after year end which necessitate adjustments to/or disclosure in the financial statements. However, as at date of audit report the exchange and inflation rates had moved to:-

	2009	2008
United States Dollar (US$)	**145.9**	139.2
Euro (€)	**211.8**	216.9
Pound sterling (£)	**239.0**	234.3
South African Rand	**20.1**	17.6
Inflation rate	**9.5%**	9.9%