NBS Bank
Your Caring Bank

Tel +265 (0) 876 222/231. Fax +265 (0) 875 298. E mail: nbs@nbsmw.com. www.nbsmw.com

True success is measured
by how it is sustained.

Annual Report 2007

NBS Bank

Your Caring Bank

Banking together. Growing together. Stronger everyday.

NBS Bank has been growing consistently. This is a true measure of success.

OUR VISION To be the Bank of choice in Malawi.

OUR MISSION We undertake to add value to our stakeholders by offering an innovative range of banking products through efficient business processes and empowered and caring staff.

OUR VALUES Integrity, Care, Quality Service, Health and Safety, Ethical Standards, Transparency and Good Corporate Governance.

CONTENTS

Success through meeting market demands

NBS Bank was incorporated as a Limited Liability company on 14th March 2003 and was registered under The Banking Act, 1989 on the 1st March 2004. It started commercial banking operations on 1st July 2004.

The Bank was listed on The Malawi Stock Exchange on 25th June 2007. NBS Bank listed on Malawi Stock Exchange on 25th June 2007. The objective of the listing was to increase the Bank's productive capital base to be deployed in expanding core banking operations. Another objective was to increase the public ownership of the Bank.

A broader shareholder base, including staff participation is expected to enhance NBS's image. Additional advantages of the listing are expected to include improved access to lines of credit and greater ability to attract deposits and extend loans and advances.

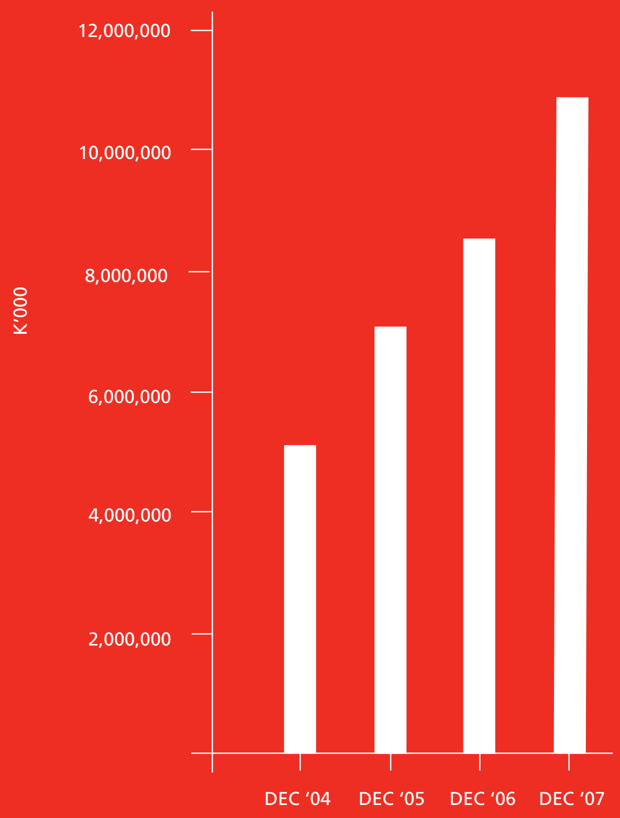
The listing was also in line with NICO's philosophy of diversifying shareholdings in its companies through the Public. Before listing the shareholding was as follows; NICO Holdings Ltd 74%, Malawi Govt.16%, National Investments Trust Limited (NITL) 10%. After listing, the shareholding is as follows; NICO Holdings Ltd 60%, Public 28.7%, NITL 8.1% and ESOP 3.2%.

The Bank's predecessor institution, The New Building Society, was formed following the amalgamation of the Central African Building Society, Commonwealth Century Building Society and First Building Society. It had been incorporated under the Building Societies Act on 7th February 1964. Since then the Society continued to operate raising funds from the public and advancing them by way of mortgage loans against the security of land and buildings.

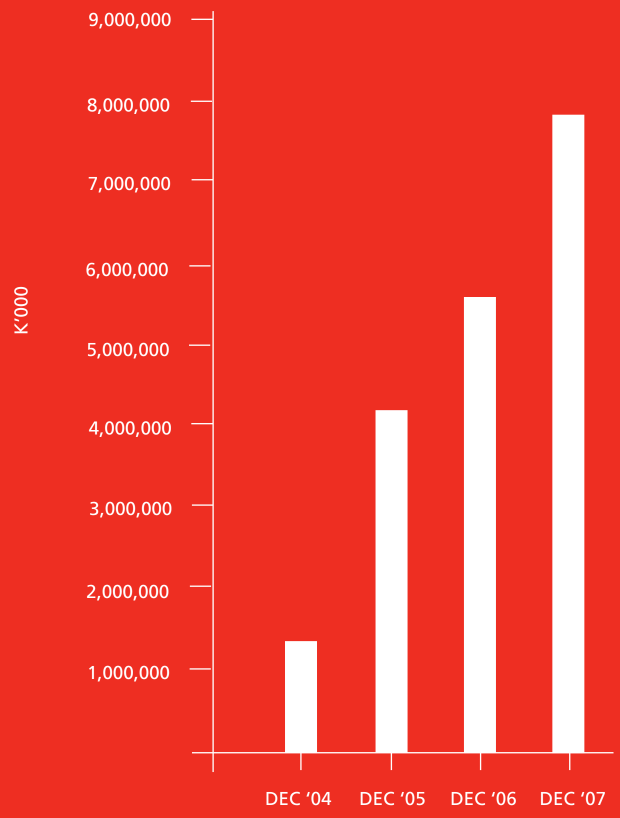
It operated almost monopolistically in mortgages until the liberalization of the financial market in Malawi opened the mortgage business to financial institutions registered under The Banking Act, 1989.

The Society however, could not offer products traditionally marketed by banks. It therefore became increasingly more difficult for the Society to compete fairly and satisfy the expectations of its customers. A decision was consequently made to convert the building society to a commercial bank.

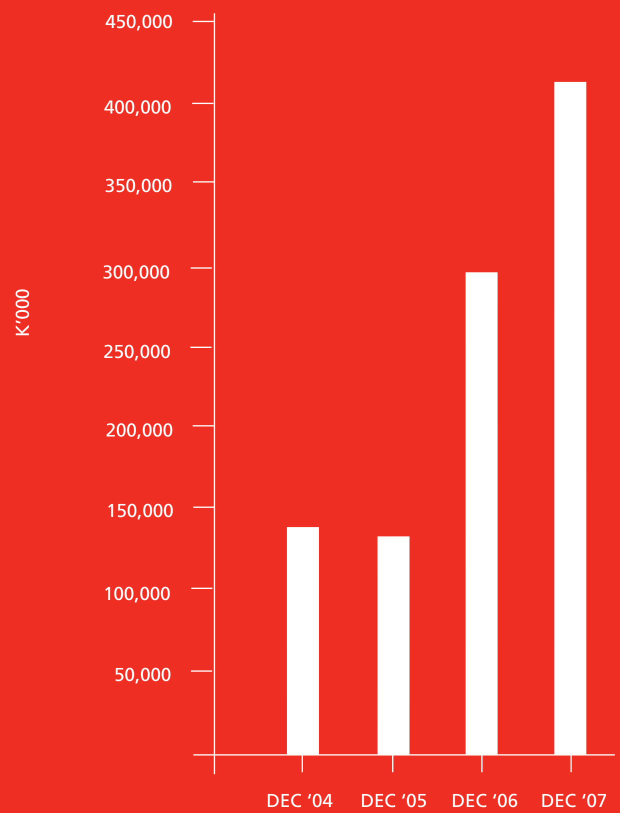
TOTAL DEPOSITS



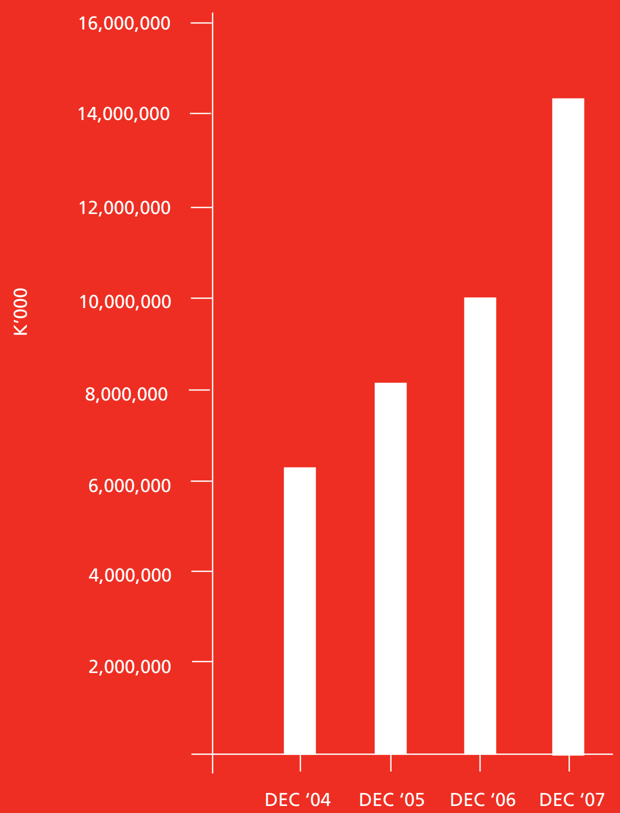
LOANS AND ADVANCES



NET OPERATING PROFITS BEFORE TAX



TOTAL ASSETS



NBS Bank has laid the foundations for their success, and continues to add innovative products to their existing offerings.

Prospects for 2008 are bright as the Bank will be rolling out some new exciting products. Notwithstanding, major challenges will be to manage interest rate margins in order to attract savings as well as offer affordable lending products.

Success in the long haul

ECONOMIC OVERVIEW

The country's economic performance continued to improve in 2007 mainly due to good Government policies which resulted in the inflation rate reducing from 9.5% at the beginning of the year to 7.5% at end of the year. The Kwacha remained stable against the US$, averaging K140:US$. The economy grew by 7.4% mainly driven by the good performance of the agricultural sector.

The LRR (Liquidity Reserve Ratio) was reduced from 20% to 15.5% whilst the Bank Rate reduced from 20% in January to 17.5% in August 2007 and to 15% in November 2007 up to year end.

FINANCIAL PERFORMANCE OF THE BANK

During the year ended 31st December 2007, the Bank continued to adopt the new International Accounting Standards which have resulted in more provisions being made to cater for severance and leave pay.

For the year ended 31st December 2007, NBS Bank registered a net profit before tax of K413 million representing a 67% growth over 2006 profit of K278 million, despite major challenges in foreign exchange irregular supply and a relatively high cost of running the business.

The Board of Directors recommended a dividend payment of K128 million to Shareholders representing 25 tambala per share for year ended 31st December 2007.

OUTLOOK

Prospects for 2008 are bright as the Bank will be rolling out some new exciting products. Notwithstanding, major challenges will be to manage interest rate margins in order to attract savings as well as to offer affordable lending rates. Furthermore the Bank will also have to jealously guard its market leadership in mortgage and savings products through superior customer service.

LISTING ON THE MALAWI STOCK EXCHANGE

NBS Bank was listed on the Malawi Stock Exchange on 25th June 2007. The response to the purchase of shares was unprecedented. This was evidenced by an oversubscription of over 8.9 times. The listing resulted into major shareholder changes, with the public owning 40% of the shares thus making the Bank with highest public ownership in the whole industry.

SME SECTOR

At NBS Bank we believe in the spirit of growing together. We believe that SMEs of today will make our future corporate customers. In that regard, the Bank, in corroboration with International Finance Corporation (IFC), commenced the extension of credit facilities to the SME sector. This was made possible through a loan of US$3 million from IFC. To serve this sector well, the Bank has set up a dedicated SME Unit to attend to the needs of its SME clients.

EXPORT BASED ENTERPRISES

During the first half of the year, the Bank also successfully secured a credit line from NORSAD for US$5 million. This facility is for exclusive lending to the export sector through medium term financing. We believe this will complement Government's efforts in turning Malawi into a predominantly producing and exporting economy.

SOCIAL RESPONSIBILITY

In July 2007, the Bank sponsored the Mulanje Mountain Porters Race. This is Malawi's only extreme sport which has participation from both Malawians and foreign tourists. The Malawians are predominantly tour guides who lead tourists to various places of attraction on Mt. Mulanje. Its key objective is to bring awareness to all about the need to conserve Mulanje Mountain. This was the second year running for the Bank to sponsor this event.

For a third year running, the Bank also sponsored The Monthly Mug Golf Competition at Country Club Limbe which culminates into a Winner of Winners Tournament in December. This event gives the Bank an opportunity to interact with customers and thank them for their custom.

STAFF

We continue to ensure that our customers receive service of the highest standard. This has been instrumental in the growth of our customer base. Major emphasis is put on staff development through targeted training and on the job coaching to a high performance and customer centric culture. The sourcing of quality staff that is geared towards facing the challenges has augmented this.

WORD OF APPRECIATION

I would like to thank our clients and business associates for their continued support.

I also wish to thank both management and staff for their hard work and commitment to duty.

Last but not least, I also thank the Directors, who were on the Board both past and present, for their much needed support and guidance.

F L Mlusu

Chairman

1. Felix Mlusu (Chairman) **2.** Mr R Mwadiwa (Director) **3.** Mr Vizenge Kumwenda (Director) **4.** Mrs Audrey Mwala (Director) **5.** Mrs J Banda (Director) **6.** Mr G Wawanya (Director) **7.** Mrs Estelle Nuka (Director) **8.** Mr Joe Swankie (Director)

The year 2007 was both challenging and exciting. In our strategy, we coined the year 2007 and beyond, as years of growth. I am now pleased to report that our journey to that envisaged growth has begun in earnest.

Success through innovative products

The year 2007 was both challenging and exciting. In our strategy, we coined the year 2007 and beyond, as years of growth. I am now pleased to report that our journey to that envisaged growth has begun in earnest.

BUSINESS GROWTH

Our business continued on its path of remarkable growth. The bank's deposits grew from MK8.4bn to MK10.9bn while loans and advances increased from MK5.8bn to MK8.1bn. The Bank reported a profit before tax of K413 million compared to K278 million in 2006 after making a provision of K110 million for severance pay. This represents an overall growth of 67%. This was a result of improved performance on all business lines especially in growing non-interest income and managing interest expense. It is evident that the strategies which had been put in place to address the challenges faced in 2006 were now starting to bear fruit.

NEW PRODUCTS

The Bank added two products to its already existing line of products on the ATM, being the sale of Malawi Telecommunications Limited air time and DSTV subscription, the latter being the first of its kind in the country.

ATM NETWORK

During the year, the Bank continued to expand its ATM network. These ATMs which accept the three main languages of English, Chichewa and Tumbuka are unique and the first of its sort in Malawi. To date the Bank has 36 ATMs in total, all of which are at its Branches and Agencies. The plan is to have up to 50 units functional before the end of 2008 in order to improve service delivery to our rapidly growing customer base.

Improved performance on all business lines was one of the contributors to our success

DELIVERY OUTLETS

Continuing with our philosophy of taking banking to the people, we opened a service centre at Dedza Boma and installed an off-branch ATM at Dwangwa Sugar Factory. The Bank now has 26 points of representation. This is probably the widest on-line, real time banking network in the country.

CHALLENGES

The major challenge remained the finalisation of the upgrading of our ICT systems. Over the past 3 years the Bank has made a heavy investment in this area and it is expected that this upgrade project will be finalised in 2008. One of the key attainments in this regard will be the installation of a Management Information System (MIS) which we hope will help the Bank to, among other things, enhance its Customer Relationship Management (CRM) programmes.

STAFF DEVELOPMENT

Our staff remain the most critical factor for success. To this end, we continued to develop their skills and competencies especially in the light of a continually changing operating environment. Most of the training focused on customer service and product knowledge in a bid to delight our customers.

In addition to company initiated staff development programmes, the Bank continues to encourage and support members of staff that are studying privately for the attainment of different qualifications.

APPRECIATION

In closing, let me thank our Board of Directors and my colleagues for their continuing support during the year. I have no doubt that the Bank will continue to grow from strength to strength in 2008 and beyond.

John S Biziwick

Chief Executive Officer

1. Mr J Biziwick (CEO) **2.** Mr G Kadzakumanja (Deputy CEO) **3.** Mr M Ndenya Finance & ICT Executive/ Co Secretary) **4.** Mr M Mlomba (Head of ICT)**. 5.** Mr S Kamkosi (Head of Credit) **6.** Mr D Chatima (Head of Internal Audit & Inspection)**7.** Mrs E Chafulumira (Head of HR & Admin) **8.** Mrs L Kaoloka (Head of Treasury)

A successful listing

Success through helping Government reduce poverty

NBS Bank listed on Malawi Stock Exchange on 25^{th} June 2007. The objective of the listing was to increase the Bank's productive capital base by approximately Mwk 242.7m, to be deployed in expanding core banking operations.

The listing was also in line with NICO's philosophy of diversifying shareholdings in its companies through the Public. Before listing the shareholding was as follows;
NICO Holdings Ltd 74%, Malawi Govternment 16%, NITL 10%

The Government of Malawi, through the Privatisation Commission, made available 48,000,000 shares for the IPO and NBS Bank offered a further 93,333,000, resulting in a total of 141,333,000 being available for subscription by the public at an offer price of K2.60 per share. The offer opened on 28^{th} May 2007 and closed on 15^{th} June 2007. The total number of applications received was 11,304. Shares offered were 141,333,000 amounted to 367,465,800 and shares applied for was 1,252,125,700 amounted to 3,255,526,820. This translated to a subscription rate of 8.9 times. This level of subscription to an IPO is unprecedented on The Malawi Stock.

As a result of the new subscription NICO Holdings reduced its shareholding in NBS Bank to 60% from 74%. Thus effectively the public ownes 40% of the Bank.

NBS BANK INCREASES LENDING TO SMALL BUSINESSES

In a drive to help government reduce poverty in Malawi, NBS Bank in August 2007, signed a loan agreement of $3 million with IFC in order to increase its lending to smaller businesses, which face extreme difficulties in accessing credits. IFC is the private sector arm of the World Bank Group, and is currently considering 20 banks in 17 countries in Africa under the first round of the initiative. IFC's view is that limited access to finance is a key constraint to private sector growth in Africa, especially for smaller firms that have minimal influence on policy reform. Therefore IFC chose to work with NBS Bank in Malawi to address some of these impediments, thus, enabling smaller businesses to grow further and contribute more fully to economic development. NBS is the second bank to work with IFC under

Success through engagement with stakeholders

Kabwafu Farmers Day

NBS/IFC Workshop

Mpasadzi Farmers Day

the program, following an agreement with Burkina Faso's Banque Agricole et Commerciale du Burkina. Each IFC loan agreement is coupled with an extensive package of advisory services. This is being provided to NBS Bank by LFS, a German consulting firm.

The Bank's collaboration with IFC will enable it to better serve, small, and medium enterprises and reach a larger number of businesses across Malawi.

NBS BANK EXTENDS CREDIT TO EXPORT BASED ENTERPRISES

Malawi government's vision is to convert Malawi from a predominantly importing and consuming country to a predominantly producing and exporting one. In this regard, NBS Bank got a line of credit of USD 5,000,000 in June 2007 from NORSAD in order to extend it to export based local enterprises.

NORSAD is a joint Nordic and Southern African Development Community (SADC) Development Finance Institution established to contribute to the economic and industrial development of participating SADC Member States. The purpose of NORSAD is to contribute to the development of the private sector by extending foreign exchange loans and guarantees on commercial terms in SADC region especially to participating SADC countries which currently include; Angola, Mauritius, Mozambique, Namibia, Swaziland, Tanzania, Zambia and Zimbabwe.

With this loan, NBS Bank is currently helping viable businesses that are environmentally friendly and have positive developmental impact, export based, covering all sectors of the economy except pure trading, tobacco, alcohol, armament and illegal ventures.

Long Sevice Awards

The Bank’s collaboration with IFC will enable it to successfully serve small and medium enterprises and reach out to a larger number of businesses across Malawi

WE BELIEVE IN THE POWER OF PEOPLE

Our operating environment continues to be increasingly challenging and competitive. To survive such a turbulent environment the Bank needs to have staff that are equally prepared. To this end the Bank continued to develop the skills and competencies of its staff with major emphasis placed on staff development focusing on improving customer service and process efficiency. In addition to customer service, staff were also trained in supervisory skills, performance management, leadership skills, communications, structured deals and operations management.

At the Bank we strongly believe that behind every satisfied customer there is an active member of staff who worked towards delighting the customer. Good and loyal service is thus always rewarded. In this regard the Bank honored six of its employees for serving the Bank for 15 years. They were thanked and given a token of appreciation for their loyalty and contribution to the Bank's success.

PORTER'S RACE – MULANJE

Malawi's only extreme sport, The Porter's Race, on mount Mulanje was once again fully sponsored by NBS Bank. Over 350 runners both local and international participated in this event whose core purpose is bringing awareness about the conservation of natural resources on Mulanje Mountain. This was the third year running for the bank to sponsor The Porters Race.

Mt. Mulanje Porters Race

NBS Bank also part sponsored the NICO/ Blantyre City Assembly marathon. This is another annual event sponsored by NICO Holdings Limited, which is the parent company of NBS Bank, and is jointly organized by The Athletics Association of Malawi.

NBS Bank sponsored a team during the President's Golf in November 2007 in Blantyre. This was a charity golf competition whose aim was to raise funds for the Silvergrey Foundation, a charity that looks after and cares for the elderly in Malawi. President Dr. Bingu Wa Muthalika is the patron of the foundation.
In the picture L-R, are Titus Nnesa and Martin Ndenya, who were in the Bank's team.

President's Golf

NBS Bank donated 10 computers in May 2007 to The Polytechnic, a constituent college of the University of Malawi. This was made towards the college's computer laboratory to assist the students improve their computer skills. The Bank benefits from the college as it recruits some of its graduates.

In December 2007 NBS sponsored The NBS Bank Monthly Mug and Winner of Winners Golf Competition at Country Club Limbe. This is an annual event and this was the fourth year running for the bank to sponsor the golf competition.
Every month golfers compete in the monthly mug whose final event takes place in December.

A donation of K100, 000.00 was also made to Country Club Limbe towards the club's course maintenance.

The Polytechnic computers donation

INTRODUCTION

NBS Bank is committed to good corporate governance. The Bank is fully devoted to the principles of accountability, integrity and transparency. It embraces and abides by the principles of corporate governance as contained in the Malawi Code, the Cadbury Report and the King's Report among others.

THE BOARD

NBS Bank has a Board consisting of eight directors whose membership comprises non-executive directors. This set-up ensures the highest possible standard of corporate governance.

The Board of Directors is responsible for the overall corporate governance of the bank, ensuring that appropriate practices are in place. To this end, a number of Board Committees have been established that assist The Board in fulfilling its stated objectives. The committees' roles and responsibilities are set out in terms of agreed mandates, which are reviewed annually to ensure that they remain relevant.

NBS Bank is listed on the Malawi Stock Exchange.

BOARD COMMITTEES

The Board appointed a number of committees within itself and delegated certain responsibilities to those committees. The Board recognises that it remains ultimately responsible and accountable for the performance of the bank to all its stakeholders. There are three Board Committees namely; The Finance and Audit Committee, The Appointments and Remuneration Committee and The Credit Committee.

FINANCE AND AUDIT COMMITTEE

The Finance and Audit Committee is comprised of E. Nuka (Mrs)-Chairperson, A Mwala (Mrs) and B Nkhwazi (Mrs).

APPOINTMENT AND REMUNERATION COMMITTEE

This committee is comprised of J. Banda (Mrs) – Chairperson, V. Kumwenda– Member and R. Mwadiwa – Member.

CREDIT COMMITTEE

This committee comprised of Messrs J. Swankie, G. Wawanya and A. Mwala (Mrs) and V. Kumwenda.

INTERGRITY AND ETHICS

The Bank operates in a highly regulated industry and is committed to complying with legislation, regulation, and codes of best practice. It seeks to maintain the highest standards of governance, including transparency and accountability. Whilst we continue to nurture a strong culture of governance and responsible risk management in line with The Bank's risk appetite and governance framework, we are constantly monitoring our practices to ensure that they are the best fit for the Bank and serve to enhance business and community objectives.

COMMUNICATION AND RELATIONSHIPS WITH STAKEHOLDERS

The company's stakeholders include its shareholders, employees, customers, regulators, the Government, the community and its service providers. The Board recognises the importance of building and maintaining sustainable relationships with its stakeholders and striking an appropriate balance between their various needs.

NBS Bank Limited Annual Financial Statements for the year ended 31 December 2007

LILONGWE
Kanengo Agency
Capital City Branch
Lilongwe Branch
Bank @ Campus - Bunda College

ZOMBA
Zomba Branch
Bank @ Campus - Chancellor College

BLANTYRE
Limbe Branch
Chichiri Mall Agency
Ginnery Corner Branch
Blantyre Branch
Halie Selassie Road Branch

0704 NBS A/R Designed & Produced by Escape Communications Ltd. Tel +2782 5657849/ +265 (0)8 502 305

DIRECTORS' REPORT

The directors have pleasure in submitting the financial statements of NBS Bank Limited for the year ended 31 December 2007.

Nature of business

NBS Bank Limited was registered as a financial institution under the Banking Act 1989 on the 1 March 2004. However it commenced banking operations from 1 July 2004 and is engaged in commercial banking activities. The Bank was listed on the Malawi Stock Exchange in 2007.

The shareholders and their respective shareholdings are:

	2007	2006
	%	%
NICO Holdings Ltd	**60**	74
Malawi Government	**-**	16
National Investment Trust Limited	**8.1**	10
Public	**28.7**	-
Others	**3.2**	-
	100	**100**

Financial performance

The Bank reported profit before tax of **K413 million** (2006: K278 million) and net profit after tax of **K264 million** (2006: K160 million) and Directors recommend a dividend of K128 million. The results and state of affairs of the Bank are set out in the accompanying income statement, statement of changes in equity, balance sheet, cash flow statement and associated accounting policies and notes.

Directorate and Secretary

The following directors and secretary served during the year:

Mr. F.L. Mlusu	-	Chairman	All year
Mr. J. Swankie	-	Director	All year
Mr. G.M. Wawanya	-	Director	All year
Mrs. E. Nuka	-	Director	All year
Mr. V. Kumwenda	-	Director	All year
Mrs. J. Banda	-	Director	up to 30 September 2007
Mr. R. Mwadiwa	-	Director	up to 30 September 2007
Mrs. A. Mwala	-	Alternate Director	up to 30 September 2007
Mr. M. Ndenya	-	Company Secretary	All year

Board Committees

Board Committees 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 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.

DIRECTORS' REPORT

Both internal and external auditors have unlimited access to the Financial and Audit Committee.

The Committee is comprised of:
E. Nuka (Mrs) - Chairperson
B. Nkhwazi (Mrs) - Member
A. Mwala (Mrs) - Member

Appointments and Remuneration Committee

The Committee is responsible for reviewing Employees Conditions of Service and hiring of Executive Management.

The Committee is comprised of:
J. Banda (Mrs) - Chairperson
V. Kumwenda - Member

Credit Committee

The Committee is responsible for credit approvals which are above the Management Credit Committee and also approvals of all non performing loans to be written off.

The Committee is comprised of:
J. Swankie – Chairman,
G. Wawanya - Member
V. Kumwenda - Member.

Auditors

A resolution will be proposed at the forthcoming Annual General Meeting to re-appoint KPMG, Certified Public Accountants (Malawi) as auditors in respect of the Bank's 31 December 2008 financial statements.

DIRECTOR DIRECTOR

28th MARCH
……………………………….2008
DATE

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act, 1984, requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results for that year.

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

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

- Maintenance of proper accounting records;
- Selection of suitable accounting policies and applying them consistently;
- Making judgements and estimates that are reasonable and prudent;
- Compliance with applicable accounting standards, when preparing financial statements, 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 that the company will continue in business.

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

Nothing has come to the attention of Directors to indicate that the Bank will not remain a going concern for the next twelve months from the date of this statement.

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

These Bank's financial statements were approved for issue by the Board of Directors on 28 March 2008 and were signed on its behalf by:

Director: ________________________

Director: ________________________

28th MARCH

Date: ________________________

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NBS BANK LIMITED

Report on the Financial Statements

We have audited the financial statements of NBS Bank Limited, which comprise the balance sheet as at 31 December 2007, the income statement, the statement of changes in equity and cash flow statement for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes as set out on pages 28 to 67.

Directors Responsibility for the Financial Statements

The Bank's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the Malawi Companies Act, 1984. This responsibility includes: designing, implementing and maintaining internal controls systems relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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 system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of NBS Bank Limited at 31 December 2007 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the provisions of the Malawi Companies Act, 1984.

KPMG
Certified Public Accountants (Malawi)
Blantyre

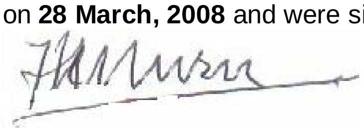
28th MARCH
…………………………… 2008

BALANCE SHEET
As at 31 December
In thousands of Malawi Kwacha

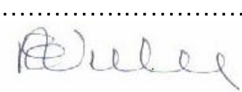
	Note	2007	2006 *Restated**
ASSETS			
Cash balances	7	**635,542**	625,416
Balance due from other banks	8	**1,637,146**	1,231,258
Other assets	9	**264,150**	143,043
Loans and advances to customers	10	**7,919,042**	5,754,229
Inventories	11	**59,587**	41,197
Income tax recoverable		**-**	14,152
Money market investments	12	**1,826,129**	948,438
Equity investments	34	**11,275**	11,275
		12,352,871	8,769,008
Property and equipment	13	**1,853,349**	1,265,625
Intangible assets	14	**5,574**	10,855
Total assets		**14,211,794**	10,045,488
LIABILITIES AND EQUITY			
Liabilities			
Current and savings accounts		**7,533,380**	5,498,766
Foreign currency denominated accounts		**933,911**	213,702
Term deposit accounts	15	**2,454,262**	2,739,925
		10,921,553	8,452,393
Deferred tax liabilities	26	**24,135**	43,214
Other liabilities	16	**819,724**	574,421
Long –term loan	17	**1,085,859**	244,501
Income tax payable		**119,463**	-
Total liabilities		**12,970,734**	9,314,529
Equity			
Issued capital	18	**246,667**	200,000
Share premium	19	**314,948**	164,637
Revaluation reserve	20	**228,310**	126,619
Loan loss reserve		**-**	139,000
Fair value reserve	21	**31,465**	26,372
Retained earnings		**419,670**	74,331
Total equity		**1,241,060**	730,959
Total liabilities and equity		**14,211,794**	10,045,488

* Prior year figures have been restated due to accounting for severance pay provision more fully disclosed in note 28.

The financial statements of the company were approved for issue by the Company's Board of Directors on **28 March, 2008** and were signed on its behalf by:



…………………………………………Director



………………………………Director

The financial statements are to be read in conjunction with the notes from pages 28 to 67.

The auditor's report is on page 23.

INCOME STATEMENT
For the year ended 31 December
In thousands of Malawi Kwacha

	Notes	2007	2006 Restated*
INCOME			
Interest on loans and advances		**1,327,902**	1,209,222
Interest on placements with other banks		**59,915**	36,671
Income from lease financing		**170,771**	215,533
Income from money market investments		**323,510**	279,065
Total Interest Income	22	**1,882,098**	1,740,491
Interest expense	22	**(664,017)**	(810,452)
Net Interest Income		**1,218,081**	930,039
Fees and commission income		**611,355**	337,785
Profit on foreign exchange transactions		**399,188**	256,372
Other operating income	23	**8,256**	83,639
Operating Income		**2,236,880**	1,607,835
EXPENDITURE			
Staff costs	24	**845,827**	590,588
Recurrent expenditure on premises and equipment		**215,241**	144,746
Depreciation	13,14	**164,990**	165,924
Other operating costs	25	**550,267**	397,675
Operating expenditure		**1,776,325**	1,298,933
Profit before impairment losses		**460,555**	308,902
Loan impairment losses	11	**(47,791)**	(31,022)
Profit before income tax expense		**412,764**	277,880
Income tax expense	26	**(148,554)**	(117,803)
Profit for the year		**264,210**	160,077
Basic and diluted earnings per share (MK)	27	**0.59**	0.40

The financial statements are to be read in conjunction with the notes from pages 28 to 67.

The auditor's report is on page 23.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December
In thousands of Malawi Kwacha

	Share Capital	Share premium	Property Revaluation reserve	Fair value reserve	Loan loss reserve**	Retained Earnings	**Total**
Balance at 1 January 2006	200,000	164,637	257,308	7,086	-	73,359	**702,390**
Prior year adjustment *	-	-	-	-	-	(188,252)	**(188,252)**
Balance at 1 January 2006 as restated	200,000	164,637	257,308	7,086	-	(114,893)	**514,138**
Profit for the year	-	-	-	-	-	160,077	**160,077**
Revaluation of property	-	-	9,095	-	-	-	**9,095**
Realisation on disposal of property	-	-	(144,257)	-	-	144,257	**-**
Change in deferred tax percentage	-	-	4,473	-	-	-	**4,473**
Transfer to loan loss reserve **	-	-	-	-	139,000	(139,000)	**-**
Addition to fair value reserve	-	-	-	19,286		-	**19,286**
Transfer from deferred tax	-	-	-	-	-	23,890	**23,890**
Restated balance as at 31 December 2006	**200,000**	**164,637**	**126,619**	**26,372**	**139,000**	**74,331**	**730,959**
Balance at 1 January 2007	200,000	164,637	126,619	26,372	139,000	74,331	**730,959**
Profit for the year	-	-	-	-	-	264,210	**264,210**
Revaluation of property	-	-	119,521	-	-	-	**119,521**
Share issue	46,667	150,311	-	-	-	-	**196,978**
Transfer from loan loss reserve **	-	-	-	-	(139,000)	81,129	**(57,871)**
Increases in fair value reserve	-	-	-	13,923	-	-	**13,923**
Deferred tax	-	-	(17,830)	(8,830)	-	-	**(26,660)**
Balance as at 31 December 2007	**246,667**	**314,948**	**228,310**	**31,465**	**-**	**419,670**	**1,241,060**

* Prior year adjustments relate to incorporation of Severance Pay provision, fully described in note 28.

** Relates to reversal of loan loss provisions in accordance with Reserve Bank of Malawi guidelines. The balance of K57,871 is in allowance for impairment. (Refer to Note 10).

The financial statements are to be read in conjunction with the notes from pages 28 to 67.

The auditor's report is on page 23.

STATEMENT OF CASH FLOWS
For the year ended 31 December
In thousands of Malawi Kwacha

	Notes	2007	2006
OPERATING ACTIVITIES			
Interest and fees received		**2,900,891**	2,418,287
Interest paid	22	**(664,017)**	(810,452)
Cash paid to suppliers and employees		**(1,698,344)**	(1,097,361)
		538,530	510,474
Movement in net customer balances		**304,347**	(259,536)
Cash flows from operating activities		**842,877**	250,938
FINANCING ACTIVITIES			
Share issue		**242,666**	-
New loans		**840,494**	530,000
Cash inflows from financing activities		**1,083,160**	530,000
INVESTING ACTIVITIES			
Proceeds from sale of equipment and investments properties		**-**	453,160
Acquisition of property and equipment	13	**(632,332)**	(594,218)
Cash outflows to financing activities		**(632,332)**	(141,058)
Net movement in cash and cash equivalents		**1,293,705**	639,880
Cash and cash equivalents at 1 January		**2,805,112**	2,165,232
Cash and cash equivalents at 31 December	7	**4,098,817**	2,805,112

The financial statements are to be read in conjunction with the notes from pages 28 to 67.

The auditor's report is on page 23.

Notes to the financial statements

1. Reporting entity

NBS Bank Limited is a company domiciled in Malawi. The address of the bank's registered office is P.O. Box 32251, Chichiri, Blantyre 3. The bank is primarily involved in corporate and retail banking and treasury management.

General Information

NBS Bank Limited provides retail and corporate banking services through 24 service centres across Malawi. The bank is quoted on the Malawi Stock Exchange.

The bank's ultimate parent company is NICO Holdings Malawi Limited.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB), and the Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that were relevant to its operations and effective for accounting periods beginning on 1 January 2007.

(b) Basis of measurement

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

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- liabilities for cash-settled share-based payment arrangements are measured at fair value

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, 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.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in notes 4 and 5.

Notes to the financial statements (Continued)

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to Malawi Kwacha at the foreign exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Malawi Kwacha at the foreign 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 period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Foreign exchange differences arising on translation are recognised in the income statement except for differences arising on translation of available-for-sale equity instruments. 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.

(b) Interest Income and Expense

Interest income and expense are recognised in the income statement 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 liability and is not revised subsequently.

The calculations of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an intergral 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 liability.

Interest income and expense presented in the income statement include:

- Interest on financial assets and liabilities at amortised cost on an effective interest rate basis.
- Interest on available-for-sale investment securities on an effective interest basis.
- The effective portion of qualifying hedge derivatives designated in a cash flow hedge in the hedged item is recorded in interest income/expense.
- Fair value changes in qualifying derivatives (including hedge ineffectiveness) and related hedged items when interest rate risk is the hedged risk.

Fair value changes on financial assets and liabilities carried at fair value through profit or loss, are presented in net income on other financial instruments carried at fair value in the income statement. Net interest income analysis is provided in note 22.

(c) 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, investment management fees, sales commission, placement fees and syndication 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.

Notes to the financial statements (Continued)

3. Significant Accounting Policies (Continued)

(d) Lease payments made

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.

(e) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for 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 recognized 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. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(f) Financial assets and liabilities

(i) Recognition

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date that 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 Bank becomes a party to the contractual provisions of the instrument.

Notes to the financial statements (Continued)

3. Significant Accounting Policies (Continued)

(f) Financial assets and liabilities (Continued)

(ii) Derecognition

The Bank 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 Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all risks and 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 balance sheet. 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 Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Bank 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 Bank 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 Bank also derecognises certain assets when it charges off balances pertaining to the assets deemed to be uncollectible (see note 4).

The Bank securitises various consumer and commercial financial assets, which generally results in the sale of these assets to special-purpose entities, which, in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of senior or subordinated tranches, interest-only strips or other residual interests ("retained interests"). Retained interests are primarily recorded in Available-for-sale investment securities and carried at fair value. Gains or losses on securitisation depend in part on the carrying amount of the transferred financial assets, allocated between the financial assets derecognised and the retained interests based on their relative fair values at the date of the transfer. Gains or losses on securitisation are recorded in other operating income.

(iii) Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Bank 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 by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

Notes to the financial statements (Continued)

3. Significant Accounting Policies (Continued)

(f) Financial assets and liabilities (Continued)

(iv) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or 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 Bank uses widely recognised valuation models for determining the fair value of common and more simple 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 Bank 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, usually an increase, in fair value indicated by valuation techniques is recognised in income 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 balance sheet.

(vi) Identification and measurement of impairment

At each balance sheet date the Bank assesses whether there is objective evidence that financial assets not carried 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 Bank 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 Bank on terms that the Bank 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.

Notes to the financial statements (Continued)

3. Significant Accounting Policies (Continued)

(f) Financial assets and liabilities (Continued)

(vi) Identification and measurement of impairment (Continued)

In assessing collective impairment the Bank 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 assets carried 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 a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to 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 equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

(vii) Designation at fair value through profit or loss

The Bank has designated financial assets and 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 cash flows 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. A description of the basis for each designation is set out in the note for the relevant asset or liability class.

(g) 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 less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the balance sheet.

Cash and cash equivalents comprise coin and bank notes, balances with Reserve Bank and balances with other banks and money market instruments.

Notes to the financial statements (Continued)

3. Significant Accounting Policies (Continued)

(h) Other assets

Other assets comprise rental receivables, prepayments and staff advances and are stated at their cost less impairment losses.

(i) Impairment of non-financial assets

The carrying amounts of the Bank's assets, other than deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For intangible assets, the recoverable amount is estimated at each balance sheet date.

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

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 recognized in price 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 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.

(j) Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the balance sheet. The treatment of changes in their fair value depends on their classification into the following categories:

(i) Fair value hedge

When a derivative is designated as a hedge of the change in fair value of a recognised asset or liability or a firm commitment, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same income statement line item as the hedged item).

If the derivative expires or is sold, terminated, or exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

Notes to the financial statements (Continued)

3. Significant Accounting Policies (Continued)

(j) Derivatives held for risk management purposes

(ii) Cash flow hedge

When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative are recognised directly in equity. The amount recognised in equity is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same income statement line item as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued and the amount recognised in equity remains in equity until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, then hedge accounting is discontinued and the balance in equity is recognised immediately in profit or loss.

(iv) Other non-trading derivatives

When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss as a component of net income on other financial instruments carried at fair value.

(v) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Bank accounts for embedded derivatives separately from the host contract when the host contract is not itself carried at fair value through profit or loss, and the characteristics of the embedded derivative are not clearly and closely related to the host contract. Separated embedded derivatives are accounted for depending on their classification, and are presented in the balance sheet together with the host contract.

(k) 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 Bank does not intend to sell immediately or in the near term.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and advances.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo or stock borrowing"), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the Bank chooses to carry the loans and advances at fair value through profit or loss as described in accounting policy (f)(vii).

(l) Inventories

Inventories include ATM spares, ATM Receipt rolls, ATM card production material and stationery. Inventories are measured at the lower of costs and net realisable value. The cost of inventories is based on the weighted average principle.

Notes to the financial statements (Continued)

3. Significant Accounting Policies (Continued)

(m) Investment securities

Investment securities are initially measured at fair value plus 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) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

(ii) Fair value through profit or loss

The Bank carries some investment securities at fair value, with fair value changes recognised immediately in profit or loss as described in accounting policy (f)(vii).

(iii) Available-for-sale

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised directly in equity until the investment is sold or impaired and the balance in equity is recognised in profit or loss.

Notes to the financial statements (Continued)

3. Significant Accounting Policies (Continued)

(n) Property and equipment

(i) *Recognition and measurement*

Items of property and equipment are stated at cost or valuation less accumulated depreciation and 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 relevant, the cost of dismantling and removing the items and restoring the site on which the assets were located is also included in the cost of the assets.

Where parts of an item of property and equipment comprises 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 capitalized as part of that equipment.

(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. 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 income statement as an expense as incurred.

(iii) Depreciation

Depreciation is recognized 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 are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated current useful lives 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
Office typewriters and calculators	4 years
Motor vehicles	5 years
Furniture and other equipment	10 years
Auto Teller Machines	10 years

Depreciation, useful lives and residual values are re-assessed at each balance sheet date.

Notes to the financial statements (Continued)

3. Significant Accounting Policies (Continued)

(o) Intangible assets

(i) Software

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when:

- the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits,
- the Bank can reliably measure the costs to complete the development.
- it is technically and commercially feasible and
- there are sufficient resources to complete development and to use the asset.

The capitalised cost of internally developed software includes all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at cost less accumulated amortisation and 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 the income statement on a straight line basis over the estimated useful life of the software, from the date it is available for use. The estimated useful life of software is between three to five years for the current and comparative periods.

The carrying amount of intangible assets is reviewed at each balance sheet 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.

(p) Leased assets – lessee

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases.

(q) Customers deposits accounts

Customer deposits accounts comprise current and savings accounts, foreign currency denominate, and term deposits accounts.

Customer deposits accounts are the Bank's sources of debt funding.

When the Bank 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 Bank's financial statements.

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

Customer deposits 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 Bank chooses to carry the liabilities at fair value through profit or loss.

The Bank carries at fair value, with fair value changes recognised immediately in profit or loss as described in accounting policy (f)(vii).

Notes to the financial statements (Continued)

3. Significant Accounting Policies (Continued)

(r) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

(s) Financial guarantees

Financial guarantees are contracts that require the bank 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 recognized 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). Financial guarantees are included within other liabilities.

(t) Employee benefits

Employee entitlements to gratuity and long service awards are recognized when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the balance sheet date.

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognized as an expense.

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, years of service and compensation.

(i) Defined contribution pension plans

The bank 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 this fund are charged to profit or loss.

(ii) Terminal benefits

The actual amounts accrued as pension and retirement gratuities to those employees who are not covered by the Pension Fund are charged to profit or loss.

Obligations for contributions to defined contribution plans are recognized as an expense in the profit or loss as incurred.

Notes to the financial statements (Continued)

3. Significant Accounting Policies (Continued)

(t) Employee benefits (Continued)

iii) Provision for leave pay

Employee benefits in the form of annual leave entitlements are provided for when they accrue to employees with reference to services rendered up to the balance sheet date.

iv) Provision for severance allowance

Employees are entitled to severance allowance on death, termination by mutual agreement, which includes retirement and redundancy as required by the Employment Act. The amount is provided for when they accrue to employees with reference to years of service, individual age and date to retirement. The amount is actuarially determined.

(u) Share issue costs

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

(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

(w) Segment reporting

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

Business segments pay and receive interest to and from the Treasury on arm's length basis to reflect the allocation of capital and funding costs.

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

Business segments

The Bank comprises the following main business segments:

• Corporate Banking	Includes loans, deposits and other transactions and balances with corporate customers
• Retail Banking	Includes loans, deposits and other transactions and balances with retail customers
• Treasury	Undertakes the Bank's funding and centralized 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.

Geographical segment

The Bank's only geographical segment is Malawi.

Notes to the financial statements (Continued)
For the year ended 31 December
In thousands of Malawi Kwacha

3. Significant Accounting Policies (Continued)

(w) Segment reporting (Continued)

Business segments

2007 *In thousands of Malawi Kwacha*	**Note**	**Corporate Banking**	**Retail Banking**	**Treasury**	**Shared services**	**Consolidated**
Net Interest Income	22	487,232	669,945	60,904	-	1,218,081
Net fees and commission income		244,542	336,245	30,568	-	611,355
Profit on foreign exchange transaction		159,675	219,553	19,959	-	399,188
Other operating income	23	3,302	4,541	413	-	8,256
Total segment revenue		894,752	1,230,284	111,844	-	**2,236,880**
Segment result		165,106	227,020	20,638	-	412,764
Income tax expense	26	-	-	-	-	(148,554)
Profit for the period						**264,210**
Segment assets		5,684,718	7,816,487	710,590	-	14,211,794
Total assets						**14,211,794**
Segment liabilities		5,130,854	7,054,925	641,357	-	12,827,136
Unallocated liabilities						233,478
Total liabilities						**13,060,614**
Impairment losses on financial assets	11	19,116	26,285	2,390	-	**47,791**
Depreciation and amortisation	13,14	-	-	-	164,990	**164,990**
Capital expenditure	13	-	-	-	632,332	**632,332**

Notes to the financial statements (Continued)
For the year ended 31 December
In thousands of Malawi Kwacha

3. Significant Accounting Policies (Continued)

(w) Segment reporting (Continued)

Segment reporting Business segments

2006 *In thousands of Malawi Kwacha*	Note	Corporate Banking	Retail Banking	Treasury	Shared services	Consolidated
Net Interest Income	22	372,016	511,521	46,502	-	930,039
Net fees and commission income		135,114	185,782	16,889	-	337,785
Profit on foreign exchange transaction		102,548	141,005	12,819	-	256,372
Other operating income	23	33,456	46,001	4,182	-	83,639
Total segment revenue		643,134	884,309	80,391	-	**1,607,835**
Segment result		119,739	143,173	14,968	-	277,880
Income tax expense	26	-	-	-	-	(117,803)
Profit for the period						**160,077**
Segment assets		4,018,195	5,525,018	502,275		10,045,488
Total assets						**10,045,488**
Segment liabilities		3,708,526	5,099,223	463,566	-	9,271,315
Unallocated liabilities						133,094
Total liabilities						**9,404,409**
Impairment losses on financial assets	11	12,409	17,062	1,551		**31,022**
Depreciation and amortisation	13,14	-	-	-	165,924	**165,924**
Capital expenditure	13	-	-	-	594,218	**594,218**

Notes to the financial statements (Continued)

4. Financial risk management

a) Introduction and overview

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

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

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

Risk Management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Finance and Audit Committee responsible for Asset and Liability Committee (ALCO) and Credit Committee which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. All Board Committees have both executive and non-executive members and report regulary to the Board of Directors on their activities.

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

The Bank's Finance and Audit Committee is responsible for monitoring compliance with the Bank's management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's Finance and Audit Committee is assisted in these functions by Internal Audit. Internal Audit 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 Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor 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.

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

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 Bank's Credit Committee or the Board of Directors as appropriate.

- Reviewing and assessing credit risk. The Bank's 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, credit rating band and market liquidity.

- Developing and maintaining the Bank's risk gradings in order to categorise exposures according to the degree of risk financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment may be required against specific credit exposures.

- Reviewing compliance of business units with agreed exposure limits, including those for selected industries and product types. Regular reports are provided to the Bank's Credit Committee on the credit quality of portfolios and appropriate corrective action is taken.

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

Each business unit is required to implement the Bank's credit policies and procedures, with credit approval authorities delegated from the Bank Credit Committee. Each business unit has a Credit Risk 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.

Notes to the financial statements (Continued)

4. Financial risk management (Continued)
For the year ended 31 December
In thousands of Malawi Kwacha

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		Loans and advances to other banks		Investments securities	
	Note	**2007**	2006	**2007**	2006	**2007**	2006
Carrying amount	10,12,8	**7,919,042**	5,754,229	**1,637,146**	1,231,258	**1,826,129**	948,438
Individually impaired		**280,496**	200,349	**-**	-	**-**	-
Allowance for impairment	10	**(237,089)**	(131,473)	**-**	-	**-**	-
Carrying amount		**43,407**	68,876	**-**	-	**-**	-
Individually impaired							
1-6 months							
7-12 months		**116,485**	65,339	**-**	-	**-**	-
13-24 months		**51,241**	32,894	**-**	-	**-**	-
> 24 months		**112,770**	102,116	**-**	-	**-**	-
Total		**280,496**	200,349	**-**	-	**-**	-
Allowance for impairment		**(237,135)**	(131,474)	**-**	-	**-**	-
Past due not impaired		**2,646,594**	2,543,828	**-**	-	**-**	-
Carrying amount		**2,646,594**	2,543,828	**-**	-	**-**	-
Neither past due nor impaired		**5,229,041**	3,141,525	**-**	-	**-**	-
Carrying amount		**5,229,041**	3,141,525	**-**	-	**-**	-
Total carrying amounts	10,12,8	**7,919,042**	5,754,229	**1,637,146**	1,231,258	**1,826,129**	948,438

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank 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 Bank 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 the Bank.

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.

Notes to the financial statements (Continued)

4. Financial risk management (Continued)
For the year ended 31 December
In thousands of Malawi Kwacha

The Bank 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 banks except when securities are held as part of reverse purchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at the year end.

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

	Loans and advances to customers		Loans and advances to other banks	
	2007	2006	**2007**	2006
Against individually impaired			**-**	-
Property	**162,660**	277,420		
Plant and equipment	**13,400**	97,650	**-**	-
Against past due but not impaired			**-**	-
Property	**1,548,532**	3,141,022	**-**	-
Plant and equipment	**66,603**	256,665	**-**	-
Against neither past due nor impaired				
Property	**8,231,679**	2,499,088	**-**	-
Plant and equipment	**1,025,890**	420,383	**-**	-
Total	**11,048,764**	6,692,228	**-**	-

Notes to the financial statements (Continued)

4. Financial risk management (Continued)
For the year ended 31 December
In thousands of Malawi Kwacha

The Bank 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		Loans and advances to other banks		Investments securities	
	Note	**2007**	2006	**2007**	2006	**2007**	2006
Carrying amount	10,12,8	**7,919,042**	5,754,229	**1,637,146**	1,231,258	**1,826,129**	948,438
Concentration by sector:							
Retail		**6,597,997**	5,176,15	**-**	-	**-**	-
Corporate		**1,042,263**	578,074	**-**	-	**-**	-
Bank		**278,782**	-	**1,637,146**	1,231,258	**1,826,129**	948,438
	10,12,8	**7,919,042**	5,754,229	**1,637,146**	1,231,258	**1,826,129**	948,438
Concentration by location:							
Northern Region		**97,512**	446,400	**-**	-	**-**	-
Central Region		**3,375,627**	2,519,511				
Southern Region		**4,445,903**	2,788,117	**1,637,146**	1,231,258	**1,826,129**	948,438
	10,12,8	**7,919,042**	5,754,229	**1,637,146**	1,231,258	**1,826,129**	948,438

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 Bank 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 a company to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Bank mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from the Bank's ALCO.

(c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk
The Bank'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 Bank's reputation.

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 investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank 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.

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

For the year ended 31 December
In thousands of Malawi Kwacha

(c) Liquidity risk (Continued)

The daily liquidity position is monitored and regular 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.

Exposure to liquidity risk
The key measure used by the Bank 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 investment securities for which there is an active and liquid market less any deposits from banks, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Reserve Bank of Malawi. Details of the reported Bank'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 (k).

(d) Residual contractual of financial liabilities

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2007 to the contractual maturity date. All figures are in thousands of Malawi Kwacha.

ASSETS	Up to 1 month	1-3 months	3-12 Months	Over 1 year	**Total**
Cash and balances with banks	2,272,688	-	-	-	**2,272,688**
Investment securities	469,398	450,000	600,000	306,731	**1,826,129**
Loans and advances	2,874,570	46,954	664,711	4,332,807	**7,919,042**
Other assets	323,737	-	-	-	**2,193,935**
Total assets	**5,940,393**	**496,954**	**1,264,711**	**6,509,736**	**14,211,794**
FINANCIAL LIABILITIES					
Current and savings accounts	7,533,380	-	-	-	**7,533,380**
Term deposit accounts	1,774,454	623,760	55,984	64	**2,454,262**
Foreign Currency denominated deposits	933,911	-	-	-	**933,911**
Other borrowed funds	-	-	-	1,085,859	**1,085,859**
Other liabilities	819,724	-	-	-	**819,724**
Total financial liabilities	**11,061,469**	**623,760**	**55,984**	**1,085,923**	**12,827,136**
Net Liquidity Gap	**(5,121,076)**	**(126,806)**	**1,208,727**	**5,423,813**	**1,384,658**
Cumulative Liquidity Gap	**(5,121,076)**	**(5,247,882)**	**(4,039,155)**	**1,384,658**	**-**

The maturity gap analysis shows the mismatch before any adjustments are made for product and customer behavioural assumptions. The bank'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.

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(e) Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank'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 Bank 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 ALCO. The Bank's 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 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 Bank's interest rate gap position on non-trading portfolios is as per note number 4(f).

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank'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) pararel 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 Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) was as per note number 4(f).

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 regular monitoring by ALCO, but it is not currently significant in relation to the overall results and financial position of the Bank.

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

For the year ended 31 December
In thousands of Malawi Kwacha

(f) Interest rate gap analysis

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

			Fixed Rate Instruments				
Assets subject to interest rate adjustment	**Zero rate**	**Floating rate**	**0-3 months**	**3—6 months**	**6-12 months**	**Over 12 months**	**Total**
Loans and advances:	-	2,054,508	-	5,864,534	-	-	7,919,042
Securities:	-	-	919,398	450,000	150,000	306,731	1,826,129
Other	4,466,623	-	-	-	-	-	4,466,623
Total rate sensitive assets (RSA)	**4,466,623**	**2,054,508**	**6,783,932**	**450,000**	**150,000**	**307,731**	**14,211,794**
Liabilities subject to interest rate adjustment:							
Demand accounts	-	2,141,732	-	-	-	-	2,141,732
Savings deposits	-	6,225,559	-	-	-	-	6,225,559
Time deposits	-	-	2,398,214	130,962	25,085	-	2,554,261
Other borrowings	-	-	-	-	-	1,085,859	1,085,859
Other	2,204,383	-	-	-	-	-	2,204,383
Total rate sensitive liabilities (RSL)	2,204,383	8,367,291	2,398,214	**130,962**	**25,085**	**1,085,859**	**14,211,794**
Asset /Liability Gap	**2,262,240**	**(6,312,783)**	**4,385,718**	**319,038**	**124,915**	**(779,128)**	**-**
Cumulative Gap	**2,262,240**	**(4,050,543)**	**335,175**	**654,213**	**779,128**	**-**	-
Net position as a percent of total assets	16%	(29%)	2%	5%	5%	0%	0%
RSA as a percent of RSL	0%	25%	283%	344%	598%	28%	100%

(g) Currency risk

The Bank had the following significant foreign currency positions (all amounts expressed in millions of Malawi Kwacha):

At 31 December 2007	**USD**	**GBP**	**Euro**	**ZAR**	**Total**
Assets					
Balances with correspondent banks	452,681	59,814	8,621	4,770	525,885
Cash in vaults	16,254	1,092	3,888	8,009	29,243
Forward contracts	280,632	-	-	-	280,632
Loans and advances to customers	617,306	-	-	-	617,306
Other	108,891	-	-	-	108,891
Total assets	**1,475,764**	**60,906**	**12,509**	**12,778**	**1,561,957**
Liabilities					
Customer deposits	841,748	22,381	1,496	3,058	868,684
Forward contracts	281,000	-	-	-	281,000
Other liabilities	66,401	-	-	-	66,401
Total liabilities	**1,189,149**	**22,381**	**1,496**	**3,058**	**1,216,085**
Net balance sheet position	**286,615**	**38,525**	**11,021**	**9,720**	**345,872**

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(h) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank'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 Bank's operations and are faced by all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank'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 Bank'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.
- Risk mitigation, including insurance where this is effective.

(i) Capital Management
Regulatory capital

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

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

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

Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, translation reserve and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

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.

Notes to the financial statements (Continued)

4. Financial risk management (Continued)
For the year ended 31 December
In thousands of Malawi Kwacha

(i) Capital Management (Continued)

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 off-balance sheet exposure.

The Bank'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.

The Bank 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 period.

(j) The Banks regulatory capital position as at 31 December 2007 was as follows:-

Capital Adequacy Requirement
The Bank's available Tier 1 capital is required to be a minimum of 6% of its risk bearing assets and contingent liabilities. At 31 December 2007, the Bank's available capital was 12% of all its risk bearing assets and contingent liabilities.

Capital Management	**2007**	2006
Paid up share capital	**246,667**	200,000
Share Premium	**314,948**	164,637
Loan Loss Reserve	**-**	139,000
Retained Earnings Prior Years	**65,580**	102,509
Net Profit - Current period (60%)	**158,526**	96,046
Core Capital (Tie 1 Capital)	**785,721**	702,192
Revaluation reserves	**228,310**	126,619
Total capital (Tie 2 Capital)	**1,014,031**	**828,811**

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(k) Prudential Aspects of Bank Liquidity

The Reserve Bank of Malawi has 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 2007, the Bank's liquidity Ratio 1 was 39%.

-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 2007, the Bank's Liquidity Ratio 2 was 38%.

In accordance with Section 27 of the Banking Act 1989, the Reserve Bank of Malawi has established the following requirement as at the balance sheet date:

Liquidity Reserve Requirement

The Bank is required to maintain a liquidity reserve amount with Reserve Bank of Malawi or with a registered discount house, calculated on a weekly basis, of not less than 15.5% of the preceding month's average total deposit liabilities. NBS bank was exempted from the liquidity reserve requirement with the Reserve Bank for a period of 24 months ended 30 June 2006 and has been subjected to liquidity reserve requirement form 1 July 2006 to 31 December 2007 which it complied with**.**

Notes to the financial statements (Continued)

5. Basis of preparation and use of accounting estimates and judgements

The financial statements are presented in Malawi Kwacha, rounded to the nearest thousand. They are prepared on the historical cost basis except for some fixed assets which are revalued and certain investments held for trading which are stated at their fair value. Recognised assets and liabilities that are hedged are stated at fair value in respect of the risk that is being hedged.

The preparation of financial statements in conformity of IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

(a) Use of estimates and judgements

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.

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 3f (vi).

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 judgements 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.

Notes to the financial statements (Continued)

5. Basis of preparation and use of accounting estimates and judgements (Continued)

(b) Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price require the use of valuation techniques as described in accounting policy 3f (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 judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Critical accounting judgements in applying the Bank's accounting policies

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

Financial asset and 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 liabilities as "trading", the Bank determines that it meets the description of trading and liabilities set out in accounting policy 3f (i).

In designating financial assets or 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 classifying financial assets as held-to-maturity, the Bank has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy 3m (i).

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing opening balance sheet at 1st January 2007.

(c) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31st December 2007, and have not been applied in preparing these financial statements:

- IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Bank's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Bank's management in order to assess each segment's performance and to allocate resources to them.

- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 which will become mandatory for the Bank's 2009 financial statements is not expected to have any impact on the financial statements.

- IFRIC 11 *IFRS 2 – Bank and Treasury Share Transactions* requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Bank's 2008 financial statements, with retrospective application required. It is not expected to have any impact on the financial statements.

- IFRIC 12 *Service Concession Arrangements* provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Bank's 2008 financial statements, is not expected to have any effect on the financial statements.

Notes to the financial statements (Continued)

5. Basis of preparation and use of accounting estimates and judgements (Continued)

- IFRIC 13 *Consumer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Bank's 2009 financial statements, is not expected to have any impact on the financial statements.

- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 which will become mandatory for the Bank's 2008 financial statements, with retrospective application required, is not expected to have any impact on the financial statements.

Notes to the financial statements (Continued)
For the year ended 31 December
In thousands of Malawi Kwacha

6. Accounting classifications and fair values

	Trading	Designated at fair value	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
31 December 2006						
Cash and cash equivalents		625,416	-	-	625,416	625,416
Trading assets	1,231,258	-	-	-	1,231,258	1.231,258
Loans and advances to customers	-	-	5,754,229	-	5,754,229	5,754,229
Investment securities	-	948,438	-	11,275	959,713	959,713
Total	**1,231,258**	**1,573,854**	**5,754,229**	**11,275**	**8,570,616**	**8,570,616**
Deposits from customers	-	-	-	8,452,393	8,452,393	8,452,393
Debt securities issued	-	-	-	244,501	244,501	244,501
Total	-	-	-	**8,696,894**	**8,696,894**	**8,696,894**
31 December 2007						
Cash and cash equivalents	-	635,542	-	-	635,542	635,542
Trading assets	1,637,146	-	-	-	1,637,146	1,637,146
Loans and advances to customers	-	-	7,919,042	-	7,919,042	7,010,042
Investment securities	-	1,826,129	-	11,275	1,837,404	1,837,404
Total	**1,637,146**	**2,461,671**	**7,919,042**	**11,275**	**12,029,134**	**12,029,134**
Trading liabilities						
Deposits from customers	-	-	-	10,921,553	10,921,553	10,921,553
Long term loan	-	-	-	1,085,859	1,085,859	1,085,859
Total	-	-	-	**12,005,412**	**12,005,412**	**12,005,412**

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.

- 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 effective interest rates.

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

Notes to the financial statements (Continued)
For the year ended 31 December
In thousands of Malawi Kwacha

7. Cash and cash equivalents

	2007	2006
Cash balances	**635,542**	625,416
Balance with Reserve Bank of Malawi	**1,196,310**	1,044,940
Balances due from other banks	**440,836**	186,318
Short term investments	**1,826,129**	948,438
Cash and cash equivalents as per cash flow statement	**4,098,817**	2,805,112

For the purposes of the cash flow statements, cash and cash equivalents comprise balances with less than 1 year maturity from the date of acquisition including cash and balances with Reserve Bank of Malawi, treasury bills and other eligible bills, and amounts due from other banks. Cash and cash equivalents exclude the liquidity reserve requirements.

8. Balance due from other banks

	2007	2006
Call and deposit accounts	**440,836**	186,318
Balance with Reserve Bank of Malawi	**1,196,310**	1,044,940
	1,637,146	1,231,258

9. Other assets

Prepayments and sundry debtors	**172,826**	131,464
Cheque in course of collection	**91,324**	11,579
	264,150	143,043

10. Loans and advances to customers

Loans and overdrafts	**4,780,627**	3,234,923
Lease contracts	**902,300**	555,477
Mortgage advances	**2,473,250**	2,095,302
Total loans and advances	**8,156,177**	5,885,702
Allowance for impairment	**(237,135)**	(131,473)
Net loans and advances	**7,919,042**	5,754,229

Total loans and advances are due to mature as follows:

• Between three months and one year	**3,586,235**	2,378,629
• After one year	**4,569,896**	3,507,073
	8,156,131	5,885,702

Movement on allowance for impairment:-

At beginning of year	**131,473**	100,451
Increase in impairment	**47,791**	31,022
Loan loss reserve	**57,871**	-
Balance at end of year	**237,135**	131,473

The analysis of the allowance for impairment in accordance with International Financial Reporting Standards requirements is fully described in note 3 (i).

11. Inventories

Stationery	**20,520**	4,505
ATM spares and other consumables	**30,928**	36,692
ATM spares in transit	**8,139**	-
	59,587	41,197

Notes to the financial statements (Continued)
For the year ended 31 December
In thousands of Malawi Kwacha

12. Money market investments	**2007**	2006
Government of Malawi and Reserve Bank of Malawi bills	**1,519,398**	377,838
Government of Malawi Local Registered Stock	**306,731**	570,600
Total investments	**1,826,129**	948,438
The investments are due to mature as follows:-		
* Within three months	**922,406**	209,823
* Between three months and one year	**903,723**	738,615
	1,826,129	948,438

13. Property and equipment	Freehold Land & buildings	Leasehold Land & buildings	Motor vehicles, fixtures & fittings	Capital work in progress	**2007 Total**	2006 Total
Cost or valuation						
Balance at 1 January	111,114	110,790	923,195	405,076	**1,550,175**	1,333,335
Additions	-	3,661	172,055	456,616	**632,332**	594,218
Disposals	-	-	(5,229)	-	**(5,229)**	
						(388,078)
Transfers	-	39,712	143,320	(186,596)	**(3,564)**	-
Surplus on revaluation	35,733	78,693	-	-	**114,426**	10,700
Balance at 31 December	**146,847**	**232,856**	**1,233,341**	**675,096**	**2,288,140**	1,550,175
Comprising of:						
Valuation in 2007	35,733	78,693	-	-	**114,426**	10,700
Cost	111,114	154,163	1,233,341	675,096	**2,173,714**	1,539,475
	146,847	232,856	1,233,341	675,096	**2,288,140**	1,550,175
Depreciation						
Balance at 1 January	3,713	3,614	277,223	-	**284,550**	125,059
Charge for the year	-	-	159,709	-	**159,709**	165,924
Released on revaluation	(3,713)	(3,614)	-	-	**(7,327)**	-
Eliminated on disposal	-	-	(2,141)	-	**(2,141)**	(6,433)
Balance at 31 December	**-**	**-**	**424,791**	**-**	**434,791**	284,550
Carrying amount						
At 31 December 2007	**146,847**	**232,856**	**798,550**	**675,096**	**1,853,349**	1,265,625
At 31 December 2006	**107,401**	**107,176**	**645,972**	**405,076**	**-**	**1,265,625**

Register of land and building giving details as required under the Companies Act 1984, Schedule 3, Section 16 are maintained at the registered office of the Bank and are open for inspection by members or their duly authorised agents.

All buildings were revalued on 31 December 2007 by S D Banda BSc, MSIM MRICS, Chartered Quantity Surveyor, on a current market value. Under the method used, accumulated depreciation was eliminated and the net revalued amount treated as the new carrying amount. The resultant surplus was taken to revaluation reserve.

Capital work in progress represents renovation work and software installation costs in some of the Bank's branches and agencies.

Notes to the financial statements (Continued)
For the year ended 31 December
In thousands of Malawi Kwacha

14. Intangible assets

	Purchased software	2007 Total	2006 Total
Cost			
Balance at 1 January	28,742	**28,742**	-
Additions	-	**-**	28,742
Balance at 31 December	28,742	**28,742**	28,742
Depreciation			
Balance at 1 January	17,887	**17,887**	-
Charge for the year	5,281	**5,281**	17,887
Balance at 31 December	23,168	**23,168**	17,887
Carrying amount			
At 31 December	5,574	**5,574**	10,855

15. Term deposit accounts

	2007	2006
Maturing within 3 months	**2,376,092**	2,716,666
Maturing between 3 and 12 months	**78,170**	23,259
	2,454,262	2,739,925

16. Other liabilities

	2007	2006
Severance provision	**429,934**	319,854
Cheques	**22,577**	18,509
Accruals	**276,714**	177,140
PAYE and other taxes	**32,518**	40,172
Bills payable	**57,981**	18,746
	819,724	574,421

17. Long term loan

	2007	2006
International Finance Corporation	**424,569**	-
NORSAD	**427,932**	-
Malawi Government	**20,010**	20,010
Pension funds loan	**213,348**	224,491
	1,085,859	244,501

International Finance Corporation approved a loan of USD3,000,000 to NBS Bank Limited at an agreed fixed rate of 8.6% per annum. This loan is to be used for onward lending to Small Medium Enterprises and has got a repayment period of 5 years.

NORSAD approved a loan of USD5,000,000 to NBS Bank Limited at an agreed fixed rate of 6.5% per annum. This loan is to be used for onward lending to Small Medium Enterprises in Malawi. This loan has a repayment period of 5 years.

The Malawi Government loan represents an IDA credit which was loaned to Malawi Housing Corporation for the construction of low cost housing at a fixed interest rate of 7% per annum.

Pension funds loan is for a 5 year term at prime interest +2% and was utilized in renovating the Blantyre branch property.

Notes to the financial statements (Continued)
For the year ended 31 December
In thousands of Malawi Kwacha

		2007	2006
18.	**Share capital**		
	In issue at 1 January and 31 December Fully paid of K0.50 each	**246,667**	200,000
	Authorised share capital	**350,000**	250,000

The authorised share capital was increased to 350,000,000 ordinary shares from 250,000,000 ordinary shares of K1 each. The shareholders also authorized the two-way split of shares into 700,000,000 ordinary shares of K0.50 each. The holders of ordinary shares are entitled to receive dividends as declared from time to time. The bank was listed on 25 June 2007 with 493,333,000 shares as fully paid.

		2007	2006
19.	**Share Premium**		
	Share premium	**314,948**	164,637

Share premium balance arose from the transfer of balances on revenue and general reserves on the conversion of New Building Society to NBS Bank Limited and excess of share value over book value on listing.

		2007	2006
20.	**Revaluation reserve**	**228,310**	126,619

The revaluation reserve relates to the surplus arising on the revaluation of properties.

		2007	2006
21.	**Fair value reserve**	**31,465**	26,372

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognized.

Notes to the financial statements (Continued)
For the year ended 31 December
In thousands of Malawi Kwacha

22. Net interest income

	2007	2006
Interest income		
Inter-bank loans	**59,915**	36,671
Personal loans	**178,357**	158,652
Corporate loans	**165,872**	117,815
Short-term loan	**61,204**	75,643
Mortgage Loans	**500,958**	493,226
Investment securities	**323,510**	279,065
Overdrafts	**421,511**	363,886
Lease Contracts	**170,771**	215,533
Total interest income	**1,882,098**	1,740,491
Interest expense		
Current Accounts	**10,029**	9,344
Savings Deposits	**146,742**	157,324
Investment Deposits	**103,170**	131,129
Fixed Deposits	**326,480**	453,640
FCD Accounts	**19,217**	17,613
Inter-bank- borrowing	**27,385**	41,402
Interest – Norsad/IFC loans	**15,008**	-
Prepaid mortgage interest	**15,986**	-
Total interest expense	**664,017**	**810,452**
Net interest income	**1,218,081**	**930,039**

23. Other operating income

Rental Income	**4,221**	8,911
Property revaluation gain	**2,117**	-
Profit on disposal of property and equipment	**1,918**	74,728
	8,256	83,639

Property revaluation gain of K2 million arose on the revaluation of Kasungu Property on which a loss of K2 million was previously recognized in 2006.

In 2006 the Bank disposed off some of its properties to a property company NBS Properties Limited on which a gain of K75 million was recognized.

Notes to the financial statements (Continued)
For the year ended 31 December
In thousands of Malawi Kwacha

24. Staff costs

	2007	2006
Salaries	**410,713**	314,795
Staff expenses	**186,876**	140,764
Staff loan subsidy	**56,292**	19,595
Christmas expenses	**3,516**	2,684
Severance Provision	**110,081**	41,720
Training expenses	**32,955**	29,322
Management car scheme	**45,394**	41,708
	845,827	590,588

Following guidance released by SOCAM in January 2008 the provision for severance pay has been computed using the grossed up pay as the monthly remuneration. The average number of employees for the year ended December 2007 was **456** (31 December 2006 was 425).

25. Other operating costs

Auditors' remuneration:-		
Current year fees	**9,500**	7,400
Prior period under provision	**450**	-
Other expenses and VAT	**629**	1,295
Accommodation costs	**101,826**	61,907
Communication costs	**199,121**	162,511
Directors fees	**3,416**	3,530
Group shared expenses	**3,873**	1,578
Legal and professional fees	**35,468**	20,215
Listing expenses on Malawi Stock Exchange	**2,003**	-
Management fees	**65,522**	46,544
Sundry business charges	**128,459**	92,695
	550,267	397,675

Management fee is paid to NICO Holdings Limited on cost recovery basis.

Notes to the financial statements (Continued)
For the year ended 31 December
In thousands of Malawi Kwacha

26. Income tax expense

	2007	2006
Current year tax charge	**168,896**	106,766
Deferred tax charge	**(20,342)**	-
Capital gains tax	**-**	11,037
Total income tax charge	**148,554**	117,803

Reconciliation of tax charge

		2007		2006
Profit before tax		**412,764**		277,880
Income tax using corporate tax rate	**30%**	**123,829**	30%	83,364
Capital gains tax		**-**	4%	11,037
Profit on sale of non qualifying assets		**-**	(8%)	(22,418)
Other permanent differences	**4%**	**16,424**	9%	25,527
Deferred tax	**(5%)**	**(20,342)**	9%	24,443
Other temporary differences	**7%**	**28,643**	(1%)	(4,150)
	36%	**148,554**	43%	117,803

NBS Bank was exempted from income tax in its first year of operations after conversion from a Building Society. The exemption covered period 1st July 2004 to 30th June 2005.

Deferred tax liability

	2007 Assets	2007 Liability	2007 Net	2006 Assets	2006 Liability	2006 Net
Capital allowance on property and equipment	**-**	**(84,675)**	**(84,675)**	-	(72,951)	(72,951)
Loan loss reserve (in equity)	**-**	**-**	**-**	-	(41,700)	(41,700)
Revaluation of properties (in equity)	**-**	**(40,194)**	**(40,194)**	-	(22,345)	(22,345)
Fair value adjustments (in equity)	**-**	**(13,484)**	**(13,484)**	-	(4,654)	(4,654)
Tax loss carry forward	**-**	**-**	**-**	15,327	-	15,327
Severance pay	**122,904**	**-**	**122,904**	89,880	-	89,880
Other	**1,945**	**(10,631)**	**(8,686)**	4,496	(11,267)	(6,771)
	124,849	**(148,984)**	**(24,135)**	109,703	(152,917)	(43,214)

27. Diluted earnings per share

The calculation of 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:

	2007	2006
Net profit attributable to ordinary shareholders	**264,210**	160,077
Weighted average number of ordinary shares	**446,667**	400,000
Diluted earnings per share (MK)	**0.59**	0.40

Notes to the financial statements (Continued)

For the year ended 31 December
In thousands of Malawi Kwacha

28. Prior period adjustments

The changes below decreased closing equity for the year 2006 and the opening retained earnings as at 31 January 2007 as follows:-

	Income statement 2007 (K million)	Income statement 2006 (K million)	Opening equity 2007 (K million)	Opening deferred Tax 2007 (K million	Total adjustment (K million)
Severance pay	110,081	21,468	188,252	89,880	409,681
Total	**110,081**	**21,468**	**188,252**	**89,880**	**409,681**

Prior period adjustments made in 2007, arose on application of guidance issued by the Society of Accountants in Malawi (SOCAM) in January 2008, on the treatment of severance pay provision, following the courts interpretation of Section 35 of the Employment Act (2000). The Employment Act (2000) requires employers to pay severance pay where employment is terminated by mutual agreement. The interpretation effectively requires companies to provide for both pension and severance pay when the contract is mutually terminated as well as upon retirement. The interpretation also define pay on which the severance allowance is based to include all other emoluments receivable by the employee by virtue of being employed. The severance pay provision was computed using the full liability method, this reduced current year profit before tax by K110 million.

The effect of the adjustment on tax is the creation of a deferred tax asset as follows:-

Opening deferred tax	89,880
Current year deferred tax	33,024

29. Capital commitments

As at 31 December 2007, the contracted but not yet incurred capital commitments were K195 million. The authorised but not yet contracted for commitments as at 31 December 2007 were K 225 million. These commitments are to be funded from internal resources.

30. Accounting estimates and judgements

Management discussed with the audit committee the development, selection and disclosure of the Bank's critical accounting policies and estimates and the application of these policies and estimates.

Key sources of estimation uncertainty

Note 10 contain information about the loans and advances impairment. In notes 4 (f) and 4 (d) detailed analysis is given of the interest rate and liquidity risk exposures of the bank.

31. Inflation and exchange rates

Exchange rates as at 31 December

	2007	2006
United States Dollar (USD)	**141.68**	139.34
British Pound (GBP)	**290.94**	283.07
South African Rand (ZAR)	**21.42**	20.71
Inflation rates as at 31 December	**7.5%**	10.1%

At the time of signing these financial statements, the exchange rates had moved as follows:-

United States Dollars (USD)	141.87
British Pounds (GBP)	287.15
South African Rands (ZAR)	19.17

Notes to the financial statements (Continued)

For the year ended 31 December
In thousands of Malawi Kwacha

32. Incorporation

NBS Bank Limited is limited liability company (Bank) incorporated in Malawi under the Malawi Companies Act 1984 and is registered as a financial institution under the Banking Act 1989.

33. Contingent Assets/Liabilities	**2007**	2006
Letters of credit	**173,421**	309,079
Severance pay	**-**	157,000
Total	**173,421**	466,079

The Employment Act (2000) requires employers to pay severance pay where employment is terminated by mutual agreement. The amount of severance payable by 31 December 2007 was K429 million. Out of the K429 million payable K110 million was charged to current year profits and K278 million was treated as prior year adjustment. While the remaining K41.7 million has been charged to 2006 financial year.

34. Staff mortgage securitisation

Staff mortgages were re-financed through a lender NICO Life Assurance Company Limited during the year 2006, the Bank guaranteed repayment of the loans during the remaining tenor of each of the staff mortgage and all the mortgage securities are registered in the Bank's favour. The Bank pays an interest subsidy on behalf of employees and the related Fringe Benefit Tax inclusive of the subsidy, are included under staff costs.

The guaranteed staff mortgages at 31 December 2007 were K 291 million (2006:K332 million).

Equity Investment in NBS Properties Ltd

During the year 2006 the Bank acquired 2.5 % interest in NBS Properties Limited, a company to which the properties formerly owned by the Bank were sold. The investment is carried at cost net of impairment and was reported at **K11.275** million as at 31st December 2007 (2006 : K11.275 million).

NBS Properties Limited is a special-purpose entity as described in note 3 f (ii)

Notes to the financial statements (Continued)
For the year ended 31 December
In thousands of Malawi Kwacha

35. Related parties transactions

Identity of related parties
The bank has a controlling related party relationship with fellow subsidiaries and parent company. During the year and at year end, the following transactions and balances were made:

Company	Nature of transactions	Volume of transactions	Balances as at 31/12/07 Assets	Liabilities
		K'000	K'000	K'000
- NICO Holdings Limited	Management fees	70,146	-	11,917
- NICO Life Insurance Limited	Interest payable	162,064	1009	431,669
- NICO General Insurance Limited	Interest payable	7,406	-	23,816
- NICO Technologies Limited	Suppliers and consultancy	3,607	-	8,585
- Loans to directors	Advances	6,412	22,272	-
- Landed Property Agents	Consultancy	1,074	8,598	-
- Millenium Investments Limited	Advances	22,341	53,939	-
- Executive Management Loans	Advances	8,058	47,480	-

All transactions were at arms length except for part of the loans to executive management. The related party balances are included in these financial statements. Loans amounting to K1 million at a subsidized rate have been included in the balance of K47.48 million.

Transactions with directors and executive officers
Total remuneration paid to the directors and executive officers during the period were as follows:-

	2007	2006
Directors' fees	3,416	3,530
Executive officers	51,695	45,919
	55,111	49,448

The above expenses are included in staff and training costs and other operating expenses in note 24 and 25.

36. Subsequent events

Subsequent to balance sheet date no events have occurred necessitating adjustments to or disclosures in the financial statements.