

NBM Development Bank Limited

Financial Statements for the year ended
31 December 2021

NBM DEVELOPMENT BANK LIMITED
FINANCIAL STATEMENTS
For the year ended 31 December 2021

<u>TABLE OF CONTENTS</u>	<u>PAGE</u>
Directors' report	1 -2
Statement of directors' responsibilities	3
Independent auditor's report	4 - 7
Statement of financial position	8
Statement of comprehensive income	9
Statement of changes in equity	10
Statement of cash flows	11
Notes to the financial statements	12 - 41

NBM DEVELOPMENT BANK LIMITED

DIRECTORS' REPORT

For the year ended 31 December 2021

The directors have pleasure in submitting their report together with the financial statements of NBM Development Bank Limited for the year ended 31 December 2021.

SHARE CAPITAL

The issued and paid up share capital of the Bank is 84,000,000 Ordinary shares of K1 each. The Bank is wholly owned subsidiary of National Bank of Malawi plc, a financial service group listed on the Malawi Stock Exchange. The ultimate holding company is Press Corporation plc, which is also listed on the Malawi Stock Exchange.

NATURE OF BUSINESS

The main business of the Bank is lending. The Banks's principal place of business is National Bank of Malawi Towers, 7 Henderson Street, Blantyre, Malawi.

CORPORATE GOVERNANCE

The Board is responsible for the governance of the Bank. To this effect, the Board has put in place a robust framework of promoting strong corporate governance principles within the Group. Each Director of the Board has sufficient, knowledge, skills, competencies and experience to ensure that the Board meets its strategic goals which are for the benefit of shareholders, customers, employees and the society in which the Bank operates. The Bank therefore embraces best practices in corporate governance as enshrined under the Companies Act, 2013, The Malawi Code II, Reserve Bank of Malawi Corporate Governance Requirements for Development Finance Institutions and other applicable financial services laws. The Bank complied with all the requirements set out in the aforementioned code and statutory instruments.

The Board has two subcommittees namely; Credit and Investment Committee and Finance and Audit Committee. The committees act as preparatory committees for the Board of Directors. The tasks of the committees together with the Board are laid out in charters for each committee, which are reviewed at least once a year to keep them up to date, relevant and understandable to all its members. All the subcommittees are chaired by a non-executive director. The company secretary provides to the committees and the Board as a whole detailed guidance as to how their responsibilities should be discharged in the best interest of the Bank and in compliance with laws, regulations and, corporate governance guidelines.

RESULTS AND DIVIDENDS

The directors report a profit after tax for the year of K28.6 million (2020: K60 million).

DIRECTORS

The following directors and company secretary served in office during the year:

Mr. Macfussy Kawawa	-	Chairman	-	All year
Mr. H. N. Jiya	-	Director	-	All year
Mr. M. N. Katsala	-	Director	-	All year
Mr. Kassim Aroni	-	Director	-	All year
Mr. F. Muula	-	Director	-	All year
Mr. A.C.E. Sukasuka	-	Director	-	All year
Mrs. M. Mulele	-	Company Secretary		

NBM DEVELOPMENT BANK LIMITED
DIRECTORS' REPORT (Continued)
For the year ended 31 December 2021

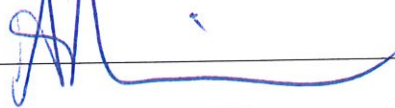
AUDITORS

The auditors, Deloitte, have signified their willingness to continue in office and a resolution is to be proposed at the forthcoming Annual General Meeting in relation to their appointment as auditor in respect of the year ending 31 December 2022.

CHAIRMAN:



DIRECTOR:



DATE:

18 March 2022

NBM DEVELOPMENT BANK LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
For the year ended 31 December 2021

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

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

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

- Maintenance of proper accounting records;
- Selection of suitable accounting policies and consistent application thereof;
- Making judgements and estimates that are reasonable and consistently applied;
- Compliance with applicable accounting standards when preparing financial statements; and
- Preparation of financial statements on a going concern basis unless it is inappropriate to presume that the Bank will continue in business in the foreseeable future.

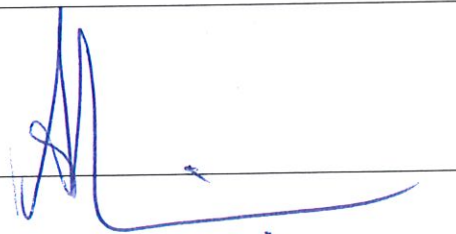
The directors also accept responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and to maintain adequate systems of internal control to prevent and detect fraud and other irregularities.

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

CHAIRMAN:



DIRECTOR:



DATE:

16 March 2022

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NBM DEVELOPMENT BANK LIMITED

Opinion

We have audited the financial statements of NBM Development Bank Limited set out on pages 8 to 41, which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2021, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Companies Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and other independence requirements applicable to performing audits of financial statements in Malawi. We have fulfilled our other ethical responsibilities in accordance with these requirements and IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Key Audit Matter

How the matter was addressed in the audit

Determination of Expected Credit Losses (ECL) for loans and advances

The Bank exercises significant judgement using subjective assumptions over both when and how much to record expected credit losses, and estimation of the amount of the impairment provision for loans and advances.

Key areas of judgment included:

- The identification of exposures with a significant deterioration in credit quality and the significance of the judgements used in classifying loans and advances into various stages stipulated in IFRS 9 *Financial Instruments*. Staging of loans and advances is a significant component in determining the Expected Credit Losses (ECL) as such inaccurate staging may have a significant impact on ECL output. Due to the size of the loan book, all the loans were determined to be significant in determination of the ECL; and
- Assumptions used in the expected credit loss model such as expected future cash flows arising from collateral values.

As at 31 December 2021, the gross loans and advances to customers were K2.265 billion against which Expected Credit Losses of K27.9 million were recorded. This is disclosed in note 8 (Loans and advances to customers) to the financial statements. The Expected Credit Losses policy is presented in accounting policies in note 3 to the financial statements. Loans and advances are stated at amortised cost net of identified impairments.

We therefore consider this as a key audit matter.

With respect to staging of loans and advances, our audit procedures comprised the following:

- We checked the design and implementation of controls around staging;
- We obtained an understanding of the Bank's staging criteria;
- We assessed management's criteria for appropriateness and completeness against the requirements of IFRS 9 *Financial Instruments* and other relevant regulatory guidance;
- We checked accuracy and completeness of data used in staging; and
- We selected all the loans and advance and checked if they have been correctly staged based on the Bank's accounting policy and IFRS 9 requirements.

For expected future cash flows arising from collateral, we performed the following procedures:

- We obtained an understanding of how the Bank incorporates collateral in its ECL model;
- For selected loans, we checked if the collateral values that have been used reflect the current market conditions and whether these were based on recent valuations;
- We checked whether the Bank had a valid charge over the collateral that was used and also whether the collaterals were recently inspected, where necessary;
- We obtained management calculation of the haircuts that were applied on the collateral and checked the calculation for accuracy; and
- We further checked if the information that was used in the haircut calculation was complete and accurate by reference to transactions data on recent enforcements.

We found that the staging classification and the collaterals which were used in determining expected credit losses against loans and advances were appropriate and that the impairment loss recognised in the financial statements was reasonable and complied with IFRS 9 *Financial instruments*.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report and the Statement of Directors' Responsibilities, as required by the Companies Act of Malawi, which we obtained prior to the date of this auditor's report. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirement of Companies Act, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern; and
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Chartered Accountants
Nkondola Uka
Partner

31 March 2022

NBM DEVELOPMENT BANK LIMITED
STATEMENT OF FINANCIAL POSITION
As at 31 December 2021

	<u>Notes</u>	<u>2021</u> K'000	<u>2020</u> K'000
ASSETS			
Non-current assets			
Plant and equipment	5	10 196	9 552
Intangible assets	6	28 794	10 022
Right of use asset	7	15 647	22 869
Loans and advances to customers	8	2 036 113	909 225
Deferred tax asset	16.3	5 038	2 852
Total non-current assets		<u>2 095 788</u>	<u>954 520</u>
Current assets			
Loans and advances to customers	8	201 374	92 169
Other assets	9	7 723	10 976
Investments - money market deposits	10	327 003	1 477 113
Income tax recoverable	16.2	81 197	89 505
Bank balances and cash	11.1	7 964	25 502
Total current assets		<u>625 261</u>	<u>1 695 265</u>
TOTAL ASSETS		<u>2 721 049</u>	<u>2 649 785</u>
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		84 000	84 000
Share premium		807 974	807 974
Retained earnings		1 733 457	1 704 822
Total equity		<u>2 625 431</u>	<u>2 596 796</u>
Non-current liabilities			
Lease liability	7	5 723	16 989
Current liabilities			
Trade and other payables	12	61 573	21 234
Bank overdraft	11.1	11 702	-
Lease liability	7	16 620	14 766
Total current liabilities		<u>89 895</u>	<u>36 000</u>
TOTAL EQUITY AND LIABILITIES		<u>2 721 049</u>	<u>2 649 785</u>

The financial statements were approved and authorised for issue by the Board of Directors on 18 March 2022 and were signed on its behalf by:

.....
Chairman

.....
Director

NBM DEVELOPMENT BANK LIMITED
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2021

	Notes	<u>2021</u> K'000	<u>2020</u> K'000
Income			
Interest income	13	412 114	316 905
Other income	14	<u>9 533</u>	<u>200 591</u>
Total income		<u>421 647</u>	<u>517 496</u>
Expenditure			
Staff costs	15.1	285 957	250 332
Operating costs	15.2	108 643	157 125
Depreciation and amortization	5,6&7	<u>10 339</u>	<u>9 618</u>
Total expenditure		<u>404 939</u>	<u>417 075</u>
Profit before net impairment of financial assets		16 708	100 421
Impairments loss on financial assets		<u>(20 013)</u>	<u>(7 978)</u>
(Loss)/profit before tax		(3 305)	92 443
Income tax credit/(charge)	16.1	<u>31 940</u>	<u>(32 395)</u>
Profit for the year		<u>28 635</u>	<u>60 048</u>

There were no items of other comprehensive income during the year (2020: Nil).

NBM DEVELOPMENT BANK LIMITED
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2021

	<u>Share capital</u>	<u>Share premium</u> K'000	<u>Retained earnings</u> K'000	<u>Total</u> K'000
<u>2021</u>				
Balances as at the beginning of the year	84 000	807 974	1 704 822	2 596 796
Profit for the year	-	-	28 635	28 635
At end of the year	<u>84 000</u>	<u>807 974</u>	<u>1 733 457</u>	<u>2 625 431</u>
<u>2020</u>				
Balances as at the beginning of the year	84 000	807 974	1 644 774	2 536 748
Profit for the year	-	-	60 048	60 048
At end of the year	<u>84 000</u>	<u>807 974</u>	<u>1 704 822</u>	<u>2 596 796</u>

2021
K'000

2020
K'000

ANALYSIS OF SHARE CAPITAL

Authorised issued and fully paid
84 000 000 Ordinary shares of K1 each

84 000 84 000

ANALYSIS OF SHARE PREMIUM

84 000 000 Ordinary shares of K1 each at a premium of K9.62 each

807 974 807 974

NBM DEVELOPMENT BANK LIMITED
STATEMENT OF CASH FLOWS
For the year ended 31 December 2021

	<u>Notes</u>	<u>2021</u> <u>K'000</u>	<u>2020</u> <u>K'000</u>
Cash flows from operating activities			
(Loss)/ profit before taxation		(3 304)	92 443
Adjustments for:			
- Depreciation of equipment	5,6&7	10 339	9 618
- Interest receivable	13	(412 114)	(316 905)
- Interest expense on lease liability	7	5 354	6 372
- Impairment loss on loans and advances to customers		<u>(20 013)</u>	<u>7 978</u>
Operating cashflows before working capital movements		(419 739)	(200 494)
- Movement in loans and advances to customers		(1 216 080)	(863 059)
- Movement in amounts due from related parties		-	15 432
- Movement in other assets		3 253	10 185
- Movement in amounts payable to related parties		-	(194 430)
- Movement in trade and other payables		40 339	16 837
- Movement in money market investments		<u>1 150 110</u>	<u>956 106</u>
Cash used in operations		(442 117)	(259 423)
Taxation recovered/(paid)	16.2	<u>38 062</u>	<u>(33 559)</u>
Net cash used in operating activities		<u>(404 055)</u>	<u>(292 982)</u>
Cash flows from investing activities			
Interest received	13	412 114	316 905
Purchase of vehicles and equipment	5&6	<u>(22 533)</u>	<u>(1 656)</u>
Net cash generated from investing activities		<u>389 581</u>	<u>315 249</u>
Cash flows from financing activities			
Lease repayments	7	<u>(14 766)</u>	<u>(13 301)</u>
Net cash used in financing activities		<u>(14 766)</u>	<u>(13 301)</u>
Net (decrease)/ increase in cash and cash equivalents		(29 240)	8 966
Cash and cash equivalents at beginning of the year		<u>25 502</u>	<u>16 536</u>
Cash and cash equivalents at end of the year	11.1	<u><u>(3 738)</u></u>	<u><u>25 502</u></u>

1. General information

NBM Development Bank Limited is a licensed Development Finance Institution (DFI) established under the provisions of the Financial Services Act, 2010 and the Regulatory Framework for Development Finance Institutions. The Bank, whose main business is that of offering financial products and services to Small to Medium Enterprises was incorporated in Malawi in March 2018.

The Bank's registered office and principal place of business is 1st Floor, NBM Towers, Corner of Hannover Avenue and Henderson Street, P.O. Box 945, Blantyre, Malawi.

2. Adoption of new and revised International Financial Reporting Standards

2.1 Standards and Interpretations affecting amounts reported and/or disclosed in the financial statements

In the current period, the Bank has adopted those new and revised Standards and Interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee of the International Accounting Standards Board that are relevant to its operations and are effective for annual reporting periods beginning on 1 January 2021.

The adoption of these new and revised Standards and Interpretations did not have a significant impact on the financial statements of the Bank.

2.2 Standards and Interpretations in issue, not yet effective

A number of new standards, amendments to standards and interpretations are in issue but not yet effective for annual periods ending 31 December 2021 and have not been applied in preparing these financial statements. Those which may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated.

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2023	IFRS 17 Insurance Contracts IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts. IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach. The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.
Annual reporting periods beginning on or after 1 January 2023	Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

2. Adoption of new and revised International Financial Reporting Standards (Continued)

2.2 Standards and Interpretations in issue, not yet effective (Continued)

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2022	Reference to the Conceptual Framework (Amendments to IFRS 3) The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard.
Annual reporting periods beginning on or after 1 January 2022	Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16) The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.
Annual reporting periods beginning on or after 1 January 2022	Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37) The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).
Annual reporting periods beginning on or after 1 January 2022	Annual Improvements to IFRS Standards 2018–2020 Makes amendments to the following standards: • IFRS 1 – The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent’s date of transition to IFRSs. • IFRS 9 – The amendment clarifies which fees an entity includes when it applies the ‘10 per cent’ test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf. • IFRS 16 – The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example. • IAS 41 – The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

2. Adoption of new and revised International Financial Reporting Standards (Continued)

2.2 Standards and Interpretations in issue, not yet effective (Continued)

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2023	Amendments to IFRS 17 Amends IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 Insurance Contracts was published in 2017. The main changes are: • Deferral of the date of initial application of IFRS 17 by two years to annual periods beginning on or after 1 January 2023. • Additional scope exclusion for credit card contracts and similar contracts that provide insurance coverage as well as optional scope exclusion for loan contracts that transfer significant insurance risk. • Recognition of insurance acquisition cash flows relating to expected contract renewals, including transition provisions and guidance for insurance acquisition cash flows recognised in a business acquired in a business combination. • Clarification of the application of IFRS 17 in interim financial statements allowing an accounting policy choice at a reporting entity level. • Clarification of the application of contractual service margin (CSM) attributable to investment-return service and investment-related service and changes to the corresponding disclosure requirements. • Extension of the risk mitigation option to include reinsurance contracts held and non-financial derivatives. • Amendments to require an entity that at initial recognition recognises losses on onerous insurance contracts issued to also recognise a gain on reinsurance contracts held. • Simplified presentation of insurance contracts in the statement of financial position so that entities would present insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts rather than groups of insurance contracts. • Additional transition relief for business combinations and additional transition relief for the date of application of the risk mitigation option and the use of the fair value transition approach.
Annual reporting periods beginning on or after 1 January 2023	Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added. To support the amendment, the Board has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

2. Adoption of new and revised International Financial Reporting Standards (Continued)

2.2 Standards and Interpretations in issue, not yet effective (Continued)

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2023	Definition of Accounting Estimates (Amendments to IAS 8) The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error.
Annual reporting periods beginning on or after 1 January 2023	Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) The amendments clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.

The directors anticipate that these Standards and Interpretations in future periods will have no significant impact on the financial statements of the Bank.

3. Significant accounting policies

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at revalued amounts of fair values at the end of each reporting period as explained below.

The accounting policies set out below have been consistently applied by the Bank and are consistent with those used in the previous period.

3.1 *Plant and equipment*

Comprises of computers and furniture which are stated at cost less accumulated depreciation and any accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income.

Depreciation is charged so as to write off the cost of assets, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Gains or losses arising on the sale or retirement of plant and equipment are determined as the difference between the sales proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income.

3. Significant accounting policies (Continued)

3.2 Intangible assets

Intangible assets comprises computer software and licenses. These are recognised as an asset when it is probable that future economic benefits from the asset will flow to the entity and the cost can be reliably measured

Intangibles acquired by the Bank are recognised initially at cost. Costs include all directly attributed costs in order to bring the asset into a state for its intended use. Subsequently these are measured at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. Amortization is recognised in the profit or loss on a straight line basis over the estimated useful lives of the intangibles from the date they are available for use. All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

3.3 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

3. Significant accounting policies (Continued)

3.4 Foreign currency translation

The results and financial position of the Bank are expressed in Malawi Kwacha, which is the functional currency of the Bank and the presentation currency for the financial statements.

Transactions in currencies other than the Bank's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the statement of comprehensive income for the period.

3.5 Leases

Bank as a lessee

The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lease term reflects the exercise of an option to terminate the lease; and
- Payments or penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented in the notes of the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease and by reducing the carrying amount to reflect the lease payments made.

The Bank re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is measured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is measured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

3. Significant accounting policies (Continued)

3.5 Leases (Continued)

- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is measured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets compromise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented on the face to the statement of financial position.

The Bank applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Bank has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Bank allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Bank as lessor

Leases for which the Bank is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Bank'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 Bank's net investment outstanding in respect of the leases.

When a contract includes lease and non-lease components, the Bank applies IFRS 15 to allocate the consideration under the contract to each component.

3. Significant accounting policies (Continued)

3.6 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.7 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue comprises of interest income and other income.

Other incomes are generally recognised on an accrual basis when the services have been rendered.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

3.8 Financial assets

3.8.1 Initial recognition

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments.

Financial instruments are initially recognised on the trade date measured at their fair value. Except for financial assets and financial liabilities recorded at FVPL, transaction costs are added to this amount.

3.8.2 Measurement categories

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms. The categories include the following:

- Amortised cost;
- Fair value through other comprehensive income; and
- Fair value through profit or loss.

3.8.2.1 Debt instruments measured at amortised cost

Debt instruments are held at amortised cost if both of the following conditions are met:

- The instruments are held within a business model with the objective of holding the instrument to collect the contractual cash flows; and
- The contractual terms of the debt instrument give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

3. Significant accounting policies

3.8 Financial assets (Continued)

3.8.2 Measurement categories (Continued)

3.8.2.2 Debt instruments measured at fair value through other comprehensive income

The Bank applies the new category under IFRS 9 for debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset meet the SPPI test.

These instruments largely comprise debt instruments that had previously been classified as available-for-sale under IAS 39. Debt instruments in this category are those that are intended to be held to collect contractual cash flows and which may be sold in response to needs for liquidity or in response to changes in market conditions.

3.8.2.3 Financial assets measured at fair value through profit or loss

Financial assets in this category are those that are managed in a fair value business model, or that have been designated by management upon initial recognition, or are mandatorily required to be measured at fair value under IFRS 9. This category includes debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.

3.8.3 Subsequent measurement

3.8.3.1 Debt instruments at amortised cost

After initial measurement, debt instruments are measured at amortised cost, using the effective interest rate (EIR) method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. ECLs are recognised in the statement of profit or loss when the investments are impaired.

3.8.3.2 Debt instruments at fair value through other comprehensive income

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

3.8.3.3 Financial assets at fair value through profit or loss

Financial assets at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit or loss. Interest earned on assets mandatorily required to be measured at FVPL is recorded using contractual interest rate. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established.

3. Significant accounting policies

3.8 Financial assets (Continued)

3.8.4 *Reclassification of financial assets and liabilities*

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line.

3.8.5 *Derecognition*

3.8.5.1 *Derecognition other than for substantial modification*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Bank has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either: (a) the Bank has transferred substantially all the risks and rewards of the asset; or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be.

3.8.5.2 *Derecognition due to substantial modification of terms and conditions*

The Bank derecognises a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new instrument, with the difference recognised as a derecognition gain or loss. In the case of debt instruments at amortised cost, the newly recognised loans are classified as Stage 1 for ECL measurement purposes.

When assessing whether or not to derecognise an instrument, amongst others, the Bank considers the following factors:

- Change in currency of the debt instrument;
- Introduction of an equity feature;
- Change in counterparty; and
- If the modification is such that the instrument would no longer meet the solely payments of principal and Interest criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss.

3. Significant accounting policies (Continued)

3.8 Financial instruments (Continued)

3.8.6. Impairment of financial assets

The Bank recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at the appropriate effective interest rate.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Bank considers a financial asset to be in default (credit impaired) when contractual payments are 181 days past due. However, in certain cases, the Bank may also consider a financial asset to be in default when internal or external information indicates that the Bank is unlikely to receive the outstanding contractual amounts. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

3.8.6.1 The calculation of ECLs

The Bank calculates ECLs based on scenarios to measure the expected cash shortfalls, discounted at an appropriate EIR. A cash shortfall is the difference between the cash flows that are due to the Bank in accordance with the contract and the cash flows that the entity expects to receive.

When estimating the ECLs the Bank considers four scenarios (a base case, an upside, a mild downside and a more extreme downside). When relevant, the assessment of multiple scenarios also incorporates the probability that the defaulted loans will cure.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. It is estimated with consideration of economic scenarios and forward-looking information.
- EAD The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, and accrued interest from missed payments.
- LGD The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive. It is usually expressed as a percentage of the EAD.

3. Significant accounting policies (Continued)

3.8 Financial instruments (Continued)

3.8.6. Impairment of financial assets (Continued)

- The Bank allocates its assets subject to ECL calculations into one of these categories, determined as follows:
- The 12months ECL is calculated as the portion of lifetime ECLs that represent the ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date. The Bank calculates the 12months ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an appropriate EIR. This calculation is made for each of the four scenarios, as explained above.
- When an instrument has shown a significant increase in credit risk since origination, the Bank records an allowance for the lifetime ECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected losses are discounted by an appropriate EIR.
- Impairment For debt instruments considered credit-impaired, the Bank recognises the lifetime expected credit losses for these instruments. The method is similar to that for lifetime ECL assets, with the PD set at 100%.

3.8.6.2 Forward looking information

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth; and
- Monetary policy rate.

3.8.7. Write-offs

The Bank writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Bank's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss. There were no write-offs over the periods reported in these financial statements.

3.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

3.10 Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Bank's accounting policies, which are described in note 3, management are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The 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 if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Critical judgements in applying the Bank's accounting policies

Critical judgements made by the directors during the current period which would have a material impact on the financial statements relate to the recoverability of loans and advances to customers. The credit risk management policies are outlined in note 17.1 below.

4.1.1 Business model assessment

Classification and measurement of financial assets depends on the results of the sole payments of principal and interest and the business model test (please see financial assets sections of note 3.9). The Bank determines the business model at a level that reflects how Companies of financial assets are managed together to achieve a particular business objective.

This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

4.1.2 Significant increase in credit risk

As explained in note 3, Expected Credit Losses (ECL) are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information.

4.1.3 Models and assumptions used

The Bank uses the parent Banks model and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

4.2 Key sources of estimation uncertainty

4.2.1 Useful lives and residual values of plant and equipment

The Bank reviews the estimated useful lives and residual values of plant and equipment at the end of each reporting period. These estimates are subjective by nature, as they require assessment of financial and non-financial information in arriving at the residual values and useful lives which can only be borne out by future events.

4. Critical accounting judgements and key sources of estimation uncertainty (Continued)

4.2 Key sources of estimation uncertainty (Continued)

4.2.2 Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment, at least, on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Key assumptions used:

- a) Cash flows arising from repayment agreement are aggregated over yearly intervals and assumed to arise at the end of the period;
- b) Where there is an agreement but no security in place and cash flows in the subsequent years are doubtful, total future estimated cash flows are assumed to be nil;
- c) Unsupported guarantees are assumed to result in nil cash flows; and
- d) No cash flows are assumed to arise where there is no repayment agreement and no security and repayments are erratic or unpredictable.

4.2.3 Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward-looking information relevant to each scenario

When measuring ECL the Bank uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

4.2.4 Incorporating collateral and applying haircuts to market values of securities

The Bank includes collateral in calculation of LGD for an exposure. The Bank applies different haircuts on various types of collateral depending on the asset's liquidity and price volatility. The collateral values are based on open market valuations. According to the Bank's policy collateral is revalued every five years. However, the Bank inspects the assets offered as collateral every year.

4.2.5 Probability of Default (PD)

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

4.2.6 Loss Given Default (LGD)

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive.

4.2.7 Fair value measurement and valuation process

In estimating the fair value of a financial asset or a liability, the Bank uses market-observable data to the extent it is available. Where such Level 1 inputs are not available, the Bank uses valuation models to determine the fair value of its financial instruments. Refer to note 18 for more details on fair value measurement.

NBM DEVELOPMENT BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2021

4. Critical accounting judgements and key sources of estimation uncertainty (Continued)

4.2 Key sources of estimation uncertainty

4.2.1 Useful lives and residual values of property and equipment

The Bank reviews the estimated useful lives and residual values of plant and equipment at the end of each reporting period. These estimates are subjective by nature, as they require assessment of financial and non-financial information in arriving at the residual values and useful lives which can only be borne out by future events.

4.2.8 Determination of lease term

In estimating the lease term, the Bank assumed a five-year lease period. This was based on the average lease contracts period and also in order to appropriately align it to the Banks's strategic planning period and also to ensure best estimates as recommended by IFRSs.

4.2.9 Determination of Discount Factor for determining lease liability

The Bank used the incremental borrowing rate as the discount factor. The choice was made because it was not practical to ascertain the interest implicit in the leases due to lack of information on the valuation of the assets being leased.

5. Plant and equipment

	Computer equipment K'000	Fixtures & fittings K'000	Total K'000
<u>2021</u>			
Cost			
At the beginning of the year	5 485	7 179	12 664
Additions	<u>2 724</u>	<u>-</u>	<u>2 724</u>
At the end of the year	<u>8 209</u>	<u>7 179</u>	<u>15 388</u>
Depreciation			
At the beginning of the year	1 959	1 153	3 112
Current year charge	<u>1 411</u>	<u>669</u>	<u>2 080</u>
At the end of the year	<u>3 370</u>	<u>1 822</u>	<u>5 192</u>
Net Book Value			
At the end of the year	<u>4 839</u>	<u>5 357</u>	<u>10 196</u>
<u>2020</u>			
Cost			
At the beginning of the year	4 410	6 598	11 008
Additions	<u>1 075</u>	<u>581</u>	<u>1 656</u>
At the end of the year	<u>5 485</u>	<u>7 179</u>	<u>12 664</u>
Depreciation			
At the beginning of the year	611	451	1 062
Current year charge	<u>1 348</u>	<u>702</u>	<u>2 050</u>
At the end of the year	<u>1 959</u>	<u>1 153</u>	<u>3 112</u>
Net Book Value			
At the end of the year	<u>3 526</u>	<u>6 025</u>	<u>9 552</u>

The following useful lives are used in the calculation of depreciation

Computer equipment - 4 years
Furniture and Fittings - 10 years

NBM DEVELOPMENT BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2021

6. Intangible assets

	<u>Intangible assets</u> K'000	<u>Work in progress</u> K'000	<u>Total</u> K'000
<u>2021</u>			
Cost			
At the beginning of the year	10 368	-	10 368
Additions	<u>-</u>	<u>19 809</u>	<u>19 809</u>
At the end of the year	<u>10 368</u>	<u>19 809</u>	<u>30 177</u>
Amortisation			
At the beginning of the year	346	-	346
Current year charge	<u>1 037</u>	<u>-</u>	<u>1 037</u>
At the end of the year	<u>1 383</u>	<u>-</u>	<u>1 383</u>
Carrying amount			
At the end of the year	<u>8 985</u>	<u>19 809</u>	<u>28 794</u>
<u>2020</u>			
Cost			
At the beginning of the year	10 368	-	10 368
Additions	<u>-</u>	<u>-</u>	<u>-</u>
At the end of the year	<u>10 368</u>	<u>-</u>	<u>10 368</u>
Amortisation			
At the beginning of the year	-	-	-
Current year charge	<u>346</u>	<u>-</u>	<u>346</u>
At the end of the year	<u>346</u>	<u>-</u>	<u>346</u>
Carrying amounts			
At the end of the year	<u>10 022</u>	<u>-</u>	<u>10 022</u>

The Bank's intangible assets comprise computer software and licenses. These are recognised as an asset when it is probable that future economic benefit from the asset will flow to the entity and the cost can be reliably measured.

Work in progress includes projects under implementation. Recognition as an asset will occur once finalized and available for use. Work in progress for the year 2021 specifically relates to an SME Management System being implemented by the Bank. The project/system is expected to be complete and available for use in the year 2022.

The estimated useful life of the Intangible assets is 10 years.

NBM DEVELOPMENT BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2021

7. Right of use asset

The Bank entered into a leasing arrangement for its premises. The average term of the leases is 5 years.

	<u>2021</u> K'000	<u>2020</u> K'000
Cost		
At beginning of the year	36 109	36 109
At end of the year	36 109	36 109
Accumulated depreciation		
At beginning of the year	13 240	6 018
Charge for the year	7 222	7 222
At end of the year	20 462	13 240
Carrying amount		
At end of the year	15 647	22 869
Lease liability		
Lease commitments at the beginning of the year	31 755	38 684
Interest charged on lease	5 354	6 372
Lease repayments	(14 766)	(13 301)
Lease liabilities recognised at end of the year	22 343	31 755
Within one year	16 620	14 766
After one year	5 723	16 989
	22 343	31 755
Amounts recognized in profit and loss		
Finance cost		
Interest expenses on lease liabilities	5 354	6 372
Amortisation expense on rights – of – use assets	7 222	7 222
Interest expenses on lease liabilities	5 354	6 372
Total lease expenses recognised in profit and loss	12 576	13 594

8. Loans and advances to customers

Term loans	2 265 478	1 009 372
Expected credit loss	(27 991)	(7 978)
Net loans	2 237 487	1 001 394
• Within one year	201 374	92 169
• After one year	2 036 113	909 225
	2 237 487	1 001 394

8. Loans and advances to customers (Continued)

The Bank makes advances in specific high impact sectors in line with its mandate as a Development Finance Institution. These sectors include Agriculture, mechanisation and value addition, Education, Energy, Health, ICT, Tourism and Start-up manufacturing. So far, the Bank has made advances in all sectors excluding Education.

Term loans include principal amounts as well as accrued interest. The term loans are secured by physical assets financed by the Bank and assets owned by the customers and attract interest with rates ranging from 11 – 21%.

The loans bear a maximum moratorium period of either interest or interest and principal repayments of two years and principal repayments span over a maximum tenure of 8 years.

Details of the Expected Credit Loss has been disclosed in note 17.

	<u>2021</u> K'000	<u>2020</u> K'000
9. Other assets		
Prepayments (Africa Guarantee Fund)	844	10 976
Amount refundable from MIF	6 680	-
Other debtors	<u>199</u>	<u>-</u>
	<u>7 723</u>	<u>10 976</u>

10. Investments - money market deposits

Stockbrokers Malawi Limited	309 003	1 472 777
NBM Capital Markets Limited	<u>18 000</u>	<u>4 336</u>
	<u>327 003</u>	<u>1 477 113</u>

Balances with discount houses are held to maturity and mature within one month (2020: one month) after the year-end, and earn an average interest rate of 12% (2020: 14%) per annum.

The Bank assessed money market deposits to be in the category of low risk assets mainly based on the period of redemption and performance history. The assessed ECLs were insignificant and as such have not been reported in the financial statements.

	<u>2021</u> K'000	<u>2020</u> K'000
11. Related party balances and transactions		
11.1 Balances held with related parties		
National Bank of Malawi plc – bank account	7 964	25 502
National Bank of Malawi plc – Bank overdraft	<u>(11 702)</u>	<u>-</u>
	<u>(3 738)</u>	<u>25 502</u>

Balances held at National Bank of Malawi plc in current accounts are denominated in Malawi Kwacha and do not earn any interest (2020: 1% for balances above K1 million)

NBM DEVELOPMENT BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2021

2021
K'000

2020
K'000

11. Related party balances and transactions (Continued)

11.2 Other related party transaction

Compensation of key management personnel
Salaries and short term benefits

208 804 190 185

2021
K'000

2020
K'000

12. Trade and other payables

Audit fees
Gratuity
Deferred fee
Other payables

20 000 -
18 760 -
19 747 9 561
3 066 11 673

61 573 21 234

The directors consider that the carrying amounts of trade and other payables approximate to their fair value. These amounts do not attract any interest.

13. Interest income

Interest from loans and advances with customers
Interest income from money market investments

289 232 88 739
122 882 228 166

412 114 316 905

14. Other income

Payable balance forgiven by NBM Plc
Fees and commissions

- 194 653
9 533 5 938

9 533 200 591

15.1 Staff costs

Salaries and wages
Pensions costs – defined contribution scheme
Staff training costs
Other staff costs

225 188 208 207
15 566 13 711
1 960 5 375
43 243 23 039

285 957 250 332

15.2 Operating costs

Audit fees
AGF expenses
Premises
Equipment
Motor vehicles
Intangibles
Communication
Other overheads

30 143 46 948
15 720 10 132
23 696 23 722
5 722 4 990
7 640 6 490
1 037 346
3 786 3 802
20 899 60 695

108 643 157 125

NBM DEVELOPMENT BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2021

2021
K'000

2020
K'000

16. Income tax

16.1 Income tax expense

Income tax (credit)/charge	(29 754)	29 754
Deferred tax (credit)/charge	<u>(2 186)</u>	<u>2 641</u>
Total income tax (credit)/charge	<u>(31 940)</u>	<u>32 395</u>

The Bank made a tax provision of K29.7 million in the year ended 31 December 2020 despite having unutilized tax losses that were inherited from Indebank. The prior year provision was reversed in the current year after filing tax returns and confirming with tax authorities of a Nil tax obligation for the financial year ended 31 December 2020.

Reconciliation of effective tax (credit)/charge
(Loss)/profit before tax

	(3 304)	92 443
Income tax using statutory rate of 30%	(990)	27 730
Permanent differences	<u>(30 950)</u>	<u>4 665</u>
	<u>(31 940)</u>	<u>32 395</u>

2021
K'000

2020
K'000

16.2 Income tax recoverable

At 1 January	(89 505)	(85 700)
(Credit)/charge for the year	(29 754)	29 754
Tax refunds/(payments) made during the year	<u>38 062</u>	<u>(33 559)</u>
	<u>(81 197)</u>	<u>(89 505)</u>

16.3 Deferred tax asset

At beginning of the year	(2 852)	(5 493)
Movement for the year	<u>(2 186)</u>	<u>2 641</u>
At end of the year	<u>(5 038)</u>	<u>(2 852)</u>

Analysed as:-

Accelerated capital allowances	(364)	2 852
Other temporary differences	<u>(4 674)</u>	<u>-</u>
	<u>(5 038)</u>	<u>2 852</u>

17. Financial risk management

Through its normal operations, the Bank is exposed to a number of risks, the most significant of which are credit, liquidity and interest rate risks. Responsibility for the management of these risks is vested in the board of directors. The board through its committees; Credit and Investment committee and Finance and Audit committee, is responsible for formulating high-level risk policies, setting standards, monitoring concentrations and providing independent oversight.

The Credit and Investment Committee is responsible for oversight of the bank's overall credit risk management issues. The committee is responsible for reviewing and approving the Bank's credit policies including provisioning, larges loan exposures, sectors in which the Bank should operate and compliance to credit risk management regulations.

17. Financial risk management (Continued)

Finance and Audit Committee is responsible for monitoring financial performance of the Bank and conducting independence checks to ensure compliance with the Bank's risk management policies, procedures and controls. The Bank further outsourced internal audit and risk management functions to NBM Plc.'s Internal Audit Division and Risk Division to supplement the committee's efforts.

17.1 Credit risk management

Credit risk refers to the likelihood that a debtor or financial instrument issuer is unwilling or unable to pay interest and/or repay the principal according to the terms specified in a credit agreement resulting to economic loss to the Bank. This risk arises from direct lending, trade finance, leasing business, money market investments and from off-balance sheet activities such as guarantees and from holding debt securities.

Much of credit risks facing the Bank arises principally from loans and advances to customers.

The Board has the responsibility for approving and periodically reviewing the credit risk strategy and significant credit risk policies. All facilities are approved by the Board. The Board of directors has delegated this responsibility to its Board Credit Committee.

Overall, the responsibilities of the Board Credit Committee being the ultimate authority in credit matters are;

- i. Defining the Bank's credit risk appetite and providing general guidance on aggregate and individual exposures consistent with regulations, directives and Bank's policy.
- ii. Ensure that the Bank's significant credit risk exposure is maintained at prudent levels and consistent with available capital.
- iii. Ensure that senior management and officers responsible for credit risk management possess sound expertise, experience and knowledge to perform the risk management function.
- iv. Ensure the Bank implements sound policies and procedures that facilitate the identification, measurement, monitoring and controlling credit risk.
- v. Review internal/external audit and regulatory credit risk management reports
- vi. Authorize provisions for and/or write-offs of bad debts as recommended by management

The Bank mitigates credit risk by proactively managing it. Investment are made only if the level of risk is acceptable. This is achieved primarily by investing in Government treasury bills and money market products of good credit-rated banks and other financial institutions. Overall credit risk in this category is relatively lower.

Significant increase in credit risk

The Bank monitors all financial assets that are subject to impairment requirements to assess whether there has been significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

In determining whether there has been a SICR, the Bank considers the following loss events:-

- i. Significant financial difficulty of the issuer, borrower, or counterparty;
- ii. A breach of contract, such as default on interest and/or principal payments;
- iii. Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider in the normal course of business;
- iv. It is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- v. Death of the borrower;
- vi. Observable data indicating that there is a measurable degree in the estimated future cash flows from a group of similar borrowers or financial assets including adverse changes in the payment status of borrowers in a group; and
- vii. National or local economic conditions that correlate with defaults on the assets in the group

17. Financial risk management (Continued)

17.1 Credit risk management (Continued)

The nature and extent of credit risk

The Bank's exposure net of impairments loss provisions as at 31 December 2021 was at K2 237m (2020: K1 009m) with Non-Performing Loans (NPL) standing at 10% (2020: 0%). With default rate increasing from the previous reporting period, the Bank will enhance its recoveries efforts and credit risk management to ensure the ratio goes down.

Credit rating information supplied by external rating agencies

The Bank uses the credit reference bureau to obtain credit history of all the loan applications it gets before approving the loans. This enhances credit risk management in that loans are only given out to customers who have a good credit rating and have capacity to repay.

Security and collateral on loans and advances

Consideration of loan applications is always based on the merits of the application. However, the Bank ensures that it is adequately covered by appropriate security which has a solid fall back value and in a form that is enforceable in a Court of Law. All tangible assets charged to the Bank are adequately and comprehensively insured at the clients expense with the Bank's interest noted. No credit facility is disbursed until all security documentation is fully perfected giving the Bank good title to the underlying asset before drawdown. The Bank further reviews security and documentation held for each borrower at intervals of not more than one year. Legal documentation is done by or through NBM Plc.'s legal department.

A estimate of fair value of collateral held against financial assets is shown below

Fair value of tangible collateral on loans and advances per sector

	<u>2021</u> K'000	<u>2020</u> K'000
Agribusiness	898 653	81 223
Health	1 271 347	387 038
Energy	100 899	81 016
Tourism	885 517	-
ICT	<u>415 389</u>	<u>415 389</u>
	<u>3 571 805</u>	<u>964 666</u>

Tangible security against impaired facilities

Machinery	<u>85 254</u>	<u>-</u>
-----------	---------------	----------

Tangible security against the rest of the loan book

Machinery	691 118	322 383
Motor Vehicles	172 400	72 283
Commercial Property	1 974 833	125 000
Residential Property	<u>648 200</u>	<u>445 000</u>
	<u>3 486 551</u>	<u>964 666</u>

Credit Guarantee Scheme (AGF/AFAWA)

The Bank has a credit guarantee scheme with Africa Guarantee Fund (AGF) Kenya covering at least 50% of its loan portfolio. During the year 2021, the agreement with AGF was varied to incorporate guarantee cover by The Affirmative Finance Action for Women in Africa (AFAWA). This is a Pan-Africa initiative implemented jointly by Africa Guarantee Fund and the African Development Bank and it aims to reduce the funding gap facing women in Africa by guaranteeing up to 75% of facilities granted to businesses owned or managed by women, employing a significant proportion of women or producing or offering services specifically or disproportionately benefiting women. All facilities are covered under this guarantee scheme up to 50% or 75% depending on the qualifying criteria stated above.

17. Financial risk management (Continued)

17.1 Credit risk management (Continued)

Security and Collateral on Loans and Advances (Continued)

Regular reviews for a balanced portfolio and undue credit risk concentration and credit risk diversification.

The Bank regularly measures, review, monitor and control credit risk concentration in its loan book to ensure it does not contain undue concentration in sector and collateral type.

Loans and Advances to customers categorized per sector

The Bank monitors concentration of credit risk by sector. An analysis of concentration of credit risk at the year-end date is shown below:

Loans and Advances to customers per sector

	<u>2021</u> K'000	<u>2020</u> K'000
<u>Sector</u>		
Agribusiness	549 375	89 854
Health	917 002	330 646
Energy	412 899	384 915
Tourism	201 083	-
ICT	<u>185 120</u>	<u>203 958</u>
	<u>2 265 478</u>	<u>1 009 372</u>

Loans and Advances to customers categorized by stages

	<u>2021</u> K'000	<u>2020</u> K'000
<u>Category</u>		
Stage One	2 028 206	1 009 372
Stage Two	-	-
Stage Three	<u>237 272</u>	<u>-</u>
Total Gross Carrying Amount	2 265 478	1 009 372
Loss allowances	<u>(27 991)</u>	<u>(7 978)</u>
Carrying Amount	<u>2 237 487</u>	<u>1 001 397</u>

Credit quality of loans and advances

The credit quality of loans and advances is managed in line with the Financial Services (Credit Risk management Directive for Development Finance Institutions) Directive, 2018. The analysis below shows the credit quality of the loans and advances in line with this directive

	<u>2021</u> K'000	<u>2020</u> K'000
Standard	2 028 206	836 206
Special Mention	-	173 167
Substandard	<u>237 272</u>	<u>-</u>
Total	<u>2 265 478</u>	<u>1 009 372</u>

17. Financial risk management (Continued)

17.1 Credit risk management (Continued)

Allowance for Impairment

The Bank establishes an allowance for impairment losses in accordance with IFRS 9 and RBM Credit Risk Management Directive for Development Finance Institutions Directive (2020) as discussed under note 3.8. IFRS 9 requires companies to develop a provisioning model using historical data for at least three years. NBM Development Bank commenced operations towards the end of 2019 with 2020 as the full year of operations. As at 31 December 2021, the Bank did not have adequate three years data to develop its own provisioning model as dictated by the relevant standard.

In the light of the aforementioned challenge and the unavailability of a proxy DFI with a provisioning model, NBM Development Bank resolved to use NBM Plc.'s model as a proxy in coming up with its own ECLs. The rationale for the adoption of NBM Plc.'s model is that both NBMDB and NBM plc offer loans similar in nature, terms and conditions to clients in similar sectors. In some cases, the bank has mutual customers enjoying facilities at NBM Development Bank and NBM Plc.

ECLs are calculated using statistical tools namely; probability of default (PD), exposure at default (EAD) and loss given default (LGD). Data for the three categories is supplied to NBMDB by NBM plc. NBM plc subcontracted the development of its IFRS 9 model and monthly computations of data to an external consultant.

NBMDB as a DFI and provider of medium and long term finance classifies its exposure into provisioning categories namely; Stage1, Stage2 and Stage3 in line with Reserve Bank of Malawi's Financial Services (Credit Risk Management for Development Finance Institutions) Directive, 2018.

Allowance for Impairment

	<u>2021</u> K'000	<u>2020</u> K'000
<u>Movement</u>		
Opening Balance	7 978	-
Charge for the Year	<u>20 013</u>	<u>7 978</u>
Closing Balance	<u>27 991</u>	<u>7 978</u>

Write-off Policy

The Bank writes off a loan balance (and any related impairment allowances for impairment losses) when it determines that the loans are uncollectible. This determination is reached after considering information such as occurrence of significant changes in the borrower/issuer's financial position such that borrower/issuer can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Financial assets written off may still be subject to enforcement activities under the recovery procedures, taking into account legal advice where appropriate. So far the Bank has not written off any loans since inception in 2019.

17.2 Liquidity risk management

Liquidity Risk is the risk of loss arising from failure to meet obligations as they fall due or to fund increases in assets without incurring unacceptable cost or losses.

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

17. Financial risk management (Continued)

17.2 Liquidity risk management (Continued)

Ultimate responsibility for liquidity risk management rests with the board of directors through the Bank's Finance and Audit committee, which has built an appropriate liquidity risk management framework for the management of the Bank's short, medium and long-term funding and liquidity management requirements. The responsibility for the management of these risks lies with the management. The Bank manages liquidity risk by maintaining adequate reserves, and continuously monitoring forecast and actual cash flows.

The table below analyses assets and liabilities into relevant maturity profiles based on the remaining period at the year-end to the contractual maturity date.

	Less than 3 months K'000	3-6 months K'000	More than 12 months K'000	Total K'000	Carrying amount K'000
2021					
Money market deposits	327 003	-	-	327 003	327 003
Bank balances and cash	7 964	-	-	7 964	7 964
Loans and advances	67 964	133 410	2 036 113	2 237 487	2 237 487
Total assets	402 931	133 410	2 036 113	2 572 454	2 572 454
Bank overdraft	11 702	-	-	11 702	11 702
Lease liability	1 116	2 458	18 769	22 343	22 343
Trade and other payables	42 419	1 185	17 969	61 573	61 573
Total liabilities	55 237	3 643	36 738	95 618	95 618
Contractual liquidity	347 694	129 767	1 999 375	2 476 836	2 476 836
Mismatch	347 694	477 461	2 476 836	2 476 836	2 476 836
2020					
Money market deposits	1 477 113	-	-	1 477 113	1 477 113
Bank balances and cash	25 502	-	-	25 502	25 502
Loans and advances	28 298	63 871	909 225	1 001 394	1 001 394
Total assets	1 530 913	63 871	909 225	2 504 009	2 504 009
Lease liability	1 116	11 870	18 769	31 755	31 755
Trade and other payables	13 327	1 090	7 926	22 343	22 343
Total liabilities	14 443	12 960	26 695	54 098	54 098
Contractual liquidity	1 516 470	50 911	882 530	2 449 911	2 449 911
Mismatch	1 516 470	1 567 381	2 449 911	2 449 911	2 449 911

17. Financial risk management (Continued)

17.3 Interest rate risk management

The Bank is exposed to interest rate risk as it deals with banks on a continuous basis i.e. can either borrow or extend funds to banks depending on whether there is excess or less cash balances. The risk is managed by adhering to board mandates in respect of borrowings and investments

There are no significant exposures as at year-end due to current stability of interest rates prevailing in Malawi.

The Bank is exposed to interest rate risk; which is the risk of loss from fluctuations in future cash flows or fair values of financial instruments because of change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for pricing bands. The table below summarizes the exposure to interest rate risks.

	1 - 3 Months K'000	3 - 6 Months K'000	Over 1 Year K'000	Non Interest Sensitive K'000	Total K'000
2021					
Financial Assets					
Cash	-	-	-	7 964	7 964
Money market deposits	327 003	-	-	-	327 003
Other assets	-	-	-	7 723	7 723
Loans and advances	67 964	133 410	2 036 113	-	2 237 487
Total Financial Assets	394 967	133 410	2 036 113	7 964	2 580 177
Financial Liabilities					
Bank overdraft	11 702	-	-	-	11 702
Trade and other payables	-	-	-	61 573	61 573
Lease Liabilities	1 116	2 458	18 769	-	22 343
Total financial Liabilities	12 818	2 458	18 769	61 573	95 618
Interest sensitive gap	382 149	130 952	2 017 344	(45 886)	2 484 559
Cumulative gap	382 149	513 101	2 530 445	2 484 559	-

Impact on profit of an increase in interest rates:

+1%	3 821	1 310	20 173	-	25 304
+2%	7 643	2 619	40 347	-	50 609
+3%	11 464	3 929	60 520	-	75 913

Impact on profit of a decrease in interest rates:

-1%	(3 821)	(1 310)	(20 173)	-	(25 304)
-2%	(7 643)	(2 619)	(41 347)	-	(50 609)
-3%	(11 464)	(3 929)	(60 520)	-	(75 913)

17. Financial risk management (Continued)

17.3 Interest rate risk management (Continued)

	<u>1 - 3</u> <u>Months</u> <u>K'000</u>	<u>3 - 6</u> <u>Months</u> <u>K'000</u>	<u>Over</u> <u>1 Year</u> <u>K'000</u>	<u>Non Interest</u> <u>Sensitive</u> <u>K'000</u>	<u>Total</u> <u>K'000</u>
2020					
Financial Assets					
Cash	-	-	-	25 502	25 502
Money market deposits	1 477 113	-	-	-	1 477 113
Loans and advances	28 298	64 605	916 469	-	1 009 372
Total Financial Assets	<u>1 505 411</u>	<u>64 605</u>	<u>916 469</u>	<u>25 502</u>	<u>2 511 987</u>
Financial Liabilities					
Payables	-	-	-	21 234	21 234
Lease Liabilities	-	-	-	31 755	31 755
Total financial Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>52 989</u>	<u>52 989</u>
Interest sensitive gap	1 505 411	64 605	916 469	(27 487)	2 458 998
Cumulative gap	1 505 411	1 570 016	2 486 485	2 458 998	-
Impact on profit of an increase in interest rates:					
+1%	15 054	646	9 165	-	24 865
+2%	30 108	1 292	18 329	-	49 730
+3%	45 162	1 938	27 494	-	74 595
Impact on profit of a decrease in interest rates:					
-1%	(15 054)	(646)	(9 165)	-	(24 865)
-2%	(30 108)	(1 292)	(18 329)	-	(49 730)
-3%	(45 162)	(1 938)	(27 494)	-	(74 595)

17.4 Capital Management

Regulatory Capital

The Reserve Bank of Malawi sets and monitors capital requirements for Development Finance Institutions. Regulatory capital requirement is the minimum amount of capital required by RBM, which if not maintained will usually require supervisory intervention. DFIs are required to maintain a paid up capital in Malawi Kwacha an equivalent of USD50 million. The Bank was granted an open ended waiver in 2018, which required the Bank to have a paid capital of Malawi Kwacha equivalent of US\$1.5 million. As at 31 December 2021, the Bank was in compliance with the minimum capital requirement as per the terms of the waiver.

In February 2022, the Bank was requested by RBM to submit a comprehensive capital plan on how it intends to comply with the minimum paid up capital of US\$50.0 million. The Bank has submitted to RBM a comprehensive capital plan which indicates that the minimum capital requirement will be met within 8 years.

18. Going concern

The Bank was granted open ended waivers in 2018 by the Reserve Bank of Malawi on corporate governance and capital adequacy directives. In February 2022, the corporate governance waiver was extended to 31 December 2022 and the Bank was further requested by the Reserve Bank of Malawi to submit a capital plan to comply with the minimum paid up capital of US\$50.0 million. The Bank has written RBM for an extension of the corporate governance waiver beyond December 2022 by an additional 2 to 3 years. The Bank has also submitted to RBM a comprehensive capital plan which indicates that the minimum capital requirement will be met within 8 years. The Bank has since requested for an 8 year capital adequacy waiver in line with the capital plan. Management is confident that the going concern of the Bank will not be affected by compliance to these directives.

19 Fair value measurements

This note provides information about how the Bank determines fair values of various financial assets and financial liabilities

19.1 Valuation techniques and assumptions applied for the purposes of measuring fair value

The directors consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

19.2 Fair value measurements recognised in the statement of financial position

The following list provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

19.3 Fair value of the Bank's financial assets and financial liabilities that are measured at fair value on recurring basis.

The Bank did not have any financial assets and financial liabilities that are measured at fair value at the end of each reporting period.

19.4 Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate to their fair values.

20. Exchange rates and inflation

The average of the year-end buying and selling rates of the foreign currencies most affecting the performance of the Bank are stated below together with the increase in the National Consumer Price Index which represents an official measure of inflation.

	<u>2021</u>	<u>2020</u>
Kwacha/GBP	1102	1 088
Kwacha/Rand	51	56
Kwacha/US Dollar	816	772
Kwacha/Euro	924	988
Inflation (%)	<u>11.5</u>	<u>7.6</u>

As at the date of approving the financial statements, the above noted rates had moved as follows:

Kwacha/GBP	1062
Kwacha/Rand	54
Kwacha/US Dollar	816
Kwacha/Euro	891
Inflation rate % (February 2022)	<u>13.0</u>

21. Subsequent event

There are no material events subsequent to year-end.

22. Impact of COVID 19 Assessment

The Bank continued to operate in a subdued environment due to the impact of Covid-19 which drastically hit SMEs. However, there were notable signs of recovery during the year amid threats of new Covid-19 waves. The Bank opened up advances to the tourism sector, which was suspended in the year 2020 together with education. The move was premised on the rise of domestic tourism and the urge to compliment government efforts in reviving the industry. However, the Bank continued to exercise caution in its approaches to the affected sectors in order to minimize the risk of losses.

Albeit the Covid induced challenges, the pandemic has spotlighted NBM Development Bank as one of the conduits of finance aimed at mitigating the impact of Covid 19. The Bank has secured a World Bank line of credit amounting to K3 billion through the Reserve Bank of Malawi, as part of Financial Inclusion and Entrepreneurship Scaling (FInES) project. These funds will be intermediated to SMEs at a subsidized interest rate.

23. Environmental, social and governance report

The Bank actively strives to be a responsible environmental and social corporate citizen as it pursues its business interests aiming at improving the national green footprint through responsible investments and funding.

The Bank selectively identified the sectors in which it finances, selecting only those with a high economic and social impact. Furthermore, the Bank does not finance activities with a high carbon footprint. In turn, the Bank actively finances projects that foster the use of renewable and clean energy. In this regard, the Bank has financed projects that are providing off-grid solar powered solutions to rural areas and another project focused on producing briquettes as an alternative source of energy.

The Bank is guided by the NBM Group's Environmental Policy. All potential projects undergo an environmental assessment at due diligence stage before funding is availed. Where potential risks are identified, mitigating measures are put in place.

The Bank is committed to providing finance to marginalized sections of society especially women and the youth who have long been alienated from meaningful economic activities. The Bank recognizes that empowering this group will go a long way in addressing the economic and social imbalances. The Bank has partnered with a number of organizations that are championing economic empowerment amongst women and the youth and viable projects are financed once identified.