Annual Report

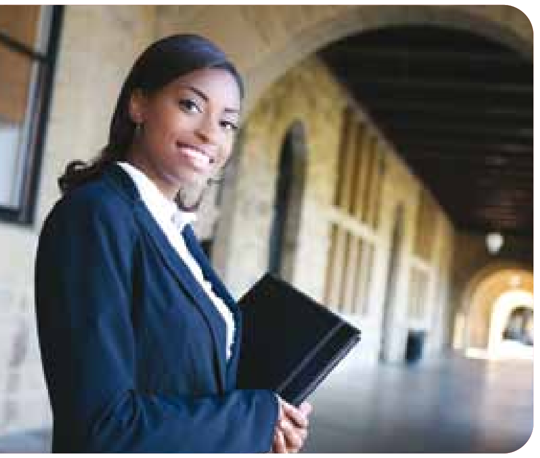
09

NBS Bank
Your Caring Bank

Contents

NBS Bank
Your Caring Bank

Customer satisfaction is at the heart of The Bank's operations.



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

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

It operated almost monopolistically in mortgages until the liberalisation of the financial market in Malawi opened the mortgage business to financial institutions. However, The Society, could not offer products traditionally marketed by banks. Therefore it became increasingly more difficult for The Society to compete fairly and satisfy the expectations of its customers. A decision was consequently made to convert the building society to a commercial bank.

The Bank was listed on The Malawi Stock Exchange on 25th June 2007. The objective was to raise capital to invest in its infrastructure by refurbishing branches and upgrading The Bank's information technology systems to offer a more convenient and efficient service to customers.

The listing was also in line with NICO's (The Bank's majority shareholder) philosophy of diversifying shareholdings in its subsidiaries through the Public.

Before listing the shareholding was as follows; NICO 74%, Malawi Goverment 16%, NITL 10%. After listing, the shareholding is as follows; NICO 60%, Public 28.7%, National Investments Trust Limited (NITL) 8.1% and ESOP 3.2%.

Today The Bank is still a leading financial institution in Malawi with market leadership in home loans and has outlets throughout the entire country.

Corporate Profile

NBS Bank
Your Caring Bank

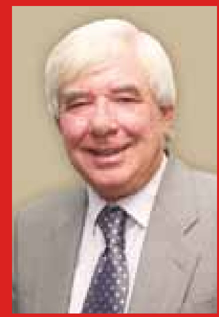
NBS DIRECTORS


Mrs Benadette Nkhwazi,
Director


Mr Vizenge Kumwenda,
Director

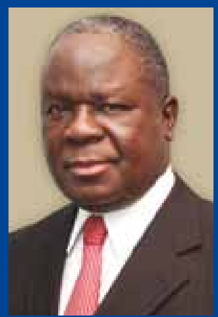

Mr Evans Matabwa,
Director


Mr Chadwick Mphande,
Director


Mr Joe Swankie,
Director


Mrs Estelle Nuka,
Director

CHAIRMAN'S REPORT


Mr Felix Mlusu,
Chairman

Chairman's Report

Chairman's Report

Economic Overview

We operated in a very difficult environment during the year largely due to the effects of the world economic downturn. Although some of the macro-economic fundamentals held firm , the general economic activity was negatively affected by lack of foreign exchange which made it difficult for businesses to function properly. This created a lot of challenges for business.

However despite these challenges, The Bank's performance in terms of income growth was impressive registering a growth of 32% from MK3.9 billion to MK5.2 billion over the corresponding period .This resulted in profit before tax of MK1.21 billion being 9% growth from MK1.12 billion in 2008. The Bank's return on equity improved from 52% to 56%. However, due to an increase in interest expense, The Bank's cost income ratio grew from 66% in 2008 to 69% in 2009 Arising from this performance and result , the Board of Directors recommended a dividend payment of MK271 million being 55 tambala per share. This represents a 10% increase from 50 tambala per share paid in 2008.

Outlook

Prospects for 2010 look good , as The Bank will continue looking into innovative ways of how it can serve the largely unbanked areas. This customer segment represents 80% of the bankable market in Malawi and thus offers a huge opportunity for growth.

In that regard, The Bank will be extending its footprint in the country so as to be able to accommodate the anticipated increased customer numbers. Therefore, in the near future NBS Bank will be opening its doors in Ntchisi, Ntcheu, Salima, Balaka and Mponela.

Furthermore, The Bank will also be exploring other innovative ways of reaching the market through channels such as SMS, mobile and internet banking.

Notwithstanding, the major challenge for The Bank remains staying competitive in this increasingly competitive banking environment. This is further amplified by the continually changing customer needs and sophistication.

Financial Inclusion In Malawi

During the year, The Bank got a grant of USD200,000 from UNDP and UNCDF through FIMA Project towards the acquisition of an additional mobile banking unit. The unit is meant to help enhance The Bank's efforts in bringing banking services to those that are currently unbanked. This is in line with The Bank's philosophy of taking banking to the people.

Social Responsibility

For the fifth year running, The Bank sponsored the Mulanje Mountain Porters Race. This is Malawi's only extreme sport which has participation from both Malawians and foreign tourists. The participating Malawians are mostly tour guides who escort tourists to various places of attraction on Mt. Mulanje. Its key objective is to bring awareness about the need to conserve Mulanje Mountain.

In the year, The Bank also sponsored the Monthly Mug Golf Competition at Country Club Limbe. These monthly tournaments culminate into a Winner of Winners competition in December. This event gives The Bank an opportunity to interact with customers, especially the high net worth and key business influencers to thank them for their support.

NBS Bank made a donation of computer equipment to Kabwafu Smallholder Tobacco Farmers Association to help modernise information storage and retrieval. The Association and its members are a key customer of The Bank in the tobacco sector.

NBS Bank also made a donation towards a bed race that was organised by The Nation Newspaper in Dedza. Funds raised through the bed race were used to buy hospital equipment for Dedza District Hospital.

Staff

Customer satisfaction is at the heart of The Bank's operations and we realize that only staff that are well trained and motivated can live up to The Bank's ambition of delighting customers. To this The Bank continues to train staff to keep up with international banking best practice. We also continue to employ a performance based pay system to ensure that staff are equitably compensated and thus motivated.

Word of Appreciation

I would like to express my gratitude to all our customers and business associates for their continued support, for without them, we would not have a business.

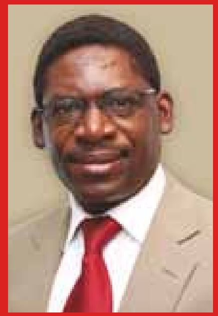
I also would like to thank both management and staff for their hard work, commitment and dedication.

Last but not least, I thank the Directors, for their invaluable support and guidance.

F L Mlusu

NBS SENIOR MANAGEMENT

Mr Gilford Kadzakumanja, *Deputy Chief Executive Officer*

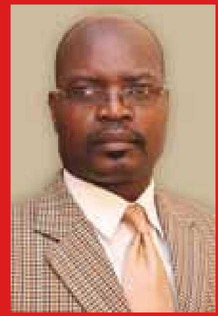


Mr Martin Ndenya, *Finance/ICT Executive Company Secretary*

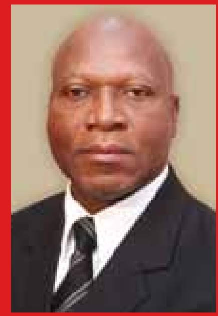
Mr Shadreck Chikusilo, *Senior Branch Manager Blantyre Branch*

Mr Stanley Mkwamba, *Head of Retail Banking*

Mr Paul Kanthambi, *Acting Head of ICT*



Mr Sam Kamkosi, *Head of Credit*



Mr Aubrey Chalera *Head of Corporate Banking*

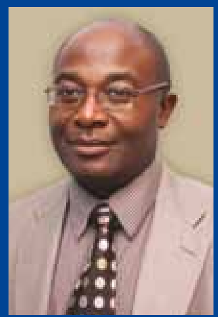
Mrs Lusekelo Kaoloka, *Head of Treasury and International Trade*

Mr Dumisani Chatima, *Head of Internal Audit*

Mr Tryson Kalanda, *Senior Branch Manager Capital City Branch*

Mr Richard Kunjawa, *Head of HR and Administration*

CEO'S REPORT



Mr John S Biziwick, *CEO*

Chief Executive Officer's Report

2009 was a year of mixed challenges given increased competition and foreign exchange shortages on the market. Notwithstanding, The Bank continued on a sound growth path whose trend was set way back in 2007. It is clearly evident that The Bank continues to reap the benefits of its robust growth and competitive strategies.

Business Growth

During the year, The Bank managed to sustain its growth pattern. Total deposits grew from MK17.1bn to MK24.3bn representing a 42% growth. Loans and advances increased from MK12.7bn to MK17.9bn representing a 41% growth. Profit before tax grew marginally from K1.12bn in 2008 to MK1.21bn in 2009; this represents a profit growth of 9%.

New Products

During the year, The Bank introduced several innovative products and services the most notable of which was the Visa Debit and Credit Cards. This is the first time ever that Credit Cards are being issued by a local bank in Malawi.

Apart from Visa Cards, The Bank also introduced bank assurance products in the form of insurance premium finance and motor vehicle insurance cover. The motor vehicle insurance cover is yet another ground breaking product in the country in the sense that for the first time in Malawi customers are able to buy the actual insurance policy in a bank. This is particularly convenient for customers who live away from urban centres and previously had to travel long distances just to buy a motor vehicle insurance cover.

Last, but not least, The Bank entered into an agreement with Blantyre City Assembly under which property owners are now able to pay city rates at any NBS Bank outlet. This again, is intended to give customers the convenience they deserve.

Delivery Channels

In pursuit of its philosophy of taking banking to the people, The Bank increased its footprint by opening Neno, Kamuzu International Airport and Crossroads Agencies. Apart from the above static presence, The Bank also extended its Bank-on-Wheels service to Kasinthula and Nchalo in the lower Shire to service the sugar industry.

Besides creating physical static presence in the above areas, The Bank penetrated the market further through placement of point of sale devices at several merchant outlets.

Presently, The Bank has a total of 13 branches, 14 agencies, 3 Bank@Campus outlets, 6 Bank-on-Wheels call points and 49 multi-lingual ATMs; all of which are real-time, online.

It is clearly evident that The Bank continues to reap the benefits of its robust growth and competitive strategies.

Challenges

Given that only 20% of the bankable population in Malawi are banked, the key challenge for NBS Bank is to explore innovative ways by which it can grow its business through the provision of affordable and convenient banking services to the unbanked areas in a cost-effective manner.

Staff Development

The Bank's value proposition remains "Your Caring Bank". To this end, The Bank needs to have staff that are not only efficient and effective, but customercentric as well. In this regard, The Bank focused most of its training towards ensuring that staff have superior product knowledge and technical competence as well as unparalleled customer service orientation.

In addition, The Bank initiated a number of staff development programmes and continued to encourage and support members of staff that are studying privately for the attainment of various professional qualifications.

Appreciation

In closing, I wish to thank the Board of Directors and all my colleagues for their support during the entire year. It is through the Board's wise guidance and hard work from all my colleagues that we have been able to get where we are at present.

John S Biziwick
Chief Executive Officer

Chief Executive Officer's Report

Major Events of 2009

NBS Bank launches Visa Debit and Credit Cards

In 2009 NBS Bank became the first bank to introduce the internationally accepted Visa Credit Card in the Malawian market. Furthermore, The Bank also introduced a Visa Debit Card, that for the first time, works in all countries and not just in Malawi.

NBS Bank opens an Agribusiness Centre

NBS Bank commands a significant market share of the smallholder farmers market. To provide its smallholder farmers with greater convenience, The Bank opened an Agribusiness Centre to cater for the specific needs of its smallholder farmer customers.

NBS Bank rewards tobacco farmers

As a way of thanking its tobacco farmer customers, as well as a means of encouraging them to save money, NBS Bank conducts a Smallholder farmers' fixed deposit promotion every year. This year, the promotion climaxed with a grand prize of a brand new Nissan one ton pick- up. This is the first time that such a big prize has been awarded in this promotion.

NBS Bank opens new branches

In 2009 NBS Bank opened three new agencies namely Neno, KIA and Crossroads. This is in accordance of The Bank's philosophy of taking banking to the people.

NBS Bank CEO, John Biziwick, shares a point with The Bank Chairman and an official from EFT Corporation

NBS Bank Chairman, Felix Mlusu making his remarks during the launch

NBS staff welcoming a guest during the launch

Principal Secretary in The Ministry of Agriculture Mrs Erica Maganga presents the grand prize of a Nissan Pick up to the winner

Mr Banda - Winner of 2009 Tobacco Farmers Competition grand prize shows off his car registration certificate with his wife by the side

Dr Bruce Munthali presents a prize to one of the winners

Dances celebrating the opening of the new Agency at Neno

The Deputy Governor of The Reserve Bank of Malawi officially opening the doors to NBS Bank's new Neno Agency

Principal Secretary in the Ministry of Agriculture Mrs Erica Maganga officially opening the NBS Bank Agribusiness Centre in Mzuzu

Major Events 2009

Corporate Social Responsibility

Honorable Jonasi (MP) - Minister of Tourism, Wildlife and Culture poses with Porter's race winners

Porters Race

Once again, NBS Bank sponsored the 2009 Mulanje Mountain Porters' Race. The 25 km race saw over 300 runners, both local and international participating. The primary function of the event is creating awareness about the conservation of natural resources on Mulanje Mountain.

This was the fifth year in succession The Bank sponsored Malawi's only extreme sport, The Porters Race. The race was attended by the Honorable Jonasi (MP), Minister of Tourism, Wildlife and Culture.

Dedza Mothers Day Fun Run

During the year, NBS Bank also part sponsored the mother's day fun run which was organised by The Nation Newspaper. The aim of the fun run was to raise funds to acquire hospital equipment for Dedza Hospital. The Bank gave an amount of K96, 000 that was used to buy hospital ward trolleys.

Country Club Limbe Monthly Mug and Winner of Winners Golf Competition Sponsorship

The December 2009 NBS Bank Monthly Mug and Winner of Winners Golf Competition was sponsored by The Bank for the fifth consecutive year at Country Club Limbe. Golfers compete in the monthly mug which culminates into winner of winners competition which takes place in December.

Donation of computer equipment to Kabwafu Tobacco Farmers Association

In appreciation for the long standing relationship The Bank has with Kabwafu Tobacco Farmers Association, NBS Bank donated computer equipment in November 2009 to the Association in order to assist with better maintance of member records.

Gilford Kadzakumanja, Deputy Chief Executive Officer of NBS Bank, presenting the grand prize to Paul Chidale, Winner of Winners 2009

NBS Bank's Marumbo Mkandawire presenting a computer to Inkosi Mpherembe, chairman of Kabwafu smallholders farmers Association

NBS Bank's Mayamiko Kalizang'oma presenting a dummy cheque for K100,000 to Country Club Limbe golf captain

Statement on Corporate Governance

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

The Board

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

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

NBS Bank is listed on the Malawi Stock Exchange.

Board Committees

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

Finance and Audit Committee

The Finance and Audit committee comprises of E. Nuka (Mrs)- Chairperson, Mr C Mphande and B Nkhwazi (Mrs) - as members.

Appointments and Remuneration committee

This committee comprises of:
Mr E.R.D Mphande - Chairperson
Mr V. Kumwenda - Member and
Mrs B. Nkhwazi – Member.

Credit Committee

This committee comprises of:
Mr J. Swankie - Chairperson,
Mr E.R.D. Matabwa, and Mr V. Kumwenda as members.

Intergrity and Ethics

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

Communication and relationships with stakeholders

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

The Bank is fully devoted *to the principles of accountability, integrity and transparency.*

Statistics for NBS Bank Limited as at 8 March 2010

Industry Codes

	Shares	Holders
Local Company	300,383,273	78
Resident Ind	107,983,601	6,546
Invest/Trust Etc.	51,444,203	40
Pension/Provident	16,174,500	21
Foreign Company	6,800,000	2
Insurance/Assurance	4,301,520	8
Banks/Nominees	3,060,791	49
Other Corp	2,476,108	19
Non Resident	689,004	25
Estate	20,000	1
Totals	**493,333,000**	**6,789**

Countries

	Shares	Holders
Malawi	484,809,740	6,750
Ghana	5,000,000	1
USA	1,821,400	4
United Kingdom	721,606	11
South Africa	254,340	6
Tanzania	223,900	4
Canada	200,000	1
Zimbabwe	113,114	4
Ethiopia	79,000	1
Lesotho	46,500	1
Kenya	20,000	1
Oman	17,900	1
Cayman Islands	10,000	1
Loans	8,600	1
Swaziland	5,000	1
Botswana	1,900	1
Totals	**493,333,000**	**6,789**

Share Holding Distribution

Share Range	Shares	Holders
0 - 1000	59,196	88
1001-5000	4,357,577	1,089
5001-10000	19,225,617	2,843
10001-20000	25,590,107	1,692
20001-50000	22,792,419	738
50001-100000	13,039,695	187
100001-500000	24,021,722	118
500001-1000000	13,913,056	20
1000001-10000000	25,932,645	11
10000001-20000000	15,650,966	1
20000001-50000000	32,750,000	1
> 50M	296,000,000	1
	493,333,000	**6,789**

Contents

Annual Financial Statements for the year ended 31 December 2009

NBS Bank
Your Caring Bank

Directors' Report

In thousands of Malawi Kwacha

The directors have pleasure in submitting the financial statements of NBS Bank Limited for the year ended 31 December 2009.

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 June 2007.

The shareholders and their respective shareholdings are:

	2009	*2008*
	%	*%*
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	100.1

Financial Performance

The Bank reported profit before tax of **MK1,207 million** (2008: MK1,124 million) and net profit after tax of **MK810 million** (2008: MK779 million). Total income grew by 32% although non – interest income was below the previous year due to lower supply of foreign exchange which resulted in reduced fees and margins. The Bank faced challenges in containing the level of interest expense as a result of unfavourable deposit mix during part of the year.

Economic overview

The economy of Malawi performed well despite the effects of global financial crisis. The growth was mainly on account of good agricultural output and strong performance in other sectors such as mining, telecommunications construction and transport.

The economy grew by 6.9% against growth of 9.7% in 2008. The growth is mainly as a result of good harvest season in which output grew by 20 percent.

Although tobacco output was high, proceeds were very low and this had an impact on the country's foreign exchange reserve position.

Inflation decreased from 9.9% in December 2008 to 7.6% in December 2009 on account of abundant food which contributes over 40% of the retail price index and deceleration in the growth of the money supply due to decreased foreign exchange supply.

The Bank rate remained at 15% and banks maintained an average lending rate of 19% with deposit rates being as low as 5%

The Bank grew the asset and deposit base through its strategy of taking banking to the people. A number of initiatives introduced and customer loyalty continued to have a favorable impact on the business.

Strategy

The Bank focuses on quality service delivery achieved through efficient business processes, systems and taking banking to the people. The Bank recognises that its strategy can only be achieved through efficient and committed staff. The Bank utilises the balanced scorecard model in the implementation of its strategy business.

Performance

The results and state of affairs of The Bank are set out in the accompanying statement of financial position, statement of comprehensive income and statement of cash-flows and associated accounting policies and notes.

Dividend

The Directors recommend a dividend for the year of **MK271.3 million** (2008: MK246.7million) being 55 tambala per share made up of 20 tambala per share interim dividend paid in December 2009 and 35 tambala per share being final dividend. The dividend paid during the year was MK246.7 million being interim dividend of MK99 million for 2009 and final dividend of MK148 million for 2008.

Directors' Report (Continued)

In thousands of Malawi Kwacha

Corporate Governance

The Bank embraces best practices in corporate governance and has board committees that complies with the requirements of the Code of Corporate Practices and Conduct, the board is charged with responsibilities of monitoring of compliance to regulation, legislation and standard of operations, all the committees of the Board are chaired by a non-executive director.

Directorate And Secretary

The following Directors and Secretary served during the year:

Mr. F.L. Mlusu	-	Chairman
Mr. J. Swankie	-	Director
Mrs. E. Nuka	-	Director
Mr. V. Kumwenda	-	Director
Mr E. Matabwa	-	Director
Mr. C. Mphande	-	Director
Mrs. B. Nkhwazi	-	Director
Mr. M. Ndenya	-	Company Secretary

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 and risk management. The committee consists of three non-executive directors and the Chief Executive Officer attends the audit committee meetings as a management representative.

Responsibilities of the Finance and Audit Committee include:

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

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

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

Directors' Report (Continued)

In thousands of Malawi Kwacha

Appointments and Remuneration Committee

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

The Committee is comprised of:

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

Credit Committee

The Committee is responsible for credit policy and 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 2010 financial statements.

Director ***Director***

12 March 2010

Statement of Directors' Responsibilities

In thousands of Malawi Kwacha

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 12 March 2010 and were signed on its behalf by:

Director

Director

Independent Auditor's Report to the Shareholders of NBS Bank Limited

In thousands of Malawi Kwacha

Report on the Financial Statements

We have audited the financial statements of NBS Bank Limited, which comprise the statement of financial position as at 31 December 2009, the statement of comprehensive income, 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 19 to 57.

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 2009 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

NBS Bank Limited • *Financial Statements for the year ended 31 December 2009*

Statement of Financial Position as at 31 December 2009

In thousands of Malawi Kwacha

	Note	2009	2008
Assets			As restated*
Cash and cash equivalents	7	**6,137,262**	4,188,461
Money market investments	10	**1,793,109**	906,769
Loans and advances to customers	9	**17,945,806**	12,871,498
Other Assets	8	**591,623**	1,019,626
Property and equipment	11	**2,612,298**	1,537,554
Intangible assets	12	**53,685**	1,751
Equity investments	13	**68,530**	18,665
Deferred tax assets		**115,828**	106,339
Total assets		**29,318,141**	20,650,663
Liabilities and Equity			
Liabilities			
Current liabilities			
Current and savings accounts		**18,265,965**	10,724,530
Foreign currency denominated accounts		**899,715**	1,093,407
Term deposit accounts	14	**5,151,826**	4,687,003
Other liabilities	15	**636,080**	551,354
Income tax payable		**173,551**	136,733
Long-term loans	16	**1,140,605**	1,050,768
Provisions	17	**374,257**	345,705
Deferred tax liability	17	**156,042**	156,882
Total liabilities		**26,798,041**	18,746,382
Equity			
Issued capital	18	**246,667**	246,667
Share premium	19	**314,948**	314,948
Revaluation reserve	20	**278,443**	224,708
Loan loss reserve	21	**124,202**	124,202
Fair value reserve		**16,045**	17,359
Retained earnings		**1,539,795**	976,397
Total equity		**2,520,100**	1,904,281
Total liabilities and equity		**29,318,141**	20,650,663

The financial statements of the company were approved for issue by the Company's Board of Directors on **12 March, 2010** and were signed on its behalf by:

Director *Director*

* Prior year restatement of balances is due to reallocations of general loss provision for prior years to loan loss reserve.

The financial statements are to be read in conjunction with the notes from pages 24 to 57.
The auditor's report is on page 18.

Statement of Comprehensive Income

In thousands of Malawi Kwacha

	Note	2009	2008
Income			
Interest on loans and advances		**2,941,932**	1,855,692
Interest on placements with other banks		**92,921**	83,915
Income from lease financing		**415,442**	306,346
Income from money market investments		**153,653**	178,776
Total interest income	22	**3,603,948**	2,424,729
Interest expense	22	**(1,072,510)**	(565,241)
Net interest income		**2,531,438**	1,859,488
Fees and commision income		**1,137,536**	979,159
Profit on foreign exchange transactions		**426,616**	522,337
Other operating income	23	**10,765**	11,093
Operating income		**4,106,355**	3,372,077
Expenditure			
Personnel expenses	23	**1,367,534**	960,247
Recurrent expenditure on premises and equipment		**282,769**	253,629
Depreciation	11,12	**180,835**	167,594
Other operating costs	25	**924,299**	774,216
Operating expenditure		**2,755,437**	2,155,686
Profit before impairment losses		**1,350,918**	1,216,391
Loan impairment losses	9	**(143,776)**	(92,317)
Profit before income tax expense		**1,207,142**	1,124,074
Income tax expense	26	**(397,077)**	(345,347)
Profit for the year		**810,065**	778,727
Other comprehensive income net of income tax			
Net gains/(loss) on property revaluation		**53,735**	(3,602)
Net loss on available for sale financial assets		**(1,314)**	(14,106)
Total comprehensive income for the year		**862,486**	761,019
Basic and diluted earnings per share (MK)	27	**1.64**	1.58

The financial statements are to be read in conjunction with the notes from pages 24 to 57.
The auditor's report is on page 18.

Statement of Changes in Equity

In thousands of Malawi Kwacha

2009	*Share Capital*	*Share Premium*	*Revaluation reserve*	*Available for sale fair value*	*Loan loss reserve*	*Retained earnings*	*Total*
Balance at 1 January 2009	246,667	314,948	224,708	17,359	124,202	976,397	1,904,281
Total comprehensive income for the year							
Profit or loss	-	-	-	-	-	810,065	810,065
Other comprehensive income net of income tax							
Surplus on revaluation	-	-	53,735	-	-	-	53,735
Decreases in fair value reserve	-	-	-	(1,314)	-	-	(1,314)
Total other comprehensive income	-	-	53,735	(1,314)	-	810,065	862,486
Total comprehensive income							
Transactions with owners, recorded directly in equity contributions by and distribution to owners							
Dividends to equity holders	-	-	-	-	-	(246,667)	(246,667)
Total contributions by and distributions to owners	-	-	-	-	-	(246,667)	(246.667)
Balance at 31 December 2009	**246,667**	**314,948**	**278,443**	**16,045**	**124,202**	**1,539,795**	**2,520,100**

The financial statements are to be read in conjunction with the notes from pages 24 to 57.
The auditor's report is on page 18.

Statement of Changes in Equity (Continued)

In thousands of Malawi Kwacha

2008	*Share Capital*	*Share Premium*	*Revaluation reserve*	*Available for sale fair value*	*Loan loss reserve*	*Retained earnings*	*Total*
Balance at 1 January 2008	246,667	314,948	228,310	31,465	124,202	419,670	1,365,262
Total comprehensive income for the year							
Profit or loss	-	-	-	-	-	778,727	778,727
Other comprehensive income net of income tax							
Deficit on revaluation of property	-	-	(3,602)	-	-	-	(3,602)
Decreases in fair value reserve	-	-	-	(14,106)	-	-	(14,106)
Total other comprehensive income	-	-	(3,602)	(14,106)	-	-	(17,708)
Total comprehensive income for the year	-	-	(3,602)	(14,106)	-	778,727	761,019
Transactions with owners, recorded directly in equity contributions by and distribution to owners							
Dividends to equity holders	-	-	-	-	-	(222,000)	(222,000)
Total contributions by and distributions to owners						(222,000)	(222,000)
Balance at 31 December 2008	**246,667**	**314,948**	**224,708**	**17,359**	**124,202**	**976,397**	**1,904,281**

The financial statements are to be read in conjunction with the notes from pages 24 to 57.
The auditor's report is on page 18.

NBS Bank Limited • *Financial Statements for the year ended 31 December 2009*

Statement of Cash Flows

In thousands of Malawi Kwacha

	Note	*2009*	*2008*
Cash Flows from Operating Activities			
Interest and fees received		**5,178,865**	3,937,318
Interest paid	22	**(1,072,510)**	(565,241)
Cash paid to suppliers and employees		**(3,514,946)**	(2,031,477)
		591,409	1,340,600
Movement in net customer balances		**2,738,258**	755,133
		3,329,667	2,095,733
Income tax paid		**(373,973)**	(301,670)
Net cash used in operating activities		**2,955,694**	1,794,063
Cash Flows from Investing Activities			
Acquisition of investment securities	13	**(49,865)**	(7,390)
Acquisition of property and equipment	11	**(645,238)**	(425,831)
Acquisition of intangible assets	12	**(34,342)**	-
Cash outflow from investing activities		**(729,445)**	(433,221)
Cash Flows from Financing Activities			
Proceeds from loans acquired		**281,000**	-
Long term loan repayment	16	**(311,781)**	(145,475)
Dividend paid		**(246,667)**	(222,000)
Cash outflow from financing activities		**(277,448)**	(367,475)
Net increase in cash and cash equivalents		**1,948,801**	993,367
Cash and cash equivalents at 1 January		**4,188,461**	3,195,094
Cash and cash equivalents at 31 December	7	**6,137,262**	4,188,461
Addtional Statutory disclosure			
(Decrease)/Increase in net working capital		**(436,833)**	758,335

The financial statements are to be read in conjunction with the notes from pages 24 to 57.
The auditor's report is on page 18.

Notes to the Financial Statements

In thousands of Malawi Kwacha

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 30 service centers 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 2009.

(b) *Basis of measurement*

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

- Investment held for trading are measured at fair value
- 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
- property and equipment are measured at the revalued amounts.

(c) *Functional and presentation currency*

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

(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.

(e) *Changes in accounting policies*

(i) *Overviews*

Effective 1 January 2009 The Bank has changed its accounting policies in the following areas:
Determination and presentation of operating segments:

- Determination and presentation of operating segments
- Presentation of financial statements

(ii) *Determination and presentation of operating segments*

As of 1 January 2009 The Bank determines and presents operating segments based on the information that internally is provided to The Bank's Management Committee, which is The Bank's chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8 Operating Segments. Previously operating segments were determined and presented in accordance with IAS 14 Segment Reporting. The new accounting policy in respect of operating segment disclosures is presented as follows; Comparative segment information has been re-presented in conformity with the transitional requirements of this standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur

Notes on the Financial Statements (Continued)

In thousands of Malawi Kwacha

2. *Basis of preparation (Continued)*

(e) *Changes in accounting policies (Continued)*

(ii) *Determination and presentation of operating segments (Continued)*

expenses, including revenues and expenses that relate to transactions with any of the Bank's assets, its performance, and for which discrete financial information is available. Segment results that are reported to The Bank's Management Committee include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly of corporate assets, head office expenses, and income tax assets and liabilities.

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

(iii) *Presentation of financial statements*

The Bank applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result, The Bank presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

3. *Significant accounting policies*

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except as explained in note 2(e) which addresses changes in accounting policies.

(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 reporting date are translated to Malawi Kwacha at the spot exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the 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 profit or loss 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 profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

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

Interest income and expense presented in the statement of comprehensive income 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 profit or loss. 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.

In thousands of Malawi Kwacha

3. Significant accounting policies (Continued)

(c) Fees and Commission (Continued)

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.

(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 profit or loss except to the extent that it relates to items recognised directly in equity, or in other comprehensive income.

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

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

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

(ii) Derecognition

The 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 statement of financial position, 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 statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions. In transactions where The 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.

In thousands of Malawi Kwacha

3. Significant accounting policies (Continued)

(f) Financial assets and liabilities (Continued)

(ii) Derecognition (Continued)

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 trenches, 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 statement of financial position 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.

(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 statement of financial position.

(vi) Identification and measurement of impairment

At each statement of financial position date The Bank assesses whether there is objective evidence that financial assets not carried

In thousands of Malawi Kwacha

3. Significant accounting policies (Continued)

(f) Financial assets and liabilities

(vi) Identification and measurement of impairment (Continued)

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.

(vi) Identification and measurement of impairment

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 other comprehensive income 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 statement of financial position.

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

In thousands of Malawi Kwacha

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 reporting 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 reporting 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 profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. Impairment losses recognised in prior periods are assessed at each reporting date for any indicators that the loss has decreased or no longer exists.

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

An impairment loss is reversed only to the extent that 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 statement of financial position. 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 statement of comprehensive income 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.

(ii) Cash flow hedge

When a derivative is designated as the hedging instrument in 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 is recognised in other comprehensive income in the hedging reserve. The amount recognised in other comprehensive income is reclassified to profit or loss in the same period as the hedged cash flows affect profit or loss and in the same line item in the statement of comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge 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 other comprehensive income remains in there 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 other comprehensive income is recognised immediately to profit or loss as a reclassification adjustment.

(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

In thousands of Malawi Kwacha

3. Significant accounting policies (Continued)

(j) Derivatives held for risk management purposes (Continued)

(iv) Embedded derivatives (Continued)

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 statement of financial position 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.

(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 in the comprehensive income until the investment is sold or impaired whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

In thousands of Malawi Kwacha

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 recognised 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 profit or loss 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 financial year end and adjusted if appropriate.

(iv)Capital work in progress

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

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

(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.

Notes on the Financial Statements (Continued)

In thousands of Malawi Kwacha

3. Significant accounting policies (Continued)

(o) Intangible assets (Continued)

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

(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 and the leased assets are not recognised in The Bank's statement of financial position.

(q) Customer deposit accounts

Customer deposit account comprise current and savings accounts, foreign currency denominated, and term deposit accounts.

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

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

(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.

NBS Bank Limited • *Financial Statements for the year ended 31 December 2009*

Notes on the Financial Statements (Continued)

In thousands of Malawi Kwacha

3. Significant accounting policies (Continued)

(s) Financial guarantees (Continued)

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 recognised 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 reporting date.

The estimated monetary liability for employees' accrued annual leave entitlement at the reporting 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

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

The 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 defined contributions pension plans are recognised as an expense in profit or loss when they are due in respect of service rendered before the end of the reporting period. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in future payments is available.

(ii) Termination benefits

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

iii) Accrual 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 reporting 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.

In thousands of Malawi Kwacha

3. Significant accounting policies (Continued)

(x) Grants

Grants are recognised at fair value when there is reasonable assurance that The Bank will comply with the conditions attaching to them and the grants will be received. Grants related to purchase of assets are treated as deferred income and allocated to income statement over the useful lives of the related assets or the contract period while grants related to expenses are treated as other income in the statement of comprehensive income.

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 regularly 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 regularly 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.

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

In thousands of Malawi Kwacha

4. Financial risk management (Continued)

b) Credit Risk (Continued)

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.

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	
	Notes	2009	2008	2009	2008	2009	2008
Carrying amount	9,7,10	**17,945,806**	12,871,498	**1,350,568**	990,355	**4,566,826**	3,418,008
Individually impaired		**793,698**	559,504	-	-	-	-
Allowance for impairment	9	**(349,026)**	(205,250)	-	-	-	-
Carrying amount		**444,672**	354,254	-	-	-	-
Individually impaired							
7-12 months		**351,068**	300,037	-	-	-	-
13-24 months		**201,303**	74,680	-	-	-	-
> 24 months		**241,327**	184,787	-	-	-	-
Total		**793,698**	559,504	-	-	-	-
Allowance for impairment		**(349,026)**	(205,250)	-	-	-	-
Carrying amount		**444,672**	354,254	-	-	-	-
Past due not impaired		**2,732,640**	1,601,335	-	-	-	-
Carrying amount		**2,732,640**	1,601,335	-	-	-	-
Neither past due nor impaired		**14,768,494**	10,915,909	-	-	-	-
Carrying amount		**14,768,494**	10,915,909	-	-	-	-
Total Carrying Amounts	9	**17,945,806**	12,871,498	**1,350,568**	990,355	**4,566,826**	3,418,008

In thousands of Malawi Kwacha

4. Financial risk management (Continued)

b) Credit Risk (Continued)

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.

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	
	2009	***2008***
Against individually impaired		
Property	**271,648**	132,503
Plant and equipment	**187,730**	97,739
Against past due but not impaired		
Property	**2,788,509**	3,199,669
Plant and equipment	**1,406,380**	511,252
Against past due but not impaired		
Property	**9,407,751**	8,909,328
Plant and equipment	**1,452,507**	1,599,750
Total collateral held	**15,514,525**	14,450,241

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*	
	Notes	***2009***	***2008***	***2009***	***2008***	***2009***	***2008***
Carrying amount	9,7,10	**17,945,806**	12,871,498	**1,350,568**	990,355	**4,566,826**	3,418,008
Concentration by sector:							
Retail		**12,841,464**	10,796,461	-	-	-	-
Corporate		**2,749,342**	1,675,037	-	-	-	-
Bank		**2,355,000**	400,000	**1,350,568**	990,355	**4,566,826**	3,418,008
	9,7,10	**17,945,806**	12,871,498	**1,350,568**	990,355	**4,566,826**	3,418,008
Concentration by sector:							
Northern Region		**965,152**	655,690	-	-	-	-
Central Region		**4,940,136**	3,458,192	-	-	-	-
Southern Region		**12,040,518**	8,730,616	**1,350,568**	990,355	**4,566,826**	3,418,008
	9,7,10	**17,945,806**	12,871,498	**1,350,568**	990,355	**4,566,826**	3,418,008

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 an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

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

(c) Liquidity risk

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

Management of liquidity risk

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

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

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.

In thousands of Malawi Kwacha

4. Financial risk management (Continued)

(c) Liquidity risk (Continued)

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 2009 to the contractual maturity date.

Financial Assets	Up to 1 Month	1-3 Months	3-12 Months	Over 1 year	Total
Cash and balances with banks	3,432,488	-	-	-	3,432,488
Investment securities (Note 10)	-	331,000	950,000	3,285,826	4,566,826
Loans and advances (Note 9)	6,346,257	1,330,430	5,122,865	5,146,254	17,945,806
Other assets	591,210	-	-	2,781,811	3,373,021
Total Assets	10,369,955	1,661,430	6,072,865	11,213,891	29,318,141

Financial Liabilities	Up to 1 Month	1-3 Months	3-12 Months	Over 1 year	Total
Current and savings accounts	18,265,965	-	-	-	18,265,956
Term deposit accounts	1,672,852	1,807,969	1,638,334	32,673	5,151,828
Foreign Currency denominated deposits	899,715	-	-	-	899,715
Other borrowed funds	-	-	-	1,140,605	1,140,605
Other Liabilities	1,224,099	-	-	2,635,929	3,860,028
Total financial liabilities	22,062,631	1,807,969	1,638,334	3,809,207	29,318,141
Net Liquidity Gap	(11,692,676)	(146,539)	4,434,531	7,404,684	-
Cumulative Liquidity Gap	(11,692,676)	(11,839,215)	(7,404,684)	-	-

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.

(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

In thousands of Malawi Kwacha

4. Financial risk management (Continued)

(e) Market risks (Continued)

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) parallel fall or rise in all yield curves and a 50bp rise or fall in the greater than 12-month portion of all yield curves. An analysis of The Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) was as per note number 4(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.

(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 2009 Assets subject to interest rate adjustment	Zero Rate	Floating Rate	0-3 months	3 months	6-12months	Fixed Rate Investments Over 12 months	Total
Loans and advances:	-	17,945,806	-	-	-	-	17,945,806
Securities:	3,432,448	-	331,000	650,000	300,000	3,285,826	7,999,314
Other	3,373,021	-	-	-	-	-	3,373,021
Total rate sensitive assets (RSA)	6,805,509	17,945,806	331,000	650,000	300,000	3,285,826	29,318,141
Liabilities subject to interest rate adjustments:							
Demand accounts	-	2,469,186	-	-	-	-	2,469,186
Savings deposits	-	15,796,779	-	-	-	-	15,796,779
Time deposits	-	1,048,048	2,432,773	1,359,570	278,764	32,671	5,151,826
Other borrowings	20,010	899,715	137,954	-	-	982,641	2,040,320
Other	3,860,030	-	-	-	-	-	3,860,030
Total rate sensitive liabilities (RSL)	3,880,040	20,213,728	2,570,727	1,359,570	278,764	1,015,312	29,318,141
Asset/Liability Gap	2,925,469	(2,267,922)	(2,239,727)	(709,570)	21,236	2,270,514	-
Cumulative Gap	2,925,469	657,547	(1,582,180)	(2,291,750)	(2,270,514)	-	-
Net position as a percent of total assets	10%	(8%)	(8%)	(2%)	-	8%	-
RSA as a percent of RSL	176%	89%	13%	48%	108%	324%	100%

In thousands of Malawi Kwacha

4. Financial risk management (Continued)

(c) Currency risk

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

At 31 December 2009	USD	GBP	Euro	ZAR	Total
Assets					
Balance with correspondent banks	313,389	34,519	298,763	2,258	648,929
Cash in vaults	15,270	526	1,024	43,909	60,729
Forward contracts	147,548	-	-	-	147,548
Loans and advances to customers	1,004,155	179	6	84	1,004,424
Total assets	1,480,362	35,224	299,793	46,251	1,861,630
Liabilities					
Customer deposits	549,764	37,816	309,627	2,508	899,715
Total liabilities	549,764	37,816	309,627	2,508	899,715
Net statement of financial position	930,598	(2,592)	(9,834)	43,743	961,915

At 31 December 2008	USD	GBP	Euro	ZAR	Total
Assets					
Balance 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
	226,588	7,607	5,978	12,228	252,401

(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

In thousands of Malawi Kwacha

4. Financial risk management (Continued)

(h) Operational risks (Continued)

- Development of contingency plans
- Training and professional development
- Ethical and business standards.
- Risk mitigation, including insurance where this is effective.

(i) Capital Management

Regulatory capital

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

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

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

Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, translation reserve 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.

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

The 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 2009 was as follows:-

Capital Adequacy Requirement

The Bank's available Tier 1 and Tier 2 capital is required to be a minimum of 6% and 8% respectively, of its risk bearing assets and contingent liabilities. At 31 December 2009, The Bank's available capital was 10% for tier 1 (2008: 12%) and 12% for tier 2 of all its risk bearing assets and contingent liabilities.

Capital Management	2009	2008
Paid up share capital	246,667	246,667
Share Premium	314,948	314,948
Retained Earnings Prior Years	976,397	419,670
Net Profit - Current period (60%)	495,581	467,237
Core Capital (Tier 1 Capital)	2,033,593	1,448,522
Revaluation reserves	278,443	224,708
Total capital (Tier 2 Capital)	2,312,036	1,673,230

In thousands of Malawi Kwacha

4. Financial risk management (Continued)

(k) Prudential Aspects of Bank Liquidity

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

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

As at 31 December 2009, The Bank's liquidity Ratio 1 was **37%** (2008 – 31%)

- 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 2009, The Bank's Liquidity Ratio 2 was **37%** (2008 – 30%).

In accordance with Section 27 of The banking Act 1989, the Reserve Bank of Malawi has established the following requirement as at the reporting date:

Liquidity Reserve Requirement

The Bank is required to maintain a liquidity reserve amount with Reserve Bank of Malawi, calculated on a weekly basis, of not less than 15.5% of the preceding month's average total deposit liabilities. The Bank complied with this requirement during the year except on the two non-compliances 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.

(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:

In thousands of Malawi Kwacha

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

(b) Determining fair values (Continued)

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).

(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 31 December 2009, and have not been applied in preparing these financial statements:

- IFRS 3 (revised) *Business Combinations*; the revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt and subsequently re-measured through profit or loss. There is a choice, on an acquisition-by-acquisition basis to measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's net identifiable assets. All acquisition-related costs will be recognised in profit or loss immediately. The revised IFRS 3 will be applied prospectively to all business combinations from 1 January 2010. The effect on the financial statements will be a function of the number and value of any business combinations transacted from this date. Effective date, Annual periods beginning on or after 1 July 2009.

- IAS 27 (amendments) *Consolidated and Separate Financial Statements*; The amendments require changes in a parent's ownership interest in a subsidiary that do not result in a loss of control to be accounted for within equity. This is consistent with the group's current accounting policy for such transactions. The amendments also specify that when control is lost, any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. These requirements will be applied prospectively to transactions with non-controlling interests from 1 January 2010. Effective date, Annual periods beginning on or after 1 July 2009.

- IAS 24 (revised) *Related Party Disclosures*; the revised standard contains an amended definition of related parties and includes disclosure requirements for commitments between related parties. The revised standard will be applied retrospectively and may result in additional related party disclosures. Effective date, Annual periods beginning on or after 1 January 2011.

- IFRS 9 *Financial Instruments*; This standard forms part of the IASB's project to replace the existing standard on the recognition and measurement of financial instruments. The standard defines two measurement categories for financial assets: amortised cost and fair value. A financial asset may only be measured at amortised cost if it has basic loan features and is managed on a contractual yield basis. The standard also differs from existing requirements for accounting for financial assets in various other areas, such as embedded derivatives and the recognition of fair value adjustments in other comprehensive income. The standard will be applied retrospectively (subject to the standard's transitional provisions). The impact on the financial statements has not yet been estimated. Effective date Annual periods beginning on or after 1 January 2013.

- IFRIC 17 Distributions of Non-cash Assets to Owners provides guidance in respect of distributions of non-cash assets to owners acting in their capacity as owners. Distributions within the scope of IFRIC 17 are measured at the fair value of the assets to be distributed. Any gain or loss on settlement of the liability for the dividend payable is recognised in profit or loss. The scope of IFRS 5 was expanded to include distributions of non-cash assets to owners. This is effective for period beginning on or after I July 2009 with prospective application. The Bank is currently in the process of evaluating the potential effect of this revision.

- Amended IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The amendments specify that:
  - if an entity is committed to a plan to sell a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale when the held for sale criteria in paragraphs 6 to 8 of IFRS 5 are met; this applies regardless of the entity retaining an interest (other than control) in the subsidiary; and
  - disclosures for discontinued operations are required by the parent when a subsidiary meets the definition of a discontinued operation. If an entity applies the IFRS 5 amendments to periods beginning before 1 July 2009, then it also applies amended IAS 27 (2008) at the same time.

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)

The amendments apply prospectively from the date the entity first applied IFRS 5, subject to the transition requirements in paragraph 45 of IAS 27 (2008). The Bank' financial statements would not be materially impacted by the adoption of this standard.

- Amended IFRS 2 Share-based Payments and Revised IFRS 3 Business Combinations (2008) clarify that business combinations as defined in IFRS 3 (2008) are outside the scope of IFRS 2, notwithstanding that they may be outside the scope of IFRS 3. Therefore business combinations amongst entities under common control and the contribution of a business upon the formation of a joint venture will not be accounted for under IFRS 2. This is effective for period beginning on or after I July 2009. The Bank' financial statements would not be materially impacted by the adoption of this standard.

- Amended IAS 17 Leases -The amendments clarify that when a lease includes the land and building elements, an entity should determine the classification of each element based on paragraphs 7 – 13 of IAS 17, taking account of the fact that land normally has an indefinite economic life. The amendments apply for periods beginning on or after 1 January 2010. The Bank is currently in the process of evaluating the potential effect of this revision.

- Amended IAS 38 *Intangible Assets* clarify that:
  - an intangible asset that is separable only together with a related contract, identifiable asset or liability is recognised separately from goodwill together with the related item; and
  - complementary intangible assets with similar useful lives may be recognised as a single asset. The amendments also describe valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination for which no active market exists. These amendments apply prospectively for period beginning on or after I July 2009. Early application is required if IFRS 3 (2008) is adopted early.

  The Bank is currently in the process of evaluating the potential effect of this revision.

- Amended IAS 39 *Financial Instruments: Recognition and Measurement* - The amendments:
  - provide additional guidance on determining whether loan prepayment penalties result in an embedded derivative that needs to be separated;
  - clarify that the scope exemption in IAS 39 paragraph 2(g) is restricted to forward contracts, i.e., not options, between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date within a reasonable period normally necessary to obtain any required approvals and to complete the transaction; and
  - clarify that the gains or losses on a cash flow hedge should be reclassified from other comprehensive income to profit or loss during the period that the hedged forecast cash flows impact profit or loss. The amendments apply prospectively to all unexpired contracts from the date of adoption.

  The amendments apply for periods beginning on or after 1 January 2010. The Bank is currently in the process of evaluating the potential effect of this revision.

- IFRIC 9 *Reassessment of Embedded Derivatives* incorporates amendment to the scope so that embedded derivatives in contracts acquired in business combinations as defined in IFRS 3 (2008), joint venture formations and common control transactions remain outside the scope of IFRIC 9. The Bank is currently in the process of evaluating the potential effect of this revision.

Notes on the Financial Statements (Continued)

In thousands of Malawi Kwacha

6. Accounting classification and fair values

At 31 December 2009	*Trading*	*Designated at fair value*	*Loans and receivables*	*Other amortised cost*	*Total carrying amount*	*Fair value*
Cash and cash equivalents	-	929,374	-	-	929,374	929,374
Trading assets	2,534,921	-	-	-	2,534,921	2,534,921
Loans and advances to customers	-	-	17,945,806	-	17,945,806	17,945,806
Investment securities	-	4,534,617	-	68,530	4,603,147	4,603,147
Total (Notes 9 & 13)	**2,534,921**	**5,463,991**	**17,945,806**	**68,530**	**26,013,248**	**26,013,248**
Trading liabilities						
Deposits from customers	-	-	-	24,317,506	24,317,506	24,317,506
Long term loan (Note 16)	-	-	-	1,140,605	1,140,605	1,140,605
Total	**-**	**-**	**-**	**25,458,111**	**25,458,111**	**25,458,111**
At 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	-	-	12,871,498	-	12,871,498	12,871,498
Investment securities	-	3,418,008	-	18,665	3,436,673	3,436,673
Total (Notes 9 & 13)	**990,355**	**4,104,875**	**12,871,498**	**18,665**	**17,985,393**	**17,985,393**
Trading liabilities						
Deposits from customers	-	-	-	16,504,940	16,504,940	16,504,940
Long term loan (Note 16)	-	-	-	1,050,768	1,050,768	1,050,768
Total	**-**	**-**	**-**	**17,555,708**	**17,555,708**	**17,555,708**

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.

In thousands of Malawi Kwacha

7. Cash and equivalents

	Note	2009	2008
Cash Balances		**929,374**	686,867
Balance with Reserve Bank of Malawi		**1,711,741**	101,446
Balances due from other banks		**722,430**	888,909
Money market investments due within 3 months	10	**2,773,717**	2,511,239
Cash and equivalents as per statement of cashflows		**6,137,262**	4,188,461

8. Other assets

	2009	2008
Stationary, ATM spares and other consumables	**39,284**	37,870
Prepayments and sundry debtors	**483,396**	268,796
Assets Held for Sale (note 11)	**-**	573,617
Cheque in course of collection	**68,943**	139,343
	591,623	1,019,626

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

9. Loans and advances to customers

	2009	2008
Loans and overdrafts	**11,670,398**	7,921,078
Lease contracts	**1,808,352**	1,748,758
Mortgage advances	**4,816,082**	3,406,912
Total gross loans and advances	**18,294,832**	13,076,748
Allowance for impairment	**(349,026)**	(205,250)
Net loans and advances	**17,945,806**	12,871,498
Total loans and advances are due to mature as follows:		
• Within one year	**7,419,302**	5,847,890
• After one year	**10,875,530**	7,228,858
	18,294,832	13,076,748
Movement on allowance for impairment:-		
At beginning of year	**205,250**	112,933
Increase in impairment net of recoveries	**143,776**	92,317
Balance at end of year	**349,026**	205,250

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

In thousands of Malawi Kwacha

10. Money market investments

	2009	2008
Government of Malawi and Reserve Bank of Malawi bills	**4,287,417**	3,132,472
Government of Malawi Local Registered Stocks	**279,409**	285,536
Total investments	**4,566,826**	3,418,008
The investments are due to mature as follows:-		
• Within three months (note 7)	**2,773,717**	2,511,239
• Between three months and one year	**1,793,109**	906,769
	4,566,826	3,418,008

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

11. Property and equipment

2009	Leaseholf Land and Building	Motor Vehicles, fixtures and fittings	Capital work in progress	2009 total
Cost or valuation				
Balance at 1 January 2009	170,358	1,506,112	459,646	2,136,116
Additions	-	279,429	365,809	645,238
Disposals	-	(1,301)	-	(1,301)
Transfers* (note 8)	573,617	-	(13,073)	560,544
Surplus on revaluation	8,285	41,412	-	49,697
Balance at 31 December 2009	752,260	1,825,652	812,382	3,390,294
Comprising of:				
Valuation in 2009	742,658	41,412	-	784,070
Cost	9,602	1,784,240	812,382	2,606,224
	752,260	1,825,652	812,382	3,390,294
Depreciation				
Balance at 1 January 2009	-	598,562	-	598,562
Charge for the year	-	180,073	-	180,073
Eliminated on disposal	-	(639)	-	(639)
Balance at 31 December 2009	-	777,996	-	777,996
Carrying amount				
At 31 December 2009	752,260	1,047,656	812,382	2,612,298

In thousands of Malawi Kwacha

11. *Property and equipment (Continued)*

2008	Leasehold Land and Building	Motor Vehicles, fixtures and fittings	Capital work in progress	2008 total
Cost or valuation				
Balance at 1 January 2008	379,703	1,233,341	675,096	2,288,140
Additions	282	221,477	204,072	425,831
Transfers* (note 8)	(205,389)	51,294	(419,522)	(573,617)
Surplus on revaluation	(4,238)	-	-	(4,238)
Balance at 31 December 2008	170,358	1,506,112	459,646	2,136,116
Comprising of:				
Valuation in 2008	102,054	-	-	102,054
Cost	68,304	1,506,112	459,646	2,034,062
	170,358	1,506,112	459,646	2,136,116
Depreciation				
Balance at 1 January 2008	-	434,791	-	434.791
Charge for the year	-	163,771	-	163,771
Balance at 31 December 2008	-	598,562	-	598,562
Carrying amount				
At 31 December 2008	170,358	907,550	459,646	1,537,554

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 2009 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 of MK573.6 million are in respect of non-current assets held for sale now re-designated as fixed assets. MK13.1 million relate to software which has been transferred to intangible assets (Note 12).

Notes on the Financial Statements (Continued)

In thousands of Malawi Kwacha

12. *Intangible assets*

	2009 Total	2008 Total
Cost		
Balance at 1 January 2009	**28,742**	28,742
Additions	**34,342**	-
Surplus on revaluation	**5,281**	-
Transfers (note 11)	**13,073**	-
Total Cost	**81,438**	28,742
Amortisation and impairment losses		
Balance at 1 January 2009	**26,991**	23,168
Amortization for the year	**762**	3,823
Balance at 31 December 2009	**27,753**	26,991
Carrying amount		
At 31 December 2009	**53,685**	1,751

Intangible assets relate to purchased software

13. *Equity Investment in NICO properties Limited and NBS Forex Bureau Limited*

	2009	2008
Balance at 1 January 2009	**18,665**	18,665
Additions	**49,865**	-
	68,530	18,665

During the year The Bank provided start-up capital for NBS Forex Bureau Limited which will start operations in 2010. The forex bureau is 100% owned by NBS Bank Limited.

The Directors are of the opinion that the cost of the investment in NICO Properties Limited and NBS Forex Bureau Limited approximates its fair value.

14. *Term deposit accounts*

	2009	2008
Maturing within 3 months	**4,967,945**	4,544,626
Maturing between 3 and 12 months	**183,881**	142,377
	5,151,826	4,687,003

15. *Other liabilities*

	2009	2008
Unpresented Cheques	**50,000**	29,283
Accruals	**527,611**	379,763
PAYE and other taxes	**58,469**	62,095
Bills payable	**-**	80,213
	636,080	551,354

Notes on the Financial Statements (Continued)

In thousands of Malawi Kwacha

16. Long term loans

	2009	2008
International Finance Corporation (IFC)	**364,763**	438,827
NORSAD	**617,878**	412,004
Malawi Government	**20,010**	20,010
Pension funds loan	**137,954**	179,927
	1,140,605	1,050,768

Analysed as follows:

	IFC	NORSAD	Pension Fund	Government of Malawi	Total
Balance at 1 January 2009	438,827	412,004	179,927	20,010	1,050,768
Additions	-	281,000	-	-	281,000
Interest charges	45,790	37,688	37,140	-	120,618
Repayment during the year	(119,854)	(112,814)	(79,113)	-	(311,781)
Balance at 31 December 2009	**364,763**	**617,878**	**137,954**	**20,010**	**1,140,605**

Long-term loans are repayable as follow:-

	2009	2008
Repayable within one year	**432,968**	244,143
Repayable after one year	**707,637**	806,625
	1,140,605	1,050,768

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 used for onward lending to Small Medium Enterprises with 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 was drawn during the year. This loan is used for onward lending to viable Small Medium Enterprises in Malawi that are environmentally friendly and export oriented. This loan has a repayment period of 5 years and is guaranteed by NICO Holdings in the sum of USD 3 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 secured through a guarantee by the Malawi Government.

Pension funds loan is for a 5 year term effective June 2006 at prime interest +2% and was utilised in renovating the Blantyre branch property. The loan is secured through a guarantee by NICO Holdings Limited in the sum of MK200 million.

17. Provisions
(a) Severance provisions

	2009	2008
Balance at 1 January 2009	**345,705**	429,934
Amount paid	**(19,666)**	(9,415)
Increase/(descrease) in provision	**48,218**	(74,814)
Balance at 31 December 2009	**374,257**	345,705

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 2009 was **575** (31 December 2008 was 475).

Notes on the Financial Statements (Continued)

In thousands of Malawi Kwacha

17. Long term loans (Continued)
(b) Deferred tax liability

	2009 Assets	2009 Liability	2009 Net	2008 Assets	2008 Liability	2008 Net
Capital allowance on property of equipment	**-**	**(96,254)**	**(96.254)**	-	(88,717)	(88,717)
Revaluation of properties, motor vehicles fixtures and fittings (in statement of comprehensive income)	**-**	**(40,897)**	**(40,897)**	-	(39,654)	(39,654)
Fair value adjustment (in statement of comprehensive income)	**-**	**(6,725)**	**(6,725)**	-	(7,439)	(7,439)
Severance provision	**112,277**	**-**	**112,277**	103,712	-	103,712
Others	**3,551**	**(12,166)**	**(8,615)**	2,627	(21,072)	(18,445)
	115,828	**(156,042)**	**(40,214)**	106,339	(156,882)	(50,543)

18. Share capital

	2009	2008
In issue at 1 January and 31 December 2009 493,333,000 ordinary shares of MK0.50 fully paid	**246,667**	246,677
Authorised share capital	**350,000**	350,000

700,000,000 Ordinary Shares of MK0.50 each.
The holders of ordinary shares are entitled to receive dividends as declared from time to time.

19. Share premium

	2009	2008
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:

	2009	2008
Balance pre-listing	**164,637**	164,637
Share issue	**150,311**	150,311
Total	**314,948**	314,948

20. Revaluation reserve

	2009	2008
The revaluation reserve relates to the surplus arising on the revaluation of properties, motor vehicles, equipment and fittings. Surplus for the year of MK53 million is included in statement of comprehensive income.	**278,443**	224,708

21. Loan loss reserve

	2009	2008
Loan loss reserve represents on appropriation from retained earnings as additional provision above those required by the International Financial Reporting Standards, to meet the requirements of Reserve Bank. The directors are of the opinion that the loan loss reserve is adequate for the loan book.	**124,202**	124,202

In thousands of Malawi Kwacha

22. Net interest income

	2009	2008
Interest income		
Inter-bank loans	**92,921**	83,915
Personal loans	**442,125**	286,963
Corporate loans	**600,553**	256,824
Short-term loans	**49,527**	57,205
Mortgage loans	**824,976**	604,324
Investment securities	**153,653**	178,776
Overdrafts	**917,651**	601,272
Lease contracts	**415,442**	306,346
Interest - Norsad/IFC loans	**107,100**	49,104
Total interest income	**3,603,948**	2,424,729
Interest expense		
Current accounts	**24,086**	16,408
Savings deposits	**194,149**	181,306
Investment deposits	**184,746**	104,982
Fixed deposits	**504,496**	157,110
FCD accounts	**23,377**	22,260
Inter-bank-borrowing	**58,178**	18,460
Interest - Norsad/IFC loans	**83,478**	64,715
Total interest expense	**1,072,510**	565,241
Net interest income	**2,531,438**	1,859,488

23. Other operating income

	2009	2008
Rental income	**10,586**	11,119
Profit/(loss) on disposal of property and equipment	**179**	(26)
	10,765	11,093

24. Personnel expenses

	2009	2008
Salaries and wages	**742,067**	550,230
Profit share	**134,414**	124,896
Other expenses	**240,897**	131,443
Mortgage loan subsidy	**63,635**	48,930
Christmas pay expense	**7,952**	6,691
Severance pay provision	**48,218**	-
Training expenses	**56,906**	31,152
Management car scheme	**73,445**	66,905
	1,367,534	960,247

In thousands of Malawi Kwacha

25. Other operating expenses

	2009	2008
Accommodation costs	**173,411**	138,722
Auditors' remuneration:-		
Current year fees	**13,012**	11,937
Other expenses and VAT	**3,023**	3,794
Cash collection expenses	**22,200**	9,126
Communication costs	**380,724**	281,784
Directors expenses	**3,128**	1,410
Directors fees	**4,708**	3,391
General expenses	**50,117**	44,082
Group shared expenses	**8,078**	3,298
Legal and professional fees	**56,375**	22,573
Loan interest	**37,140**	29,627
Malawi Stock Exchange listing fees	**5,020**	2,688
Management fees	**-**	71,000
Projects and conferences expenses	**20,627**	16,247
Security expenses	**43,081**	31,313
Sundry business charges	**103,655**	103,224
	924,299	774,216

26. Income tax expense

	2009	2008
Current year tax charge	**401,246**	345,501
Origination and reversal of temporary differences	**(4,169)**	(154)
Total income tax charge	**397,077**	345,347

Reconciliation of tax charge

	2009		2008
Profit before tax	**1,207,142**		1,124,074
Income tax using corporate tax rate	**362,143**	30%	337,222
Permanent differences	**18,488**	1%	36,949
Deferred tax	**(4,169)**	0%	(154)
Other temporary differences	**20,615**	2%	(28,670)
	397,077	33%	345,347

27. Earnings per share

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

	2009	2008
Net profit attributable to ordinary shareholders	**810,065**	778,727
Weighted average number of ordinary shares	**493,333**	493,333
Diluted earnings per share (MK)	**1.64**	1.58
Basic earnings per share (MK)	**1.64**	1.58

In thousands of Malawi Kwacha

28. Capital commitments

As at 31 December 2009, the contracted but not yet incurred capital commitments were **MK6 million**.

The authorised but not yet contracted for commitments as at 31 December 2009 were **MK514 million**.

These commitments are to be funded from internal resources.

29. Inflation and exchange rates

Exchange rates as at 31 December

	2009	2008
United States Dollar (USD)	**145.99**	141.99
British Pound (GBP)	**236.84**	219.63
South African Rand (ZAR)	**19.96**	16.53
Inflation rates as at 31 December	**7.6%**	9.9%

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 licensed financial institution under The banking Act 1989.

31. Contingent assets/liabilities

	2009	2008
Letters of credit	**197,490**	240,011

32. Guarantees

The Bank guarantees repayment of mortgage loans to NICO Life Insurance Company for its staff. Staff mortgages and all mortgage securities are registered in The Bank's favour. The Bank pays an interest subsidy on behalf of employees and the related fringe benefits tax inclusive of subsidy are included under staff costs. At 31 December 2009 guaranteed staff mortgages were **MK457 million** (2008: MK306 million).

In thousands of Malawi Kwacha

33. Related parties transactions

Identity of related parties

The Bank has control relationship with parent company and fellow subsidiaries. All transactions were at arms length. During the year and at year end, the following transactions and balances, respectively, were made:

Related Party	Relationship	Type of transaction	Value of transctions 2009	Balance at year end 2009	Value of transactions 2008	Balance at year end 2008
			MK'000	**MK'000**	MK'000	MK'000
NICO Holdings Limited	Holdings	Bank account interest income	**62**	**-**	443	-
		Bank account interest expense	**(67)**	**-**	(78)	-
		Dividends paid	**(147,900)**	**-**	(133,200)	-
		Bank account	**-**	**(661)**	-	9,427
		Fixed deposit interest	**(943)**	**-**	(2,745)	-
		Directors fees	**(2,087)**	**-**	-	-
		Interest on Directors Loans	**14,942**	**-**	8,573	-
		Shared expenses	**-**	**(1,690)**	-	-
		Management fees	**-**	**-**	(71,000)	-
NICO Life Insurance Limited	Group	Management fees	**3,756**	**739**	2,529	-
		Bank account	**-**	**(80,771)**	-	(53,177)
		Bank account interest income	**881**	**-**	-	-
		Bank account interest expense	**(945)**	**-**	-	(885,664)
		Fixed deposit	**-**	**(790,840)**	(18,876)	-
		Fixed deposit interest	**(123,520)**	**-**	(6,193)	-
		Rent expense	**(6,888)**	**-**	-	(89,964)
		Loan	**-**	**(68,977)**	(22,646)	-
		Loan interest expense	**(18,570)**	**-**	86,098	-
		Pension Contributions	**147,055)**	**-**	-	-
NICO General Insurance Limited	Group	Bank account interest income	**1,048**	**-**	500	-
		Bank account interest expense	**(3,267)**	**-**	(1,610)	-
		Fixed deposit	**-**	**(231,307)**	-	(322,052)
		Fixed deposit interest expense	**(29,358)**	**-**	(11,566)	-
		Loan interest expense	**(3,714)**	**-**	(4,569)	-
		Loan	**-**	**(13,796)**	-	(17,993)
		General insurance premiums	**39,046**	**-**	28,828	-
		Bank account	**-**	**(21,166)**	-	(5,159)
NICO Technologies Limited	Group	Technical support	**(7,550)**	**(5,148)**	-	2,878
		Bank account	**-**	**(2,790)**	-	1,148
		Bank account interest income	**186**	**-**	480	-
		Fixed deposit	**-**	**(52,984)**	-	20,003
		Bank account interest expense	**(41)**	**-**	(60)	-
		Fixed deposit	**(229)**	**-**	808	-

In thousands of Malawi Kwacha

33. Related parties transactions (Continued)

Related Party	Relationship	Type of transaction	Value of transctions 2009	Balance at year end 2009	Value of transactions 2008	Balance at year end 2008
			MK'000	MK'000	MK'000	MK'000
NICO Asset Management Limited	Group	Bank account	-	(5,502)	-	-
		Bank account interest income	122	-	-	-
		Fixed deposit	-	(12,349)	-	-
		Bank account interest expense	(32)	-	-	-
		Fixed deposit interest	(206)	-	-	-
Directors and executive officers	Directors/ Managers	Directors remuneration	4,708	-	3,391	-
		Executive Managers remuneration	60,090	-	55,991	-
		Loans	-	199,671	-	125,395

34. Grant received

The Bank received a grant of USD 200,000 (MK29 million) in support of its outreach project of focusing on economically active impoverished customers. The project will run for two years from November 2009 to the last quarter of 2011. The funds are to be used according to agreed indicative budget parameters that focus on economically active impoverished clients. The MK26 million of the funds received is included in other liabilities as deferred income and the remaining MK3 million has been included in the statement of comprehensive income.

35. Segment reporting

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

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 service outlets location and internal reporting structure.

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

Geographical segment

Information provided to The Banks Chief Operating Decision Makers is classified by region as follows:

- Northern Region — Includes loans, deposits and other transactions and balances with corporate customers in the northern region.
- Central Region — Includes loans, deposits and other transactions and balances with retail customers in the central region.
- Southern Region — Includes loans, deposits and other transactions and balances with retail customers in the southern region. It also includes The 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.

In thousands of Malawi Kwacha

35. Segment reporting (Continued)

2009	Note	Northern Region	Central Region	Southern Region	Shared services	Total
Net Interest Income	22	173,025	390,463	868,028	1,099,922	2,531,438
Other operating income		199,192	343,354	503,852	528,519	1,574,917
Operating expenses		(149,710)	(301,032)	(342,392)	(1,962,303)	(2,755,437)
Total segmant revenue		222,507	432,785	1,029,488	(333,862)	1,350,918
Segment contribution		222,507	432,785	1,029,488	(333,862)	1,350,918
Impairment losses on financial assets	9	-	-	-	(143,776)	(143,766)
Reportable profit for the period before income tax		-	-	-	-	1,207,142
Reportable segment assets		408,773	2,339,660	6,004,502	20,565,206	29,318,141
Total assets		408,773	2,339,660	6,004,502	20,565,206	29,318,141
Reportable segment liabilities		1,854,258	4,821,815	14,627,500	5,494,468	26,798,041
Total liabilities		1,854,258	4,821,815	14,627,500	5,494,468	26,798,041
Income tax expense	26	-	-	-	(397,077)	(397,077)
Depreciation and amortisation	11,12	-	-	-	180,835	180,835
Capital expenditure	11,12	-	-	-	-	679,580

2008	Note	Northern Region	Central Region	Southern Region	Shared services	Total
Net Interest Income	22	28,166	145,686	410,830	1,274,806	1,859,488
Other operating income		140,559	246,969	360,274	764,787	1,512,589
Operating expenses		(89,553)	(169,334)	(215,155)	(1,681,644)	(2,155,686)
Total segmant revenue		79,172	223,321	555,949	357,949	1,216,391
Segment contribution		79,172	223,321	555,949	357,949	1,216,391
Impairment losses on financial assets	9	-	-	-	(92,317)	(92,317)
Reportable profit for the period before income tax		-	-	-	-	1,124,074
Reportable segment assets		6,987,701	2,156,230	4,037,774	7,468,958	20,650,663
Total assets		6,987,701	2,156,230	4,037,774	7,468,958	20,650,663
Reportable segment liabilities		1,934,944	3,826,600	6,973,786	6,011,052	18,746,382
Total liabilities		1,934,944	3,826,600	6,973,786	6,011,052	18,746,382
Income tax expense	26	-	-	-	(345,347)	(345,347)
Depreciation and amortisation	11,12	-	-	-	167,594	167,594
Capital expenditure	11,12	-	-	-	-	425,831

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

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

36. Subsequent events

Subsequent to the reporting period there was no event that occurred that may have a material effect on the financial statements to warrant adjustment or disclosure.