

Financial Statements for the year ended 31 December 2025



NBM DEVELOPMENT BANK LIMITED
FINANCIAL STATEMENTS
For the year ended 31 December 2025

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NBM DEVELOPMENT BANK LIMITED

Directors Report for the year ended 31 December 2025

The directors have pleasure in submitting their report together with the financial statements of NBM Development Bank Limited for the year ended 31 December 2025.

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. The Bank is wholly owned subsidiary of National Bank of Malawi plc, a financial service group listed on the Malawi Stock Exchange. The ultimate holding company is Press Corporation plc, which is also listed on the Malawi Stock Exchange.

NATURE OF BUSINESS

The main business of the Bank is lending 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.

ENVORNMENTAL, SOCIAL AND GOVERNANCE REPORT

The Bank is a responsible Environmental and Social Corporate citizen with a keen interest in improving and safeguarding 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 sector 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 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 K1.4 billion (2024: K1 billion).

NBM DEVELOPMENT BANK LIMITED
Directors Report for the year ended 31 December 2025

DIRECTORS

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

Mr. H.N. Jiya	-	Chairman	-	All year
Mr. M. N. Katsala	-	Director	-	All year
Mr. D. Jere	-	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
Mr.C. Kalilombe	-	Director	-	All year
Mrs .G.Mchiela	-	Director	-	All year
Mrs. M. Mulele	-	Company Secretary	-	All year

AUDITORS

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 2026.

CHAIRMAN: _____

DIRECTOR: _____

DATE: _____

21/3/2026

NBM DEVELOPMENT BANK LIMITED

Statement of directors' responsibilities

For the year ended 31 December 2025

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.

CHAIRMAN:

DIRECTOR:

DATE:



27/3/2026

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 39 which comprise the statement of financial position as at 31 December 2025, 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 the Bank as at 31 December 2025, 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)* as applicable to audits of financial statements of public interest entities, 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.



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Key Audit Matter

Determination of Expected Credit Losses (ECL) on loans and advances to customers

How the matter was addressed in the audit

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

Key areas of judgment included:

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

As at 31 December 2025, the gross loans and advances to customers were K18 billion against which Expected Credit Losses of K252 million were recorded. This is disclosed in note 8 (Loans and advances to customers) to the financial statements. The Expected Credit Losses policy is presented in accounting policies in note 3.8 to the financial statements. Loans and advances are stated at amortised cost net of identified impairments.

We therefore consider this as a key audit matter.

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

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

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

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

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

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report and the Statement of directors' responsibilities. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with 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.



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

- 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.

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

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

Chartered Accountants (Malawi)

Chiwemi Chihana
Registered Practicing Accountant

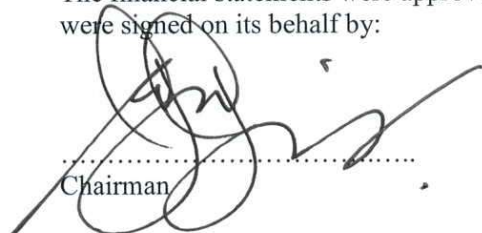
31 March 2026

Statement of financial position

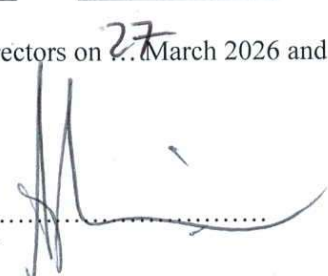
As at 31 December 2025

	Notes	2025 K'000	2024 K'000
Assets			
Non-current assets			
Equipment	5	75,219	129,956
Intangible assets	6	195,832	179,776
Right of use asset	7	13,103	23,585
Loans and advances to customers	8	16,336,496	12,764,195
Deferred tax assets	17.3	45,599	27,416
		<u>16,666,249</u>	<u>13,124,928</u>
Current assets			
Loans and advances to customers	8	1,615,697	1,262,393
Other assets	9	21,108	183,888
Money market investments	10	3,113,255	3,387,588
Bank balances and cash	11	840,519	201,328
		<u>5,590,579</u>	<u>5,035,197</u>
Total assets		<u>22,256,828</u>	<u>18,160,125</u>
Equity and liabilities			
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		5,358,483	3,932,655
Total equity		<u>7,750,457</u>	<u>6,324,629</u>
Non-current liabilities			
Borrowings	13	11,457,016	9,863,477
Lease Liability	7	-	20,371
		<u>11,457,016</u>	<u>9,883,848</u>
Current liabilities			
Lease liability	7	9,827	5,598
Borrowings	13	1,705,162	1,223,286
Amount due to related party		192,279	191,512
Trade and other payables	12	740,230	288,426
Income tax payable	17.2	401,857	242,826
		<u>3,049,355</u>	<u>1,951,648</u>
Total liabilities		<u>14,506,371</u>	<u>11,835,496</u>
Total equity and liabilities		<u>22,256,828</u>	<u>18,160,125</u>

The financial statements were approved and authorized for issue by the Board of Directors on 27 March 2026 and were signed on its behalf by:



Chairman



Director

NBM DEVELOPMENT BANK LIMITED

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2025

		2025	2024
	Notes	K'000	K'000
Income			
Interest income	14	3,243,951	2,571,613
Interest expense	14	(298,701)	(232,711)
Net interest income		2,945,250	2,338,902
Other Income	15	53,697	87,366
Grant income	15	637,188	-
Total income		3,636,135	2,426,268
Expenditure			
Staff costs	16.1	(738,435)	(494,254)
Other operating expenses	16.2	(659,577)	(260,943)
Depreciation and amortisation	5,6&7	(91,796)	(84,102)
Total expenditure		(1,489,808)	(839,299)
Profit before net impairment of financial assets		2,146,327	1,586,969
Impairment losses on financial assets	18	(69,883)	(26,810)
Profit before tax		2,076,444	1,560,159
Income tax expense	17.1	(650,616)	(557,623)
Profit for the year		1,425,828	1,002,536
Other comprehensive income		-	-
Total comprehensive income for the year		1,425,828	1,002,536

NBM DEVELOPMENT BANK LIMITED
Statement of changes in equity
for the year ended 31 December 2025

	Share capital K'000	Advance share capital subscription* K'000	Share premium K'000	Retained earnings K'000	Total K'000
2025					
Balance as at the beginning of the year	84,000	1,500,000	807,974	3,932,655	6,324,629
Profit for the year	-	-	-	1,425,828	1,425,828
Balance at the end of the year	84,000	1,500,000	807,974	5,358,483	7,750,457
2024					
Balance as 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
Balance at the end of the year	84,000	1,500,000	807,974	3,932,655	6,324,629

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 each	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 2025

	Notes	2025 K'000	2024 K'000
Operating activities			
Profit before tax		2,076,444	1,560,159
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation of equipment	5	58,049	57,288
Depreciation of right-of-use assets	7	10,482	10,482
Amortisation of intangible assets	6	23,265	16,332
Loss on disposal of equipment		-	55
Interest expense on lease liability	7	4,201	6,321
Interest expense on borrowings	13	298,701	232,711
Impairment loss on loans and advances to customers	18.1	69,883	26,810
Grant income	15	(637,188)	-
Operating cashflows before working capital changes		1,903,837	1,910,158
Movement in loans and advances to customers		(3,995,488)	(3,220,113)
Movement in other assets		162,780	(8,718)
Movement in trade and other payables		451,804	81,076
Movement in amounts due to related parties		767	23,127
Movement in money market investment		274,333	(1,337,220)
Cash used in operations		(1,201,967)	(2,551,690)
Income tax paid	17.2	(509,768)	(354,597)
Net cash flows used in operating activities		(1,711,735)	(2,906,287)
Investing activities			
Purchase of equipment	5	(3,312)	(6,063)
Purchase of intangible assets	6	(39,321)	(43,882)
Net cash flows used in investing activities		(42,633)	(49,945)
Financing activities			
Proceeds from borrowings	13	3,000,000	3,000,000
Repayment of borrowings	13	(994,998)	-
Interest paid on borrowings	13	(228,288)	-
Payment of principal portion of lease liability	7	(16,142)	(21,108)
Interest paid on lease liability	7	(4,201)	-
Grant received		637,188	-
Net cash flows from financing activities		2,393,559	2,978,892
Net increase in cash and cash equivalents		639,191	22,660
Cash and cash equivalents at 1 January		201,328	178,668
Cash and cash equivalents at 31 December	11.1	840,519	201,328

NBM DEVELOPMENT BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2025

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 New and amended standards and interpretations

The following amendment to IAS 21 became effective for annual periods beginning on 1 January 2025:

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2025	Lack of exchangeability – Amendments to IAS 21 For annual reporting periods beginning on or after 1 January 2025, Lack of Exchangeability – Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates specifies how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. The amendments also require disclosure of information that enables users of an entity's financial statements to understand how the currency not being exchangeable into the other currency affects, or is expected to affect, the entity's financial performance, financial position and cash flows. This amendment did not have a material impact on the Bank's financial statements.

2.1 Standards and Interpretations in issue, not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2026	Amendments to the Classification and Measurement of Financial Instruments - Amendments to IFRS 9 and IFRS 7 In May 2024, the IASB issued Amendments to IFRS 9 and IFRS 7, Amendments to the Classification and Measurement of Financial Instruments (the Amendments). The Amendments include: • A clarification that a financial liability is derecognised on the 'settlement date' and the introduction of an accounting policy choice (if specific conditions are met) to derecognise financial liabilities settled using an electronic payment system before the settlement date; • Additional guidance on how the contractual cash flows for financial assets with environmental, social and corporate governance (ESG) and similar features should be assessed; • Clarifications on what constitute 'non-recourse features' and what are the characteristics of contractually linked instruments; • The introduction of disclosures for financial instruments with contingent features and additional disclosure requirements for equity instruments classified at fair value through other comprehensive income (OCI). The Amendments are effective for annual periods starting on or after 1 January 2026 with early adoption permitted for classification of financial assets and related disclosures only. The Bank does not anticipate that the amendments will have a material effect on the Bank's financial statements.

NBM DEVELOPMENT BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2025

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

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

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2026	Annual Improvements to IFRS Accounting Standards - Volume 11 In July 2024, the IASB issued nine narrow scope amendments as part of its periodic maintenance of IFRS accounting standards. The amendments include clarifications, simplifications, corrections or changes to improve consistency in IFRS 1 First - time Adoption of International Financial Reporting Standards, IFRS 7 Financial instruments: Disclosure and its accompanying Guidance on implementing IFRS 7, IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements and IAS 7 Statements of Cash Flows. The amendments will be effective for reporting periods beginning on or after 1 January 2026. Earlier application is permitted and must be disclosed. The amendments are not expected to have a material impact on the Bank's financial statements.
Annual reporting periods beginning on or after 1 January 2026	Contracts Referencing Nature-dependent Electricity – Amendments to IFRS 9 and IFRS 7 In December 2024, the IASB issued Amendments to IFRS 9 and IFRS 7 - Contracts Referencing Nature-dependent Electricity. The amendments apply only to contracts that reference nature-dependent electricity; the amendments: • Clarify the application of the 'own-use' requirements for in-scope contracts • Amend the designation requirements for a hedged item in a cash flow hedging relationship for in-scope contracts • Add new disclosure requirements to enable investors to understand the effect of these contracts on a company's financial performance and cash flows The amendments will take effect for annual reporting periods starting on or after 1 January 2026. Early adoption is allowed, but it must be disclosed. The amendments concerning the own-use exception are to be applied retrospectively, while the hedge accounting amendments should be applied prospectively to new hedging relationships designated from the initial application date. Additionally, the IFRS 7 disclosure amendments must be implemented alongside the IFRS 9 amendments. If an entity does not restate comparative information, it cannot present comparative disclosures. The Bank does not expect that the amendments will have a material impact on its financial statements.
Annual reporting periods beginning on or after 1 January 2027	IFRS 18 Presentation and Disclosure in Financial Statements In April 2024, the IASB issued IFRS 18, which replaces IAS 1 Presentation of Financial Statements. IFRS 18 introduces new requirements for presentation within the statement of profit or loss, including specified totals and subtotals. Furthermore, entities are required to classify all income and expenses within the statement of profit or loss into one of five categories: operating, investing, financing, income taxes and discontinued operations, whereof the first three are new. The standard requires disclosure of newly defined management-defined performance measures, subtotals of income and expenses, and it also includes new requirements for aggregation and disaggregation of financial information based on the identified 'roles' of the primary financial statements (PFS) and the notes. In addition, narrow-scope amendments have been made to IAS 7 Statement of Cash Flows, which include changing the starting point for determining cash flows from operations under the indirect method, from 'profit or loss' to 'operating profit or loss' and removing the optionality around classification of cash flows from dividends and interest. In addition, there are consequential amendments to several other standards. IFRS 18, and the amendments to the other standards, are effective for reporting periods beginning on or after 1 January 2027, but earlier application is permitted and must be disclosed. IFRS 18 will apply retrospectively. The Bank is currently working to identify all impacts the amendments will have on the primary financial statements and notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2025

2. Adoption of new and revised International Financial Reporting Standards (Continued)**2.2 Standards and Interpretations in issue, not yet effective (Continued)**

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2027	IFRS 19 Subsidiaries without Public Accountability: Disclosures In May 2024, the IASB issued IFRS 19, which allows eligible entities to elect to apply its reduced disclosure requirements while still applying the recognition, measurement and presentation requirements in other IFRS accounting standards. To be eligible, at the end of the reporting period, an entity must be a subsidiary as defined in IFRS 10, cannot have public accountability and must have a parent (ultimate or intermediate) that prepares consolidated financial statements, available for public use, which comply with IFRS accounting standards. IFRS 19 will become effective for reporting periods beginning on or after 1 January 2027, with early application permitted. As the Bank has public accountability, it is not eligible to elect to apply IFRS 19.
Annual reporting periods beginning on or after 1 January 2027	Translation to a Hyperinflationary Presentation Currency – Amendments to IAS 21 In November 2025, the Board issued Translation to a Hyperinflationary Presentation Currency – Amendments to IAS 21. The amendments require translation from a non-hyperinflationary functional currency into a hyperinflationary presentation currency at the closing rate. If an entity's functional currency is the currency of a non-hyperinflationary economy, but its presentation currency is the currency of a hyperinflationary economy, its results and financial position are translated into the presentation currency by translating all amounts (i.e., assets, liabilities, equity items, income and expenses) and all comparatives at the closing rate at the date of the most recent statement of financial position. An entity whose functional currency and presentation currency are the currency of hyperinflationary economy, restates the comparative amounts of a foreign operation, whose functional currency is that of a non-hyperinflationary economy, by applying the general price index, in accordance with paragraph 34 of IAS 29, to the foreign operation's comparative figures. The amendments also introduce certain additional disclosure requirements. The amendments apply for annual reporting periods beginning on or after 1 January 2027 and earlier application is permitted. The Bank does not anticipate that the amendments will have a material effect on the Bank's financial statements.

3. Material accounting policies***Statement of compliance***

The financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB).

Basis of preparation

The financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB), IAS 29 Directives as issued by the Institute of Chartered Accountants in Malawi (ICAM) and in a manner required by the Companies Act, 2013. These financial statements are presented in Malawi Kwacha, which is also the Bank's functional currency, except as otherwise indicated, all amounts presented have been rounded to the nearest thousand.

The financial statements have been prepared on the historical cost basis.

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

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2025

3. Material accounting policies (Continued)

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.

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

Tax expense (tax income) represents the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current tax

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) 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 balance sheet 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.

3. Material accounting policies (Continued)

3.3 Taxation

Deferred tax (Continued)

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 realized based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. 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.

3.5 Leases

Bank as a lessee

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

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

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

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

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

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

3. Material accounting policies (Continued)

3.5 Leases (Continued)

Bank as a lessee (Continued)

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 receivable at the amount of the Bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.

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

3.6 Provisions

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

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

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

3.7 Revenue recognition

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

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

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

3.8 Financial assets

3.8.1 Initial recognition

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

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

3. Material accounting policies (Continued)

3.8 Financial assets (Continued)

3.8.2 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.

3.8.2.2 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.

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3. Material accounting policies

3.8 Financial assets (Continued)

3.8.4 Reclassification of financial assets and liabilities

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

3.8.5 Derecognition

3.8.5.1 Derecognition other than for substantial modification

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

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

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

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

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

3.8.5.2 Derecognition due to substantial modification of terms and conditions

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

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

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

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

3. Material accounting policies (Continued)

3.8 Financial instruments (Continued)

3.8.6. Impairment of financial assets

The Bank recognizes 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 recognized 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 flow.

3.8.6.1 The calculation of ECLs

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

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

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

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

3. Material accounting policies (Continued)

3.8 Financial instruments (Continued)

3.8.6. Impairment of financial assets (Continued)

- The Bank allocates its assets subject to ECL calculations into one of these categories, determined as follows:
- The 12-months 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 12-months 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 recognizes the lifetime expected credit losses for these instruments. The method is similar to that for lifetime ECL assets, with the PD set at 100%.

3.8.6.2 Forward looking information

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

- GDP growth; and
- Monetary policy rate.

3.8.7. Write-offs

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

3.9 Offsetting financial instruments

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

3.10 Comparatives

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

4. Critical accounting judgements and key sources of estimation uncertainty

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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 18.1 below.

4.1.1 Business model assessment

Classification and measurement of financial assets depend on the results of the solely payments of principal and interest and the business model test (please see financial assets sections of note 3.8). The Bank determines the business model at a level that reflects how Companies of financial assets are managed together to achieve a particular business objective.

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

4.1.2 Significant increase in credit risk

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

4.1.3 Models and assumptions used

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

4.2 Key sources of estimation uncertainty

4.2.1 Useful lives and residual values of plant and equipment

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

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

4.2 Key sources of estimation uncertainty (Continued)

4.2.2 Impairment losses on loans and advances

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

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

Key assumptions used:

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

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

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

4.2.4 Incorporating collateral and applying haircuts to market values of securities

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

4.2.5 Probability of Default (PD)

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

4.2.6 Loss Given Default (LGD)

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

4.2.7 Fair value measurement and valuation process

In estimating the fair value of a financial asset or a liability, the Bank uses market-observable data to the extent it is available. Where such Level 1 inputs are not available, the Bank uses valuation models to determine the fair value of its financial instruments. Refer to note 20 for more details on fair value measurement.

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

4.2 Key sources of estimation uncertainty

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.

4.2.10 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.

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5. Equipment

	Computer Equipment K'000	Fixtures & Fittings K'000	Motor Vehicles K'000	Total K'000
2025				
Cost				
At beginning of the year	103,128	20,195	106,385	229,708
Disposals	-	-	-	-
Additions	-	3,312	-	3,312
At the end of the year	<u>103,128</u>	<u>- 23,507</u>	<u>106,385</u>	<u>- 233,020</u>
Depreciation				
At the beginning of the year	36,588	7,903	55,261	99,752
Disposals	-	-	-	-
Charge for the year	<u>24,294</u>	<u>3,613</u>	<u>30,142</u>	<u>58,049</u>
At the end of the year	<u>60,882</u>	<u>11,516</u>	<u>85,403</u>	<u>157,801</u>
Net Book Value				
At the end of the year	<u>42,246</u>	<u>11,991</u>	<u>20,982</u>	<u>75,219</u>
2024				
Cost				
At the beginning of the year	99,130	19,205	106,385	224,720
Disposals	(1,075)	-	-	(1,075)
Additions	<u>5,073</u>	<u>990</u>	<u>-</u>	<u>6,063</u>
At the end of the year	<u>103,128</u>	<u>- 20,195</u>	<u>106,385</u>	<u>- 229,708</u>
Depreciation				
At the beginning of the year	13,767	4,599	25,119	43,485
Disposals	(1,021)	-	-	(1,021)
Charge for the year	<u>23,842</u>	<u>- 3,304</u>	<u>30,142</u>	<u>- 57,288</u>
At the end of the year	<u>36,588</u>	<u>- 7,903</u>	<u>55,261</u>	<u>- 99,752</u>
Net Book Value				
At the end of the year	<u>66,540</u>	<u>12,292</u>	<u>51,124</u>	<u>129,956</u>

The following useful lives are used in the calculation of depreciation

Computer equipment	4 years
Furniture and fittings	10 years
Motor Vehicles	4 years

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6. Intangible assets

	Intangibles	Work In Progress	Total
2025	K'000	K'000	K'000
Cost			
At the beginning of the year	163,331	43,882	207,213
Additions	39,321	-	39,321
Transfers	43,882	(43,882)	-
At the end of the Year	246,534	-	246,534
Amortization			
At beginning of the year	27,437	-	27,437
Charge for the year	23,265	-	23,265
At the end of the Year	50,702	-	50,702
Carrying amount at the end of the year	195,832	-	195,832
2024			
Cost			
At beginning of Year	163,331	-	163,331
Additions	-	43,882	43,882
At the end of the Year	163,331	43,882	207,213
Amortization			
At beginning of Year	11,105	-	11,105
Current year charge	16,332	-	16,332
At the end of the Year	27,437	-	27,437
Carrying amount at the end of the year	135,894	43,882	179,776

The Bank's intangible assets comprise computer software and licenses. These are recognized 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.

NBM DEVELOPMENT BANK LIMITED
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7. Leases

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

	2025	2024
	K'000	K'000
Right of use asset		
Cost		
At the beginning of the year	52,410	52,410
At the end of the year	<u>52,410</u>	<u>52,410</u>
Accumulated depreciation		
At the beginning of the year	28,825	18,343
Charge for the year	<u>10,482</u>	<u>10,482</u>
At the end of the year	<u>39,307</u>	<u>28,825</u>
Carrying amount		
At end of the year	<u>13,103</u>	<u>23,585</u>
Lease Liability		
Lease commitments at the beginning of the year	25,969	40,756
Interest charged on lease	4,201	6,321
Lease repayments	<u>(20,343)</u>	<u>(21,108)</u>
Lease liabilities recognised at the end of the year	<u>9,827</u>	<u>25,969</u>
Within one year	9,827	5,598
After one year	<u>-</u>	<u>20,371</u>
	<u>9,827</u>	<u>25,969</u>
Amounts recognised in profit and loss		
Finance cost		
Depreciation of rights of use assets	10,482	10,482
Interest expenses on lease liabilities	<u>4,201</u>	<u>6,321</u>
Total lease expenses recognised in profit and loss	<u>14,683</u>	<u>16,803</u>

8. Loans and advances to customers

Term loans	18,204,616	14,209,128
Expected credit loss	<u>(252,423)</u>	<u>(182,540)</u>
Net loans	<u>17,952,193</u>	<u>14,026,588</u>
Within one year	1,615,697	1,262,393
After one year	<u>16,336,496</u>	<u>12,764,195</u>
	<u>17,952,193</u>	<u>14,026,588</u>

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

Term loans include principal amounts as well as accrued interest. The term loans are secured by physical assets financed by the Bank and assets owned by the customers and attract interest with rates ranging from 11 – 32.30%.

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

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

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9. Other assets

	2025	2024
	K'000	K'000
Prepayments (Africa Guarantee Fund)	19,157	30,651
Customer cash collateral	-	151,910
Other debtors	1,951	1,327
	<u>21,108</u>	<u>183,888</u>

10. Money market investments

Stockbrokers Malawi limited	2,016,761	2,151,472
NBM Capital Markets Limited	865,105	1,236,116
Stockbrokers Malawi limited - Customer cash collateral	231,389	151,910
	<u>3,113,255</u>	<u>3,539,498</u>

Balances with discount houses are held to maturity and mature within one month (2024: one month) after the year-end and earn an average interest rate of 25% (2024: 24%) per annum.

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

11. Related party balances and transactions

11.1 Balances held with related parties

National Bank of Malawi plc-bank account	<u>840,519</u>	<u>201,328</u>
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Balances held at National Bank of Malawi plc in current accounts are denominated in Malawi Kwacha and do not earn any interest.

11.2 Other related party transaction

Compensation of key management personnel		
Salaries and other short-term benefits	<u>432,679</u>	<u>257,647</u>

12. Trade and other payables

Audit fees	38,588	38,588
Deferred fees	174,627	-
Customer cash collateral	231,684	151,910
Directors' fees provision	31,828	8,509
Fringe Benefit tax provision	5,400	5,400
Africa Guarantee Fund Payable	132,176	-
Bonus provision	113,665	81,238
Other payables	12,262	2,781
	<u>740,230</u>	<u>288,426</u>

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

13. Borrowings

At 1 January	11,086,763	7,854,051
Borrowings obtained during the year	3,000,000	3,000,000
Interest charged	298,701	232,712
Repayments of borrowings-Principal	(994,998)	-
Payments of borrowings-Interest	(228,288)	-
	<u>13,162,178</u>	<u>11,086,763</u>
Within one year	1,705,162	1,223,286
After one year	11,457,016	9,863,477
	<u>13,162,178</u>	<u>11,086,763</u>

NBM DEVELOPMENT BANK LIMITED
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13. Borrowings (continued)

In 2022, NBM Development Bank Limited signed an agreement with Reserve Bank of Malawi for unsecured Micro, Small and Medium Enterprise Line of Credit Facility amounting K3 billion to facilitate lending to Micro, Small and Medium Enterprises. The Bank pays Interest at the rate of 3% per annum, payable semi-annually. The facility expires in September 2025. The carrying amount of the loan as at 31 December 2023 was K2.726 billion.

In 2023, the Bank drew additional K5 billion under the same terms as the previous loan. The new facility expires on 28 February 2033. No repayments have been made for the loan. The carrying amount of the loan as at 31 December 2023 was K5.134 billion

During the year, the Bank obtained K3 billion loan from the Reserve Bank of Malawi as part of the Micro, Small and Medium Enterprise line of Facility financial inclusion and entrepreneurship scaling project to finance working capital and investment requirements for MSMEs including mitigating effects of COVID-19. Interest on the loan is charged at a rate of 3% per annum. The Bank is required to make principal and interest repayments semi-annually. The loan is repayable over the period up to 2034.

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

14. Net interest income*

	2025 K'000	2024 K'000
Interest from loans and advances to customers	2,586,392	1,948,331
Interest income from money market investments	657,559	623,282
Interest expense	(298,701)	(232,712)
Net interest income	<u>2,945,250</u>	<u>2,338,902</u>

*These are calculated using the effective interest method.

15. Other income

Grant income*	637,188	-
Fees and Commissions	53,697	87,366
	<u>690,885</u>	<u>87,366</u>

*The Bank received the grant from African Lakes Company during the period. The grant income recognized relates to that and is for supporting women led enterprises in Malawi.

16. Expenses

16.1 Staff costs

Salaries and Wages	418,782	270,851
Pension Contribution-defined contribution scheme	41,044	26,762
Staff Training Costs	8,242	926
NABMAS expense	14,600	4,515
NABMAS staff contribution	(3,435)	(2,014)
Other staff costs	259,202	193,214
	<u>738,435</u>	<u>494,254</u>

16.2 Other operating expenses

Audit fees	38,588	40,638
Directors fees and allowances	56,069	36,003
Board expenses	74,753	13,782
AGF expenses	198,526	60,920
Premises	16,152	13,500
Equipment expenses	2,403	1,450
Motor vehicles	30,639	9,703
Software expenses	1,438	847
Travel expenses	65,358	28,532
Communication	2,936	1,428
Other Overheads	168,514	47,819
Lease liability interest	4,201	6,321
	<u>659,577</u>	<u>260,943</u>

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17. Income tax

17.1 Income tax expense	2025	2024
	K'000	K'000
Income tax charge	668,799	549,501
Deferred tax (credit)/charge	(18,183)	8,122
Total income tax Charge/(credit)	<u>650,616</u>	<u>557,623</u>
<u>Reconciliation of effective tax charge</u>		
(Loss)/profit before tax	2,076,444	1,560,159
Income tax using statutory rate of 30%	622,933	468,048
Permanent differences	27,683	89,575
	<u>650,616</u>	<u>557,623</u>
17.2 Income tax payable		
At 1 January	242,826	47,922
Charge for the year	668,799	549,501
Tax paid	(509,768)	(354,597)
	<u>401,857</u>	<u>242,826</u>
17.3 Deferred tax asset		
At the beginning of the year	(27,416)	(35,538)
Movement for the year	(18,183)	8,122
At end of the year	<u>(45,599)</u>	<u>(27,416)</u>
Analysed as:		
Accelerated capital allowances	21,508	25,010
Other temporary differences	(67,107)	(52,426)
	<u>(45,599)</u>	<u>(27,416)</u>

18. Financial risk management

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

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

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

18.1 Credit risk management

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

Many 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.

NBM DEVELOPMENT BANK LIMITED
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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 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. This is achieved primarily by investing in Government treasury bills and money market products of good credit-rated banks and other financial institutions. Overall credit risk in this category is relatively lower.

Significant increase in credit risk

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

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

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

Irrespective of the outcome of the above assessment, the Bank presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Bank has reasonable and supportable information that demonstrates otherwise.

The nature and extent of credit risk

The Bank's exposure net of impairments loss provisions as at 31 December 2025 was at K17,952 m (2024: K14,027m) with Non-Performing Loans (NPL) standing at 13% (2024: 8%). 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 solid fallbacks 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

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18. Financial risk management (Continued)

18.1 Credit risk management (Continued)

Fair value of tangible collateral on loans and advances per sector

	2025	2024
	K'000	K'000
Agribusiness	4,933,972	4,018,836
Health	4,716,491	4,274,749
Manufacturing	2,448,353	1,611,189
Energy	882,365	321,706
Tourism	4,944,263	3,643,093
ICT	278,896	339,555
	18,204,340	14,209,128

Tangible security against impaired facilities

Machinery, property & vehicles	2,868,078	2,178,331
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Tangible security against the rest of the loan book

Machinery (PPSR)	2,076,344	4,335,353
Motor vehicles	127,966	154,409
Cash	224,793	263,199
Commercial Property	29,829,241	31,488,361
Total	32,258,344	36,241,322

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, reviews, monitors 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

Agribusiness	4,933,972	4,018,836
Health	4,716,491	4,274,749
Manufacturing	2,448,353	1,611,189
Energy	882,365	321,706
Tourism	4,944,263	3,643,093
ICT	278,896	339,555
	18,204,340	14,209,128

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For the year ended 31 December 2025

18. Financial risk management (Continued)

18.1 Credit risk management (Continued)

Loans and Advances to customers categorized by stages

	2025	2024
	K'000	K'000
Category		
Stage one	15,751,993	12,948,266
Stage two	-	119,212
Stage three	2,452,347	1,141,650
Total gross carrying amount	18,204,340	14,209,128
Loss allowances	(252,423)	(182,540)
Carrying amount	17,951,917	14,026,588

Credit quality of loans and advances

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

Standard	15,751,993	13,067,479
Substandard	2,452,347	1,141,650
Total	18,204,340	14,209,128

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 provision 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.

NBMBD 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	182,540	155,730
Charge for the year	69,883	26,810
Closing balance	252,423	182,540

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.

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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 to fund increases in assets without incurring unacceptable costs 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 stressful 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 forecasts and actual cash flows.

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

	Less than 3 Months K'000	'3-6 Months K'000	More than 12 Months K'000	Total K'000	Carrying amount K'000
2025					
Financial assets					
Money market deposits	3,113,255	-	-	3,113,255	3,113,255
Bank balances and cash	840,519	-	-	840,519	840,519
Loans and advances	538,566	1,077,107	16,336,520	17,952,193	17,952,193
Other assets	-	-	1,951	1,951	1,951
Total financial assets	4,492,340	1,077,107	16,338,471	21,907,918	21,907,918
Financial liabilities					
Lease liability	9,827	-	-	9,827	9,827
Trade and other payables	328,518	-	231,684	560,203	560,203
Borrowings	-	1,705,162	11,457,016	13,162,178	13,162,178
Total financial liabilities	338,345	1,705,162	11,688,700	13,732,207	13,732,208
Contractual liquidity mismatch	4,153,995	(628,055)	4,649,771	8,175,711	8,175,710
Cumulative mismatch	4,153,995	3,525,940	8,175,711		-
2024					
Financial assets					
Money market deposits	3,593,384	-	-	3,593,384	3,593,384
Bank balances and cash	201,356	-	-	201,356	201,356
Loans and advances	324,277	1,050,942	19,784,502	21,159,721	21,159,721
Other assets	-	-	183,888	183,888	183,888
Total financial assets	4,119,017	1,050,942	19,968,390	25,138,349	25,138,349
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	13,786,601
Total financial liabilities	137,983	1,264,125	12,698,888	14,100,996	14,100,996
Contractual Liquidity mismatch	3,981,034	(213,183)	7,269,502	11,037,353	11,037,353
Cumulative mismatch	3,981,034	3,767,851	11,037,353		

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18. Financial risk management (Continued)

18.3 Interest rate risk management

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

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

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

	1-3 Months K'000	3-6 Months K'000	Over 1 Year K'000	Non Interest Sensitive K'000	Total K'000
2025					
Financial Assets					
Bank balances and cash	-	-	-	840,519	840,519
Money market deposits	3,113,255	-	-	-	3,113,255
Other assets	-	-	-	1,951	1,951
Loans and advances	538,566	1,077,107	16,336,520	-	17,952,193
Total financial assets	3,651,821	1,077,107	16,336,520	842,470	21,907,918
Financial liabilities					
Trade and other payables	-	-	-	560,203	560,203
Borrowings	-	1,705,162	11,457,016	-	13,162,178
Lease liability	9,827	-	-	-	9,827
Total financial liabilities	9,827	1,705,162	11,457,016	560,203	13,732,208
Interest sensitive gap	3,641,994	(628,055)	4,879,504	282,267	8,175,710
Cumulative gap	3,641,994	3,013,939	7,893,443	8,175,710	
Impact on profits and equity of an increase in Interest rates					
1%	36,420	(6,281)	48,795	-	78,934
2%	72,840	(12,561)	97,590	-	157,869
3%	109,260	(18,842)	146,385	-	236,803
Impact on profits and equity of a decrease in Interest rates					
-1%	(36,420)	6,281	(48,795)	-	(78,934)
-2%	(72,840)	12,561	(97,590)	-	(157,869)
-3%	(109,260)	18,842	(146,385)	-	(236,803)

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18. Financial risk management (Continued)

18.3 Interest rate risk management (Continued)

	1-3 Months K'000	3-6 Months K'000	Over 1 Year K'000	Non Interest Sensitive K'000	Total K'000
2024					
Financial Assets					
Bank balances and cash	-	-	-	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 liability	1,458	4,140	20,371	-	25,969
Total financial liabilities	1,458	2,210,767	8,900,507	288,426	11,401,158
Interest sensitive gap	3,701,728	(1,263,972)	3,863,688	96,818	6,398,262
Cumulative gap	3,701,728	2,437,756	6,301,444	6,398,262	
Impact on profits and equity 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 profits and equity 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)

18.4 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.

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21. Contingent liabilities

There were no contingent liabilities as at 31 December 2025 (2024: Nil).

22. Exchange rates and inflation

The average 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.

	2025	2024
Kwacha/GBP	2,408	2,242
Kwacha/Rand	108	95
Kwacha/US Dollar	1,735	1,734
Kwacha/Euro	2,101	1,859
Inflation rate (%)	<u>26.0</u>	<u>28.0</u>

As at 31 March 2026 the above rates had moved as follows:

Kwacha/GBP	2,383
Kwacha/Rand	105
Kwacha/US Dollar	1,734
Kwacha/Euro	2,061
Inflation rate (as at February 2026)	24.1%

23. Events after reporting date

On 5 March 2026, the Monetary Policy Committee reduced the Policy Rate by 200 basis points from 26% to 24%. This change will impact results for the year ending 31 December 2026.

24. Environmental, social and governance report

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

The Bank selectively identified the sectors in which it finances, selecting only those with a high economic and social impact. Furthermore, the Bank does not finance activities with a high carbon footprint. In turn, the Bank actively finances projects that foster the use of renewable and clean energy.

The Bank's Environmental and Social framework is guided by the NBM Plc Group's Environmental Policy. The framework requires that all potential projects undergo 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.