

NBM Development Bank Limited

Financial Statements for the year ended
31 December 2020

NBM DEVELOPMENT BANK LIMITED
FINANCIAL STATEMENTS
For the year ended 31 December 2020

<u>TABLE OF CONTENTS</u>	<u>PAGE</u>
Directors' report	1
Statement of directors' responsibilities	2
Independent auditor's report	3 - 4
Statement of financial position	5
Statement of comprehensive income	6
Statement of changes in equity	7
Statement of cash flows	8
Notes to the financial statements	9 - 32

NBM DEVELOPMENT BANK LIMITED
DIRECTORS' REPORT
For the year ended 31 December 2020

The Directors have pleasure in submitting their report together with the financial statements of NBM Development Bank Limited for the year ended 31 December 2020.

SHARE CAPITAL

The issued and paid up share capital of the Company is 84,000,000 Ordinary shares of K1 each. The Company 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 Company is lending. The Company's principal place of business is National Bank of Malawi Towers, 7 Henderson Street, Blantyre, Malawi.

RESULTS AND DIVIDENDS

The directors report a profit after tax for the year of K60 million and a loss after tax of K21.5 million in 2019.

DIRECTORS

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

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

AUDITORS

The auditor, 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 2021.

DIRECTOR: 

DIRECTOR: 

DATE: 30/03/2021

NBM DEVELOPMENT BANK LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
For the year ended 31 December 2020

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 Company as at the end of the financial year and of the operating results for that year.

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

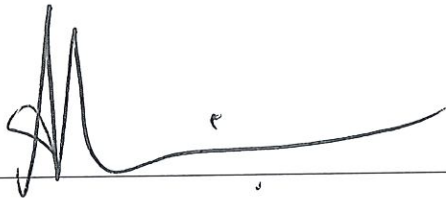
In preparing the financial statements the directors accept responsibility for the following:

- 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 Company will continue in business in the foreseeable future.

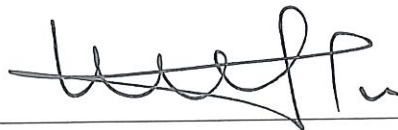
The directors also accept responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to maintain adequate systems of internal control to prevent and detect fraud and other irregularities.

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 Company and of its operating results.

DIRECTOR:



DIRECTOR:



DATE:

30/03/2021

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 5 to 32, which comprise the statement of financial position as at 31 December 2020, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of the company as at 31 December 2020, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act of Malawi, 2013.

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 Annual Financial Statements section of our report. We are independent of the company 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 period. These matters are supposed to be 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. We determined that there are no key audit matters to communicate.

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, 2013, 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 company'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 company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the company's financial reporting process.

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 company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- 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 company'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 company 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.



Chartered Accountants
Nkondola Uka
Partner

31 March 2021

NBM DEVELOPMENT BANK LIMITED
STATEMENT OF FINANCIAL POSITION
As at 31 December 2020

	<u>Notes</u>	<u>2020</u> K'000	<u>2019</u> K'000
ASSETS			
Non-current assets			
Property Plant and Equipment	5	19 574	20 314
Right of use asset	6	22 869	30 091
Deferred tax asset	13.3	<u>2 852</u>	<u>5 493</u>
Total non-current assets		<u>45 295</u>	<u>55 898</u>
Current assets			
Investments - money market deposits	9	1 477 113	2 433 219
Loans and advances	7	1 001 394	146 313
Related party receivables	10.3	-	15 432
Other assets	8	10 976	21 161
Tax recoverable	13.2	89 505	85 700
Bank balances and cash	10.2	<u>25 502</u>	<u>16 536</u>
Total current assets		<u>2 604 490</u>	<u>2 718 361</u>
TOTAL ASSETS		<u>2 649 785</u>	<u>2 774 259</u>
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		84 000	84 000
Share premium		807 974	807 974
Retained earnings		<u>1 704 822</u>	<u>1 644 774</u>
Total equity		<u>2 596 796</u>	<u>2 536 748</u>
Current liabilities			
Payables		21 234	4 397
Lease liability	6	31 755	38 684
Related party payables	10.1	<u>-</u>	<u>194 430</u>
Total current liabilities		<u>52 989</u>	<u>237 511</u>
TOTAL EQUITY AND LIABILITIES		<u>2 649 785</u>	<u>2 774 259</u>

The financial statements were approved and authorised for issue by the Board of Directors on 30 March 2021
and were signed on its behalf by:

.....
Director

.....
Director

NBM DEVELOPMENT BANK LIMITED
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020

	Notes	<u>2020</u> K'000	<u>2019</u> K'000
Income			
Interest income		316 905	288 250
Other Income	11	<u>200 591</u>	<u>1 650</u>
Total income		<u>517 496</u>	<u>289 900</u>
Expenditure			
Staff costs	12	250 332	199 727
Other expenses		157 976	110 394
Depreciation and fixed assets	5&6	<u>8 767</u>	<u>7 057</u>
Total expenditure		<u>417 075</u>	<u>317 178</u>
Profit before net Impairment of Financial Assets		100 421	(27 278)
Impairments loss provisions on assets		<u>(7 978)</u>	<u>-</u>
Profit/ (loss) before tax		92 443	(27 278)
Income tax charge	13.1	<u>(32 395)</u>	<u>5 710</u>
Profit/ (loss) loss for the year		<u>60 048</u>	<u>(21 568)</u>

There were no items of other comprehensive income during the year (2019: Nil).

NBM DEVELOPMENT BANK LIMITED
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2020

	<u>Share Capital</u>	<u>Share premium K'000</u>	<u>Retained earnings K'000</u>	<u>Total K'000</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	<u>-</u>	<u>-</u>	<u>60 048</u>	<u>60 048</u>
At end of the year	<u>84 000</u>	<u>807 974</u>	<u>1 704 822</u>	<u>2 596 796</u>
<u>2019</u>				
Balances as at the beginning of the year	84 000	807 974	1 666 342	2 558 316
Loss for the year	<u>-</u>	<u>-</u>	<u>(21 568)</u>	<u>(21 568)</u>
At end of the year	<u>84 000</u>	<u>807 974</u>	<u>1 644 774</u>	<u>2 536 748</u>
			<u>2020</u> K'000	<u>2019</u> K'000
ANALYSIS OF SHARE CAPITAL				
<u>Authorised issued and fully paid</u>				
84 000 000 Ordinary shares of K1 each			<u>84 000</u>	<u>84 000</u>
ANALYSIS OF SHARE PREMIUM				
84 000 000 Ordinary shares of K1 each at a premium of K9.62 each			<u>807 974</u>	<u>807 974</u>

NBM DEVELOPMENT BANK LIMITED
STATEMENT OF CASH FLOWS
For the year ended 31 December 2020

	<u>Notes</u>	<u>2020</u> <u>K'000</u>	<u>2019</u> <u>K'000</u>
Cash flows from operating activities			
Profit/ (loss) before taxation		92 443	(27 278)
Adjustments for:			
- Depreciation of equipment	5&6	9 618	7 057
- Interest receivable		(316 905)	(288 250)
- Interest expense on lease liability	6	6 372	5 574
- Movement in loan and advances		(855 081)	(146 313)
- Movement in amounts due from related parties		15 432	(2 682)
- Movement in other assets		10 185	(21 161)
- Movement in amounts payable to related parties		(194 430)	48 698
- Movement in other liabilities		16 837	4 397
- Movement in money market investments		<u>956 106</u>	<u>365 505</u>
Cash used in operations		(259 423)	(54 453)
Interest paid on lease liability	6	(6 372)	(5 574)
Taxation paid	13.2	<u>(33 559)</u>	<u>(225 416)</u>
Net cash used in operating activities		<u>(299 354)</u>	<u>(285 443)</u>
Cash flows from investing activities			
Interest received		316 905	288 250
Increase in right of use asset		-	(36 109)
Purchase of vehicles and equipment	5	<u>(1 656)</u>	<u>(19 794)</u>
Net cash from investing activities		<u>315 249</u>	<u>232 347</u>
Cash flows from financing activities			
(Decrease)/increase in lease liability	6	<u>(6 929)</u>	<u>38 684</u>
Net (used in)/from financing activities		<u>(6 929)</u>	<u>38 684</u>
Net increase/ (decrease)/ in cash and cash equivalents		<u>8 966</u>	<u>(14 412)</u>
Cash and cash equivalents at beginning of the year		<u>16 536</u>	<u>30 948</u>
Cash and cash equivalents at end of the year	10.2	<u><u>25 502</u></u>	<u><u>16 536</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 Company, whose main business is that of offering financial products and services to Small to Medium Enterprises was incorporated in Malawi in March 2018.

The Company'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 year, the entity 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 2020.

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

2.2 Standards and Interpretations in issue, not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after *1 January 2021* and have not been applied in preparing these financial statements. Those which may be relevant to the *entity* are set out below. The *entity* 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	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.
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.

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	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.

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

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 Company and are consistent with those used in the previous period.

3. Significant accounting policies (Continued)

3.1 Property 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 Company 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 property 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.

3.2 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 Company'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 Company intends to settle its current tax assets and liabilities on a net basis.

3. Significant accounting policies (Continued)

3.3 Foreign currency translation

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

Transactions in currencies other than the Company'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.

3.4 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)

3.4 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 Group 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)

3.5 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company 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.

3.6 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.

3.7 Financial assets

3.7.1 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.

3.7.2 Measurement categories

The Company 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.

3.7.2.1 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

3.7 *Financial assets* (Continued)

3.7.2 *Measurement categories* (Continued)

3.7.2.2 *Debt instruments measured at fair value through other comprehensive income*

The Company 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.

3.7.2.3 *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.

3.7.3 *Subsequent measurement*

3.7.3.1 *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.

3.7.3.2 *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 Company 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.

3.7.3.3 *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

3.7 *Financial assets* (Continued)

3.7.4 *Reclassification of financial assets and liabilities*

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

3.7.5 *Derecognition*

3.7.5.1 *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 Company 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 Company has transferred substantially all the risks and rewards of the asset; or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Company 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 Company 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 Company's continuing involvement, in which case, the Company 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 Company 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 Company could be.

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

The Company 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 Company 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 Company records a modification gain or loss.

3. Significant accounting policies (Continued)

3.7 Financial instruments (Continued)

3.7.6. Impairment of financial assets

The Company 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 Company 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 Company considers a financial asset to be in default (credit impaired) when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company 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.

3.7.6.1 The calculation of ECLs

The Company 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 Company in accordance with the contract and the cash flows that the entity expects to receive.

When estimating the ECLs the Company 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 Company would expect to receive. It is usually expressed as a percentage of the EAD.

3. Significant accounting policies (Continued)

3.7 Financial instruments (Continued)

3.7.6. *Impairment of financial assets* (Continued)

- The Company allocates its assets subject to ELC calculations into one of these categories, determined as follows:
- 12mECL The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date. The Company calculates the 12mECL 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.
- LTECL When an instrument has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. 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 Company recognises the lifetime expected credit losses for these instruments. The method is similar to that for LTECL assets, with the PD set at 100%.

3.7.6.2 *Debt instruments measured at fair value through other comprehensive income*

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI with a corresponding charge to profit or loss. The accumulated gain recognised in OCI is recycled to the profit or loss upon derecognition of the assets.

3.7.6.3 *Forward looking information*

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

- GDP growth; and
- Monetary policy rate.

3.7.7. *Write-offs*

Financial assets are written off either partially or in their entirety only when the Company has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. There were no write-offs over the periods reported in these financial statements.

3. Significant accounting policies (Continued)

3.8 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.

3.9 Comparatives

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

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company'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 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 3.7). The Company 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 Company 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 Company'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.

4.2 Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

4.2.1 Useful lives and residual value of vehicles and equipment

The Company reviews the estimated useful lives and residual values of vehicles 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.

5. Plant and equipment

	Computer equipment K'000	Fixtures & fittings K'000	Intangible Assets K'000	Total K'000
2020				
Cost				
At beginning of the year	4 410	6 598	10 368	21 376
Additions	<u>1 075</u>	<u>581</u>	<u>-</u>	<u>1 656</u>
At end of the year	<u>5 585</u>	<u>7 179</u>	<u>10 368</u>	<u>23 032</u>
Depreciation				
At beginning of the year	611	451	-	1 062
Current year charge	<u>1 348</u>	<u>702</u>	<u>346</u>	<u>2 396</u>
At end of the year	<u>1 959</u>	<u>1 153</u>	<u>346</u>	<u>3 458</u>
Net book value				
At the end of the year	<u>3 526</u>	<u>6 026</u>	<u>10 023</u>	<u>19 574</u>
2019				
Cost				
At beginning of the year	914	668	-	1 582
Additions	<u>3 496</u>	<u>5 930</u>	<u>10 368</u>	<u>19 794</u>
At end of the year	<u>4 410</u>	<u>6 598</u>	<u>10 368</u>	<u>21 376</u>
Depreciation				
At beginning of the year	18	5	-	23
Current year charge	<u>593</u>	<u>446</u>	<u>-</u>	<u>1 039</u>
At end of the year	<u>611</u>	<u>451</u>	<u>-</u>	<u>1 062</u>
Net book value				
At the end of the year	<u>3 799</u>	<u>6 147</u>	<u>10 368</u>	<u>20 314</u>

The following useful lives are used in the calculation of depreciation:

Computer equipment	-	4 years
Furniture and Fittings	-	10 years

6. Right of use asset - building

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

	<u>2020</u> K'000	<u>2019</u> K'000
Cost		
At beginning of the year	36 109	-
Additions	<u>-</u>	<u>36 109</u>
At end of the year	<u>36 109</u>	<u>36 109</u>
Accumulated depreciation		
At beginning of the year	6 018	-
Charge for the year	<u>7 222</u>	<u>6 018</u>
At end of the year	<u>13 240</u>	<u>6 018</u>
Carrying amount		
At end of the year	<u>22 869</u>	<u>30 091</u>
Lease liability		
Operating lease commitments at the beginning of the year	38 684	61 149
Effects of discounting the above amounts	<u>(6 929)</u>	<u>(22 465)</u>
Lease liabilities recognized at end of the year	<u>31 755</u>	<u>38 684</u>
Amounts recognized in profit and loss		
Finance cost		
Interest expenses on lease liabilities	<u>6 372</u>	<u>5 574</u>
Depreciation expense on rights – of – use assets	7 222	6 018
Interest expenses on lease liabilities	<u>6 372</u>	<u>5 574</u>
Total lease expenses recognised in profit and loss	<u>13 594</u>	<u>11 592</u>

NBM DEVELOPMENT BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

	<u>2020</u> K'000	<u>2019</u> K'000
7. Loans and advances to customers		
Term Loan	1 009 372	146 313
Expected credit loss	<u>(7 978)</u>	<u>-</u>
Expected credit loss	<u>1 001 394</u>	<u>146 313</u>
• Within one year	92 169	88 389
• After one year	<u>909 225</u>	<u>57 924</u>
	<u>1 001 394</u>	<u>146 313</u>
8. Other assets		
Sundry debtors	10 976	21 108
Other assets	<u>-</u>	<u>53</u>
	<u>10 976</u>	<u>21 161</u>
9. Investments - money market deposits		
Balances with discount houses	<u>1 477 113</u>	<u>2 433 219</u>
Balances with discount houses are held to maturity mature within one month (2019: one month) after the year-end, and earn an average interest rate of 14%.		
	<u>2020</u> K'000	<u>2019</u> K'000
10. Related parties balances and transactions		
10.1 Amounts owed to the holding company (NBM)		
Amounts due to National Bank of Mw Plc	<u>-</u>	<u>194 430</u>
These are payables to National Bank of Malawi plc do not attract any interest.		
10.2 Balances held with related parties		
National Bank of Malawi plc – bank account	<u>25 502</u>	<u>16 536</u>
Balances held at National Bank of Malawi plc are denominated in Malawi Kwacha and earn interest of 1% for balances above K1 million.		

NBM DEVELOPMENT BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

10. Related parties balances and transactions (Continued)

	<u>2020</u> K'000	<u>2019</u> K'000
10.3 Related party receivables		
National bank of Malawi plc- Share holder	<u>-</u>	<u>15 432</u>
10.4 Other related party transaction		
Compensation of key management personnel		
Salaries and short term benefits	<u>190 185</u>	<u>176 787</u>
11. Other income		
Payable balance forgiven by NBM Plc	194 653	-
Arrangement fees	<u>5 938</u>	<u>1 650</u>
	<u>200 591</u>	<u>1 650</u>
12. Staff costs		
Salaries and wages	208 207	163 019
Pensions costs – defined contribution scheme	13 711	9 959
Staff training costs	5 375	13 276
Other staff costs	<u>23 039</u>	<u>13 473</u>
	<u>250 332</u>	<u>199 727</u>
13. Income tax		
13.1 Income tax expense		
Income tax	29 754	-
Deferred tax credit/charge	<u>2 641</u>	<u>(5 710)</u>
Total income tax (credit)/charge	<u>32 395</u>	<u>(5 710)</u>
<u>Reconciliation of effective tax (credit)/charge</u>		
Profit/(loss) before tax	92 443	(27 278)
Income tax using statutory rate of 30%	27 730	(8 183)
Non-deductible expenses	<u>4 665</u>	<u>2 473</u>
	<u>32 395</u>	<u>(5 710)</u>
13.2 Income tax (refundable)/payable		
At 1 January	(85 700)	139 716
Charge for the year	29 754	-
Payments made during the year	<u>(33 559)</u>	<u>(225 416)</u>
At 31 December	<u>(89 505)</u>	<u>(85 700)</u>

13. Income tax (Continued)

	<u>2020</u> K'000	<u>2019</u> K'000
13.3 Deferred tax		
At beginning of the year	(5 493)	217
Movement for the year	<u>2 641</u>	<u>(5 710)</u>
At end of the year	<u>(2 852)</u>	<u>(5 493)</u>
<u>Analysed as:-</u>		
Accelerated capital allowances	2 852	1 071
Other temporary differences	<u>-</u>	<u>(6 564)</u>
	<u>(2 852)</u>	<u>(5 493)</u>

14. Financial risk management

Through its normal operations, the Company 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 committee and Finance and Audit committee, is responsible for formulating high-level risk policies, setting standards, monitoring concentrations and providing independent oversight.

The Credit 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, large loan exposures, sectors in which the Bank should operate and compliance to credit risk management regulations.

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.

14.1 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.

14. Financial risk management (Continued)

14.1 Credit risk management (Continued)

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 Company mitigates credit risk by proactively managing it. Investment (money market and bank accounts) is 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

14. Financial risk management (Continued)

14.1 Credit risk management (Continued)

The nature and extent of credit risk

The Bank's exposure as at 31 December 2020 was at K1 009m (2019: K146m) with no Non-Performing Loans.

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 application is always based on the merit 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.

Credit Guarantee Scheme

The Bank has a credit guarantee scheme with Africa Guarantee Fund (AGF) Kenya covering at least 50% of its loan portfolio. All facilities are covered with this credit insurance scheme.

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		
	<u>2020</u>	<u>2019</u>
<u>Sector</u>	K'000	K'000
Wholesale and retail trade	322 670	146 313
Transport and communication	203 797	-
Community, social and personal services	330 806	-
Electricity, gas, water and energy	62 244	-
Agriculture	78 903	-
Manufacturing	10 951	-
	<u>1 009 372</u>	<u>146 313</u>

Loans and Advances to customers categorized by stages

As at 31 December 2020, all loans and advances were in stage1 and performing well.

14. Financial risk management (Continued)

14.1 Credit risk management (Continued)

Allowance for Impairment (Calculation of ECLs)

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 3.6. 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 and did not have adequate data as at 31 December 2020.

In the light of the aforementioned challenge, NBM Development Bank resolved to use NBM Plc.'s model as a proxy in coming up with its own ECLs. The rationale for the whole adoption of NBM plc model is that both NBMDB and NBM plc offer loans similar in nature, terms and conditions to clients in similar sectors

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 (Experian of South Africa)

NBMDB as a DFI and provider of medium and long term finance classifies its exposure into provisioning categories namely; Stage1, Stage2 and Stage3 and in line with Reserve Bank of Malawi's Credit Risk Management Directive for DFIs. As at 31 December 2020, all Bank's loans and advances were in stage1 according to this asset classification directive. Consequently, the PD, EAD and LGD factors (industry averages) were multiplied on the gross amounts of all facilities depending on the relevant sector/industry to come up with the ECLs.

14.2 Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors through the Bank Finance and Audit committee, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The responsibility for the management of these risks lies with the management. The Company 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.

14. Financial risk management (Continued)

14.2 Liquidity risk management (Continued)

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	3-4 months K'000	More than 12 months K'000	Total K'000	Carrying amount K'000
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	<u>28 298</u>	<u>64 605</u>	<u>916 469</u>	<u>1 009 372</u>	<u>1 009 372</u>
Total assets	<u>1 530 913</u>	<u>64 605</u>	<u>916 469</u>	<u>2 511 987</u>	<u>2 511 987</u>
Payables	11 674	-	-	11 674	11 674
Lease liability	1 195	4 779	25 781	31 755	31 755
Deferred income	<u>545</u>	<u>1 090</u>	<u>7 926</u>	<u>9 561</u>	<u>9 561</u>
Total liabilities	<u>13 414</u>	<u>4 869</u>	<u>33 707</u>	<u>52 990</u>	<u>52 990</u>
Contractual liquidity	1 517 499	58 736	882 762	2 458 997	2 458 997
Mismatch	1 517 499	1 576 235	2 458 997	2 458 997	2 458 997
2019					
Money market deposits	2 433 219	-	-	2 433 219	2 433 219
Bank balances and cash	16 536	-	-	16 536	16 536
Related party receivables	15 432	-	-	15 432	15 432
'Receivables (excluding prepayments)	52	-	-	52	52
Loans and advances	<u>-</u>	<u>-</u>	<u>146 313</u>	<u>146 313</u>	<u>146 313</u>
Total assets	<u>2 465 239</u>	<u>-</u>	<u>146 313</u>	<u>2 611 552</u>	<u>2 611 552</u>
Payables	4 397	-	-	4 397	4 397
Lease liability	1 934	4 513	32 237	38 684	38 684
Related party payable	<u>194 430</u>	<u>-</u>	<u>-</u>	<u>194 430</u>	<u>194 430</u>
Total liabilities	<u>200 761</u>	<u>4 513</u>	<u>32 237</u>	<u>237 511</u>	<u>237 511</u>
Contractual liquidity	2 264 478	(4 513)	114 076	2 374 041	2 374 041
Mismatch	2 264 478	2 259 965	2 374 041	2 374 041	2 374 041

14. Financial risk management (Continued)

14.3 Interest rate risk management

The Company 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 Company 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
2020					
Financial Assets					
Cash	-	-	-	25 502	25 502
Money market deposits	1 477 113	-	-	-	1 477 113
Loans and advances	<u>28 298</u>	<u>64 605</u>	<u>916 469</u>	<u>-</u>	<u>1 009 372</u>
Total Financial Assets	<u><u>1 505 411</u></u>	<u><u>64 605</u></u>	<u><u>916 469</u></u>	<u><u>25 502</u></u>	<u><u>2 511 987</u></u>
Financial Liabilities					
Payables	-	-	-	21 234	21 234
Lease Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>31 755</u>	<u>31 755</u>
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)

14. Financial risk management (Continued)

14.3 Interest rate risk management (Continued)

	1-3 Months K'000	3-6 Months K'000	Over 1 year K'000	Non Interest Sensitive K'000	Total K'000
2019					
Financial Assets					
Cash	-	-	-	16 536	16 536
Money market deposits	2 433 219	-	-	-	2 433 219
Loans and advances	-	-	146 313	-	146 313
Total Financial Assets	2 433 219	-	146 313	16 536	2 596 068
Financial Liabilities					
Payables	4 397	-	-	-	4 397
Lease liability	-	-	-	38 684	38 684
Other liabilities	-	-	-	194 430	194 430
Total financial Liabilities	4 397	-	-	233 114	237 511
Interest sensitive gap	2 428 822	-	146 313	(216 578)	2 358 557
Cumulative gap	2 428 822	2 428 822	2 575 135	2 358 557	
Impact on profit of an increase in interest rates:					
+1%	24 288	-	1 463	-	25 751
+2%	48 576	-	2 692	-	51 503
+3%	72 865	-	4 389	-	77 254
Impact on profit of a decrease in interest rates:					
-1%	(24 288)	-	(1 463)	-	(25 751)
-2%	(48 576)	-	(2 692)	-	(51 503)
-3%	(72 865)	-	(4 389)	-	(77 254)

14.4 Capital Management

Regulatory Capital

The Reserve Bank of Malawi sets and monitors capital requirements for DFIs. 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 applied for a waiver which was granted in 2018. According to the capital requirement waiver, The Bank is required to hold paid capital of Malawi Kwacha equivalent of USD1.5 million. As at December 2020, the Bank was in full compliance with the minimum capital requirement as per the terms of the waiver.

15 Fair value measurements

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

15.1 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.

15.2 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).

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

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

15.4 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.

16. Impact of COVID 19 Assessment

The World Health Organization declared COVID 19 a pandemic in March 2020 and called on a global response in the fight against the disease. NBM Development Bank Limited joined the rest of the world in the fight recognizing that its customers, employees and other stakeholders are at the core of its business.

NBM Development Bank Board of Directors made an assessment on how COVID 19 affected customers in different sectors. Consequently, the Board, through recommendations from management, resolved to temporarily suspend any advances to the Education and Tourism sectors as they had been negatively impacted by the pandemic. As at 31 December 2020, the Bank did not have exposures in these two sectors. The Board further approved extension of the Agribusiness sector to include mechanization and commercialization and start-up manufacturing to complement the existing sectors.

Other than the suspending of advances to the Education and Tourism sectors the Banks business has continued to grow and as at 31 December 2020 all loans and advances were performing and classified as stage 1.

17. Exchange rates and inflation

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

	<u>2020</u>	<u>2019</u>
Kwacha/GBP	1 088	967
Kwacha/Rand	56	52
Kwacha/US Dollar	772	737
Kwacha/Euro	988	837
Inflation (%)	<u>7.6</u>	<u>11.5</u>

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

Kwacha/GBP	1 070
Kwacha/Rand	54
Kwacha/US Dollar	842
Kwacha/Euro	972
Inflation rate (%) December	<u>7.3</u>

18. Subsequent event

There are no material events subsequent to year-end.