NBS Bank
Your caring Bank

NBS Bank Limited
Consolidated and Separate Financial Statements

FOR THE YEAR ENDED 31 DECEMBER
2014

The Directors have pleasure in submitting the consolidated and separate financial statements of NBS Bank Limited ("The Bank") for the year ended 31 December 2014.

NATURE OF BUSINESS

NBS Bank Limited was registered as a financial institution under the Banking Act on 1 March 2004 and commenced banking operations from 1 July 2004. The Bank was listed on the Malawi Stock Exchange in June 2007 and has 100% shareholding in NBS Forex Bureau Limited which commenced operations in January 2010 and was made dormant from 2012 to date.

The shareholders and their respective shareholdings are:

	2014 %	2013 %
NICO Holdings Limited	50.1	50.1
International Finance Corporation	18.1	18.1
National Investment Trust Limited	5.2	5.2
Public	26.2	26.2
Employee Share Ownership Scheme	0.4	0.4
	100	100

FINANCIAL PERFORMANCE

The Bank and its subsidiary, NBS Forex Bureau Limited ("The Group") reported profit before tax of **MK4,065 million** for the year ended 31 December 2014 (December 2013: MK2,851 million) and net profit after tax of **MK2,693 million** (2013: MK1,913 million). Total gross income at **MK21,226 million** (2013: MK21,455 million) was made up of **MK14,512 million** (2013: MK17,198 million) interest income and **MK6,714 million** (2013: MK4,257 million) non-interest income. Interest income declined by 16% due to lower lending rates and decline in loans and advances.

Total deposits at **MK48,314 million** (2013: MK47,180 million)grew by 2% due to bank's strategy on consolidation and interest cost management coupled with improved customer services, while gross advances at **MK41,152million** (2013: MK40,237 million) grew by 2% due to reduced lending as a result of reduced capacity by the borrowers. Net advances at **MK31,024 million** (2013: MK34,861 million) was lower as a result of growth in interest in suspense. Total assets grew by 15% (K8 billion) in the year mainly as a result of increase in cash balances to meet Liquidity Reserve Requirement obligations.

ECONOMIC OVERVIEW

In 2014, the Malawi economy was on a rebound with a projected real GDP growth of 5.7%, from a 5.2% growth in 2013. Growth in 2014 remained broad-based on account of the increase in industrial productivity, stronger agriculture production as well as stronger performance in the services sector, wholesale and retail trade. However, the mining and quarrying sector contracted following the suspension of production at the Kayelekera Uranium mine.

The Monetary Policy rate stood at 25% before being reduced to 22.5% in July 2014 and then back to 25% in October 2014 as inflationary pressures persisted. The Reserve Bank of Malawi maintained a tight monetary policy stance.

The Kwacha has recently appreciated due to an influx of foreign currency on the market. The total foreign exchange reserves stood at 4.83 months of import cover compared to 4.03 months import cover at the end of 2013.

Despite high growth prospects, companies are expected to face several challenges such as high interest rates, high electricity costs and high transport costs. Lending rates are expected to remain high due to the high monetary policy rate. We expect the authorities to continue implementing a tight monetary policy that is in tandem with the fiscal policy. Some level of stability is expected on the foreign currency market in light of the recent policy changes and an increase in the foreign exchange reserves.

STRATEGY

The Group continued to consolidate the asset and deposit base through its strategy of taking banking to the people. Agency banking and other business initiatives were introduced during the year to improve the service delivery platform and ensure that the customer is served better whilst at the same time facilitating growth of the business.

The Group focuses on quality service delivery achieved through efficient business processes and systems. To this end, The Group recognises that its strategy can only be achieved through efficient and committed staff. During the year the Bank continued the change management training to equip the staff with relevant skills to adapt to the ever changing business environment. The Group has continued utilising the balanced scorecard model in the implementation of its business strategy.

Performance

The results and state of affairs of the Group are set out in the accompanying consolidated and separate statements of financial position, comprehensive income, and cash flows and associated accounting policies and notes.

DIVIDEND

Due to the improved performance, the Board of Directors recommends that dividend of MK400 million be declared and paid in respect of the year ended 31st December 2014 (2013: nil).

CORPORATE GOVERNANCE

The Group embraces best practices in corporate governance and has board committees that comply with the requirements of the Code of Corporate Practices and Conduct. The Board is charged with responsibilities of monitoring compliance with regulations, legislations and standard of operations. The sub-committees of the Board are chaired by non-executive directors.

DIRECTORATE AND SECRETARY

The following directors and secretary served during the year:

Mr. F.L. Mlusu	-	Chairman
Mrs. E. Nuka	-	Director
Mr. V. Kumwenda	-	Director
Dr. E. Matabwa	-	Director
Mr. C. Mphande	-	Director
Mr. L. Mandala	-	Director
Mr. A. Saxena	-	Director
Mr. G. Van Heerde	-	Director
Mr. C. Chiundira	-	Director
Mrs C Ngondoma	-	Company Secretary

The board met five times during the year and the members’ attendance is summarised as below:

Name of Director	Number of Meetings during the year	Number of Meetings Attended
Mr. F.L. Mlusu	5	5
Mrs. E. Nuka	5	4
Mr. V. Kumwenda	5	5
Dr. E. Matabwa	5	3
Mr. C. Mphande	5	4
Mr. L. Mandala	5	4
Mr. A .Saxena	5	5
Mr. G. Van Heerde	5	5
Mr. C. Chiundira	5	5

BOARD COMMITTEES

There are several board committees which were established to ensure that the board discharges its duties effectively in accordance with principles of good corporate governance. All board committees have terms of reference and report to the main board.

FINANCE AND AUDIT COMMITTEE

The Finance and Audit Committee is responsible for reviewing the reports of both internal and external auditors, as well as overseeing the adequacy and effectiveness of internal and accounting controls. The committee consists of three non-executive directors and the Chief Executive Officer attends the audit committee meetings as a management representative.

Responsibilities of the Finance and Audit Committee include:

- Review the audit plan with the external auditors, with specific reference to the proposed audit scope and approach;
- Review management reports and letters received from the external auditors concerning deviations from and weaknesses in accounting and operational controls, and ensure that prompt action is taken by management and that issues are satisfactorily resolved;
- Obtain assurance from the external auditors that adequate accounting records are being maintained;
- Review the adequacy of capital, provisions for bad debts and diminution in the value of other assets, and the formulae applied by the Group in determining charges for and levels of general debt provisions, within the framework of the Group policy;
- Review the accounting policies and all proposed changes in accounting policies and practices, and recommend such changes where appropriate in terms of International Financial Reporting Standards. Consider the adequacy of disclosures in the consolidated and separate financial statements;
- Review the Group's interim and audited annual consolidated and separate financial statements and all financial information intended for distribution to the shareholders and the general public, prior to submission to the full Board;
- Assess the performance of financial management and review the quality of internal accounting control systems and reports produced by financial management;
- Review the basis on which the Group has been determined as a going concern and make recommendations to the Board;
- Review written reports by the internal audit department of the Group detailing the adequacy and overall effectiveness of the Group's internal audit function and its implementation by management, the scope and depth of coverage, reports on internal control and any recommendations and confirmation that appropriate action has been taken;
- Review the internal audit charter annually, that formally outlines the purpose, authority and responsibility of the internal audit function;
- Consider reports and letters received from the Banking supervisory authorities and other regulatory bodies, and management's responses thereto where they concern matters of compliance and the duties and responsibilities of the board of directors of the Group;
- Consider the development of accounting standards and requirements and review statements on ethical standards or requirements for the Group; and
- Review and make recommendations on any potential conflicts of interest relating to situations of a material nature, among others.

Both internal and external auditors have unlimited access to the Finance and Audit Committee. The Committee is comprised of:

Mrs. E. Nuka	-	Chairperson	
Dr. E. Matabwa	-	Member	up to June 2014
Mr. G. van Heerde	-	Member	
Mr. C. Chiundira	-	Member	

The committee met six times during the year and the members' attendance is summarised as below:

Name of Director	Number of Meetings during the year	Number of Meetings Attended
Mr E. Matabwa	6	5
Mr. V. Kumwenda	6	4
Mr. C. Mphande	6	5
Mr. C. Chiundira	6	5

APPOINTMENTS AND REMUNERATION COMMITTEE

The Committee is responsible for reviewing Employees Conditions of Service, approving recommendations for adjustments to organisational structure and hiring of Executive Management.

The Committee is comprised of:

Mr. E. Matabwa - Chairman
Mr.V. Kumwenda - Member
Mr. C. Mphande - Member Effective 1st October 2014
Mr. C. Chiundira - Member Effective 1st October 2014

The committee met five times during the year and the members' attendance is summarised as below:

Name of Director	Number of Meetings during the year	Number of Meetings Attended
Mr E. Matabwa	5	5
Mr. V. Kumwenda	5	4
Mr. C. Mphande	2	2
Mr. C. Chiundira	2	2

CREDIT COMMITTEE

The Committee is responsible for credit policy and credit approvals which are above the mandate of Management Credit Committee and also approves write-offs of all non-performing facilities.

The Committee is comprised of:

The Committee is comprised of:

Mr. C. Mphande - Chairman
Mr. V. Kumwenda - Member
Mr. L. Mandala - Member
Mr. A. Saxena - Member

The committee met seven times during the year and the members' attendance is summarised as below:

Name of Director	Number of Meetings during the year	Number of Meetings Attended
Mr C. Mphande	7	7
Mr. V. Kumwenda	7	4
Mr. L. Mandala	7	5
Mr. A. Saxena	7	6

RISK COMMITTEE

The Risk Committee is charged with oversight of the management of all business risks across the Bank with particular view to ensuring that mitigating actions are being undertaken and that overall risks are minimised to acceptable limits.

The committee is comprised of:

Mr. L. Mandala - Chairman
Mrs. E. Nuka - Member
Mr. A. Saxena - Member
Mr. G. Van Heerde - Member

The committee met four times during the year and the members' attendance is summarised as below;

Name of Director	Number of Meetings during the year	Number of Meetings Attended
Mr. L. Mandala	4	3
Mrs. E. Nuka	4	4
Mr. A. Saxena	4	4
Mr. G. Van Heerde	4	3

SUBSEQUENT EVENTS

The directors are not aware of any matter or circumstances arising since the end of the financial year.

CHAIRMAN
31 March 2015

DIRECTOR

The Directors are responsible for the preparation and fair presentation of the group annual financial statements and company annual financial statements of NBS Bank Limited, comprising the statements of financial position at 31 December 2014, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with International Financial Reporting Standards, and in the manner required by the Malawi Companies Act, 1984.

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

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

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

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk management.

The Directors' responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these 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.

The Directors have made an assessment of the Bank's and its subsidiary's ability to continue as a going concern and have a reasonable expectation that the Bank and its subsidiary has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with applicable financial reporting framework.

APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements of NBS Bank Limited, as indicated above, were approved by the Board of Directors on 31 March 2015 and are signed on its behalf by:

CHAIRMAN DIRECTOR

KPMG
Public Accountants and Business Advisors
MASM House, Lower Sclater Road
P.O. Box 508
Blantyre, Malawi

Telephone: (265) 01 820 744 / 01 820 391
Telefax: (265) 01 820 575
E-mail: kpmg@kpmgmw.com
Website: www.kpmg.com/mw

We have audited the annual consolidated and separate financial statements of NBS Bank Limited and its subsidiary, NBS Forex Bureau Limited, which comprise the statements of financial position as at 31 December 2014, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the consolidated and separate financial statements, which include a summary of significant accounting policies and other explanatory notes as set out on pages 28 to 83.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, these financial statements give a true and fair view of the consolidated and separate financial position of NBS Bank Limited as at 31 December 2014 and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Malawi Companies Act, 1984, so far as it concerns the members of the company.

KPMG

Certified Public Accountants (Malawi)
Blantyre

31 March 2015

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

In thousands of Malawi Kwacha

	Note	Consolidated 2014	Consolidated 2013	Separate 2014	Separate 2013
ASSETS					
Cash and cash equivalents	7	19,012,481	13,428,063	19,012,481	13,428,063
Money market investments	8	6,666,175	5,654,850	6,666,175	5,654,850
Loans and advances to customers	9	31,023,652	34,861,318	31,023,652	34,861,318
Amounts due from subsidiary	10	-	-	141,177	141,177
Investment securities	11	48,665	33,665	48,665	33,665
Investment in subsidiary	12	-	-	42,600	42,600
Property and equipment	13	5,610,443	5,123,219	5,564,933	5,077,709
Intangible assets	14	115,823	128,957	115,823	128,957
Other assets	15	5,884,053	983,605	5,853,317	952,878
Total assets		68,361,292	60,213,677	68,468,823	60,321,217
LIABILITIES AND EQUITY					
Liabilities					
Amounts due to subsidiary	10	-	-	12,580	12,580
Current and savings accounts	16	35,300,085	28,846,527	35,300,614	28,847,055
Term deposit accounts	16	8,183,203	13,992,633	8,183,203	13,992,633
Short-term loan	17	5,037,404	935,190	5,037,404	935,190
Long-term loans	18	317,118	435,961	317,118	435,961
Deferred tax liabilities	19	266,957	241,189	236,621	210,853
Foreign currency denominated accounts		4,830,975	4,340,911	4,843,026	4,352,962
Income tax payable		645,263	590,546	645,263	590,546
Other liabilities	20	2,047,384	1,800,007	2,130,700	1,883,333
Total liabilities		56,628,389	51,182,964	56,706,529	51,261,113
Equity					
Share capital	21	363,822	363,822	363,822	363,822
Share premium	22	2,323,895	2,323,895	2,323,895	2,323,895
Revaluation reserve	23	552,017	552,017	552,017	552,017
Fair value reserve	24	-	(9,672)	-	(9,672)
Retained earnings		6,407,767	5,800,651	6,437,158	5,830,042
Loan loss reserve	25	2,085,402	-	2,085,402	-
Total equity		11,732,903	9,030,713	11,762,294	9,060,104
Total liabilities and equity		68,361,292	60,213,677	68,468,823	60,321,217

The consolidated and separate financial statements of the NBS Bank Limited were approved for issue by the Board of Directors on 31 March 2015 and were signed on its behalf by:

DIRECTOR

DIRECTOR

The notes on pages 33 to 83 are an integral part of these consolidated financial statements.
The auditors' report is on page 27.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

In thousands of Malawi Kwacha

	Note	Consolidated 2014	Consolidated 2013	Separate 2014	Separate 2013
INCOME					
Interest on loans and advances		12,241,547	13,619,778	12,241,547	13,619,778
Interest on placements with other banks		68,971	50,270	68,971	50,270
Income from lease financing		760,709	780,868	760,709	780,868
Income from money market investments		1,441,080	2,747,572	1,441,080	2,747,572
Total interest income	26	14,512,307	17,198,488	14,512,307	17,198,488
Interest expense		(3,743,161)	(7,886,755)	(3,743,161)	(7,886,755)
Net interest income	26	10,769,146	9,311,733	10,769,146	9,311,733
Net fees and commission income	27	3,381,606	2,311,809	3,381,606	2,311,809
Profit on foreign exchange transactions		3,199,405	1,945,286	3,199,405	1,932,122
Other income	28	133,006	13,285	133,006	13,285
Operating Income		17,483,163	13,582,113	17,483,163	13,568,949
EXPENDITURE					
Personnel expenses	29	(3,703,228)	(2,991,468)	(3,703,228)	(2,991,468)
Recurrent expenditure on premises and equipment		(1,011,465)	(978,947)	(1,011,465)	(978,947)
Depreciation and amortisation	13,14	(621,948)	(638,551)	(621,948)	(638,551)
Other operating costs	30	(3,732,519)	(2,908,739)	(3,732,519)	(2,908,739)
Operating expenditure		(9,069,160)	(7,517,705)	(9,069,160)	(7,517,705)
Profit before loan impairment losses		8,414,003	6,064,408	8,414,063	6,051,244
Net impairment loss on financial assets	9	(4,348,600)	(3,213,762)	(4,348,600)	(3,213,762)
Profit before income tax expense		4,065,403	2,850,646	4,065,403	2,837,482
Income tax expense	31	(1,372,885)	(938,063)	(1,372,885)	(938,063)
Profit for the year		2,692,518	1,912,583	2,692,518	1,899,419
Other comprehensive income net of income tax					
Items that will never be reclassified subsequently to profit or loss		-	-	-	-
Items that will be subsequently reclassified to profit or loss					
Net profit/(loss) on available for sale financial assets		9,672	(20,527)	9,672	(20,527)
Other comprehensive income		9,672	(20,527)	9,672	(20,527)
Total comprehensive income for the year		2,702,190	1,892,056	2,702,190	1,878,892
Basic and diluted earnings per share (MK)	32	3.70	2.63	-	-

The notes on pages 33 to 83 are an integral part of these consolidated financial statements.

The auditors' report is on page 27.

In thousands of Malawi Kwacha

CONSOLIDATED	Share capital	Share premium	Revaluation reserve	Loan loss reserve	Available for sale fair value reserve	Retained earnings	Total
2014							
Balance at 1 January 2014	363,822	2,323,895	552,017	-	(9,672)	5,800,651	9,030,713
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	2,692,518	2,692,518
Total other comprehensive income	-	-	-	-	9,672	-	9,672
Total comprehensive income for the year	-	-	-	-	9,672	2,692,518	2,702,190
Loan loss provision	-	-	-	2,085,402	-	(2,085,402)	-
Balance at 31 December 2014	363,822	2,323,895	552,017	2,085,402	-	6,407,767	11,732,903

SEPARATE	Share capital	Share premium	Revaluation reserve	Loan loss reserve	Available for sale fair value reserve	Retained earnings	Total
2014							
Balance at 1 January 2014	363,822	2,323,895	552,017	-	(9,672)	5,830,042	9,060,104
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	2,692,518	2,692,518
Other comprehensive income							
Decrease in fair value reserve	-	-	-	-	9,672	-	9,672
Total comprehensive income for the year	-	-	-	-	9,672	2,692,518	2,702,190
Loan loss provision	-	-	-	2,085,402	-	(2,085,402)	-
Balance at 31 December 2014	363,822	2,323,895	552,017	2,085,402	-	6,437,158	11,762,294

The notes on pages 33 to 83 are an integral part of these consolidated financial statements.
The auditors' report is on page 27.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

In thousands of Malawi Kwacha

CONSOLIDATED	Share capital	Share premium	Revaluation reserve	Available for sale fair value reserve	Retained earnings	Total
2013						
Balance at 1 January 2013	363,822	2,323,895	552,017	10,855	3,888,068	7,138,657
Total comprehensive income for the year						
Profit for the year	-	-	-	-	1,912,583	1,912,583
Total other comprehensive income	-	-	-	(20,527)	-	(20,527)
Total comprehensive income for the year	-	-	-	(20,527)	1,912,583	1,892,056
Balance at 31 December 2013	363,822	2,323,895	552,017	(9,672)	5,800,651	9,030,713

SEPARATE	Share capital	Share premium	Revaluation reserve	Available for sale fair value reserve	Retained earnings	Total
2013						
Balance at 1 January 2013	363,822	2,323,895	552,017	10,855	3,930,623	7,181,212
Total comprehensive income for the year						
Profit for the year	-	-	-	-	1,899,419	1,899,419
Other comprehensive income net of income tax						
Decrease in fair value reserve	-	-	-	(20,527)	-	(20,527)
Total other comprehensive income	-	-	-	(20,527)	-	(20,527)
Total comprehensive income for the year	-	-	-	(20,527)	1,899,419	1878,892
Balance at 31 December 2013	363,822	2,323,895	552,017	(9,672)	5,830,042	9,060,104

The notes on pages 33 to 83 are an integral part of these consolidated financial statements.

The auditors' report is on page 27.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

In thousands of Malawi Kwacha

	Note	Consolidated 2014	Consolidated 2013	Separate 2014	Separate 2013
CASHFLOWS (USED IN)/ FROM OPERATING ACTIVITIES					
Interest received	26	14,512,307	17,198,488	14,512,307	17,198,488
Fees and exchange gains	27-28	6,714,017	4,270,380	6,714,017	4,257,216
Interest paid	26	(3,743,161)	(7,886,755)	(3,743,161)	(7,886,755)
Cash paid to suppliers and employees		(14,363,327)	(7,803,755)	(14,363,327)	(7,844,925)
		3,119,836	5,778,358	3,119,836	5,724,024
Movement in net customer balances		2,844,159	8,529,887	2,844,159	8,584,221
		5,963,995	14,308,245	5,963,995	14,308,245
Income tax paid		(1,291,551)	(914,066)	(1,291,551)	(914,066)
Net cash from operating activities		4,672,444	13,394,179	4,672,444	13,394,179
CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES					
Acquisition of shares	12	(15,000)	-	(15,000)	-
Acquisition of property and equipment	13	(1,053,474)	(714,438)	(1,053,474)	(714,438)
Acquisition of intangible assets	14	(49,537)	(19,535)	(49,537)	(19,535)
Net cash used in investing activities		(1,118,011)	(733,973)	(1,118,011)	(733,973)
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES					
Loan receipts/(repayment)	17	2,029,985	(8,576,286)	2,029,985	(8,576,286)
Net cash from/(used in) financing activities		2,029,985	(8,576,286)	2,029,985	(8,576,286)
Net increase in cash and cash equivalents		5,584,418	4,083,920	5,584,418	4,083,920
Cash and cash equivalents at 1 January		13,428,063	9,344,143	13,428,063	9,344,143
Cash and cash equivalents at 31 December	7	19,012,481	13,428,063	19,012,481	13,428,063
ADDITIONAL STATUTORY DISCLOSURE					
Increase/(decrease) in net working capital		8,467,960	4,418,010	8,467,659	4,430,956

The notes on pages 33 to 83 are an integral part of these consolidated financial statements.

The auditors' report is on page 27.

1. *Reporting entity*

NBS Bank Limited is a limited liability company incorporated and domiciled in Malawi under the Malawi Companies Act, 1984 and is a licensed financial institution under the Banking Act, 2009. The address of the Bank's registered office is P.O. Box 32251, Chichiri, Blantyre 3. The Bank is primarily involved in commercial banking, covering corporate and retail banking and treasury management. The consolidated financial statements comprise the Bank and its subsidiary, NBS Forex Bureau Limited (collectively known as The Group).

GENERAL INFORMATION

The Group provides retail and corporate banking services through its 37 service centres across Malawi (2013: 38).The Group is listed on the Malawi Stock Exchange. Its ultimate parent company is NICO Holdings Limited, a financial services company incorporated in Malawi, which is also listed on the Malawi Stock Exchange. NBS Forex Bureau Limited is a 100% owned subsidiary of NBS Bank Limited whose line of business is foreign exchange trading. NBS Forex Bureau Limited started operations in January 2010 and has been dormant since 2012.

2. *Basis of accounting*

STATEMENT OF COMPLIANCE

These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). These consolidated and separate financial statements have also been prepared in accordance with the provisions of the Malawi Companies Act, 1984 the Financial Services Act, 2010 and the Banking Act, 2009.

(A) BASIS OF MEASUREMENT

The consolidated and separate financial statements have been prepared on the historical cost basis except for the following material items in the statements of financial position:

- investments held for trading are measured at fair value
- financial instruments designated at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- properties are measured at revalued amounts.

(B) FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated and separate financial statements are presented in Malawi Kwacha, which is the Bank's functional currency. Except as otherwise indicated, financial information present in Malawi Kwacha has been rounded to the nearest thousand.

(C) USE OF ESTIMATES AND JUDGMENTS

The preparation of consolidated and separate financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2014 is set out below in relation to the impairment of the financial instruments and the following notes:

2. *Basis of accounting (continued)*

Note: Determination of fair value of financial instruments with significant unobservable inputs.
Note: Recognition of deferred tax assets. Availability of future taxable profits against which carry forward losses can be used.
Note: Recognising and measurement of provisions and contingencies; key assumptions about likelihood and magnitude of outflow of reserves.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the consolidated and separate financial statements are described in note 5.

(D) CHANGES IN ACCOUNTING POLICIES

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014.

i. Offsetting Financial Assets and Liabilities (Amendments to IAS 32)
ii. Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

3. *Significant accounting policies*

Except for the changes in note 2(d), the accounting policies set out below have been applied consistently to all years presented in these consolidated and separate financial statements.

(A) BASIS OF CONSOLIDATION

The consolidated and separate financial statements comprise the Bank and its subsidiary, NBS Forex Bureau Limited, which is controlled by the Bank. Under the Malawi Companies Act, 2013, control is presumed to exist where a Company holds more than one half of the nominal share capital directly or indirectly; or the Group can appoint or prevent the appointment of not less than half of the directors of the subsidiary company. Under IFRS 10, consolidated financial statements, control exists when the investor has power over the investee, exposure or rights to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of the investee's returns. The financial statements of subsidiary are included in the consolidated and separate financial statements from the date that control commences until that control ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

BALANCES, TRANSACTIONS ELIMINATED ON CONSOLIDATION

Intra-company balances and transactions and any unrealised income and expenses arising from intra-company transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(B) FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated to Malawi Kwacha at the spot rate of exchange ruling at the date of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies at the reporting date are translated to Malawi Kwacha at the spot exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Foreign exchange differences arising on translation are recognised in profit or loss except for differences arising on translation of available-for-sale equity instruments, which are recognised in other comprehensive income (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss). Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Malawi Kwacha at foreign exchange rates ruling at the dates the values were determined. Non-monetary items that are measured on historical cost in a foreign currency are translated using the spot rate of exchange at the date of the transaction.

(C) INTEREST INCOME AND EXPENSE

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and financial liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal or a financial asset or financial liability.

Interest income and expense presented in the statement of comprehensive income include:

- Interest on financial assets and financial liabilities at amortised cost on an effective interest rate basis.
- Interest on available-for-sale Money market investments on an effective interest basis.

Fair value changes on financial assets and financial liabilities measured at fair value through profit or loss, are presented in net income from other financial instruments carried at fair value in the statement of comprehensive income. Net interest income analysis is provided in note 25.

(D) FEES AND COMMISSION

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised in a straight-line basis over the commitment period.

Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(E) LEASE PAYMENTS

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

3. *Significant accounting policies (continued)*

(E) LEASE PAYMENTS (CONTINUED)

(I) THE GROUP AS A LESSOR

Amounts due from lessees under finance leases are recorded as receivables at the amount of the group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

(II) THE GROUP AS A LESSEE

Rentals payable under operating leases are recognised in profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

(F) INCOME TAX EXPENSE

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity, or in other comprehensive income.

CURRENT INCOME TAX

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Additional income taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

DEFERRED INCOME TAX

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences relating to investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- Temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(G) FINANCIAL INSTRUMENTS

(I) RECOGNITION AND INITIAL MEASUREMENT

The Group initially recognises loans and advances, deposits on the date at which they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(II) DERECOGNITION

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions. In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset.

The Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Group retains rights to service a transferred financial asset for a fee. The transferred asset is derecognised in its entirety if it meets the derecognition criteria. An asset or liability is recognised for the servicing rights, depending on whether the servicing fee is more than adequate to cover servicing expenses (asset) or is less than adequate for performing the servicing (liability).

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible (see note 4).

(III) OFFSETTING

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3. *Significant accounting policies (continued)*
(G) FINANCIAL INSTRUMENTS (CONTINUED)

(IV) AMORTISED COST MEASUREMENT
The amortised cost of a financial asset or liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(V) FAIR VALUE MEASUREMENT
The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. The Group uses widely recognised valuation models for determining the fair value of common and simpler financial instruments like options and interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

For more complex instruments, the Group uses proprietary models, which usually are developed from recognised valuation models. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions. When entering into a transaction, the financial instrument is recognised initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference, in fair value indicated by valuation techniques is recognised in profit or loss depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value on the statement of financial position.

(VI) IDENTIFICATION AND MEASUREMENT OF IMPAIRMENT
At each reporting date the Group assesses whether there is objective evidence that financial assets, not measured at fair value through profit or loss, are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group.

(VI) IDENTIFICATION AND MEASUREMENT OF IMPAIRMENT (CONTINUED)
In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on financial assets measured at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When an event after the impairment was recognised which cause the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale Money market investments are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss is the difference between the amortised acquisition cost and current fair value out of other comprehensive income less any impairment loss previously recognised in profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in other comprehensive income. Changes in impairment allowances attributable to time value are reflected as a component of interest income.

(VII) DESIGNATION AT FAIR VALUE THROUGH PROFIT OR LOSS
The Group has designated financial assets and financial liabilities at fair value through profit or loss when either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cashflows that would otherwise be required under the contract.

Note 6 sets out the amount of each class of financial asset or liability that has been designated at fair value through profit or loss.

(H) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are measured at amortised cost in the statement of financial position. Money market investments with maturity of less than three months fall under this classification.

3. *Significant accounting policies (continued)*

(I) TRADING ASSETS AND LIABILITIES

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are measured at fair value with changes in fair value recognised as part of profit or loss.

(J) OTHER ASSETS

Other assets comprise prepayments, sundry debtors, consumable stationery, and staff advances. Sundry debtors and staff advances are stated at amortised cost less impairment losses.

(K) IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amounts of the Group's non-financial assets, other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

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 assessment of the time value of money and the risks specific to the assets. Impairment losses recognised in prior periods are assessed at each reporting date for any indicators that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation if the impairment loss had not been recognised.

(L) LOANS AND ADVANCES

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs. Subsequent to initial recognition, loans and advances are measured at amortised cost using the effective interest method, except when the Group designates the loans and advances at fair value through profit or loss as described in accounting policy (G) (V).

(M) MONEY MARKET INVESTMENTS

Money market investments are initially measured at fair value plus in the case of Money market investments not at fair value through profit or loss incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale..

(I) FAIR VALUE THROUGH PROFIT OR LOSS

The Group measures some Money market investments at fair value, with fair value changes recognised immediately in profit or loss as described in accounting policy (h) (v).

(N) PROPERTY AND EQUIPMENT

(I) RECOGNITION AND MEASUREMENT

Items of property and equipment are measured at cost or valuation less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Where parts of an item of property and equipment comprise major components having different useful lives, they are accounted for as separate items of property and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Gains and losses on disposal of an item of property and equipment are determined by deducting the net proceeds from disposal from the carrying amount of property and equipment and are recognised in profit or loss.

(II) SUBSEQUENT EXPENDITURE

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised and the component being replaced is derecognised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the profit or loss as an expense as incurred.

(III) DEPRECIATION

Items of property and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of |items of property and equipment, and major components that are accounted for separately. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Freehold buildings	40 years
Leasehold property (over 40 years to run)	40 years
Leasehold property (under 40 years to run)	over period of lease
Leasehold improvement	10 years
Computer hardware	3 years
Computer software	4 years
Other office equipment	4 years
Motor vehicles	5 years
Furniture and other equipment	10 years
Auto Teller Machines	10 years

Depreciation methods, useful lives and residual values are re-assessed at each reporting date and adjusted if appropriate.

3. *Significant accounting policies (continued)*

(N) PROPERTY AND EQUIPMENT (CONTINUED)

(IV) CAPITAL WORK IN PROGRESS

Capital work in progress is the gross amount spent in carrying out work of capital nature. It is measured at cost recognised to date.

Capital work in progress is presented as part of property and equipment in the statement of financial position. When the relevant project is completed, the expenditure is capitalised to the various items of property and equipment. Capital work in progress is not depreciated.

(O) OTHER INVESTMENTS

(I) INVESTMENT IN SUBSIDIARY

Investments in subsidiary is recognised at cost in the Group financial statements less any impairment losses.

(II) EQUITY INVESTMENT

Equity Investment is measured at cost in the Group financial statements less any impairment losses.

(P) INTANGIBLE ASSETS

SOFTWARE

Software acquired by the Group is measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software is capitalised only if it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as it is incurred.

Amortisation is recognised in profit or loss on a straight line basis over the estimated useful life of the software, from the date it is available for use. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. Intangible assets have an estimated useful life of 4 years.

The carrying amount of intangible assets is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount exceeds its recoverable amount. Intangible assets that are not yet available for use are tested for impairment on an annual basis.

(Q) CUSTOMER DEPOSIT ACCOUNTS

Customer deposit accounts comprise current and savings accounts, foreign currency denominated, and term deposit accounts. Customer deposit accounts are the Group's sources of debt funding.

When the Group sells a financial asset and simultaneously enters into a "repo" or "stock lending" agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's consolidated and separate financial statements.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

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

(R) FINANCIAL GUARANTEES

Financial guarantees are contracts that require the Group to make specific payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value and the initial value is amortised over the life of the guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when payment under the guarantee has become probable).

(S) EMPLOYEE BENEFITS

Employee entitlements to gratuity and long service awards are recognised when they accrue to employees an accrual is made for the estimated liability for such entitlements as a result of services rendered by employees up to the reporting date.

Employee entitlements to gratuity and long service awards defines an amount of benefit that an employee will receive on retirement or long service, usually dependent on one or more factors, such as age, periods of service and compensation.

(I) DEFINED CONTRIBUTION PENSION PLANS

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay further amounts.

The Group operates a defined contribution pension scheme based on a percentage of pensionable earnings, the assets of which are generally held in separate trustee administered fund. Contributions to defined contributions pension plans are recognised as an expense in profit or loss when they are due in respect of service rendered before the end of the reporting period. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in future payments is available.

(II) SHORT-TERM EMPLOYEE BENEFITS

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

An accrual is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be measured reliably.

(T) SHARE CAPITAL AND RESERVES

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

SHARE ISSUE COSTS

Incremental cost directly attributable to the issue of an equity instrument is deducted from initial measurement of the equity instruments.

(U) DIVIDENDS

Dividends are recognised in the period in which they are declared. Dividends declared after reporting date are disclosed in the dividends note.

3. *Significant accounting policies (continued)*

(V) EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit or loss for the year attributable to ordinary shareholders by weighted average number of ordinary shares in issue during the year.

Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(W) SEGMENT REPORTING

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the group's other components, whose operating results are reviewed regularly by the Group Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

(X) GRANTS RECEIVED

Grants/subsidies received is presented in the Balance Sheet by showing the Grant/Subsidy as a deduction from the Gross Value of the assets concerned in arriving at the book value. The grant/subsidy is recognised in the profit or loss account over the useful life of the depreciable assets by way of reduced depreciation charged.

3(aa) IFRSs in issue but not yet effective

At the date of authorisation of the financial statements of NBS Bank Limited for the year ended 31 December 2014, the following Standards and Interpretations were in issue but not yet effective:

EFFECTIVE FOR THE FINANCIAL YEAR COMMENCING 1 JANUARY 2015

- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)

EFFECTIVE FOR THE FINANCIAL YEAR COMMENCING 1 JANUARY 2016

- IFRS 10 and IAS 28 amendments – *Sale or contribution of assets between an investor and its associate or joint venture*
- IAS 16 and IAS 38 amendments – *Clarification of acceptable methods of Depreciation and Amortisation*
- IAS 16 and IAS41 – *Agriculture Bearer Plants*
- IAS 27 amendment – *Equity Method in Separate Financial Statements*

EFFECTIVE FOR THE FINANCIAL YEAR COMMENCING 1 JANUARY 2017

- IFRS 15 Revenue from Contracts with Customers

EFFECTIVE FOR THE FINANCIAL YEAR COMMENCING 1 JANUARY 2018

A number on new standards and amendments to standards are effective for annual periods beginning after 1 January 2014, however, the company has not applied the following new and amended standards in preparing these Consolidated financial statements.

In thousands of Malawi Kwacha

NEW OR AMENDED STANDARDS	SUMMARY OF REQUIREMENTS	POSSIBLE IMPACT ON THE CONSOLIDATED FINANCIAL STATEMENTS
IFRS 9 *Financial instruments*	This replaces existing guidance in IAS 39 *Financial Instruments: Recognition and measurement* This includes revised guidance on classification and measurements of financial instruments, including a new expected credit loss model for calculating impairment of financial assets, and new general hedge accounting requirements. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018.	The company is assessing the possible impact on its Consolidated financial statements resulting from the application of IFRS 9.
IFRS 15 *Revenue from contracts with customers*	This establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue,* IAS 11 *Construction contracts* and IFRIC 13 *Customer Loyalty Programmes.* IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017 with early adoption permitted.	The company is assessing the possible impact on its Consolidated financial statements resulting from the application of IFRS 15.

The following new or amended standards are not expected to have a significant impact on the company's Consolidated financial statements.

NEW OR AMENDED STANDARDS	SUMMARY OF REQUIREMENTS
Agriculture: Bearer Plants (Amendment to IAS 16 and IAS 41)	These amendments require bearer plants, defined as a living plant, to be accounted for as property, plant and equipment and included in the scope of IAS 16 *Property, Plant and Equipment,* instead of IAS 41 *Agriculture.* This is effective for annual reporting periods beginning 1 January 2016.
IFRS 14 *Regulatory Deferral Accounts*	This is an interim standard for first time adopters of IFRS to continue using previous GAAP to account for regulatory deferral account balances. This is effective for annual reporting periods beginning 1 January 2016.
Equity Method in Separate Consolidated financial statements (Amendments to IAS 27)	The amendment allows the use of equity method in separate Consolidated financial statements, and apply to the accounting not only for associates and joint ventures, but also for subsidiaries. This is effective for annual reporting periods beginning 1 January 2016.
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	When a parent loses control of a subsidiary in a transaction with an associate or joint venture, there a conflict between the existing guidance on consolidation and equity accounting. The amendment addresses this conflict by creating new dividing lines. This is effective for annual reporting periods beginning 1 January 2016.
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	The amendment requires business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. This is effective for annual reporting periods beginning 1 January 2016.

3 (aa) IFRSs in issue but not yet effective (continued)

NEW OR AMENDED STANDARDS	SUMMARY OF REQUIREMENTS
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	This amendment introduces a rebuttable presumption that the use of revenue based amortisation method for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are highly correlated or when the intangible asset is expressed as a measure of revenue. The amendments also explicitly state the revenue-based method of depreciation cannot be used for property, plant and equipment. This is effective for annual reporting periods beginning 1 January 2016.
Annual Improvements to IFRSs 2012–2014 Cycle – various standards	These annual improvements provide amendments to a collection of standards as follows: • IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* - Changes in the method for disposal • IFRS 7 *Financial Instruments:* Disclosures - Continuing involvement for servicing contracts - Offsetting disclosures in condensed interim Consolidated financial statements • IAS 19 *Employee Benefits* - Discount rate in regional market sharing the same currency • IAS 34 Interim Financial Reporting - Disclosure of information elsewhere in the interim financial report These are effective for annual reporting periods beginning 1 January 2016.

4. Financial risk management

(A) INTRODUCTION AND OVERVIEW

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

- Credit risk;
- Liquidity risk;
- Market risks; and
- Operational risks.

RISK MANAGEMENT FRAMEWORK

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Risk Committee, Finance and Audit Committee and Credit Committee which are responsible for developing and monitoring the Group's risk management policies in their specified areas. All Board Committees have both executive and non-executive members and report regularly to the Board of Directors on their activities. The Finance and Audit Committee delegates the asset and liability function to the Asset and Liability Management Committees.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group through its risk management framework, standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Risk Committee is responsible for monitoring compliance with the Group's management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Risk Committee is assisted in these functions by the Risk Management Division and Internal Audit Division. Internal Audit Division undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Finance and Audit Committee.

(B) CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers to other companies and investment debt securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual default risk, and sector risk).

For risk management purposes, credit risk arising on trading securities is managed independently but reported as a component of market risk exposure.

MANAGEMENT OF CREDIT RISK

The Board of Directors has delegated responsibility for the management of credit risk to its Credit Committee. A separate Credit department, reporting to the Credit Committee, is responsible for oversight of the credit risk, including:

- Formulating credit policies in consultation with the business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements;
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit credit officers. Larger facilities require approval by Management Credit Committee, Head of Credit, the Credit Committee or the Board of Directors as appropriate;
- Reviewing and assessing credit risk. The Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the same review process;
- Limiting concentrations of exposure to counterparties, geographical location and industries (for loans and advances), and by issuer and market liquidity;
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries and product types. Regular reports are provided to the Credit Committee on the credit quality of portfolios and appropriate corrective action is taken; and
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

Each business unit is required to implement the Group's credit policies and procedures, with credit approval authorities delegated from the Credit Committee. Each business unit has a Credit Officer who reports on all credit related matters to management. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and Bank's Credit processes are undertaken by Internal Audit

In thousands of Malawi Kwacha

4. Financial risk management (continued)
(B) CREDIT RISK (CONTINUED)

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:

		Loans and advances to customers		Money market investment	
CONSOLIDATED	Note	2014	2013	2014	2013
Carrying amount	8,9	31,023,652	34,861,318	6,666,175	5,654,850
Individually impaired		24,581,238	18,245,427	-	-
Allowance for impairment	9	(9,455,709)	(5,376,034)	-	-
Carrying amount		15,125,529	12,869,393	6,666,175	5,654,850
Individually impaired					
7-12 months		6,256,579	10,218,550	-	-
13-24 months		15,774,598	6,519,706	-	-
> 24 months		2,550,061	1,507,171	-	-
Total		24,581,238	18,245,427	-	-
Allowance for impairment		(9,455,709)	(5,376,034)	-	-
Carrying amount		15,125,529	12,869,393	-	-
Past due not impaired		3,855,185	5,446,513	-	-
< 3 months			3,099,220	-	-
4-6 months		3,855,185	2,347,293	-	-
Carrying amount		3,855,185	5,446,513	-	-
Neither past due nor impaired					
Watch list		162,116	1,571,814	-	-
Low risk		11,880,822	14,973,598	-	-
Total		12,042,938	16,545,412	6,666,175	5,654,850
Carrying amount		12,042,938	16,545,412	6,666,175	5,654,850
Total carrying amounts	9	31,023,652	34,861,318	6,666,175	5,654,850

In thousands of Malawi Kwacha

SEPARATE	Note	Loans and advances to customers 2014	2013	Money market investment 2014	2013
Carrying amount	8,9	31,023,652	34,861,318	6,666,175	5,654,850
Individually impaired		24,581,238	18,245,427	-	-
Allowance for impairment	9	(9,455,709)	(5,376,034)	-	-
Carrying amount		15,125,529	12,869,393	6,666,175	5,654,850
Individually impaired					
7-12 months		6,256,579	10,218,550	-	-
13-24 months		15,774,598	6,519,706	-	-
> 24 months		2,550,061	1,507,171	-	-
Total		24,581,238	18,245,427	-	-
Allowance for impairment		(9,455,709)	(5,376,034)	-	-
Carrying amount		15,125,529	12,868,071	-	-
Past due not impaired		3,855,185	5,446,513	-	-
Carrying amount		3,855,185	5,446,513	-	-
Neither past due nor impaired		12,042,938	16,545,412	6,666,175	5,654,850
Carrying amount		12,042,938	16,545,412	6,666,175	5,654,850
Total carrying amounts	8,9	31,023,652	34,861,318	6,666,175	5,654,850

IMPAIRED LOANS AND SECURITIES

Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreement.

PAST DUE BUT NOT IMPAIRED LOANS

Loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to Group.

Furthermore, impairment may not be appropriate on the basis of past repayment history of the customer and current repayment arrangements and effort being put forward to pay.

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to other banks except when securities are held as part of reverse purchase and securities borrowing activity. Collateral usually is not held against Money market investments, and no such collateral was held at the period end.

The Group does not use property and equipment that is held as collateral for loans for its operations. In case of default the collateral can be sold to recover the outstanding debts.

In thousands of Malawi Kwacha

4. *Financial risk management (continued)*

(B) CREDIT RISK (CONTINUED)

Estimated fair value of collateral and other security enhancement held against financial assets is shown below:

	Loans and advances to customers Consolidated and Separate 2014	2013
Against individually impaired		
Property	22,313,008	19,204,306
Plant and equipment	1,689,883	1,076,086
Against past due but not impaired		
Property	17,559,160	17,267,304
Plant and equipment	1,656,897	1,600,262
Against neither past due nor impaired		
Property	6,819,202	6,839,975
Plant and equipment	1,921,136	1,855,469
Total collateral held	51,959,286	47,843,402

The Group monitors concentrations of credit risk by sector and by geographic location.
Analysis of concentrations of credit risk at the reporting date is shown below:-

		Loans and advances to customers		Money market investment	
CONSOLIDATED	Note	2014	2013	2014	2013
Carrying amount	8,9	31,023,652	34,861,318	6,666,175	5,654,850
Concentration by sector:					
Retail		18,539,895	21,367,220		-
Corporate		12,483,757	13,494,098		-
Banks		-	-	6,666,175	5,654,850
	8,9	31,023,652	34,861,318	6,666,175	5,654,850
Concentration by location:					
Northern Region		1,721,830	1,186,794		-
Central Region		10,679,133	11,239,263		-
Southern Region		18,622,689	22,435,261	6,666,175	5,654,850
	8,9	31,023,652	34,861,318	6,666,175	5,654,850

In thousands of Malawi Kwacha

SEPARATE	Note	Loans and advances to customers 2014	Loans and advances to customers 2013	Money market investment 2014	Money market investment 2013
Carrying amount	8,9	31,023,652	34,861,318	6,666,175	5,654,850
Concentration by sector:					
Retail		18,539,895	21,367,220		-
Corporate		12,483,757	13,494,098		-
Banks		-	-	6,666,175	5,654,850
	8,9	31,023,652	34,861,318	-	5,654,850
Concentration by location:					
Northern Region		1,721,830	1,186,794		-
Central Region		10,679,133	11,239,263		-
Southern Region		18,622,689	22,435,261	6,666,175	5,654,850
	8,9	31,023,652	34,861,318	6,666,175	5,654,850

CREDIT RISK CONCENTRATION

Concentration by location for loans and advances is measured based on the location of the branch holding the asset which has a correlation with the location of the borrower.

SETTLEMENT RISK

The Group activities may give rise to risk to the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from the Group's Management Assets and Liabilities Committee (ALCO).

(C) LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

MANAGEMENT OF LIQUIDITY RISK

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid Money market investments, loans and advances to banks and other inter-company facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units are met through Treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of operating units. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

In thousands of Malawi Kwacha

4. *Financial risk management (continued)*
(C) LIQUIDITY RISK (CONTINUED)

EXPOSURE TO LIQUIDITY RISK

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and Money market investments for which there is an active and liquid market less any deposits from companies, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Group's compliance with the liquidity limit established by the Reserve Bank of Malawi. Details of the reported Company's ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period were as per note number 4 (e).

RESIDUAL CONTRACTUAL MATURITY OF FINANCIAL INSTRUMENTS

The table below analyses the financial instruments into relevant maturity groupings based on the remaining period at 31 December 2014 to the contractual maturity date.

CONSOLIDATED	Up to 1 month	1-3 months	3-12 months	Over 1 period	Total	Carrying amount
Financial Assets						
At 31 December 2014						
Cash and bank balances	19,012,481	-	-	-	19,012,481	19,012,481
Money market investments	746,238	1,586,759	3,656,118	677,060	6,666,175	6,666,175
Loans and advances	11,534,150	861,028	2,459,449	16,169,025	31,023,652	31,023,652
Equity investments	-	-	-	48,665	48,665	48,665
Other assets	-	-	-	11,610,319	11,610,319	11,610,319
Total assets	31,292,869	2,447,787	6,115,567	28,505,069	68,361,292	68,361,292
Financial liabilities						
Current and savings accounts	32,683,496	2,436,150	180,439	-	35,300,085	35,300,085
Term deposit accounts	3,378,880	4,004,886	799,437	-	8,183,203	8,207,983
Foreign currency denominated deposits	4,830,975	-	-	-	4,830,975	4,830,975
Long term loan	-	-	-	317,118	317,118	317,118
Short-term loans	2,001,384	-	-	3,036,020	5,037,404	5,037,404
Other liabilities	3,136,353	-	-	11,556,154	14,692,507	14,692,507
Total financial liabilities	46,031,088	6,441,036	979,876	14,909,292	68,361,292	68,361,292
Net liquidity gap	(14,738,219)	(3,993,249)	5,135,691	13,595,777	-	-
Cumulative liquidity gap	(14,738,219)	(18,731,468)	(13,595,777)	-	-	-

In thousands of Malawi Kwacha

SEPARATE	Up to 1 month	1-3 months	3-12 months	Over 1 period	Total	Carrying amount
Financial Assets						
At 31 December 2014						
Cash and bank balances	19,012,481	-	-	-	19,012,481	19,012,481
Money market investments	746,238	1,586,759	3,656,118	677,060	6,666,175	6,666,175
Loans and advances	11,534,150	861,028	2,459,449	16,169,025	31,023,652	31,023,652
Equity investments	-	-	-	48,665	48,665	48,665
Investment in subsidiary	-	-	-	42,600	42,600	42,600
Loan to subsidiary	-	-	-	141,177	141,177	141,177
Other assets	-	-	-	11,534,073	11,534,073	11,534,073
Total assets	31,292,869	2,447,787	6,115,567	28,612,600	68,468,823	68,468,823
Financial Liabilities						
Current and savings accounts	32,684,025	2,436,150	180,439	-	35,300,614	35,300,614
Term deposit accounts	3,378,880	4,004,886	799,437	-	8,183,203	8,183,203
Foreign currency denominated deposits	4,843,026	-	-	-	4,843,026	4,843,026
Long term loan	-	-	-	317,118	317,118	317,118
Short-term loans	2,001,384	-	-	3,036,020	5,037,404	5,037,404
Other liabilities	3,136,353	-	-	11,651,105	14,787,458	14,787,458
Total financial liabilities	46,043,668	6,441,036	979,876	15,004,243	68,468,823	68,468,823
Net liquidity gap	(14,750,799)	(3,993,249)	5,135,691	13,608,357	-	-
Cumulative liquidity gap	(14,750,799)	(18,744,048)	(13,608,357)	-	-	-

CONSOLIDATED	Up to 1 month	1-3 months	3-12 months	Over 1 period	Total	Carrying amount
Financial Assets						
At 31 December 2013						
Cash and bank balances	13,428,063	-	-	-	13,428,063	13,428,063
Money market investments	-	335,430	617,142	4,702,278	5,654,850	5,654,850
Loans and advances	10,355,786	1,417,652	3,667,289	19,420,591	34,861,318	34,861,318
Equity investments	-	-	-	33,665	33,665	33,665
Other assets	873,977	-	-	5,361,804	6,235,781	6,235,781
Total assets	24,657,826	1,753,082	4,284,431	29,518,338	60,213,677	60,213,677
Financial Liabilities						
Current and savings accounts	27,116,247	1,469,121	261,159	-	28,846,527	28,846,527
Term deposit accounts	13,992,633	-	-	-	13,992,633	13,992,633
Foreign currency denominated deposits	4,340,911	-	-	-	4,340,911	4,340,911
Short-term loans	-	-	-	955,199	955,199	955,199
Long-term loans	-	-	-	435,961	435,961	435,961
Other liabilities	3,210,570	-	-	8,431,876	11,642,446	11,642,446
Total financial liabilities	48,660,361	1,469,121	261,159	9,823,036	60,213,677	60,213,677
Net liquidity gap	(24,002,535)	283,961	4,023,272	19,695,302	-	-
Cumulative liquidity gap	(24,002,535)	(23,718,574)	(19,695,302)	-	-	-

In thousands of Malawi Kwacha

4. *Financial risk management (continued)*
(C) LIQUIDITY RISK (CONTINUED)

SEPARATE	Up to 1 month	1-3 months	3-12 months	Over 1 period	Total	Carrying amount
Financial Assets						
At 31 December 2013						
Cash and bank balances	13,428,063	-	-	-	13,428,063	13,428,063
Money market investments	-	335,430	617,142	4,702,278	5,654,850	5,654,850
Loans and advances	10,355,786	1,417,652	3,667,289	19,420,591	34,861,318	34,861,318
Equity investments	-	-	-	33,665	33,665	33,665
Investment in subsidiary	-	-	-	42,600	42,600	42,600
Loan to subsidiary	-	-	-	141,177	141,177	141,177
Other assets	873,977	-	-	5,178,027	6,052,004	6,052,004
Total assets	24,657,826	1,753,082	4,284,431	29,518,338	60,213,677	60,213,677
Financial Liabilities						
Current and savings accounts	27,116,247	1,469,121	261,159	-	28,846,527	28,846,527
Term deposit accounts	13,992,633	-	-	-	13,992,633	13,992,633
Foreign currency denominated deposits	4,340,911	-	-	-	4,340,911	4,340,911
Short-term loans	-	-	-	955,199	955,199	955,199
Long-term loans	-	-	-	435,961	435,961	435,961
Other liabilities	3,210,570	-	-	8,431,876	11,642,446	11,642,446
Total financial liabilities	48,660,361	1,469,121	261,159	9,823,036	60,213,677	60,213,677
Net liquidity gap	(24,002,535)	283,961	4,023,272	19,695,302	-	-
Cumulative liquidity gap	(24,002,535)	(23,718,574)	(19,695,302)	-	-	-

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

(D) MARKET RISKS

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Group'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 on risk.

MANAGEMENT OF MARKET RISKS

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury Department, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in Management ALCO. The Group's Management ALCO is responsible for the development of detailed risk management policies (subject to review and approval by Finance and Audit Committee) and for the day-to-day review of their implementation.

EXPOSURE TO INTEREST RATE RISK – NON TRADING PORTFOLIOS

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. The Management ALCO is the monitoring body for compliance with these limits and manages the risks on day-to-day basis by monitoring activities on the market. A summary of the Group's interest rate gap position on non-trading portfolios is as per note number 4(e).

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves and a 50bp rise or fall in the greater than 12-month portion of all yield curves. An analysis of the Group's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) was as per note number 4(e).

EXPOSURE TO OTHER MARKET RISKS – NON TRADING PORTFOLIOS

Credit spread risk (not relating to changes in the obligor/issuer's credit standing) on debt securities held by Treasury is subject to monitoring by Management ALCO, but it is not currently significant in relation to the overall results and financial position of the Group.

(E) INTEREST RATE GAP ANALYSIS

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and financial liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves. The following is an analysis of the Group's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position

The table below summarises the exposure to interest rate risk. Included in the table are the Group's financial assets and liabilities at carrying amounts categorised by the earlier of contractual pricing or maturity dates. The Group does not have an interest rate exposure on unrecognised items. All figures are in thousands of Malawi Kwacha.

In thousands of Malawi Kwacha

4. *Financial risk management (continued)*

(E) INTEREST RATE GAP ANALYSIS (CONTINUED)

			Consolidated and Separate				
			Fixed Rate instruments				
At 31 December 2014	Zero rate	Floating rate	0-3 months	3-6 months	6-12 months	Over 12 months	Total
Assets subject to interest rate adjustment							
Loans and advances:	-	31,023,652	-	-	-	-	31,023,652
Securities:	-	-	5,189,290	1,122,324	1,659,961	256,415	8,227,990
Other	29,484,801	-	-	-	-	-	29,484,801
Total rate sensitive assets (RSA)	29,484,801	31,023,652	5,189,290	1,122,324	1,659,961	256,415	68,736,443
Liabilities subject to interest rate adjustment:							
Demand accounts	-	17,711,340	-	-	-	-	17,711,340
Savings deposits	-	23,190,638	-	-	-	-	23,190,638
Time deposits	-	-	3,403,660	4,004,886	799,437	-	8,207,983
Other borrowings	20,010	-	2,001,384	-	-	3,036,020	5,057,414
Other	14,569,068	-	-	-	-	-	14,569,068
Total rate sensitive liabilities (RSL)	14,589,078	40,901,978	5,405,044	4,004,886	799,437	3,036,020	68,736,443
Asset /Liability Gap	14,895,723	(9,878,326)	(215,754)	(2882,562)	860,524	(2,779,605)	-
Cumulative Gap	14,895,723	5,017,397	4,801,643	1,919,081	2,779,605	-	-
Net position as a percent of total assets	42%	45%	8%	2%	2%	0%	100%
RSA as a percent of RSL	202%	76%	96%	28%	208%	8%	74%

Sensitivity to projected net interest income

Movement in interest rates	(300bp)	(600bp)	300bp	600bp
Percentage change in net interest income	(6.36%)	(3.19%)	3.22%	6.47%

In thousands of Malawi Kwacha

			Consolidated and Separate				
			Fixed Rate instruments				
At 31 December 2013	Zero rate	Floating rate	0-3 months	3-6 months	6-12 months	Over 12 months	Total
Assets subject to interest rate adjustment							
Loans and advances:	-	40,237,351	-	-	-	-	40,237,351
Securities:	-	-	4,677,941	124,030	492,421	253,171	5,547,563
Other	14,090,603	-	-	-	-	-	14,090,603
Total rate sensitive assets (RSA)	14,090,603	40,237,351	4,677,941	124,030	492,421	253,171	59,875,517
Liabilities subject to interest rate adjustment:							
Demand accounts	-	13,002,828	-	-	-	-	13,002,828
Savings deposits	-	16,427,733	-	-	-	-	16,427,733
Time deposits	-	-	17,256,780	237,232	95,179	-	17,589,191
Other borrowings	20,010	-	-	-	-	935,190	955,200
Other	11,900,565	-	-	-	-	-	11,900,565
Total rate sensitive liabilities (RSL)	11,920,575	29,430,561	17,256,780	237,232	95,179	935,190	59,875,517
Asset /Liability Gap	2,170,028	10,806,790	(12,578,839)	(113,202)	397,242	(682,019)	-
Cumulative Gap	2,170,028	12,976,818	397,979	284,777	682,019	-	-
Net position as a percent of total assets	3%	21%	-21%	0%	1%	-1%	0%
RSA as a percent of RSL	118%	137%	27%	52%	517%	0%	100%

Sensitivity to projected net interest income

Movement in interest rates	(300bp)	(600bp)	300bp	600bp
Percentage change in net interest income	(2.61)	(4.84)	2.69	4.38

In thousands of Malawi Kwacha

4. *Financial risk management (continued)*

(F) CURRENCY RISK

The Group and Company had the following significant foreign currency positions.

CONSOLIDATED	USD	GBP	Euro	ZAR	Total
At 31 December 2014					
Assets					
Balances with correspondent banks	4,454,195	770,657	388,952	284,539	5,898,343
Cash in vaults	288,641	21,995	19,022	15,971	345,629
Loans and advances to customers	2,342,451	-	-	-	2,342,451
Total assets	7,085,287	792,652	407,974	300,510	8,586,423
Liabilities					
Customer deposits	4,038,027	400,762	395,282	8,955	4,843,026
Short-term loans	3,036,020	-	-	-	3,036,020
Total liabilities					
Total liabilities	7,074,047 -	400,762	395,282	8,955	7,879,046
Net position	11,240	391,890	12,692	291,555	707,377

Sensitivity to projected profit on foreign exchange transactions

Movement in foreign currency rates	(1000bp)	(2000bp)	1000bp	2000bp
Change in net income (MK'000)	(70,738)	(141,476)	70,738	141,476
Change in equity (MK'000)	(49,517)	(99,033)	49,517	99,033

CONSOLIDATED	USD	GBP	Euro	ZAR	Total
At 31 December 2013					
Assets					
Balances with correspondent banks	3,908,659	362,846	362,245	29,789	4,663,539
Cash in vaults	199,403	15,538	70,961	67,771	353,673
Loans and advances to customers	1,931,940	18,989	-	-	1,950,929
Total assets	6,040,002	397,373	433,206	97,560	6,968,141
Liabilities					
Customer deposits	3,376,165	355,932	279,884	28,051	4,040,032
Short-term loans	935,190	-	-	-	935,190
Total liabilities					
Total liabilities	4,311,355	355,932	279,884	- 28,051	4,975,222
Net position	1,728,647	41,441	153,322	69,509	1,992,919

Sensitivity to projected profit on foreign exchange transactions

Movement in foreign currency rates	(1000bp)	(2000bp)	1000bp	2000bp
Change in net income (MK'000)	(192,291)	(384,582)	192,291	384,582
Change in equity(MK'000)	(134,604)	(269,207)	134,604	269,207

(G) OPERATIONAL RISKS

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business entities.

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group's standards for the management of operational risk in the following areas:

- Requirement for appropriate segregation of duties, including independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is effective

(H) CAPITAL MANAGEMENT

REGULATORY CAPITAL

The Reserve Bank of Malawi sets and monitors capital requirements for the Group as a whole.

In implementing current capital requirements, Reserve Bank of Malawi requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets as per note (i).

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, translation reserve intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.; and
- Tier 2 capital, which includes qualifying liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments such as available-for-sale.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and exposures not recognised in the statement of financial position.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

In thousands of Malawi Kwacha

4. *Financial risk management (continued)*

(H) CAPITAL MANAGEMENT (CONTINUED)

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

There have been no material changes in the Bank's management of capital during the year.

The Bank's regulatory capital position as at 31 December was as follows:-

CAPITAL ADEQUACY REQUIREMENT

The Group's available Tier 1 and Tier 2 capital is required to be a minimum of 10% and 15% respectively, of its risk bearing assets and contingent liabilities. At 31 December 2014, the Bank's available capital was 12.1% for tier 1 and 16.1% for tier 2 of all its risk bearing assets and contingent liabilities.

	Separate	
Capital Management	2014	2013
Paid up share capital	363,822	363,822
Share Premium	2,323,895	2,323,895
Retained Earnings Prior Periods	3,744,640	3,888,068
Net Profit - Current year (60%)	1,615,511	1,147,550
Core Capital (Tier 1 Capital)	8,047,868	7,723,335
Loan loss reserve	2,085,402	-
Revaluation reserves	552,017	552,017
Total capital (Tier 2 Capital)	10,685,287	8,275,352

(I) PRUDENTIAL ASPECTS OF BANK'S LIQUIDITY

The Reserve Bank of Malawi issued the following guidelines on the management of liquidity:

- Liquidity Ratio 1 Net liquidity (total liquid assets less suspense account in foreign currency) divided by total deposits must be at least 30%.

As at 31 December 2014, the Bank's liquidity Ratio 1 was 53% (2013– 33%)

- Liquidity Ratio 2 Net liquidity (total liquid assets less suspense account in foreign currency and cheques in the course of collection) divided by total deposits must be at least 20%.

As at 31 December 2014, the Bank's Liquidity Ratio 2 was 46% (2013 – 33%).

In accordance with the Banking Act, the Reserve Bank of Malawi in its supervisory role, has established the following requirement as at the reporting date:

LIQUIDITY RESERVE REQUIREMENT

The Bank is required to maintain a liquidity reserve amount with Reserve Bank of Malawi, calculated on a weekly basis, of not less than 15.5% of the preceding month's average total deposit liabilities. The Bank complied with this directive throughout the year 2014.

5. *Use of estimates and judgments*

Management discusses with the Finance and Audit Committee the development, selection and disclosure of The Bank's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management.

(A) KEY SOURCE OF ESTIMATION UNCERTAINTY

ALLOWANCES FOR CREDIT LOSSES

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(G) (V).

The specific counter-party component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about counter-party's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk Function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on how well these estimate future cash flows for specific counter-party allowances and the model assumptions and parameter used in determining collective allowances.

DETERMINING FAIR VALUES

The determination of fair value for financial assets and financial liabilities for which there is no observable market price require the use of valuation techniques as described in accounting policy 3(G) (V) and note 6. For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(B) CRITICAL ACCOUNTING JUDGMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

Critical accounting judgments made in applying the Bank's accounting policies include:

FINANCIAL ASSET AND FINANCIAL LIABILITY CLASSIFICATION

The Bank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances.

In classifying financial assets or financial liabilities as "trading", the Bank determines that it meets the description of trading and liabilities set out in accounting policy 3(G) (I).

In designating financial assets or financial liabilities at fair value though profit or loss, the Bank has determined that it has met one of the criteria for this designation set out in accounting policy 3f (vii).

In thousands of Malawi Kwacha

6. Accounting classifications and fair values of financial instruments

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

CONSOLIDATED	Level 2	Level 3	Total
31 December 2014			
Financial assets			
Cash and cash equivalents	-	19,012,481	19,012,481
Loans and advances to customers	-	31,023,652	31,023,652
Money market investments	6,666,175	-	6,666,175
Equity investment	-	48,665	48,665
	6,666,175	50,084,798	56,750,973
Financial liabilities			
Current and savings accounts	-	35,300,085	35,300,085
Term deposit accounts	-	8,183,203	8,183,203
FCD Accounts	-	4,830,975	4,830,975
Short term loan	-	5,037,404	5,037,404
Long-term loan	-	317,118	317,118
	-	53,688,785	53,688,785
31 December 2013			
Financial assets			
Cash and cash equivalents	-	13,428,063	13,428,063
Loans and advances to customers	-	34,861,318	34,861,318
Money market investments	5,654,850	-	5,654,850
Equity investment	-	33,665	33,665
	5,654,850	48,323,046	53,977,896
Financial liabilities			
Current and savings accounts	-	28,846,527	28,846,527
Term deposit accounts	-	13,992,633	13,992,633
FCD Accounts	-	4,340,911	4,340,911
Short term loan	-	935,190	935,190
Long-term loans	-	435,961	435,961
	-	48,551,222	48,551,222

In thousands of Malawi Kwacha

SEPARATE	Level 2	Level 3	Total
31 December 2014			
Financial assets			
Cash and cash equivalents	-	19,012,481	19,012,481
Loans and advances to customers	-	31,023,652	31,023,652
Money market investments	6,666,175	-	6,666,175
Equity Investment	-	48,665	48,665
Investment in subsidiary	-	42,600	42,600
Loan to subsidiary	-	141,177	141,177
	6,666,175	50,268,575	56,934,750
Financial liabilities			
Current and savings accounts	-	35,300,614	35,300,614
Term deposit accounts	-	8,183,203	8,183,203
FCD Accounts	-	4,843,026	4,843,026
Short term loan	-	5,037,404	5,037,404
long term loan	-	317,118	317,118
	-	53,681,365	53,681,365

SEPARATE			
31 December 2013			
Financial assets			
Cash and cash equivalents	-	13,428,063	13,428,063
Loans and advances to customers	-	34,861,318	34,861,318
Money market investments	5,654,850	-	5,654,850
Equity Investment	-	33,665	33,665
Investment in subsidiary	-	42,600	42,600
Loan to subsidiary	-	141,177	141,177
	5,654,850	48,506,823	54,161,673
Financial liabilities			
Current and savings accounts	-	28,847,055	28,847,055
Term deposit accounts	-	13,992,633	13,992,633
FCD Accounts	-	4,352,962	4,352,962
Short term loan	-	935,190	935,190
Long-term loans	-	435,961	435,961
	-	48,563,801	48,563,801

In thousands of Malawi Kwacha

6. Accounting classifications and fair values of financial instruments (continued)

CONSOLIDATED	Designated fair value	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
31 December 2014					
Financial assets					
Cash and cash equivalents	-	-	19,012,481	19,012,481	19,012,481
Loans and advances to customers	-	31,023,652	-	31,023,652	31,023,652
Money market investments	6,666,175	-	-	6,666,175	6,666,175
Equity investment	-	-	48,665	48,665	48,665
Total	6,666,175	31,023,652	19,061,146	56,750,973	56,750,973
Financial liabilities					
Current and savings accounts	-	-	35,300,085	35,300,085	35,300,085
Term deposit accounts	-	-	8,183,203	8,183,203	8,183,203
FCD Accounts	-	-	4,830,975	4,830,975	4,830,975
Short term loan	-	-	5,037,404	5,037,404	5,037,404
Long term loan	-	-	317,118	317,118	317,118
Total	-	-	53,668,785	53,668,785	53,668,785

CONSOLIDATED					
31 December 2013					
Financial assets					
Cash and cash equivalents	-	-	13,428,063	13,428,063	13,428,063
Loans and advances to customers	-	34,861,318	-	34,861,318	34,861,318
Money market investments	5,654,850	-	-	5,654,850	5,654,850
Equity investment	-	-	33,665	33,665	33,665
Total	5,654,850	34,861,318	13,461.728	53,977,896	53,977,896
Financial liabilities					
Current and savings accounts	-	-	28,846,527	28,846,527	28,846,527
Term deposit accounts	-	-	13,992,633	13,992,633	13,992,633
FCD Accounts	-	-	4,340,911	4,340,911	4,340,911
Short term loan	-	-	935,190	935,190	935,190
Long term loan	-	-	435,961	435,961	435,961
Total	-	-	48,551,222	48,551,222	48,551,222

In thousands of Malawi Kwacha

SEPARATE	Designated fair value	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
31 December 2014					
Financial assets					
Cash and cash equivalents	-	-	19,012,481	19,012,481	19,012,481
Loans and advances to customers	-	31,023,652	-	31,023,652	31,023,652
Money market investments	6,666,175	-	-	6,666,175	6,666,175
Equity investment	-	-	48,665	48,665	48,665
Investment in subsidiary	-	-	42,600	42,600	42,600
Loan to subsidiary	-	-	141,177	141,177	141,177
Total	6,666,175	31,023,652	19,244,923	56,934,750	56,934,750
Financial liabilities					
Current and savings accounts	-	-	35,300,614	35,300,614	35,300,614
Term deposit accounts	-	-	8,183,203	8,183,203	8,183,203
FCD Accounts	-	-	4,843,026	4,843,026	4,843,026
Short term loan	-	-	5,037,404	5,037,404	5,037,404
Long term loan	-	-	317,118	317,118	317,118
Total	-	-	53,681,365	53,681,365	53,681,365

SEPARATE					
31 December 2013					
Financial assets					
Cash and cash equivalents	-	-	13,428,063	13,428,063	13,428,063
Loans and advances to customers	-	34,861,318	-	34,861,318	34,861,318
Money market investments	5,654,850	-	-	5,654,850	5,654,850
Equity investment	-	-	33,665	33,665	33,665
Investment in subsidiary	-	-	42,600	42,600	42,600
Loan to subsidiary	-	-	141,177	141,177	141,177
Total	5,654,850	34,861,318	13,645,505	54,161,673	54,161,673
Financial liabilities					
Current and savings accounts	-	-	28,847,055	28,847,055	28,847,055
Term deposit accounts			13,992,633	13,992,633	13,992,633
FCD Accounts			4,352,962	4,352,962	4,352,962
Short term loan			935,190	935,190	935,190
Long term loan	-	-	435,961	435,961	435,961
Total	-	-	48,563,801	48,563,801	48,563,801

In thousands of Malawi Kwacha

6. Accounting classifications and fair values of financial instruments (continued)

ESTIMATION OF FAIR VALUES

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table:

Malawi Government Treasury Bills

The fair value is based on quoted market prices, if available, or is calculated based on discounted expected future principal and interest cash flows. These bills are held by the bank up to maturity date

Malawi Government Local Registered Stocks

The amortised cost is estimated as the present value of future cash flows, discounted at effective interest rates.

Loans and receivables

The amortised cost is estimated as the present value of future cash flows, discounted at market interest rates.

For receivables and payables with a remaining life of less than one period, the carrying amount is deemed to reflect the fair value. All other receivables and other payables are discounted to determine the fair value.

7. Cash and cash equivalents

See accounting policy in note 3(H)

	Consolidated		Separate	
	2014	2013	2014	2013
Cash balances	2,423,510	2,306,293	2,423,510	2,306,293
Balance with Reserve Bank of Malawi	8,184,301	5,407,399	8,184,301	5,407,399
Balances due from other banks	6,545,748	5,329,783	6,545,748	5,329,783
Money market investments due within 3 months (note 8)	1,858,922	384,588	1,858,922	384,588
Cash and cash equivalents	19,012,481	13,428,063	19,012,481	13,428,063

8. Money market investments

See accounting policy in note 3(M)

	Separate 2014	Separate 2013
Government of Malawi and Reserve Bank of Malawi bills	4,812,595	963,548
Government of Malawi Promissory Note	3,456,087	4,838,521
Government of Malawi Local Registered Stocks	256,415	237,369
Total investments	8,525,097	6,039,438
The investments are due to mature as follows:		
• Within three months (Note 7)	1,858,922	384,588
• Between three months and one year	6,666,175	5,654,850
	8,525,097	6,039,438

Money market investments with maturity of less than three months are classified as cash and cash equivalents.

In thousands of Malawi Kwacha

9. *Loans and advances to customers*

See accounting policy in note 3(L)

		Consolidated 2014	Consolidated 2013	Separate 2014	Separate 2013
i)	Loans and overdrafts	27,878,031	28,558,481	27,878,031	28,558,481
	Lease contracts	2,576,624	2,411,997	2,576,624	2,411,997
	Mortgage advances	10,024,706	9,266,874	10,024,706	9,266,874
	Total gross loans and advances	40,479,361	40,237,352	40,479,361	40,237,352
	Allowance for impairment	(9,455,709)	(5,376,034)	(9,455,709)	(5,376,034)
	Net loans and advances	31,023,652	34,861,318	31,023,652	34,861,318

Total loans and advances are due to mature as follows:

		Consolidated 2014	Consolidated 2013	Separate 2014	Separate 2013
ii)	• Within one year	14,182,368	15,440,727	14,182,368	15,440,727
	• After one year	16,841,284	19,420,591	16,841,284	19,420,591
		31,023,652	34,861,318	31,023,652	34,861,318
iii)	Allowance for impairment:				
	At beginning of year	5,376,034	2,162,272	5,376,034	2,162,272
	Amounts written-off	(268,925)	-	(268,925)	-
	Increase in impairment net of recoveries	4,348,600	3,213,762	4,348,600	3,213,762
	Balance at end of year	9,455,709	5,376,034	9,455,709	5,376,034

iv) **Finance lease receivables:**

Loans and advances to customers include the following finance lease receivables for leases of equipment where the group is a lessor:

Gross investment in finance lease receivables:

	Consolidated and Separate 2014	Consolidated and Separate 2013
Less than one year	1,398,675	1,342,280
More than one year	2,797,350	2,684,558
	4,196,025	4,026,838
Unearned finance income	(1,619,401)	(1,614,841)
Net investment in finance leases	2,576,624	2,411,997
Net investment in finance leases, receivable:		
Less than one year	584,843	534,538
Between one and five years	1,991,781	1,877,459
	2,576,624	2,411,997

The analysis of the allowance for impairment is fully described in note 5(B)

In thousands of Malawi Kwacha

10. Intercompany balances

	Separate	
	2014	2013
Amount due from subsidiary		
Balance at 1 January	141,177	141,177
Additions during the year	-	-
Balance at 31 December	141,177	141,177
Amounts due to subsidiary		
Balance at 1 January	12,580	41,170
Additions/ (repayments) during the year	-	(28,590)
Balance at 31 December	12,580	12,580

11 Investment securities

See accounting policy in note 3(O)

	Consolidated and Separate	
	2014	2013
NICO Properties Limited	33,665	33,665
NATSWITCH Limited		
	15,000	-
	48,665	33,665

12. Investment in subsidiary

See accounting policy in note 3(O)

	Separate	
	2014	2013
Investment in NBS Forex Bureau Limited	42,600	42,600

NBS Bank Limited owns 100% of the shares in NBS Forex Bureau Limited.

In thousands of Malawi Kwacha

13. *Property and equipment*

See accounting policy in note 3(N)

CONSOLIDATED	Owned property	Motor vehicles, fixtures and fittings	Capital work in progress - buildings	Capital work in progress - equipment	Total
2014					
Cost or valuation					
Balance at 1 January 2014	860,000	4,081,741	716,953	1,865,547	7,524,241
Additions during the year	-	434,974	20,052	598,448	1,053,474
Disposals during the year	-	(8,975)	-	-	(8,975)
Balance at 31 December 2014	860,000	4,507,740	737,005	2,463,995	8,568,740
Comprising of:					
Valuation	552,017	-	-	-	552,017
Cost	307,983	4,507,740	737,005	2,463,995	8,016,723
	860,000	4,507,740	737,005	2,463,995	8,568,740
Accumulated depreciation and impairment losses					
Balance at 1 January 2014	23,530	2,377,492	-	-	2,401,022
Charge for the year	23,429	535,848	-	-	559,277
Disposals during the year	-	(2,002)	-	-	(2,002)
Balance at 31 December 2014	46,959	2,911,338	-	-	2,958,297
Carrying amount					
At 31 December 2014	813,041	1,596,402	737,005	2,463,995	5,610,443
2013					
Cost or valuation					
Balance at 1 January 2013	860,000	3,839,273	544,021	1,667,638	6,910,932
Additions during the year	-	343,597	172,932	197,909	714,438
Transfers within classes (note 14)	-	(101,129)	-	-	(101,129)
Balance at 31 December 2013	860,000	4,081,741	716,953	1,865,547	7,524,241
Comprising of:					
Valuation	552,017	-	-	-	552,017
Cost	307,983	4,081,741	716,953	1,865,547	6,932,224
Accumulated depreciation and impairment losses					
Balance at 1 January 2013	-	1,813,037	-	-	1,813,037
Charge for the year	23,530	537,607	-	-	561,137
Transfers within classes (note 14)	-	26,848	-	-	26,848
Balance at 31 December 2013	23,530	2,377,492	-	-	2,401,022
Carrying amount					
At 31 December 2013	836,470	1,704,249	716,953	1,865,547	5,123,219

In thousands of Malawi Kwacha

13. Property and equipment (continued)

SEPARATE	Owned property	Motor vehicles, fixtures and fittings	Capital work in progress - buildings	Capital work in progress - equipment	Total
2014					
Cost or valuation					
Balance at 1 January 2014	860,000	4,013,447	716,953	1,865,547	7,455,947
Additions during the year	-	434,974	20,052	598,448	1,053,474
Disposals during the year	-	(8,975)	-	-	(8,975)
Balance at 31 December 2014	860,000	4,439,446	737,005	2,463,995	8,500,446
Comprising of:					
Valuation	552,017	-	-	-	552,017
Cost	307,983	4,439,446	737,005	2,463,995	7,948,429
Accumulated depreciation and impairment losses					
Balance at 1 January 2014	23,530	2,354,708	-	-	2,378,238
Charge for the year	23,429	535,848	-	-	559,277
Disposals during the year	-	(2,002)	-	-	(2,002)
Balance at 31 December 2014	46,959	2,888,554	-	-	2,935,513
Carrying amount					
At 31 December 2014	813,041	1,550,892	737,005	2,463,995	5,564,933

SEPARATE	Owned property	Motor vehicles, fixtures and fittings	Capital work in progress - buildings	Capital work in progress - equipment	Total
2013					
Cost or valuation					
Balance at 1 January 2013	860,000	3,770,979	544,021	1,667,638	6,842,638
Additions	-	343,597	172,932	197,909	714,438
Transfers within classes (note 14)	-	(101,129)	-	-	(101,129)
Balance at 31 December 2013	860,000	4,013,447	716,953	1,865,547	7,455,947
Comprising of:					
Valuation	552,017	-	-	-	552,017
Cost	307,983	4,013,447	716,953	1,865,547	7,455,947
	860,000	4,013,447	716,953	1,865,547	8,007,964
Accumulated depreciation and impairment losses					
Balance at 1 January 2013	-	1,790,253	-	-	1,790,253
Charge for the year	23,530	537,607	-	-	561,137
Transfers within classes	-	26,848	-	-	26,848
Balance at 31 December 2013	23,530	2,354,708	-	-	2,378,238
Carrying amount					
At 31 December 2013	836,470	1,658,739	716,953	1,865,547	5,077,709

In thousands of Malawi Kwacha

Register of land and building giving details as required under the Companies Act 2013, Schedule 3, Section 16 are maintained at the registered office of the Group and company and are open for inspection by members or their duly authorised agents.

Leasehold land and buildings were last revalued on 31 December 2012 by MPICO Limited, Valuation and Property Consultancy Services providers, an independent valuer, on a current, open market value. Under the method used, accumulated depreciation was eliminated against the gross carrying amount and the net amount restated to the revalued amount. The resultant surplus was taken to revaluation reserve.

Capital work in progress represents renovation work and software implementation and upgrade costs.

	Consolidated		Separate	
	2014	2013	2014	2013

14. *Intangible assets*

See accounting policy in note 3(P)

	Consolidated 2014	Consolidated 2013	Separate 2014	Separate 2013
Cost				
Balance at 1 January	327,534	206,870	327,534	206,870
Additions	49,537	19,535	49,537	19,535
Transfers within classes (note 13)	-	101,129	-	101,129
Balance at 31 December	377,071	327,534	377,071	327,534
Accumulated amortisation and impairment				
Balance at 1 January	198,577	148,011	198,577	148,011
Amortisation for the year	62,671	77,414	62,671	77,414
Transfers within classes (note 13)	-	(26,848)	-	(26,848)
Balance at 31 December	261,248	198,577	261,248	198,577
Carrying amount				
At 31 December	115,823	128,957	115,823	128,957

Intangible assets relate to purchased software.

15. *Other assets*

See accounting policy in note 3(J)

	Consolidated 2014	Consolidated 2013	Separate 2014	Separate 2013
Consumable stationery	170,506	136,982	170,506	136,982
Prepayments and sundry debtors	1,885,345	624,876	1,854,609	594,149
Cheques in course of collection	3,828,202	221,747	3,828,202	221,747
	5,884,053	983,605	5,853,317	952,878

All these other assets are consumable or recoverable within one year.

In thousands of Malawi Kwacha

16. CUSTOMER DEPOSITS

See accounting policy in note 3(Q)

	Consolidated 2014	2013
Current accounts	12,328,931	8,590,665
Savings accounts	18,400,236	16,427,733
Investment accounts	4,570,918	3,828,129
	35,300,085	28,846,527
Term deposit accounts		
Maturing within 3 months	7,443,766	13,159,600
Maturing between 3 and 12 months	739,437	833,033
	8,183,203	13,992,633

17. SHORT-TERM LOAN

See accounting policy in note 3(L)

	Consolidated and Separate 2014	2013
Interbank	2,001,384	-
NORSAD Finance Limited (Norsad)	3,036,020	935,190
	5,037,404	935,190

NORSAD is analysed as follows:

Analysed as follows:

	NORSAD	Total
Balance at 1 January 2014	935,190	935,190
Addition	2,350,000	2,350,000
Interest charges	87,956	87,956
Exchange loss	71,245	71,245
Repayment during the year	(408,371)	(408,371)
Balance at 31 December 2014	3,036,020	3,036,020

NORSAD approved a loan of US$5 million to NBS Bank Limited on 23 January 2007 at an agreed fixed rate of 6.5% per annum out of which US$4.5 million has been drawn. This loan is used for onward lending to viable Small Medium Enterprises in Malawi that are environmentally friendly and export oriented. This loan has a repayment period of 5 years and is guaranteed by NICO Holdings Limited in the sum of US$ 3 million.

18. Long -term loans

See accounting policy in note 3(L)

	Consolidated and Separate 2014	2013
Malawi Government	20,010	20,010
NICO Life Insurance Company Limited	297,108	415,951
	317,118	435,961

In thousands of Malawi Kwacha

MALAWI GOVERNMENT LOAN

The Malawi Government loan represents an International Development Association (a World Bank fund) credit which was loaned to Malawi Housing Corporation (MHC) for the construction of low cost housing. Interest on the loan, originally at 7% per annum, was suspended. The Bank repays the loan through offsetting receipts by Malawi Housing Corporation to Malawi Government under the varied terms of the contract. The loan is secured through a guarantee by the Malawi Government.

NICO LIFE INSURANCE COMPANY LIMITED LOAN

This is part of the syndicated loan to MHC on which the Malawi Government issued a Promissory Note. The balance on this loan represents the portion of the promissory note that relates to NICO Life Insurance Company Limited. It is a pass-through arrangement where the repayments from Malawi Government on the promissory note will be channeled to this loan proportionately.

The interest is linked to the 91-day treasury bill rate, payable by the Malawi Government. The first repayment was in September 2013 and quarterly thereafter.

19. Deferred tax assets and liabilities

See accounting policy in note 3(F)

(A) DEFERRED TAX ASSETS AND LIABILITIES

	2014			2013		
CONSOLIDATED	Assets	Liabilities	Net	Assets	Liabilities	Net
Capital allowances on property and equipment	-	(177,146)	(177,146)	-	(228,750)	(228,750)
Fair value adjustments	-	-	-	4,145	-	4,145
Provisions	-	(89,811)	(89,811)	-	(16,584)	(16,584)
	-	(266,957)	(266,957)	4,145	(245,334)	(241,189)
SEPARATE						
Capital allowances on property and equipment	-	(177,146)	(177,146)	-	(228,750)	(228,750)
Fair value adjustments	-	-	-	4,145	-	4,145
Provisions	-	(59,475)	(59,475)	30,336	(16,584)	13,752
	-	(236,621)	(236,621)	34,481	(245,334)	(210,853)

In thousands of Malawi Kwacha

19. *Deferred tax assets and liabilities (continued)*

(A) DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

Movement in temporary differences during the year was as follows:-

CONSOLIDATED	As at 1 January 2014	Recognised in profit or loss	Recognised in other comprehensive income	As at 31 December 2014
Property and equipment	(228,750)	51,604	-	(177,146)
Fair value adjustment	4,145	-	(4,145)	-
Provisions	(16,584)	(73,227)	-	(89,810)
	(241,189)	(21,623)	(4,145)	(266,956)
SEPARATE				
Property and equipment	(228,750)	51,604	-	(177,146)
Fair value adjustment	4,145	-	(4,145)	-
Provisions	13,752	(73,227)	-	(59,475)
	(210,853)	(21,623)	(4,145)	(236,621)

(B) UNRECOGNISED DEFERRED TAX ASSETS AND LIABILITIES – GROUP

The subsidiary which has since filed for dormancy has a deferred tax asset of MK26.8 million in respect of losses carried forward which is subject to agreement with Malawi Revenue Authority. In addition, the Bank has a deferred tax asset of MK30.3 million which has not been recognised as it represents the deferred tax effect of the unrealised loss of investment in the subsidiary company.

20. *Other liabilities*

See accounting policy in note 5(B)

	Consolidated		Separate	
	2014	2013	2014	2013
Unpresented cheques	125,722	98,048	125,722	98,048
Accruals	1,624,191	1,378,494	1,707,507	1,461,820
PAYE and other taxes	297,471	323,465	297,471	323,465
	2,047,384	1,800,007	2,130,700	1,883,333

21. Share capital

See accounting policy in note 3(T)

	Consolidated and Separate	
	2014	2013
Authorised share capital	500,000	500,000

1,000,000,000 (2013: 1,000,000,000) Ordinary Shares of MK0.50 each.

The holders of ordinary shares are entitled to receive dividends as declared from time to time.

	2014	2013
Issued and fully paid (thousands of shares)	727,643	727,643
Weighted average number of shares as at 31 December	727,643	727,643

The movement in share capital during the year was as follows (in thousands of Malawi Kwacha):

	2014	2013
At 1 January issued and fully paid shares of 50t each	363,822	363,822
Total share capital issued at end of year	363,822	363,822

22. Share premium

	Consolidated and Separate	
	2014	2013
Share premium	2,323,895	2,323,895

Share premium arose from the transfer of balances on revenue and general reserves on the conversion of New Building Society to NBS Bank Limited, excess of share value over book value on listing, private placement, and rights issue and on issue of bonus shares net of issue costs as follows:

Balance pre-listing	164,637
Share issue on listing	150,311
Share issue	1,721,139
Bonus issue	287,808
Total	2,323,895

23. Revaluation reserve

The revaluation reserve relates to the surplus arising on the revaluation of properties. This is not available for distribution to owners until when it gets realised.

552,017	552,017

24. Fair value reserve

-	(9,672)

The fair value reserve includes the cumulative net change in the fair value of available for sale investments measured at fair value through other profit or loss excluding impairment losses, until the investment is derecognised.

In thousands of Malawi Kwacha

25. *Loan loss reserve*

	2,085,402	-

The fair value reserve includes the cumulative net change in the fair value of available for sale investments measured at fair value through other profit or loss excluding impairment losses, until the investment is derecognised.

26. *Net interest income*

See accounting policy in note 3(C)

	Consolidated		Separate	
	2014	2013	2014	2013
Interest income				
Interbank loans	68,971	50,270	68,971	50,270
Personal loans	1,589,946	1,210,221	1,589,946	1,210,221
Corporate loans	4,794,841	4,969,302	4,794,841	4,969,302
Short-term loans	163,056	138,699	163,056	138,699
Mortgage loans	3,299,120	3,381,683	3,299,120	3,381,683
Tobacco loans	249,151	297,071	249,151	297,071
Money market investments	1,441,080	2,747,572	1,441,080	2,747,572
Overdrafts	1,853,877	3,374,093	1,853,877	3,374,093
Lease contracts	760,709	780,868	760,709	780,868
SME loans	291,556	248,709	291,556	248,709
Total interest income	14,512,307	17,198,488	14,512,307	17,198,488
Interest expense				
Current accounts	40,124	108,961	40,124	108,961
Savings deposits	988,039	960,649	988,039	960,649
Investment deposits	391,716	294,774	391,716	294,774
Fixed deposits	2,102,056	4,891,329	2,102,056	4,894,329
FCD accounts	15,400	25,947	15,400	25,947
Inter-bank – borrowing	100,262	381,613	100,262	381,613
Interest – RBM loan	-	1,158,829	-	1,158,829
Interest – Norsad/IFC/PTA loans	105,564	64,653	105,564	64,653
Total interest expense	(3,743,161)	(7,886,755)	(3,743,161)	(7,886,755)
Net interest income	10,769,146	9,311,733	10,769,146	9,311,733

27. *Net fees, commission and other charges*

See accounting policy in note 3(D)

Income				
Bank charges and commission	2,456,532	1,757,864	2,456,532	1,757,864
Income from ATM transactions	470,401	489,619	470,401	489,619
VISA income	489,841	86,700	489,841	86,700
	3,416,774	2,334,183	3,416,774	2,334,183
Expense				
Bank charges	(35,168)	(22,374)	(35,168)	(22,374)
Net fees and commission income	3,381,606	2,311,809	3,381,606	2,311,809

In thousands of Malawi Kwacha

28. Other income

	Consolidated and Separate	
	2014	2013
NICO Management fees	-	13,285
Grant	133,006	-
	133,006	13,285

The Bank received a grant of MK133m from United Nations Capital Development Fund (UNCDF) to facilitate its operations in the financial inclusion project. Under the grant agreement the funds are released by the UNCDF upon achieving agreed targets

29. Personnel expenses

	Consolidated		Separate	
	2014	2013	2014	2013
Salaries and wages	2,098,501	1,673,805	2,098,501	1,673,805
Staff bonus	-	139,530	-	139,530
Leave pay provision	118,702	84,984	118,702	84,984
Severance pay provision	125,610	-	125,610	-
Pension contribution	238,105	184,864	238,105	184,864
Life insurance	97,099	76,494	97,099	76,494
MASM contribution	99,478	76,141	99,478	612,289
School fees	94,571	46,481	94,571	46,481
Meal allowances	78,623	22,912	78,623	22,912
Other expenses	150,204	120,413	150,204	120,413
Mortgage loan subsidy	347,398	381,372	347,398	381,372
Christmas pay expenses	22,712	17,908	22,712	17,908
Training expenses	75,504	50,259	75,504	50,259
Management car scheme	156,721	116,305	156,721	116,305
	3,703,228	2,991,468	3,703,228	2,991,468

30. Other operating expenses

	Consolidated 2014	Consolidated 2013	Separate 2014	Separate 2013
Accommodation costs	685,774	588,413	685,774	588,413
Auditors' remuneration - Current year fees	26,795	21,203	26,795	21,203
- Other audit expenses	15,805	4,774	15,805	4,774
Cash collection expenses	97,791	85,579	97,791	85,579
Communication costs	1,402,765	1,093,560	1,402,765	1,093,560
Company shared expenses	8,130	18,564	8,130	18,564
Directors' expenses	25,170	24,084	25,170	24,084
Directors' remuneration	9,975	9,038	9,975	9,038
General expenses	156,945	174,620	156,945	174,620
Legal and professional fees	737,104	279,035	737,104	279,035
Malawi Stock Exchange listing fees	12,500	10,483	12,500	10,483
NICO Management fees	172,191	-	172,191	-
Projects and conferences expenses	11,361	8,378	11,361	8,378
Provision for overdrawn balances	-	225,455	-	225,455
Provision for write-offs	126,364	-	126,364	-
Security expenses	138,399	113,709	138,399	113,709
Sundry business charges	97,516	238,570	97,516	238,570
Transfer Secretarial Expenses	7,934	13,274	7,934	13,274
	3,732,519	2,908,739	3,732,519	2,908,739

In thousands of Malawi Kwacha

	Consolidated		Separate	
	2014	2013	2014	2013

31. *Income tax expense*

See accounting policy in note 3(F)

	Consolidated 2014	Consolidated 2013	Separate 2014	Separate 2013
Current tax expense	1,351,262	1,070,249	1,351,262	1,070,249
Deferred tax	21,623	(132,186)	21,623	(132,186)
Total income tax charge	1,372,885	938,063	1,372,885	938,063
Reconciliation of tax charge				
Profit before tax	4,065,403	2,850,646	4,065,403	2,837,482
Income tax using corporate tax rate	1,219,621	855,194	1,219,621	851,245
Non-deductible expenses	131,641	215,055	131,641	2219,004
Temporary differences	21,623	(132,186)	21,623	(132,186)
	1,372,885	938,063	1,372,885	938,063

The losses in the subsidiary of MK26 million carried forward are subject to agreement with the Malawi Revenue Authority.

32. *Earnings per share*

The calculation of basic and diluted earnings per share is based on the net profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding during the period calculated as follows:

	2014	2013
Net profit attributable to ordinary shareholders (Thousand Kwacha)	2,692,518	1,912,583
Weighted average number of ordinary shares (note 20)	727,643	727,643
Basic earnings per share (MK)	3.70	2.62
Diluted earnings per share (MK)	3.70	2.62

33. *Capital commitments*

As at 31 December 2014, the contracted but not yet incurred capital commitments were **MK4.5 billion.**

The authorised but not yet contracted for commitments as at 31 December 2014 were **MK2 billion.**

These commitments are to be funded from internal resources.

34. *Contingent Liabilities*

The Bank is a defendant to several cases which are outstanding in the courts of Malawi. While liability is not admitted, if the defence against the actions is unsuccessful, then the Bank would pay the claims estimated at **MK175 million** (2013: MK197 million).

35. *Guarantees*

The Bank guarantees repayment of mortgage loans to NICO Life Insurance Company for its staff. Staff mortgages and all mortgage securities are registered in the Bank's favour. The Bank pays an interest subsidy on behalf of employees and the related fringe benefits tax inclusive of subsidy are included under staff costs. At 31 December 2014 guaranteed staff mortgages were **MK916 million** (December 2013: MK929 million).

In thousands of Malawi Kwacha

36(a). Related party transactions

IDENTITY OF RELATED PARTIES

All transactions were at arm's length. During the year and at year end, the following transactions and balances, respectively, were made:

Related Party	Relationship	Type of Transaction	Value of Transaction MK'000 Dec. 2014	Balance of Transaction MK'000 Dec. 2014	Value of Transaction MK'000 Dec. 2013	Balance of Transaction MK'000 Dec. 2013
NICO Holding Limited	Holding	Company account interest income	252		603	
		Company account interest expense	(718)		(680)	
		Dividend	-		-	
		Bank account		(17,277)		(32,134)
		Fixed deposit interest	(135,582)		(41,893)	
		Shared expenses	(8,231)	(6108)	(13,085)	(5,673)
		Fixed deposit	(9,721,812)	(6,421)	(1,329,789)	(143,304)
NICO Life Insurance Limited	Company	Management fees	9,062			
		Bank account			9,062	774
		Bank account interest income	5,854	(157,198)		(133,425)
		Bank account interest expense			1,032	
		Fixed deposit	(8,553)		(10,956)	
		Fixed deposit interest expense	(13,167,805)		(20,726,377)	
		Rent expense	(238,924)		(760,028)	(3,265,105)
		Loan	(15725)		(10,308)	
		Pension contribution	(185,592)		(222,137)	
NICO General Insurance Limited	Company	Bank account interest income	8,226		2,363	
		Bank account interest	(29,765)		(11,125)	
		Expense	(6,292,563)	(158)	(18,453,866)	(1,689,105)
		Fixed deposit	(115,521)			
		Fixed deposit interest expense	(65,633)			
		General insurance premiums			(778,753)	
		Bank account		(241,294)	(59,894)	(133,441)
NICO Technologies Limited	Company	Technical support	(61,344)	(5,651)	(4,160)	(4,475)
		Bank account		16,379		(14,508)
		Bank account interest	4,725		1,347	
		Income	(997)	(259)	(674)	
		Fixed deposit				(232)
		Bank account interest expense	(1)		(58)	
		Fixed deposit interest	(30))		(88)	
NICO Asset Management Limited	Company	Bank account		(39,326)		
		Bank account interest income	406		(210)	(22,831)
		Bank account interest expense				
		Fixed deposit	(22)		(64)	
		Fixed deposit interest	(15,302)	(3,156)	(976,213)	
		Directors remunerations	(177)		(206,748)	
Directors and Executive Officers	Directors/ Managers	Executive managers remunerations	(9,975)		(9,038)	
		Interest on Directors and Executive	(156,597)		(125,100)	
		Managers Loans	29,247		34,887	
		Loans		152,483		226,167

In thousands of Malawi Kwacha

36(b). Related party transactions

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Directors, Management and their immediate relatives have transacted with the Bank during the period as follows:

	Directors and their related parties 2014	Employees 2013	Directors and their related parties 2014	Employees 2013
Advances	152,483	305,830	226,167	207,964
Deposits	3,432	-	(18,159)	(38,780)
Net balances	155,915	305,830	208,008	169,184

Advances to directors and parties related thereto are conducted at arm's length and deemed to be adequately secured. Advances to staff comprise **MK60 million** (2013: MK48 million) interest free loans and **MK244 million** (2013: MK160 million) at an interest rate of 9% the remaining balance carries interest at commercial rates.

Advances to related parties at concessionary rates of interest are valued at the present value of expected future repayments of the advances discounted at a pre-tax discount rate that equates to the interest rate charged by the Bank on similar loans to non-related parties. Consequently, an allowance for impairment losses of **MK109 million** (2013: MK79 million) has been made against low interest advances to related employees. No other impairment losses have been recorded against loans to related parties.

Directors' and key management personnel compensation for the period comprised:

	Consolidated 2014 MK'000	Separate 2013 MK'000
Executive Managers' shorter benefits	113,817	91,418
Executive Directors' remuneration	9,975	9,038
Executive Managers' bonus	-	7,575

All loans and advances to related parties are secured. The Bank guarantees repayment of mortgage loans to NICO Life Insurance Company for its staff. Staff mortgages and all mortgage securities are registered in the Bank's favour. At 31 December 2014 guaranteed staff mortgages were **MK916 million** (December 2013: MK929 million

In thousands of Malawi Kwacha

37. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses.

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's service outlets location and internal reporting structure.

Segment capital expenditure is the total cost incurred during the period to acquire property and equipment and intangible assets other than goodwill.

GEOGRAPHICAL SEGMENT

Information provided to the Group's Chief Operating Decision Makers is classified by region as follows:

- Northern Region Includes loans, deposits and other transactions and balances with corporate customers in the northern region.
- Central Region Includes loans, deposits and other transactions and balances with retail customers in the central region.
- Southern Region Includes loans, deposits and other transactions and balances with retail customers in the southern region. It also includes the Group's funding and centralised risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short-term placement and corporate Government debt securities.

2014	Note	Northern Region	Central Region	Southern Region	Shared services	Total
Interest income		459,656	2,451,280	5,301,870	6,299,501	14,512,307
Interest expense		(285,180)	(1,054,043)	(1,132,353)	(1,271,585)	(3,743,161)
Net interest income	25	174,476	1,397,237	4,169,517	5,027,916	10,769,146
Other operating income		373,813	1,109,240	1,010,571	4,220,393	6,714,017
Operating expenses		(546,322)	(1,268,850)	(1,338,095)	(5,915,893)	(9,069,160)
Total Segment Revenue		1,967	1,237,627	3,841,993	3,332,416	8,414,003
Segment contribution		1,967	1,237,627	3,841,993	3,332,416	8,414,003
Impairment losses on financial assets	9	-	-	-	(4,348,600)	(4,348,600)
Reportable profit for the year before income tax		1,967	1,237,627	3,841,993	(1,016,184)	4,065,403
Reportable segment assets		1,244,548	7,886,944	16,642,088	42,695,243	68,468,823
Total assets		1,244,548	7,886,944	16,642,088	42,695,243	68,468,823
Reportable segment liabilities		4,778,945	18,324,420	19,081,941	14,443,083	56,628,389
Depreciation and amortisation	13,14				621,948	621,948
Capital expenditure	13,14				1,103,011	1,103,011

In thousands of Malawi Kwacha

37. Segment reporting (continued)

2013	Note	Northern Region	Central Region	Southern Region	Shared services	Total
Interest income		458,687	2,432,804	6,751,940	7,555,057	17,198,488
Interest expense		(346,833)	(1,176,275)	(1,555,059)	(4,808,588)	(7,886,755)
Net interest income	25	111,854	1,256,529	5,196,881	2,746,469	9,311,733
Other operating income		348,780	846,462	859,701	2,215,437	4,270,380
Operating expenses		(450,525)	(1,041,529)	(1,125,299)	(4,900,352)	(7,517,705)
Total segment revenue		10,109	1,061,462	4,931,283	61,554	6,064,408
Segment contribution		10,109	1,061,462	4,931,283	61,554	6,064,408
Impairment losses on financial assets	9	-	-	-	(3,213,762)	(3,213,762)
Reportable profit for the year before income tax		10,109	1,061,462	4,931,283	(3,152,208)	2,850,646
Reportable segment assets		1,064,921	6,664,502	18,953,732	33,530,522	60,213,677
Total assets		1,064,921	6,664,502	18,953,732	33,530,522	60,213,677
Reportable segment liabilities		15,394,015	15,497,764	4,212,340	16,312,974	51,417,093
Depreciation and amortisation	13,14				638,551	638,551
Capital expenditure	13,14				733,972	733,972

Reconciliation of information on reportable segments to IFRS measures

	2014	2013
Revenue		
Reportable segments revenue	5,081,587	6,002,854
Shared services	3,332,416	61,554
Consolidated revenue	8,414,003	6,064,408
Assets		
Reportable segments assets	25,666,049	56,001,337
Shared services	42,695,243	4,212,340
Consolidated assets	68,361,292	60,213,677
Liabilities		
Reportable segments liabilities	42,185,306	35,104,119
Shared services	14,443,083	16,312,974
Consolidated Liabilities	56,628,389	51,417,093

The Group segments its business by the regions in which it operates as a result of the risk that is attached to each region. A significant portion of its lending in the agricultural sector carries varying risks in these regions.

The Group transacts a significant portion of its business with the Malawi Government and its related statutory corporations and institutions where related revenue is in excess of 10% of the Group's total revenues.

In thousands of Malawi Kwacha

38. Inflation and exchange rates

Exchange rates as at 31 December

	2014	2013
United States Dollar (USD)	468.52	433.46
British Pound (GBP)	720.45	710.72
South African Rand (ZAR)	40.06	43.21
Inflation rates as at 31 December	24.2%	23.5%

There were no significant movements in both exchange rate and inflation at the time of the approval of the financial statements.

39. Subsequent events

Subsequent to reporting date, no events have occurred requiring adjustments to or disclosures in these financial statements.

In thousands of Malawi Kwacha

Shareholding by Industry Code for NBS as at 31 December 2014

Industry	Total Shares	Total Shares %	Total Holders	Holders %
BANKS/NOMINEES	23,546,966	3.24	83	1.34
FOREIGN COMPANY	132,137,578	18.16	4	0.06
FOREIGN INDIVIDUAL	3,636	0.00	2	0.03
INSURANCE / ASSURANCE	9,901,327	1.36	10	0.16
INVEST/TRUST ETC.	44,798,906	6.16	35	0.57
LOCAL COMPANY	377,259,817	51.85	77	1.24
LOCAL INDIVIDUAL	6,903,236	0.95	30	0.48
NON RESIDENT	1,348,330	0.19	28	0.45
OTHER CORP	4,085,469	0.56	14	0.31
PENSION/PROVIDENT	31,871,307	4.38	28	0.45
RESIDENT IND	95,786,767	13.16	5,844	94.89
TOTALS	727,643,339		6,155	

Shareholding Distribution for NBS as at 31 December 2014

MSE Code	Distribution Range	Shares	Total Shares %	Holders	Holders %
NBS	1 - 5000	2,995,180	0.41	1,339	21.75
NBS	100001 - 200000	10,747,488	1.48	80	1.30
NBS	50001 - 100000	13,708,157	1.88	201	3.27
NBS	25001 - 50000	14,723,947	2.02	424	6.89
NBS	200001 - 500000	17,638,760	2.42	60	0.97
NBS	500001 - 1000000	20,901,414	2.87	28	0.45
NBS	5001 - 25000	42,615,393	5.86	3,998	64.96
NBS	1000001 - 999999999	604,313,000	83.05	25	0.41
TOTALS		727,643,339		6,155	

Shareholding by Country for NBS as at 31 December 2014

Country	Total Shares	Total Shares %	Total Holders	Holders %
CANADA	211,112	0.03	1	0.02
CAYMAN ISLANDS	901	0.00	1	0.02
ETHIOPIA	4,389	0.00	1	0.02
GHANA	7,723,889	1.06	3	0.05
KENYA	21,112	0.00	1	0.02
LESOTHO	49,084	0.01	1	0.02
MALAWI	587,252,473	80.71	6,112	99.30
MAURITIUS	7,883	0.00	1	0.02
NETHERLANDS	20,000	0.00	1	0.02
NORWAY	8,128	0.00	1	0.02
OMAN	18,895	0.00	1	0.02
SOUTH AFRICA	171,656	0.02	8	0.13
SWAZILAND	5,278	0.00	1	0.02
TANZANIA	7,706	0.00	1	0.02
UNITED KINGDOM	190,023	0.03	10	0.16
UNITED STATES OF AMERICA	131,911,324	18.13	7	0.11
ZIMBABWE	39,486	0.01	4	0.06
TOTALS	727,643,339		6,155	