

Financial Statements for the year ended 31 December 2023



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NBM DEVELOPMENT BANK LIMITED

DIRECTORS' REPORT

For the year ended 31 December 2023

The directors have pleasure in submitting their report together with the financial statements of NBM Development Bank Limited for the year ended 31 December 2023.

Share capital.

The issued and paid-up share capital of the Bank is 84,000,000 Ordinary shares of K1 each. In 2022, the Bank's parent company, National Bank of Malawi Plc injected advance share capital subscription of K1.5 billion.. The Bank is wholly owned subsidiary of National Bank of Malawi plc, a financial services 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 to Small and Medium Enterprises. 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 National Bank of Malawi Plc 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.

Financial Performance

The directors report a profit after tax for the year of K893 million (2022: K304 million).

Directors

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

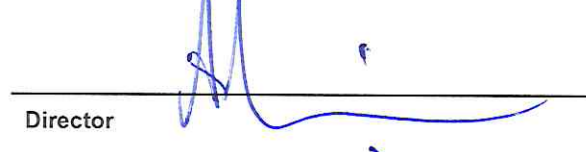
Mr. Macfussy Kawawa	Chairman	All year
Mr. Harlod Jiya	Director	All year
Mr. Masauko Katsala	Director	All year
Mr. Kassim Aroni	Director	All year
Mr. Frank Muula	Director	All year
Mr. Alick Sukasuka	Director	All year
Mrs. Chikondi Khofi	Director	All year
Mrs. Mercy Mulele	Company Secretary	All year

Auditors

On 20 July 2023 the National Bank of Malawi plc Annual General Meeting (AGM) approved the appointment of Ernst & Young (EY) as the auditor for the Bank for year ended 31 December 2023. EY 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 auditors in respect of the year ending 31 December 2024.



Director



Director

25 March 2024

Statement of Directors' Responsibilities for the year ended 31 December 2023

The Companies Act, 2013 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, 2013.

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

- ▶ Maintenance of proper accounting records that correctly record and explain the transactions of the Bank;
- ▶ Selection of suitable accounting policies and consistent application thereof;
- ▶ Making judgements and estimates that are reasonable and prudent.
- ▶ Compliance with applicable accounting standards when preparing financial statements, subject to any material departures being disclosed and explained in the financial statements; and
- ▶ Preparation of financial statements on a going concern basis unless it is inappropriate to presume 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 also confirm that they have complied with the Companies (Corporate Governance) regulations 2016 with respect to corporate governance.

The directors are of the opinion that the financial statements for the year ended 31 December 2023 give a true and fair view of the state of the financial affairs of the Bank and of its operating results.

Director

Director

25 March 2024

Independent Auditor's Report to the Shareholders of NBM Development Bank Limited

Opinion

We have audited the financial statements of NBM Development Bank Limited ('the Bank') set out on pages 7 to 33 which comprise the statement of financial position as at 31 December 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of NBM Development Bank Limited as at 31 December 2023, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 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 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.

Other matter

The financial statements of NBM Development Bank Limited for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those statements on 31 March 2023.

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. The matter noted below was 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 the matter. For the key audit matter noted below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to the key audit matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

The Key Audit Matter applies to the audit of the financial statements.

Valuation of expected credit losses on loans and advances	How the matter was addressed in the audit
We identified the audit of expected credit losses (ECL) as a key audit matter considering the following: ▶ NBM Development Bank's loan and advances at K10.99 billion represent 79.4 % of total assets and the associated impairment provisions for expected credit losses of K155.7 million are material to the financial statements. ▶ The high degree of estimation uncertainty, significant judgements and assumptions applied in estimating the ECL on loans and advances to customers.	Our response to the key audit matter included performing the following audit procedures: ▶ We obtained an understanding of the Bank's policies and procedures, including controls in place around determination of expected credit losses. We confirmed our understanding of the design and the implementation of the key controls over the processes of credit assessment, loan classification and loan impairment assessment including the oversight role of those charged with governance in the determination, accounting and reporting of expected credit losses. ▶ We carried out procedures to ensure the data being used in the models is complete, accurate, and that assumptions used are reasonable and supportable.

Valuation of expected credit losses on loans and advances	How the matter was addressed in the audit
► The Significant portion of ECL is calculated on a modelled basis. The development and execution of the model requires significant management judgement, including estimation of the probability of default (PD); exposure at default (EAD) and loss given default (LGD) model parameters. Significant increases in credit risk (SICR) are assessed based on the current risk of default of an account relative to its risk of default at origination. This assessment incorporates judgement and estimation by management, including impact of external factors. In particular we have focussed on the following areas of significant judgement and estimation which required the use of specialists, additional audit effort and increased discussions with management during the course of the audit: Modelled ECL provisions Determination of expected credit losses require consideration of multiple forward-looking macro-economic factors, including consideration of observable relationships between these factors and Non Performing Loans (NPL) in the past projected into the future. The key factors considered by the bank include inflation, GDP, interest rates, fuel prices, and historical correlations between these inputs against the NPL rate. Calculation of expected losses utilizes models that utilize collateral reports from valuers, legal experts and credit specialists.	► Our internal specialists reviewed the models used to process data and the alignment of these models to the 'methodology' and recalibrations approved for use by the Bank. Modelled ECL provision We have assessed the appropriateness of the macro-economic forecasts and scenario weightings by benchmarking these against external evidence and economic data. Our internal specialists reviewed the correlation between probabilities of default and external macro-economic factors using historical data and results thereof, including reviewing the appropriateness of the statistical methodologies used to project these relationships in the future. For collateral held, we inspected legal agreements and supporting documentation to confirm the existence and legal right to collateral. The collateral valuation techniques applied by management were benchmarked to the market practice and values compared to market achievable disposal values on the market. Extensive disclosures International Financial Reporting Standards (IFRS). Our financial reporting specialists reviewed the additional disclosures related to adequacy and appropriateness in accordance with the requirements of IFRS 7- <i>Financial Instruments: Disclosures requirements</i>. Specifically, we assessed the reasonability of the disclosures considering the audit work performed and disclosures made elsewhere in the financial statements.

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report and the Statement of Directors' Responsibilities for the year ended 31 December 2023. 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.

Responsibilities of the Directors for Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2013, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 judgement and maintain professional scepticism 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 the directors.
- ▶ Conclude on the appropriateness of the directors' 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.
- ▶ 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.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



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.

A handwritten signature in black ink, which appears to read 'Ernst & Young', is written over the printed name 'Chiwemi Chihana'.

Chartered Accountants (Malawi)
Chiwemi Chihana
Registered Practicing Accountant
28 March 2024

	<u>Notes</u>	<u>2023</u> K'000	<u>2022</u> K'000
ASSETS			
Non-current assets			
Property and equipment	5	181,235	7,877
Intangible assets	6	152,226	219,847
Right-of- use assets	7	34,067	44,549
Loans and advances to customers	8	9,858,289	4,150,287
Deferred tax assets	17.3	35,538	4,958
Total non-current assets		10,261,355	4,427,518
Current assets			
Loans and advances to customers	8	974,996	411,536
Other assets	9	175,170	25,910
Investments – money market deposits	10	2,050,368	2,550,848
Income tax recoverable	17	-	47,139
Bank balances and cash	11	178,668	116,107
Total current assets		3,379,202	3,151,540
TOTAL ASSETS		13,640,557	7,579,058
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		84,000	84,000
Advance share capital subscription		1,500,000	1,500,000
Share premium		807,974	807,974
Retained earnings		2,930,119	2,037,578
Total equity		5,322,093	4,429,552
Non-current liabilities			
Borrowings	13	6,290,839	2,251,845
Lease liabilities	7	31,969	40,302
Total non-current liabilities		6,322,808	2,292,147
Current liabilities			
Lease liabilities	7	8,787	11,077
Borrowings	13	1,563,212	750,615
Amount due to related party		168,385	-
Trade and other payables	12	207,350	95,667
Income tax payable	17.2	47,922	-
Total current liabilities		1,995,656	857,359
TOTAL EQUITY AND LIABILITIES		13,640,557	7,579,058

The financial statements were approved and authorized for issue by the Board of Directors on 25 March 2024 and were signed on its behalf by:

.....
Director

.....
Director

NBM Development Bank Limited

Statement of profit or loss and other comprehensive income for the year ended 31 December 2023

	Notes	<u>2023</u> K'000	<u>2022</u> K'000
Income			
Interest income	14	2,059,450	918,894
Interest expense	14	(209,027)	(49,435)
Net interest income		1,850,423	869,459
Other income	15	77,226	79,584
Total income		1,927,649	949,043
Expenditure			
Staff costs	16.1	(304,972)	(277,141)
Other operating expenses	16.2	(260,878)	(187,437)
Depreciation and amortization	5,6&7	(58,939)	(13,415)
Total expenditure		(624,789)	(477,993)
Profit before net impairment of financial assets		1,302,860	471,050
Impairments losses on financial assets	18	(96,319)	(31,420)
Profit before tax		1,206,541	439,630
Income tax expense	17.1	(314,000)	(135,509)
Profit after tax		892,541	304,121
Other Comprehensive income		-	-
Total comprehensive income for the year		892,541	304,121

Statement of changes in equity for the year ended 31 December 2023

Share	Share Capital K'00	Advance share capital subscription* K'000	Share premium K'000	Retained earnings K'000	Total K'000
2023					
Balances as at the beginning of the year	84,000	1,500,000	807,974	2,037,578	4,429,552
Profit for the year	-	-	-	892,541	892,541
At end of the year	84,000	1,500,000	807,974	2,930,119	5,322,093
2022					
Balances as at the beginning of the year	84,000	1,500,000	807,974	1,733,457	2,625,431
Profit for the year	-	-	-	304,121	304,121
At end of the year	1,584,000	1,500,000	807,974	2,037,578	4,429,552

	2023 K'000	2022 K'000
ANALYSIS OF SHARE CAPITAL		
Authorized issued and fully paid		
84,000,000 Ordinary shares of K1 each	84,000	84,000
84,000,000 Ordinary shares of K1 each at a premium of K9.62 each	807,974	807,974

***Advance share capital subscription**

The amount represents subscription for shares yet to be issued

Statement of Cash Flows for the year ended 31 December 2023

		<u>2023</u>	<u>2022</u>
	<u>Notes</u>	K'000	K'000
Cash flows from operating activities			
Profit before tax		1,206,541	439,630
Adjustments for:			
- Depreciation of equipment	5	39,772	2,711
- Depreciation of right-of-use assets	7	10,482	9,667
- Amortisation of Intangible assets	6	8,685	1,037
- Loss on disposal of equipment		110	-
- Interest expense on lease	7	9,322	8,182
- Interest payable	13	209,027	49,435
- Gain on termination of lease liability	15	-	(5,628)
- Impairment loss on loans and advances to customers	18.1	96,319	31,420
Operating cashflows before working capital movements		1,580,258	536,454
- Movement in loans and advances to customers		(6,367,782)	(2,355,756)
- Movements in other assets		(149,260)	(18,187)
- Movement in trade and other payables		111,683	34,094
- Movement in amounts due to related party		168,385	-
- Movement in money market investments		500,480	(2,223,845)
Cash used in operations		(4,156,236)	(4,027,240)
Income tax paid		(249,519)	(101,371)
Net cash used in operating activities		(4,405,755)	(4,128,611)
Cash flows from investing activities			
Purchase of intangible assets	6	-	(192,090)
Proceeds from sale of equipment		110	-
Purchase of vehicles and equipment	5	(154,414)	(392)
Net cash used in investing activities		(154,304)	(192,482)
Cash flows from financing activities			
Share capital received		-	1,500,000
Proceeds from borrowings	13	5,000,000	2,953,026
Repayment of borrowings-Principal	13	(312,857)	-
Repayment of borrowings-Interest	13	(44,579)	-
Lease repayments	7	(19,944)	(12,088)
Net cash generated from financing activities		4,622,620	4,440,938
Net increase in cash and cash equivalents		62,561	119,845
Cash and cash equivalents at beginning of the year		116,107	(3,738)
Cash and cash equivalents at end of the year	11.1	178,668	116,107
Additional information on operational cash flows from interest received and paid.			
Interest received.		2,059,450	918,894
Interest paid		44,579	-

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 year, 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 2023.

Effective date	Standard, Amendment or Interpretation
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. The amendments have had an impact on the Bank's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Bank's financial statements.
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. The amendments had no impact on the Bank's financial statements.
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 amendments had no impact on the Bank's financial statements.

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 effective for the year ended 31 December 2023 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 2024	Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) The amendment clarifies how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale.
Annual reporting periods beginning on or after 1 January 2024	Amendments to IAS 1: Classification of Liabilities as Current or Non-current The IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current.
Annual reporting periods beginning on or after 1 January 2024	Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7 In May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements.

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

3. Material 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 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. Property and Equipment

Comprises of computers; furniture and motor vehicles 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 profit or loss.

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 profit or loss.

3.2. Intangible assets

Intangible assets comprise 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 profit or loss 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 provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability

in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it becomes probable that future taxable profit will allow the deferred tax asset to be recovered.

3. Material accounting policies (Continued)

3.3. Taxation (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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 profit or loss 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).

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.

3. Material Accounting Policies (Continued)

3.5. Leases (Continued)

Bank as a lessee (Continued)

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.

3.6. 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. Material Accounting Policies (Continued)

3.8. Financial assets (Continued)

3.8.2. Initial recognition

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.

3.8.2.2. 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.

3.8.4. 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. Material Accounting Policies (Continued)

3.8. Financial assets (Continued)

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.

3.8.6. 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. Material Accounting Policies (Continued)

3.8. Financial assets (Continued)

3.8.6. Impairment of financial assets (Continued)

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.
- ▶ 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.

4.2.2. 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:

- Cash flows arising from repayment agreement are aggregated over yearly intervals and assumed to arise at the end of the period;
- 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;

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 (Continued)

- 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.

4.2.8. 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.

4.2.9. 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 Bank's strategic planning period and also to ensure best estimates as recommended by IFRSs.

4.2.10. 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.

Property and equipment

	Computer equipment K'000	Fixtures & fittings K'000	Motor vehicles K'000	Total K'000
2023				
Cost				
At the beginning of the year	8,209	7,571	-	15,780
Disposals	(4,410)	-	-	(4,410)
Transfer from intangible assets	58,936	-	-	58,936
Additions	36,013	12,016	106,385	154,414
At the end of the year	98,748	19,587	106,385	224,720
Depreciation				
At the beginning of the year	5,319	2,584	-	7,903
Disposals	(4,190)	-	-	(4,190)
Additions and transfers	12,638	2,016	25,119	39,772
At the end of the year	13,767	4,600	25,119	43,485
Net book value				
At the end of the year	84,981	14,987	81,266	181,235
2022				
Cost				
At the beginning of the year	8,209	7,179	-	15,388
Additions	-	392	-	392
At the end of the year	8,209	7,571	-	15,780
Depreciation				
At the beginning of the year	3,370	1,822	-	5,192
Current year charge	1,949	762	-	2,711
At the end of the year	5,319	2,584	-	7,903
Net book value				
At the end of the year	2,890	4,987	-	7,877
Computer equipment	4 years			
Furniture and Fittings	10 years			
Motor vehicles	4 years			

6.

Intangible assets

	Intangible assets K'000	Work in progress K'000	Total K'000
2023			
Cost			
At the beginning of the year	10,368	211,899	222,267
Transfer to equipment		(58,936)	(58,936)
Transfers from work in progress	152,963	(152,963)	-
At the end of the year	163,331	-	163,331
Armortisation			
At the beginning of the year	2,420	-	2,420
Current year charge	8,685	-	8,685
At the end of the year	11,105	-	11,105
Carrying amount			
At the end of the year	152,338	-	152,226
2022			
Cost			
At the beginning of the year	10,368	19,809	30,177
Additions	-	192,090	192,090
At the end of the year	10,368	211,899	222,267
Armortisation			
At the beginning of the year	1,383	-	1,383
Current year charge	1,037	-	1,037
At the end of the year	2,420	-	2,420
Carrying amount			
At the end of the year	7,948	211,899	219,847

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. During the year, the hardware component of Capital Work in progress brought forward has been transferred to Computer Equipment, and the balance in respect of SME Management System to Intangible assets.

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

7. Right-of-use assets

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

	2023 K'000	2022 K'000
Cost		
At beginning of the year	52,410	36,109
Additions	-	52,410
Terminated	-	(36,109)
At the end of year	<u>52,410</u>	<u>52,410</u>
Accumulated depreciation		
At beginning of the year	7,861	20,642
Charge for the year	10,482	9,667
Terminated	-	(22,268)
At end of the year	<u>18,343</u>	<u>7,861</u>
Carrying amount		
At the end of the year	<u>34,067</u>	<u>44,549</u>
Lease liabilities		
Lease commitments at the beginning of the year	51,379	22,243
Renew of lease agreement	-	52,410
Interest charged on lease	9,322	8,182
Lease liability terminated during the year	-	(19,368)
Lease repayments	(19,945)	(12,088)
Lease liabilities recognised at end of the year	<u>40,756</u>	<u>51,379</u>
Within one year	8,787	11,077
After one year	<u>31,969</u>	<u>40,032</u>
	<u>40,756</u>	<u>51,379</u>
Amounts recognised in profit and loss		
Finance cost		
Depreciation of rights of use assets	10,482	9,667
Interest expenses on lease liabilities	9,322	8,182
Total lease expenses recognised in profit and loss	<u>19,804</u>	<u>17,849</u>

8. Loans and advances to customers

Term loans	10,989,016	4,621,234
Expected credit loss	(155,730)	(59,411)
Net Loans	<u>10,833,285</u>	<u>4,561,823</u>
Within one year	974,996	411,536
After one year	<u>9,858,289</u>	<u>4,150,287</u>
	<u>10,833,285</u>	<u>4,561,823</u>

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 to all sectors including 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% – 32.30%.

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 credit risk management for loans and advances to customers has been disclosed in Note 18.

9. Other assets

	2023 K'000	2022 K'000
Prepayments (Africa Guarantee Fund)	42,144	-
Customer cash collateral	118,725	25,081
Other debtors	14,301	829
	<u>175,170</u>	<u>25,910</u>

10. Investments - money market deposits

Stockbrokers Malawi Limited	1,376,329	2,550,848
NBM Capital Markets Limited	674,039	-
	<u>2,050,368</u>	<u>2,550,848</u>

Balances with discount houses are held to maturity and mature within one month (2022: one month) after the year-end, and earn an average interest rate of 17% (2022: 15.5%) 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.

11. Related party balances and transactions**11.1. Balances held with related parties**

National Bank of Malawi plc - Bank account	<u>178,668</u>	<u>116,107</u>
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Balances held at National Bank of Malawi plc in current accounts are denominated in Malawi Kwacha and do not earn any interest.

11.2. Other related party transaction

Compensation of key management personnel		
Salaries and short-term benefits	<u>214,706</u>	<u>177,040</u>

12. Trade and other payables

Audit fees	21,250	35,000
Deferred fee	18,429	22,754
Customer cash collateral	118,725	25,081
Directors' fees provision	-	6,830
Staff exgratia provision	9,124	-
AGF utilisation fees provision	34,317	-
Fringe Benefit Tax provision	4,350	2,050
Other payables	1,155	3,952
	<u>207,350</u>	<u>95,667</u>

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. Borrowings

At 1 January	3,002,460	-
Borrowings obtained during the year	5,000,000	2,953,025
Interest charged	209,027	49,435
Repayments made during the year-Principal	(312,857)	-
Repayments during the year-Interest	(44,579)	-
	<u>7,854,051</u>	<u>3,002,460</u>
Within 1 year	1,563,212	750,615
After one year	6,290,839	2,251,845
	<u>7,854,051</u>	<u>3,002,460</u>

13. **Borrowings (Continued)**

In 2022, NBM Development Bank Limited (NBM DBL) signed an agreement with Reserve Bank of Malawi (RBM) for unsecured Micro, Small and Medium Enterprise Line of Credit Facility (MSMELCF) amounting K3 billion to facilitate lending to Micro, Small and Medium Enterprises. The Bank pays interest at the rate of 3% per annum, payable semi-annually. The facility expires in September 2025. As at 31 December 2023 interest amounting to K81m (2022: K50m) was accrued and K357m (2022: K48m) was made towards repayments. The carrying amount of the loan as at 31 December 2023 was therefore K2 726m (2022: K3 002m).

During the year, the Bank drew an additional K5 billion under the same terms as the previous loan. The new facility expires on 28 February 2033. The interest accrued on the loan totalled K134m. No repayments have been made yet towards the loan. The carrying amount of the loan as at 31 December 2023 was therefore K5.134 billion. Interest on the loan is charged at a rate of 3% per annum. The Bank is required to make principal and interest repayments semi-annually on January 15 and July 15. The loan is repayable over a period up to 28 February 2033.

The directors consider that the carrying amounts of borrowing approximate to their fair value.

14. **Net interest income**

	2023 K'000	2022 K'000
Interest from loans and advances with customers	1,234,136	624,308
Interest income from money market investments	825,314	294,586
Interest expense	(209 027)	(49 435)
Net interest income	<u>1 850 423</u>	<u>869 459</u>

15. **Other income**

Grant income*	66,632	63,161
Gains on modification of lease liability	-	5,628
Fees and commissions	10,594	10,795
	<u>77,226</u>	<u>79,584</u>

*The Bank has a contract with the United Nations Development Programme (UNDP) which requires the Bank to perform services in respect of the Malawi Innovation Challenge Fund Competition. Upon completion and satisfactory performance of the services under the contract, UNDP is required to pay the bank in accordance with the Project Milestone payment schedule as per the agreement. The grant income recognized relates to the second milestone that the Bank archived during the year.

16. **Staff costs**

16.1. **Staff costs**

Salaries and wages	218,800	207,501
Pensions costs - defined contribution scheme	19,734	16,048
Staff training costs	9,063	18,436
Other staff costs	57,375	35,156
	<u>304,972</u>	<u>277,141</u>

16.2. **Other operating expenses**

Audit fees	29,240	36,902
Directors fees and allowances	31,419	29,970
Board expenses	19,084	23,668
AGF expenses	65,363	14,263
Premises	14,415	13,318
Equipment expenses	2,865	13,318
Motor vehicles	20,678	12,239
Software expenses	642	586
Travel expenses	35,346	31,611
Communication	457	4,788
Other overheads	32,047	10,374
Interest charge on leases	9,322	8,182
	<u>260,878</u>	<u>187,437</u>

17. Income tax**17.1. Income tax expense**

	2023	2022
	K'000	K'000
Income tax charge	344,580	135,429
Deferred tax (credit)/Charge	(30,580)	80
Total income tax charge	<u>314,000</u>	<u>135,509</u>

Reconciliation of effective tax charge

Profit before tax	1,206,541	439,630
Income tax using statutory rate of 30%	361,962	131,889
Permanent differences	(47,962)	3,620
	<u>314,000</u>	<u>135,509</u>

17.2. Income tax payable/ (recoverable)

At 1 January	(47,139)	(81,197)
Charge for the year	344,580	135,429
Tax paid during the year	(249,519)	(101,371)
	<u>47,922</u>	<u>(47,139)</u>

17.3. Deferred tax asset

At beginning of the year	(4,958)	(5,038)
Movement for the year	(30,580)	80
At end of the year	(35,538)	(4,958)
Analyses as:		
Accelerated capital allowances	(32,464)	(2,799)
Other temporary differences	(3,074)	(2,159)
	<u>(35,538)</u>	<u>(4,958)</u>

18. 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, 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.

18.1. 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 risk 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.

18. Financial risk management (Continued)

18.1. 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 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.

The nature and extent of credit risk

The Bank's exposure net of impairments loss provisions as at 31 December 2023 was at K10 989 m (2022: K4 621m) with Non-Performing Loans (NPL) standing at 9% (2022: 16%). With default rate decreasing 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 client's 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.

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

18. Financial risk management (Continued)

18.1. Credit risk management (Continued)

Fair value of tangible collateral on loans and advances per sector

	2023 K'000	2022 K'000
Agribusiness	2,923,079	3,665,309
Health	2,693,469	1,648,348
Manufacturing	1,344,758	814,546
Energy	376,951	124,541
Tourism	3,280,812	2,994,606
ICT	369,946	415,390
	10,989,016	9,662,740

Tangible security against impaired facilities

Machinery, property & vehicles	1,313,063	843,577
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Tangible security against the rest of the loan book

Machinery	1,847,149	1,308,827
Motor vehicles	154,709	177,169
Cash cover	115,643	63,642
Commercial property	20,781,506	8,113,100
	22,899,006	9,662,738

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 2022, 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.

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

Sector		
Agribusiness	2,923,079	1,382,714
Health	2,693,469	1,142,729
Manufacturing	1,344,758	508,380
Energy	376,951	393,305
Tourism	3,280,812	1,043,586
ICT	369,946	150,520
	10,989,016	4,621,234

18. Financial risk management (Continued)

18.1. Credit risk management (Continued)

Loans and Advances to customers categorized by stages

Category	2023 K'000	2022 K'000
Stage One	9,186,991	3,891,222
Stage Two	850,661	-
Stage Three	951,363	730,012
Total gross carrying amount	10,989,015	4,621,234
Loss allowances	(157,730)	(59,411)
Carrying amount	<u>10,833,285</u>	<u>4,561,823</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.

Standard	10,037,652	3,891,222
Substandard	951,364	730,012
	<u>10,989,016</u>	<u>4,621,234</u>

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 2023, 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

Movement

Opening balance	59,411	27,991
Charge for the year	96,319	31,420
Closing balance	<u>155,730</u>	<u>59,411</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.

18. Financial risk management (Continued)

18.2. Liquidity risk management (Continued)

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.

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
2023					
Assets					
Money market deposits	2,050,368	-	-	2,050,366	2,050,366
Bank balance and cash	178,668	-	-	178,668	178,668
Other assets	-	-	175,170	175,170	175,170
Loans and advances	243,749	731,246	9,858,289	10,833,285	10,833,285
Total assets	2,472,785	731,246	10,033,459	13,237,489	13,237,489
Liabilities					
Lease liability	2,392	7,178	34,819	44,389	44,389
Borrowings	-	1,563,212	6,290,839	7,854,051	7,854,051
Trade and other payables	70,177	-	305,540	375,716	375,716
Total liabilities	72,569	1,570,390	6,631,198	8,274,156	8,274,156
Contractual liquidity	2,400,416	(839,144)	3,402,261	4,966,533	4,963,533
Mismatch	2,400,416	1,561,272	4,963,533		
2022					
Assets					
Money market deposits	2,550,848	-	-	2,550,848	2,550,848
Bank balance and cash	116,107	-	-	116,107	116,107
Other assets	-	-	25,081	25,081	25,081
Loans and advances	102,884	308,652	4,150,287	4,561,823	4,561,823
Total assets	2,769,839	308,652	4,175,368	7,253,859	7,253,859
Liabilities					
Lease liability	2,769	8,303	40,302	51,379	51,379
Borrowings	-	740,615	2,251,845	3,002,460	3,002,460
Trade and other payables	47,832	-	47,835	95,667	95,667
Total liabilities	50,601	758,923	2,339,982	3,149,506	3,149,506
Contractual liquidity	2,719,238	(450,271)	1,835,386	4,104,353	4,104,353
Mismatch	2,719,238	2,268,967	4,104,353		

18. Financial risk management (Continued)

18.3. 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
2023					
Financial assets					
Cash and bank	-	-	-	178,668	178,668
Money market deposits	2,050,368	-	-	-	2,050,368
Other assets	-	-	-	175,171	175,171
Loans and advances	243,749	731,246	9,858,289	-	10,833,285
Total financial assets	2,294,117	731,246	9,858,289	353,838	13,237,491
Financial liabilities					
Trade and other payables	-	-	-	394,466	394,466
Borrowings	-	1,963,513	5,890,538	-	7,854,051
Lease liabilities	2,196	6,590	31,969	-	40,756
Total financial liabilities	2,196	1,972,175	5,929,812	394,466	8,270,523
Interest sensitive gap	2,291,921	(1,238,857)	3,935,782	(40,628)	4,966,968
Cumulative gap	2,291,921	1,053,064	4,988,846	4,966,968	

Impact on profit of an increase in interest rates:

+1%	22,919	(12,389)	39,358	-	49,888
+2%	45,838	(24,777)	78,716	-	99,777
+3%	68,758	(37,116)	118,073	-	149,665

Impact on profit of a decrease in interest rates:

+1%	(22,919)	12,389	(39,358)	-	(49,888)
+2%	(45,838)	24,777	(78,716)	-	(99,777)
+3%	(68,758)	37,116	(118,073)	-	(149,665)

18. Financial risk management (Continued)

18.3. 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
2022					
Financial assets					
Cash and bank	-	-	-	116,107	116,107
Money market deposits	2,550,848	-	-	-	2,550,848
Other assets	-	-	-	25,081	25,081
Loans and advances	102,884	308,652	4,150,287	-	4,561,823
Total financial assets	137,179	274,357	6,711,933	281,885	7,405,354
Financial liabilities					
Trade and other payables	-	-	-	95,667	95,667
Borrowings	-	750,615	2,251,845	-	3,002,460
Lease liabilities	2,769	8,308	40,302	-	51,379
Total financial liabilities	2,769	758,923	2,292,147	95,667	3,149,506
Interest sensitive gap	2,767,070	(450,271)	1,858,140	45,521	4,220,460
Cumulative gap	2,767,070	2,316,799	4,174,939	4,220,460	
Impact on profit of an increase in interest rates:					
+1%	27,671	(4,503)	18,581	-	41,749
+2%	55,341	(9,005)	38,163	-	83,499
+3%	83,012	(13,508)	55,744	-	125,248
Impact on profit of a decrease in interest rates:					
+1%	(27,671)	4,503	(18,581)	-	(41,749)
+2%	(55,341)	9,005	(38,163)	-	(83,499)
+3%	(83,012)	13,508	(55,744)	-	(125,248)

18.4. Capital Management

Regulatory Capital

According to the Financial Services (Capital Adequacy for the Development Finance Institutions) Directive, 2018, the Reserve Bank of Malawi sets and monitors capital requirements for Development Financial Institutions (DFIs). Regulatory capital requirements are the minimum amount of capital required by the Reserve Bank of Malawi, which if not maintained will usually require supervisory intervention. DFIs are required to maintain a paid-up capital in Malawi Kwacha equivalent of USD50 million. The Bank was granted a waiver in 2022 by the Regulator, on the minimum capital requirement which will expire in December 2024.

19. Going concern

The Bank was granted open ended waivers in 2018 by the Reserve Bank of Malawi on Corporate Governance and Capital Adequacy Directives. These waivers were extended to 31 December 2024, and the Regulator is in the process of preparing a suitable regulatory regime for the Bank to obviate the need for waivers before 2024. The Bank through a meeting convened in February 2024 with the Regulator has been advised to put in application for extension of the waivers beyond December 2024 as the Regulator's expectations are that the relevant proposed regulatory regime will not be in place by 31 December 2024.

The directors are confident that the going concern of the Bank will not be affected by these directives.

20. Fair value measurements

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

20.1. 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.

20.2. 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).

20.3. 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.

20.4. 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 recognized in the financial statements approximate to their fair values.

21. Contingent liabilities

There were no contingent liabilities as at 31 December 2023 (2022: Nil).

22. 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.

	2023	2022
Kwacha/GBP	2,214	1,285
Kwacha/Rand	94	58
Kwacha/US Dollar	1,683	1,026
Kwacha/Euro	1,919	1,135
Inflation rate (%)	34.5	25.4

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

Kwacha/GBP	2,198
Kwacha/Rand	92
Kwacha/US Dollar	1,683
Kwacha/Euro	1,876
Inflation rate (%)	<u>33.5</u>

23. Subsequent events

The Reserve Bank of Malawi's Monetary Policy Committee (MPC) met on 31 January and 1 February 2024. Based on an assessment of the macroeconomic situation and outlook, the MPC decided to increase the Policy rate by 200 basis points to 26.0 percent from 24.0 percent. Inflation increased to 35% in January 2024 and dropped to 33.5% in February 2024. The Malawi Kwacha devalued relative to major foreign trading currencies by 3 % in March 2024 .

The Bank is in process of acquiring of 35% of Carbon Dioxide and Allied Products Limited shares. The acquisition was approved by the Reserve Bank of Malawi on 26 January 2024.

These events will impact results for the year ending 31 December 2024.

24. Environmental, social and governance report

The Bank is a responsible Environmental and Social Corporate citizen with a keen interest to improve and safeguard the national green footprint and mitigation of potentially negative Environmental and Social risk through responsible green investments and funding embedded in its mandate.

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.

The Bank's Environmental and Social framework is guided by the NBM Plc Group's Environmental Policy. The framework requires that all potential projects undergo an environmental assessment and independent environmental impact assessment study where applicable during project appraisal 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 and environmentally sound projects. As part of this commitment, its members of staff underwent training of Environmental and social risk management and mitigation.