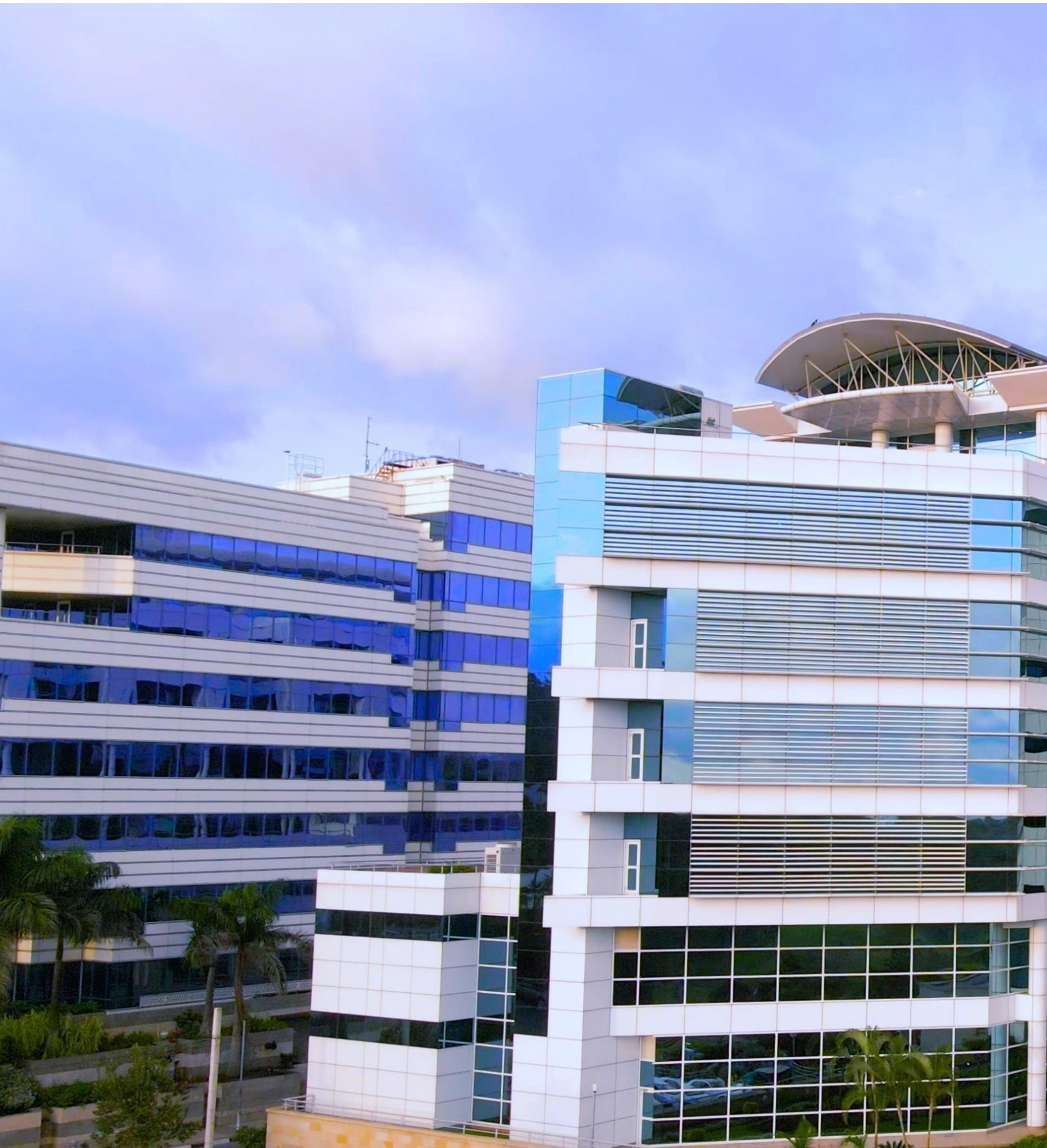
NBM Development Bank Ltd

Financial Statements for the year ended 31 December 2024



Content	**Page**

The directors have pleasure in submitting their report together with the financial statements of NBM Development Bank Limited for the year ended 31 December 2024.

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, NBM Plc injected additional share capital of K1.5billion valued at K1 each. 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 the provision of capital (debt and equity) 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 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.

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 risks through responsible green investments and funding embedded in its mandate.

The Bank selectively identifies 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.

Financial Performance

The directors report a profit after tax for the year of K1,003 million (2023: K893 million).

Directors

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

Mr. H.N. Jiya	-	Chairman	-	From 9 October 2024
Mr. M. N. Katsala	-	Director	-	All year
Mr. Kassim Aroni	-	Director	-	All year
Mr. F. Muula	-	Director	-	All year
Mr. A.C.E. Sukasuka	-	Director	-	All year
Mrs C . Khofi	-	Director	-	All year
Mrs. M. Mulele	-	Company Secretary	-	All year

Auditors

On 25 March 2024 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 2024. 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 2025.

Director: ____________________

Director: ____________________

28 March 2025

NBM Development Bank Limited

Statement of Directors' Responsibilities for the year ended 31 December 2024

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 give a true and fair view of the state of the financial affairs of the Bank and of its operating results.

Director: ____________________

Director: ____________________

28 March 2025

Shape the future
with confidence

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 8 to 33 which comprise the statement of financial position as at 31 December 2024, 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 2024, and its financial performance and cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board(IASB), IAS 29 Directive as issued by the Institute of Chartered Accountants in Malawi (ICAM) 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.

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 Auditors 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 key audit risks of material misstatements 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.

Key Audit Matter

The disclosures associated with Credit Risk are set out in the financial statements in the following notes:

- Note 3.8.6 – *Impairment of financial assets and the calculation of Expected Credit Losses*
- Note 4.12 – *Significant Increase in Credit Risk*
- Note 8- *Loans and advances*
- Note 18.1 - *Credit risk management*

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 loans and advances at K14.03 billion represent 77.24% of total assets and the associated impairment provisions for expected credit losses of K183 million are material to the financial statements.	**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.

Valuation of expected credit losses on loans and advances	How the matter was addressed in the audit
▸ The high degree of estimation uncertainty, significant judgements and assumptions applied in estimating the ECL on loans and advances to customers. ▸ 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.	**Our response to the key audit matter included performing the following audit procedures: (*continued)*** ▸ We carried out procedures to ensure the data being used in the models is complete, accurate, and that assumptions used are reasonable and supportable. ▸ 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.
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.	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 IFRS Accounting Standards (IFRS)** Our financial reporting specialists reviewed the additional disclosures related to adequacy and appropriateness in accordance with the requirements of *IFRS 7- Financial Instruments: Disclosures requirements*. Specifically, we assessed the reasonability of the disclosures considering the audit work performed and disclosures made elsewhere in the financial statements.

Responsibilities of the Directors for Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board(IASB) IAS 29 Directive as issued by the Institute of Chartered Accountants In Malawi (ICAM) 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.

Shape the future
with confidence

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

Ernst & Young

Chartered Accountants (Malawi)
Chiwemi Chihana
Registered Practicing Accountant

28 March 2025

NBM Development Bank Limited

Statement of financial position as at 31 December 2024

	Notes	2024 K'000	2023 K'000
ASSETS			
Non-current assets			
Equipment	5	129,956	181,235
Intangible assets	6	179,776	152,226
Right-of-use assets	7	23,585	34,067
Loans and advances to customers	8	12,764,195	9,858,289
Deferred tax assets	17.3	27,416	35,538
Total non-current assets		**13,124,928**	**10,261,355**
Current assets			
Loans and advances to customers	8	1,262,393	974,996
Other assets	9	183,888	175,170
Investments - money market deposits	10	3,387,588	2,050,368
Bank balances and cash	11	201,328	178,668
Total current assets		**5,035,197**	**3,379,202**
TOTAL ASSETS		**18,160,125**	**13,640,557**
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		3,932,655	2,930,119
Total equity		**6,324,629**	**5,322,093**
Non-current liabilities			
Borrowings	13	9,863,477	6,290,839
Lease liabilities	7	20,371	31,969
Total non-current liabilities		**9,883,848**	**6,322,808**
Current liabilities			
Lease liability	7	5,598	8,787
Borrowings	13	1,223,286	1,563,212
Amount due to related party		191,512	168,385
Trade and other payables	12	288,426	207,350
Income tax payable	17.2	242,826	47,922
Total current liabilities		**1,951,648**	**1,995,656**
TOTAL EQUITY AND LIABILITIES		**18,160,125**	**13,640,557**

The financial statements were approved and authorized for issue by the Board of Directors on **28 March 2025** and were signed on its behalf by:

.... **Director**

.... **Director**

NBM Development Bank Limited

Statement of financial position as at Comprehensive income for the year ended 31 December 2024

	Notes	2024 K'000	2023 K'000
Income			
Interest income	14	2,571,613	2,059,450
Interest expense	14	(232,711)	(209,027)
Net interest income		2,338,902	1,850,423
Other income	15	87,366	77,226
Total income		**2,426,268**	**1,927,649**
Expenditure			
Staff costs	16.1	(494,254)	(304,972)
Other operating expenses	16.2	(260,943)	(260,878)
Depreciation and amortization	5,6&7	(84,102)	(58,939)
Total expenditure		**(839,299)**	**(624,789)**
Profit before net impairment of financial assets		1,586,969	1,302,860
Impairments loses on financial assets	18	(26,810)	(96,319)
Profit before tax		**1,560,159**	**1,206,541**
Income tax expense	17.1	(557,623)	(314,000)
Profit for the year		**1,002,536**	**892,541**
Other comprehensive income		-	-
Total comprehensive income for the year		**1,002,536**	**892,541**

NBM Development Bank Limited

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

	Share capital	Advance share capital subscription *	Share premium	Retained earnings	Total
	K'000	**K'000**	**K'000**	**K'000**	**K'000**
2024					
Balances at the beginning of the year	84,000	1,500,000	807,974	2,930,119	5,322,093
Profit for the year	-	-	-	1,002,536	1,002,536
At end of the year	**84,000**	**1,500,000**	**807,974**	**3,932,655**	**6,324,629**
2023					
Balances 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**

	2024	2023
	K'000	**K'000**
Analysis of Share Capital		
Authorised 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	807,974	807,974

***Advance share capital subscription**
The amount represents subscription for shares yet to be issued

NBM Development Bank Limited

Statement of cash flows for the year ended 31 December 2023

	Notes	2024 K'000	2023 K'000
Cash flows from operating activities			
Profit before tax		1,560,159	1,206,541
Adjustments for:			
Depreciation of equipment	5	57,288	39,772
Depreciation of right of use assets	7	10,482	10,482
Amortization of intangible assets	6	16,332	8,685
Loss/(profit) on disposal of equipment		55	110
Interest expense on lease	7	6,321	9,322
Interest payable	13	232,711	209,027
Impairment loss on loans and advances to customers	18.1	26,810	96,319
Operating cashflows before working capital movements		**1,910,158**	**1,580,258**
Movement in loans and advances to customers		(3,220,113)	(6,367,782)
Movements in other assets		(8,718)	(149,260)
Movement in trade and other payables		81,076	111,683
Movement in amounts due to related party		23,127	168,385
Movement in money market investments		(1,337,220)	500,480
Cash used in operations		**(2,551,690)**	**(4,156,236)**
Income tax paid	17.2	(354,597)	(249,519)
Net cash used in operating activities		**(2,906,287)**	**(4,405,755)**
Cash flows from investing activities			
Purchase of equipment		(6,063)	(154,414)
Purchase of intangible assets		(43,882)	-
Proceeds from sale of equipment		-	110
Net cash used in investing activities		**(49,945)**	**(154,304)**
Cash flows from financing activities			
Proceeds from borrowings	13	3,000,000	5,000,000
Repayment of borrowings - Principal	13	-	(312,857)
Repayment of borrowings - Interest	13	-	(44,579)
Lease repayments	7	(21,108)	(19,944)
Net cash generated from financial activities		**2,978,892**	**4,622,620**
Net increase in cash and cash equivalents		22,660	62,561
Cash and cash equivalents at beginning of the year		178,668	116,107
Cash and cash equivalents end of the year	11.1	201,328	178,668

Additional information on operational cash flows from interest received and paid.

Interest received	2,571,613	2,059,450
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 IFRS Accounting Standards

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

In the current year, the Group 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 2024

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

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.

Non-current Liabilities with Covenants (Amendments to IAS 1)

The amendment clarifies how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.

Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)

The amendments add disclosure requirements, and 'signposts' within existing disclosure requirements, that ask entities to provide qualitative and quantitative information about supplier finance arrangements.

IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

IFRS S1 sets out overall requirements for sustainability-related financial disclosures with the objective to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity.

IFRS S2 Climate-related Disclosures

IFRS S2 sets out the requirements for identifying, measuring and disclosing information about climate-related risks and opportunities that is useful to primary users of general -purpose financial reports in making decisions relating to providing resources to the entity.

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

2.2. Standards and Interpretations in issue, not yet effective

A number of new standards, amendments to standards and interpretations are in issue but not effective for the year ended 31 December 2024 and have not been applied in preparing these financial statements. Those which may be relevant to the company 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.

Lack of Exchangeability (Amendments to IAS 21)

The amendments contain guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not.

Amendments to the SASB standards to enhance their international applicability

The amendments remove and replace jurisdiction-specific references and definitions in the SASB standards, without substantially altering industries, topics or metrics.

2. Adoption of new and revised IFRS Accounting Standards *(Continued)*

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

Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and 7)

Amended to the requirements related to:

- Settling financial liabilities using an electronic payment system; and
- Assessing contractual cashflow characteristics of financial assets, including those with environmental, social and governance (ECG)-linked feature

Amended disclosure requirements relating to investments in equity instruments designated at fair value through other comprehensive income and added disclosure requirements for financial instruments with contingent features that do not relate directly to basic lending risks and costs.

IFRS 18 'Presentation and Disclosure in Financial Statements'

This has been made to rectify the erroneous numbering of a paragraph which was added to IFRS 1 First-time Adoption of IFRS Accounting Standards by IFRS 18 Presentation and Disclosure in Financial Statements

IFRS 19 'Subsidiaries without Public Accountability: Disclosures

IFRS 19 enables simplification of reporting systems and processes for companies, reducing the costs of preparing eligible subsidiaries' financial statements, while maintaining the usefulness of those financial statements for their users. Subsidiaries applying IFRS Accounting Standards for their own financial statements provide disclosures that are disproportionate to the information needs of their users. Subsidiaries applying the IFRS for SMEs Accounting Standards in preparing their own financial records because the requirements in these Standards differ from those in IFRS Accounting Standards.

IFRS 19 will resolve these challenges by:

- Enabling subsidiaries to keep only one set of accounting records – to meet the needs of both their parent company and the users of their financial statements; and
- Reducing the disclosure requirements – IFRS 19 permits reduced disclosures better suited to the needs of the users of subsidiaries' financial statements.

The IASB expects that IFRS 19 would:

- Reduce costs for preparers.
- Improve their application of IFRS Accounting Standards within the Group; and
- Maintain the usefulness of financial statements for the users of an eligible subsidiary's financial statements.

A subsidiary is eligible to apply IFRS 19 if:

a) The subsidiary is not public accountable (broadly speaking, it is not listed on a stock exchange and is not a financial institution); and

b) The subsidiary's intermediate or ultimate parent produces consolidated financial statements that are available for public use and that comply with IFRS Accounting Standards.

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 IFRS Accounting Standards.

Basis of preparation

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

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

3.1. 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 statement of comprehensive income.

3. Material accounting policies *(Continued)*

3.1. Equipment *(Continued)*

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

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

3.2. Intangible assets

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

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

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

3.3. Taxation

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

Current tax

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

Deferred tax

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

3.4. Foreign currency translation

The results and financial position of the Bank are expressed in Malawi Kwacha, which is the functional currency of the Bank and the presentation currency for the financial statements. Transactions in currencies other than the Bank’s functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the statement of comprehensive income for the period.

3. Material accounting policies *(Continued)*

3.5. Leases *(Continued)*

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.

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.

3. Material accounting policies *(Continued)*

3.5. Leases *(Continued)*

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.

3.8.2. Measurement categories

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

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

3.8.2.1. Debt instruments measured at amortised cost

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

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

3. Material accounting policies *(Continued)*

3.8. Financial assets *(Continued)*

3.8.2. Measurement categories *(Continued)*

3.8.2.2. Debt instruments measured at fair value through other comprehensive income

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

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

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

3.8.2.3. Financial assets measured at fair value through profit or loss

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

3.8.3. Subsequent measurement

3.8.3.1. Debt instruments at amortised cost

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

3.8.3.2. Debt instruments at fair value through other comprehensive income

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

3.8.3.3. Financial assets at fair value through profit or loss

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

3.8.4. Reclassification of financial assets and liabilities

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

3.8.5. Derecognition

3.8.5.1. Derecognition other than for substantial modification

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

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

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

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

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

3. Material accounting policies *(Continued)*

3.8. Financial assets *(Continued)*

3.8.5. Measurement categories *(Continued)*

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.

3.8.6.1. 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. Material accounting policies *(Continued)*

3.8. Financial assets *(Continued)*

3.8.6. Measurement categories *(Continued)*

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.The 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 solely 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. Critical accounting judgements and key sources of estimation uncertainty *(Continued)*

4.2. Key sources of estimation uncertainty

4.2.1. Useful lives and residual values of 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. 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;
- Unsupported guarantees are assumed to result in nil cash flows; and
- 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 Banks'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 Banks's strategic planning period and also to ensure best estimates as recommended by IFRSs.

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

4.2. Key sources of estimation uncertainty *(Continued)*

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. Equipment

	Computer equipment	Fixtures & Fittings	Motor vehicles	Total
	K'000	K'000	K'000	K'000
2024				
Cost				
At the beginning of the year	99,130	19,205	106,385	224,720
Disposals	(1,075)	-	-	(1,075)
Additions	5,073	990	-	6,063
At the end of the year	**103,128**	**20,195**	**106,385**	**229,708**
Depreciation				
At the beginning of the year	13,767	4,599	25,119	43,485
Disposals	(1,021)	-	-	(1,021)
Charge for the year	23,842	3,304	30,142	57,288
At the end of the year	**36,588**	**7,903**	**55,261**	**99,752**
Net Book Value				
At the end of the year	**66,540**	**12,292**	**51,124**	**129,956**
2023				
Cost				
At the beginning of the year	8,209	7,179	-	15,388
Disposals	(4,028)	-	-	(4,028)
Transfer from intangible assets	58,936	-	-	58,936
Additions	36,013	12,026	106,385	154,424
At the end of the year	**99,130**	**19,205**	**106,385**	**224,720**
Depreciation				
At the beginning of the year	5,319	2,584	-	7,903
Disposals	(4,190)	-	-	(4,190)
Charge for the year	12,638	2,015	25,119	39,772
At the end of the year	**13,767**	**4,599**	**25,119**	**43,485**
Net Book Value				
At the end of the year	**85,363**	**14,606**	**81,266**	**181,235**

The following useful lives are used in the calculation of depreciation

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
2024			
Cost			
At the beginning of the year	163,331	-	163,331
Additions	-	43,882	43,882
At the end of the year	**163,331**	**43,882**	**207,213**
Armotisation			
At the beginning of the year	11,105	-	11,105
Current year charge	16,332	-	16,332
At end of the year	**27,437**	**-**	**27,437**
Carrying amount			
At the end of the year	**135,894**	**-**	**179,776**
2023			
Cost			
At the beginning of the year	10,368	211,899	222,267
Transfers 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**
Armotisation			
At the beginning of the year	2,420	-	2,420
Current year charge	8,685	-	8,685
At end of the year	**11,105**	**-**	**11,105**
Carrying amount			
At the end of the year	**152,226**	**-**	**152,226**

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, at the beginning of the year, has been transferred to Computer Equipment, and the balance 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.

	2024 K'000	2023 K'000
Cost		
At beginning of the year	52,410	52,410
At end of the year	**52,410**	**52,410**
Accumulated depreciation		
At beginning of the year	18,343	7,861
Charge for the year	10,482	10,482
At end of the year	**28,825**	**18,343**
Carrying amount		
At end of the year	**23,585**	**34,067**
Lease liability		
Lease commitments at the beginning of the year	40,756	51,379
Interest charged on lease	6,321	9,322
Lease repayments	(21,108)	(19,945)
Lease liabilities recognised at end of the year	**25,969**	**40,756**
Within one year	5,598	8,787
After one year	20,371	31,969
	25,969	**40,756**
Amounts recognised in profit and loss		
Finance cost		
Depreciation of rights of use assets	10,482	10,482
Interest expenses on lease liabilities	6,321	9,322
Total lease expenses recognised in profit and loss	**16,803**	**19,804**

8. Loans and advances to customers

	2024 K'000	2023 K'000
Term loans	14,209,128	10,989,016
Expected credit loss	(182,540)	(155,730)
Net loans	**14,026,588**	**10,833,285**
Within one year	1,262,393	974,996
After one year	12,764,195	9,858,289
	14,026,588	**10,883,285**

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, Mining, Water and Sanitation and Start-up manufacturing.

Term loans include principal amounts as well as accrued interest. The term loans are secured by physical assets financed by the Bank and properties owned by the customers and attract interest 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 10 years.

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

9. Other assets

	2024 K'000	2023 K'000
Prepayments (Africa Guarantee Fund)	30,651	42,144
Customer cash collateral	151,910	118,725
Other debtors	1,327	14,301
	183,888	**175,170**

10. Investments - money market deposits

Stockbrokers Malawi Limited	2,151,472	1,376,329
NBM Capital Markets Limited	1,236,116	674,039
	3,387,588	**2,050,368**

Balances with discount houses are held to maturity and mature within one month (2023: one month) after the year-end, and earn an average interest rate of 24% (2023: 17%) 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	**201,328**	**178,668**

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	**257,647**	**214,706**

12. Trade and other payables

Audit fees	38,588	21,250
Deferred fees	-	18,429
Customer cash collateral	151,910	118,725
Directors' fees provision	8,509	-
Staff exgrata provision	-	9,124
AGF utilisation fees provision	-	34,317
Fringe Benefit Tax provision	5,400	4,350
Bonus provision	81,238	-
Other payables	2,781	1,155
	288,426	**207,350**

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	7,854,051	3,002,460
Borrowings obtained during the year	3,000,000	5,000,000
Interest charged	232,712	209,027
Repayments made during the year - Principal	-	(312,857)
Repayments made during the year - Interest	-	(44,579)
	11,086,763	**7,854,051**
Within one year	1,223,286	1,563,212
After one year	9,863,477	6,290,839
	11,086,763	**7,854,051**

13. Borrowings *(Continued)*

In 2022, NBM Development Bank Limited signed a subsidiary agreement with Reserve Bank of Malawi for unsecured Micro, Small and Medium Enterprise Line of Credit Facility amounting K3.3 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.

In 2023, the Bank drew additional K5 billion under the same terms as the previous loan. The new facility expires on 28 February 2033.

During the year, the Bank drew additional K3 billion loan from the Reserve Bank of Malawi as part of the Micro, Small and Medium Enterprise line of credit for financial inclusion and entrepreneurship scaling project to finance working capital and investment requirements for MSMEs including mitigating effects of COVID-19. The Bank is required to make principal and interest repayments semi-annually on 15 January and 15 July. The loan is repayable over a period up to 2034.

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

14. Net interest income

	2024 K'000	2023 K'000
Interest from loans and advances with customers	1,948,331	1,234,136
Interest income from money market investments	623,282	825,314
Interest expense	(232,711)	(209,027)
Net interest income	**2,338,902**	**1,850,423**

15. Other income

Grant income *	-	66,632
Fees and commissions	87,366	10,594
	87,366	**77,226**

*The Bank had a contract with the United Nations Development Programme (UNDP) which required the Bank to perform services in respect of the Malawi Innovation Challenge Fund. Upon completion and satisfactory performance of the services under the contract, UNDP was required to refund the bank in accordance with the Project Milestone payment schedule as per the agreement. The grant income recognized related to the second milestone that the Bank archived in 2023.

16. Staff costs

16.1. Salaries and wages

Salaries and wages	270,851	218,800
Pensions costs - defined contribution scheme	26,762	19,734
Staff training costs	926	9,063
NABMAS expense	4,515	-
NABMAS staff contribution	(2,014)	-
Other staff costs	193,214	57,375
	494,254	**304,972**

16.2. Other operating expenses

Audit fees	40,638	29,240
Directors fees and allowances	36,003	31,419
Board expenses	13,782	19,084
AGF expenses	60,920	65,363
Premises	13,500	14,415
Equipment expenses	1,450	2,865
Motor vehicles	9,703	20,678
Software expenses	847	642
Travel expenses	28,532	35,346
Communication	1,428	457
Other overheads	47,819	32,047
Interest charge on leases	6,321	9,322
	260,943	**260,878**

17. Income tax

17.1. Income tax expense

	2024 K'000	2023 K'000
Income tax charge	549,501	344,580
Deferred tax (credit)/charge	8,122	(30,580)
Total income tax charge	**557,623**	**314,000**
Reconciliation of effective tax charge		
Profit before tax	1,560,159	1,206,541
Income tax using statutory rate of 30%	468,048	361,962
Permanent differences	89,575	(47,962)
	557,623	**314,000**

17.2. Income tax recoverable

	2024 K'000	2023 K'000
At 1 January	47,922	(47,139)
Charge for the year	549,501	361,962
Tax paid during the year	(354,597)	(249,519)
	242,826	**47,922**

17.3. Deferred tax liabilities/(assets)

	2024 K'000	2023 K'000
At beginning of the year	(35,538)	(4,958)
Movement for the year	8,122	(30,580)
At end of the year	**(27,416)**	**(35,538)**
Analysed as:-		
Accelerated capital allowances	25,010	(3,074)
Other temporary differences	(52,426)	(32,464)
	(27,416)	**(35,538)**

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, are 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, 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 risks facing the Bank arises principally from loans and advances to customers.

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

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. Investments are made only if the level of risk is acceptable. . 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 that 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 2024 was at K14,027 m (2023: K10,989m) with Non-Performing Loans (NPL) standing at 8% (2023: 9%). 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

	2024 K'000	2023 K'000
Agribusiness	4,018,836	2,923,079
Health	4,274,749	2,693,469
Manufacturing	1,611,189	1,344,758
Energy	321,706	376,951
Tourism	3,643,093	3,280,812
ICT	339,555	369,946
	14,209,128	**10,989,015**

Tangible security against impaired facilities

Machinery, property & vehicles	**2,178,331**	**1,331,063**

Tangible security against the rest of the loan book

Machinery	4,335,353	1,847,149
Motor vehicles	154,409	154,709
Cash cover	263,199	115,643
Commercial property	31,488,361	20,781,506
	36,241,322	**22,899,007**

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	4,018,836	2,923,079
Health	4,274,749	2,693,469
Manufacturing	1,611,189	1,344,758
Energy	321,706	376,951
Tourism	3,643,093	3,280,812
ICT	339,555	369,946
	14,209,128	**10,989,015**

18. Financial risk management *(Continued)*

18.1. Credit risk management *(Continued)*

Loans and Advances to customers categorized by stages

	2024 K'000	2023 K'000
Category		
Stage One	12,948,266	9,186,991
Stage Two	119,212	850,661
Stage Three	1,141,650	951,363
Total Gross Carrying Amount	14,209,128	10,989,015
Loss allowances	(182,540)	(157,730)
Carrying amount	**14,026,588**	**10,833,285**

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 analsyis below shows the credit quality of the loans and advances in line with this directive.

Standard	13,067,479	10,037,652
Substandard	1,141,650	951,363
Total	**14,209,128**	**10,989,015**

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.

As at December 2024, NBM Development Bank Ltd developed its own provisioning model.

ECLs are calculated using statistical tools namely, probability of default (PD), exposure at default (EAD) and loss given default (LGD), using its own data for the three categories as dictated by the relevant standard.

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	155,730	59,411
Charge for the year	26,810	96,319
Closing balance	**182,540**	**155,730**

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

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	3 - 12 months	More than 12 months	Total	Carrying amount
	K'000	K'000	K'000	K'000	K'000
2024					
Financial assets					
Money market deposits	3,593,384	-	-	3,593,384	3,387,588
Bank balances and cash	201,356	-	-	201,356	201,356
Loans and advances	324,277	1,050,942	19,784,502	21,159,721	14,026,588
Other assets	-	-	183,888	183,888	183,888
Total financial assets	**4,119,017**	**1,050,942**	**19,968,390**	**25,138,349**	**17,799,420**
Financial liabilities					
Lease liability	1,458	4,140	20,371	25,969	25,969
Trade and other payables	136,525	-	151,901	288,426	288,426
Borrowings	-	1,259,985	12,526,616	13,786,601	11,086,763
Total financial liabilities	**137,983**	**1,264,125**	**12,698,888**	**14,100,996**	**11,401,158**
Contractual liquidity mismatch	**3,981,034**	**(213,183)**	**7,269,502**	**11,037,353**	**6,398,262**
Cumulative mismatch	**3,981,034**	**3,767,851**	**11,037,353**	**-**	**-**
2023					
Financial assets					
Money market deposits	2,147,760	-	-	2,147,760	2,050,366
Bank balances and cash	178,668	-	-	178,668	178,668
Loans and advances	250,452	811,683	15,280,348	16,342,483	10,833,285
Other assets	-	-	175,170	175,170	175,170
Total financial assets	**2,576,880**	**811,683**	**15,455,518**	**18,844,081**	**13,237,489**
Financial liabilities					
Lease liability	2,392	7,178	34,819	44,389	44,389
Trade and other payables	70,177	-	305,540	375,717	7,854,051
Borrowings	-	1,610,108	7,989,366	9,599,474	7,854,051
Total financial liabilities	**72,569**	**1,617,286**	**8,329,725**	**10,019,580**	**15,752,491**
Contractual liquidity mismatch	**2,504,311**	**(805,603)**	**7,125,793**	**8,824,501**	**(2,515,002)**
Cumulative mismatch	**2,504,311**	**1,698,708**	**8,824,501**	**-**	**-**

18. Financial risk management *(Continued)*

18.3. Interest risk management

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 - 12 months K'000	Over 1 year K'000	Non-Interest Sensitive K'000	Total K'000
2024					
Financial Assets					
Cash and bank	-	-	-	201,356	201,356
Money market deposits	3,387,588	-	-	-	3,387,588
Other assets	-	-	-	183,888	183,888
Loans and advances	315,598	946,795	12,764,195	-	14,026,588
Total Financial Assets	**3,703,186**	**946,795**	**12,764,195**	**385,244**	**17,799,420**
Financial Liabilities					
Trade and other payables	-	-	-	288,426	288,426
Borrowings	-	2,206,627	8,880,136	-	11,086,763
Lease liabilities	1,458	4,140	20,371	-	25,969
Total Financial Liabilities	**1,458**	**2,210,767**	**8,900,507**	**288,426**	**11,401,158**

Impact on profit of an increase in interest rates:

+1%	37,017	(12,640)	38,637	63,014
+2%	74,035	(25,279)	77,274	126,029
+3%	111,052	(37,919)	115,911	189,043

Impact on profit of a decrease in interest rates:

+1%	(37,017)	12,640	(38,637)	(63,014)
+2%	(74,035)	25,279	(77,274)	(126,029)
+3%	(111,052)	37,919	(115,911)	(189,043)

18. Financial risk management *(Continued)*

18.3. Interest 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
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 - 3 months	3 - 6 months	Over 1 year	Non-Interest Sensitive	Total
+1%	22,919	(12,839)	39,358		49,888
+2%	45,838	(24,777)	75,716		99,777
+3%	68,758	(37,116)	118,073		149,665

Impact on profit of a decrease in interest rates:

	1 - 3 months	3 - 6 months	Over 1 year	Non-Interest Sensitive	Total
+1%	(22,919)	12,839	(39,358)		(49,888)
+2%	(45,838)	24,777	(75,716)		(99,777)
+3%	(68,758)	37,116	(118,073)		(149,665)

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 2026

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 2026 , and the Regulator is in the process of preparing a suitable regulatory regime for the Bank to obviate the need for waivers before 2026.

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 2024 (2023: 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.

	2024	2023
Kwacha/GBP	2,242	2,214
Kwacha/Rand	95	94
Kwacha/US Dollar	1,734	1,683
Kwacha/Euro	1,859	1,919
Inflation (Average)	32.2%	28%

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

Kwacha/GBP	2,242
Kwacha/Rand	95
Kwacha/US Dollar	1,734
Kwacha/Euro	1,859
Inflation (Year on Year as at February 2025)	30.7%

23. Subsequent event

Inflation rose to 30.7% as at February 2025 from 28% in December 2024.There are no other events that require disclosure or adjustment to the financial statements.