DIRECTORS' REPORT

The directors have pleasure in submitting the financial statements of NBS Bank Limited for the year ended 31 December 2008.

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:

	2008	2007
	%	%
NICO Holdings Limited	60.0	60.0
National Investment Trust Limited	8.1	8.1
Public	28.7	28.7
Employee Share Ownership Scheme	3.2	3.2
	100.0	100.0

Financial performance

The Bank reported profit before tax of K1,124 million (2007: K413 million) and net profit after tax of K779 million (2007: K264 million). The Directors recommend a dividend for the year of K246.7 million (2007: MK128 million) being 50 tambala per share made up of 22 tambala per share being interim paid in June 2008 and 28 tambala per share being final dividend. The dividend paid during the year was K222 million being interim dividend, K109 million and final dividend of K113 million from 2007. The results and state of affairs of the Bank are set out in the accompanying balance sheet, income statement, statement of changes in equity, cashflow 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
Mrs. E. Nuka	-	Director	All year
Mr. V. Kumwenda	-	Director	All year
Mr . Matabwa	-	Director	All year
Mr. C Mphande	-	Director	All year

DIRECTORS' REPORT

Board Committees

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

Finance and Audit Committee

The Finance and Audit Committee is responsible for reviewing the reports of both internal and external auditors, as well as overlooking 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.

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

Mrs. E. Nuka	-	Chairperson
Mrs. B. Nkhwazi	-	Member
Mr. C. Mphande	-	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:

Mr. E Matabwa	-	Chairman
Mrs. B. Nkhwazi	-	Member
Mr. V. Kumwenda	-	Member

Credit Committee

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

The Committee is comprised of:

Mr. J. Swankie	-	Chairman
Mr. E. Matabwa	-	Member
Mr. 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 2009 financial statements.

Director

Director

2009

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Malawi 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 Malawi Companies Act, 1984.

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

- Maintenance of proper accounting records;
- Selection of suitable accounting policies and applying them consistently;
- Making judgments 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 26 February 2009 and were signed on its behalf by:

Director

Director

2009

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 2008, 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 5 to 46.

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, these financial statements present a true and fair view, in all material respect, of the financial position of NBS Bank Limited as at 31 December 2008 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

2009

BALANCE SHEET
As at 31 December 2008
In thousands of Malawi Kwacha

	NOTE	2008	2007
ASSETS			
Cash and cash equivalents	7	4,188,461	3,195,094
Money market investments	10	906,769	903,723
Loans and advances to customers	9	12,747,296	7,919,042
Other assets	8	1,019,626	323,737
Property and equipment	11	1,537,554	1,853,349
Intangible assets	12	1,751	5,574
Equity investments	13	18,665	11,275
Total assets		20,420,122	14,211,794
LIABILITIES AND EQUITY			
Liabilities			
Current and savings accounts		10,724,530	7,533,380
Foreign currency denominated accounts		1,093,407	933,911
Term deposit accounts	14	4,687,003	2,454,262
Other liabilities	15	551,354	389,790
Income tax payable		136,733	119,463
		17,193,027	11,430,806
Long –term loans	16	1,050,768	1,085,859
Provisions	17	345,705	429,394
Deferred tax liability	17	50,543	24,135
Total liabilities		18,640,043	12,970,734
Equity			
Issued capital	18	246,667	246,667
Share premium	19	314,948	314,948
Revaluation reserve	20	224,708	228,310
Fair value reserve		17,359	31,465
Retained earnings		976,397	419,670
Total equity		1,780,079	1,241,060
Total liabilities and equity		20,420,122	14,211,794

The financial statements of the company were approved for issue by the Company's Board of Directors on 26 February, 2009 and were signed on its behalf by:

Director

Director

The financial statements are to be read in conjunction with the notes from pages 26 to 64.

The auditor's report is on page 21.

INCOME STATEMENT
As at 31 December 2008
In thousands of Malawi Kwacha

	Note	2008	2007
INCOME			
Interest on loans and advances		1,855,692	1,327,902
Interest on placements with other banks		83,915	59,915
Income from lease financing		306,346	170,771
Income from money market investments		178,776	323,510
Total interest income	21	2,424,729	1,882,098
Interest expense	21	(565,241)	(664,017)
Net interest income		1,859,488	1,218,081
Fees and commission income		979,133	611,355
Profit on foreign exchange transactions		522,337	399,188
Other operating income	22	11,119	8,256
Operating Income		3,372,077	2,236,880
EXPENDITURE			
Staff costs	23	960,247	845,827
Recurrent expenditure on premises and equipment		253,629	215,241
Depreciation	11,12	167,594	164,990
Other operating costs	24	774,216	550,267
Operating expenditure		2,155,686	1,776,325
Profit before impairment losses		1,216,391	460,555
Loan impairment losses	9	(92,317)	(47,791)
Profit before income tax expense		1,124,074	412,764
Income tax expense	25	(345,347)	(148,554)
Profit for the year		778,727	264,210
Basic and diluted earnings per share (MK)26		1.58	0.59

The financial statements are to be read in conjunction with the notes from pages 26 to 64.
The auditor's report is on page 21

STATEMENT OF CHANGES IN EQUITY
As at 31 December 2008
In thousands of Malawi Kwacha

	Share Capital	Share premium	Property Revaluation reserve	Available for sale Fair value reserve	Loan loss reserve	Retained Earnings	Total
2007							
Balance at 1 January 2007	200,000	164,637	126,619	26,372	139,000	74,331	730,959
Surplus on revaluation of property	-	-	114,426	-	-	-	114,426
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	-	-	(12,735)	(8,830)	-	-	(21,565)
Profit for the year	-	-	-	-	-	264,210	264,210
Balance at 31 December 2007	246,667	314,948	228,310	31,465	-	419,670	1,241,060
2008							
Balance at 1 January 2008	246,667	314,948	228,310	31,465	-	419,670	1,241,060
Deficit on revaluation of property	-	-	(3,602)	-	-	-	(3,602)
Decreases in fair value reserve	-	-	-	(14,106)	-	-	(14,106)
Net income recognised directly in equity	246,667	314,948	224,708	17,359	-	419,670	1,223,352
Profit for the year	-	-	-	-	-	778,727	778,727
Total recognised income and expenses for the year	246,667	314,948	224,708	17,359	-	1,198,397	2,002,079
Dividend paid	-	-	-	-	-	(222,000)	(222,000)
Balance at 31 December 2008	246,667	314,948	224,708	17,359	-	976,397	1,780,079

STATEMENT OF CASH FLOWS
As at 31 December 2008
In thousands of Malawi Kwacha

	NOTE	2008	2007
OPERATING ACTIVITIES			
Interest and fees received		3,937,318	2,900,891
Interest paid	21	(565,241)	(664,017)
Cash paid to suppliers and employees		(2,031,477)	(1,769,648)
		1,340,600	467,226
Movement in net customer balances		755,133	304,347
		2,095,733	771,573
Income tax paid		(301,670)	(34,018)
Cash flows from operating activities		1,794,063	737,555
FINANCING ACTIVITIES			
Proceeds from issue of share capital		-	242,666
Proceeds from loans acquired		-	840,494
Long term loan repayment	16	(145,475)	(59,786)
Dividend paid		(222,000)	-
Cash (outflow)/inflow from financing activities		(367,475)	1,023,374
INVESTING ACTIVITIES			
Acquisition of investment securities	13	(7,390)	-
Acquisition of property and equipment	11	(425,831)	(632,332)
Cash outflow from financing activities		(433,221)	(632,332)
Net increase in cash and cash equivalents		993,367	1,128,597
Cash and cash equivalents at 1 January		3,195,094	2,066,497
Cash and cash equivalents at 31 December	7	4,188,461	3,195,094
ADDITIONAL STATUTORY DISCLOSURE			
Increase in net working capital		758,335	1,114,703

The financial statements are to be read in conjunction with the notes from pages 26 to 64.

The auditor's report is on page 21.

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting entity

NBS Bank Limited is a limited liability company incorporated and 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 commercial banking covering: corporate and retail banking and treasury management.

General Information

The Bank provides retail and corporate banking services through its 26 service centres across Malawi. The Bank is listed on the Malawi Stock Exchange. Its ultimate parent company is NICO Holdings Limited, a company incorporated in Malawi, which is also listed on the Malawi Stock Exchange.

2. Basis of preparation

(a) *Statement of compliance*

These 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 2008.

(b) *Basis of measurement*

The financial statements have been prepared on the historical cost basis except for some property and equipment which are revalued and certain investments held for trading which are stated at fair value and also:

- 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 into Malawi Kwacha at the spot rate of exchange 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 spot exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the 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 calculation 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 from other financial instruments carried at fair value in the income statement. Net interest income analysis is provided in note 21.

(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 writes 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 amortised 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 (Continued)

(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.

(iii) 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.

(iv) 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 cost 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.

Gains and losses on disposal of an item of property, plant and equipment are determined by paring the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in profit and loss.

(ii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. 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 recognised in profit or loss on a straight-line basis over the estimated useful lives of items of property and equipment, and major components that are accounted for separately. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Significant Accounting Policies (Continued)

(o) Intangible assets

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

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

(w) Net trading income

Net trading income includes gains and losses from spot and forward contracts, options, futures, and foreign exchange differences. Interest rate instruments includes the results of making markets in instruments in government securities, corporate debt securities, money market instruments, interest rate and currency swaps, options and other derivatives.

Equities trading income includes the results of making markets globally in equity securities and equity derivatives such as swaps, options, futures and forward contracts.

(x) 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)
In thousands of Malawi Kwacha

3. Significant Accounting Policies (Continued)

(x) Segment reporting (Continued)

Business segments 2008	Note	Corporate Banking	Retail Banking	Treasury	Shared services	Total
Net Interest Income	21	743,795	1,022,719	92,974	-	1,859,488
Net fees and commission income		391,653	538,523	48,957	-	979,133
Profit on foreign exchange transaction		208,935	287,285	26,117	-	522,337
Other operating income	22	4,448	6,115	556	-	11,119
Total segment revenue		1,348,831	1,854,642	168,604	-	3,372,077
Segment result		449,630	618,242	56,202	-	1,124,074
Income tax expense	25	(138,139)	(189,941)	(17,267)	-	(345,347)
Profit for the period		311,491	428,301	38,935	-	778,727
Segment assets		8,168,050	11,231,068	1,021,006		20,420,124
Total assets		8,168,050	11,231,068	1,021,006		20,420,124
Segment liabilities		7,328,864	10,044,536	870,395	-	18,243,795
Unallocated liabilities	17	-	-	-	-	396,248
Total liabilities		7,328,864	10,044,536	870,395	-	18,640,043
Impairment losses on financial assets	9	36,926	50,774	4,616	-	92,316
Depreciation and amortisation	11,12	-	-	-	167,594	167,594
Capital expenditure	11	-	-	-	425,831	425,831

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
In thousands of Malawi Kwacha

3. Significant Accounting Policies (Continued)

(x) Segment reporting (Continued)

Business segments 2008	Note	Corporate Banking	Retail Banking	Treasury	Shared services	Total
Net Interest Income	21	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		159,676	219,553	19,959	-	399,188
Other operating income	22	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	25	(59,421)	(81,705)	(7,428)	-	(148,554)
Profit for the period		105,685	145,315	13,210		264,210
Segment assets		5,684,718	7,816,487	710,590	-	14,211,795
Total assets						14,211,795
Segment liabilities		5,027,544	6,899,959	589,702	-	12,517,205
Unallocated liabilities	17					453,529
Total liabilities						12,970,734
Impairment losses on financial assets	9	19,116	26,285	2,390	-	47,791
Depreciation and amortisation	11,12	-	-	-	164,990	164,990
Capital expenditure	11	-	-	-	632,332	632,332

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
In thousands of Malawi Kwacha

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)
In thousands of Malawi Kwacha

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 of 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)
In thousands of Malawi Kwacha

4. Financial risk management (Continued)

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

		Loans and advances to Customers		Loans and advances to other banks		Investment securities	
	Note	2008	2007	2008	2007	2008	2007
Carrying amount	9,7,10	12,747,296	7,919,042	990,355	1,637,146	3,418,008	1,826,129
Individually impaired		559,504	280,496	-	-	-	-
Allowance for impairment	9	(329,452)	(237,135)	-	-	-	-
Carrying amount		230,052	43,361	-	-	-	-
Individually impaired							
1-6 months							
7-12 months	300,037	116,485	-	-	-	-	
13-24 months	74,680	51,241	-	-	-	-	
> 24 months	184,787	112,770	-	-	-	-	
Total	559,504	280,496	-	-	-	-	
Allowance for impairment	(329,452)	(237,135)	-	-	-	-	
Carrying amount	230,052	43,361	-	-	-	-	
Past due not impaired	1,601,335	2,646,594	-	-	-	-	
Carrying amount	1,601,335	2,646,594	-	-	-	-	
Neither past due nor impaired	10,915,909	5,228,995	-	-	-	-	
Carrying amount	10,915,909	5,228,995	-	-	-	-	
Total carrying amounts	9	12,747,296	7,919,042	990,355	1,637,146	3,418,008	1,826,129

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)

In thousands of Malawi Kwacha

4. Financial risk management (Continued)

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	
	2008	2007	2008	2007
Against individually impaired		-	-	
Property	132,503	162,660		
Plant and equipment	97,739	13,400	-	-
Against past due but not impaired			-	-
Property	3,199,669	1,548,532	-	-
Plant and equipment	511,252	66,603	-	-
Against neither past due nor impaired				
Property	8,909,328	8,231,679	-	-
Plant and equipment	1,599,750	1,025,890	-	-
Total	14,450,241	11,048,764	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
In thousands of Malawi Kwacha

4. Financial risk management (Continued)

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		Investment securities	
	Note	2008	2007	2008	2007	2008	2007
Carrying amount	9,7,10	12,747,296	7,919,042	990,355	1,637,146	3,418,008	1,826,129
Concentration by sector:							
Retail		10,672,259	6,597,997	-	-	-	-
Corporate		1,675,037	1,042,263	-	-	-	-
Bank		400,000	278,782	990,355	1,637,146	3,418,008	1,826,129
	9,7,10	12,747,296	7,919,042	990,355	1,637,146	3,418,008	1,826,129
Concentration by location:							
Northern Region		655,690	97,512	-	-	-	-
Central Region		3,485,192	3,375,627	-	-	-	-
Southern Region		8,606,414	4,445,903	990,355	1,637,146	3,418,008	1,826,129
	9,7,10	12,747,296	7,919,042	990,355	1,637,146	3,418,008	1,826,129

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 contractuallyagreed. 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 banksand 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)

In thousands of Malawi Kwacha

4. Financial risk management (Continued)

(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 maturity of financial liabilities

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2008 to the contractual maturity date.

	Up to 1 month	1 - 3 months	3 - 12 months	over 1 year	Total
FINANCIAL ASSETS					
Cash and balances with banks	1,816,566				1,816,566
Investment securities	250,000	100,000	2,782,472	285,536	3,418,008
Loans and advances	4,195,302	437,073	1,747,562	6,656,433	13,036,370
Other assets	344,315	-	-	1,804,865	2,149,180
Total assets	6,606,183	537,073	4,530,034	8,746,834	20,420,124
FINANCIAL LIABILITIES					
Current and savings accounts	8,416,911	-	-	-	8,416,911
Term deposit accounts	1,915,551	1,810,210	906,769	-	4,632,530
Foreign Currency denominated deposits	1,093,407	-	-	1,093,407	
Other borrowed funds	2,307,619	-	-	1,050,768	3,358,387
Other liabilities	1,138,944	-	-	1,779,945	2,918,889
Total financial liabilities	14,872,432	1,810,210	906,769	2,830,713	20,420,124
Net Liquidity Gap	(8,266,249)	(1,273,137)	3,623,265	5,916,121	-
Cumulative Liquidity Gap	(8,266,249)	(9,539,386)	(5,916,121)	-	-

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)
In thousands of Malawi Kwacha

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) parel 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)

In thousands of Malawi Kwacha

4. Financial risk management (Continued)

(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.

At 31 December 2008 Assets subject to interest rate adjustment	Zero rate	Floating rate	0 - 3 months	3 - 6 months	6 - 12 months	over 1 year	Total
Loans and advances:	-	13,036,370	-	-	-	-	13,036,370
Securities:	1,816,566	-	350,000	500,000	2,282,472	285,536	5,234,574
Other	2,149,180	-	-	-	-	-	2,149,180
Total rate sensitive assets(RSA)	3,965,746	13,036,370	350,000	500,000	2,282,472	285,536	20,420,124
Liabilities subject to interest rate adjustment:							
Demand accounts	-	1,972,996	-	-	-	-	1,972,996
Savings deposits	-	7,717,249	-	-	-	-	7,717,249
Time deposits	-	-	4,486,137	141,024	5,369	-	4,632,530
Other borrowings	20,010	2,307,620	-	-	-	850,831	3,178,461
Other	2,918,888	-	-	-	-	-	2,918,888
Total rate sensitive liabilities (RSL)	2,938,898	11,997,865	4,486,137	141,024	5,369	850,83	20,420,124
Asset /Liability Gap	1,026,848	1,038,505	(4,136,137)	358,976	2,277,103	(565,295)	-
Cumulative Gap	1,026,848	2,065,353	(2,070,784)	(1,711,808)	565,295	-	-
Net position as a percent of total assets	5%	5%	(20)%	2%	11%	(3)%-	
RSA as a percent of RSL	135%	109%	8%	355%	42512%	34%	100%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
In thousands of Malawi Kwacha

4. Financial risk management (Continued)

(g) Current Risks

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

At 31 December 2008	USD	GBP	EURO	ZAR	Total
Assets					
Balances with correspondent banks	685,865	29,876	51,348	8,103	775,192
Cash in vaults	70,317	737	1,283	12,175	84,512
Forward contracts	-	-	-	-	-
Loans and advances to customers	559,536	-	6,132	649	566,317
Total assets	1,315,718	30,613	58,763	20,927	1,426,021
Liabilities					
Customer deposits	1,008,917	23,006	52,785	8,699	1,093,407
Forward contracts	80,213	-	-	-	80,213
Total liabilities	1,089,130	23,006	52,785	8,699	1,173,620
Net balance sheet position	226,588	7,607	5,978	12,228	252,401

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
In thousands of Malawi Kwacha

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.

( ) 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)

In thousands of Malawi Kwacha

4. Financial risk management (Continued)

(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 2008 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 2008, the Bank's available capital was 12% of all its risk bearing assets and contingent liabilities.

Capital Management	2008	2007
Paid up share capital	246,667	246,667
Share Premium	314,948	314,948
Retained Earnings Prior Years	419,670	65,580
Net Profit - Current period (60%)	467,237	158,526
Core Capital (Tier 1 Capital)	1,448,522	785,721
Revaluation reserves	224,708	228,310
Total capital (Tier 2 Capital)	1,673,230	1,014,031

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

In thousands of Malawi Kwacha

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 2008, the Bank's liquidity Ratio 1 was 31%. (2007 – 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 2008, the Bank's Liquidity Ratio 2 was 30%. (2007 – 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. The Bank complied with this requirement during the year.

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

The financial statements are presented in Malawi Kwacha, rounded to the nearest thousand. Recognised assets and liabilities that are hedged are stated at fair value in respect of the risk that is being hedged.

(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)

In thousands of Malawi Kwacha

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 2008.

(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 2008, 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 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.

- Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations, the amendments to IFRS 2 will become mandatory for the Bank's 2009 financial statements, with retrospective application. The Bank is currently in the process of evaluating the potential effect of this amendment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

In thousands of Malawi Kwacha

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

(c) New standards and interpretations not yet adopted (Continued)

Amendments to IAS 32 and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* require puttable instruments and instruments that impose on the entity on obligation to deliver to another party pro rata share of the net assets of the entity only on liquidation to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Bank's 2009 financial statements with retrospective application required, are not expected to have any impact on the financial statements.

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Bank's 2010 financial statements, with retrospective application required. The Bank is currently in the process of evaluating the potential effect of this amendment.

This interpretation will not have any effect on the Bank's financial statements.

6. Accounting classifications and fair values

	Trading	Designated at fair value	Loans and receivables	Other amortised cost	Total carrying amount	Total
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	7,919,042
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	-	-	-	12,007,412	12,007,412	12,007,412
31 December 2008						
Cash and cash equivalents	-	686,867	-	-	686,867	686,867
Trading assets	990,355	-	-	-	990,355	990,355
Loans and advances to customers	-	-	12,747,296	-	12,747,296	12,747,296
Investment securities	-	3,418,008	-	18,665	3,436,673	3,436,673
Total	990,355	4,104,875	12,747,296	18,665	17,861,191	17,861,191
Trading liabilities						
Deposits from customers	-	-	-	16,504,940	16,504,940	16,504,940
Long term loan	-	-	-	1,050,768	1,050,768	1,050,768
Total	-	-	-	17,555,708	17,555,708	17,555,708

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
In thousands of Malawi Kwacha

6. Accounting classifications and fair values (Continued)

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

- Malawi Government Treasury Bills
  The fair value is based on quoted market prices, if available, or is calculated based on discounted expected future principal and interest cash flows.

- 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.

7. Cash and cash equivalents	2008	2007
Cash balances	686,867	635,542
Balance with Reserve Bank of Malawi	101,446	1,196,310
Balances due from other banks	888,909	440,836
Money market investments due within 3 months (note 10)	2,511,239	922,406
Cash and cash equivalents as per cash flow statement	4,188,461	3,195,094

A total of MK2 billion held for Liquidity Reserve Requirement was on lent to the Reserve Bank of Malawi at year-end for 2 days at 15% per annum.

8. Other assets

Stationery, ATM spares and other consumables	37,870	59,587
Prepayments and sundry debtors	268,796	172,826
Assets Held for Sale (note 11)	573,617	-
Cheque in course of collection	139,343	91,324
	1,019,626	323,737

Non Current Assets Held for Sale is in respect of the Blantyre Branch Building earmarked for sale in 2009 at a market related price.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

In thousands of Malawi Kwacha

9. Loans and advances to customers	2008	2007
Loans and overdrafts	7,921,078	4,780,627
Lease contracts	1,748,758	902,300
Mortgage advances	3,406,912	2,473,250
Total gross loans and advances	13,076,748	8,156,177
Allowance for impairment	(329,452)	(237,135)
Net loans and advances	12,747,296	7,919,042
Total loans and advances are due to mature as follows:		
• Within one year	5,847,890	3,586,235
• After one year	7,228,858	4,569,896
	13,076,748	8,156,131
Movement on allowance for impairment:-		
At beginning of year	237,135	131,473
Increase in impairment	92,317	47,791
Loan loss reserve	-	57,871
Balance at end of year	329,452	237,135

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

10. Money market investments	2008	2007
Government of Malawi and Reserve Bank of Malawi bills	3,132,472	1,519,398
Government of Malawi Local Registered Stocks	285,536	306,731
Total investments	3,418,008	1,826,129
The investments are due to mature as follows:-		
* Within three months	2,511,239	922,406
* Between three months and one year	906,769	903,723
	3,418,008	1,826,129

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

In thousands of Malawi Kwacha

11. PROPERTY AND EQUIPMENT

	Leasehold Land and Buildings	Motor vehicles, fixturesa and fittings	Capital Work in progress	2008 Total	2007 Total
Cost or valuation					
Balance at 1 January	379,703	1,233,341	675,096	2,288,140	1,550,175
Additions	282	221,477	204,072	425,831	632,332
Disposals	-	-	-	-	(5,229)
Transfers* (note 8)	(205,389)	51,294	(419,522)	(573,617)	(3,564)
Surplus on revaluation	(4,238)	-	-	(4,238)	114,426
Balance at 31 December	170,358	1,506,112	459,646	2,136,116	2,288,140
Comprising of:					
Valuation in 2008	102,054	-	-	102,054	114,426
Cost	68,304	1,506,112	459,646	2,034,062	2,173,714
	170,358	1,506,112	459,646	2,136,116	2,288,140
Depreciation					
Balance at 1 January	-	434,791	-	434,791	284,550
Charge for the year	-	163,771	-	163,771	159,709
Released on revaluation	-	-	-	-	(7,327)
Eliminated on disposal	-	-	-	-	(2,141)
Balance at 31 December	-	598,562	-	598,562	434,791
Carrying amount					
At 31 December 2008	170,358	907,550	459,646	1,537,554	1,853,349
At 31 December 2007	379,703	798,550	675,096	1,853,349	-

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.

Leasehold land and buildings were revalued on 31 December 2008 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 and upgrade costs in some of the Bank's branches and agencies.

* Transfers are in respect of non-current assets now designated as held for sale. During the year the one property underwent major renovations to position it is for sell. The directors estimate that its transfer price approximate its fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

In thousands of Malawi Kwacha

12. Intangible assets

		2008 Total	2007 Total
Balance at 1 January and 31 December	28,742	28,742	28,742
Amortisation			
Balance at 1 January	23,168	23,168	17,887
Charge for the year	3,823	3,823	5,281
Balance at 31 December	26,991	26,991	23,168
Carrying amount			
At 31 December 2008	1,751	1,751	5,574
At 31 December 2007	5,574	5,574	-

Upgrade costs of Globus software from G12 to T24 which had not been completed as at year end amounting to K13 million is included in work-in-progress in note 11.

13. Equity Investment in NICO Properties Limited

During the year, through a rights issue the Bank increased its investment in NICO Properties Limited by K7.4 million, a company to which the properties formerly owned by the Bank were sold as follows:

Movement on Equity Investments	2008	2007
Balance at 1 January	11,275	11,275
Rights issue	7,390	-
Balance at 31 December	18,665	11,275

The Directors are of the opinion that the cost of the investment

in NICO Properties Limited approximates its fair value.

14. Term deposit accounts

	2008	2007
Maturing within 3 months	4,544,626	2,376,092
Maturing between 3 and 12 months	142,377	78,170
	4,687,003	2,454,262

15. Other liabilities

	2008	2007
Unpresented Cheques	29,283	22,577
Accruals	379,763	276,714
PAYE and other taxes	62,095	32,518
Bills payable	80,213	57,981
	551,354	389,790

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

In thousands of Malawi Kwacha

16. Long term loans	2008	2007
International Finance Corporation	438,827	424,569
NORSAD	412,004	427,932
Malawi Government	20,010	20,010
Pension funds loan	179,927	213,348
	1,050,768	1,085,859

Analysed as follows:

	IFC	NORSAD	Pension Funds	Government of Malawi	Total
Balance at 1 January	424,569	427,932	213,348	20,010	1,085,859
Interest charges	27,824	36,867	45,693	-	110,384
Repayment during the year	(13,566)	(52,795)	(79,114)	-	(145,475)
Balance at 31 December	438,827	412,004	179,927	20,010	1,050,768

Long-term loans are repayable as follows:-

	2008	2007
Repayable within one year	244,143	59,247
Repayable after one year	806,625	1,026,612
	1,050,768	1,085,859

International Finance Corporation approved a loan of USD 3,000,000 to NBS Bank Limited in August 2007 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 commencing on 15 July 2009. The loan is not secured.

NORSAD approved a loan of USD 5,000,000 to NBS Bank Limited on 23 January 2007 at an agreed fixed rate of 6.5% per annum out of which USD 2 million is yet to be drawn. This loan is to be used for onward lending to viable Small Medium Enterprises in Malawi that are environmentally friendly. This loan has a repayment period of 5 years. The loan is guaranteed by NICO Holdings in the sum of USD3 million.

The Malawi Government loan represents an IDA credit which was loaned to Malawi Housing Corporation for the construction of low cost housing. Interest on the loan originally at 7% per annum was suspended.
The bank repays the loan through offsetting receipts by Malawi Housing Corporation to Malawi Government under the varied terms of the contract. The loan is guaranteed by the Malawi Government.

Pension funds loan is for a 5 year term effective June 2006 at prime interest +2% and was utilized in renovating the Blantyre branch property. The loan is guaranteed by NICO Holdings Limited in the sum of K200 million.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

In thousands of Malawi Kwacha

17. Provisions	2008	2007
Severance provision	345,705	429,394
Deferred tax liabilities	50,543	24,135
	396,248	453,529
Movement on Severance Provision		
Balance at 1 January	429,934	319,853
Amount paid	(9,415)	-
Charge for the year	-	110,081
Reversal of over provision	(74,814)	-
Balance at 31 December	345,705	429,934

Deferred tax liability

	2008 Assets	Liability	Net	Assets	2007 Liability	Net
Capital allowance on property and equipment	-	(88,717)	(88,717)	-	(84,675)	(84,675)
Revaluation of properties (in equity)	-	(39,654)	(39,654)	-	(40,194)	(40,194)
Fair value adjustments (in equity)	-	(7,439)	(7,439)	-	(13,484)	(13,484)
Severance provision	103,712	-	103,712	122,904	-	122,904
Others	2,627	(21,072)	(18,445)	1,945	(10,631)	(8,686)
	106,339	(156,882)	(50,543)	124,849	(148,984)	(24,135)

18. Share capital	2008	2007
In issue at 1 January and 31 December		
493,333,000 ordinary shares of K0.50 fully paid.	246,667	246,667
Authorised share capital	350,000	350,000
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		
19. Share Premium		
Share premium	314,948	314,948
Share premium 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 net of issue costs as follows:		
Balance pre-listing	164,637	164,637
Share issue	150,311	150,311
Total	314,948	314,948
	224,708	228,310

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

In thousands of Malawi Kwacha

		2008	2007
20.	Property revaluation reserve	2008	2007
	The revaluation reserve relates to the surplus arising on the revaluation of properties. Surplus attributable to Blantyre Branch Building amounting to K138 million will become realized and form part of distributable reserves after the completion of disposal transaction in 2009.	224,708	228,310
21.	Net interest income	2008	2007
	Interest income		
	Inter-bank loans	83,915	59,915
	Personal loans	286,963	178,357
	Corporate loans	256,824	165,872
	Short-term loan	57,205	61,204
	Mortgage Loans	604,324	500,958
	Investment securities	178,776	323,510
	Overdrafts	601,272	421,511
	Lease Contracts	306,346	170,771
	Interest – Norsad/IFC loans	49,104	-
	Total interest income	2,424,729	1,882,098
	Interest expense		
	Current Accounts	16,408	10,029
	Savings Deposits	181,306	146,742
	Investment Deposits	104,982	103,170
	Fixed Deposits	157,110	326,480
	FCD Accounts	22,260	19,217
	Inter-bank- borrowing	18,460	27,385
	Interest – Norsad/IFC loans	64,715	15,008
	Prepaid mortgage interest	-	15,986
	Total interest expense	565,241	664,017
	Net interest income	1,859,488	1,218,081
22.	Other operating income		
	Rental Income	11,119	4,221
	Profit on disposal of property and equipment	-	1,918
	Other	-	2,117
		11,119	8,256

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

In thousands of Malawi Kwacha

23. Staff costs	2008	2007
Salaries	550,230	410,713
Staff expenses	256,339	186,876
Staff loan subsidy	48,930	56,292
Christmas pay expenses	6,691	3,516
Severance pay provision	-	110,081
Training expenses	31,152	32,955
Management car scheme	66,905	45,394
	960,247	845,827

Following guidance by SOCAM, released in January 2008 the provision for severance pay has been computed taking into account all aspects of remuneration. The average number of employees for the year ended 31 December 2008 was 475 (31 December 2007 was 456).

24. Other operating costs	2008	2007
Auditors' remuneration:-		
Current year fees	11,937	9,500
Prior period under provision	-	450
Other expenses and VAT	3,794	629
Accommodation costs	138,722	101,826
Communication costs	281,784	199,121
Directors fees	3,291	3,416
Group shared expenses	3,298	2,003
Legal and professional fees	22,573	35,468
Malawi Stock Exchange fees	2,688	3,873
Management fees	71,000	65,522
Sundry business charges	235,129	128,459
	774,216	550,267

Management fee is payable to NICO Holdings Limited.

25. Income tax expense		2008		2007
Current year tax charge		345,501		168,896
Origination and reversal of temporary differences		(154)		(20,342)
Total income tax charge		345,347		148,554
Reconciliation of tax charge				
Profit before tax		1,124,074		412,764
Income tax using corporate tax rate	30%	337,222	30%	123,829
Other permanent differences	3%	36,949	4%	16,424
Deferred tax	0%	(154)	(5%)	(20,342)
Other temporary differences	(2%)	(28,670)	7%	28,643
	31%	345,347	36%	148,554

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

In thousands of Malawi Kwacha

26. Earning per share	2008	2007
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:		
Net profit attributable to ordinary shareholders	778,727	264,210
Weighted average number of ordinary shares	493,333	446,667
Diluted earnings per share (MK)	1.58	0.59
Basic earnings per share	1.58	0.59

27. Capital commitments

As at 31 December 2008, the contracted but not yet incurred capital commitments were K8.9 million.

The authorised but not yet contracted for commitments as at 31 December 2008 were K 363.7 million.

These commitments are to be funded from internal resources.

28. Accounting estimates and judgements

Management discusses 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 9 contains information on the loans and advances impairment. I n notes 4 (f) and 4 (d) detailed analysis is given of the interest rate and liquidity risk exposures of the bank.

29. Inflation and exchange rates

Exchange rates as at 31 December	2008	2007
United States Dollar (USD)	141.99	141.68
British Pound (GBP)	219.63	290.94
South African Rand (ZAR)	16.53	21.42
Inflation rates as at 31 December	9.9%	7.5%

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

30. Incorporation

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

	2008	2007
31. Contingent Assets/Liabilities		
Letters of credit	240,011	173,421

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

In thousands of Malawi Kwacha

32. Guarantees

The bank guarantees repayment of mortgage loans to NICO Life Insurance Company for its staff.Staffmortgages and all mortgage securities are registered in the Bank's favour. The Bank pays an interest subsidy on behalf of employees and the related fringe benefits tax inclusive of subsidy are included under staff costs. At 31 December 2008 guaranteed staff mortgages were K306 million (2007: K291 million).

33. 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:

			Balances as at 31/12/08	
Company	Nature of transactions	Volume of transactions	Assets	Liabilities
• NICO Holdings Limited	Management fees	71,000	-	34,799
• NICO Life Insurance Limited	Interest payable	41,931	3,704	1,053,723
• NICO General Insurance Limited	Interest payable	17,673	-	345,618
• NICO Technologies Limited	Suppliers and consultancy	2,878	-	21,151
• Loans to directors	Advances	8,573	52,944	-
• Millenium Investments Limited	Advances	255	6,900	5,928
• Executive Management Loans	Advances	11,330	72,451	-

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.

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

	2008	2007
Directors' fees	3,291	3,416
Executive officers	55,991	51,695
	59,282	55,111

The above expenses are included in staff and training costs and other operating expenses in note 23 and 24.

34. Subsequent events

Subsequent to balance sheet date the Reserve Bank of Malawi issued a minimum capital requirement of K850 million for commercial banks effective 1 January 2009.