

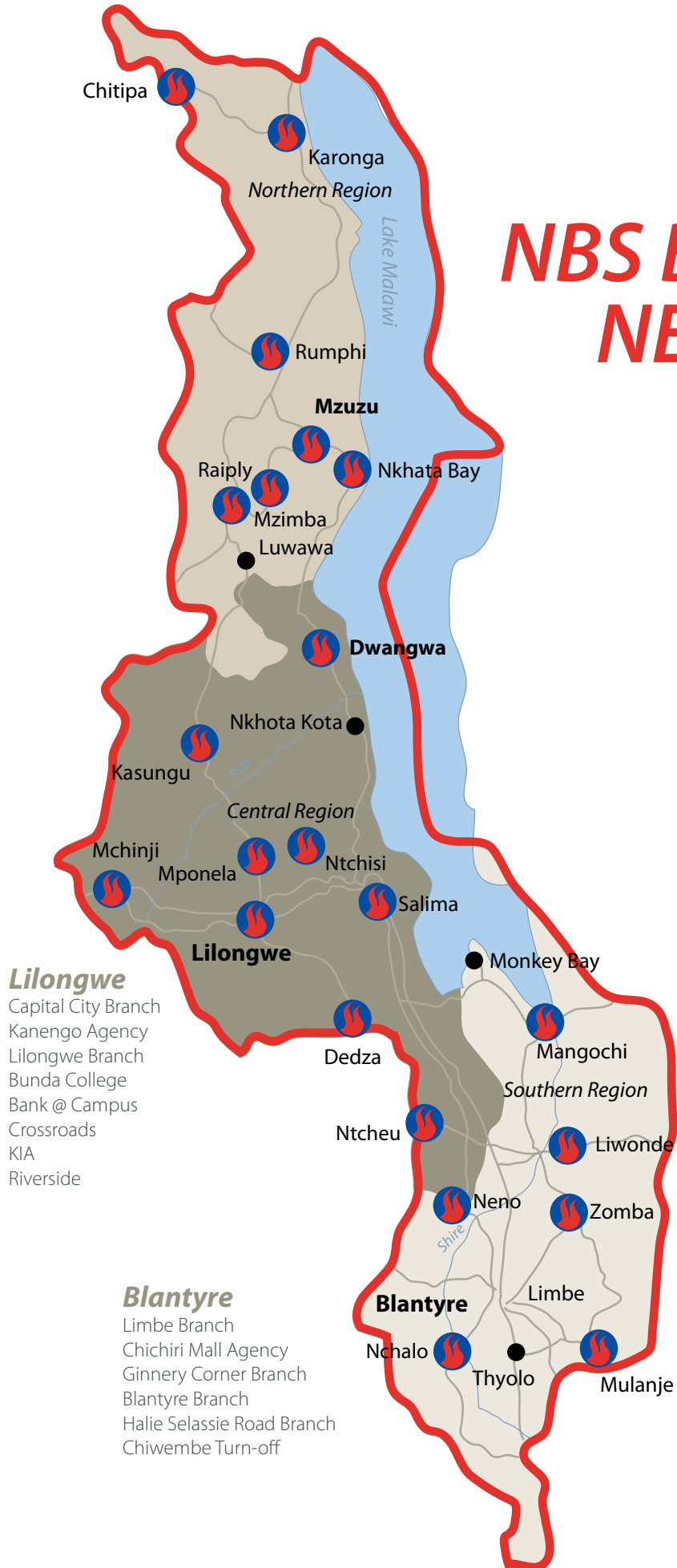
2010 annual report



NBS Bank
Your Caring Bank

BANKING TOGETHER. GROWING TOGETHER. STRONGER EVERY DAY.

NBS BRANCH NETWORK



Lilongwe

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

Blantyre

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

Zomba

- Zomba Branch
- Bank @ Campus - Chancellor College

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NBS Bank
Your Caring Bank

CORPORATE PROFILE

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

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

The Bank's predecessor institution, the New Building Society, was formed following the amalgamation of the Central African Building Society, Commonwealth Century Building Society and First Building Society. It was incorporated under the Building Societies Act on 7th February 1964.

The Bank was listed on The Malawi Stock Exchange on 25th June 2007. The objective was to raise capital to invest in its infrastructure by refurbishing branches and upgrading the Bank's information technology systems to offer a more convenient and efficient service to customers. The current shareholding is as follows: NICO 60%, Public 28.7%, National Investment Trust Limited (NITL) 8.1% and ESOP 3.2%

In line with its philosophy of "Taking banking to the people", the Bank boasts of having probably the best footprint in Malawi. It has well over 35 online-real-time services centres strategically placed across

the country. In addition, the Bank offers mobile and SMS banking services to give its customers additional service delivery platforms.

NBS Bank continues to be a market leader in mortgage financing in Malawi, currently commanding 70% the share of the market. The mortgages are to a large extent funded by savings deposits which also constitute a vital part of our 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.

Our view on competition is simple. Ambitious and aggressive, driven and determined, enthusiastic and energetic, we cultivate the opportunity to compete. 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.

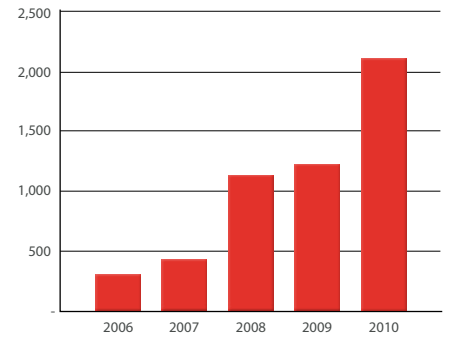
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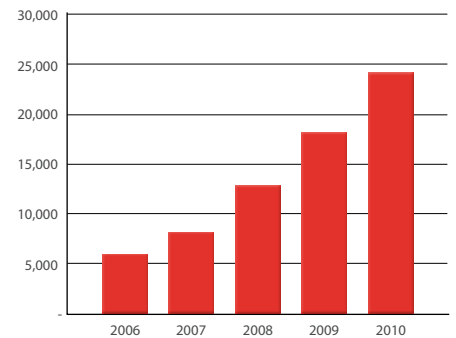
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FINANCIAL HIGHLIGHTS

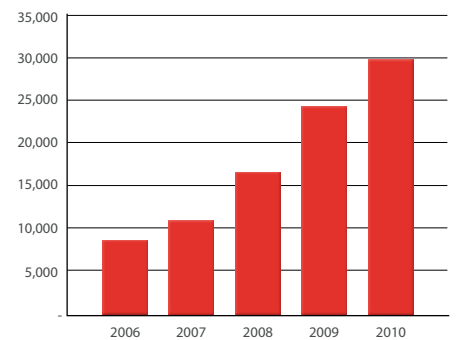
NET PROFIT BEFORE TAX



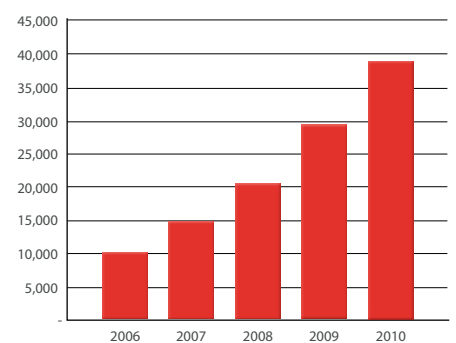
LOANS AND ADVANCES



TOTAL DEPOSITS



TOTAL ASSETS





Mr Felix Mlusu,
Chairman

I am pleased to report that the Bank, under the guidance of its Board of Directors, delivered yet another year of exceptional performance despite operating in a challenging environment.

Economic Environment

The Malawi economy grew by 6.5% in 2010, lower than the forecast growth of 7.2% and 2009 growth of 7.6%. The slowdown was mainly on account of a marked decrease in the growth of agriculture compared to 2009 following dry spells experienced in most parts of the country at the beginning of the 2009/2010 growing season. Additionally, key sectors of the economy such as manufacturing experienced a disruption in economic activity due to foreign exchange shortages, fuel shortages and electricity outages.

Having adjusted downwards by two percentage points in August 2010 from 15.0%, the bank rate remained unchanged at 13.0% by the end of December 2010. Correspondingly, commercial banks' average prime lending rates and savings rates remained unchanged averaging 17.75% and 4% respectively.

report

CHAIRMAN'S REPORT

The inflation rate decreased from 7.6% in 2009 to 6.3% by the end of December 2010 on account of stable food prices which constitutes 58% of the retail price index.

The Kwacha remained stable against the United States Dollar in 2010 averaging K150 per US\$ although it ranged from K170 to K200 on the parallel market due to scarcity of the US Dollar on the domestic market.

Performance

Notwithstanding the challenging environment, the Bank continued to record exceptionally above average growth mainly attributed to diligent execution of its business strategies. The Bank closed the year with a profit before tax of MK2.098 billion representing a growth of 74% compared to same period prior year. Average return on equity before tax improved significantly from 55% in 2009 to 68% in 2010 whilst the cost/income ratio continued to decline from 71% in 2009 to 65% by December 2010.

As a consequence of the good performance, the Bank recommended a dividend of 75 tambala per share in 2010, a 36% increase from 55 tambala per share declared in 2009.

Outlook

Inflation is expected to remain under control as a result of the expected increase in food production due to the continuation of fertilizer subsidy program and favorable weather conditions. Notwithstanding, the availability of foreign exchange and energy supply are likely to remain the downside risks.

Social Responsibility

For over six years now, the Bank has been sponsoring the Mulanje Mountain Porters' Race. This is Malawi's only extreme sport. It draws participation from both Malawians and foreigners. The participating Malawians mainly comprise tour guides who show tourists various places of natural beauty on the Mulanje Mountain.

In 2010, the Bank also sponsored the Country Club Limbe Monthly Mug and Winner of Winners Golf Competition. This sponsorship gives the Bank a chance to interact with key business influencers and high net worth customers and thank them for their support.

During the year, the Bank made a donation of K500,000 to Nguludi Mission hospital towards the renovation of the hospital's storage room which was destroyed by a hail storm. Nguludi Mission Hospital saves many lives of people in and around Chiradzulu District.

The Bank also donated various medicines to a clinic at Kabwafu Smallholder Tobacco Farmers Scheme. This was in appreciation of the long standing business relationship between the Association and the Bank. During the donation, the Bank facilitated an arrangement under which farmers in the scheme became members of Medical Aid Society of Malawi so that they can access affordable medical services.

Lastly, but not least, in 2010 the Bank donated 5 computers to the Ministry of Gender, Children and Community

Development towards its Rural Girls School Leaver Basic Computer Skills Training Programme in Mulanje.

Staff

We believe that our long-term success lies in our ability to deliver outstanding services to our clients. In that light, we will continue to invest in the skills and development of our uniquely diverse employee base and will strive to create for them an environment of true meritocracy.

Conclusion

I would like to sincerely thank all our customers and business associates for their continued support to this great institution. We are grateful for the confidence that you have shown in the team that serves you and we count on your continued support in the year 2011 and beyond.

I also want to appreciate my fellow Directors of the NBS Bank Board for their devotion and commitment that has enabled us to steer this institution to success. Finally, I want to sincerely thank the management and staff of the Bank for delivering such impressive results.

Thank you,



F L Mlusu
Chairman

directors

NBS DIRECTORS



Mr Felix Mlusu,
Chairman



Mrs Bernadette Nkhwazi,
Director



Mr Vizenge Kumwenda,
Director



Mr Lucious Mandala,
Director



Mr Chadwick Mphande,
Director



Mr Joe Swankie,
Director



Mr Evans Matabwa,
Director



Mrs Estelle Nuka,
Director

NBS SENIOR MANAGEMENT



Mr John S Biziwick,
Chief Executive Officer



Mr Gilford Kadzakumanja,
Deputy Chief Executive
Officer



Mr Martin Ndenya,
Finance/ICT Executive
Company Secretary



Mr Shadreck Chikusilo,
Senior Branch Manager
Blantyre Branch



Mr Stanley Mkwamba,
Head of Retail Banking



Mr Paul Kanthambi,
Head of ICT



Mr Sam Kamkosi,
Head of Credit



Mr Aubrey Chalera,
Head of Corporate
Banking



Mrs Lusekelo Kaoloka,
Head of Treasury and
International Trade



Mr Dumisani Chatima,
Head of Internal Audit



Mr Tryson Kalanda,
Senior Branch Manager
Capital City Branch



Mr Richard Kunjawa,
Head of HR and
Administration

report

CHIEF EXECUTIVE OFFICER'S REPORT



Mr John S Biziwick,
CEO

I am pleased to report that the Bank performed very well during the year under review. This performance was achieved despite operating in a very challenging local environment characterised by cut throat competition, low foreign currency reserves and the lingering effects of the just ending global financial crisis.

Notwithstanding the challenging environment, our activities steadfastly focused on taking NBS Bank towards its vision of Being the Bank of Choice in Malawi. We maintained our resolve to pursue our purpose of empowering the lives and livelihoods of the Malawi people both socially and economically by availing them of modern and financially inclusive services and products. In turn, the customers gave us unwavering support, hence our superior financial performance.

Business Performance

The Bank reported a significant growth in profit before tax of 74% from MK1.2 billion in 2009 to MK2.098 billion in 2010. Total deposits grew by 22% from MK24 billion in 2009 to MK29 billion in 2010. And gross advances grew by 35% from MK18 billion in 2009 to MK24.7 billion in 2010.

New Products and Services

Based on our commitment to remain market led and customer centric in the light of the ever evolving needs and expectations of our customers, we have continued to offer innovative and financially inclusive products and services. The Bank introduced the NBS Women in Business Programme to cater specifically for women's needs. This was in the light of the knowledge that women in business, unlike their male counterparts, generally face unique challenges like lack of collateral, low literacy levels and lack of business skills compared to their male counterparts.

In the year, we also became the first bank in Malawi to start acquiring China Union Pay debit and credit cards on our ATM network. This is to facilitate and take advantage of the increasing trade between Malawi and China.

In a bid to make our branches a one stop financial services shop, we also introduced several value-added services in 2010. These include payment of electricity and water bills, and payment of DSTV subscriptions over the counter to complement payments through our ATMs.

Lastly, the Bank also introduced the NBS EazySweep Account. This is a premium investment account aimed at giving serious savers a higher return on their investment in the light of the declining interest rate regime.

ICT Infrastructure

During the year, the Bank successfully upgraded its Globus Banking System from G12 to T24. This Globus version is rated as one of the leading banking systems in the world with the flexibility to seamlessly integrate with other systems thus giving the Bank the capability to offer a wide range of value-added financial services to its customers.

Delivery Channels

In pursuit of its philosophy of taking banking to the people, NBS Bank continued to support one of the largest branch networks in Malawi in the year under review. In addition, the Bank added its footprint in the country by opening yet more outlets in Mponela, Ntchisi, Salima, Balaka and Chiwembe in Limbe.

Furthermore, in 2010, the Bank introduced SMS banking to provide to its customers additional platforms from which to access its services. This innovative way of delivering service allows customers to access banking services remotely, in a convenient way, without having to go to the bank.

Challenges

Although the Bank performed soundly throughout the year and delivered good lending and deposit growths, it experienced a few challenges, the most crucial one being the lack of foreign exchange which is one of the key drivers of the economy. In addition, the competitive landscape continued to be hostile with most banks trying to get a bigger share in the slow growing economy.

Our People

Our belief is simple: happy staff create happy customers, which in turn means satisfied stakeholders. As key to delivering quality customer service, we committed ourselves to providing training, guidance and support. We further ensured that the Bank has flexible work practices and a range of health and well-being initiatives were pursued to support our workforce.

Looking to the Future

Over the past year, we have invested and positioned ourselves to seize business opportunities locally and globally and therefore our focus going forward will be on leveraging on the significant investments made in the past and the strong and recognizable NBS Bank Eazy Brand to maximise shareholder value while consolidating on the gains made.

Appreciation

Finally, I would like to take this opportunity to thank the Chairman and his Board of Directors for the guidance they gave to the Bank throughout the year. I also thank all our stakeholders for their unwavering trust, support and partnership. Last but not least, I sincerely thank my colleagues, staff and management who make up this great Bank. I am grateful for your tireless efforts, commitment and dedication and I feel honoured to be your team leader. With your support we are well positioned to deliver what our customers expect and deserve in the coming year – Just Like That!



John S Biziwick
Chief Executive Officer



events

MAJOR EVENTS OF 2010

NBS Bank opens new branches - in 2010 NBS Bank opened five new agencies namely Salima, Ntchisi, Mponela, Balaka and Chiwembe turn off. The bank did this in pursuit of its philosophy of taking banking to the people.

NBS Bank rewards tobacco farmers

As a way of encouraging tobacco farmers to save money for use in the subsequent season as well as appreciating their business, NBS Bank conducts a smallholder farmers' fixed deposit promotion every year.

In the promotion, farmers are required to open fixed deposit accounts and in turn they win many different prizes both instantaneously and also in a draw at the end of the promotion

This year, the winner for the grand prize went away with a 3 tonner truck and three runners up went away with a tobacco balling jack each.

Principal Secretary in The Ministry of Agriculture, Mrs Erica Maganga and NBS Bank CEO, Mr John Bizwick presenting prizes to winners in the NBS Bank 2010 Tobacco Farmers Fixed Deposit Promotion.





Executive Vice President of International Finance Corporation (IFC) visits NBS Bank SME customers

During the year, the Executive Vice President of the International Finance Corporation, Lars Thunnel, visited NBS Bank SME customers in order to appreciate how the IFC loan to NBS Bank is benefiting the SME sector. The vice president visited Naturals Company which produces Khathi Khathi Malambe Juice. He also visited Mr Mbewe who manufactures maize mills and also fabricates other metal products.



IFC Executive Vice President Lars Thunnel visits NBS Bank SME customers



NBS Bank conducts deposit mobilization promotion

As a way of encouraging a savings culture amongst its customers, NBS Bank conducted a Save and Win Deposit Promotion during the year. In this promotion, customers were required to either open accounts or simply make deposits into their existing accounts and they stood a chance to win different cash prizes every fortnight. The promotion climaxed with the winning of a grand prize of K500,000 at its conclusion.



NBS Bank Head of Retail Banking, Stanley Mkwamba presenting a K500,000 dummy cheque to winner of the grand prize in the Save and Win Promotion.

responsibi

CORPORATE SOCIAL RESPONSIBILITY

NBS Bank endeavors to contribute positively towards the wellbeing of the communities in the areas in which it operates. To this end, the Bank made several philanthropic acts in the year.

Mount Mulanje Porter's Race

The 6th competition of the Mulanje Mountain Porter's Race was again fully sponsored by NBS Bank. The country's only extreme sport covering 25km of running up and down the Mulanje Mountain attracted more international participants this time around with the locals following suit.

The race was graced by the Deputy Minister of Tourism, Wildlife & Culture in appreciation of the Bank's commitment in assisting to create awareness about the conservation of natural resources on Mulanje mountain.

2010 Mt. Mulanje Porter's Race Winners pose for a group photograph



Nguludi Mission Hospital donation

The Bank made a donation of K500,000 to Nguludi Mission Hospital towards the renovation of the hospital's storage room which was destroyed by a hail storm.

NBS Bank Deputy Chief Executive Officer, Mr Gilford Kadzakumanja, presenting a dummy cheque to the chairman of the Board for the hospital.



Country Club Limbe monthly Mug and Winner of Winners Golf Competition sponsorship

The December 2010 NBS Bank Monthly Mug and Winner of Winners was for the sixth consecutive year sponsored by the Bank. In addition a donation of K100, 000 was made towards green maintenance to the club.

NBS Bank Chief Executive Officer, Mr John Biziwick, presenting a K100,000 dummy cheque to the Country Club Limbe Golf captain



Donation to an Orphanage

Members of staff from the Banks' Capital City Branch made a donation of assorted items which included groceries, blankets and mats to Kamsinjiro Orphanage in Kasungu. Bank.

NBS Bank staff members presenting the donation to the orphanage.



Kabwafu donation of medicines and post season party

To celebrate with its clients, NBS Bank sponsored a post season party at Kabwafu. During the event the bank also donated various medicines to a clinic on the scheme. This was in appreciation of the long standing business relationship between the Association and the Bank.

NBS Bank Chief Executive Officer, Mr John Biziwick, making a donation of medicines to the Kabwafu Farmers Trust Chairman, Inkosi Mpherembe.



Computer donation

The Bank donated 5 computers to the Ministry of Gender, Children and Community Development towards its Rural Girls School Leaver Basic Computer Skills Training Programme in Mulanje.

NBS Bank Head of Retail Banking, Stanley Mkwamba, presenting the computers to Honourable Patricia Kaliati, Member of Parliament for the area.

Shareholding Statistics for NBS Bank Limited as at 31 December 2010

Industry Codes		
	Shares	Holders
Local Company	316,904,008	76
Resident Ind	109,972,735	6,211
Invest/Trust Etc.	48,303,588	37
Pension/Provident	20,129,666	20
Banks/Nominees	8,779,724	39
Foreign Company	7,863,889	2
Insurance / Assurance	6,053,676	8
Other Corp	1,988,063	17
Non Resident	747,984	27
Totals	520,743,333	6,437

Countries		
	Shares	Holders
Malawi	510,936,645	6,398
Ghana	5,963,889	1
Usa	1,923,646	5
United Kingdom	752,518	11
South Africa	482,455	5
Tanzania	236,340	4
Canada	211,112	1
Ethiopia	83,389	1
Lesotho	49,084	1
Zimbabwe	29,202	3
Kenya	21,112	1
Oman	18,895	1
Cayman Islands	10,556	1
Loans	9,078	1
Norway	8,128	1
Swaziland	5,278	1
Botswana	2,006	1
Totals	520,743,333	6,437

Share Holding Distribution		
Share Range	Shares	Holders
0 - 1000	38,211	67
1001-5000	2,850,238	784
5001-10000	18,731,163	2,809
10001-20000	23,855,389	1,622
20001-50000	22,598,738	763
50001-100000	14,196,704	214
100001-500000	26,660,515	141
500001-1000000	10,874,947	17
1000001-10000000	43,187,148	17
10000001-20000000	10,736,390	1
20000001-50000000	34,569,445	1
> 50M	312,444,445	1
Totals	520,743,333	6,437

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Statements of Financial Position

*Annual Financial Statements for
the year ended 31 December 2010*



NBS Bank
Your Caring Bank

numbers

DIRECTOR'S REPORT

The directors have pleasure in submitting the Consolidated and separate financial statements of NBS Bank Limited for the year ended 31 December 2010.

Nature of Business

NBS BANK Limited was registered as a financial institution under the Banking Act 1989 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:

	<u>2010</u>	<u>2009</u>
	%	%
NICO Holdings Limited	60.0	60.0
National Investment Trust Limited	6.6	6.6
Public	31.4	30.2
Employee Share Ownership Scheme	2.0	3.2
	<u>100.0</u>	<u>100.0</u>

Financial Performance

The Group reported profit before tax of MK2,098 million for the year to 31 December 2010 (2009: MK1,207 million) and net profit after tax of MK1,404 million (2009: MK810 million). Total income at MK7.4 billion (2009: K5.2 billion) grew by 43%, and was made up of MK4.6 billion interest income and K2.8 billion non-interest income. Interest income grew by 28% and non – interest income by 79%, the later growth was spurred by satisfactory supply of foreign exchange during the months of March to June . Net interest income at MK3.2 billion grew by 27% due to challenges in maintaining an appropriate mix of deposits. Total deposits at MK29.7 billion grew by 22% and gross advances at MK24.7 grew by 35% due to increased points of representation and increased business from existing customer base. Assets grew by 32% during the same year mainly as a result of increase in cash balances from loan proceeds.

Economic Overview

The economy of Malawi performed well, albeit below previous year. The decline in growth was mainly on account of deceleration in agricultural output as a result of erratic rains and dry spell that affected some areas of the country. However, there were encouraging growth rates in mining, financial services and manufacturing that mitigated the aggregate slowdown.

The economy during the year grew by 6.5%. The forecast was that it would grow by 7.2 % . In 2009, the economy grew by 7.6 % .

Although tobacco output was good 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. However, the exchange rate remained relatively stable throughout the year.

Inflation decreased from 7.6 % in December 2009 to 6.3 % in December 2010 on account of stable prices of food which constitutes over 58% of the retail price index. However, the money supply increased as a result of increase in credit to private sector.

The Bank Rate remained at 13% and banks maintained an average lending rate of 19% with deposit rates averaging 5%.

Strategy

The Group continued to grow the asset and deposit base through its strategy of taking banking to the people. A number of outlets and business initiatives 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 utilizes 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 statements of financial position, statements of comprehensive income and statements of cash-flows and associated accounting policies and notes.

Dividend

The Board of Directors recommend a dividend payment for 2010 of MK384 million (2009: MK271.3 million) being 75 tambala per share made up of 25 tambala per share interim dividend paid on 20th October 2010 and 50 tambala per share being proposed final dividend to be paid in June 2011.

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 regulation, legislation and standard of operations. The sub committees of the Board are chaired by a non-executive director.

Directorate and Secretary

The following directors and secretary served during the year:

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

The board met four times during the year.

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

Responsibilities of the Finance and Audit Committee include:

- Review the audit plan with the external auditors, with specific reference to the proposed audit scope and approach;
- Review management reports and letters received from the external auditors concerning deviations from and weaknesses in accounting and operational controls, and ensure that prompt action is taken by management and that issues are satisfactorily resolved;
- Obtaining assurance from the external auditors that adequate accounting records are being maintained;
- Review the adequacy of capital, provisions for bad debts and diminution in the value of other assets, and the formulae applied by the 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 generally accepted accounting practices. And also to 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 internal audit charter annually, that should formally outline the purpose, authority and responsibility of the internal audit function;
- Consider reports and letters received from the Banking supervisory authorities and other regulatory bodies, and management's responses thereto where they concern matters of compliance and the duties and responsibilities of the board of directors of the Group;
- Monitor the compliance with the Companies Act, Banking Act and the Stock Exchange Listing Requirements and all other applicable legislation;
- Consider the development of accounting standards and requirements and review statements on ethical standards or requirements for the Group;
- Review and make recommendations on any potential conflicts of interest relating to situations of a material nature and
- Review of the trading book risk, the groups liquidity and interest rate risks, among others.

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

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

The committee met seven times during the year.

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
Mrs. B. Nkhwazi	- Member
Mr.V. Kumwenda	- Member

The committee met four times during the year.

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

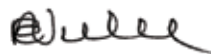
The committee met nine times during the year.

Auditors

KPMG Certified Public Accountants have expressed interest to continue in office in respect of the company's financial statements for the year ending 31 December 2011, and a resolution will be proposed at the Forthcoming Annual General Meeting for their appointment.



CHAIRMAN



DIRECTOR

25 March 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements for NBS Bank Limited, comprising the statement of financial position at 31 December 2010, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and 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 the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Consolidated and separate financial statements comply with the Malawi Companies Act, 1984.

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

- Maintenance of proper accounting records;
- Selection of suitable accounting policies and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Compliance with applicable accounting standards, when preparing Consolidated and separate financial statements, subject to any material departures being disclosed and explained in the Consolidated and separate financial statements; and
- Preparation of Consolidated and separate financial statements on a going concern basis unless it is inappropriate to presume that the Group 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 ability to continue as a going concern and have a reasonable expectation that the Bank 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 annual financial statements are fairly presented in accordance with applicable financial reporting framework.


Approval of Financial Statements

The financial statements of the Bank, as indicated above, were approved by the Board of Directors on **25 March 2011** and are signed on its behalf by.

By order of the Board.



CHAIRMAN



DIRECTOR

report

INDEPENDENT AUDITOR'S 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 statements of financial position as at 31 December 2010, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and cash flow statements for the year then ended, and the notes to the consolidated and separate financial statements, which include a summary of significant accounting policies and other explanatory notes as set out on pages 28 to 63.

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 e 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.

Auditor's 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, these consolidated and separate financial statements fairly present, in all material respect, of the consolidated financial position of the group and company as at 31 December 2010 and of its consolidated financial performance and its consolidated 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.



KPMG
Certified Public Accountants (Malawi)
Blantyre

25 March 2011

Consolidated and Separate Statements of Financial Position**As at 31 December 2010**

In thousands of Malawi Kwacha

	Note	Group 2010	Company 2010	2009
ASSETS				
Cash and cash equivalents	7	9,166,100	9,134,059	6,137,262
Money market investments	11	1,199,078	1,199,078	1,793,109
Loans and advances to customers	10	24,143,692	24,143,692	17,945,806
Other assets	8	1,023,888	930,228	591,623
Amounts due from subsidiary company	9	-	86,694	-
Property and equipment	12	3,071,922	3,027,972	2,612,298
Intangible assets	13	71,392	71,392	53,685
Equity investments	14	18,665	61,265	68,530
Deferred tax assets	19	155,351	178,390	115,828
Total assets		<u>38,850,088</u>	<u>38,832,770</u>	<u>29,318,141</u>
LIABILITIES AND EQUITY				
Liabilities				
Current and savings accounts	15	19,123,635	19,123,635	18,265,965
Foreign currency denominated accounts		2,309,924	2,309,924	899,715
Amounts due to subsidiary company	9	-	33,545	-
Term deposit accounts	15	8,262,881	8,262,881	5,151,826
Short -term loan	16	3,028,773	3,028,773	-
Other liabilities	17	1,057,049	1,055,868	636,080
Income tax payable		91,449	91,449	173,551
Long -term loans	18	721,471	721,471	1,140,605
Provisions	19	471,087	471,087	374,257
Deferred tax liabilities	19	173,597	173,597	156,042
Total liabilities		<u>35,239,866</u>	<u>35,272,230</u>	<u>26,798,041</u>
Equity				
Issued capital	20	260,372	260,372	246,667
Share premium	21	602,756	602,756	314,948
Revaluation reserve	22	297,648	297,648	278,443
Loan loss reserve	23	124,202	124,202	124,202
Fair value reserve	24	14,264	14,264	16,045
Retained earnings		2,310,980	2,261,298	1,539,795
Total equity		<u>3,610,222</u>	<u>3,560,540</u>	<u>2,520,100</u>
Total liabilities and equity		<u>38,850,088</u>	<u>38,832,770</u>	<u>29,318,141</u>

The consolidated and separate financial statements of the group and company were approved for issue by the Board of Directors on 25 March 2011 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 62. The auditor's report is on page 22.

Consolidated Statement of Comprehensive Income

In thousands of Malawi Kwacha

	Note	Group 2010	Company 2010	2009
INCOME				
Interest on loans and advances		3,893,561	3,894,900	2,995,989
Interest on placements with other Banks		33,924	33,924	38,864
Income from lease financing		426,649	426,649	415,442
Income from money market investments		<u>247,971</u>	<u>247,971</u>	<u>153,653</u>
Total interest income	25	4,602,105	4,603,444	3,603,948
Interest expense		<u>(1,393,103)</u>	<u>(1,393,719)</u>	<u>(1,072,510)</u>
Net interest income	25	3,209,002	3,209,725	2,531,438
Fees and commission income	26	1,462,009	1,471,616	1,137,536
Profit on foreign exchange transactions		1,335,221	1,302,402	426,616
Other operating income	27	<u>22,728</u>	<u>22,728</u>	<u>10,765</u>
Operating Income		<u>6,028,960</u>	<u>6,006,471</u>	<u>4,106,355</u>
EXPENDITURE				
Personnel expenses	28	1,710,479	1,688,939	1,367,534
Recurrent expenditure on premises and equipment		344,405	344,192	282,769
Depreciation and amortisation	12,13	305,226	299,750	180,835
Other operating costs	29	<u>1,301,080</u>	<u>1,378,541</u>	<u>924,299</u>
Operating expenditure		<u>3,661,190</u>	<u>3,711,422</u>	<u>2,755,437</u>
Profit before impairment losses		2,367,770	2,295,049	1,350,918
Loan impairment losses	10	<u>(269,682)</u>	<u>(269,682)</u>	<u>(143,776)</u>
Profit before income tax expense		2,098,088	2,025,367	1,207,142
Income tax expense	30	<u>(693,877)</u>	<u>(670,838)</u>	<u>(397,077)</u>
Profit for the year		<u>1,404,211</u>	<u>1,354,529</u>	<u>810,065</u>
Other comprehensive income net of income tax				
Surplus on revaluation		44,647	44,647	53,735
Release of excess depreciation		(3,750)	(3,750)	-
Net loss on available for sale financial assets		<u>(1,781)</u>	<u>(1,781)</u>	<u>(1,314)</u>
Total other comprehensive income		<u>39,116</u>	<u>39,116</u>	<u>52,421</u>
Total comprehensive income for the year		<u>1,443,327</u>	<u>1,393,645</u>	<u>862,486</u>
Basic and diluted earnings per share (MK)	31	<u>2.85</u>		<u>1.64</u>

The consolidated and separate financial statements are to be read in conjunction with the notes from pages 28 to 62. The auditor's report is on page 22.

Consolidated Statements of Changes in Equity

In thousands of Malawi Kwacha

GROUP 2010	Share Capital	Share premium	Revaluation reserve	Available for sale fair value reserve	Loan loss reserve	Retained earnings	Total
Balance at 1 January 2010	<u>246,667</u>	<u>314,948</u>	<u>278,443</u>	<u>16,045</u>	<u>124,202</u>	<u>1,539,795</u>	<u>2,520,100</u>
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	1,404,211	1,404,211
Other comprehensive income net of income tax							
Decrease in fair value reserve	-	-	-	(1,781)	-	-	(1,781)
Release of excess depreciation	-	-	19,205	-	-	21,692	40,897
Total other comprehensive income	-	-	19,205	(1,781)	-	1,425,903	1,443,327
Transactions with owners, recorded directly in equity							
Dividends to equity holders	-	-	-	-	-	(296,000)	(296,000)
Bonus issue of shares	13,705	287,808	-	-	-	(358,718)	(57,205)
Total contributions by and distribution to owners	13,705	287,808	19,205	(1,781)	-	(654,718)	(353,205)
Balance at 31 December 2010	<u>260,372</u>	<u>602,756</u>	<u>297,648</u>	<u>14,264</u>	<u>124,202</u>	<u>2,310,980</u>	<u>3,610,222</u>
COMPANY 2010							
Balance at 1 January 2010	<u>246,667</u>	<u>314,948</u>	<u>278,443</u>	<u>16,045</u>	<u>124,202</u>	<u>1,539,795</u>	<u>2,520,100</u>
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	1,354,529	1,354,529
Other comprehensive income net of income tax							
Decrease in fair value reserve	-	-	-	(1,781)	-	-	(1,781)
Release of excess depreciation	-	-	19,205	-	-	21,692	40,897
Total other comprehensive income	-	-	19,205	(1,781)	-	1,376,221	1,393,645
Transactions with owners, recorded directly in equity							
Dividends to equity holders	-	-	-	-	-	(296,000)	(296,000)
Bonus issue of shares	13,705	287,808	-	-	-	(358,718)	(57,205)
Total contributions by and distribution to owners	13,705	287,808	-	-	-	(654,718)	(353,205)
Balance at 31 December 2010	<u>260,372</u>	<u>602,756</u>	<u>297,648</u>	<u>14,264</u>	<u>124,202</u>	<u>2,261,298</u>	<u>3,560,540</u>

The consolidated and separate financial statements are to be read in conjunction with the notes from pages 28 to 62.

The auditor's report is on page 22.

Consolidated Statements of Changes in Equity

In thousands of Malawi Kwacha

COMPANY 2009	Share Capital	Share premium	Revaluation reserve	Available for sale fair value reserve	Loan loss reserve	Retained earnings	Total
Balance at 1 January 2009	<u>246,667</u>	<u>314,948</u>	<u>224,708</u>	<u>17,359</u>	<u>124,202</u>	<u>976,397</u>	<u>1,904,281</u>
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	810,065	810,065
Other comprehensive income net of income tax							
Surplus on revaluation	-	-	53,735	-	-	-	53,735
Decreases in fair value reserve	-	-	-	(1,314)	-	-	(1,314)
Total other comprehensive income	-	-	53,735	(1,314)	-	-	52,421
Total comprehensive income	-	-	<u>53,735</u>	<u>(1,314)</u>	-	<u>810,065</u>	<u>862,486</u>
Transactions with owners, recorded directly in equity contributions by and distribution to owners							
Dividends to equity holders	-	-	-	-	-	(246,667)	(246,667)
Total contributions by and distribution to owners	-	-	-	-	-	(246,667)	(246,667)
Balance at 31 December 2009	<u>246,667</u>	<u>314,948</u>	<u>278,443</u>	<u>16,045</u>	<u>124,202</u>	<u>1,539,795</u>	<u>2,520,100</u>

The consolidated and separate financial statements are to be read in conjunction with the notes from pages 28 to 62.

The auditor's report is on page 22.

Consolidated Statements of Cash Flows

In thousands of Malawi Kwacha

	Notes	Group 2010	Company 2010	2009
CASHFLOWS FROM OPERATING ACTIVITIES				
Interest and fees received		7,422,063	7,400,190	5,178,865
Interest paid	25	(1,393,103)	(1,393,719)	(1,072,510)
Cash paid to suppliers and employees		<u>(2,875,763)</u>	<u>(2,968,289)</u>	<u>(3,527,559)</u>
		3,153,197	3,038,182	578,796
Movement in net customer balances		<u>(836,046)</u>	<u>(802,498)</u>	<u>2,738,258</u>
		2,317,151	2,235,684	3,317,054
Income tax paid		<u>(752,940)</u>	<u>(752,940)</u>	<u>(373,973)</u>
Net cash used in operating activities		<u>1,564,211</u>	<u>1,482,744</u>	<u>2,943,081</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds on disposal of property and equipment		12,845	12,845	12,613
Acquisition of property and equipment	12	(780,168)	(730,742)	(645,238)
Acquisition of intangible assets	13	(3,496)	(3,496)	(34,342)
Acquisition of investment securities	14	-	-	<u>(49,865)</u>
Net cash used in investing activities		<u>(770,819)</u>	<u>(721,393)</u>	<u>(716,832)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Long term loan repayment	18	(497,327)	(497,327)	(311,781)
Short term loan	16	3,028,773	3,028,773	281,000
Dividend paid		<u>(296,000)</u>	<u>(296,000)</u>	<u>(246,667)</u>
Net cash from financing activities		<u>2,235,446</u>	<u>2,235,446</u>	<u>(277,448)</u>
Net increase in cash and cash equivalents		3,028,838	2,996,797	1,948,801
Cash and cash equivalents at 1 January		<u>6,137,262</u>	<u>6,137,262</u>	<u>4,188,461</u>
Cash and cash equivalents at 31 December	7	<u>9,166,100</u>	<u>9,134,059</u>	<u>6,137,262</u>
ADDITIONAL STATUTORY DISCLOSURE				
Increase/(decrease) in net working capital		<u>2,272,243</u>	<u>2,328,076</u>	<u>(436,833)</u>

The consolidated and separate financial statements are to be read in conjunction with the notes from pages 28 to 62.

The auditor's 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. 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 and separate financial statements comprise the Group and its subsidiary, NBS Forex Bureau Limited (collectively known as The Group).

General information

The Group provides retail and corporate banking services through its 31 service centers across Malawi (2009:). 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 operation 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 (IFRS) published by the International Accounting Standards Board (IASB), and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that were relevant to its operations and effective for accounting periods beginning on 1 January 2010. These consolidated and separate financial statements have also been prepared in accordance with the provisions of Malawi Companies Act, 1984.

(b) Basis of measurement

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

- Investment held for trading are measured at fair value
- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- property and equipment are measured at the 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 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 notes 4 and 5.

(e) Changes in accounting policies

This is the first year that the Group is presenting consolidated and separate financial statements.

Notes to the Consolidated and Separate Financial Statements (Continued)**2. Basis of preparation (Continued)****(e) Changes in accounting policies (Continued)****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 exist 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 subsidiaries 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.

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.

3. Significant Accounting Policies

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated into Malawi Kwacha at the spot rate of exchange ruling at the date of the transactions. Monetary assets and meeting liabilities denominated in foreign currencies at the reporting date are translated to Malawi Kwacha at the spot exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Foreign exchange differences arising on translation are recognised in the profit or loss except for differences arising on translation of available-for-sale equity instruments. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Malawi Kwacha at foreign exchange rates ruling at the dates the values were determined.

(b) Interest Income and Expense

Interest income and expense are recognised in the profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and 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 of 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 23.

(c) Fees and Commission

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

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

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

Notes to the Consolidated and Separate Financial Statements (Continued)

3. Significant Accounting Policies (Continued)

(d) Lease payments made

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

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

(e) Income tax expense

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

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

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 on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

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

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. 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.

Residual interests ("retained interests"). Retained interests are primarily recorded in Available-for-sale investment securities and carried at fair value. Gains or losses on securitisation depend in part on the carrying amount of the transferred financial assets, allocated between the financial assets derecognised and the retained interests based on their relative fair values at the date of the transfer. Gains or losses on securitisation are recorded in other operating income.

(f) Financial instruments

(i) Recognition

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

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

(ii) Derecognition

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

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

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

Notes to the Consolidated and Separate Financial Statements (Continued)**3. Significant Accounting Policies (Continued)****(f) Financial instruments (Continued)**

The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the 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 set off 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 by the accounting standards, or for gains and losses arising from a company of similar transactions such as in the Bank's trading activity.

(iv) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or 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 more simple financial instruments like options and interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

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

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

(vi) Identification and measurement of impairment

At each reporting date the Bank 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

Notes to the Consolidated and Separate Financial Statements (Continued)

3. Significant Accounting Policies (Continued)

(f) Financial instruments (Continued)

(vi) Identification and measurement of impairment (Continued)

issuer will enter Bankruptcy, the disappearance of an active market for a security, or other observable data relating to a Company 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.

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 a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognized in other comprehensive income to profit or loss as a reclassification of 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 investment 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.

(g) Cash and cash equivalents

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

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

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

(h) Other assets

Other assets comprise payments sundry debtors and staff advances. Sundry debtors are stated at amortised cost less impairment losses.

(i) Impairment of non-financial assets

The carrying amounts of the Bank'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, 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 recoverable amount. Impairment losses are recognised in the profit or loss.

Notes to the Consolidated and Separate Financial Statements (Continued)**3. Significant Accounting Policies (Continued)****(i) Impairment of non-financial assets (Continued)**

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.

(j) 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, and subsequently measured at their amortised cost using the effective interest method, except when the Group chooses to carry the loans and advances at fair value through profit or loss as described in accounting policy (f)(vii).

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

(ii) Fair value through profit or loss

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

(iii) Available-for-sale

Available-for-sale investments are non-derivative investments that are 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.

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 the 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.

(l) Property and equipment**(i) Recognition and measurement**

Items of property and equipment are stated at cost or valuation less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use. Where relevant, the cost of dismantling and removing the items and restoring the site on which the assets were located is also included in the cost of the assets.

Notes to the Consolidated and Separate Financial Statements (Continued)

3. Significant Accounting Policies (Continued)

(I) Property and equipment (Continued)

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

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

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

(ii) Subsequent expenditure

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

(iii) Depreciation

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

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

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

Depreciation methods, useful lives and residual values are re-assessed at each 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. If the relevant project is completed, the expenditure is capitalised to the various items of property, plant and equipment. Capital work in progress is not depreciated.

(m) Intangible assets

Software

Software acquired by the Group is stated 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.

Notes to the Consolidated and Separate Financial Statements (Continued)**3. Significant Accounting Policies (Continued)****(m) Intangible assets** (Continued)

Amortisation is recognised in profit or loss on a straight line basis over the estimated useful life of the software, from the date it is available for use.

The 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.

(n) 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.

(o) 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 chooses to carry the liabilities at fair value through profit or loss.

The Bank measures customer deposit liabilities at fair value, with fair value changes recognised immediately in profit or loss.

(p) 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.

(q) 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).

(r) Employee benefits

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

The estimated liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense.

Notes to the Consolidated and Separate Financial Statements (Continued)

3. Significant Accounting Policies (Continued)

(r) Employee benefits (Continued)

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

(i) Defined contribution pension plans

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

The 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) Accrual for leave pay

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

(iv) Provision for severance allowance

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

(s) 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 are deducted from initial measurement of the equity instruments.

(t) Earnings per share

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

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

(u) Net trading income

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

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

(v) Grants

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

Notes to the Consolidated and Separate Financial Statements (Continued)**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
- 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 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 Finance and Audit Committee, Asset and Liability Committee (ALCO) 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 Group's risk management policies are established to identify and analyse the risk 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 training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Finance and Audit 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 Finance and Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Finance and Audit Committee.

(b) Credit Risk

Credit risk is the risk of financial loss to the 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).

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

Management of credit risk

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

- Formulating credit policies in consultation with the business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Management Credit Committee, Head of Credit, the Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. The Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the same review process.
- Limiting concentrations of exposure to counterparties, geographical location and industries (for loans and advances), and by issuer, credit rating band and market liquidity.
- Developing and maintaining the Group's risk gradings in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment may be required against specific credit exposures.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries and product types. Regular reports are provided to the Credit Committee on the credit quality of portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the 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 Risk Officer who reports on all credit related matters to management. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Notes to the Consolidated and Separate Financial Statements (Continued)**4. Financial risk management (Continued)**

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

Exposure to credit risk

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

Group and Company							
	Note	Loans and advances to customers		Loans and advances to other banks		Investment securities	
		2010	2009	2010	2009	2010	2009
Carrying amount	10,11	<u>23,313,692</u>	<u>16,595,238</u>	<u>830,000</u>	<u>1,350,568</u>	<u>2,242,964</u>	<u>4,566,826</u>
Individually impaired		1,679,489	793,698	-	-	-	-
Allowance for impairment	10	<u>(571,930)</u>	<u>(349,026)</u>	-	-	-	-
Carrying amount		<u>1,107,559</u>	<u>444,672</u>	-	-	-	-
Individually impaired							
7-12 months		1,040,652	351,068	-	-	-	-
13-24 months		410,590	201,303	-	-	-	-
> 24 months		<u>228,247</u>	<u>241,327</u>	-	-	-	-
Total		1,679,489	793,698	-	-	-	-
Allowance for impairment		<u>(571,930)</u>	<u>(349,026)</u>	-	-	-	-
Carrying amount		<u>1,107,559</u>	<u>444,672</u>	-	-	-	-
Past due not impaired		<u>3,333,731</u>	<u>2,732,640</u>	-	-	-	-
Carrying amount		<u>3,333,731</u>	<u>2,732,640</u>	-	-	-	-
Neither past due nor impaired		18,872,402	13,417,926	830,000	1,350,568	2,242,964	4,566,826
Carrying amount		<u>18,872,402</u>	<u>13,417,926</u>	<u>830,000</u>	<u>1,350,568</u>	<u>2,242,964</u>	<u>4,566,826</u>
Total carrying amounts	10	<u>23,313,692</u>	<u>16,640,238</u>	<u>830,000</u>	<u>1,350,568</u>	<u>2,242,964</u>	<u>4,566,826</u>

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 the 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 Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to 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 year end.

Notes to the Consolidated and Separate Financial Statements (Continued)**4. Financial risk management (Continued)**

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

	Loans and advances to customers	
	Group and Company 2010	Company 2009
Against individually impaired		
Property	869,826	271,648
Plant and equipmen	263,741	187,730
Against past due but not impaired		
Property	4,728,943	2,788,509
Plant and equipment	3,646,519	1,406,380
Against neither past due nor impaired		
Property	7,153,222	9,407,751
Plant and equipment	<u>2,108,939</u>	<u>1,452,507</u>
Total collateral held	<u>18,771,190</u>	<u>15,514,525</u>

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 and Company							
	Note	Loans and advances to customers		Loans and advances to other companies		Investment securities	
		2010	2009	2010	2009	2010	2009
Carrying amount	10,11	<u>23,313,692</u>	<u>16,595,238</u>	<u>830,000</u>	<u>1,350,568</u>	<u>2,242,964</u>	<u>4,566,826</u>
Concentration by sector:							
Retail		18,619,628	12,841,464	-	-	-	-
Corporate		4,694,064	2,749,342	-	-	-	-
Banks		-	<u>1,004,432</u>	<u>830,000</u>	<u>1,350,568</u>	<u>2,242,964</u>	<u>4,566,826</u>
	10,11	<u>23,313,692</u>	<u>16,640,238</u>	<u>830,000</u>	<u>1,350,568</u>	<u>2,242,964</u>	<u>4,566,826</u>
Concentration by location:							
Northern Region		733,970	965,152	-	-	-	-
Central Region		6,138,426	4,940,136	-	-	-	-
Southern Region		<u>16,441,296</u>	<u>10,689,950</u>	<u>830,000</u>	<u>1,350,568</u>	<u>2,242,964</u>	<u>4,566,826</u>
	10,11	<u>23,313,692</u>	<u>16,595,238</u>	<u>830,000</u>	<u>1,350,568</u>	<u>2,242,964</u>	<u>4,566,826</u>

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.

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

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

Exposure to liquidity risk

The key measure used by the 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 Company s, 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 (k).

(d) Residual contractual maturity of financial instruments

The table below analyses the financial assets and financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2010 to the contractual maturity date.

Group and Company					
FINANCIAL ASSETS	Up to 1 month	1-3 months	3-12 month	Over 1 year	Total
Cash and balances with banks	1,093,444	1,043,886	7,028,770	-	9,166,100
Investment securities (Note 11)	-	100,000	719,158	379,920	1,199,078
Loans and advances (Note 10)	7,295,239	3,177,285	9,821,121	3,850,047	24,143,692
Other assets	-	-	-	4,341,218	4,341,218
Total assets	8,388,683	4,321,171	17,569,049	8,571,185	38,850,088
FINANCIAL LIABILITIES					
Current and savings accounts	19,106,544	-	-	-	19,106,544
Term deposit accounts	1,372,119	1,749,398	2,065,563	3,075,801	8,262,881
Foreign currency denominated deposits	2,309,924	-	-	-	2,309,924
Other borrowed funds	-	3,028,772	-	721,47	3,750,243
Other liabilities	1,943,725	-	-	3,476,771	5,420,496
Total financial liabilities	24,732,312	4,778,170	2,065,563	7,276,074	38,850,088
Net Liquidity Gap	(16,343,629)	(456,999)	15,503,486	1,297,142	-
Cumulative Liquidity Gap	(16,343,629)	(16,800,628)	(1,297,142)	-	-

Notes to the Consolidated and Separate Financial Statements (Continued)**4. Financial risk management (Continued)****(d) Residual contractual maturity of financial instruments (Continued)**

The maturity gap analysis shows the 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.

(e) Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the 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 ALCO. The Group's ALCO is responsible for the development of detailed risk management policies (subject to review and approval by Finance and Audit Committee) and for the day-to-day review of their implementation.

Exposure to interest rate risk – non trading portfolios

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

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the 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(f).

Exposure to other market risks – non trading portfolios

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

(f) 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.

Notes to the Consolidated and Separate Financial Statements (Continued)**4. Financial risk management (Continued)****(f) Interest rate gap analysis (Continued)**

Group and Company							
At 31 December 2010							
Assets subject to interest rate adjustment				Fixed Rate Instruments			
	<u>Zero rate</u>	<u>Floating rate</u>	<u>0-3 months</u>	<u>3 -months</u>	<u>6-12 months</u>	<u>Over 12 months</u>	<u>Total</u>
Loans and advances:	-	24,143,692	-	-	-	-	24,143,692
Securities:	379,920	-	100,000	400,000	1,363,044	-	2,242,964
Other	<u>12,463,432</u>	-	-	-	-	-	<u>12,463,432</u>
Total rate sensitive assets (RSA)	<u>12,843,352</u>	<u>24,143,692</u>	<u>100,000</u>	<u>400,000</u>	<u>11,363,044</u>	<u>-</u>	<u>38,850,088</u>
Liabilities subject to interest rate adjustment							
Demand accounts	-	4,628,139	-	-	-	-	4,628,139
Savings deposits	-	14,523,919	-	-	-	-	14,523,919
Time deposits	-	-	3,076,003	1,702,921	362,642	3,075,801	8,217,367
Other borrowings	20,010	701,461	-	-	-	-	721,471
Other	<u>5,263,467</u>	<u>5,495,725</u>	-	-	-	-	<u>10,759,192</u>
Total rate sensitive liabilities (RSL)	<u>5,283,477</u>	<u>25,349,244</u>	<u>3,076,003</u>	<u>1,702,921</u>	<u>362,642</u>	<u>3,075,801</u>	<u>38,850,088</u>
Asset /Liability Gap	<u>7,559,875</u>	<u>(1,205,552)</u>	<u>(2,976,003)</u>	<u>(1,302,921)</u>	<u>1,000,402</u>	<u>(3,075,801)</u>	<u>-</u>
Cumulative Gap	<u>7,559,875</u>	<u>6,354,323</u>	<u>3,378,320</u>	<u>2,075,399</u>	<u>(1,302,921)</u>	<u>-</u>	<u>-</u>
Net position as a percent of total assets	19%	(3%)	(8%)	(3%)	3%	(8%)	-
RSA as a percent of RSL	243%	95%	3%	23%	376%	-	100%

Company							
At 31 December 2009							
Assets subject to interest rate adjustment				Fixed Rate Instruments			
	<u>Zero rate</u>	<u>Floating rate</u>	<u>0-3 months</u>	<u>3 -months</u>	<u>6-12 months</u>	<u>Over 12 months</u>	<u>Total</u>
Loans and advances:	-	17,945,806	-	-	-	-	17,945,806
Securities:	3,432,488	-	331,000	650,000	300,000	3,285,826	7,999,314
Other	<u>3,373,021</u>	-	-	-	-	-	<u>3,373,021</u>
Total rate sensitive assets (RSA)	<u>6,805,509</u>	<u>17,945,806</u>	<u>331,000</u>	<u>650,000</u>	<u>300,000</u>	<u>29,318,141</u>	<u>29,318,141</u>
Liabilities subject to interest rate adjustment							
Demand accounts	-	2,469,186	-	-	-	-	2,469,186
Savings deposits	-	15,796,779	-	-	-	-	15,796,779
Time deposits	-	1,048,048	2,432,773	1,359,570	278,764	32,671	5,151,826
Other borrowings	20,010	899,715	137,954	-	-	982,641	2,040,320
Other	<u>3,860,030</u>	-	-	-	-	-	<u>3,860,030</u>
Total rate sensitive liabilities (RSL)	<u>3,880,040</u>	<u>20,213,728</u>	<u>2,570,727</u>	<u>1,359,570</u>	<u>278,764</u>	<u>1,015,312</u>	<u>29,318,141</u>
Asset /Liability Gap	<u>2,925,469</u>	<u>(2,267,922)</u>	<u>(2,239,727)</u>	<u>(709,570)</u>	<u>21,236</u>	<u>2,270,514</u>	<u>-</u>
Cumulative Gap	<u>2,925,469</u>	<u>657,547</u>	<u>(1,582,180)</u>	<u>(2,291,750)</u>	<u>(2,270,514)</u>	<u>-</u>	<u>-</u>
Net position as a percent of total assets	10%	(8%)	(8%)	(2%)	-	(8%)	-
RSA as a percent of RSL	176%	89%	13%	48%	108%	324%	100%

Notes to the Consolidated and Separate Financial Statements (Continued)**4. Financial risk management (Continued)****(g) Currency risk**

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

Group					
At 31 December 2010	USD	GBP	Euro	ZAR	Total
Assets					
Balances with correspondent banks	1,860,033	79,760	73,570	7,842	2,021,205
Cash in vaults	12,047	755	1,394	30,588	44,784
Loans and advances to customers	<u>1,264,789</u>	-	-	111	<u>1,264,900</u>
Total assets	<u>3,136,869</u>	<u>80,515</u>	<u>74,964</u>	<u>38,541</u>	<u>3,330,889</u>
Liabilities					
Customer deposits	2,148,739	85,830	71,469	3,886	2,309,924
Forward contracts	<u>301,602</u>	-	-	-	<u>301,602</u>
Total liabilities	<u>2,450,341</u>	<u>85,830</u>	<u>71,469</u>	<u>3,886</u>	<u>2,611,526</u>
Net Position	<u>686,528</u>	<u>(5,315)</u>	<u>3,495</u>	<u>34,655</u>	<u>719,363</u>

Company					
At 31 December 2010	USD	GBP	Euro	ZAR	Total
Assets					
Balances with correspondent banks	1,840,868	79,760	73,570	7,840	2,002,040
Cash in vaults	12,047	755	1,394	30,588	44,784
Loans and advances to customers	<u>1,264,789</u>	-	-	111	<u>1,264,900</u>
Total assets	<u>3,117,70</u>	<u>80,515</u>	<u>74,964</u>	<u>38,541</u>	<u>3,311,724</u>
Liabilities					
Customer deposits	2,157,015	85,830	71,469	3,886	2,318,200
Forward contracts	<u>301,602</u>	-	-	-	<u>301,602</u>
Total liabilities	<u>2,458,617</u>	<u>85,830</u>	<u>71,469</u>	<u>3,886</u>	<u>2,619,802</u>
Net Position	<u>659,087</u>	<u>(5,315)</u>	<u>3,495</u>	<u>34,655</u>	<u>691,922</u>

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

Notes to the Consolidated and Separate Financial Statements (Continued)

4. Financial risk management (Continued):

(h) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the 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.
- Risk mitigation, including insurance where this is effective.

(i) Capital Management

Regulatory capital

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

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

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:-

Notes to the Consolidated and Separate Financial Statements (Continued)**4. Financial risk management (Continued)****(i) Capital Management (Continued)****Regulatory capital (Continued)****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 2010, the Group's available capital was 11% for tier 1 (2009: 11%) and 12% (2009: 13%) for tier 2 of all its risk bearing assets and contingent liabilities.

Company	2010	2009
Capital Management		
Paid up share capital	260,372	246,667
Share Premium	602,756	314,948
Retained Earnings Prior Years	1,330,720	976,397
Net Profit - Current period (60%)	664,927	495,581
Core Capital (Tier 1 Capital)	2,858,775	2,033,593
Revaluation reserves	297,648	278,443
Total capital (Tier 2 Capital)	3,156,423	2,312,036

(j) Prudential Aspects of Company 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 2010, The Group's Liquidity Ratio 1 was **34%** (2009– 37%)

-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 2010, The Group's Liquidity Ratio 2 was **33%** (2009 – 37%).

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

Liquidity Reserve Requirement

The 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 complied with this requirement during the year.

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

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

(a) Use of estimates and judgements

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

These disclosures supplement the commentary on financial risk management.

Notes to the Consolidated and Separate Financial Statements (Continued)

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

(a) Use of estimates and judgements (Continued)

Key source of estimation uncertainty

Allowances for credit losses

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

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

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

(b) Determining fair values

The determination of fair value for financial assets and 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.

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 through 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).

(c) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these financial statements:

- IAS 24 (revised) *Related Party Disclosures*; the revised standard contains an amended definition of related parties and includes disclosure requirements for commitments between related parties. The revised standard will be applied retrospectively and may result in additional related party disclosures. The effective date is annual periods beginning on or after 1 January 2011.
- IFRS 3 *Business Combinations*; The amended standard looks at the transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS. It also looks at the measurement of non controlling interests and the un replaced and voluntary replaced share based payment awards. The standard will not have a material impact on the bank. The effective date is annual periods beginning on or after 1 January 2011.
- IFRS 7 *Financial Instruments*; Disclosure; the amendment to the standard on disclosure requirements will allow users of financial statements to improve their understanding of transfer transactions of financial assets, including understanding of the possible effects of any risks that may remain with the entity that transferred the assets. The amendment also requires additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The effective date is annual periods beginning on or after 1 January 2011.

Notes to the Consolidated and Separate Financial Statements (Continued)**5. Basis of preparation and use of accounting estimates and judgements (Continued)****(c) New standards and interpretations not yet adopted (Continued)**

- IFRS 9 *Financial Instruments*; This standard forms part of the IASB's project to replace the existing standard on the recognition and measurement of financial instruments. The standard defines two measurement categories for financial assets: amortised cost and fair value. A financial asset may only be measured at amortised cost if it has basic loan features and is managed on a contractual yield basis. The standard also differs from existing requirements for accounting for financial assets in various other areas, such as embedded derivatives and the recognition of fair value adjustments in other comprehensive income. The standard will be applied retrospectively (subject to the standard's transitional provisions). The impact on the financial statements will require reclassification of financial assets. The effective date is annual periods beginning on or after 1 January 2013.
- IFRIC 13 *Customer Loyalty programmes*; This interpretation deals with the fair value of credits awarded to customers. The original IFRIC13 basically addresses accounting by entities that grant loyalty award credits (such as 'points' or travel miles) to customers who buy other goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem award credits. The standard will not have a material impact on for the bank. The effective date is annual periods beginning on or after 1 January 2011.
- IFRIC 14 *Prepayments of a minimum funding requirement*; This interpretation applies to all post employment defined benefits and other long term employee defined benefits. If there is no minimum funding requirement for contributions relating to future service, the economic benefit available as a reduction in future contributions is the future service cost to the entity for each period over the shorter of the expected life of the plan and the expected life of the entity. The standard will not have a material impact on for the bank. The effective date is annual periods beginning on or after 1 January 2011.

6. Accounting classifications and fair values of financial instruments

Group and Company					
	Designated at fair value	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
31 December 2010					
Cash and cash equivalents	9,166,100	-	-	9,166,100	9,166,100
Trading assets	-	-	-	-	-
Loans and advances to customer	-	24,143,692	-	24,143,692	24,143,692
Investment securities	1,199,078	-	-	1,199,078	1,199,078
Total	10,365,178	24,143,692	-	34,508,870	34,508,870
Trading liabilities					
Deposits from customers	-	-	29,679,349	29,679,349	29,679,349
Short term loan	-	-	3,750,244	3,750,244	3,750,244
Total	-	-	33,429,593	33,429,593	33,429,593

Notes to the Consolidated and Separate Financial Statements (Continued)**6. Accounting classifications and fair values of financial instruments(Continued)**

Company					
31 December 2009					
Cash and cash equivalents	6,137,262	-	-	6,137,262	6,137,262
Trading assets	-	-	-	-	-
Loans and advances to customers	-	17,945,806	-	17,945,806	17,945,806
Investment securities	<u>1,793,109</u>	-	-	<u>1,793,109</u>	<u>1,793,109</u>
Total	<u>5,463,991</u>	<u>17,945,806</u>	-	<u>25,876,177</u>	<u>25,876,177</u>
Trading liabilities					
Deposits from customers	-	-	24,317,506	24,317,506	24,317,506
Long term loan	-	-	1,140,605	1,140,605	1,140,605
Total	-	-	<u>25,458,111</u>	<u>25,458,111</u>	<u>25,458,111</u>

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 year, the notional amount is deemed to reflect the fair value. All other receivables and other payables are discounted to determine the fair value.

7. Cash and cash equivalents

	Group		Company	
	2010	2010	2010	2009
Cash balances	1,093,444	1,080,569	929,374	
Balance with Reserve Bank of Malawi	4,962,780	4,962,780	1,711,741	
Balances due from other banks	2,065,990	2,046,824	722,430	
Money market investments due within 3 months (note 11)	<u>1,043,886</u>	<u>1,043,886</u>	<u>2,773,717</u>	
Cash and cash equivalents	<u>9,166,100</u>	<u>9,134,059</u>	<u>6,137,262</u>	

8. Other assets

Consumable stationery	40,737	40,737	39,824
Prepayments and sundry debtor	447,759	354,099	445,924
Forward Contracts	301,602	301,602	-
Cheque in course of collection	<u>233,790</u>	<u>233,790</u>	<u>105,875</u>
	<u>1,023,888</u>	<u>930,228</u>	<u>591,623</u>

Notes to the Consolidated and Separate Financial Statements (Continued)**9. Amounts due to subsidiary company**

	<u>Company</u>	
	<u>2010</u>	<u>2009</u>
Due from NBS Forex Bureau Limited		
Balance at 1 January	-	-
Additions during the year	<u>86,694</u>	-
Balance at 31 December	<u>86,694</u>	-
Amounts due to subsidiary company		
Due to NBS Forex Bureau Limited		
Balance at 1 January	-	-
Additions during the year	<u>33,545</u>	-
Balance at 31 December	<u>33,545</u>	-

10. Loans and advances to customers

	<u>Group and Company</u>	
	<u>2010</u>	<u>2009</u>
Loans and overdrafts	16,227,945	11,670,398
Lease contracts	2,180,952	1,808,352
Mortgage advances	<u>6,306,725</u>	<u>4,816,082</u>
Total gross loans and advances	24,715,622	18,294,832
Allowance for impairment	<u>(571,930)</u>	<u>(349,026)</u>
Net loans and advances	<u>24,143,692</u>	<u>17,945,806</u>
Total loans and advances are due to mature as follows:		
Within one year	8,817,693	7,419,302
After one year	<u>15,897,929</u>	<u>10,875,530</u>
	<u>24,715,622</u>	<u>18,294,832</u>
Movement on allowance for impairment:-		
At beginning of year	349,026	230,682
Amounts written-off	(46,778)	(25,432)
Increase in impairment net of recoveries	<u>269,682</u>	<u>143,776</u>
Balance at end of year	<u>571,930</u>	<u>349,026</u>

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

11. Money market investments

Government of Malawi and Reserve Bank of Malawi bills	1,863,043	4,287,417
Government of Malawi Local Registered Stock	<u>379,921</u>	<u>279,409</u>
Total investments	<u>2,242,964</u>	<u>4,566,826</u>
The investments are due to mature as follows:		
* Within three months (Note 7)	1,043,886	2,773,717
* Between three months and one year	<u>1,199,078</u>	<u>1,793,109</u>
	<u>2,242,964</u>	<u>4,566,826</u>

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

Notes to the Consolidated and Separate Financial Statements (Continued)**12. Property and equipment**

	Leasehold Land & Buildings	Motor vehicles, fixtures & fittings	Capital work in progress	2010 Total
Group 2010				
<i>Cost or valuation</i>				
Balance at 1 January	752,260	1,825,652	812,382	3,390,294
Additions	-	347,576	432,592	780,168
Disposals	-	(19,201)	-	(19,201)
Transfers	-	(323,907)	(323,907)	-
Transfer to intangible assets (note 13)	-	-	(33,971)	(33,971)
Balance at 31 December	752,260	2,477,934	887,096	4,117,290
<i>Comprising of:</i>				
Valuation	742,658	41,412	-	784,070
Cost	9,602	436,522	887,096	3,333,220
	<u>752,260</u>	<u>2,477,934</u>	<u>887,096</u>	<u>4,117,290</u>
<i>Accumulated depreciation and impairment losses</i>				
Balance at 1 January	-	777,996	-	777,996
Charge for the year	18,865	266,601	-	285,466
Eliminated on disposal	-	(18,094)	-	(18,094)
At 31 December	<u>18,865</u>	<u>1,026,503</u>	<u>-</u>	<u>1,045,368</u>
<i>Carrying amount</i>				
At 31 December	<u>733,395</u>	<u>1,451,431</u>	<u>887,096</u>	<u>3,071,922</u>
Company				
Property and equipment	Leasehold Land & Buildings	Motor vehicles, fixtures & fittings	Capital work in progress	2010 Total
<i>2010</i>				
<i>Cost or valuation</i>				
Balance at 1 January 2	752,260	1,825,652	812,382	3,390,294
Additions	-	298,150	432,592	730,742
Disposals	-	(19,201)	-	(19,201)
Transfers	-	323,907	(323,907)	-
Transfer to intangible assets (note 13)	-	-	(33,971)	(33,971)
Balance at 31 December	752,260	2,428,508	887,096	4,067,864
<i>Comprising of:</i>				
Valuation	742,658	41,412	-	784,070
Cost	9,602	2,387,096	887,096	3,283,794
	<u>752,260</u>	<u>2,428,508</u>	<u>887,096</u>	<u>4,067,864</u>
<i>Accumulated depreciation and impairment losses</i>				
Balance at 1 January	-	777,996	-	777,996
Charge for the year	18,865	261,125	-	279,990
Eliminated on disposal	-	(18,094)	-	(18,094)
Balance at 31 December	18,865	1,021,027	-	1,039,892
<i>Carrying amount</i>				
At 31 December	<u>733,395</u>	<u>1,407,481</u>	<u>887,096</u>	<u>3,027,972</u>

Notes to the Consolidated and Separate Financial Statements (Continued)**12. Property and equipment (Continued)**

Company (Continued)

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

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

Leasehold land and buildings were last revalued on 31 December 2009 by S D Banda BSc, MSIM, MRICS, Chartered Quality Surveyor, an independent valuer not connected to the Group, on a current, open market value. Under the method used, accumulated depreciation was eliminated and the net revalued amount treated as the new carrying amount. The resultant surplus was taken to revaluation reserve.

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

Notes to the Consolidated and Separate Financial Statements (Continued)**13. Intangible assets**

	<u>Group</u>	<u>Company</u>	
	<u>2010</u>	<u>2010</u>	<u>2009</u>
	<u>Total</u>	<u>Total</u>	<u>Total</u>
Cost			
Balance at 1 January	81,438	81,438	28,742
Additions	3,496	3,496	34,342
Surplus on revaluation	-	-	5,281
Transfer from property and equipment (Note 12)	<u>33,971</u>	<u>33,971</u>	<u>13,073</u>
Total Cost	<u>118,905</u>	<u>118,905</u>	<u>81,438</u>
Amortisation			
Balance at 1 January	27,753	27,753	26,991
Amortization for the year	<u>19,760</u>	<u>19,760</u>	<u>762</u>
Balance at 31 December	<u>47,513</u>	<u>47,513</u>	<u>27,753</u>

Carrying amount

At 31 December	<u>71,392</u>	<u>71,392</u>	<u>53,685</u>
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Intangible assets relate to purchased software.

14. Equity investment

	<u>Group</u>	<u>Company</u>	
	<u>2010</u>	<u>2010</u>	<u>2009</u>
NICO Properties Limited	18,665	18,665	18,665
NBS Forex Bureau Limited	-	<u>42,600</u>	<u>49,865</u>
	<u>18,665</u>	<u>61,265</u>	<u>68,530</u>

15. Current and savings accounts

	<u>Group and Company</u>	
	<u>2010</u>	<u>2009</u>
Current accounts	4,602,870	2,469,186
Savings account	8,638,460	6,767,171
Investments accounts	<u>5,882,305</u>	<u>9,029,608</u>
	<u>19,123,635</u>	<u>18,265,965</u>
Term deposit accounts		
Maturing within 3 months	8,047,995	4,967,945
Maturing between 3 and 12 months	<u>214,886</u>	<u>183,881</u>
	<u>8,262,881</u>	<u>5,151,826</u>

16. Short-term loan

PTA Bank	<u>3,028,773</u>	-
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The Bank obtained a short-term loan facility of US \$ 20 million with interest at 7.25% per annum.

The facility was accessed in December 2010 to cover open foreign exchange forward contracts and will be repaid by 30 June 2011.

Notes to the Consolidated and Separate Financial Statements (Continued)**17. Other liabilities**

	<u>Group</u> <u>2010</u>	<u>Company</u> <u>2010</u>	<u>2009</u>
Unpresented Cheques	65,981	65,981	50,000
Accruals	595,415	595,415	527,611
PAYE and other taxes	124,434	124,434	58,469
Bills payable	<u>271,219</u>	<u>270,038</u>	-
	<u><u>1,057,049</u></u>	<u><u>1,055,868</u></u>	<u><u>636,080</u></u>

18. Long-term loans

	<u>Group and Company</u>	
	<u>2010</u>	<u>2009</u>
International Finance Corporation (IFC)	235,278	364,763
NORSAD	381,448	617,878
Malawi Government	20,010	20,010
Pension funds loan	<u>84,735</u>	<u>137,954</u>
	<u><u>721,471</u></u>	<u><u>1,140,605</u></u>

Analysed as follows:

	IFC	NORSAD	Pension Funds	Government of Malawi	Total
Balance at 1 January 2010	364,763	617,878	137,954	20,010	1,140,605
Interest charges	32,298	27,592	18,303	-	78,193
Repayment during the year	<u>(161,783)</u>	<u>(264,022)</u>	<u>(71,522)</u>	-	<u>(497,327)</u>
Balance at 31 December 2010	<u><u>235,278</u></u>	<u><u>381,448</u></u>	<u><u>84,735</u></u>	<u><u>20,010</u></u>	<u><u>721,471</u></u>

Long-term loans are repayable as follows:-

	<u>Group and Company</u>	
	<u>2010</u>	<u>2009</u>
Repayable within one year	490,464	432,968
Repayable after one year	<u>231,007</u>	<u>707,637</u>
	<u><u>721,471</u></u>	<u><u>1,140,605</u></u>

International Finance Corporation approved a loan of USD 3 million to NBS Bank Limited in August 2007 at an agreed fixed rate of 8.6% per annum. This loan is used for onward lending to Small Medium Enterprises with a repayment period of 5 years commencing on 15 July 2009. The loan is not secured.

NORSAD approved a loan of USD 5 million to NBS Bank Limited on 23 January 2007 at an agreed fixed rate of 6.5% per annum out of which USD 2 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 USD 3 million.

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

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

Notes to the Consolidated and Separate Financial Statements (Continued)**19. Provisions****(a) Severance provisions**

	<u>Group and Company</u>	
	2010	2009
Balance at 1 January	374,257	345,705
Amount paid	(1,293)	(19,666)
Increase in provision	<u>98,123</u>	<u>48,218</u>
Balance at 31 December	<u>471,087</u>	<u>374,257</u>

The provision for severance pay has been computed taking into account all aspects of remuneration as outlined in the Employment Act 2000. The average number of employees for the period ended 31 December 2010 was **620** (2009 : 575).

(b) Deferred tax assets and liability

<u>Group</u>						
	<u>2010</u>			<u>2009</u>		
	<u>Assets</u>	<u>Liability</u>	<u>Net</u>	<u>Assets</u>	<u>Liability</u>	<u>Net</u>
Capital allowance on property and equipment	-	(153,544)	(153,544)	-	(96,254)	(96,254)
Revaluation of properties	-	-	-	-	(40,897)	(40,897)
Fair value adjustments	-	(6,725)	(6,725)	-	(6,725)	(6,725)
Severance provision	141,326	-	141,326	112,277	-	112,277
Others	<u>14,025</u>	<u>(13,328)</u>	<u>697</u>	<u>3,551</u>	<u>(12,166)</u>	<u>(8,615)</u>
	<u>155,351</u>	<u>173,597</u>	<u>18,246</u>	<u>115,828</u>	<u>(156,042)</u>	<u>(40,214)</u>

<u>Company</u>						
	<u>2010</u>			<u>2009</u>		
	<u>Assets</u>	<u>Liability</u>	<u>Net</u>	<u>Assets</u>	<u>Liability</u>	<u>Net</u>
Capital allowance on property and equipment	-	(153,544)	(153,544)	-	(96,254)	(96,254)
Revaluation of properties	-	-	-	-	(40,897)	(40,897)
Fair value adjustments	-	(6,725)	(6,725)	-	(6,725)	(6,725)
Severance provision	141,326	-	141,326	112,277	-	112,277
Others	<u>37,064</u>	<u>(13,328)</u>	<u>23,736</u>	<u>3,551</u>	<u>(12,166)</u>	<u>(8,615)</u>
	<u>178,390</u>	<u>(173,597)</u>	<u>4,793</u>	<u>115,828</u>	<u>(156,042)</u>	<u>(40,214)</u>

Movement in deferred tax during the year was as follows:-

<u>Group and Company</u>				
	<u>As at 1 January 2010</u>	<u>Recognised in profit or loss</u>	<u>Recognised in other comprehensive income</u>	<u>As at 31 December 2010</u>
Property and equipment	(96,254)	(57,290)	-	(153,544)
Revaluation surplus	(40,897)	-	40,897	-
Fair value adjustment	(6,725)	-	-	(6,725)
Severance provision	112,277	29,049	-	141,326
Other	<u>(8,615)</u>	<u>32,351</u>	<u>-</u>	<u>23,736</u>
	<u>(40,214)</u>	<u>4,110</u>	<u>40,897</u>	<u>4,793</u>

(c) Deferred tax assets and liabilities – Group

The subsidiary has a deferred tax asset of K7.227 million in respect of losses carried forward which are subject of agreement with Malawi Revenue Authority. In addition the Company has a deferred tax asset of K30.266 million which has not been recognised the Group because 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. Share capital**

Authorised share capital	<u>2010</u> <u>350,000</u>	<u>2009</u> <u>350,000</u>
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700,000,000 Ordinary Shares of MK0.50 each.

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

The movement in share capital during the year was as follows:-

	No of shares	<u>2010</u>	<u>2009</u>
At 1 January issued and fully paid shares of 50t each	493,333,000	246,667	246,667
Bonus shares issued during the year	<u>27,410,333</u>	<u>13,705</u>	-
Total shares issued at 31 December	<u>520,743,333</u>	<u>260,372</u>	<u>246,667</u>

Bonus shares were issued out of retained earnings as follows:-

Bonus shares	13,705	-
Share premium	287,808	-
Transaction cost	<u>57,205</u>	-
Retained earnings apportionment	<u>358,718</u>	-

21. Share Premium

Share premium	<u>602,756</u>	<u>314,948</u>
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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 and on issue of bonus shares net of issue costs as follows:

Balance pre-listing	164,637	164,637
Share issue on listing	150,311	150,311
Bonus issue	<u>287,808</u>	-
Total	<u>602,756</u>	<u>314,948</u>

22. Revaluation reserve

The revaluation reserve relates to the surplus arising on the revaluation of properties, motor vehicles, equipment and fittings. Surplus for the year is included in statement of comprehensive income.

<u>297,648</u>	<u>278,443</u>
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23. Loan loss reserve

<u>124,202</u>	<u>124,202</u>
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Loan loss reserve represents an appropriation from retained earnings as additional provisions above those required by the International Financial Reporting Standards, to meet the requirements of Reserve Bank of Malawi Limited. The directors are of the opinion that the loan loss reserve is adequate for the loan book.

24. Available for sale fair value reserve

<u>14,264</u>	<u>16,045</u>
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The fair value reserve includes the cumulative net change in the fair value of available for sale investments, excluding impairment losses, until the investment is derecognized.

Notes to the Consolidated and Separate Financial Statements (Continued)**25. Net interest income**

	<u>Group</u>	<u>Company</u>	
	<u>2010</u>	<u>2010</u>	<u>2009</u>
Interest income			
Related party loans	33,924	33,924	38,295
Personal loans	472,188	472,188	442,125
Corporate loans	759,472	759,472	600,553
Short-term loan	59,505	59,505	49,527
Mortgage Loans	1,107,654	1,108,993	824,976
Tobacco loans	109,316	109,316	54,626
Investment securities	247,971	247,971	153,653
Overdrafts	1,215,605	1,215,605	917,651
Lease Contracts	426,649	426,649	415,442
Interest - Norsad/IFC loans	<u>169,821</u>	<u>169,821</u>	<u>107,100</u>
Total interest income	<u>4,602,105</u>	<u>4,603,444</u>	<u>3,603,948</u>
Interest expense			
Current Accounts	35,189	35,805	24,086
Savings Deposits	225,090	225,090	194,149
Investment Deposits	221,091	221,091	184,746
Fixed Deposits	776,721	776,721	504,496
FCD Accounts	22,361	22,361	23,377
Inter-Company - borrowing	40,006	40,006	58,178
Interest - Norsad/IFC/PTA loans	<u>72,645</u>	<u>72,645</u>	<u>83,478</u>
	<u>1,393,103</u>	<u>1,393,719</u>	<u>1,072,510</u>
Net interest income	<u>3,209,002</u>	<u>3,209,725</u>	<u>2,531,438</u>

26. Fees and commission income

	<u>Group</u>	<u>Company</u>	
	<u>2010</u>	<u>2010</u>	<u>2009</u>
Bank charges and commission	1,232,625	1,242,232	971,451
Income from ATM Transactions	199,586	199,586	166,085
VISA Income	<u>29,798</u>	<u>29,798</u>	<u>-</u>
	<u>1,462,009</u>	<u>1,471,616</u>	<u>1,137,536</u>

27. Other operating income

	<u>Group and Company</u>	
	<u>2010</u>	<u>2009</u>
Rental Income	10,990	10,586
Profit on disposal of property and equipment	<u>11,738</u>	<u>179</u>
	<u>22,728</u>	<u>10,765</u>

28. Personnel expenses

	<u>Group</u>	<u>Company</u>	
	<u>2010</u>	<u>2010</u>	<u>2009</u>
Salaries and wages	877,030	861,827	742,067
Staff bonus	206,132	206,132	134,414
Other expenses	297,323	293,085	240,897
Mortgage loan subsidy	79,574	77,543	63,635
Christmas pay expenses	6,848	6,793	7,952
Severance pay provision	98,123	98,123	48,218
Training expenses	58,562	58,549	56,906
Management car scheme	<u>86,887</u>	<u>86,887</u>	<u>73,445</u>
	<u>1,710,479</u>	<u>1,688,939</u>	<u>1,367,534</u>

Notes to the Consolidated and Separate Financial Statements (Continued)**29. Other operating costs**

	<u>Group</u>	<u>Company</u>	
	<u>2010</u>	<u>2010</u>	<u>2009</u>
Accommodation costs	307,105	295,235	198,843
Auditors' remuneration:-			
Current year fees	15,800	14,700	13,012
Other audit expenses and VAT	6,314	6,036	3,023
Bank charges	11,742	11,742	8,594
Cash collection expenses	32,596	31,759	22,200
Communication costs	514,698	509,497	380,724
Company shared expenses	3,675	3,675	8,078
Directors expenses	4,538	4,538	3,128
Directors fees	6,181	6,181	4,708
General expenses	86,635	85,791	50,117
Legal and professional fees	73,090	72,070	56,375
Loan commitment fees	37,700	37,700	-
Loan interest	25,036	25,036	37,140
Malawi Stock Exchange listing fees	6,000	6,000	5,020
Projects and conferences expenses	30,233	30,233	20,627
Provision for advance to subsidiary	-	100,887	-
Restructuring expenses	14,603	14,603	-
Security expenses	52,293	50,017	43,081
Sundry business charges	63,810	63,810	61,774
Transfer Secretarial Expenses	<u>9,031</u>	<u>9,031</u>	<u>7,855</u>
	<u>1,301,080</u>	<u>1,378,451</u>	<u>924,299</u>

30. Income tax expense

Current year tax charge	680,573	680,573	401,246
Overprovision in previous years	(5,625)	(5,625)	-
Tax losses carried forward	(7,227)	-	-
Origination and reversal of temporary differences	<u>26,156</u>	<u>(4,110)</u>	<u>(4,169)</u>
Total income tax charge	<u>693,877</u>	<u>670,838</u>	<u>397,077</u>

Reconciliation of tax charge

Profit before tax	<u>2,098,088</u>	<u>2,025,367</u>	<u>1,207,142</u>
Income tax using corporate tax rate	629,426	607,610	362,143
Non-deductible expenses	49,115	47,939	46,131
Deferred tax	-	-	(4,169)
Under-provision for income and deferred tax in prior years	<u>15,336</u>	<u>15,289</u>	-
	<u>693,877</u>	<u>670,838</u>	<u>397,077</u>

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

Notes to the Consolidated and Separate Financial Statements (Continued)**31. Earnings per share**

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

	<u>Group and Company</u>	
	<u>2010</u>	2009
Net profit attributable to ordinary shareholders	<u>1,404,211</u>	<u>810,065</u>
Weighted average number of ordinary shares	493,333	493,333
Basic earnings per share (MK)	<u>2.85</u>	1.64
Diluted earnings per share (MK)	<u>2.85</u>	<u>1.64</u>

32. Capital commitments

As at 31 December 2010, the contracted but not yet incurred capital commitments were **MK82 million**.

The authorised but not yet contracted for commitments as at 31 December were **MK1,216 million**.

These commitments are to be funded from internal resources.

33. Inflation and exchange rates

Exchange rates as at 31 December

	<u>2010</u>	<u>2009</u>
United States Dollar (USD)	150.80	145.99
British Pound (GBP)	235.49	236.84
South African Rand (ZAR)	23.70	19.96
Inflation rates as at 31 December	<u>6.3%</u>	<u>7.6%</u>

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

34. Incorporation

NBS BANK Limited is a limited liability Company incorporated in Malawi under the Malawi Companies Act 1984 and is a licensed financial institution under the Banking Act 1989.

35. Contingent Assets/Liabilities

	<u>Group and Company</u>	
	<u>2010</u>	<u>2009</u>
Letters of credit	<u>-</u>	<u>197,490</u>

The Group 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 including legal costs. Based on legal advice, the directors are of the opinion that the outcome of the action may not have material effect on the Group's financial position.

36. 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 2010 guaranteed staff mortgages were MK529 million (December 2009: K457 million).

Notes to the Consolidated and Separate Financial Statements (Continued)**37(a). Related parties transactions***Identity of related parties*

The Group 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. 2010	Balance of Transaction MK'000 Dec. 2010	Value of Transaction MK'000 Dec. 2009	Balance of Transaction MK'000 Dec. 2009
NICO Holding Limited	Holding	Company account Interest Income	244	-	62	-
		Company account interest Expense	(675)	-	(67)	-
		Dividends	(177,600)	-	(147,900)	-
		Company account	(11,169)	-	(661)	-
		Fixed deposit Interest	(96)	-	(943)	-
		Shared Expenses	(7,623)	(2,067)	(6423)	(494)
NICO Life Insurance Limited	Company	Management fees	5,217	-	3,756	739
		Company account	-	(1,581,889)	-	(116,727)
		Company account Interest Income	3,818	-	774	-
		Company account Interest expense	(1,197)	-	(631)	-
		Fixed deposit	-	(507,044)	-	(823,131)
		Fixed deposit Interest Expense	(83,566)	-	(107,888)	-
		Rent Expense	(7,632)	-	(4,797)	-
		Loan	-	(42,621)	-	(68,977)
		Loan Interest Expense	(13,201)	-	-	-
		Company account	-	77	(18,107)	-
Pension Contribution	136192	-	-	-		
NICO General Insurance Limited	Company	Company account Interest Income	606	-	869	-
		Company account Interest Expense	(6,953)	-	(866)	-
		Fixed deposit	-	(72,279)	-	(235,940)
		Fixed deposit interest expense	(17,635)	-	(29,129)	-
		Loan interest expense	(2,504)	-	(3,621)	-
		Loan	-	(8,474)	-	(13,796)
		General insurance premiums	(52,676)	-	(39,046)	-
		Company account	-	(134,828)	-	(4,829)
Company account	-	6	-	-		
NICO Technologies Limited	Company	Technical support	(3,331)	(1,103)	(4,332)	(2,550)
		Company account	-	(10,915)	-	(2,790)
		Company account interest income	319	-	186	-
		Fixed deposit	-	(5,432)	-	(53,415)
		Company account interest expense	(61)	-	(41)	-
		Fixed deposit interest	(594)	-	(660)	-
NICO Asset Management Limited	Company	Company account	-	(6,388)	-	(5,502)
		Company account interest income	271	-	122	-
		Company account interest expense	(49)	-	(32)	-
		Fixed deposit	-	(96,917)	-	(12,596)
		Fixed deposit interest	(2,606)	-	(453)	-
Directors and Executive Officers	Directors/ Managers	Directors remunerations	(6,181)	-	(4,708)	-
		Executive managers remunerations	(59,757)	-	(55,745)	-
		Interest on Directors and Executive Managers Loans	29,925	-	23,106	-
		Loans	-	213,563	-	196,381

Notes to the Consolidated and Separate Financial Statements (Continued)**37(b). Related party transactions (Continued)****Transactions with Directors, Management and staff**

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

	<u>Directors and their related parties</u>	<u>Employees</u>	<u>Directors and their related parties</u>	<u>Employees</u>
	<u>2010</u>	<u>2010</u>	<u>2009</u>	<u>2009</u>
Advances	213,563	406,921	196,381	316,977
Deposits	<u>(5,753)</u>	<u>(34,513)</u>	<u>(206)</u>	<u>37,385</u>
Net balances	<u>207,810</u>	<u>372,408</u>	<u>196,175</u>	<u>279,592</u>
Interest received	31,430	58,279	25,174	38,390
Interest paid	<u>(10)</u>	<u>(435)</u>	<u>-</u>	<u>(348)</u>
	<u>31,420</u>	<u>57,844</u>	<u>25,174</u>	<u>38,042</u>

Advances to directors and parties related thereto are conducted at arms length and deemed to be adequately secured. Advances to staff comprise **MK72,545,000** (2009: MK60,644,000) interest free loans and **MK172,553,000** (2009: MK149,185,000) at an interest rate of 9.5% 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 **MK6,191,000** (2009: MK17,342,000) has been made against low interest advances to related employees. No other impairment losses have been recorded against loans to related parties.

Directors' and management compensation for the period comprised:

	<u>2010</u>	<u>2009</u>
	<u>MK'000</u>	<u>MK'000</u>
Executive Managers' salary	57,579	53,544
Non-Executive Directors' fees	6,181	4,708
Executive Managers' bonus	9,771	6,885

38. Grant received

The Bank received a grant of USD 200,000 (MK29 million) in support of its outreach project of focusing on economically active impoverished customers. The project will run for two years from November 2009 to the last quarter of 2011. The funds are to be used according to agreed indicative budget parameters that focus on economically active impoverished clients.

Notes to the Consolidated and Separate Financial Statements (Continued)**39. 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 Government debt securities.

<u>2010</u>	<u>Note</u>	<u>Northern Region</u>	<u>Central Region</u>	<u>Southern Region</u>	<u>Shared services</u>	<u>Total</u>
Net interest income	25	68,846	520,096	945,252	1,674,808	3,209,002
Other operating income		229,836	426,435	586,979	1,576,708	2,819,958
Operating expenses		<u>(196,290)</u>	<u>(409,281)</u>	<u>(378,180)</u>	<u>(2,677,439)</u>	<u>(3,661,190)</u>
Total segment revenue		<u>102,392</u>	<u>537,250</u>	<u>1,211,876</u>	<u>516,252</u>	<u>2,367,770</u>
Segment contribution		102,392	537,250	1,211,876	516,252	2,367,770
Impairment losses on financial assets	10	-	-	-	(269,682)	(269,682)
Reportable profit for the year before income tax		-	-	-	-	<u>2,098,088</u>
Reportable segment assets		<u>868,330</u>	<u>3,631,878</u>	<u>6,299,244</u>	<u>28,050,636</u>	<u>38,850,088</u>
Total assets		<u>868,330</u>	<u>3,631,878</u>	<u>6,299,244</u>	<u>28,050,636</u>	<u>38,850,088</u>
Reportable segment liabilities		<u>2,263,598</u>	<u>6,584,951</u>	<u>11,121,032</u>	<u>18,880,507</u>	<u>38,850,088</u>
Total liabilities		<u>2,263,598</u>	<u>6,584,951</u>	<u>11,121,032</u>	<u>18,880,507</u>	<u>38,850,088</u>
Income tax expense	30	-	-	-	(693,877)	(693,877)
Depreciation and amortization	12,13	-	-	-	305,226	305,226
Capital expenditure	12,13	-	-	-	783,664	783,664

Notes to the Consolidated and Separate Financial Statements (Continued)**39. Segment reporting (Continued)**

<u>2009</u>	<u>Note</u>	<u>Northern Region</u>	<u>Central Region</u>	<u>Southern Region</u>	<u>Shared services</u>	<u>Total</u>
Net Interest Income	25	173,025	390,463	868,028	1,099,922	2,531,438
Other operating income		199,192	343,354	503,852	528,519	1,574,917
Operating expenses		<u>(149,710)</u>	<u>(301,032)</u>	<u>(342,392)</u>	<u>(1,962,303)</u>	<u>(2,755,437)</u>
Total segment revenue		<u>222,507</u>	<u>432,785</u>	<u>1,029,488</u>	<u>(333,862)</u>	<u>1,350,918</u>
Segment contribution		222,507	432,785	1,029,488	(333,862)	1,350,918
Impairment losses on financial assets	10	-	-	-	(143,776)	(143,776)
Reportable profit for the year before income tax		-	-	-	-	<u>1,207,142</u>
Reportable segment assets		<u>408,773</u>	<u>2,339,660</u>	<u>6,004,502</u>	<u>20,565,206</u>	<u>29,318,141</u>
Total assets		<u>408,773</u>	<u>2,339,660</u>	<u>6,004,502</u>	<u>20,565,206</u>	<u>29,318,141</u>
Reportable segment liabilities		<u>1,854,258</u>	<u>4,821,815</u>	<u>14,627,500</u>	<u>5,494,468</u>	<u>26,798,041</u>
Total liabilities		<u>1,854,258</u>	<u>4,821,815</u>	<u>14,627,500</u>	<u>5,494,468</u>	<u>26,798,041</u>
Income tax expense	30	-	-	-	(397,077)	(397,077)
Depreciation and amortization	12,13	-	-	-	180,835	180,835
Capital expenditure	12,13	-	-	-	679,580	679,580

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

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

40. Subsequent events

Subsequent to reporting date, the Pensions Bill, which effectively compels employers to maintain pension funds was passed in Parliament. On commencement, the Bill mandates the employer to pay to the pension fund accrued amounts of the severance pay to the extent that the employer accumulated pension contribution is lower than the severance pay. This is to be accounted for prospectively in line with IAS37: *Provisions, Contingent Liabilities and Contingent Assets*. At the reporting date, the Group had not yet ascertained the accumulated pension for each employee, for comparison with the carrying amount of the severance pay.

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