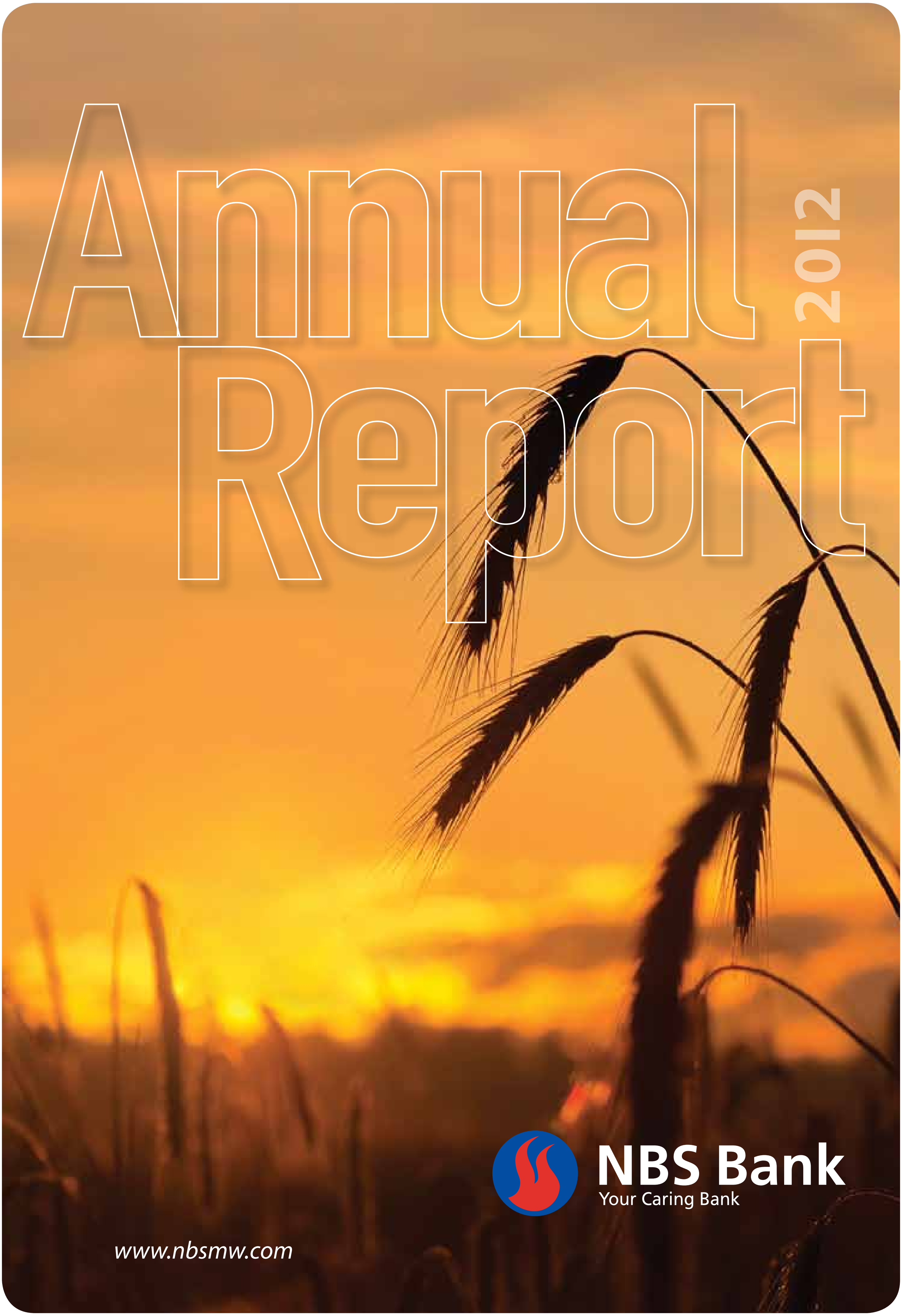


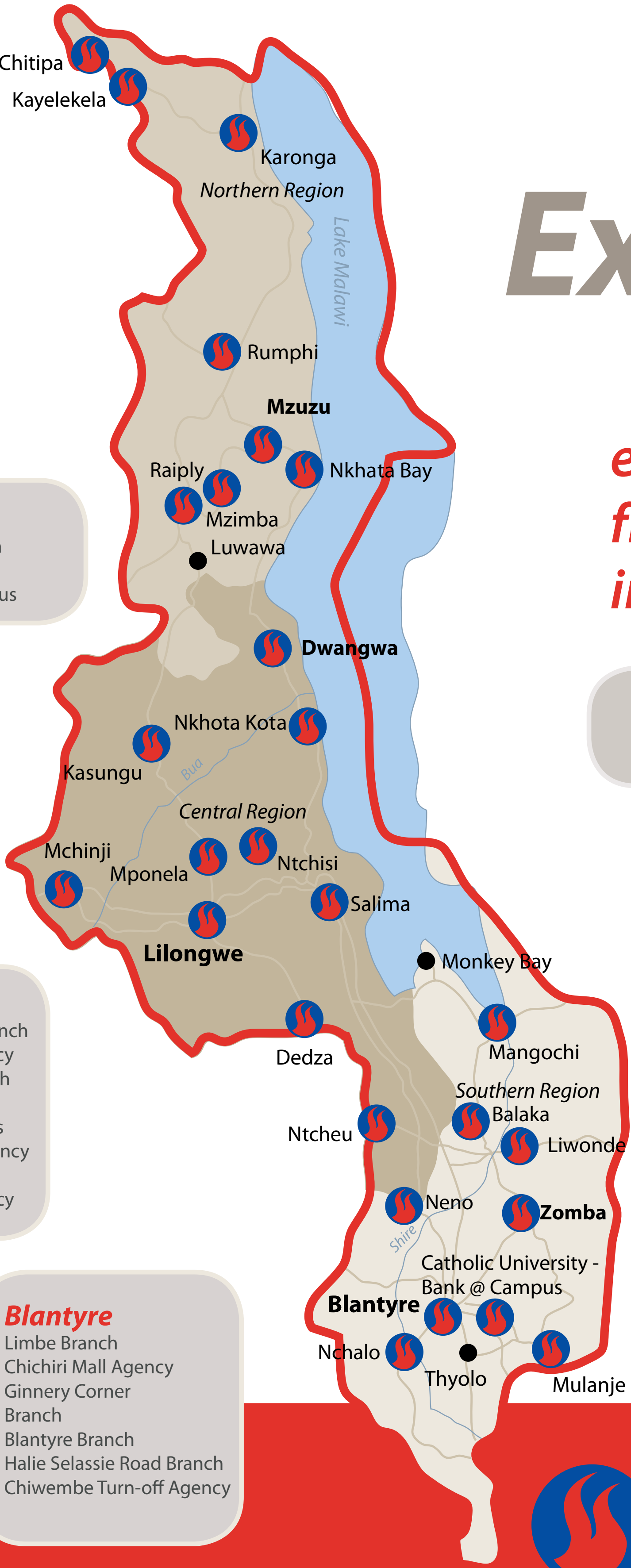
Annual Report 2012

NBS Bank
Your Caring Bank

www.nbsmw.com

Expect more

ease and convenience from a bank that's in your area.



Mzuzu
Mzuzu Branch
Mzuni -
Bank @ Campus

Lilongwe
Capital City Branch
Kanengo Agency
Lilongwe Branch
Bunda College
Bank @ Campus
Crossroads Agency
KIA Agency
Riverside Agency

Blantyre
Limbe Branch
Chichiri Mall Agency
Ginnery Corner
Branch
Blantyre Branch
Halie Selassie Road Branch
Chiwembe Turn-off Agency

Branch Network

"We seek to add new delivery channels to meet an increasing customer base."

Zomba
Zomba Branch
Bank @ Campus -
Chancellor College

NBS Bank
Your Caring Bank

Contents

"We seek to add new products and services to our range to meet a broadening array of our customer needs."

Vision

To be the Bank of choice in Malawi.

Mission

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

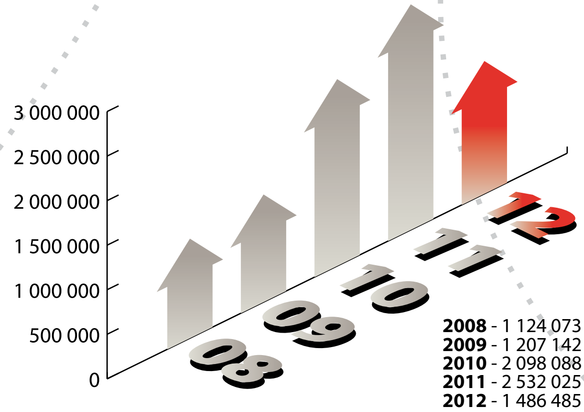
Values

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

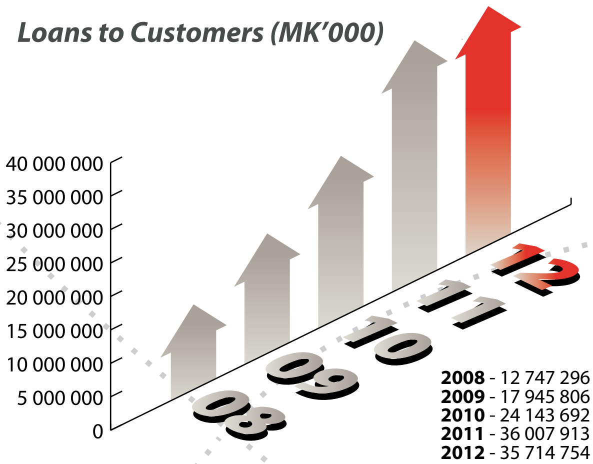
Financial Highlights

In Malawi Kwacha

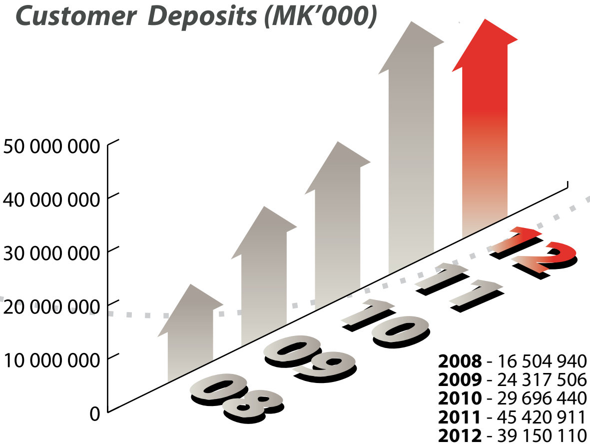
Net profit before tax (MK'000)



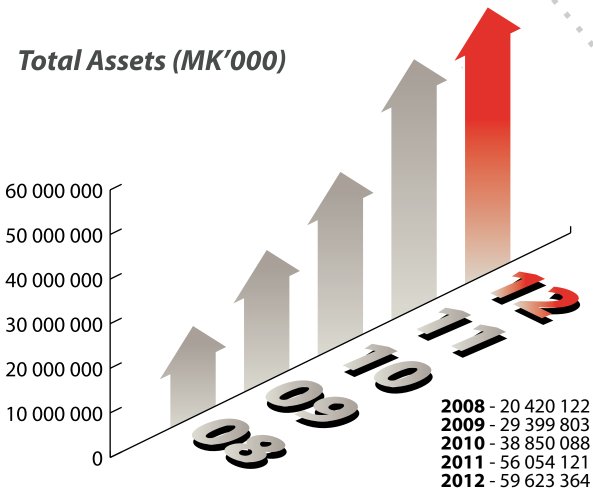
Loans to Customers (MK'000)



Customer Deposits (MK'000)



Total Assets (MK'000)



We expect

to satisfy customers' unique banking needs.

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

Corporate Profile

The Bank was listed on the Malawi Stock Exchange on 25th June 2007. Currently the Bank's shareholding is as follows: NICO 50.1%, Public 26.2%, International Finance Corporation (IFC) 18.1%, National Investment Trust Limited (NITL) 5.2% and ESOP 0.4%.

In line with its philosophy of "Taking banking to the people", the bank boasts of having probably the best footprint in Malawi. It has 40 online-real-time services centres strategically placed across the country. In addition, the Bank offers ATM, internet, mobile, agency and SMS banking services to give its customers additional service delivery platforms.

NBS Bank continues to be a market leader in home financing in Malawi, currently commanding 65.5% of the share of the market. The homes are to a large extent funded by savings deposits which also constitute a vital part of its business.

In terms of innovation, a clearly defined strategy guides our daily actions. We seek to add new products and services to our range to meet a broadening array of our customer needs. Executing this strategy translates directly into our ability to help customers satisfy their unique banking needs. We thrive on challenges, viewing them as an invitation to success. As a cohesive team, we work together to routinely please our customers, surpass our record achievements, and drive our organization to greater success.

Our strategic goals and objectives are based on the aspiration to be recognised as a distinctive specialist retail bank. This distinction is embodied in our entrepreneurial culture, which is balanced by a strong risk management discipline, client-centric approach and ability to be nimble, flexible and innovative. We do not seek to be all things to all people, but rather aim to build well-defined, value-added businesse focused on serving the needs of select market niches where we can compete effectively.

Board of Directors

Mr Felix Mlusu,
Chairman

Mr Evans Matabwa,
Director

Mrs Estelle Nuka,
Director

Mr Vizenge Kumwenda,
Director

Mr Chadwick Mphande,
Director

Mr Joe Swankie,
Director
(up to 31 August 2012)

Mr Anurag Saxena,
Director
(from 1 September 2012)

Mr Lucious Mandala,
Director

Mrs Chimwemwe Ngondoma,
Company Secretary Designate

Chairman's Report

Mr Felix Mlusu,
Chairman

In spite of the economic turbulence, I am pleased to report that the bank has not only emerged strongly, but is growing stronger.

Expect
a bank that is growing stronger.

The year ended 31st December 2012 posed significant challenges for the Bank. It is now clear that for the short-term, the business will have to operate in an environment with wide variations in economic conditions and considerable volatility. For these reasons, I wish to report that it is a major advantage that NBS Bank relies mainly on a diversified portfolio of predominantly savings account customers which are stable in nature. In addition, our organization is flexible with people adequately talented to be able to adapt to this changing operating environment.

In spite of the economic turbulence, I am pleased to report that the bank has not only emerged strongly, but is growing stronger. Total Income at MK14.2 billion was 64% above 2011 whilst net Income at MK7.0 billion was 7% above the previous year.

However, despite the 64% growth in revenue, the bank only managed to post a pre-tax profit of MK1.437 billion compared to MK2.532 billion earned in 2011 representing a 43% decrease. Profit after tax at K692 million was 59% down on previous year. This profit after tax translates to a return on equity of 10%. The decline in profitability has been largely due to a 173% increase in interest expenses arising from a 100% growth in interbank takings. This growth in money market borrowing was due to the liquidity squeeze that the financial sector experienced. However, Non-interest income grew 28% over the prior year mainly owing to trading gains on our foreign currency positions. The cost to income ratio remained the same as the previous year at 79% and is slightly above the industry norm of 61%. Notwithstanding, our policy has always been to hold capital in excess of regulatory requirements and we intend to perpetuate this philosophy.

In terms of credit performance, the uncertain pace of economic recovery in Malawi slowed the improvement in the level of non-performing loans and defaults continued to increase. Credit risk however, remains appropriately managed and net defaults (after collateral and impairments) are fully collateralized.

Economic Environment

2012 was probably the most economically challenging year since the conversion of the institution to a commercial bank back in 2004. GDP growth rate declined to 4.3% p.a. in 2012 from 5.5% p.a. in prior year. Inflation increased from 8.0% in 2011 to 34.6% by December 2012.

The poor performance of the economy was mainly on account of poor foreign exchange reserves resulting from reduced donor inflows and disappointing earnings from tobacco, the country's top export earner. To exacerbate this, essential commodities such as fuel and electricity were also in short supply especially during the first half of the year. The situation was later in the year aggravated by an unprecedented level of low liquidity which heavily affected the financial sector.

In spite of the deteriorating terms of trade, exchange rate and interest rate remained unchanged for the first quarter of the year. The exchange rate was however, adjusted downwards by 48.9% in May, but this did little to unlock foreign exchange inflows. Since then, the local currency was left free floating and gradually losing value to close at MK355 to the US Dollar at year end, from MK165 at the beginning of the year.

Outlook

We expect the economic uncertainty of 2012 to continue in 2013. Nevertheless, total revenue is expected to grow especially due to the bank's large loan book and escalating interest rates. However, performance in non-interest income is likely to be marginal owing to continuing scarcity of foreign exchange despite being compensated by revaluations and increases in bank charges. However, short term strategies are in place to mitigate the envisaged weak revenue performance.

Our People

Being in the service industry, the importance of our people in delivering our strategy and promise to the customer cannot be overemphasized.

In 2012 the Bank continued with the restructuring and staff rationalization program. Under the program, the Bank continued to realign staff roles with their capabilities and personality profiles.

Conclusion

Despite the turbulence of 2012, the bank remains committed to delivering on its long-term objectives. Sustainability is an integral part of who we are. It is deeply embedded in our culture and values, and how we go about doing things. As a distinctive retail bank, driven by a commitment to our philosophies and values, our purpose is to create sustained long-term wealth for all our stakeholders. To this end, I would like to thank all our customers for their unwavering trust, confidence and support over the past year and wish to undertake to them that they should expect more in 2013.

I also want to take this opportunity to thank my fellow directors on the NBS Bank Board for their dedication and direction. Despite the challenges of 2012, the board remained steadfast and maintained a high level of confidence in the bank business and its future prospects.

Finally, I would like to encourage NBS Bank management and staff to stay the course and remain focused towards the realization of the bank's sustainability objectives.

Felix L. Mlusu
Chairman

Bernadette Mandoloma,
Chief Executive Officer (From January 2013)

Chief Executive Officer's Report

Although 2012 was a challenging year for the bank, due to, among other things, liquidity constraints, reduced profitability and macroeconomic volatility, the breadth of our brand portfolio, our wide geographic footprint and our financial resilience have been a great source of competitive advantage. We believe the business will emerge even stronger when this tide has passed.

Despite such adversity, the bank grew its gross revenue 64% above prior year, driven by its ambition to be the Bank of Choice in Malawi. Our philosophy of taking banking to the people motivated us to continue penetrating the market especially amongst the financially excluded. Furthermore, the Bank did not relent in its efforts to remain relevant to the financial and banking needs of its customers, both existing and prospective. In that way it continued to enjoy substantial support from them.

Innovations

Over the next decade, the companies which prosper will be those that most successfully meet the widely differing demands of both existing and emerging market segments, yet at the same time are able to continue to enjoy the active support of their existing customers and suppliers and the confidence of their other stakeholders. To this end, the bank continued to enhance its offering on the SMS banking platform, EazyMobile. EazyMobile is fast becoming the preferred service delivery platform for most of the bank's customers. They have been delighted by the real-time-on-line access to a bouquet of the bank's products which, inter alia, include money transfer, bill payments, electricity prepayments and airtime purchases. Most of all, the transfer of control from the bank to the palm of the account holder has delighted many. The ability to pay for services remotely, without staying on long queues, has greatly fascinated our customers.

Delivery Channels

In 2012 the bank continued to expand its presence across the country by redefining its route to market strategy through the expansion of its footprint. The bank deployed fourteen additional ATMs, sixty-eight point-of-sale devices and the opened Nkhotakota Service Centre. This brings the number of ATMs to 80, point of sale devices to 148 and service centres to 40. However, the channel that made the most difference to the life of our customer is Agency Banking which the bank started piloting at five agent locations in 2012. Agency banking is a new concept on the Malawi banking arena. It basically involves the use of independent merchants to conduct banking business on behalf of a registered commercial bank. The Offering is usually limited to a few basic services such as cash deposits and withdrawal, balance enquiry and mini statement. During the pilot, the bank was delivering the service using point of sale technology. It has since developed a mobile platform to complement the POS technology with a view to fully commercialize the channel in 2013.

Challenges

The key challenges which contributed greatly to the reduction in the bank's profits in 2012 were twofold; firstly was the devaluation and continued depreciation of the Malawi Kwacha which resulted into a huge loss to the bank due to outstanding foreign currency liabilities, and, secondly; the lack of liquidity on the market forcing the bank to borrow funds at elevated interest rates both on interbank or a special discount window at the Central Bank. The scarcity of forex and fuel did very little to help the situation as businesses could not operate at full capacity.

Future Outlook

For the future, the bank will dedicate its efforts to creating long-term value for its stakeholders. We will continuously search for more efficient and cost effective ways of delivering our products and services to our customers. This will not only enhance customer convenience, but also reduce costs while improving operational efficiency.

Additionally, the bank will leverage on its nationwide foot print to reach the unchartered markets. These are not only less competition intensive, but they also have enormous latent potential.

Given the restructuring and staff rationalization exercise that the Bank underwent, it is strategically better postured to take advantage of such emerging market opportunities not only with greater efficiency, but also with a strong resolve so that it can further enhance shareholder value through sustainable business growth.

Appreciation

To begin with, I would like to thank our customers and all stakeholders for their unwavering trust and support without which we would not have been in business today. I would also like to thank the Chairman of the Bank and his Board of Directors for their continued direction. Lastly, I would like to express my gratitude to my colleagues, the NBS Bank team, for their dedication.

Bernadette Mandoloma
Chief Executive Officer

Management

Ms Bernadette Mandoloma,
Chief Executive Officer (From January 2013)

Mr Gilford Kadzakumanja,
Deputy Chief Executive Officer

Mr Dumisani Chatima,
Chief Finance Officer (From January 2013)

Mr Stanley Mkwamba,
Head of Personal and Business Banking

Mr Sam Kamkosi,
Head of Credit

Ms Lusekelo Mwamondwe-Kaoloka,
Head of Treasury and International Trade

Mr Paul Kanthambi,
Head of ICT

Mr Benedicto Nkhoma,
Head of Risk and Compliance

Mr Tryson Kalanda,
Senior Branch Manager Capital City Branch

Mr Shadreck Chikusilo,
Head of Operations

Mr Richard Kunjawa,
Head of HR and Administration

Corporate Social Responsibility

The future will depend to a large extent on the prosperity of the communities

Left: Minister of Agriculture and Food Security, Honourable Peter Mwanza, presenting the Grand Prize to the winner of 2012 Tobacco Farmers Competiion.

Expect

a positive contribution from NBS Bank.

NBS Bank recognises that its success in the future will depend to a large extent on the prosperity of the communities in which it operates and the strength of its relationships with those communities. The bank is committed to contributing to those communities by fostering inclusive business by encouraging local hiring of staff, engaging local stakeholders, and contributing through community investment and payment of taxes. NBS believes that supporting long term sustainable initiatives in the communities where it does business advances the development of those communities, engages employees, builds the bank's reputation and enhances its relationships with the government and other stakeholders. Furthermore, by supporting the communities, we are perpetuating the time over which they will give us their custom.

In this regard, the bank sponsors The Mulanje Mountain Porters Race. This is Malawi's only extreme sport. The Bank has been sponsoring it for the past nine years now.

Another sporting activity that the Bank has been supporting for a long time is the Country Club Limbe Monthly Mug and Winner of Winners Golf Competition. The Bank has also been supporting this competition for nine years.

2012 Mulanje Mountain Porters race participants ready for a 25km race, sponsored by NBS Bank.

Above: NBS Bank Deputy Chief Executive Officer, Mr Gilford Kadzakumanja (second left) and Minister of Tourism, (far right) with the Porters race winners.

Left: NBS Bank 2012 Winner of Winners Champion Iqbar Mussa receiving his prize from Deputy Chief Executive Officer, Mr Gilford Kandzakumanja.

Below: Winners of the 2012 Winner of Winners showcasing their fabulous prizes and trophies.

Left: NBS Bank Deputy Chief Executice Officer, Mr Gilford Kadzakumanja (right) presenting K500,000 dummy cheque to Catholic University Vice Chancellor, Anaclet Phiri (left). The donation was made to assist in solving water problems.

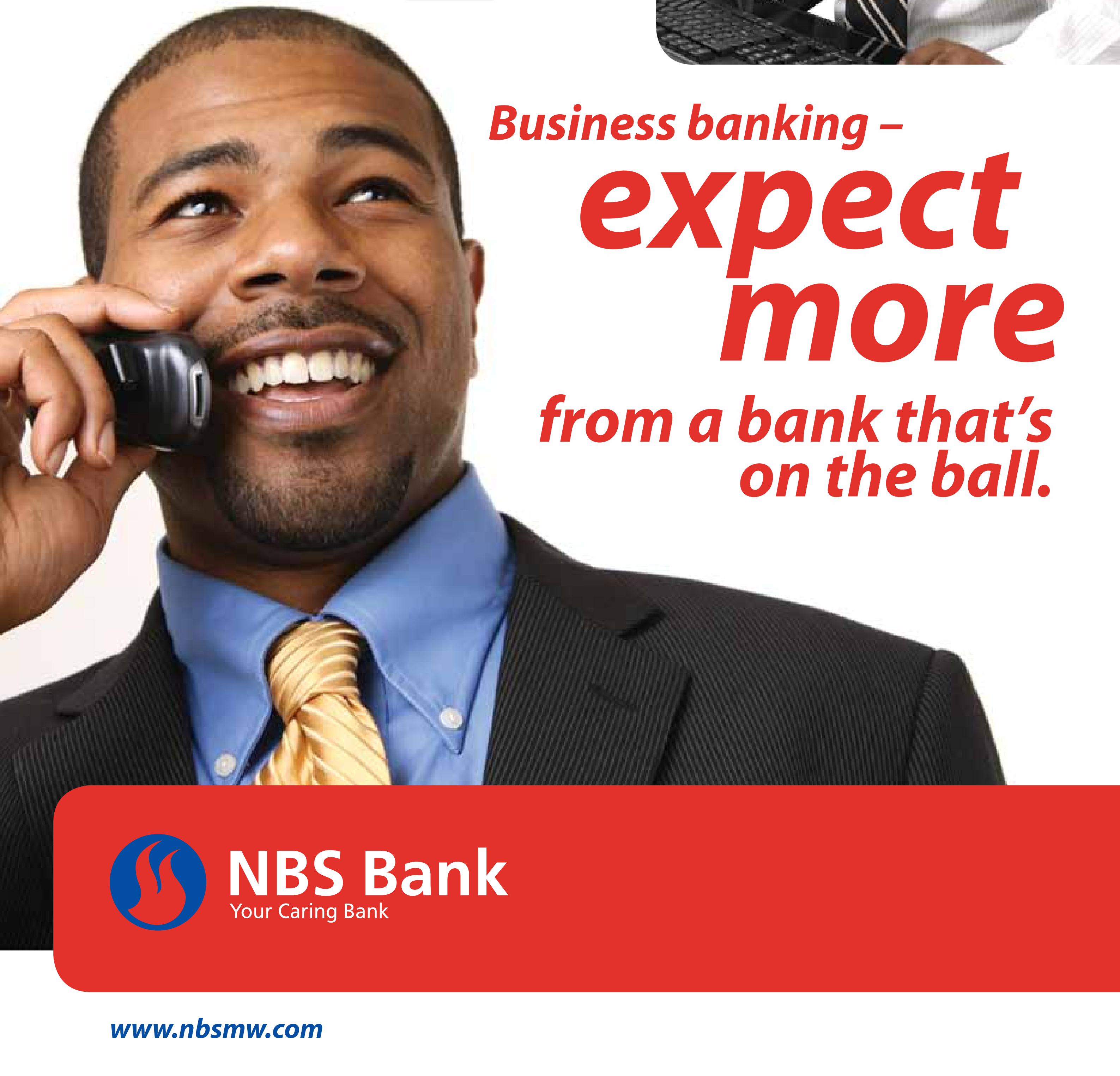
Above: The Bank participated in the 24th Malawi international trade fair. Seen here is the NBS Bank pavilion.

Right: A customer transacting on Bank Pafupi facility while an agent observes.

Major Events of 2012

One of the Bank Pafupi outlets.

Financial Statements Contents



Contents for Financial Statements

Directors' Report

The Directors have pleasure in submitting the consolidated and separate financial statements of NBS Bank Limited ("The Bank") for the year ended 31 December 2012.

Nature of Business

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

The shareholders and their respective shareholdings are:

	2012	2011
	%	%
NICO Holdings Limited	**50.1**	50.1
International Finance Corporation	**18.1**	18.1
National Investment Trust Limited	**5.2**	5.2
Public	**26.2**	26.2
Employee Share Ownership Scheme	**0.4**	0.4
	100.0	100.0

Financial Performance

The Bank and its subsidiary NBS Forex Bureau Limited ("The Group") reported profit before tax of **MK1,486 million** for the year ended 31 December 2012 (December 2011: MK2,532 million) and net profit after tax of **MK726 million** (2011: MK1,686 million). Total gross income at **MK14, 170 million** (2011: MK8, 625 million) was made up of **MK10, 824 million** (2011:MK6, 012 million) interest income and **MK3, 345 million** (2011: MK2, 613 million) non-interest income. Interest income grew by 80% due to increase in the lending rates.

Total deposits at **MK39, 504 million** (2011: MK45, 421 million) reduced by 13% due to general market liquidity problems while gross advances at **MK37, 877million** (2011: MK36, 668 million) grew by 3% due to reduced lending as a result of economic slow-down. Total assets grew by 6% during the same year mainly as a result of increase in money market balances.

The NBS Forex Bureau Limited continued making losses and as at 31 December 2012, the loss was at MK75 million compared to a loss of MK37 million in 2011. The loss situation has been aggravated by changes in regulations on foreign exchange which has adversely affected the supply and margins on foreign exchange.

Economic Overview

The economy of Malawi did not perform well in 2012, growing by less than 4.3 % as compared to 5% in 2011. The decline in growth was mainly on account of decrease in agricultural output as a result of erratic rains and dry spells that affected some areas of the country, scarcity of foreign exchange and fuel shortages. The situation was worsened by the withdrawal of aid by major donors who contribute up to 40% to Government Revenue.

Although tobacco output was good, sales and proceeds were not as impressive and this had a negative impact on the country's foreign exchange reserve position, which was below the three months import cover threshold. The Malawi Kwacha was devalued by over 50% in May 2012, and the foreign exchange rate system was changed from fixed to floating rate. At 31 December 2012 the Malawi Kwacha had devalued by over 100%, relative to other currencies since 1 January 2012.

Inflation increased from 9.8 % in December 2011 to 34.6 % in December 2012 on account of shortage of foreign exchange and increased transport costs, coupled with the devaluation of the Malawi Kwacha and rising cost of food.

The Bank rate increased from 13% to 25% and the Bank lending rates increased to 36%. Deposit rates increased to around 28%, mainly on account of the liquidity squeeze experienced during the year.

Strategy
The Group continued to grow the asset and deposit base through its strategy of taking banking to the people. A number of business initiatives were introduced during the year and customer loyalty continued to have a favourable impact on the business.

The Group focuses on quality service delivery achieved through efficient business processes and systems. The Group recognizes that its strategy can only be achieved through efficient and committed staff. The Group has commenced utilizing the balanced scorecard model in the implementation of its business strategy.

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

Dividend
The Board of Directors has decided not to recommend the payment of dividend due to the performance of the Bank in 2012 and the need to maintain adequate capital to meet regulatory requirements. Final dividend for 2011 of MK400 million, comprising 55 tambala per share was paid in July 2012.

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

Directorate and Secretary
The following directors and secretary served during the year:

Mr. F.L. Mlusu	- Chairman	Throughout the year
Mr. J. Swankie	- Director	Up to 30 September 2012
Mrs. E. Nuka	- Director	Throughout the year
Mr. V. Kumwenda	- Director	Throughout the year
Mr E. Matabwa	- Director	Throughout the year
Mr. C. Mphande	- Director	Throughout the year
Ms. B. Mandoloma	- Director	Throughout the year
Mr. L. Mandala	- Director	Throughout the year
Mr A. Saxena	- Director	From 1 November 2012
Mr. M. Ndenya	- Company Secretary	Up to 30 June 2012
Mrs C Ngondoma	- Company Secretary Designate	From 30 June 2012

The board met four times during the year and the members' attendance is summarised as below:

Name of Director	Number of Meetings	Number of Meetings Attended
Mr. F.L. Mlusu	4	4
Mr. J. Swankie	3	1
Mrs. E. Nuka	4	2
Mr. V. Kumwenda	4	4
Mr E. Matabwa	4	3
Mr. C. Mphande	4	3
Ms. B. Mandoloma	4	3
Mr. L. Mandala	4	4
Mr. A .Saxena	1	1

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

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

Responsibilities of the Finance and Audit Committee include:

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

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

Mrs. E. Nuka - Chairperson
Ms. B. Mandoloma - Member
Mr. C. Mphande - Member

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

Name of Director	Number of Meetings	Number of Meetings Attended
Mrs. E. Nuka	7	6
Ms. B. Mandoloma	7	5
Mr. C. Mphande	7	7

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

The Committee is comprised of:
Mr. E. Matabwa - Chairman
Ms. B. Mandoloma - Member
Mr. V. Kumwenda - Member

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

Name of Director	Number of Meetings	Number of Meetings Attended
Mr E. Matabwa	5	5
Ms. B. Mandoloma	5	4
Mr. V. Kumwenda	5	1

Credit Committee

The Committee is responsible for credit policy and credit approvals which are above the mandate of 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
Mr. L. Mandala - Member

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

Name of Director	Number of Meetings	Number of Meetings Attended
Mr. J. Swankie	3	3
Mr E. Matabwa	3	3
Mr. V. Kumwenda	3	0
Mr. L. Mandala	3	3

Risk Committee

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

The committee is comprised of:
Mr. L. Mandala - Chairman
Ms. E. Nuka - Member
Mr. A. Saxena - Member

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

Name of Director	Number of Meetings	Number of Meetings Attended
Mr. L. Mandala	3	3
Mrs. E. Nuka	3	3
Mr. A. Saxena	1	0

Subsequent Events

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

CHAIRMAN

DIRECTOR

15 March 2013

Statement Of Directors' Responsibilities

The Directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements of NBS Bank Limited, comprising the statements of financial position at 31 December 2012, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with International Financial Reporting Standards, and in the manner required by the Malawi Companies Act, 1984.

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

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

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

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

The Directors' responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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

Approval of consolidated and separate financial statements

The consolidated and separate financial statements of NBS Bank Limited, as indicated above, were approved by the Board of Directors on 15 March 2013 and are signed on its behalf by:

CHAIRMAN	DIRECTOR

KPMG

Independent Auditors' Report to the shareholders of NBS Bank Limited

Report on the consolidated and separate financial statements

We have audited the consolidated and separate financial statements of NBS Bank Limited and its subsidiary, NBS Forex Bureau Limited, which comprise the consolidated and separate statements of financial position as at 31 December 2012, the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and cash flows for the year then ended, and the notes to the consolidated and separate financial statements, which include a summary of significant accounting policies and other explanatory notes as set out on pages 23 to 71.

Directors' Responsibility for the consolidated and separate financial statements

Management is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards and in a manner required by the Malawi Companies Act, 1984 and in such controls as the directors determine as necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or errors. This responsibility includes: designing, implementing and maintaining internal controls systems relevant to the preparation and fair presentation of consolidated and separate 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated and separate 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 consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated and separate 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 controls 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 consolidated and separate financial statements.

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

Opinion

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of NBS Bank Limited as at 31 December 2012 and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the provisions of the Malawi Companies Act, 1984, so far as it concerns members of the company.

Certified Public Accountants (Malawi)
Blantyre

15 March 2013

In thousands of Malawi Kwacha

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

		Group		Company	
	Note	**2012**	2011	**2012**	2011
ASSETS					
Cash and cash equivalents	7	**9,344,143**	11,145,477	**9,344,143**	11,140,381
Money market investments	8	**7,043,499**	2,984,295	**7,043,499**	2,984,295
Loans and advances to customers	9	**35,714,754**	36,007,914	**35,756,509**	36,013,145
Amounts due from subsidiary	10	**-**	-	**141,477**	120,028
Equity investments	11	**33,665**	18,665	**33,665**	18,665
Investment in subsidiary	12	**-**	-	**42,600**	42,600
Property and equipment	13	**5,097,895**	3,694,033	**5,052,385**	3,640,357
Intangible assets	14	**58,859**	131,448	**58,859**	131,448
Other assets	15	**2,330,547**	2,072,288	**2,299,513**	2,046,734
Total assets		**59,623,362**	56,054,120	**59,772,650**	56,137,653
LIABILITIES AND EQUITY					
Liabilities					
Current and savings accounts	16	**21,321,496**	31,950,035	**21,321,496**	31,950,035
Foreign currency denominated accounts		**2,773,557**	1,110,543	**2,773,557**	1,115,065
Term deposit accounts	16	**15,408,567**	12,360,333	**15,408,567**	12,360,333
Amounts due to subsidiary	10	**-**	-	**41,170**	33,237
Short-term loan	17	**8,132,983**	2,059,207	**8,132,983**	2,059,207
Income tax payable		**434,065**	222,359	**434,065**	222,359
Long-term loans	18	**476,545**	20,010	**476,545**	20,010
Deferred tax liability	19	**349,851**	227,892	**319,515**	215,372
Other liabilities	20	**3,587,641**	1,572,342	**3,683,540**	1,653,556
Total liabilities		**52,484,705**	49,522,721	**52,591,438**	49,629,174
Equity					
Share capital	21	**363,822**	363,822	**363,822**	363,822
Share premium	22	**2,323,895**	2,323,895	**2,323,895**	2,323,895
Retained earnings		**3,888,068**	3,561,811	**3,930,623**	3,538,891
Revaluation reserve	23	**552,017**	290,207	**552,017**	290,207
Fair value reserve	24	**10,855**	(8,336)	**10,855**	(8,336)
Total equity		**7,138,657**	6,531,399	**7,181,212**	6,508,479
Total liabilities and equity		**59,623,362**	56,054,120	**59,772,650**	56,137,653

The consolidated and separate financial statements of the NBS Bank Limited were approved for issue by the Board of Directors on 15 March 2013 and were signed on its behalf by:

CHAIRMAN

DIRECTOR

The consolidated and separate financial statements are to be read in conjunction with the notes from pages 28 to 71.

The auditors' report is on page 22.

In thousands of Malawi Kwacha

CONSOLIDATED AND SEPARATE STATEMENTS OF COMPREHENSIVE INCOME

	Note	GROUP 2012	GROUP 2011	COMPANY 2012	COMPANY 2011
INCOME					
Interest on loans and advances		**9,733,664**	5,284,112	**9,740,960**	5,288,185
Interest on placements with other Banks		**50,205**	78,419	**50,205**	78,419
Income from lease financing		**593,959**	427,567	**593,959**	427,567
Income from money market investments		**446,767**	221,949	**446,767**	221,949
Total interest income	25	**10,824,595**	6,012,047	**10,831,891**	6,016,120
Interest expense		**(5,141,865)**	(1,883,758)	**(5,142,882)**	(1,886,758)
Net interest income	25	**5,682,730**	4,128,289	**5,689,009**	4,129,362
Net fees and commission income	26	**2,092,421**	1,763,402	**2,113,868**	1,782,544
Profit on foreign exchange transactions		**1,252,756**	444,644	**1,227,344**	393,232
Other operating income	27	**234**	405,244	**234**	405,244
Operating Income		**9,028,141**	6,741,579	**9,030,455**	6,710,382
EXPENDITURE					
Personnel expenses	28	**2,156,904**	1,878,246	**2,140,493**	1,848,432
Recurrent expenditure on premises and equipment		**539,965**	347,459	**539,964**	347,141
Depreciation and amortisation	13,14	**576,175**	371,290	**568,009**	362,148
Other operating costs	29	**2,707,208**	1,423,341	**2,659,482**	1,394,137
Operating expenditure		**5,980,252**	4,020,336	**5,907,948**	3,951,858
Profit before loan impairment losses		**3,047,889**	2,721,243	**3,122,507**	2,758,524
Net impairment loss on financial assets	9	**(1,561,406)**	(189,218)	**(1,561,406)**	(189,218)
Profit before income tax expense		**1,486,483**	2,532,025	**1,561,101**	2,569,306
Income tax expense	30	**(760,022)**	(846,003)	**(769,165)**	(856,522)
Profit for the year		**726,461**	1,686,022	**791,936**	1,712,784
Other comprehensive income net of income tax					
Reversal of loan loss reserve		**-**	(124,202)	**-**	(124,202)
Net change in revaluation of owned properties		261,810	-	**261,810**	-
Net loss on available for sale financial assets		**19,191**	(22,600)	**19,191**	(22,600)
Total other comprehensive income		**281,001**	(146,802)	**281,001**	(146,802)
Total comprehensive income for the year		**1,007,462**	1,539,220	**1,072,937**	1,565,982
Basic and diluted earnings per share (MK)	31	**1.00**	3.04	**-**	-

The consolidated and separate financial statements are to be read in conjunction with the notes from pages 28 to 71.

The auditors' report is on page 22.

In thousands of Malawi Kwacha

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

GROUP 2012	Share Capital	Share premium	Revaluation reserve	Available for sale fair value reserve	Retained earnings	Total equity
Balance at 1 January 2012	363,822	2,323,895	290,207	(8,336)	3,561,811	6,531,399
Total comprehensive income for the year						
Profit for the year	-	-	-	-	726,461	726,461
Other comprehensive income net of income tax						
Increase in fair value reserve	-	-	-	19,191	-	19,191
Net change on revaluation of owned properties	-	-	261,810	-	-	261,810
Total other comprehensive income	-	-	261,810	19,191	-	281,001
Total comprehensive income for the year	-	-	261,810	19,191	726,461	1,007,462
Transactions with owners, recorded directly in equity						
Dividends to equity holders	-	-	-	-	(400,204)	(400,204)
Balance at 31 December 2012	363,822	2,323,895	552,017	10,855	3,888,068	7,138,657

COMPANY 2012	Share Capital	Share premium	Revaluation reserve	Available for sale fair value reserve	Retained earnings	Total equity
Balance at 1 January 2012	363,822	2,323,895	290,207	(8,336)	3,538,891	6,508,479
Total comprehensive income for the year						
Profit for the year	-	-	-	-	791,936	791,936
Other comprehensive income net of income tax						
Decrease in fair value reserve	-	-	-	19,191	-	19,191
Revaluation surplus	-	-	261,810	-	-	261,810
Total other comprehensive income	-	-	261,810	19,191	-	281,001
Total comprehensive income for the year	-	-	261,810	19,191	791,936	1,072,937
Transactions with owners, recorded directly in equity						
Dividends to equity holders	-	-	-	-	(400,204)	(400,204)
Balance at 31 December 2012	363,822	2,323,895	552,017	10,855	3,930,623	7,181,212

The consolidated and separate financial statements are to be read in conjunction with the notes from pages 28 to 71.

The auditors' report is on page 22.

In thousands of Malawi Kwacha

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

GROUP 2011	Share Capital	Share premium	Revaluation reserve	Available for sale fair value reserve	Loan loss reserve	Retained Earnings	Equity
Balance at 1 January 2011	260,372	602,756	297,648	14,264	124,202	2,310,980	3,610,222
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	1,686,022	1,686,022
Other comprehensive income net of income tax							
Decrease in fair value reserve	-	-	-	(22,600)	-	-	(22,600)
Reversal of loan loss reserve	-	-	-	-	(124,202)	-	(124,202)
Release of excess depreciation	-	-	(7,441)	-	-	7,441	-
Total other comprehensive income	-	-	(7,441)	(22,600)	(124,202)	7,441	(146,802)
Total comprehensive income for the year	-	-	(7,441)	(22,600)	(124,202)	1,693,463	1,539,220
Transactions with owners, recorded directly in equity							
Dividends to equity holders	-	-	-	-	-	(442,632)	(442,632)
Issue of shares	103,450	1,721,139	-	-	-	-	1,824,589
Total contributions by and distribution to owners	103,450	1,721,139	-	-	-	(442,632)	1,381,957
Balance at 31 December 2011	363,822	2,323,895	290,207	(8,336)	-	3,561,811	6,531,399

COMPANY 2011	Share Capital	Share premium	Revaluation reserve	Available for sale fair value reserve	Loan loss reserve	Retained Earnings	Equity
Balance at 1 January 2011	**260,372**	**602,756**	**297,648**	**14,264**	**124,202**	**2,261,298**	**3,560,540**
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	1,712,784	1,712,784
Other comprehensive income net of income tax							
Decrease in fair value reserve	-	-	-	(22,600)	-	-	(22,600)
Reversal of loan loss reserve	-	-	-	-	(124,202)	-	(124,202)
Release of excess depreciation	-	-	(7,441)	-	-	7,441	-
Total other comprehensive income	-	-	(7,441)	(22,600)	(124,202)	7.441	(146,802)
Total comprehensive income for the year	-	-	(7,441)	(22,600)	(124,202)	1,720,225	1,565,982
Transactions with owners, recorded directly in equity							
Dividends to equity holders	-	-	-	-	-	(442,632)	(442,632)
Issue of shares	103,450	1,721,139	-	-	-	-	1,824,589
Total contributions by and distribution to owners	103,450	1,721,139	-	-	-	(442,632)	1,381,957
Balance at 31 December 2011	363,822	2,323,895	290,207	(8,336)	-	3,538,891	6,508,479

The consolidated and separate financial statements are to be read in conjunction with the notes from pages 28 to 71.

The auditors' report is on page 22.

In thousands of Malawi Kwacha

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

		GROUP		COMPANY	
	Note	**2012**	2011	**2012**	2011
CASHFLOWS (USED IN)/ FROM OPERATING ACTIVITIES					
Interest and fees received	25,26	**14,170,006**	8,242,901	**14,173,337**	8,214,704
Interest paid	25	**(5,141,865)**	(1,883,758)	**(5,142,882)**	(1,886,758)
Cash paid to suppliers and employees		**(8,455,019)**	(6,091,392)	**(8,419,124)**	(6,051,319)
		573,122	267,751	**611, 331**	276,627
Movement in net customer balances		**(5,615,621)**	3,851,739	**(5,648,734)**	3,850,940
		(5,042,499)	4,119,490	**(5,037,403)**	4,127,567
Income tax paid		**(425,459)**	(522,510)	**(425,459)**	(522,510)
Net cash (used in)/from operating activities		**(5,467,958)**	3,596,980	**(5,462,862)**	3,605,057
CASH FLOWS TO INVESTING ACTIVITIES					
Acquisition of shares in NICO Properties Limited		**(15,000)**	-	**(15,000)**	-
Proceeds on disposal of property and equipment		**-**	9,791	**-**	9,791
Acquisition of property and equipment	13	**(1,641,257)**	(1,050,817)	**(1,641,257)**	(1,031,949)
Acquisition of intangible assets	14	**(4,381)**	(12,756)	**(4,381)**	(12,756)
Net cash used in investing activities		**(1,660,638)**	(1,053,782)	**(1,660,638)**	(1,034,914)
CASH FLOWS FROM/ (TO) FINANCING ACTIVITIES					
Proceeds from share issue	20,21	**-**	1,986,240	**-**	1,986,240
Share issue costs paid		**-**	(161,651)	**-**	(161,651)
Loan receipts/ (repayment)	16,17	**5,727,466**	(1,945,778)	**5,727,466**	(1,945,778)
Dividend paid		**(400,204)**	(442,632)	**(400,204)**	(442,632)
Net cash from/ (used in) financing activities		**5,327,262**	(563,821)	**5,327,262**	(563,821)
Net increase in cash and cash equivalents		**(1,801,334)**	1,979,377	**(1,796,238)**	2,006,322
Cash and cash equivalents at 1 January		**11,145,477**	9,166,100	**11,140,381**	9,134,059
Cash and cash equivalents at 31 December	7	**9,344,143**	11,145,477	**9,344,143**	11,140,381
ADDITIONAL STATUTORY DISCLOSURE					
(Decrease)/increase / in net working capital		**(3,583,002)**	2,435,325	**(3,598,577)**	2,323,360

The consolidated and separate financial statements are to be read in conjunction with the notes from pages 28 to 71.

The auditors' report is on page 22.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

1. *Reporting entity*

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

General information

The Group provides retail and corporate banking services through its 38 service centers across Malawi (2011: 35). The Group is listed on the Malawi Stock Exchange. Its ultimate parent Company is NICO Holdings Limited, a financial services company incorporated in Malawi, which is also listed on the Malawi Stock Exchange. NBS Forex Bureau Limited is a 100% owned subsidiary of NBS Bank Limited whose line of business is foreign exchange trading. NBS Forex Bureau Limited started operations in January 2010.

2. *Basis of preparation*

(a) Statement of compliance

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

(b) Basis of measurement

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

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

(c) Functional and presentation currency

These consolidated and separate financial statements are presented in Malawi Kwacha, which is the group'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 consolidated and separate financial statements in conformity with IFRS 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 consolidated and separate financial statements are described in note 5.

(e) Changes in accounting policies

The group has adopted the following revised IFRSs prospectively as of 1 January 2012:

- IAS 1 Presentation of Financial Statements (2011 Improvements to IFRS);
- IAS 24 Related Party Transactions (revised); and
- IFRS 7 Financial Instruments: Disclosures (2010 Improvements to IFRS);

None of the revised IFRSs have had any effect on the group's reported earnings or financial statement position but have affected the group's disclosures with no material impact on the group's accounting policies.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated and separate financial statements.

(a) Basis of consolidation

The consolidated and separate financial statements comprise the Bank and its subsidiary, NBS Forex Bureau Limited, which is controlled by the Bank. Under the Malawi Companies Act, 1984, control is presumed to exist where a Company holds more than one half of the nominal share capital directly or indirectly; or the Group can appoint or prevent the appointment of not less than half of the directors of the subsidiary company. Under IAS 27, *Consolidated and Separate Financial Statements*, control exists when an entity has the power to govern the financial and operating policies of another entity so as to benefit from its activities. The consolidated and separate financial statements of subsidiary are included in the consolidated and separate financial statements from the date that control commences until that control ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Balances, *transactions eliminated on consolidation*

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

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

(c) Interest income and expense

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

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

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

- Interest on financial assets and financial liabilities at amortised cost on an effective interest rate basis.
- Interest on available-for-sale investment securities on an effective interest basis.

Fair value changes on financial assets and financial liabilities measured at fair value through profit or loss, are presented in net income from other financial instruments carried at fair value in the statement of comprehensive income. Net interest income analysis is provided in note 24.

(d) Fees and commission

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

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies (continued)

(e) Net trading income

Net trading income includes gains and losses from spot and forward contracts, options, futures, and foreign exchange differences and gains and losses on trading assets and liabilities. Interest rate instruments include 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.

(f) Lease payments

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

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

(g) Income tax expense

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

Current income tax

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

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

Deferred income tax

Deferred tax is recognized 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 recognized for:

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

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

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

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

(h) Financial instruments

(i) Recognition and initial measurement

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies (continued)

(h) Financial instruments (continued)

(ii) Derecognition

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

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

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

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

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

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

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

(iii) Offsetting

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

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

(iv) Amortised cost measurement

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

(v) Fair value measurement

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

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies (continued)

(h) Financial instruments (continued)

(vi) Identification and measurement of impairment

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

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

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

(vi) Identification and measurement of impairment (continued)

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

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

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

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

(vii) Designation at fair value through profit or loss

The Group has designated financial assets and financial liabilities at fair value through profit or loss when either:

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

(i) 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 Group in the management of its short-term commitments.

Cash and cash equivalents are measured at amortised cost in the statement of financial position.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies (continued)

(j) Trading assets and liabilities

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

Trading assets and liabilities are measured at fair value with changes in fair value recognized as part of net trading income in profit or loss.

(k) Other assets

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

(l) Impairment of non-financial assets

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

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

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

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

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

(m) Loans and advances

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

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

(n) Investment securities

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

(i) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group 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 measured 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 Group from classifying investment securities as held-to-maturity for the current and the following two financial periods.

(ii) Fair value through profit or loss

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

(iii) Available-for-sale

Available-for-sale investments are non-derivative investments that were designated as available-for-sale or are not classified 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies (continued)

(n) Investment securities (continued)

(iii) Available-for-sale (continued)

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group 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 other comprehensive income until the investment is sold or impaired whereupon the cumulative gains and losses previously recognized in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

(o) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost or valuation less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use. Where 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 comprise major components having different useful lives, they are accounted for as separate items of property and equipment.

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

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

(ii) Subsequent expenditure

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

(iii) Depreciation

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

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

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

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

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

(iv) Capital work in progress

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies (continued)

(p) Intangible assets

Software

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

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

- The Group 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 Group can reliably measure the costs to complete the development,
- It is technically and commercially feasible, and
- There are sufficient resources to complete development and to use the asset.

The capitalised cost of internally developed software includes all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at cost less accumulated amortisation and impairment losses.

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

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

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

(q) Leased assets – lessor

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

(i) The group as a lessor

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

(ii) The group as a lessee

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

(r) Customer deposit accounts

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

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

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

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

The Bank measures customer deposit liabilities at amortised cost using the effective interest method, except where the Group designates liabilities at fair value through profit or loss.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies (continued)

(s) Provisions

A provision is recognised if, as a result of a past event, the Group 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.

(t) Financial guarantees

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

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

(u) Employee benefits

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

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

(i) Defined contribution pension plans

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

The Group operates a defined contribution pension scheme based on a percentage of pensionable earnings, the assets of which are generally held in separate trustee administered fund. Contributions to defined contributions pension plans are recognized 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 recognized as an asset to the extent that a cash refund or reduction in future payments is available.

(ii) Termination benefits

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(iii) Short-term employee benefits

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

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

(v) Share capital and reserves

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

Share issue costs

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

(w) Dividends

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies (continued)

(x) 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.

(y) Segment reporting

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

(z) New standards and interpretations not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated and separate financial statements. Those which may be relevant to the Group and Company are set out below. The Group and Company do not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

Effective for the financial year commencing 1 January 2013

- IAS 1 amendment *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*
- IFRS 1 amendment *Government Loans*
- IFRS 7 amendment *Disclosures – Offsetting Financial Assets and Financial Liabilities*
- IFRS 10 *Consolidated Financial Statements*
- IFRS 11 *Joint Arrangements*
- IFRS 12 *Disclosure of Interests in Other Entities*
- IFRS 10, IFRS 11 and IFRS 12 amendment *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance*
- IFRS 13 *Fair Value Measurement*
- IAS 19 (amendments) *Employee Benefits: Defined Benefit Plans*
- IAS 27 *Separate Financial Statements (2011)*
- IAS 28 *Investments in Associates and Joint Ventures (2011)*
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

Effective for the financial year commencing 1 January 2014

- IAS 32 *Offsetting Financial Assets and Financial Liabilities*
- IFRS 10, IFRS 12 and IAS 27 amendment Investment entities

Effective for the financial year commencing 1 January 2015

- IFRS 9 *Financial Instruments*

All standards and interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity).

The following standards and interpretations are not applicable to the business of the Group and will therefore have no impact on future financial statements.

- IAS 19 (amendments) *Employee Benefits: Defined Benefit Plans*
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

The directors are of the opinion that the impact of the application of the remaining Standards and Interpretations will be as follows:

Amendment to IAS 1 Presentation of Financial Statements

The Group will present those items of other comprehensive income that may be reclassified to profit or loss in the future separately from those that would never be reclassified to profit or loss. The related tax effects for the two sub-categories will be shown separately. This is a change in presentation and will have no impact on the recognition or measurement of items in the financial statements. The amendment will be applied retrospectively and the comparative information will be restated. The amendment is effective for periods beginning on or after 1 July 2012.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies (continued)

(z) New standards and interpretations not yet effective (continued)

IAS 27 (2011) Separate Financial Statements

IAS 27 (2011) supersedes IAS 27 (2008). IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications.

The adoption of IAS 27 (2011) will not have a significant impact on the company's separate financial statements. The standard is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

IAS 28 (2011) Investments in Associates and Joint Ventures

IAS 28 (2011) supersedes IAS 28 (2008) and carries forward the existing accounting and disclosure requirements with limited amendments. The main changes include:

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* is applicable to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held-for-sale; and
- On cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or vice versa, the company does not re-measure the retained interest.

The initial application of this amendment has no impact on the Group's financial statements. The standard is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosures of Interests in Other Entities (2011)

IFRS 10 introduces a single control model to determine whether an investee should be consolidated. As a result the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees.

Under IFRS 11, the structure of the joint arrangement, although still an important consideration, is no longer the major factor in determining the type of joint arrangement and therefore the subsequent accounting.

- The Group's interest in a joint operation, which is an arrangement in which the parties have rights to the assets and obligations for the liabilities, will be accounted for on the basis of the Group's interest in those assets and liabilities.
- The Group's interest in a joint venture which is an arrangement in which the parties have rights to the net assets, will be equity accounted.

IFRS 12 brings together in a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group is currently assessing the disclosure requirements for interests in subsidiaries, interests in joint arrangements and associates and unconsolidated structured entities in comparison with the existing disclosures. IFRS 12 requires the disclosure of information about the nature, risks and financial effects of these interests.

These standards are effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

IFRS 13 Fair Value Measurement

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. The Group is currently reviewing its methodologies in determining fair values. IFRS 13 is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

Amendments to IFRS 7 Financial Instruments: Disclosures: Offsetting Financial Assets and Financial Liabilities

The amendments contain new disclosure requirements for financial assets and financial liabilities that are offset in the statement of financial position; or are subject to enforceable master netting arrangements or similar agreements. The Group applies offsetting in the financial statements and will be required to provide additional disclosures in this regard. This amendment is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

Amendments to IAS 32 Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities

The amendments clarify when an entity can offset financial assets and financial liabilities. This amendment will result in the Group no longer offsetting two of its master netting arrangements. This amendment is effective for annual periods beginning on or after 1 January 2014 with early adoption permitted.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies (continued)

(z) New standards and interpretations not yet effective (continued)

Investment entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

The amendments clarify that a qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss; the only exception would be subsidiaries that are considered an extension of the investment entity's investment activities. The consolidation exemption is mandatory and not optional.

This amendment will result in the Group having to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss. This amendment is effective for annual periods beginning on or after 1 January 2014 with early adoption permitted.

IFRS 9 Financial Instruments

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2010 and 2009) is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The Group and Company will adopt this standard for the financial year commencing 1 January 2015. The adoption of IFRS 9(2010) is expected to have an impact on the Group and Company's financial assets, but not any impact on the Group and Company's financial liabilities.

4. Financial risk management

(a) Introduction and overview

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

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

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

Risk management best practices are as covered in this note (4). However, some shortfalls experienced by the Banking sector worldwide, and acknowledged by the Reserve Bank of Malawi, will be addressed as the bank becomes Basel II compliant by 2014. Risk management self assessment reports and recommendations made thereon are to be implemented as part of the Basel II compliance road-map which begun in 2012.

Risk Management framework

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

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

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

(b) Credit Risk

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

4. Financial risk management (continued)

(b) Credit Risk (continued)

Management of credit risk

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

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

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

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

In thousands of Malawi Kwacha

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

4. Financial risk management (continued)

Exposure to credit risk

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

GROUP		Loans and advances to customers		Loans and advances to other banks		Investment securities	
	Note	**2012**	2011	**2012**	2011	**2012**	2011
Carrying amount	8, 9	**35,714,754**	32,930,989	-	3,076,925	**7,820,803**	3,969,733
Individually impaired		**8,848,498**	2,027,016	-	-	-	-
Allowance for impairment	9	**(2,162,272)**	(660,214)	-	-	-	-
Carrying amount		**6,686,226**	1,366,802	-	3,076,925	**7,820,803**	3,969,733
Individually impaired							
7-12 months		**1,452,973**	756,365	-	-	-	-
13-24 months		**6,763,251**	933,517	-	-	-	-
> 24 months		**632,274**	337,134	-	-	-	-
Total		**8,848,498**	2,027,016	-	-	-	-
Allowance for impairment		**(2,162,272)**	(660,214)	-	-	-	-
Carrying amount		**6,686,226**	1,366,802	-	-	-	-
Past due not impaired		**17,761,699**	4,534,961	-	-	-	-
Carrying amount		**17,761,699**	4,534,961	-	-	-	-
Neither past due nor impaired		**11,263,829**	27,029,226	-	3,076,925	**7,820,803**	3,969,733
Carrying amount		**11,266,829**	27,029,226	-	3,076,925	**7,820,803**	3,969,733
Total carrying amounts	8, 9	**35,714,754**	32,930,989	-	3,076,925	**7,820,803**	3,969,733

COMPANY							
Carrying amount	8, 9	**35,756,509**	32,936,220	-	3,076,925	**7,820,803**	3,969,733
Individually impaired		**8,848,498**	2,027,016	-	-	-	-
Allowance for impairment	9	**(2,162,272)**	(660,214)	-	-	-	-
Carrying amount		**6,686,226**	1,366,802	-	-	**7,820,803**	3,969,733
Individually impaired							
7-12 months		**1,452,973**	756,365	-	-	-	-
13-24 months		**6,763,251**	933,517	-	-	-	-
> 24 months		**632,274**	337,134	-	-	-	-
Total		**8,848,498**	2,027,016	-	-	-	-
Allowance for impairment		**(2,162,272)**	(660,214)	-	-	-	-
Carrying amount		**6,686,227**	1,366,802	-	-	-	-
Past due not impaired		**17,761,699**	4,534,961	-	-	-	-
Carrying amount		**17,761,699**	4,534,961	-	-	-	-
Neither past due nor impaired		**11,308,614**	27,034,457	-	3,076,925	**7,820,803**	3,969,733
Carrying amount		**11,308,614**	27,034,457	-	3,076,925	**7,820,803**	3,969,733
Total carrying amounts	8, 9	**35,756,509**	32,936,220	-	3,076,925	**7,820,803**	3,969,733

In thousands of Malawi Kwacha

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

4. Financial risk management (continued)

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

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

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

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

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

	Loans and advances to customers Group and Company	
	2012	2011
Against individually impaired		
Property	**11,219,485**	1,341,776
Plant and equipment	**1,106,245**	250,220
Against past due but not impaired		
Property	**16,445,051**	8,814,906
Plant and equipment	**1,826,104**	2,306,001
Against neither past due nor impaired		
Property	**6,705,858**	9,183,033
Plant and equipment	**1,613,451**	3,196,737
Total collateral held	**38,916,194**	25,092,673

In thousands of Malawi Kwacha

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

4. Financial risk management (continued)

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

GROUP		Loans and advances to customers		Loans and advances to other companies		Investment securities	
	Note	**2012**	2011	**2012**	2011	**2012**	2011
Carrying amount	8, 9	**35,714,754**	32,930,989	**-**	3,076,925	**7,820,803**	3,969,733
Concentration by sector:							
Retail		**26,254,927**	25,039,759	**-**	-		-
Corporate		**9,459,827**	7,891,230	**-**	-		-
Banks		**-**	-	**-**	3,076,925	**7,820,803**	3,969,733
	8, 9	**35,714,754**	32,930,989	**-**	3,076,925	**7,820,803**	3,969,733
Concentration by location:							
Northern Region		**1,101,656**	799,075	**-**	-	**-**	-
Central Region		**10,432,982**	9,538,697	**-**	-	**-**	-
Southern Region		**24,180,116**	22,593,217	**-**	3,076,925	**7,820,803**	3,969,733
	8, 9	**35,714,754**	32,930,989	**-**	3,076,925	**7,820,803**	3,969,733
COMPANY							
Carrying amount	8, 9	**35,756,509**	32,936,220	**-**	3,076,925	**7,820,803**	3,969,733
Concentration by sector:							
Retail		**26,296,682**	25,044,990	**-**	-	**-**	-
Corporate		**9,459,827**	7,891,230	**-**	-	**-**	-
Banks		**-**	-	**-**	3,076,925	**7,820,803**	3,969,733
	8, 9	**35,756,509**	32,936,220	**-**	3,076,925	**7,820,803**	3,969,733
Concentration by location:							
Northern Region		**1,101,656**	799,075	**-**	-	**-**	-
Central Region		**10,432,982**	9,538,697	**-**	-	**-**	-
Southern Region		**24,221,871**	22,598,448	**-**	3,076,925	**7,820,803**	3,969,733
	8, 9	**35,756,509**	32,936,220	**-**	3,076,925	**7,820,803**	3,969,733

Credit Risk Concentration

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

Settlement risk

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

4. Financial risk management (continued)

(c) Liquidity risk

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

Management of liquidity risk

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

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

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

Exposure to liquidity risk

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

In thousands of Malawi Kwacha

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

4. Financial risk management (continued)

(c) Liquidity risk (continued)

Residual contractual maturity of financial instruments

The table below analyses the financial instruments into relevant maturity groupings based on the remaining period at 31 December 2012 to the contractual maturity date.

GROUP						
FINANCIAL ASSETS at 31 December 2012	**Up to 1 month**	**1-3 months**	**3-12 Months**	**Over 1 period**	**Total**	**Carrying Amount**
Cash and bank balances	9,344,143	-	-	-	**9,344,143**	**9,344,143**
Investment securities	366,834	673,804	804,971	5,197,890	**7,043,499**	**7,043,499**
Loans and advances	14,348,354	1,184,319	4,434,637	15,747,444	**35,714,754**	**35,714,754**
Other assets	982,833	-	-	6,278,309	**7,261,142**	**7,261,142**
Total assets	25,042,164	1,858,123	5,239,608	27,223,643	**59,363,538**	**59,363,538**
FINANCIAL LIABILITIES						
Current and savings accounts	21,321,496	-	-	-	**21,321,496**	**21,321,496**
Term deposit accounts	14,636,280	615,122	157,165	-	**15,408,567**	**15,408,537**
Foreign currency denominated deposits	2,773,557	-	-	-	**2,773,557**	**2,773,557**
Other borrowed funds	353,510	7,418,489	-	1,148,220	**8,920,219**	**8,609,528**
Other liabilities	4,194,464	-	-	7,055,926	**11,250,390**	**11,250,390**
Total financial liabilities	**43,279,307**	**8,033,611**	**157,165**	**8,204,146**	**59,674,229**	**59,363,538**
Net liquidity gap	**(18,237,143)**	**(6,175,488)**	**5,082,443**	**19,019,497**	**(310,691)**	**-**
Cumulative liquidity gap	**(18,237,143)**	**(24,412,631)**	**(19,330,188)**	**(310,691)**	**-**	**-**

COMPANY						
FINANCIAL ASSETS at 31 December 2012						
Cash and bank balances	9,344,143	-	-	-	**9,344,143**	**9,344,143**
Investment securities	366,834	673,804	804,971	5,197,890	**7,043,499**	**7,043,499**
Loans and advances	14,348,354	1,226,074	4,434,637	15,747,444	**35,756,509**	**35,756,509**
Other assets	982,833	-	-	6,416,267	**7,399,100**	**7,399,100**
Total assets	25,042,164	1,899,878	5,239,608	27,361,601	**59,543,251**	**59,543,251**
FINANCIAL LIABILITIES						
Current and savings accounts	21,321,496	-	-	-	**21,321,496**	**21,321,496**
Term deposit accounts	14,636,280	615,122	157,165	-	**15,408,567**	**15,408,567**
Foreign currency denominated deposits	2,814,727	-	-	-	**2,814,727**	**2,814,727**
Other borrowed funds	353,510	7,418,489	-	1,148,220	**8,920,219**	**8,609,528**
Other liabilities	4,194,464	-	-	7,194,469	**11,388,933**	**11,388,933**
Total financial liabilities	**43,320,477**	**8,033,611**	**157,165**	**8,342,689**	**59,853,942**	**59,543,251**
Net liquidity gap	**(18,278,313)**	**(6,133,733)**	**5,082,443**	**19,018,912**	**(310,691)**	**-**
Cumulative liquidity gap	**(18,278,313)**	**(24,412,046)**	**(19,329,603)**	**(310,691)**	**-**	**-**

In thousands of Malawi Kwacha

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

4. *Financial risk management (continued)*

(c) Liquidity risk (continued)

Residual contractual maturity of financial instruments (continued)

GROUP

FINANCIAL ASSETS at 31 December 2011	Up to 1 month	1-3 months	3-12 Months	Over 1 year	Total	Carrying amount
Cash and bank balances	10,159,999	-	-	-	10,159,999	10,159,999
Investment securities	-	200,000	3,499,141	270,633	3,969,774	3,969,774
Loans and advances	3,076,925	838,142	2,090,000	30,002,847	36,007,914	36,007,914
Other assets	-	-	-	5,973,423	5,973,423	5,973,423
Total assets	13,236,924	1,038,142	5,589,141	36,246,903	56,111,110	56,111,110
FINANCIAL LIABILITIES						
Current and savings accounts	23,898,341	7,887,149	138,030	26,515	31,950,035	31,950,035
Term deposit accounts	1,372,119	1,749,398	6,163,015	3,075,801	12,360,333	12,360,333
Foreign currency denominated deposits	1,110,543	-	-	-	1,110,543	1,110,543
Other borrowed funds	-	2,059,208	-	20,010	2,079,218	2,079,218
Other liabilities	-	-	-	8,610,981	8,610,981	8,610,981
Total financial liabilities	26,381,003	11,695,755	6,301,045	11,733,307	56,111,110	56,111,110
Net liquidity gap	(13,144,079)	(10,657,613)	(711,904)	24,513,596	-	-
Cumulative liquidity gap	(13,144,079)	(23,801,692)	(24,513,596)	-	-	-

COMPANY

FINANCIAL ASSETS at 31 December 2011	Up to 1 month	1-3 months	3-12 Months	Over 1 year	Total	Carrying amount
Cash and balances with banks						
Cash and bank balances	10,159,999	-	-	-	10,159,999	10,159,999
Investment securities	-	200,000	3,499,140	270,633	3,969,773	3,969,773
Loans and advances	3,082,156	838,142	2,090,000	30,002,847	36,013,145	36,013,145
Other assets	-	-	-	6,064,246	6,064,246	6,064,246
Total assets	13,242,155	1,038,142	5,589,140	36,337,726	56,207,163	56,207,163
FINANCIAL LIABILITIES						
Current and savings accounts	21,904,403	9,914,324	138,030	26,515	31,983,272	31,983,272
Term deposit accounts	1,372,119	1,749,398	6,163,015	3,075,801	12,360,333	12,360,333
Foreign currency denominated deposits	1,115,065	-	-	-	1,115,065	1,115,065
Other borrowed funds	-	2,059,207	-	20,010	2,079,217	2,079,217
Other liabilities	-	-	-	8,669,276	8,669,276	8,669,276
Total financial liabilities	24,391,587	13,722,929	6,301,045	11,791,602	56,207,163	56,207,163
Net liquidity gap	(11,149,432)	(12,684,787)	(711,905)	24,546,124	-	-
Cumulative liquidity gap	(11,149,432)	(23,834,219)	(24,546,124)	-	-	-

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

4. Financial risk management (continued)

(d) 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 Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

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

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

Exposure to interest rate risk – non trading portfolios

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

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

Exposure to other market risks – non trading portfolios

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

4. Financial risk management (continued)

(e) Interest rate gap analysis

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

GROUP AND COMPANY							
At 31 December 2012				**Fixed Rate Instruments**			
Assets subject to interest rate adjustment	**Zero rate**	**Floating rate**	**0-3 months**	**3 -6months**	**6-12 months**	**Over 12 months**	**Total**
Loans and advances:							
Securities:	-	-	6,238,529	993,894	563,508	-	7,795,931
Other	13,703,556	37,918,781	-	-	-	-	51,622,337
Total rate sensitive assets (RSA)	13,703,556	37,918,781	6,238,529	993,894	563,508	-	59,418,268
Liabilities subject to interest rate adjustment:							
Demand accounts	-	6,348,511	-	-	-	-	6,348,511
Savings deposits	-	12,364,986	-	-	-	-	12,364,986
Time deposits	-	-	17,304,430	156,550	615	-	17,461,595
Other borrowings	20,010	353,510	7,207,123	-		1,382,395	8,963,038
Other	11,465,411	2,814,727	-	- -	-	-	14,280,138
Total rate sensitive liabilities (RSL)	11,485,421	21,881,734	24,511,553	156,550	615	1,382,395	58,418,268
Asset /Liability Gap	2,218,135	16,037,047	(18,273,024)	837,344	562,893	(1,382,395)	-
Cumulative Gap	2,218,135	18,255,182	(17,842)	819,502	1,382,395	-	-
Net position as a percent of total assets	3%	27%	(31%)	1%	1%	(2%)	-
RSA as a percent of RSL	119%	173%	25%	635%	91,628%	0%	100%

In thousands of Malawi Kwacha

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

4. Financial risk management (continued)

(e) Interest rate gap analysis (continued)

GROUP AND COMPANY							
At 31 December 2011			**Fixed Rate Instruments**				
Assets subject to interest rate adjustment	**Zero rate**	**Floating rate**	**0-3 months**	**3 -6months**	**6-12 months**	**Over 12 months**	**Total**
Loans and advances:	-	36,007,914	-	-	-	-	36,007,914
Securities:	270,633	-	1,736,085	300,000	1,663,055	-	3,969,773
Other	16,133,423	-	-	-	-	-	16,133,423
Total rate sensitive assets (RSA)	16,404,056	36,007,914	1,736,085	300,000	1,663,055	-	56,111,110
Liabilities subject to interest rate adjustment:							
Demand accounts	-	14,835,475	-	-	-	-	14,835,475
Savings deposits	-	17,114,560	-	-	-	-	17,114,560
Time deposits	-	-	9,168,158	3,027,840	138,030	26,515	12,360,543
Other borrowings	20,010	1,110,543	-	-	-	-	1,130,553
Other	8,610,771	2,059,208	-	-	-	-	10,669,979
Total rate sensitive liabilities (RSL)	8,630,781	35,119,786	9,168,158	3,027,840	138,030	26,515	56,111,110
Asset /Liability Gap	7,773,275	888,128	(7,432,073)	(2,727,840)	1,525,025	26,515	-
Cumulative Gap	7,773,275	8,661,403	1,229,330	(1,498,510)	26,515	-	-
Net position as a percent of total assets	14%	15%	2%	(3%)	0%	-	-
RSA as a percent of RSL	190%	103%	19%	10%	1205%	-	100%

(f) Currency risk

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

GROUP					
At 31 December 2012	**USD**	**GBP**	**Euro**	**ZAR**	**Total**
Assets					
Balances with correspondent banks	**2,830,030**	**139,840**	**453,129**	**130,091**	**3,553,090**
Cash in vaults	**117,698**	**16,906**	**53,904**	**53,862**	**242,370**
Forward Contracts	**1,378,550**	**-**	**-**	**-**	**1,378,550**
Loans and advances to customers	**-**	**-**	**-**	**-**	**-**
Total assets	**4,326,278**	**156746**	**507,033**	**183,953**	**5,174,010**
Liabilities					
Customer deposits	**2,271,360**	**149,857**	**264,567**	**110,274**	**2,796,058**
Short-term loans	**925,579**	**-**	**-**	**-**	**925,579**
Total liabilities	**3,196,939**	**149,857**	**264,567**	**110,274**	**3,721,637**
Net position	**1,129,339**	**6,889**	**242,466**	**73,679**	**1,452,373**

In thousands of Malawi Kwacha

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

4. Financial risk management (continued)

(f) Currency risk (continued)

GROUP					
At 31 December 2011	**USD**	**GBP**	**Euro**	**ZAR**	**Total**
Assets					
Balances with correspondent banks	53,218	1,746	50,895	896	106,755
Cash in vaults	31,234	2,126	1,300	1,875	36,535
Forward Contracts	141,075	-	-	-	141,075
Loans and advances to customers	1,223,168	-	-	-	1,223,168
Total assets	1,448,695	3,872	52,195	2,771	1,507,533
Liabilities					
Customer deposits	1,709,239	40,721	114,085	3,352	1,867,397
Short-term loans	2,062,636	-	--	-	2,062,636
Total liabilities	3,771,875	40,721	114,085	3,352	3,930,033
Net position	(2,323,180)	(36,849)	(61,890)	(581)	(2,422,500)

COMPANY					
At 31 December 2012					
Assets					
Balances with correspondent banks	**2,830,030**	**139,840**	**453,129**	**130,091**	**3,553,090**
Cash in vaults	**117,698**	**16,906**	**53,904**	**53,862**	**242,370**
Forward Contracts	**1,378,550**	**-**	**-**	**-**	**1,378,550**
Loans and advances to customers	-	-	-	-	-
Total assets	**4,326,278**	**156,746**	**507,033**	**183,953**	**5,174,010**
Liabilities					
Customer deposits	**2,271,360**	**149,857**	**264,567**	**110,274**	**2,796,058**
Short-term loans	**925,579**	**-**	**-**	**-**	**925,579**
Total liabilities	**3,196,939**	**149,857**	**264,567**	**110,274**	**3,721,637**
Net position	**1,129,339**	**6,889**	**242,466**	**73,679**	**1,452,373**

COMPANY					
At 31 December 2011					
Assets					
Balances with correspondent banks	53,218	1,746	50,895	896	106,755
Cash in vaults	25,017	1,586	1,294	1,782	29,679
Forward Contracts	141,075	-	-	-	141,075
Loans and advances to customers	1,228,399	-	-	-	1,228,399
Total assets	1,447,709	3,332	52,189	2,678	1,505,908
Liabilities					
Customer deposits	1,709,239	40,721	114,085	3,352	1,867,397
Short-term loans	2,062,636	-	-	-	2,062,636
Total liabilities	3,771,875	40,721	114,085	3,352	3,930,033
Net Position	(2,324,166)	(37,389)	(61,896)	(674)	(2,424,125)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

4. Financial risk management (continued)

(g) Operational risks

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

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

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

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

(h) Capital Management

Regulatory capital

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

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

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

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

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

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

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

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

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

Capital Adequacy Requirement

The Group's available Tier 1 and Tier 2 capital is required to be a minimum of 6% and 8% respectively, of its risk bearing assets and contingent liabilities. At 31 December 2012, the Group's available capital was 13% for tier 1 (2011: 14%) and 14% (2011: 15%) for tier 2 of all its risk bearing assets and contingent liabilities.

In thousands of Malawi Kwacha

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

4. *Financial risk management (continued)*

(h) Capital Management (continued)

Capital Adequacy Requirement (continued)

	COMPANY	
Capital Management	**2012**	2011
Paid up share capital	**363,822**	363,822
Share Premium	**2,323,895**	2,323,895
Retained Earnings Prior Periods	**3,561,811**	2,310,980
Net Profit - Current year (60%)	**235,039**	762,091
Core Capital (Tier 1 Capital)	**6,484,567**	5,760,788
Revaluation reserves	**552,017**	290,207
Total capital (Tier 2 Capital)	**7,036,584**	6,050,995

(i) Prudential Aspects of Bank's Liquidity

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

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

As at 31 December 2012, the Group's liquidity Ratio 1 was **24%** (2011– 40%)

-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 2012, the Group's Liquidity Ratio 2 was **20%** (2011 – 37%).

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

Liquidity Reserve Requirement

The Group 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 Group did not comply in May 2012 with this requirement. The position was normalized within a week after the breach.

5. *Use of estimates and judgements*

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

These disclosures supplement the commentary on financial risk management.

(a) Key source of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 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.

In thousands of Malawi Kwacha

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

5. Use of estimates and judgements (continued)

Determining fair values
determination of fair value for financial assets and financial liabilities for which there is no observable market price require the use of valuation techniques as described in accounting policy 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.

(b) Critical accounting judgements in applying the Group's accounting policies
Critical accounting judgements made in applying the Group's accounting policies include:

Financial asset and financial liability classification
The Group's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances.

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

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

6. Accounting classifications and fair values of financial instruments

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

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

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

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

GROUP				
31 December 2012				
Financial assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	**9,344,143**	**-**	**-**	**9,344,143**
Loans and advances to customers	**-**	**-**	**35,714,754**	**35,714,754**
Investment securities	**-**	**7,043,499**	**-**	**7,043,499**
	9,344,143	**7,043,499**	**35,714,754**	**52,102,396**
Financial liabilities				
Deposits from customers	**39,503,620**	**-**	**-**	**39,503,620**
Short term loan	**-**	**-**	**8,132,983**	**8,132,983**
	39,503,620	**-**	**8,132,983**	**47,636,603**
31 December 2011				
Financial assets				
Cash and cash equivalents	11,145,477	-	-	11,145,477
Loans and advances to customers	-	-	36,007,914	36,007,914
Investment securities	-	2,984,295	-	2,984,295
	11,145,477	2,984,295	36,007,914	50,137,686
Financial liabilities				
Deposits from customers	45,420,911	-	-	45,420,911
Short term loan	-	-	2,079,217	2,079,217
	45,420,911	-	2,079,217	47,500,128

In thousands of Malawi Kwacha

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

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

COMPANY				
31 December 2012				
Financial assets				
Cash and cash equivalents	**9,344,143**	**-**	**-**	**9,344,143**
Loans and advances to customers	**-**	**-**	**35,756,509**	**35,756,509**
Investment securities	**-**	**7,043,499**	**-**	**7,043,499**
	9,344,143	**7,043,499**	**35,756,509**	**52,144,151**
Financial liabilities				
Deposits from customers	**39,503,620**			**39,503,620**
Short term loan	**-**	**-**	**8,132,983**	**8,132,983**
	39,503,620	**-**	**8,132,983**	**47,636,603**
31 December 2011				
Financial assets				
Cash and cash equivalents	11,140,381	-	-	11,140,381
Loans and advances to customers	-	-	36,013,145	36,013,145
Investment securities	-	2,984,295	-	2,984,295
	11,140,381	2,984,295	36,013,145	50,137,821
Financial liabilities				
Deposits from customers	45,458,670	-	-	45,458,670
Short term loan	-	-	2,079,217	2,079,217
	45,458,670	-	2,079,217	47,537,887

GROUP					
31 December 2012	**Designated at fair value**	**Loans and receivables**	**Other amortised cost**	**Total carrying amount**	**Fair value**
Financial assets					
Cash and cash equivalents	**9,344,143**	**-**	**-**	**9,344,143**	**9,344,143**
Loans and advances to customers	**-**	**35,714,754**	**-**	**35,714,754**	**35,714,754**
Investment securities	**7,043,499**	**-**	**-**	**7,043,499**	**7,043,499**
Total	**16,387,642**	**35,714,754**	**-**	**52,102,396**	**52,102,396**
Financial liabilities					
Deposits from customers	**-**		**39,503,620**	**39,503,620**	**39,503,620**
Short term loan	**-**	**-**	**8,132,983**	**8,132,983**	**8,132,983**
Total	**-**	**-**	**47,636,603**	**47,636,603**	**47,636,603**
31 December 2011					
Financial assets					
Cash and cash equivalents	**11,145,477**	**-**	**-**	**11,145,477**	**11,145,477**
Loans and advances to customers	**-**	**36,007,914**	**-**	**36,007,914**	**36,007,914**
Investment securities	**2,984,295**	**-**	**-**	**2,984,295**	**2,984,295**
Total	**14,129,772**	**36,007,914**	**-**	**50,137,686**	**50,137,686**
Financial liabilities					
Deposits from customers	**-**	**-**	**45,420,911**	**45,420,911**	**45,420,911**
Short term loan		**-**	**2,079,217**	**2,079,217**	**2,079,217**
Total	**-**	**-**	**47,500,128**	**47,500,128**	**47,500,128**

In thousands of Malawi Kwacha

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

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

COMPANY					
31 December 2012					
Cash and cash equivalents	**9,344,143**	**-**	**-**	**9,344,143**	**9,344,143**
Loans and advances to customers	**-**	**35,756,509**	**-**	**35,756,509**	**35,756,509**
Investment securities	**7,043,499**	**-**	**-**	**7,043.499**	**7,043.499**
Total	**16,387,642**	**35,756,509**	**-**	**52,144,151**	**52,144,151**
Deposits from customers	**-**		**39,503,620**	**39,503,620**	**39,503,620**
Short term loan	**-**	**-**	**8,132,983**	**8,132,983**	**8,132,983**
Total	**-**	**-**	**47,636,603**	**47,636,603**	**47,636,603**
31 December 2011					
Cash and cash equivalents	11,140,381	-	-	11,140,381	11,145,477
Loans and advances to customers	-	36,013,145	-	36,013,145	36,007,914
Investment securities	2,984,295	-	-	2,984,295	2,984,295
Total	14,124,676	36,013,145	-	50,137,821	50,137,686
Deposits from customers	-	-	45,458,670	45,458,670	45,458,670
Short term loan	-	-	2,079,217	2,079,217	2,079,217
Total	-	-	47,537,887	47,537,887	47,537,887

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

In thousands of Malawi Kwacha

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

7. Cash and cash equivalents

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Cash balances	**2,029,361**	1,657,923	**2,029,361**	1,655,088
Balance with Reserve Bank of Malawi	**2,708,051**	7,663,934	**2,708,051**	7,663,934
Balances due from other banks	**3,829,427**	838,142	**3,829,427**	835,881
Money market investments due within 3 months (note 8)	**777,304**	985,478	**777,304**	985,478
Cash and cash equivalents	**9,344,143**	11,145,477	**9,344,143**	11,140,381

8. Money market investments

	GROUP	COMPANY
Government of Malawi and Reserve Bank of Malawi bills	**2,356,617**	3,699,141
Government of Malawi Promissory Note	**5,197,890**	-
Government of Malawi Local Registered Stocks	**266,296**	270,632
Total investments	**7,820,803**	3,969,773
The investments are due to mature as follows:		
• Within three months (Note 7)	**777,304**	985,478
• Between three months and one year	**7,043,499**	2,984,295
	7,820,803	3,969,773

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

In thousands of Malawi Kwacha

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

9. *Loans and advances to customers*

	GROUP		COMPANY	
	2012	2011	**2012**	2011
Loans and overdrafts	**26,266,900**	26,146,953	**26,308,653**	26,152,184
Lease contracts	**2,358,630**	2,583,247	**2,358,630**	2,583,247
Mortgage advances	**9,251,496**	7,937,928	**9,251,498**	7,937,928
Total gross loans and advances	**37,877,026**	36,668,128	**37,918,781**	36,673,359
Allowance for impairment	**(2,162,272)**	(660,214)	**(2,162,272)**	(660,214)
Net loans and advances	**35,714,754**	36,007,914	**35,756,509**	36,013,145

Total loans and advances are due to mature as follows:

Within one year	**18,692,278**	15,528,288	**18,692,278**	15,528,288
After one year	**19,184,748**	21,139,840	**19,226,503**	21,145,071
	37,877,026	36,668,128	**37,918,781**	36,673,359
Movement on allowance for impairment:				
At beginning of year	**660,214**	571,930	**660,214**	571,930
Amounts written-off	**(59,348)**	(100,934)	**(59,348)**	(100,934)
Increase in impairment net of recoveries	**1,561,406**	189,218	**1,561,406**	189,218
Balance at end of year	**2,162,272**	660,214	**2,162,272**	660,214

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

Gross investment in finance leases receivable:

	GROUP AND COMPANY	
	2012	2011
Receivable less than one year	**1,296,410**	1,171,243
Receivable more than one year	**2,592,821**	2,283,373
	3,889,231	3,454,616
Unearned finance income	**(1,530,601)**	(871,369)
Net investment in finance leases	**2,358,630**	2,583,247
Net investment in finance leases, receivable:		
Less than one year	**529,012**	529,890
Between one and five years	**1,829,618**	2,053,357
	2,358,630	2,583,247

The analysis of the allowance for impairment is fully described in note 3 (h) (vi).

In thousands of Malawi Kwacha

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

10. Intercompany balances

	COMPANY	
	2012	2011
Amount due from subsidiary		
Balance at 1 January	120,028	86,694
Additions during the year	21,449	33,334
Balance at 31 December	141,477	120,028
Amounts due to subsidiary		
Balance at 1 January	33,237	33,545
Additions/ (repayments) during the year	7,933	(308)
Balance at 31 December	41,170	33,237

11. Equity investment

	GROUP		COMPANY	
	2012	2011	**2012**	2011
NICO Properties Limited	**33,665**	18,665	**33,665**	18,665

NBS Bank Limited holds 2.5% in NICO Properties Limited.

12. Investment in subsidiary

	COMPANY	
	2012	2011
Investment in NBS Forex Bureau Limited	**42,600**	42,600

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

In thousands of Malawi Kwacha

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

13. Property and equipment

GROUP

2012	Owned property	Motor vehicles, fixtures and fittings	Capital work in progress - buildings	Capital work in progress - equipment	Total
Cost or valuation					
Balance at 1 January 2012	**679,182**	**3,137,487**	**254,778**	**986,269**	**5,057,716**
Additions during the year	**-**	**670,645**	**289,243**	**681,369**	**1,641,257**
Revaluations	**211,959**	**-**	**-**	**-**	**211,959**
Transfers within classes	**(31,141)**	**31,141**	**-**	**-**	**-**
Balance at 31 December 2012	**860,000**	**3,839,273**	**544,021**	**1,667,638**	**6,910,932**
Comprising of:					
Valuation	**472,909**	**-**	**-**	**-**	**472,909**
Cost	**387,091**	**3,839,273**	**544,021**	**1,667,638**	**6,081,985**
	860,000	**3,839,273**	**544,021**	**1,667,638**	**6,910,932**
Accumulated depreciation and impairment losses					
Balance at 1 January	**31,053**	**1,332,630**	**-**	**-**	**1,363,683**
Charge for the year	**18,798**	**480,407**	**-**	**-**	**499,205**
Eliminated on revaluation	**(49,851)**	**-**	**-**	**-**	**(49,851)**
Balance at 31 December 2012	**-**	**1,813,037**	**-**	**-**	**1,813,037**
Carrying amount					
At 31 December 2012	**860,000**	**2,026,236**	**544,021**	**1,667,638**	**5,097,895**

GROUP

2011	Owned property	Motor vehicles, fixtures and fittings	Capital work in progress - buildings	Capital work in progress - equipment	Total
Cost or valuation					
Balance at 1 January 2011	752,260	2,477,934	-	887,096	4,117,290
Additions during the year	-	508,087	191,356	351,374	1,050,817
Transfer within classes	(73,078)	185,895	63,422	(181,373)	(5,134)
Transfers to intangible assets (note 14)	-	-	-	(70,828)	(70,828)
Disposal during the year	-	(34,429)	-	-	(34,429)
Balance at 31 December 2011	679,182	3,137,487	254,778	986,269	5,057,716
Comprising of:					
Valuation	546,780	-	-	-	546,780
Cost	132,402	3,137,487	254,778	986,269	4,510,936
	679,182	3,137,487	254,778	986,269	5,057,716
Accumulated depreciation and impairment losses					
Balance at 1 January 2011	18,865	1,026,503	-	-	1,045,368
Charge for the year	19,023	328,739	-	-	347,762
Transfer within classes	(6,835)	1,701	-	-	(5,134)
Eliminated on disposal	-	(24,313)	-	-	(24,313)
Balance at 31 December 2011	31,053	1,332,630	-	-	1,363,683
Carrying amount					
At 31 December 2011	648,129	1,804,857	254,778	986,269	3,694,033

In thousands of Malawi Kwacha

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

13. Property and equipment (continued)

COMPANY

2012	Owned property	Motor vehicles, fixtures and fittings	Capital work in progress - buildings	Capital work in progress - equipment	Total
Cost or valuation					
Balance at 1 January 2011	**679,182**	**3,069,193**	**254,778**	**986,269**	**4,989,422**
Additions	**-**	**670,645**	**289,243**	**681,369**	**1,641,257**
Revaluations	**211,959**	**-**	**-**	**-**	**211,959**
Transfers within classes	**(31,141)**	**31,141**	**-**	**-**	**-**
Balance at 31 December 2012	**860,000**	**3,770,979**	**544,021**	**1,667,638**	**6,842,638**
Comprising of:					
Valuation	**472,909**	**-**	**-**	**-**	**472,909**
Cost	**387,091**	**3,770,979**	**544,021**	**1,667,638**	**6,369,729**
	860,000	**3,770,979**	**544,021**	**1,667,638**	**6,842,638**
Accumulated depreciation and impairment losses					
Balance at 1 January 2011	**31,053**	**1,318,012**	**-**	**-**	**1,349,065**
Charge for the year	**18,798**	**472,241**	**-**	**-**	**491,039**
Eliminated on revaluation	**(49,851)**	**-**	**-**	**-**	**(49,851)**
Balance at 31 December 2011	**-**	**1,790,253**	**-**	**-**	**1,790,253**
Carrying amount					
At 31 December 2012	**860,000**	**1,980,724**	**544,021**	**1,667,638**	**5,052,385**

COMPANY

2011	Owned property	Motor vehicles, fixtures and fittings	Capital work in progress - buildings	Capital work in progress - equipment	Total
Cost or valuation					
Balance at 1 January 2011	752,260	2,428,508	-	887,096	4,067,864
Additions	-	489,219	191,356	351,374	1,031,949
Transfers within classes	(73,078)	185,895	63,422	(181,373)	(5,134)
Transfers to intangible assets (note 13)	-	-	-	(70,828)	(70,828)
Disposals	-	(34,429)	-	-	(34,429)
Balance at 31 December 2011	679,182	3,069,193	254,778	986,269	4,989,422
Comprising of:					
Valuation	546,780	41,412	-	-	588,192
Cost	132,402	3,027,781	254,778	986,269	4,401,230
	679,182	3,069,193	254,778	986,269	4,989,422
Accumulated depreciation and impairment losses					
Balance at 1 January 2011	18,865	1,021,027	-	-	1,039,892
Charge for the year	19,023	319,597	-	-	338,620
Transfers within classes	(6,835)	1,701	-	-	(5,134)
Eliminated on disposal	-	(24,313)	-	-	(24,313)
Balance at 31 December 2011	31,053	1,318,012	-	-	1,349,065
Carrying amount					
At 31 December 2011	648,129	1,751,181	254,778	986,269	3,640,357

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 Group and Company and are open for inspection by members or their duly authorised agents.

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

In thousands of Malawi Kwacha

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

14. Intangible assets

	GROUP		COMPANY	
	2012 Total	2011 Total	**2012 Total**	2011 Total
Cost				
Balance at 1 January	**202,489**	118,905	**202,489**	118,905
Additions	**4,381**	12,756	**4,381**	12,756
Transfer from work in progress (Note 12)	**-**	70,828	**-**	70,828
Balance at 31 December	**206,870**	202,489	**206,870**	202,489
Accumulated amortization and impairment				
Balance at 1 January	**71,041**	47,513	**71,041**	47,513
Amortization for the year	**76,970**	23,528	**76,970**	23,528
Balance at 31 December	**148,011**	71,041	**148,011**	71,041
Carrying amount				
At 31 December	**58,859**	131,448	**58,859**	131,448

Intangible assets relate to purchased software.

15. Other assets

Consumable stationery	**88,360**	60,908	**88,360**	60,908
Prepayments and sundry debtors	**691,981**	794,172	**660,947**	768,618
Cheques in course of collection	**1,550,206**	1,217,208	**1,550,206**	1,217,208
	2,330,547	2,072,288	**2,299,513**	2,046,734

16. Customer deposits

	GROUP AND COMPANY	
	2012	**2011**
Current accounts	6,348,511	14,835,475
Savings accounts	12,364,986	10,173,409
Investments accounts	2,607,999	6,941,151
Term deposit accounts	21,321,496	31,950,035
Maturing within 3 months	13,135,374	3,121,517
Maturing between 3 and 12 months	2,273,193	9,238,816
	15,408,567	12,360,333

17. Short-term loan

PTA Bank	-	1,772,785
International Finance Corporation (IFC)	-	85,300
NORSAD Finance Limited (Norsad)	925,860	182,476
Reserve Bank of Malawi loan	7,207,123	-
Pension funds loan	-	18,646
	8,132,983	2,059,207

Analysed as follows:	**IFC**	**NORSAD**	**RBM**	**Pension Funds**	**PTA**	**Total**
Balance at 1 January 2012	**85,300**	**182,476**	**-**	**18,646**	**1,772,785**	**2,059,207**
Interest charges	**2,807**	**16,438**	**207,123**	**617**	**119,325**	**346,310**
Additions	**-**	**861,593**	**7,000,000**	**-**	**-**	**7,861,593**
Repayment during the year	**(88,107)**	**(134,647)**	**-**	**(19,263)**	**(1,892,110)**	**(2,134,127)**
Balance at 31 December 2012	**-**	**925,860**	**7,207,123**	**-**	**-**	**8,132,983**

In thousands of Malawi Kwacha

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

17. Short-term loan (continued)

IFC approved an unsecured loan of US$ 3 million to NBS Bank Limited in August 2007 at an agreed fixed rate of 8.6% per annum repayable in 5 years commencing 15 July 2009. This loan was used for onward lending to Small Medium Enterprises with a repayment period of 2 years and it has now been fully repaid as at 31 December 2012.

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

Pension funds loan is for a 5 year term effective June 2006 at prime interest +2% and was utilized in renovating the NBS Bank Limited, Blantyre Branch property.

The Group accessed MK7.2 billion loan from the Reserve Bank of Malawi to cater for short-term financing needs, the loan is repayable within three months.

The Group acquired a short-term loan facility of US$ 20 million from PTA Bank with interest at 7.25% per annum in December 2010 renewable every six months.

18. Long -term loans

	GROUP AND COMPANY	
	2012	**2011**
Malawi Government	**20,010**	20,010
NICO Life Insurance Company Limited	**456,535**	-
	476,545	20,010

Malawi Government loan

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

NICO Life Insurance Company Limited loan

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

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

In thousands of Malawi Kwacha

19. Deferred tax assets and liabilities

(a) Deferred tax assets and liability

GROUP		2012			2011	
	Assets	**Liability**	**Net**	Assets	Liability	Net
Capital allowances on property and equipment	**-**	**(326,143)**	**(326,143)**	-	(254,993)	(254,993)
Fair value adjustments	**-**	**(4,652)**	**(4,652)**	3,572	-	3,572
Severance provision	**-**	**-**	**-**	22,031	-	22,031
Others	**1,985**	**(21,041)**	**(19,056)**	31,387	(29,889)	1,498
	1,985	**(351,836)**	**(349,851)**	56,990	(284,882)	(227,892)

COMPANY						
Capital allowances on property and equipment	**-**	**(326,143)**	**(326,143)**	-	(254,993)	(254,993)
Fair value adjustments	**-**	**(4,652)**	**(4,652)**	3,572	-	3,572
Severance provision	**-**	**-**	**-**	22,031	-	22,031
Others	**32,321**	**(21,041)**	**11,280**	43,907	(29,889)	14,018
	32,321	**(351,836)**	**(319,515)**	69,510	(284,882)	(215,372)

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

GROUP	**As at 1 January 2012**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**As at 31 December 2012**
Property and equipment	**(254,993)**	**(71,150)**	**-**	**(326,143)**
Fair value adjustment	**3,572**	**-**	**(8,224)**	**(4,652)**
Severance provision	**22,031**	**(22,031)**	**-**	**-**
Other	**1,498**	**(20,554)**	**-**	**(19,056)**
	(227,892)	**(113,735)**	**(8,224)**	**(349,851)**

COMPANY				
Property and equipment	**(254,993)**	**(71,150)**	**-**	**(326,143)**
Fair value adjustment	**3,572**	**-**	**(8,224)**	**(4,652)**
Severance provision	**22,031**	**(22,031)**	**-**	**-**
Other	**14,018**	**(2,738)**	**-**	**11,280**
	(215,272)	**(95,919)**	**(8,224)**	**(319,515)**

(b) Unrecognised deferred tax assets and liabilities –Group

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

20. Other liabilities

	GROUP		COMPANY	
	2012	2011	**2012**	2011
Unpresented cheques	**97,620**	73,554	**97,620**	73,554
Accruals	**1,712,131**	1,267,964	**1,808,030**	1,348,510
PAYE and other taxes	**184,082**	131,153	**184,082**	131,821
Bills payable	**1,593,808**	99,671	**1,593,808**	99,671
	3,587,641	1,572,342	**3,683,540**	1,653,556

21. Share capital

GROUP AND COMPANY		
	2012	2011
Authorised share capital	**500,000**	500,000
1,000,000,000 (2011: 1,000,000,000) Ordinary Shares of MK0.50 each		
The holders of ordinary shares are entitled to receive dividends as declared from time to time		
Issued and fully paid (thousands of shares)	**727,643**	727,643
The movement in ordinary shares during the year was as follows:		
At 1 January issued and fully paid shares	**727,643**	520,743
Shares issued - 31 October 2011	**-**	206,900
Total share capital issued at end of year	**727,643**	727,643
Weighted average number of shares as at 31 December	**727,643**	555,143
The movement in share capital during the year was as follows (in thousands of Malawi Kwacha):		
At 1 January issued and fully paid shares of 50t each	**363,822**	260,372
Shares issued - 31 October 2011	**-**	103,450
Total share capital issued at end of year	**363,822**	363,822

22. Share premium

Share premium	**2,323,895**	2,323,895

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

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

23. Revaluation reserve

The revaluation reserve relates to the surplus arising on the revaluation of properties. Surplus for the year is included in statement of comprehensive income. This is not available for distribution to owners until realized.	552,017	290,207

24. Fair value reserve

	10,855	(8,336)

The fair value reserve includes the cumulative net change in the fair value of available for sale investments measured at fair value through other comprehensive income, excluding impairment losses, until the investment is derecognized.

In thousands of Malawi Kwacha

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

25. Net interest income

	GROUP		COMPANY	
Interest income	**2012**	2011	**2012**	2011
Interbank loans	**50,205**	78,419	**50,205**	78,419
Personal loans	**1,163,156**	612,633	**1,163,156**	612,633
Corporate loans	**2,974,097**	1,326,672	**2,974,097**	1,326,672
Short-term loans	**67,415**	52,682	**67,415**	52,682
Mortgage loans	**2,285,267**	1,338,679	**2,285,267**	1,338,679
Tobacco loans	**505,528**	200,080	**505,528**	200,080
Investment securities	**446,767**	221,949	**446,767**	221,949
Overdrafts	**2,576,555**	1,556,635	**2,583,851**	1,560,708
Lease contracts	**593,959**	427,567	**593,959**	427,567
SME loans	**161,646**	196,731	**161,646**	196,731
Total interest income	**10,824,595**	6,012,047	**10,831,891**	6,016,120
Interest expense				
Current Accounts	**194,102**	92,699	**195,119**	95,699
Savings Deposits	**541,354**	287,849	**541,354**	287,849
Investment Deposits	**350,990**	405,280	**350,990**	405,280
Fixed Deposits	**2,093,115**	789,889	**2,093,115**	789,889
FCD Accounts	**46,793**	42,642	**46,793**	42,642
Inter-bank – borrowing	**1,499,414**	-	**1,499,414**	-
Interest – RBM loan	**214,123**	-	**214,123**	-
Interest – Norsad/IFC/PTA loans	**201,974**	265,399	**201,974**	265,399
Total interest expense	**5,141,865**	1,883,758	**5,142,882**	1,886,758
Net interest income	**5,682,730**	4,128,289	**5,689,009**	4,129,362

26. Fees, commission and other charges

	GROUP		COMPANY	
Income	**2012**	2011	**2012**	2011
Bank charges and commission	**1,660,116**	1,475,954	**1,681,563**	1,495,096
Income from ATM Transactions	**344,641**	240,574	**344,641**	240,574
VISA Income	**107,121**	61,525	**107,121**	61,525
	2,111,878	1,778,053	**2,133,325**	1,797,195
Expense				
Bank charges	**(19,457)**	(14,651)	**(19,457)**	(14,651)
Net fees and commission income	**2,092,421**	1,763,402	**2,113,868**	1,782,544

27. Other operating income Group and Company

	2012	2011
Rental income	**234**	7,593
Reversal of severance	**-**	397,651
	234	405,244

In thousands of Malawi Kwacha

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

28. Personnel expenses

	GROUP		COMPANY	
	2012	2011	**2012**	2011
Salaries and wages	**1,260,943**	1,053,665	**1,250,556**	1,031,894
Staff bonus	**-**	217,056	**-**	217,056
Other expenses	**528,824**	365,672	**525,556**	359,904
Mortgage loan subsidy	**195,295**	92,604	**192,539**	90,329
Christmas pay expenses	**16,449**	3,922	**16,449**	3,922
Training expenses	**69,848**	56,807	**69,848**	56,807
Management car scheme	**85,545**	88,520	**85,545**	88,520
	2,156,904	1,878,246	**2,140,493**	1,848,432

29. Other operating costs

Accommodation costs	**461,420**	376,379	**450,693**	362,934
Auditors' remuneration				
- Current year fees	**15,630**	10,550	**14,287**	9,800
- Other audit expenses and VAT	**8,645**	2,358	**8,645**	2,470
Cash collection expenses	**66,014**	49,827	**65,834**	48,856
Communication costs	**794,918**	568,926	**790,458**	561,511
Company shared expenses	**12,689**	22,057	**12,689**	22,057
Directors' expenses	**5,829**	4,122	**5,829**	4,122
Directors' remuneration	**6,991**	6,641	**6,991**	6,641
General expenses	**144,578**	115,406	**117,714**	113,323
Legal and professional fees	**258,565**	54,040	**258,406**	53,824
Loan interest	**617**	10,964	**617**	10,964
Malawi Stock Exchange listing fees	**7,167**	7,057	**7,167**	7,057
NICO Management fees	**84,920**	13,180	**84,920**	13,180
Projects and conferences expenses	**29,951**	21,259	**29,951**	21,259
Provision/(reversal of) for overdrawn balances	**421,675**	(29,201)	**421,675**	(29,201)
Restructuring expenses	**76,491**	48,850	**76,491**	48,850
Security expenses	**78,561**	79,759	**75,007**	75,644
Sundry business charges	**222,239**	50,781	**221,800**	50,460
Transfer Secretarial Expenses	**10,308**	10,386	**10,308**	10,386
	2,707,208	1,423,341	**2,659,482**	1,394,137

30. Income tax expense

	GROUP		COMPANY	
	2012	2011	**2012**	2011
Current tax expense	**637,165**	626,060	**637,165**	626,060
Tax losses carried forward	**(9,143)**	(10,519)	**-**	-
Origination and reversal of temporary differences	**132,000**	230,462	**132,000**	230,462
Total income tax charge	**760,022**	846,003	**769,165**	856,522
Reconciliation of tax charge				
Profit before tax	**1,486,483**	2,532,025	**1,561,101**	2,569,306
Income tax using corporate tax rate	**445,945**	759,608	**468,330**	770,792
Non-deductible expenses	**128,734**	40,066	**128,734**	39,401
Deferred tax	**185,343**	46,329	**172,101**	46,329
	760,022	846,003	**769,165**	856,522

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

In thousands of Malawi Kwacha

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

31. Earnings per share

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

GROUP		
	2012	2011
Net profit attributable to ordinary shareholders (Thousand Kwacha)	**726,461**	1,686,022
Weighted average number of ordinary shares (note 20)	**727,643**	555,143
Basic earnings per share (MK)	**1.00**	3.04
Diluted earnings per share (MK)	**1.00**	3.04

32. Capital commitments

As at 31 December 2012, the contracted but not yet incurred capital commitments were **MK416 million**.

The authorised but not yet contracted for commitments as at 31 December 2012 were **MK977million**.

These commitments are to be funded from internal resources.

33. Inflation and exchange rates

Exchange rates as at 31 December		
	2012	2011
United States Dollar (USD)	**344.64**	165.97
British Pound (GBP)	**565.20**	259.38
South African Rand (ZAR)	**41.47**	20.84
Inflation rates as at 31 December	**34.6%**	9.8%

At the date of approval of the Financial Statements, the exchange rates were as follows:

United States Dollar (USD)	389.27
British Pound (GBP)	613.50
South African Rand (ZAR)	45.40

34. Contingent Liabilities

The Bank is a defendant to several cases which are outstanding in the courts of Malawi. While liability is not admitted, if the defence against the actions is unsuccessful, then the Group would pay the claims estimated at MK105 million (2011: MK Nil).

35. Guarantees

The Group guarantees repayment of mortgage loans to NICO Life Insurance Company for its staff. Staff mortgages and all mortgage securities are registered in the Group's favour. The Group 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 2012 guaranteed staff mortgages were MK869 million (December 2011: MK741 million).

In thousands of Malawi Kwacha

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

36. Related party transactions

Identity of related party

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 Transaction MK'000 Dec. 2012	Balance of Transaction MK'000 Dec. 2012	Value of Transaction MK'000 Dec. 2011	Balance of Transaction MK'000 Dec. 2011
NICO Holdings Limited	**Holding**	Company account interest income	**171**	**-**	349	-
		Company account interest expense	**(490)**	**-**	(14,735)	-
		Dividend	**(204,104)**	**-**	(265,579)	
		Company Account	**-**	**(51,305)**	-	(36,854)
		Fixed deposit interest	**(17,413)**	**-**	(3,164)	-
		Shared expenses	**(12,760)**	**(5,976)**	(22,833)	(3,861)
		Fixed deposit	**(1,135,762)**	**(431,428)**	(549,348)	-
NICO Life Insurance Company Limited	**Company**	Management fees	**8,164**	**4,080**	6,473	617
		Bank account	**-**	**(56,696)**	-	(373,570)
		Bank account Interest Income	**5,964**	**-**	2,280	-
		Bank account Interest expense	**(5,842)**	**-**	(2,345)	-
		Fixed deposit	**(22,383,454)**	**(3,431,278)**	(14,263,169)	(1,837,726)
		Fixed deposit Interest Expense	**(201,278)**	**-**	(177,747)	-
		Rent Expense	**(6,677)**	**-**	(8,740)	-
		Loan	**-**	**-**	-	(12,537)
		Loan Interest Expense	**(309)**	**-**	(5,237)	-
		Bank account	**-**			89
		Pension Contribution	**(134,264)**	**-**	(160,202)	-
NICO General Insurance Limited	**Company**	Bank account Interest Income	**1,748**	**-**	1,363	-
		Bank account Interest Expense	**(12,461)**	**-**	(3,645)	-
		Fixed deposit	**(12,920,713)**	**(1,523,295)**	(2,921,733)	(616,574)
		Fixed deposit interest expense	**(144,971)**	**-**	(22,701)	-
		Loan interest expense	**(62)**	**-**	(1,097)	-
		Loan				(1,865)
		General insurance premiums	**(41,828)**	**-**	(69,908)	-
		Bank account	**-**	**(100,317)**	-	(102,230)
		Bank account	**-**	**35**	-	135
NICO Technologies Limited	**Company**	Technical support	**(3,494)**	**(429)**	(4,002)	(1,407)
		Bank account	**-**	**(4,810)**	-	(664)
		Bank account interest income	**1,003**	**-**	220	-
		Fixed deposit	**(56,227)**	**(7,631)**	(51,221)	(12,126)
		Bank account interest expense	**(24)**	**-**	(36)	-
		Fixed deposit interest	**(1,114)**	**-**	(239)	-
NICO Asset Management Limited	**Company**	Bank account	**-**	**(5,923)**	-	(11,214)
		Bank account interest income	**267**	**-**	138	-
		Bank account interest expense	**(72)**	**-**	(38)	-
		Fixed deposit	**(11,031,920)**	**(1,158,643)**	(165,889)	(8,188)
		Fixed deposit interest	**(166,702)**	**-**	(2,595)	-
Directors and Executive Officers	**Directors/ Managers**	Directors remunerations	**(6,991)**	**-**	(2,476)	-
		Executive managers remunerations	**(45,469)**	**-**	(66,579)	-
		Interest on Directors and Executive Managers Loans	**27,515**	**-**	26,223	-
		Loans	**-**	**100,877**	-	191,347

In thousands of Malawi Kwacha

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

36. Related party transactions (continued)

Transactions with key management personnel

Key management personnel have transacted with the group during the period as follows:

	Directors and their related parties	Employees	Directors and their related parties	Employees
	2012	**2012**	2011	2011
Advances	**100,877**	**352,984**	191,347	439,000
Deposits	**(1,768)**	**(44,392)**	(8,828)	(22,888)
Net balances	**99,109**	**308,592**	182,519	416,112
Interest received	**27,515**	**17,684**	26,223	16,681
Interest paid	**-**	**-**	-	(148)
	27,515	**17,684**	26,223	16,533

Advances to directors and parties related thereto are conducted at arms length and deemed to be adequately secured. Advances to staff comprise **MK63 million** (2011: MK90 million) interest free loans and MK227 million (2011: MK198 million) at an interest rate of 9 % the remaining balance carries commercial interest rates.

Advances to related parties at concessionary rates of interest are valued at the present value of expected future repayments of the advances discounted at a pre-tax discount rate that equates to the interest rate charged by the Bank on similar loans to non-related parties. Consequently, an allowance for impairment losses of **MK93 million** (2011: MK55 million) has been made against low interest advances to employees. No other impairment losses have been recorded against loans to related parties.

Directors' and management compensation for the year comprised:

GROUP AND COMPANY		
	2012	**2011**
Executive Managers' salary	45,469	63,579
Executive Directors' remuneration	6,991	6,641
Executive Managers' bonus	-	2,774

In thousands of Malawi Kwacha

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

37. Segment reporting

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

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

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

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

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

2012	Note	Northern Region	Central Region	Southern Region	Shared services	Total
Net interest income	25	142,546	1,049,409	3,711,800	778,975	5,682,730
Other operating income		287,395	718,281	792,873	1,546,862	3,345,411
Operating expenses		(324,934)	(706,005)	(726,826)	(4,222,487)	(5,980,252)
Total segment revenue		105,007	1,061,685	3,777,847	(1,896,650)	3,047,889
Segment contribution		105,007	1,061,685	3,777,847	(1,896,650)	3,047,889
Impairment losses on financial assets	9	-	-	-	(1,561,406)	(1,561,406)
Reportable profit for the year before income tax		105,007	1,061,685	3,777,847	(3,458,056)	1,486,483
Reportable segment assets		1,263,034	7,027,241	18,408,392	32,924,696	59,623,363
Total assets		1,263,034	7,027,241	18,408,392	32,924,696	59,623,363
Reportable segment liabilities		3,026,199	10,546,322	16,251,828	29,799,014	59,623,363
Income tax expenditure	9				760,022	760,022
Depreciation and amortization	13, 14				576,175	576,175
Capital expenditure	13, 14				1,641,259	1,641,259

In thousands of Malawi Kwacha

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

37. Segment reporting (continued)

2011	Note	Northern Region	Central Region	Southern Region	Shared services	Total
Net interest income	25	119,919	672,752	1,633,541	1,702,077	4,128,289
Other operating income		235,721	492,393	634,383	1,265,444	2,627,941
Operating expenses		(300,317)	(654,189)	(674,152)	(2,406,329)	(4,034,987)
Total segment revenue		55,323	510,956	1,593,772	561,192	2,721,243
Segment contribution		55,323	510,956	1,593,772	561,192	2,721,243
Impairment losses on financial assets	10	-	-	-	(189,218)	(189,218)
Reportable profit for the year before income tax		55,323	510,956	1,593,772	371,974	2,532,025
Reportable segment assets		1,051,992	5,803,379	14,901,617	34,354,122	56,111,110
Total assets		1,051,992	5,803,379	14,901,617	34,354,122	56,111,110
Reportable segment liabilities		2,603,536	13,861,678	25,378,649	14,267,247	56,111,110
Income tax expenditure	30				(846,003)	(846,003)
Depreciation and amortisation	13, 14				371,290	371,290
Capital expenditure	13, 14				1,050,817	1,050,817

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

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

38. Subsequent events

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

Share holder distribution as at 31 December 2012

Industry Codes

Industry	Total Shares	Total Shares %	Total Holders	Holders %
BANKS/NOMINEES	12,895,766	1.77	32	0.49
FOREIGN COMPANY	131,898,578	18.13	3	0.05
INSURANCE / ASSURANCE	9,910,374	1.36	9	0.14
INVEST/TRUST ETC.	47,093,486	6.47	41	0.63
LOCAL COMPANY	376,053,957	51.68	75	1.15
NON RESIDENT	1,509,107	0.21	31	0.48
OTHER CORP	3,314,131	0.46	18	0.28
PENSION/PROVIDENT	26,089,407	3.59	24	0.37
RESIDENT IND	118,878,533	16.34	6,261	96.41
TOTALS	**727,643,339**		**6,494**	

Shareholding Distribution

MSE Code	Distribution Range	Shares	Total Shares %	Holders	Holders %
NBS	1 - 5000	3,079,862	0.42	1,291	19.88
NBS	100001 - 200000	13,525,333	1.86	102	1.57
NBS	50001 - 100000	15,663,843	2.15	228	3.51
NBS	25001 - 50000	17,095,832	2.35	493	7.59
NBS	500001 - 1000000	17,108,887	2.35	24	0.37
NBS	200001 - 500000	17,645,800	2.43	60	0.92
NBS	5001 - 25000	45,837,629	6.30	4,273	65.80
NBS	1000001 - 999999999	597,686,153	82.14	23	0.35
TOTALS		**727,643,339**		**6,494**	

Country

Country	Total Shares	Total Shares %	Total Holders	Holders %
BOTSWANA	2,006	0.00	1	0.02
CANADA	211,112	0.03	1	0.02
CAYMAN ISLANDS	901	0.00	1	0.02
ETHIOPIA	4,389	0.00	1	0.02
GHANA	710,000	0.10	1	0.02
KENYA	21,112	0.00	1	0.02
LESOTHO	49,084	0.01	1	0.02
MALAWI	593,306,799	81.54	6,448	99.29
MAURITIUS	7,883	0.00	1	0.02
NETHERLANDS	20,000	0.00	1	0.02
NORWAY	8,128	0.00	1	0.02
OMAN	18,895	0.00	1	0.02
SOUTH AFRICA	533,400	0.07	9	0.14
SWAZILAND	5,278	0.00	1	0.02
TANZANIA	236,340	0.03	4	0.06
UNITED KINGDOM	557,302	0.08	11	0.17
UNITED STATES OF AMERICA 131,911,224	18.13	6	0.09	
ZIMBABWE	39,486	0.01	4	0.06
TOTALS	**727,643,339**		**6,494**	

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