First Capital BANK plc

(formerly known as First Merchant Bank Plc)

# Consolidated and separate financial statements for the year ended 31 December 2018

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The Directors have pleasure in submitting their report together with the audited consolidated and separate financial statements of First Capital Bank Plc and its subsidiaries for the year ended 31 December 2018.

## NATURE OF BUSINESS, SUBSIDIARIES AND REGISTERED OFFICE

First Capital Bank Plc (the Company or the Bank) is a public limited liability company incorporated in Malawi under the Malawi Companies Act, 2013. The Company is registered as a commercial bank under the Banking Act, 2009. It has four wholly owned subsidiaries incorporated in Malawi as follows:

- FMB Capital Markets Limited - dormant
- FMB Forex Bureau Limited - dormant
- FMB Pensions Limited - dormant
- International Commercial Bank Limited - dormant

Effective 31 December 2018, First Capital Bank Plc transferred its shareholding in First Capital Bank (Zambia) Limited to FMBcapital Holdings Plc through a dividend in specie.

The Company has the following subsidiaries operating outside Malawi:

- Capital Bank S.A. Mozambique - involved in corporate and retail banking (80.0% shareholding)
- First Capital Bank Limited, Botswana - involved in corporate and retail banking (38.6% shareholding)

The physical address of First Capital Bank Plc's registered office is:

Livingstone Towers
Private Bag 122
Glyn Jones Road
Blantyre
Malawi

## FINANCIAL PERFORMANCE

The results and state of affairs of the Group and Company are set out in the accompanying consolidated and separate statements of financial position, statements of profit or loss and other comprehensive income, statements of changes in equity, statements of cash flows and associated accounting policies and notes.

## DIVIDENDS

The company paid a total of K7.9bn dividend to its shareholder, FMBcapital Holdings Plc during the year as follows:

- K4.5bn in cash
- K3.4bn dividend in specie through transfer of 49% shareholding in First Capital Bank (Zambia) Limited.

**DIRECTORATE AND SECRETARY**

The following Directors and Company Secretary served during the year:

| | | |
|---|---|---|
| Mr. H N Anadkat | Chairman | Non-executive |
| Mr. D Dikshit | Group Managing Director | Non-executive |
| Mr. J M O'Neill | Director | Non-executive |
| Mr. B Jani | Director | Non-executive |
| Mr. M Msisha | Director | Non-executive |
| Dr. E Ngalande | Director | Non-executive |
| Mrs. C Musopole | Director | Non-executive |
| Mrs. A Lewis | Director | Non-executive |
| Mr. L Katandula | Director | Non-executive |
| Mr. H Kotze | Director | Non-executive (Up to 4 December 2018) |
| Mr. O Mtokale | Company Secretary | |

Subsequent to year end, Dr E. Ngalande resigned from the Board.

Total remuneration paid to Directors and expenses incurred on their behalf are disclosed in Note 33.

**DONATIONS**
Total donations by the companies in the Group during the year amounted to K36.1 million (2017: K20.0million). The donations were made to charitable causes, which Directors regard as non-political.

**AUDITORS**
In accordance with the provision of the Articles of Association of the Company, Deloitte will retire at the next Annual General Meeting. A resolution for re-appointing Deloitte as external auditors for the forthcoming year and authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting.

**SHAREHOLDING ANALYSIS**

| **Name** | **2018** % | **2017** % |
|---|---|---|
| FMBcapital Holdings Plc | 100.00 | 100.00 |

……………………………………
Director

……………………………………
Director

## THE BOARD

The Bank has a unitary Board of Directors comprising a Non-Executive Chairman and nine Non-Executive Directors. The Board has adopted without modification the major principles of modern corporate governance as contained in the Cadbury and King II Reports, and the Basel Committee on Banking Supervision.

The Board meets at least four times a year. There are adequate, efficient communication and monitoring systems in place to ensure that the Directors receive all relevant and accurate information to guide them in making necessary strategic decisions, and providing effective leadership, control and strategic direction over the Bank's operations, and ensuring that the Bank fully complies with relevant legal, ethical and regulatory requirements.

**Board Meetings Attendance 2018**

| Member | 23 Mar 18 | 6 Jun.18 | 14 Sep.18 | 7 Dec.18 |
|---|---|---|---|---|
| Mr. H N Anadkat - Chairman | √ | √ | √ | √ |
| Mr. D Dikshit | √ | √ | √ | √ |
| Mr. J M O'Neill | √ | √ | √ | x |
| Mr. M Msisha | √ | √ | √ | √ |
| Mr. B Jani | √ | √ | x | √ |
| Dr. E Ngalande | √ | √ | √ | √ |
| Mrs. C Musopole | √ | √ | √ | √ |
| Mrs. A Lewis | √ | √ | √ | √ |
| Mr. L Katandula | x | √ | √ | x |
| Mr. H. Kotze | √ | √ | x | N/A |

Key
√ = Attended
x = Apology
N/A=Not Applicable

## BOARD AND MANAGEMENT COMMITTEES

There are three permanent management committees: the Asset and Liability Management Committee, the Management Risk Committee, and the Management Credit Committee, which meet monthly. There are four permanent board committees (comprising of Directors): the Audit Committee, Credit Committee, Appointments and Remuneration Committee, and Risk Committee. Additionally, there is an informal Business Management Committee which comprises the Chief Executive Officer, General Manager - Corporate and Retail Banking, Group General Manager, Treasury and International Banking and Head of Transactional Banking, Government and International Organisations. This Committee meets regularly, usually once a month, and reviews the Bank's market position relative to its peers and sets operational strategy to maintain and grow market share.

**BOARD AND MANAGEMENT COMMITTEES** (Continued)

**Asset and Liability Management Committee (ALCO)**
The primary objective of the ALCO is to ensure a proper balance in terms of maturity profile, cost and yield, risk exposure etc. between funds mobilised and funds deployed. The ALCO seeks to manage risks in order to minimise the volatility of net interest income and protect the long-term economic value of the Bank. The committee also monitors the capital adequacy of the Bank.

Key functions of the ALCO include setting pricing guidelines for assets and liabilities, setting limits and managing liquidity risk and interest rate risk and ensuring that contingency funding plans are in place to avert funding crises. The ALCO comprises the Group General Manager – Treasury and International Banking (Chairman) and members of management and meets regularly, usually once a month. The members of the ALCO are:

Group GM, Treasury & International Banking (Chairman)
Head of Risk & Compliance
Chief Executive Officer
Head of Corporate Banking
Head of Transactional Banking, Government & International Organisations
Head of Credit
Chief Finance Officer
Manager, Treasury
Management Accountant
Head of Branch Banking & Agriculture

**Management Risk Committee (MRC)**
MRC is chaired by the Chief Executive Officer and meets monthly to review management of strategic risk, operational risk, compliance risk, reputation risk and any other risks in the Bank. This forum facilitates co-ordination and communication among various risk owners and risk management functions to resolve risk related issues in the Bank expeditiously and promote efficient management of relative risks. The members of the MRC are:

Chief Executive Officer (Chairman)
Group General Manager - Treasury and International Banking
Head of Risk & Compliance
Head of Information Technology
Chief Operating Officer
Head of Transactional Banking, Government & International Organisations
Head of Corporate Banking
Head of Branch Banking & Agriculture
Head of Internal Audit
Head of Human Resources and Administration
Head of Credit
Company Secretary and Legal Counsel

**BOARD AND MANAGEMENT COMMITTEES** (Continued)

**Management Credit Committee (MCC)**
MCC is chaired by the Chief Executive Officer and meets monthly to review management of credit risk in the Bank. The members of the MCC are:

Chief Executive Officer (Chairman)
Head of Credit
General Manager - Corporate and Retail Banking
Head of Transactional Banking, Government & International Organisations
Group General Manager - Treasury and International Banking

The Committee may ask one or more of the Heads of Customer Segments, selected Credit Department officials, the Company Secretary and Legal Counsel to attend meetings.

**Audit Committee**
The Audit Committee assists the Board in discharging its duties in relation to financial reporting, asset management, risk management, internal control systems, processes and procedures and monitors the quality of both the external and internal audit functions. The Bank's External Auditors and Internal Auditors report to the committee in their independent, private meetings to discuss the status of the Bank's internal controls and exposures to risks. Where the committee's monitoring and review activities reveal causes for concern or scope for improvement, it makes recommendations to the Board on required remedial actions.

The Audit Committee comprises three non-executive Directors, one of whom acts as Chairman. The committee meets at least twice a year. During the year, the following served as members of the Audit Committee:

| | |
|---|---|
| Mr. L. Katandula | Non-executive Director (Chairman) |
| Dr. E Ngalande | Non-executive Director |
| Mrs. C. Musopole | Non-executive Director |

**Audit Committee Meetings Attendance 2018**

| Members | 7th March 2018 | 22nd May 2018 | 27th Aug 2018 | 22nd Nov 2018 |
|---|---|---|---|---|
| Mr. L Katandula - Chairman | √ | √ | √ | √ |
| Dr. E Ngalande | √ | √ | √ | √ |
| Mrs. C Musopole | √ | √ | √ | √ |

Key
√ = Attended
x = Apology
N/A= Not Applicable

**BOARD AND MANAGEMENT COMMITTEES** (Continued)

**Credit Committee**
The Credit Committee comprises of three Directors with a good knowledge of the Malawi economy and business environment. Its overall responsibility is to ensure the soundness of the Bank's credit portfolio (including advances, guarantees and other facilities).

The Chief Executive Officer, Head of Credit, Group General Manager Credit, Group General Manager Treasury & International Banking, Group Head of Risk & Compliance, and other Heads attend all Credit Committee meetings in a non-voting capacity. The Credit Committee meets regularly, usually once a quarter, and comprises the following members:

| | |
|---|---|
| Mr. J M O'Neill | Non - Executive Director (Chairman) |
| Mr. D Dikshit | Non - Executive Director |
| Mr. M Msisha | Non - Executive Director |

**Credit Committee Attendance 2018**

| Members | 22 Mar. 2018 | 6 Jun. 2018 | 13 Sep. 2018 | 6 Dec. 2018 |
|---|---|---|---|---|
| Mr. J M O'Neill – Chairman | √ | √ | √ | √ |
| Mr. D. Dikshit | x | √ | √ | √ |
| Mr. M Msisha | √ | √ | √ | √ |

Key
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N/A= Not Applicable

**Appointments and Remuneration Committee**
The Appointments and Remuneration Committee nominates persons to be appointed Directors (subject to shareholders' approval) and recommends to the Board, Executive and Non-Executive Directors and senior management remuneration. The Committee also approves overall human resource and remuneration policies and strategies. The Appointments and Remuneration Committee comprises the following members:

Mr. H N Anadkat - Chairman
Mr. M Msisha – Director
Mr. D Dikshit - Director

**Appointments and Remuneration Committee**

| Members | 22 Mar. 2018 | 4 Jun. 2018 | 12 Sep. 2018 | 6 Dec. 2018 |
|---|---|---|---|---|
| Mr. H N Anadkat - Chairman | √ | √ | √ | √ |
| Mr. M Msisha – Director | √ | √ | √ | √ |
| Mr. D Dikshit - Director | √ | √ | √ | √ |

Key
√ = Attended
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N/A= Not Applicable

**BOARD AND MANAGEMENT COMMITTEES** (Continued)

**Risk Committee**

The Risk Committee assists the board in relation to assessing, controlling and mitigating business risks. The committee identifies risks facing the Bank and recommends controls to the Board, and comprises three Directors, with at least one non-executive Director. The chairman of the committee is a non-executive Director. The Chief Operations Officer, Group General Manager - Treasury and International Banking, Group Head of Risk & Compliance, Chief Financial Officer, Head of Risk and Compliance and Head of Credit attend all meetings. The members of the committee are:

| | |
|---|---|
| Mr. B Jani | Non-executive Director (Chairman) |
| Mr. D Dikshit | Group Managing Director |
| Mrs. A Lewis | Non-executive Director |
| Mr. H Kotze | Non-executive Director |

**Risk Committee Meetings Attendance 2018**

| **Member** | **22 Mar. 2018** | **6 Jun. 2018** | **12 Oct. 2018** | **6 Dec. 2018** |
|---|---|---|---|---|
| Mr. B Jani - Chairman | √ | √ | √ | √ |
| Mrs. A Lewis | √ | √ | √ | √ |
| Mr. H Kotze | √ | √ | x | N/A |

Key
√ = Attended
x = Apology
N/A = Not Applicable

**DIRECTORS' QUALIFICATIONS**

| | | |
|---|---|---|
| H N Anadkat, BSc (Econ), MBA | - | Chairman |
| D Dikshit, B Comm. MBA | - | Group Managing Director |
| J M O'Neill, BSc (Maths & Mgt Sc) FCA, CA (Mw) | - | Director |
| M Msisha, SC LLM (Toronto), LLB (Hons) Mw | - | Director |
| B Jani, Post Grad. (Commerce), BCom (Banking & Fin. Mgt) | - | Director |
| E Ngalande, Phd, BSoc, MA | - | Director |
| C Musopole, BAcc, FCCA, CA(M) | - | Director |
| A Lewis, LLB (Hons) | - | Director |
| L Katandula, BAcc, FCCA, CA(M), CFA, CISA | - | Director |
| H Kotze, BCom | - | Director |

**ETHICAL STANDARDS**

The Board is fully committed to ensuring the Bank's affairs are conducted with integrity and that the highest ethical standards are maintained. All employees of the Company are required to abide by a code of conduct containing detailed guidelines governing ethics and integrity in the workplace.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**
For the year ended 31 December 2018

The Directors are responsible for the preparation and fair presentation of the consolidated and separate annual financial statements of First Capital Bank Plc, comprising the consolidated and separate statements of financial position as at 31 December 2018 and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and consolidated ad separate statements of cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, and in the manner required by the Malawi Companies Act, 2013 and the Banking Act 2009. In addition, the Directors are responsible for preparing the Directors' Report.

The Malawi Companies Act, 2013 also requires the Directors to ensure that the Group and Company maintain proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and Company and ensure the financial statements comply with the Malawi Companies Act, 2013.

In preparing the consolidated and separate financial statements, the Directors accept responsibility for the following:
- Maintenance of proper accounting records;
- Selection of suitable accounting policies and applying them consistently;
- Making judgements and estimates that are reasonable and prudent;
- Compliance with applicable accounting standards, when preparing financial statements; and
- Preparation of financial statements on a going concern basis unless it is inappropriate to presume the company will continue in business.

The Directors are also responsible 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, and for maintaining adequate accounting records and an effective system of risk management.

The Directors have made an assessment of the Company and its subsidiaries respective abilities to continue as going concerns and have no reason to believe that these businesses will not be going concerns in the year ahead except for those entities described as dormant on page 1.

The external auditor is responsible for reporting on whether the consolidated and separate financial statements are fairly presented in accordance with International Financial Reporting Standards and in a manner required by the Malawi Companies Act, 2013.

**Approval of financial statements**
The consolidated and separate financial statements of First Capital Bank Plc as identified in the first paragraph, were approved by the Board of Directors on 28 March 2019 and are signed on its behalf by:

**Director** **Director**

By order of the Board

Deloitte.

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**INDEPENDENT AUDITOR'S REPORT**
**TO THE MEMBERS OF FIRST CAPITAL BANK PLC** (formerly known as First Merchant Bank Plc)

**Opinion**

We have audited the consolidated and separate financial statements of First Capital Bank Plc, set out on pages 14 to 115, which comprise the consolidated and separate statements of financial position as at 31 December 2018, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements give a true and fair view of the financial position of First Capital Bank Plc as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Malawi 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 consolidated and separate financial statements* section of our report. We are independent of First Capital Bank Plc in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of consolidated and separate financial statements in Malawi. We have fulfilled our ethical responsibilities in accordance with these requirements and the 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 consolidated and separate financial statements of the current year. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters noted below relate to the consolidated and separate financial statements.

**Key Audit Matters** (Continued)

| Key Audit Matter | How the matter was addressed in the audit |
|---|---|
| **The Distribution of First Capital Bank Plc's investment in First Capital Bank Zambia Limited as a dividend in specie.** | |
| As disclosed in note 14 to the consolidated and separate financial statements, First Capital Bank Plc (FCB Plc) distributed, as a dividend in specie, its investment in First Capital Bank Zambia Limited (FCBZ) to its parent company, FMBcapital Holdings Plc. The effective date for the distribution was 31 December 2018.<br><br>Significant judgement was required by the directors in determining how to account for the distribution considering this type of transaction is not entirely within the scope of the International Financial Reporting Standards.<br><br>As a result, the distribution is considered a key audit matter due to the complexities and judgement arising from the considerations relating to the accounting for the distribution. | We involved accounting specialists to evaluate the transaction, with particular focus on the directors' accounting treatment of the distribution.<br><br>Our procedures focused on;<br>• evaluating the Directors' determination of the value of the distribution,<br>• accounting treatment in the separate as well as consolidated financial statements,<br>• accounting treatment for the related property transfer tax levied by Tax Authorities.<br><br>We confirmed the treatment of the transaction by assessing the Directors' principal judgements on how to account for the distribution based on our experience and knowledge of such transactions.<br><br>We assessed the presentation and disclosure in respect of the transaction and considered whether the disclosures reflected the result of the transaction.<br><br>We concurred with the Directors' determination of accounting for the distribution both in the separate and consolidated financial statements. |

| Key Audit Matter | How the matter was addressed in the audit |
|---|---|
| **Adoption of IFRS 9 *Financial Instruments* and impairment of loans and advances** | |
| The International Accounting Standards Board (IASB) issued IFRS 9 *Financial Instruments* which replaces IAS 39 *Financial Instruments: Recognition and Measurement.*<br><br>Effective 1 January 2018, the Group has adopted IFRS 9. As permitted by IFRS 9, the requirements have been applied retrospectively without restating comparatives.<br><br>The key changes arising from adoption of IFRS 9 are that the Group's credit losses are now based on expected losses rather than on incurred losses, and the change in the classification and measurement of the Group's financial assets and liabilities, which are detailed in note 3.1 to the financial statements. There were no significant changes arising from the adoption of the hedge accounting requirements of IFRS 9 because the Group does not apply hedge accounting for its financial assets and financial liabilities.<br><br>Differences between previously reported carrying amounts and new carrying amounts of financial instruments as of 31 December 2017 and 1 January 2018 amounting to K1.4 billion (Company: K856 million), net of deferred tax, have been recognised in the opening retained earnings.<br><br>As at 31 December 2018, the gross loans and advances to customers were K179 billion (company; K62 billion) against which an impairment provision of K4.7 billion (company: K1.4 billion) was recorded. This is disclosed in note 9 to the financial statements<br><br>We considered adoption of IFRS 9: *Financial Instruments* and impairment of loans and advances as a key audit matter because of the following:<br><br>• IFRS 9 *Financial Instruments* is a new standard that is complex and requires expert knowledge, judgement and use of modelling approaches and has been applied for the first time; and<br>• Significant judgement is exercised using subjective assumptions over both when and how much to record as loan impairment, and estimation of the amount of the impairment provision for loans and advances. | With respect to classification and measurement of financial assets and financial liabilities, our audit procedures comprised the following:<br><br>• We evaluated the Group's IFRS 9 based classification and measurement of financial assets and financial liabilities policy against the requirements of IFRS 9; and<br>• We obtained an understanding and checked the Group's business model assessment and the test on the contractual cash flows, which give rise to cash flows that are 'solely payments of principal and interest' [SPPI test] performed by management.<br><br>With respect to impairment methodology, our audit procedures comprised the following;<br><br>• We evaluated the Group's IFRS 9 based impairment provisioning policy against the requirements of IFRS 9;<br>• With the involvement of our Credit Specialists, we evaluated the methodology that the Group has used for determination of Expected Credit Losses (ECL) against the requirements of IFRS 9;<br>• For a sample of exposures, we checked the appropriateness of the Group's staging;<br>• We checked and understood the key data sources and assumptions for data used in the ECL models (the Models) used by the Group to determine impairment provisions;<br>• We assessed assumptions used in the determination of ECLs for reasonability;<br>• For Probability of Default (PD) used in the ECL calculations, we checked the appropriateness of the use of S&P 10-point grading system to determine the PDs;<br>• For a sample of exposures, we checked the appropriateness of determining Exposure at Default, Probability of Default (PD) and Loss Given Default (LGD) used in the ECL calculations.<br>• We recomputed ECLs and compared with amounts recognised by the Bank;<br>• On a sample basis, we checked the completeness and accuracy of the data that was used in the ECL calculation of loans and advances as of 31 December 2018 and 1 January 2018; and<br>• We checked the appropriateness of the transition adjustments.<br><br>We assessed the financial statement disclosures arising on adoption of IFRS 9 to determine if they were in accordance with the requirements of the Standard. Refer to the accounting policies, critical accounting estimates and judgements, disclosures of loans and advances and credit risk management in notes 3 and 5 to the financial statements.<br><br>We found that the modelling approach and methods applied in determining ECLs were appropriate and that the amounts recorded were reasonable and complied with IFRS 9. We further concluded that the financial statements disclosures in relation to impairment of loans and advances to customers are appropriate and that the adoption of IFRS 9 was in line with the requirements. |

**Other information**

The Directors are responsible for the other information. The other information comprises the Directors' Report, statement of corporate governance and statement of Directors' responsibilities as required by the Malawi Companies Act, 2013 which we obtained prior to the date of this auditor's report. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate 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 consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

**Responsibilities of the Directors for the Consolidated and Separate financial statements**

The Directors are responsible for the preparation of consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Malawi Companies Act, 2013 and for such internal control as the Directors determine is necessary to enable the preparation of consolidated and separate 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 Consolidated and Separate Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 consolidated and separate 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 Group 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 consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- Obtain sufficient appropriate audit evidence regarding the financial information of the Group or business activities within the group to express an opinion on the financial statements.

We communicate with the Directors through the Audit Committee 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 consolidated and separate financial statements of the current year 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.

Deloitte

Chartered Accountants

**Vilengo Beza**
Partner

1 April 2019

FIRST CAPITAL BANK PLC (formerly known as First Merchant Bank Plc)

**STATEMENTS OF FINANCIAL POSITION**

As at 31 December 2018

| | Notes | Consolidated 2018 K'000 | Consolidated 2017 K'000 | Separate 2018 K'000 | Separate 2017 K'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and cash equivalents | 7 | 112 650 131 | 79 515 242 | 34 765 119 | 37 631 055 |
| Money market investments | 8 | 84 456 207 | 116 446 394 | 67 568 595 | 81 493 263 |
| Loans and advances to customers | 9 | 178 897 390 | 172 705 794 | 62 136 710 | 43 147 303 |
| Finance lease receivables | 10 | 1 625 094 | 3 829 790 | 1 625 094 | 3 829 790 |
| Amounts due from related parties | 12 | 253 431 | - | 567 748 | 72 847 |
| Repurchase agreements | 37 | 21 850 946 | 25 194 393 | 21 850 946 | 25 194 393 |
| Current tax assets | 29(c) | 2 366 584 | 3 170 291 | 1 008 119 | 2 182 804 |
| Investments at fair value through profit or loss | 13(a) | 5 589 089 | 5 203 185 | 5 589 089 | 5 203 185 |
| Financial assets at fair value through OCI | 13(b) | 31 878 | 32 679 | - | - |
| Investment in subsidiaries | 14 | - | - | 10 298 285 | 13 691 536 |
| Investment property | 15(c) | - | 867 947 | - | - |
| Intangible assets | 15(a) | 4 579 252 | 5 320 375 | 3 880 327 | 3 869 221 |
| Property and equipment | 15(b) | 23 577 670 | 17 189 482 | 17 562 292 | 13 532 826 |
| Assets held for sale | 41 | 217 594 | 217 594 | 217 594 | 217 594 |
| Other assets | 11 | 3 245 383 | 7 794 618 | 2 326 940 | 2 723 920 |
| **Total assets** | | 439 340 649 | 437 487 784 | 229 396 858 | 232 789 737 |
| **LIABILITIES AND EQUITY** | | | | | |
| **Liabilities** | | | | | |
| Balances due to other banks | 17 | 26 114 351 | 41 681 224 | 37 049 507 | 43 160 567 |
| Customer deposits | 18 | 335 770 978 | 312 007 855 | 139 582 070 | 129 712 918 |
| Current tax liabilities | 29(c) | 743 958 | 252 576 | - | - |
| Other payables | 19(a) | 12 548 577 | 17 909 452 | 6 593 629 | 14 718 007 |
| Provisions | 19(b) | 601 323 | 74 453 | 601 323 | 74 453 |
| Subordinated debt | 36 | 12 886 911 | 10 301 209 | 7 000 000 | 7 000 000 |
| Preference shares | 43 | 1 431 633 | - | - | - |
| Deferred tax | 16 | 1 813 162 | 1 715 152 | 2 344 504 | 1 539 448 |
| **Total liabilities** | | 391 910 893 | 383 941 921 | 193 171 033 | 196 205 393 |
| **Equity** | | | | | |
| Share capital | 20(a) | 116 813 | 116 813 | 116 813 | 116 813 |
| Share premium | 20(b) | 1 565 347 | 1 565 347 | 1 565 347 | 1 565 347 |
| Property revaluation reserve | 21 | 5 198 420 | 3 458 925 | 5 196 969 | 3 460 979 |
| Loan loss reserve | 22 | 1 086 210 | 1 351 927 | 823 478 | 963 988 |
| Translation reserve | 24 | 1 217 714 | 2 591 039 | - | - |
| Retained earnings | | 28 515 250 | 30 124 146 | 28 523 218 | 30 477 217 |
| **Total equity attributable to equity holders of the Company** | | 37 699 754 | 39 208 197 | 36 225 825 | 36 584 344 |
| Non-controlling interests | 31(b) | 9 730 002 | 14 337 666 | - | - |
| **Total equity** | | 47 429 756 | 53 545 863 | 36 225 825 | 36 584 344 |
| **Total equity and liabilities** | | 439 340 649 | 437 487 784 | 229 396 858 | 232 789 737 |

The consolidated and separate financial statements were approved for issue by the Bank's Board of Directors on 28 March 2019 and were signed on its behalf by:

................................................ Director
Mr. H N Anadkat

................................................ Director
Mr. D Dikshit

FIRST CAPITAL BANK PLC (formerly known as First Merchant Bank Plc)

**STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

For the year ended 31 December 2018

| | Notes | Consolidated 2018 K'000 | Consolidated 2017 K'000 | Separate 2018 K'000 | Separate 2017 K'000 |
|---|---|---|---|---|---|
| Interest income | 25(a) | 44 168 158 | 41 931 737 | 22 337 982 | 22 394 451 |
| Interest expense on deposits and other accounts | 25(b) | (14 589 470) | (14 373 777) | (7 712 954) | (8 038 507) |
| **Net interest income** | | 29 578 688 | 27 557 960 | 14 625 028 | 14 355 944 |
| Fees and commission income | | 13 400 361 | 10 764 171 | 8 536 924 | 6 818 144 |
| Income from investments | 26 | 437 612 | 2 076 933 | 437 612 | 2 322 772 |
| Gain on foreign exchange transactions | | 7 556 788 | 4 984 923 | 2 396 374 | 1 662 280 |
| **Total operating income** | | 21 394 761 | 17 826 027 | 11 370 910 | 10 803 196 |
| Gain on bargain purchase | | - | 52 108 | - | 52 108 |
| **Total income** | | 50 973 449 | 45 436 095 | 25 995 938 | 25 211 248 |
| Staff and training costs | 27 | 16 261 466 | 14 307 833 | 8 150 952 | 7 502 600 |
| Premises and equipment costs | | 4 738 327 | 4 287 317 | 2 444 933 | 2 013 750 |
| Depreciation and amortisation | 15 | 3 273 713 | 2 592 286 | 1 975 309 | 1 436 255 |
| Other expenses | 28 | 10 233 409 | 6 671 673 | 4 759 293 | 3 267 210 |
| Impairment loss on financial assets | 38 | 1 236 005 | 3 137 513 | (858 838) | 882 224 |
| **Total expenses** | | 35 742 920 | 30 996 622 | 16 471 649 | 15 102 039 |
| **Profit before income tax expense** | | 15 230 529 | 14 439 473 | 9 524 289 | 10 109 209 |
| Income tax expense | 29 | (4 456 126) | (4 375 038) | (2 869 339) | (2 471 212) |
| **Profit for the year** | | 10 774 403 | 10 064 435 | 6 654 950 | 7 637 997 |
| **Other comprehensive income** | | | | | |
| **Items that will not be reclassified subsequently to profit or loss** | | | | | |
| Revaluation surplus on property | | 2 498 966 | - | 2 487 322 | - |
| Deferred tax on revalued property | | (753 894) | 3 153 | (751 332) | - |
| | | 1 745 072 | 3 153 | 1 735 990 | - |
| **Items that may be reclassified subsequently to profit or loss** | | | | | |
| Exchange differences on translating foreign operations | | (1 185 171) | 1 317 245 | - | - |
| **Total other comprehensive income for the year** | | 559 901 | 1 320 398 | 1 735 990 | - |
| **Total comprehensive income for the year** | | 11 334 304 | 11 384 833 | 8 390 940 | 7 637 997 |
| **Profit or loss attributable to:** | | | | | |
| Owners of the Company | | 8 495 512 | 8 466 145 | 6 654 950 | 7 637 997 |
| Non-controlling interest | 31(b) | 2 278 891 | 1 598 290 | - | - |
| **Profit for the year** | | 10 774 403 | 10 064 435 | 6 654 950 | 7 637 997 |
| **Total comprehensive income attributable to:** | | | | | |
| Owners of the Company | | 9 675 782 | 9 193 062 | 8 390 940 | 7 637 997 |
| Non-controlling interests | | 1 658 522 | 2 191 771 | - | - |
| **Total comprehensive income for the year** | | 11 334 304 | 11 384 833 | 8 390 940 | 7 637 997 |
| **Basic and diluted earnings per share (tambala)** | 30 | 364 | 362 | | |

## Consolidated

| | Share capital K'000 | Share premium K'000 | Translation reserve K'000 | Property revaluation K'000 | Loan loss reserve K'000 | Retained earnings K'000 | Equity attributable to owners K'000 | Non-controlling interest K'000 | Total equity K'000 |
|---|---|---|---|---|---|---|---|---|---|
| **2018** | | | | | | | | | |
| As at 1 January 2018 | 116 813 | 1 565 347 | 2 591 039 | 3 458 925 | 1 351 927 | 30 124 146 | 39 208 197 | 14 337 666 | 53 545 863 |
| Initial application of IFRS 9 (net of deferred tax) | - | - | - | - | - | (1 220 467) | (1 220 467) | (579 420) | (1 799 887) |
| **Restated balance as at 1 January 2018** | **116 813** | **1 565 347** | **2 591 039** | **3 458 925** | **1 351 927** | **28 903 679** | **37 987 730** | **13 758 246** | **51 745 976** |
| Profit for the year | - | - | - | - | - | 8 495 512 | 8 495 512 | 2 278 891 | 10 774 403 |
| **Other Comprehensive income** | | | | | | | | | |
| Property revaluation | - | - | - | 2 491 816 | - | - | 2 491 816 | 7 150 | 2 498 966 |
| Deferred tax on revalued assets | - | - | - | (752 321) | - | - | (752 321) | (1 573) | (753 894) |
| Arising on consolidation of subsidiaries | - | - | (559 225) | - | - | - | (559 225) | (625 946) | (1 185 171) |
| **Total other comprehensive income** | - | - | (559 225) | 1 739 495 | - | - | 1 180 270 | (620 369) | 559 901 |
| **Total comprehensive income for the year** | - | - | (559 225) | 1 739 495 | - | 8 495 512 | 9 675 782 | 1 658 522 | 11 334 304 |
| **Transfers within reserves** | | | | | | | | | |
| Transfer from loan loss reserve | - | - | - | - | (140 510) | 140 510 | - | - | - |
| **Total Transfers within reserves** | - | - | - | - | (140 510) | 140 510 | - | - | - |
| **Transactions with owners, recorded directly in equity** | | | | | | | | | |
| Contribution by and distribution to owners | | | | | | | | | |
| Eliminated on disposal of subsidiary | - | - | (814 100) | - | (125 207) | (1 131 198) | (2 070 505) | (5 686 766) | (7 757 271) |
| Dividends paid to owners of the parent | - | - | - | - | - | (7 893 253) | (7 893 253) | - | (7 893 253) |
| **Total transactions with owners** | - | - | (814 100) | - | (125 207) | (9 024 451) | (9 963 758) | (5 686 766) | (15 650 524) |
| **As at 31 December 2018** | 116 813 | 1 565 347 | 1 217 714 | 5 198 420 | 1 086 210 | 28 515 250 | 37 699 754 | 9 730 002 | 47 429 756 |

**Consolidated** (Continued)

| | Share capital K'000 | Share premium K'000 | Translation reserve K'000 | Property revaluation K'000 | Loan loss reserve K'000 | Non-distributable reserve K'000 | Retained earnings K'000 | Equity attributable to owners K'000 | Non-controlling interests K'000 | Total equity K'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **2017** | | | | | | | | | | |
| As at 1 January 2017 | 116 813 | 1 565 347 | 1 893 679 | 3 447 824 | 1 260 194 | 350 000 | 23 129 420 | 31 763 277 | 12 057 036 | 43 820 313 |
| Profit for the year | - | - | - | - | - | - | 8 466 145 | 8 466 145 | 1 598 290 | 10 064 435 |
| **Other Comprehensive income** | | | | | | | | | | |
| Deferred tax on revalued assets | - | - | - | 3 153 | - | - | - | 3 153 | - | 3 153 |
| Arising on consolidation of subsidiaries | - | - | 723 764 | - | - | - | - | 723 764 | 593 481 | 1 317 245 |
| **Total other comprehensive income** | - | - | 723 764 | 3 153 | - | - | - | 726 917 | 593 481 | 1 320 398 |
| **Total comprehensive income for the year** | - | - | 723 764 | 3 153 | - | - | 8 466 145 | 9 193 062 | 2 191 771 | 11 384 833 |
| **Transfers within reserves** | | | | | | | | | | |
| Transfer to loan loss reserve | - | - | - | - | 154 375 | - | (154 375) | - | - | - |
| **Other transfers** | | | | | | | | | | |
| Transfer to portfolio provision | - | - | (26 404) | - | (68 406) | - | 68 406 | (26 404) | (42 001) | (68 405) |
| **Transactions with owners, recorded directly in equity** | | | | | | | | | | |
| Arising on increase of control in subsidiary | - | - | - | - | - | - | (553 613) | (553 613) | 553 613 | - |
| Arising on merger with subsidiary | - | - | - | 7 948 | 5 764 | (350 000) | 336 288 | - | - | - |
| Dividends paid to non-controlling interests | - | - | - | - | - | - | - | - | (422 753) | (422 753) |
| Dividends paid to owners of the parent | - | - | - | - | - | - | (1 168 125) | (1 168 125) | - | (1 168 125) |
| **Total transactions with owners** | - | - | - | 7 948 | 5 764 | (350 000) | (1 385 450) | (1 721 738) | 130 860 | (1 590 878) |
| **As at 31 December 2017** | 116 813 | 1 565 347 | 2 591 039 | 3 458 925 | 1 351 927 | - | 30 124 146 | 39 208 197 | 14 337 666 | 53 545 863 |

## Separate

| | Share capital K'000 | Share premium K'000 | Property revaluation K'000 | Loan loss reserve K'000 | Retained earnings K'000 | Total equity K'000 |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| As at beginning of the year | 116 813 | 1 565 347 | 3 460 979 | 963 988 | 30 477 217 | 36 584 344 |
| Initial application of IFRS 9 (net of deferred tax) | - | - | - | - | (856 206) | (856 206) |
| **Restated balance as at 1 January 2018** | **116 813** | **1 565 347** | **3 460 979** | **963 988** | **29 621 011** | **35 728 138** |
| Profit for the year | - | - | - | - | 6 654 950 | 6 654 950 |
| **Other comprehensive income** | | | | | | |
| Property revaluation | - | - | 2 487 322 | - | - | 2 487 322 |
| Deferred tax on revalued assets | - | - | (751 332) | - | - | (751 332) |
| **Total other comprehensive income** | - | - | 1 735 990 | - | - | 1 735 990 |
| **Total comprehensive income for the year** | - | - | 1 735 990 | - | 6 654 950 | 8 390 940 |
| **Transfers between reserves** | | | | | | |
| Transfer from loan loss reserve | - | - | - | (140 510) | 140 510 | - |
| **Total transfers between reserves** | - | - | - | (140 510) | 140 510 | - |
| **Transactions with owners, recorded directly in equity** | | | | | | |
| Contribution by and distribution to owners | | | | | | |
| Dividends paid | - | - | - | - | (7 893 253) | (7 893 253) |
| **As at 31 December 2018** | 116 813 | 1 565 347 | 5 196 969 | 823 478 | 28 523 218 | 36 225 825 |
| **2017** | | | | | | |
| As at beginning of the year | 116 813 | 1 565 347 | 3 339 180 | 776 191 | 21 176 525 | 26 974 056 |
| Profit for the year | - | - | - | - | 7 637 997 | 7 637 997 |
| **Total comprehensive income for the year** | - | - | - | - | 7 637 997 | 7 637 997 |
| **Transfers between reserves** | | | | | | |
| Transfer from loan loss reserve | - | - | - | 63 170 | (63 170) | - |
| **Total transfers between reserves** | - | - | - | 63 170 | (63 170) | - |
| **Transactions with owners, recorded directly in equity** | | | | | | |
| Contribution by and distribution to owners | | | | | | |
| Arising on merger with subsidiary | - | - | 121 799 | 124 627 | 2 893 990 | 3 140 416 |
| Dividends paid | - | - | - | - | (1 168 125) | (1 168 125) |
| **As at 31 December 2017** | 116 813 | 1 565 347 | 3 460 979 | 963 988 | 30 477 217 | 36 584 344 |

FIRST CAPITAL BANK PLC
**STATEMENTS OF CASH FLOWS**
For the year ended 31 December 2018

| | Notes | Consolidated 2018 K'000 | Consolidated 2017 K'000 | Separate 2018 K'000 | Separate 2017 K'000 |
|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Interest and fees received | | 56 092 298 | 57 716 134 | 33 803 000 | 29 689 136 |
| Interest paid | | (14 589 470) | (14 329 643) | (7 712 954) | (7 679 320) |
| Cash paid to suppliers and employees | | (31 380 701) | (32 549 024) | (22 914 543) | (17 436 142) |
| | | 10 122 127 | 10 837 467 | 3 175 503 | 4 573 674 |
| Net increase/(decrease) in net customer balances | | 6 730 556 | 46 928 411 | (7 242 481) | 58 113 600 |
| **Cash generated from/(used in) operations** | | 16 852 683 | 57 765 878 | (4 066 978) | 62 687 274 |
| Dividend received from listed and subsidiary companies | | 49 983 | 44 798 | 49 983 | 290 637 |
| Income taxes paid | 29c | (3 191 560) | (3 512 379) | (1 009 557) | (1 758 611) |
| **Net cash generated by/(used in) operating activities** | | 13 711 106 | 54 298 297 | (5 026 552) | 61 219 300 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Maturity/(purchases) of money market investments | 8 | 31 666 930 | (47 429 780) | 13 622 849 | (32 944 797) |
| Maturity/(investment) in currency swaps | | 3 343 447 | (5 906 299) | 3 343 447 | (5 906 299) |
| Net cash inflows from acquisition of OIBM | 42a | - | 1 582 903 | - | 1 582 903 |
| Subscription of shares in subsidiary companies | 14 | - | - | - | (4 409 400) |
| Proceeds from sale of equipment | | 14 335 | 16 806 | 12 701 | 13 124 |
| Net cash flows on merger and acquisition | 42b | - | - | - | 2 371 584 |
| Acquisition of property and equipment | 15 | (7 822 033) | (5 816 013) | (3 590 520) | (4 782 822) |
| **Net cash generated by/(used in) investing activities** | | 27 202 679 | (57 552 383) | 13 388 477 | (44 075 707) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Dividends paid to the owners of the Company | 32 | (4 500 000) | (1 168 125) | (4 500 000) | (1 168 125) |
| Dividends paid to non-controlling interests | | - | (422 753) | - | - |
| Repayment of long term borrowings | | (6 111 060) | (5 016 327) | (6 111 060) | (5 016 327) |
| Proceeds from issuance of preference shares | | 1 431 633 | - | - | - |
| Proceeds from long term borrowings | | 2 585 702 | 3 442 680 | - | 2 172 593 |
| **Net cash used in financing activities** | | (6 593 725) | (3 164 525) | (10 611 060) | (4 011 859) |
| Net increase/(decrease) in cash and cash equivalents | | 34 320 060 | (6 418 611) | (2 249 135) | 13 131 734 |
| Cash and cash equivalents at 1 January | | 79 515 242 | 84 616 608 | 37 631 055 | 23 326 706 |
| Effect of changes in exchange rates | | (1 185 171) | 1 317 245 | (616 801) | 1 172 615 |
| **Cash and cash equivalents at 31 December** | 7 | 112 650 131 | 79 515 242 | 34 765 119 | 37 631 055 |

## 1. Reporting Entity

First Capital Bank Plc (the Bank) is a public limited liability company domiciled in Malawi. It is registered as a commercial bank under the Banking Act, 2009. These consolidated and separate financial statements comprise the Bank and its subsidiaries ("collectively the Group"). The Group is primarily involved in corporate and retail banking. The Bank's registered office is Livingstone Towers, Private Bag 122, Glyn Jones Road, Blantyre.

## 2. Basis of preparation

### *(i)* Statement of compliance

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and in a manner as required by the Malawi Companies Act 2013, and the Banking Act 2009.

### *(ii)* Basis of measurement

The consolidated and separate financial statements are prepared on the historical cost basis except for the following:

- properties which are revalued to fair value; and
- financial instruments at fair value through profit or loss.

### *(iii)* Functional and presentation currency

These consolidated and separate financial statements are presented in Malawi Kwacha, which is the Bank's functional and presentation currency. Except as indicated, financial information presented in Malawi Kwacha has been rounded to the nearest thousand.

### *(iv)* Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes.

- Notes 4(c)(v), 9 and 38 - Loans and advances to customers - Impairment
- Notes 4(c)(v), 10 and 38 - Finance leases receivables - Impairment
- Notes 6 and 13 - Fair value measurement

### *(v)* Going concern basis of accounting

The consolidated and separate financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet the mandatory repayment terms of the banking facilities as disclosed in note 17, customer deposits as disclosed in note 18, other payables as disclosed in note 19 and subordinated debt as disclosed under note 36.

### *(vi)* Comparatives

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

## 3. Adoption of new and revised International Financial Reporting Standards

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

In the current year, the Group has adopted those new and revised Standards and Interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee of the International Accounting Standards Board that are relevant to its operations and are effective for annual reporting periods beginning on 1 January 2018.

Other the adoption of IFRS 9 *Financial Instruments and IFRS 15 Revenue from Contracts with Customers,* as explained in detail below, the Group has also adopted the following amendment. The adoption of these amendment did not have a significant impact on the financial statements of the Group.

| | |
|---|---|
| IFRIC 22 *Foreign currency Transactions and Advance Consideration* | IFRIC 22 address how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).<br><br>The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of the transaction for each payment or receipt of advance consideration. |

The Group has adopted 2 key reporting standards that are relevant to operations across all the countries. These being IFRS9 for Financial instruments and IFRS15 for revenue from contracts with customers. IFRS15 had no significant effect whereas IFRS 9 has resulted in significant effect on financial instruments classification and measurement as explained in **note 5.**

The accounting policies applied in the preparation of the financial statements are consistent with the most recent financial statements for the year ended 31 December 2017 except for the current adoption of IFRS9 Financial Instruments, and IFRS15 Revenue from contracts with customers) detailed below.

**IFRS15- Revenue from contracts with customers**
IFRS15 establishes a framework for determining when and how much revenue is recognised. Under IFRS15, revenue is recognised when the customer obtains control of goods or services. It replaces IAS18 Revenue and the related interpretations.

There has been no significant change to the timing and value of revenue recognised from the existing policies. Therefore the Group has adopted IFRS15 from the date of initial application with no restatement of 2017 financial statements.

## 3. Adoption of new and revised International Financial Reporting Standards

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

**IFRS9-Financial Instruments**

The Group has adopted IFRS9 as issued by the International Accounting Standards Board (IASB) in July 2014 with effect from 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The adoption of IFRS9 has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS9 also significantly amends other standards dealing with financial instruments such as IFRS7 - Financial Instruments: Disclosures.

The Group did not early adopt IFRS9 in previous periods. As permitted by the transitional provisions of IFRS9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS7 disclosures have only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in prior year

**Effect of adopting IFRS 9 on the classification and measurement of financial assets and liabilities**

The following table explains the original measurement categories under IAS39 and the new measurement categories under IFRS9 for each class of the Group's financial assets as at 1 January 2018. In addition it shows the reconciliation between the carrying amount at 31 December 2017 under IAS39 and the opening balance at 1 January 2018 under IFRS9.

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

### 3.1 Standards and Interpretations affecting amounts reported and/or disclosed in the financial statements (Continued)

**Effect of adopting IFRS 9 on the classification and measurement of financial assets and liabilities (continued)**

The effect of adopting IFRS9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements, as described further below. There were no movement of balances between asset classes.

**Consolidated**

| Classification | IAS39 Classification and Measurement | IFRS9 new classification and measurement | IAS39 carrying amount at 31 Dec 2017 (K'000) | Remeasurement - Impairment impact (K'000) | IFRS 9 opening amount at 1 Jan 2018 (K'000) |
|---|---|---|---|---|---|
| Loans, advances and leases to customers | Loans and receivables (amortised cost) | Financial assets at amortised cost | 176 535 584 | (1 894 158) | 174 641 426 |
| Placements with other banks (held for investment purposes) | Loans and receivables (amortised cost) | Financial assets at amortised cost | 116 446 394 | (701 941) | 115 744 453 |
| Investment securities (equity investments) | Available for sale (FVOCI) | Financial assets at FVOCI | 32 679 | - | 32 679 |
| Investment securities (equity investments) | Held for trading (FVPL) | Financial assets at FVPL | 5 203 185 | - | 5 203 185 |
| Cash and cash equivalents | Loans and receivables (amortised cost) | Financial assets at amortised cost | 79 515 242 | - | 79 515 242 |
| Off balance sheet exposures | Off balance sheet | Off balance sheet | 58 163 634 | (120 036) | 58 043 598 |
| Other assets | Loans and receivables (amortised cost) | Financial assets at amortised cost | 6 901 | - | 6 901 |
| **Total** | | | **435 903 619** | **(2 716 135)** | **433 187 484** |

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

### 3.1 Standards and Interpretations affecting amounts reported and/or disclosed in the financial statements (Continued)

**Effect of adopting IFRS 9 on the classification and measurement of financial assets and liabilities (continued)**

Reconciliation of impairment allowance under IAS 39 to expected credit losses under IFRS 9
**Consolidated**

| | | | Impact | | |
|---|---|---|---|---|---|
| **Category** | **IAS 39 Impairments as at 31 December 2017 (K'000)** | **IFRS9 Impairments as at 1 January 2018 (K'000)** | **Remeasurement (K'000)** | **Tax (K'000)** | **Net impact (K'000)** |
| **Loans and advances, and leases to customers and Non-funded** | | | | | |
| Stage 1 | 633 521 | 1 762 360 | 1 128 839 | (313 399) | 815 440 |
| Stage 2 | - | 1 502 353 | 1 502 353 | (392 267) | 1 110 086 |
| Stage 3 | 3 946 340 | 3 329 342 | (616 998) | - | (616 998) |
| Sub total | 4 579 861 | 6 594 055 | 2 014 194 | (705 666) | 1 308 528 |
| **Other Financial assets** | | | | | |
| Treasury Bills | - | 304 210 | 304 210 | (91 263) | 212 947 |
| Promissory Notes | - | 154 010 | 154 010 | (46 203) | 107 807 |
| Treasury Notes | - | 132 780 | 132 780 | (39 834) | 92 946 |
| Repurchase agreements | - | 110 941 | 110 941 | (33 282) | 77 659 |
| Sub total | - | 701 941 | 701 941 | (210 582) | 491 359 |
| **Total** | **4 579 861** | **7 295 996** | **2 716 135** | **(916 248)** | **1 799 887** |

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

### 3.1 Standards and Interpretations affecting amounts reported and/or disclosed in the financial statements (Continued)

### Effect of adopting IFRS 9 on the classification and measurement of financial assets and liabilities (continued)

**Company**

| Classification | IAS39 Classification and Measurement | IFRS9 new classification and measurement | IAS39 carrying amount at 31 Dec 2017 (K'000) | Remeasurement - Impairment impact (K'000) | IFRS9 opening amount at 1 Jan 2018 (K'000) |
|---|---|---|---|---|---|
| Loans, advances and leases to customers | Loans and receivables (amortised cost) | Financial assets at amortised cost | 46 977 093 | (699 065) | 46 278 028 |
| Placements with other banks (held for investment purposes) | Loans and receivables (amortised cost) | Financial assets at amortised cost | 81 493 263 | (701 941) | 80 791 322 |
| Investment securities (equity investments) | Available for sale (FVOCI) | Financial assets at FVOCI | - | - | - |
| Investment securities (equity investments) | Held for trading (FVPL) | Financial assets at FVPL | 5 203 185 | - | 5 203 185 |
| Cash and cash equivalents | Loans and receivables (amortised cost) | Financial assets at amortised cost | 37 631 055 | - | 37 631 055 |
| Off balance sheet exposures | Off balance sheet | Off balance sheet | 34 630 942 | (86 573) | 34 544 369 |
| Other assets | Loans and receivables (amortised cost) | Financial assets at amortised cost | 79 748 | - | 79 748 |
| **Total** | | | **206 015 286** | **(1 487 579)** | **204 527 707** |

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

### 3.1 Standards and Interpretations affecting amounts reported and/or disclosed in the financial statements (Continued)

**Effect of adopting IFRS 9 on the classification and measurement of financial assets and liabilities (continued)**

Reconciliation of impairment allowance under IAS 39 to expected credit losses under IFRS 9

| | | | Impact | | |
|---|---|---|---|---|---|
| **Category** | **IAS 39 Impairments as at 31 December 2017 (K'00)** | **IFRS9 Impairments as at 1 January 2018 (K'000)** | **Remeasurement (K'000)** | **Tax (K'000)** | **Net impact (K'000)** |
| **Loans and advances, and leases to customers and Non-funded** | | | | | |
| Stage 1 | 110 677 | 826 014 | 715 337 | (214 601) | 500 736 |
| Stage 2 | - | 687 299 | 687 299 | (206 190) | 481 109 |
| Stage 3 | 3 182 100 | 2 565 102 | (616 998) | - | (616 998) |
| Sub total | 3 292 777 | 4 078 415 | 785 638 | (420 791) | 364 847 |
| **Other Financial assets** | | | | | |
| Treasury Bills | - | 304 210 | 304 210 | (91 263) | 212 947 |
| Promissory Notes | - | 154 010 | 154 010 | (46 203) | 107 807 |
| Treasury Notes | - | 132 780 | 132 780 | (39 834) | 92 946 |
| Repurchase agreements | - | 110 941 | 110 941 | (33 282) | 77 659 |
| Sub total | - | 701 941 | 701 941 | (210 582) | 491 359 |
| **Total** | **3 292 777** | **4 780 356** | **1 487 579** | **(631 373)** | **856 206** |

The net impact was adjusted through retained earnings in the statement of changes in equity.
The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities; therefore, IFRS 9 largely retains the existing requirements in IAS 39 for classification and measurement of financial liabilities. However, the measurement of financial assets eliminates the previous IAS 39 categories for financial assets held to maturity, loans and receivables and available for sale financial instruments.

**3.1 Standards and Interpretations affecting amounts reported and/or disclosed in the financial statements** (Continued)

**Classification of financial instruments**

Under IFRS9, on initial recognition, a financial asset is classified as measured at:
1) Amortised cost
2) Fair value through other comprehensive income (FVOCI) – debt investments
3) Fair value through other comprehensive income (FVOCI) – equity investments or
4) Fair value through Profit and Loss (FVTPL).

The classification of financial assets under IFRS9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. The classifications are explained as follows:

**i. Hold to collect contractual cash-flows - Amortised cost**

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

**ii. Hold to collect contractual cash-flows and selling (FVOCI)**

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:
- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

**iii. Other business model - Equity investments (FVOCI)**

On initial recognition of an equity investment the Group irrevocably elects to present subsequent changes in the investment's fair value in OCI. This election is made on an investment- by-investment basis.

**iv. Hold to sell - (FVTPL)**
- All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets and debt instruments held for trading.
- A financial asset is initially measured at fair value plus transaction costs that are directly attributable to its acquisition for financial assets and liabilities not at fair value through profit and loss. Transaction costs for financial assets and liabilities carried at fair value through profit and loss are expensed in profit and loss

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

### 3.1 Standards and Interpretations affecting amounts reported and/or disclosed in the financial statements (Continued)

**Impairment of financial assets**
IFRS9 replaces the 'incurred loss' model in IAS39 with an 'Expected Credit Loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS9, credit losses are recognised earlier than under IAS39. The financial assets at amortised cost consist of loans and advances, cash and cash equivalents and debt securities.

IFRS9 outlines a three stage model for impairment based on changes in credit quality since initial recognition as summarised below:

- Stage 1 - Financial instruments not credit impaired on initial recognition and are performing
- Stage 2 - If significant increase in credit risk is identified the asset is moved to Stage 2
- Stage 3 - If the asset is credit impaired it is moved to Stage 3.

**Expected Credit Losses measurement (ECLs)**
ECLs are measured on either a 12 month or Lifetime basis depending on whether a Significant Increase in Credit Risk (SICR) has occurred since initial recognition or whether the asset is considered credit impaired. The Group uses a combination of a portfolio based approach and individual assessment to the calculation of ECLs.

Customer portfolios are segmented into loans and overdrafts, (segregated by local and foreign currency) and further non-funded/off balance sheet product.

Portfolio assessment is performed by way of a collective assessment semi-empirical IFRS9 model ("the ECL Model) developed in consultation with external consultants supported by available historic information to support the modelling of Probability of Default (PD), Loss Given Default (LGD) and Exposure at default (EAD).

Individual assessment is performed on all customer loans and advances after having defined a minimum exposure threshold.

The Group elected to use a country rating by sovereign debt approach, which forms the basis of calculating the PD's of all financial assets within the scope of IFRS9 guidelines. The sovereign debt PD is adjusted by individual corporate PD rates based on external rating provider Standard & Poor's (S&P) information.

LGD's of individually assessed customer loans and advances, have been determined in terms of:

- Stages 1 and 2: An internal benchmark applied to a net exposure after application of future realisable cash flows, predominantly collateral held; and
- Stage 3: Net exposure after application of future realisable cash flows, predominantly collateral held.

LGD's on various financial assets/low risk financial instruments, with the exception of customer loans and advances, have been determined in terms of:
- Basel II & III Guidelines: the treatment of sovereign exposures in the banking book;
- Basel II Guidelines: applied under foundation IRB and observed in the Committee's study on Banks; and
- Internal benchmark based on historical recoverability.

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

### 3.1 Standards and Interpretations affecting amounts reported and/or disclosed in the financial statements (Continued)

**Impairment of financial assets** (continued)

EAD is determined as below:
- For customer loans and advances: Outstanding exposures plus undrawn limits.
- For other financial assets/low risk financial instruments: Outstanding exposures.

### 3.2 Standards and Interpretations in issue, not yet effective

The following new standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2018 and are expected to be relevant to the Group. The Group will not early adopt the standards.

| Standard/Interpretation | Content | Applicable for financial years beginning on/after |
|---|---|---|
| IFRS 16 | Leases | 1-Jan-2019 |

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off-balance sheet) and finance leases (on-balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and corresponding liability have to be recognized for all leases by lessees (i.e. all on balance sheet) except for short term leases and leases of low value assets.

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

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

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at present value of the lease payments that are payable at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion that will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

#### 3.2.1 IFRS 16 implementation progress and impact

Valuation assumptions used on IFRS16 application:
The Bank has over 40 properties leased from other parties with contract terms in excess of 12 months. The contracts have their lease payments present valued to determine the right of use asset and the lease liability (capitalised). Preliminary group assessment of the impact of the adoption of the new standard is expected to be finalised before 30 June 2019.
The directors anticipate that the adoption of the following Standards and Interpretations in future periods will have no significant impact on the financial statements of the Group:

| | |
|---|---|
| Annual reporting periods beginning on or after 1 January 2019 | IFRIC 23 Uncertainty over Income Tax Treatments |
| Annual periods beginning on or after 1 January 2019 | Prepayment Features with Negative Compensation (Amendments to IFRS 9) |
| Annual periods beginning on or after 1 January 2019 | Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) |
| Annual periods beginning on or after 1 January 2019 | Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) |
| Annual periods beginning on or after 1 January 2020 | Amendments to References to the Conceptual Framework in IFRS Standards |
| Annual reporting periods beginning on or after 1 January 2020 | Definition of a Business (Amendments to IFRS 3) |
| Annual reporting periods beginning on or after 1 January 2020 | Definition of Material (Amendments to IAS 1 and IAS 8) |

## 4. Significant accounting policies

The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year except as explained in note 3.1.

### (a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank, its subsidiaries, namely FMB Pensions Limited, FMB Forex Bureau Limited, FMB Markets Limited, Capital Bank S.A. (Mozambique), International Commercial Bank Limited (Malawi) and First Capital Bank Limited (Botswana), (together referred to as 'the Group').

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date control is transferred to the Group.

***(i)*** **Subsidiaries**
Subsidiaries are entities controlled by the Group. The Group controls an investee if it is exposed to, or, has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Uniform accounting policies have been applied throughout the Group.

***(ii)*** **Loss of control**
When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related Non-Controlling Interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

***(iii)*** **Transactions eliminated on consolidation**
Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### (b) Foreign currency

***Foreign currency transactions***
Transactions in foreign currencies are translated to Malawi Kwacha at the exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into Malawi Kwacha at the exchange rate (middle rate) at the date on which the fair value is determined.

Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate (middle rate) at the date of the transaction.

Monetary items denominated in foreign currencies at the reporting date are translated into Malawi Kwacha using the exchange rate at that date. Foreign currency differences arising on translation are generally recognised in profit or loss.

***Foreign operations***
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Malawi Kwacha at exchange rates (mid-rate) ruling at the reporting date. The income and expenses of foreign operations are translated to Malawi Kwacha at average exchange rates during the year.

Exchange differences arising on the translation of the assets and liabilities of foreign operations are recognised directly in other comprehensive income and accumulated in equity in the translation reserve. When a foreign operation is disposed of in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

**4. Significant accounting policies** (Continued)

**(b) Foreign currency** (Continued)

***Foreign operations*** (Continued)

Foreign exchange gains or losses arising from monetary items receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future and which in substance is considered to form a part of the net investment in foreign operation, are recognised directly in the foreign currency translation reserve.

**(c) Financial assets and liabilities**

The Group initially recognises loans, debt securities issued and subordinate receivables on the date on which they are originated. All other financial assets or financial liabilities are recognised on the trade date which is the date on which the Group becomes a party to the contractual provisions of the instrument. A financial asset or liability is initially measured at fair value plus (for an item not classified at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

The difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred) and the consideration received (including any new accounts obtained less any new liability assumed) is recognised in profit or loss.

The adoption of IFRS9 has resulted in changes in the Group's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS9 also significantly amends other standards dealing with financial instruments such as IFRS7, Financial Instruments: Disclosures. The effect of adopting IFRS9 is detailed in note 3.1

The following mapping table explain the previous measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets:

| **Financial Instrument** | **IAS39 Classification and Measurement** | **IFRS9 new classification and measurement** |
|---|---|---|
| Loans and advances to customers | Loans and receivables (amortised cost) | Financial assets at amortised cost |
| Placements with other banks (held for investment purposes) | Loans and receivables (amortised cost) | Financial assets at amortised cost |
| Placements with other banks (held for liquidity purposes) | Investments (Amortised cost) | Financial assets amortised cost |
| Investment securities (equity investments) | Held for trading (FVPL) | Financial assets at FVPL |
| Cash and cash equivalents | Loans and receivables (amortised cost) | Financial assets at amortised cost |
| Other assets | Loans and receivables (amortised cost) | Financial assets at amortised cost |

IFRS 9 largely retains the existing requirements in IAS 39 for classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity (HTM), loans and receivables and available for sale. The adoption of IFRS 9 has had no significant effect of the Group's accounting policies related to financial liabilities and derivatives.

**4. Significant accounting policies** (Continued)

**(c) Financial assets and liabilities** (Continued)

Under IFRS 9, on initial recognition, a financial asset is measured at:
(i) Amortised cost
(ii) Fair value through other comprehensive income (FVOCI) – debt investments
(iii) Fair value through other comprehensive income (FVOCI) – equity investments; or
(iv) Fair value through profit and loss (FVTPL)

The classification of financial assets under IFRS 9 has been explained in note 3.1

**Restructures/modification of loans and advances**
The banks within the Group sometimes renegotiate or otherwise modify the contractual cash flows of loans and advances to customers. When this happens, the bank assesses whether or not the new terms are substantially different to the original terms. The bank does this by considering, among others, the following factors:

1) If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
2) Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
3) Significant extension of the loan term when the borrower is not in financial difficulty.
4) Significant change in the interest rate.
5) Change in the currency the loan is denominated in.

A loan under credit distress is considered to have been restructured if the bank in the Group agrees to terms which the Group would not otherwise have agreed to in an attempt to offer financial relief and rehabilitation to the borrower.

The Group's policy is that any Restructure of an account, even if not yet in Stage 3, where the obligor has not settled all arrears prior to the restructure, shall have the effect that the account shall be/continue to be classified as Stage 3 until a minimum applicable curing period provides confirmation that the account may be reclassified to Stage 2 in which a further minimum curing period shall apply prior to reclassification to Stage 1.

Restructured accounts are flagged and provided for at Stage 3 for at least a minimum period post restructure date subject to local regulations.

If there is a Restructure, which does not result in a de-recognition (write off of the asset / creation of a new account), then the Group considers whether there is a modification gain or loss. The Group considers the new re-structured cash flow and discounts this back using the original effective interest rate and if that gives a higher carrying value than the Group currently holds, the Group will reflect this as a gain or if it gives a lower carrying value then as a loss.

The Group will write off the difference between the previous and the restructured carrying amount in the event of a lower carrying amount for the restructured credit facility.

**Effective interest method**
The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

**4. Significant accounting policies** (Continued)

**(c) Financial assets and liabilities** (Continued)

**Impairment of financial assets**

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets, loans and advances carried at amortised cost and FVOCI and with the exposure arising from loan commitments, Group balances and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date.

The increase or decrease in impairment at effective date of IFRS9 adoption has been accounted for in the Statement of changes in equity under retained income. Subsequent increases or decreases in impairment are recorded in the statement of comprehensive income.

IFRS9 outlines a three stage model for impairment based on changes in credit quality since initial recognition as summarised below:

Stage 1 - Financial instruments not credit impaired on initial recognition and with no SICR evident.
Stage 2 - If SICR is identified the asset is moved to stage 2
Stage 3 - If the asset is credit impaired it is moved to stage 3.

**Expected Credit Loss measurement**

- ECLs are measured on either a 12 month or Lifetime basis depending on whether a SICR has occurred since initial recognition or whether the asset is considered credit impaired. ECLs are a probability-weighted discounted product of PD, LGD and EAD.
- Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).
- ECLs are discounted at the effective interest rate of the portfolio.
- The maximum period considered when estimating ECLs is the maximum contractual period (including extensions) over which the Group is exposed to credit risk.
- The Group uses a combination of a portfolio based approach and individual assessment to the calculation of ECLs.
- Portfolio assessment is performed by way of the ECL Model to support the modelling of Probability of Default (PD), Loss Given Default (LGD) and Exposure at default (EAD).
- Individual assessment is performed on all customer loans and advances after having defined a minimum exposure threshold.

Under IFRS9, loss allowances are measured on either of the following bases;

i. 12 - month ECLs (Stage 1 - no significant increase in credit risk)
   These are a portion of lifetime ECLs that result from possible default events within the 12 months after the reporting date. These ECLs are measured on assets which are performing assets.
   - Customer loans and advances which do not reflect any SICR since initial recognition.
   - Debt securities, loans to Groups and Group balances which are performing assets.

**4. Significant accounting policies** (Continued)

**(c) Financial assets and liabilities** (Continued)

**Expected Credit Loss measurement** (Continued)

ii. Lifetime ECLs (Stage 2 – significant increase in credit risk)
These are ECLs that result from all possible default events over the expected life of a financial instrument. These ECLs are measured on assets with a SICR since initial recognition.
- Customer loans and advances with regulatory asset classification of Special Mention (Rebuttable presumption basis of 30 to 89 days past due) or with a SICR (as demonstrated in terms of the Group's early warning risk monitoring process)
- Debt securities, loans to Groups and Group balances which are past due.

iii. Lifetime ECLs (Stage 3 – default)
These ECLs are measured on all credit impaired/ in default credit exposures.
- Customer loans and advances with regulatory asset classification Substandard, Doubtful, Loss (Rebuttable presumption basis of more than 89 days past due) or with a SICR (as demonstrated in terms of the Group's early warning risk monitoring process) justifying credit impairment.
- Debt securities, loans to Groups, Group balances in default.

For Stage 3 assets, interest income continues to be recognised at the original effective interest rate on the restated carrying amount, representing the unwind of the discount of the expected cash flows, including the principal due on non-accrual loans.

Uncollectable loans are written off against the related allowance for loan impairment on completion of the Group's internal processes and all recoverable amounts have been collected. Subsequent recoveries of amounts previously written off are credited to the profit or loss component of the statement of other comprehensive income.

**Benchmarking ECL**
Portfolio assessment is performed by way of a collective assessment semi-empirical IFRS9 model developed (the ECL Model) supported by available historical information to support the modelling of PD, LGD and EAD.
Individual assessment is performed on all customer loans and advances after having defined a minimum exposure threshold.

**Low risk financial instruments**
ECL for low risk financial instrument exposures is based on benchmarked PDs and LGDs due to lack of historical data.

**De-recognition of financial instruments**
Full de-recognition only occurs when the rights to receive cash flows from the asset have been discharged, cancelled or have expired, or the Group transfers both its contractual right to receive cash flows from the financial assets (or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party without material delay or reinvestment) and substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest rate risk. When an asset is transferred, in some circumstances, the Group may retain an interest in it (continuing involvement) requiring the Group to repurchase it in certain circumstances for other than its fair value on that date.

**4. Significant accounting policies** (Continued)

**(c) Financial assets and liabilities** (Continued)

**De-recognition of financial instruments** (Continued)

On write-off the Group's policy provides that an asset should be written off if there is no near term realistic chance of recovery once collateral has been recovered. Recoveries are actively pursued but write-off of an account shall also not be unduly delayed. An asset shall not be written of earlier than:

- Unsecured – 6 months after default
- Secured – 18 months after default.

**(d) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents are measured at amortised cost in the statement of financial position.

**(e) Other assets**

Other financial assets are measured at amortised cost using the effective interest method less impairment losses. Other non-financial assets are measured at cost less impairment losses, if any. Other assets comprise prepayments, cheques in the course of collection, dividends receivable, stocks of consumable stationery and computer spares and other receivables.

**(f) Loans and advances to customers**

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

The Group classifies its loans and advances to customers as at amortised cost. When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo or stock borrowing"), the arrangement is accounted for as a loan to the other party, and the underlying asset is not recognised in the Group's financial statements.

Loans and advances are subsequently measured at their amortised cost using the effective interest method.

**(g) Investment securities**

Investment securities are initially measured at fair value plus incremental direct transaction costs, for investments at fair value through profit and loss. Subsequent to initial recognition, investment securities are accounted for depending on their classification as either fair value through Other Comprehensive Income or fair value through profit or loss.

**4. Significant accounting policies** (Continued)

**(h) Investments in subsidiaries**

Investments in subsidiaries are recognised at cost in the separate financial statements less any impairment losses. The investments are fully eliminated on consolidation.

**(i) Accounting policies applied to financial instruments prior to 1 January 2018**

***(i) Recognition and measurement***

The Group initially recognises loans, debt securities issued and subordinate receivables on the date on which they are originated. All other financial assets or financial liabilities are recognised on the trade date which is the date on which the Group becomes a party to the contractual provisions of the instrument. A financial asset or liability is initially measured at fair value plus (for an item not classified at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

The difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred) and the consideration received (including any new accounts obtained less any new liability assumed) is recognised in profit or loss.

***(ii) Classification***

*Financial assets*

The Group classifies its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available-for-sale; and
- at fair value through profit or loss, and within this category as:
  - held for trading; or
  - designated at fair value through profit or loss.

***(iii) Derecognition***

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group also derecognises certain assets when they are deemed to be uncollectible.

***(iv) Offsetting***

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by accounting standards.

**4. Significant accounting policies** (Continued)

**(i) Accounting policies applied to financial instruments prior to 1 January 2018 (Continued)**

***(v) Identification and measurement of impairment***

At the end of each reporting period, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the financial asset and that the loss event has an impact on the future cash flows from the asset that can be estimated reliably.

The Group considers evidence of impairment at both a specific financial asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group.

In assessing collective impairment (if applicable) the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on financial assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted using the financial assets' original effective interest rate.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

**4. Significant accounting policies** (Continued)

**(i) Accounting policies applied to financial instruments prior to 1 January 2018** (Continued)

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss. The Group writes off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when Group Credit determines that there is no realistic prospect of recovery.

***(vi)* Designation at fair value through profit or loss**

The Group has designated financial assets and liabilities at fair value through profit or loss when either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis; and
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

Investments in listed companies have been accounted for at fair value through profit or loss.

**Investment securities**

Investment securities are initially measured at fair value plus incremental direct transaction costs, for investments not at fair value through profit and loss. Subsequent to initial recognition, investment securities are accounted for depending on their classification as either held-to-maturity or fair value through profit or loss.

***(i) Held-to-maturity***

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are measured at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available- for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Held-to-maturity investments comprise Treasury Bills, Local Registered Government Stocks and Malawi Government Promissory Notes and are included in money market investments.

***(ii) Fair value through profit or loss***

The Group recognises some investment securities at fair value, with fair value changes recognised immediately in profit or loss.

**4. Significant accounting policies** (Continued)

**(j) Intangible assets**

Intangible assets acquired separately are measured at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset it relates to. All other expenditure is expensed as incurred. Amortisation is recognised in profit or loss on a straight line basis over the estimated useful lives from the date that the asset is available for use. The effects of any changes in estimates are accounted for on a prospective basis. Intangible assets are amortised over five years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. The effects of any changes in estimates are accounted for on a prospective basis.

**(k) Property and equipment**

***(i) Recognition and measurement***

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses except for freehold property and leasehold improvements which are measured at revalued amount less accumulated depreciation and impairment losses as described in accounting policy 4(l).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use and qualifying borrowing costs. Purchased software that is integral to the functionality of related equipment is capitalised as part of that equipment.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognised net within other operating income in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

***(ii) Revaluation***

Freehold properties and leasehold improvements are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from the fair value. Revaluation surpluses are recognised in other comprehensive income and accumulated in equity in a non-distributable property revaluation reserve. A revaluation surplus will be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

The revaluation surplus included in equity in respect of property, plant and equipment is transferred directly to retained earnings when the asset is sold or disposed.

***(iii) Subsequent Costs***

Subsequent expenditure is capitalised only when it is probable that future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

**4. Significant accounting policies** (Continued)

***(iv) Depreciation***

Property and equipment are depreciated on a straight-line basis at rates that would reduce carrying amounts to their residual values, estimated at the date of purchase, over the initially anticipated useful lives of the assets. The Group re-assesses the useful lives, the depreciation method and the residual values of the assets at each reporting date. Any changes in the useful lives, depreciation method or estimated residual values are accounted for prospectively as a change in accounting estimate in accordance with IAS 8: *Accounting policies changes in accounting estimates and errors*.

Depreciation is recognised in profit or loss. The depreciation rates for the current and comparative period are:

- Leasehold properties 2.5% (or period of lease if shorter)
- Freehold properties 2.5%
- Motor vehicles 25%
- Equipment, fixture and fittings 20%

***(v) Capital work in progress***

Capital work in progress represent gross amount spent to date in carrying out work of a capital nature. It is measured at cost recognised to date. Capital work in progress is presented as part of property and equipment in the statement of financial position. If the project is completed the expenditure is capitalised to the relevant items of property and equipment. Capital work in progress is not depreciated.

**(l) Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups of assets. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the units on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

An impairment loss is recognised in profit or loss unless it concerns property carried at revalued amount in which case it is treated as a revaluation decrease. If the impairment loss exceeds the revaluation reserve in respect of the impaired asset, the excess is recognised in profit or loss. A reversal of an impairment loss is recognised in profit or loss, unless it relates to property carried at revalued amounts, in which case the excess of the reversal over the amount recognised in profit or loss is treated as a revaluation increase.

**4. Significant accounting policies** (Continued)

**(m) Customer deposits and balances due to other banks**

When the Group sells a financial asset and simultaneously enters into a "repo" or "stock lending" agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's financial statements.

Deposits are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group chooses to account for the financial liabilities at fair value through profit or loss.

**(n) Other liabilities and subordinated debt**

Other payables and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs and subsequently measured at their amortised cost using the effective interest method, except where the Group designates liabilities at fair value through profit or loss.

**(o) Share capital**

***Share issue costs***

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

**(p) Employee benefits**

***(i) Short-term employee benefits***

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

***(ii) Defined contribution plan***

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

**(q) Net interest income**

Interest income on loans and advances at amortised cost, fair value through other comprehensive income debt investments, and interest expense on financial liabilities held at amortised cost, are calculated using the effective interest method which allocates interest, direct and incremental fees and costs, over the expected lives of the assets and liabilities.

The effective interest method requires the Group to estimate future cash flows, in some cases based on its experience of customers' behaviour, considering all contractual terms of the financial instrument, as well as the expected lives of the assets and liabilities. Due to the large number of products and types (both assets and liabilities), there are no individual estimates that are material to the results or financial position.

**4. Significant accounting policies** (Continued)

**(q) Net interest income** (Continued)

Income from finance leasing is included in net interest income as further described in accounting policy (r) below.

**(r) Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***(i)* Finance lease - The Group as a lessor**

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

***(ii)* Operating leases - The Group as a lessee**

Rentals payable under operating leases are recognised in profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

**(s) Fees and commission income**

The Bank applies IFRS 15 - Revenue from contracts with customers, which replaced IAS 18 Revenue and IFRIC 12 Customer Loyalty Programs.

IFRS 15, contains a single model that establishes a five step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract; and
- Step 5: Recognise Revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is transferred to the customer. The adoption of IFRS 15 did not impact the Group's results. Fees and commissions charged for services provided by the Group are recognised as the services are provided, for example on completion of an underlying transaction.

**(t) Income from investments**

Income from investments includes dividend income and increase in fair value of investments in listed companies.

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for held for trading securities.

Increase in fair value of investments designated at fair value through profit or loss includes all realised and unrealised fair value changes.

**(u) Income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income or equity, in which case it is recognised in other comprehensive income or equity.

**4. Significant accounting policies** (Continued)

**(u) Income tax** (Continued)

***(i) Current tax***
Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

***(ii) Deferred tax***
Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Group has not rebutted this presumption.

Additional taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised. These amounts are generally recognised in profit or loss because they generally relate to income arising from transactions that were originally recognised in profit or loss.

**(v) Earnings per share**
The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding after adjusting for the effects of all dilutive potential ordinary shares.

**(w) Provision**
A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefit will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability.

**4. Significant accounting policies** (Continued)

**(x) Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

The analysis of fair value hierarchy for financial assets and liabilities is disclosed in **Note 6** to these consolidated and separate financial statements.

**(y) Repurchase agreements**

A repurchase agreement (repo) is defined as a contract where parties have agreed on the sale of securities and the subsequent repurchase of corresponding assets at a predetermined price. In a repo, the sold security remains on the balance sheet, since the Group is exposed to the risk that the security will fluctuate in value before the repo expires. The payment received is recognised as a financial liability on the balance sheet based on the respective counterparty.

**4. Significant accounting policies** (Continued)

**(y) Derivative financial instruments (**Continued**)**

Derivative embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not related to those of the host contracts are not measured at FVTPL.

**Offsetting**

In accordance with IAS 32 Financial Instruments: Presentation, the Group reports financial assets and financial liabilities on a net basis on the statement of financial position only if there is a current legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**(z) Financial guarantees, acceptances and letters of credit**

Financial guarantees, acceptances and letters of credit are accounted for as off-statement of financial position transactions and disclosed as contingent liabilities, unless it is probable that the Group will be required to make payments under these instruments, in which case they are recognised as provisions.

**(aa) Amounts due from related parties**

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

**(ab) Assets held for sale**

Non-current assets (or disposal groups) are classified as held for sale their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Such assets are measured at the lower of carrying amount and fair value less costs to sell.

An impairment loss is recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell, to the extent that it has not been recognized previously in any remeasurement. A gain is recognized for any subsequent increase in fair value less costs to sell of the asset, but not in excess of the cumulative impairment loss that has been recognized previously on the asset.

Such assets or disposal groups classified as held for sale are not depreciated or amortized.

**5. Risk Management**

The Group is faced with a variety of risks including credit, liquidity, interest rate, foreign exchange, price, operational, compliance/regulatory, reputation, strategic risks and others. The Group is committed to effectively managing these risks with a view to achieving a balance between acceptable exposure and reward.

The Board and senior management actively oversee the risk management process and implement adequate policies, procedures, comprehensive internal controls and limits that are set to mitigate risks. The Group has a risk management framework which covers risk identification, risk measurement, risk monitoring and risk control in respect of the significant risks.

The Board has a risk committee which meets regularly and gets reports from the Risk and Compliance function on risk assessment and levels of risks that the Bank is facing. Stress testing is done quarterly and the results are discussed with the Risk Committee.

**5. Risk Management** (Continued)

**(a) Risk Management Policies and Control**

The Group's approach to risk management is based on well-established governance processes, diversification and reliance on both individual responsibility and collective oversight, supported by comprehensive reporting. The Bank has an independent risk management and compliance function and various committees which allow executive management and the Board to evaluate the risks faced by the Bank, as well as its effectiveness for the management of these risks. These committees are integral to the Bank's risk management structure.

**(b) Risk Management Structure**

Responsibility for risk management resides at all levels within the Group, starting at Board level, filtering down to each business unit and ultimately each employee.

The Board is responsible for annually approving the risk appetite which is defined as the level of risk the Group is willing to accept in fulfilling its business objectives. The Group's risk appetite framework is embedded in key decision-making processes and supports the implementation of the Group strategy. The risk appetite has been translated into risk limits. Adherence to these limits is monitored and reported to produce a risk-reward profile for the Group. The Board meets four times a year. Adequate and efficient communication and monitoring systems have been put in place to ensure that the Directors receive all relevant, accurate information to guide them in decision-making and in ensuring that the Group fully complies with relevant legal, ethical and regulatory requirements.

**(c) Board Sub-Committees**

**(i) The Risk Committee**

The Risk Committee assists the Board in assessing, mitigating and controlling risks. The Committee reviews the risk, identifies causes of concern and outlines the scope of improvement where there are concerns. The Committee comprises two non-executive Directors and one executive Director.

The Head of Credit, Group General Manager - Treasury and International Banking, Group Head of Risk & Compliance, Chief Operations Officer, Chief Financial Officer and Head of Risk & Compliance attend the meetings.

**(ii) The Credit Committee**

The Credit Committee comprises three Directors with a good knowledge of the Malawi economy and business environment. Its overall responsibility is to ensure the soundness of the Group's credit portfolio. Specific responsibilities include:

- Ratification of terms and conditions of all credit facilities granted by management under its discretionary powers;
- Approval of all credit facilities above the discretionary limits set for management save for those requiring full Board approval in accordance with Reserve Bank of Malawi (RBM) directives;
- Review of non-performing assets and recovery procedures initiated in respect thereof and establishment of appropriate levels of provisioning when required; and

The Chief Executive Officer, General Manager – Corporate and Retail Banking, Group General Manager Treasury & International Banking, Head of Risk & Compliance, and other Heads attend the meetings.

The Head of Credit is responsible for credit risk management and underwriting including the assessment of credit facility applications and making recommendations thereon to the Chief Executive Officer and Credit Committee.

**5. Risk Management** (Continued)

**(c) Board Sub-Committees** (Continued)

**(iii) The Audit Committee**

The Committee comprises three non-executive Directors.

The Audit Committee assists the Board in discharging its duties in relation to financial reporting, asset management, internal control systems and processes. It also monitors the quality of both the external and internal audit functions. The Group's external and internal auditors have unlimited access to the Audit Committee and report to it in their independent, private meetings to discuss risk exposure areas. Where the committee identifies causes for concern or scope for improvement, it makes recommendations to the Board and presents remedial actions.

It is Board policy to maintain an independent internal audit function to undertake internal audit work throughout the Group. Internal Audit provides reliable, valued, insightful and timely assurance to the Board and executive management on the effectiveness of governance, risk management and controls over current and evolving risks in the context of the current and expected business environment.

**(d) Management**

**(i) The Group Managing Director**

The Group Managing Director is appointed by the Board to manage the Group's business within an acceptable risk profile, while delivering the approved strategy that leads to the achievement of long term objectives.

The Group Managing Director appoints the Head of Risk & Compliance, who heads an independent Risk and Compliance function and has overall day–to-day accountability for risk management.

**(ii) Head of Risk & Compliance**
The Head of Risk & Compliance is responsible for ensuring that an integrated and effective risk management framework is maintained throughout the Bank. The Head of Risk & Compliance has direct and unfettered access to the Chairman of the Risk Committee.

**(iii) Asset and Liability Management Committee (ALCO)**
The Asset and Liability Management Committee (ALCO) is responsible for capital management and management of liquidity risk, credit risk, interest rate risk, foreign exchange rate risk and price risk in the Bank. ALCO is a management committee and it meets monthly at a minimum. The committee comprises:

- Group GM, Treasury & International Banking;
- Chief Executive Officer;
- General Manager Corporate and Retail Banking;
- Head of Transactional Banking, Government & International Organisations;
- Head of Credit;
- Chief Finance Officer;
- Manager, Treasury;
- Management Accountant;
- Head of Branch Banking & Agriculture; and
- Risk and Compliance Manager.

**5. Risk Management** (Continued)

**(d) Management** (Continued)

**(iv) Management Risk Committee (MRC)**
The Management Risk Committee (MRC) comprises:

- Chief Executive Officer (Chairman);
- Group General Manager - Treasury and International Banking;
- Head of Risk & Compliance;
- Head of Information Technology;
- Risk and Compliance Manager;
- Chief Operating Officer;
- Head of Transactional Banking, Government & International Organisations;
- Head of Corporate Banking;
- Head of Branch Banking & Agriculture;
- Head of Internal Audit;
- Head of Human Resources and Administration;
- Head of Credit; and
- Company Secretary and Legal Counsel.

It is chaired by the Chief Executive Officer and meets monthly to review management of strategic risk, operational risk, compliance risk, reputation risk and any other risks in the Bank. This forum facilitates co-ordination and communication among various risk owners and risk management functions to resolve risk related issues in the Bank expeditiously and promote efficient management of relative risks.

**(v) Management Credit Committee (MCC)**
The Management Credit Committee (MCC) comprises:

- Chief Executive Officer (Chairman);
- Head of Credit;
- General Manager Corporate and Retail Banking; and
- Group General Manager - Treasury and International Banking.

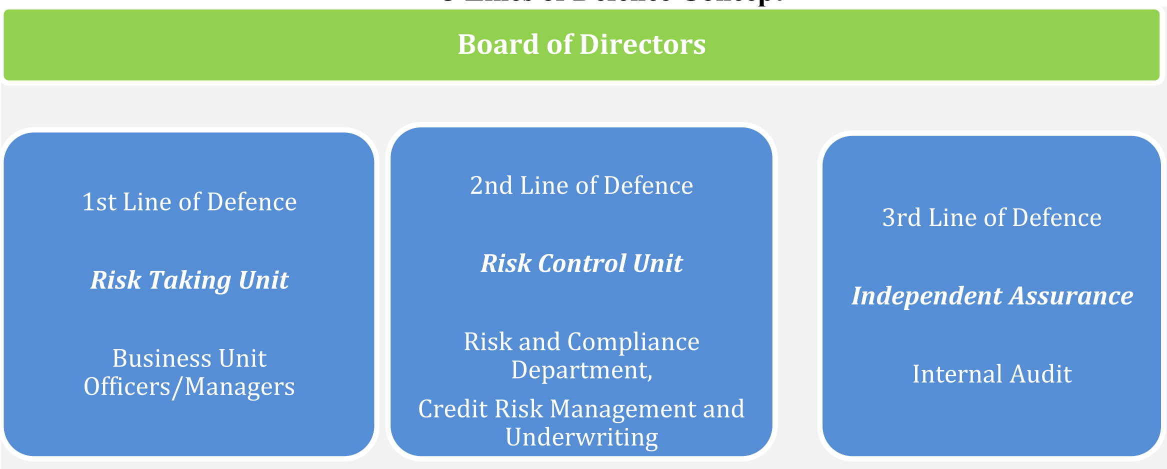
It is chaired by the Chief Executive Officer and meets monthly to review management of credit risk in the Bank.

**5. Risk Management** (Continued)

**(e) Risk Management Philosophy**

The Group believes that risk management trickles down from the Board level to every employee; therefore, everyone within the Group is responsible. The Group has a three line of defence approach as outlined in the diagram below**:**

**3 Lines of Defence Concept**




1st Line of Defence:

Comprises business units and Head Office departments.

The business units manage risk using laid down policies and procedures.

2nd Line of Defence:

Comprises Risk Management and Compliance function and Credit Risk Management and Underwriting function in Head office.

Responsibilities of Risk Management and Compliance function include:

- Formulating risk management framework and policies; developing tools and methodologies for risk identification and measurement; and

- Performing independent risk monitoring and reporting to the Risk Committee of the Board.

Responsibilities of Credit Risk Management and Underwriting function include:

- Formulating credit policies; assessing credit facility applications/ proposals and recommending approvals to Credit Committee; and

- Monitoring credit facilities and reporting to the Credit Committee of the Board.

3rd Line of Defence:

Comprises of Internal Audit function

Provides independent assessments of risk management processes and infrastructure, as well as the adequacy and effectiveness of risk policies and internal controls.

**5. Risk Management** (Continued)

**(f) Risk Appetite**

Risk appetite is the level of risk that the Group is willing to accept in achieving its strategic objectives. The Group's risk appetite framework is the cornerstone of its risk management architecture. It helps management to better understand and manage risks by translating risk metrics and methods into strategic decisions, reporting, and day-to-day business decisions.

From its long term strategic goals, the Group has identified key strategic objectives (KSOs) that it will need to pursue in the short to medium term, some of which will be measured quantitatively while others will be measured qualitatively. The Group has set measurable thresholds for the KSOs with levels of tolerance for all risk categories. A monitoring dashboard has been created for the KSOs. These are monitored on an ongoing basis with a three colour coded scale: green, amber and red. Red indicates that the Group has reached the minimum limit. Amber serves as a warning that the Group is approaching minimum limits. Green indicates that the Group is operating with buffer and is far from reaching the minimum levels. When the Group is operating within the buffer, the dashboard indicates amber to warn management against reaching minimum levels and breaching limits.

The Board ensures that management strikes an appropriate balance between promoting short-term profitability and growth and delivering long-term sustainable performance. The Board is fully committed to ensuring that the Group's affairs are conducted with integrity and high ethical standards.

**(g) Market Disclosures**

The Bank is obliged to make certain disclosures to the public by regulators and other authorities. This is required under the Financial Services Act 2010, the Malawi Companies Act, 2013, the Reserve Bank of Malawi (RBM) directives and the Market Disclosures guidelines.

The RBM requires all banks in Malawi to provide comprehensive disclosures for risk management practices.

The Group has a Market Disclosure policy and a risk management report is published twice a year.

**(h) Stress Testing**

The Group carries out stress tests to estimate the potential impact of low probability but extreme events on the Group's earnings and capital. The Group has a stress testing framework that defines scenarios to be used for different types of risk exposures. The stress testing scenarios are to be plausible. The stress scenarios that are used cover all the major types of risks including market, credit and liquidity risks. The stress test results are discussed at ALCO and Board Risk Committee and a summary of the results is sent to the Board of Directors.

**5. Risk Management** (Continued)

**(i) Significant Risks**

From the Bank's risk assessment process, the following have been identified as significant risks that the Bank faces:

1. Credit risk
2. Market risk
   - Foreign exchange rate risk
   - Interest rate risk
   - Equity risk
3. Liquidity risk
4. Operational risk
5. Compliance risk
6. Reputational risk
7. Strategic risk

**(j) Capital Management**

***(i)* Overview**

The Group operates a centralised capital management model. The capital management objectives as detailed in the Capital Management Framework are to meet the capital ratios required by The Reserve Bank of Malawi (RBM) and the capital target ranges set by the Board and to generate sufficient capital to support asset growth.

Capital is managed according to the Capital Management Framework and through ALCO's, regular reports on the capital positions. Capital risks are presented to the Risk Committee and Board. ALCO meets monthly to review, approve and make recommendations relating to the capital risk profile. This includes risk appetite, policies, limits and utilisation.

***(ii)* Internal Capital Adequacy Assessment Process (ICAAP)**

In accordance with the RBM's Internal Capital Adequacy Assessment Process (ICAAP) guidelines, the Group has a capital management planning process. Every year, the Group prepares an ICAAP document which is submitted to the RBM. The ICAAP is based on the Group's five year business plan. The ICAAP is prepared by Risk and Finance departments in consultation with the Group Managing Director and other members of senior management. The ICAAP is validated by internal auditors before it is presented to the Board of Directors for approval. ICAAP is a continuous process and is revised and updated whenever there are significant changes in the business / strategic plan. The objective of ICAAP is to ensure that the Group is adequately capitalized and that, where there are potential capital shortages, the Board and senior management ensure that the gaps are met. The Group promotes efficient use of capital by aligning business strategy, risk appetite and expected returns with capital requirements.

***(iii)* Capital Adequacy Ratios**

The following minimum capital adequacy ratios have been determined by The Reserve Bank of Malawi:

- Tier 1 Capital / Core Capital: 10%
- Total Capital (Tier 1 and 2): 15%

**5. Risk Management** (Continued)

**(j) Capital Management** (Continued)

***(i)* Capital Position as at 31 December 2018**

The following is the capital position of the Group and the Bank:

| | Consolidated | | Separate | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | K'000 | K'000 | K'000 | K'000 |
| Share capital | 116 813 | 116 813 | 116 813 | 116 813 |
| Share premium | 1 565 347 | 1 565 347 | 1 565 347 | 1 565 347 |
| Retained earnings | 28 515 250 | 30 124 146 | 28 523 218 | 30 477 217 |
| Investments in unconsolidated entities | - | - | (5 164 142) | (6 845 768) |
| Deferred tax asset | - | (728 311) | - | (529 199) |
| Non-controlling interest | 9 541 716 | 12 791 694 | - | - |
| **Total Tier 1 Capital** | 39 739 126 | 43 869 689 | 25 041 236 | 24 784 410 |
| **Tier 2 Capital** | | | | |
| Translation reserve | 1 217 714 | 2 591 039 | - | - |
| Property revaluation reserve | 5 198 420 | 3 458 925 | 5 196 969 | 3 460 979 |
| Loan loss reserve | 1 086 210 | 1 351 927 | 823 478 | 963 988 |
| Investments in unconsolidated entities | - | - | (5 164 142) | (6 845 768) |
| Non-controlling interests | 188 287 | 2 266 020 | - | - |
| Eligible subordinated debt | 12 477 873 | 10 301 209 | 7 000 000 | 7 000 000 |
| **Tier 2 Capital** | 20 168 503 | 19 969 120 | 7 856 305 | 4 579 199 |
| **Total qualifying capital** | 59 907 629 | 63 838 809 | 32 897 541 | 29 363 609 |
| **Total risk weighted assets** | 339 570 775 | 302 096 609 | 160 766 145 | 132 151 050 |
| Tier 1 risk based capital ratio (minimum 10%) | 11.7% | 14.5% | 15.6% | 18.8% |
| Total risk-weighted capital ratio (minimum 15%) | 17.6% | 21.1% | 20.5% | 22.2% |

**5. Risk Management** (Continued)

**(k) Credit Risk**

**(i) Credit Risk Management**

Credit risk is the risk of financial loss should the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. The Group actively seeks to originate and manage credit risk in such a way as to achieve sustainable asset growth and risk adjusted returns in line with board-approved risk parameters. The credit risk that the Bank faces arises mainly from corporate loans and advances and counterparty credit risk arising from derivative contracts entered into with counterparties. Other sources of credit risk arise from treasury bills, government bonds, settlement balances with counterparties and bank balances with Central Bank and other related banks.

Credit risk management objectives are;

- Supporting the achievement of sustainable asset and revenue growth in line with our risk parameters
- Operating sound credit granting processes and monitoring credit risk using appropriate models to assist decision making
- Ensure credit risk taking is based on sound credit risk management principles and controls
- Continually improving collection and recovery

**a) Risk limit and mitigation policies**

Banks in the Group use a range of policies and practices to mitigate credit risk. These include credit scoring, marking limits against counter parties and monitoring cash flows and utilisation against limits, covenants and collateral.

Principal collateral types used for loans and advances are:

- Mortgages over residential and commercial properties;
- Charges over business assets such as inventory and accounts receivable, moveable assets and guarantees.
- Cash cover.

The Legal and Credit departments are responsible for conducting sufficient legal review to confirm that the approved collateral is legally effective. The ratio of value of loan to value of security is assessed on grant date and continuously monitored.

**b) Credit risk grading**

**Customer Loans and Advances**

**Application**:

Banks in the Group use external ratings where available from ratings agencies, alternatively an internal application credit risk scoring tool that reflects its assessment of the PD of individual counterparties. Borrower and loan and advances specific information collected at the time of application (such as borrower profile, business activity, financial, account conduct, facility type, tenor and collateral) is fed into this rating tool. This is supplemented with external data such as credit bureau scoring information. The tool enables expert judgement to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

Originators and underwriters will incorporate any updated or new information/credit assessments into the credit system on an ongoing basis. In addition, the Bank officials will also update information about the creditworthiness of the borrower every year from sources such as financial statements, bank statements, credit bureau information and market feedback  This will determine the updated internal credit rating.

**5. Risk Management** (Continued)

**(k) Credit Risk** (Continued)

**b) Credit risk grading**

**Behavioural**
Payment and other behavioural aspects of the borrower are monitored on an ongoing basis in conjunction with collateral values and event driven factors to develop an internal behavioural credit rating. Exposures are monitored by grading customers in an early warning/ongoing monitoring list in order to identify those customers who are believed to be facing a significant increase in credit risk (SICR).

Customers are categorised into Risk Categories 0 - 3. Those in 0 and 1 display no or temporary business as usual situations and the risk of default is low. Category 2 implies there is greater doubt that the borrower will meet its obligations but the risk of default is medium. Category 3 implies that there are strong doubts that the customer will meet its obligations and the risk of default is high or has occurred.

These ratings are reflected on the following scale using excesses days past due as well as other criteria which are indicative of the severity of a SICR. These categories are in turn further sub-categorised in order to better measure any SICR. The Group has mapped these sub-categories to the 22 rating categories employed by S&P with a view to using the Corporate PDs published by S&P as a representation:

- Category 0 (sub categories 1 - 3c): 0 to 5 days past due
- Category 1 (sub categories 4a-5c): 6 to 30 days past due
- Category 2 (sub categories 6a -7c): 31 days to 89 days past due
- Category 3 (sub categories 8 - 10): 90 days+ past due (Default)

**c) Expected Credit Losses measurement (ECLs)**

IFRS9 outlines a ‘three-stage’ model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored by the Bank.
- If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired. Please refer to note below for a description of how the Group determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to ‘Stage 3’. Please refer to life time ECLs - default below for a description of how the Bank defines credit-impaired and default.

The ECL is measured on either a 12 - month (12M) or Lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit impaired. ECLs are the discounted product of the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

**5. Risk Management** (Continued)

**(k) Credit Risk** (Continued)

**c) Expected Credit Losses measurement (ECLs) (**Continued**)**

**Probability of Default (PD)**

The PD is the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" below), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. PDs are modelled using historic data into 12 M PD and Lifetime PDs. Where data is not available proxies which resemble the risk of default characteristics of the exposure are used. The PDs are determined individually or below threshold at portfolio level (below internal thresholds for customer exposures) and segmented into various categories using tenure, currency, product or low risk classification.

PDs modelled using historical data may then be adjusted for forward looking factors. PDs are mapped into different grades as follows:

**i) Customer loans**

| | | |
|---|---|---|
| Stage 1 | 12 Month PD | Central bank classification Pass / internal category 0 and 1 |
| Stage 2 | Life Time PD | Central Bank classification Standard / internal category 2 |
| Stage 3 | Default PD | Central bank classification, Substandard, Doubtful, Loss / internal category 3 |

**ii) Low risk financial instruments**

For debt securities in the Treasury portfolio and interbank exposures, performance of the counterparty is monitored for any indication of default. PDs for such exposures are determined based on benchmarked sovereign ratings mapped to external credit rating agencies grade (S&P Sovereign Debt and Corporate Default grades). Where there are external credit ratings, PDs are derived using those external credit ratings.

**Exposure at Default (EAD)**
EAD is the amount the Group expects to be owed at the time of default. For a customer revolving commitment, the EAD includes the current drawn balance plus any undrawn amount at the time of default, should it occur. For term loans, EAD is the drawn balance. For low risk financial instruments EAD is the current balance sheet exposure.

**Loss Given Default (LGD)**
LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD1 is calculated on a discounted lifetime basis for accounts in Stages 1 and 2 where LGD is the percentage of loss expected to be made if the default occurs. LGD2 is individually determined or modelled based on historical data. LGD for low risk financial instruments exposure is based on observed recovery rates and.

- Basel II & III Guidelines: the treatment of sovereign exposures in the banking book
- Basel II Guidelines: applied under foundation IRB and observed in the Committee's study on Banks
- Internal benchmark based on historical recoverability.

**5. Risk Management** (Continued)

**(k) Credit Risk** (Continued)

**c) Expected Credit Losses measurement (ECLs) (**Continued**)**

**i) 12 month ECLs (Stage 1 - no increase in credit risk)**
ECLs measured at an amount equal to the portion of lifetime ECLs that result from default events possible within the next 12 months. The 12 month ECL is calculated for the following exposures:

- Customer loans and advances with days past due 0 to 29 (Internal monitoring categories 0 and 1)
- Low risk financial instruments which are not past due

These represent a product of 12 months PD, LGD1 and EAD.

**ii) Life time ECLs (Stage 2 - SICR)**
ECLs are measured based on ECLs on a lifetime basis. It is measured for the following exposures;

- Customer loans and advances with central bank classification Standard, days past due 30 to 89 (Internal monitoring category 2)
- Low risk financial instruments where the credit risk has significantly increased since initial recognition

These are a product of lifetime PD, LGD1 and EAD

**iii) Life time ECLs (Stage 3 - default)**
ECLs are measured based on ECLs on a lifetime basis. This is measured on the following exposures.

- All credit impaired/ in default customer loans and advances and low risk financial instruments in default.
- These are customers with central bank classification Substandard, Doubtful (internal monitoring category 3)
- Exposures which are 90 days+ past due
- These are a product of default PD, LGD2 and EAD.

**Benchmarking ECL**
Portfolio assessment is performed by way of a collective assessment semi-empirical IFRS9 model (the ECL Model) developed in consultation with external consultants supported by available historic information to support the modelling of PD, LGD and EAD.

Individual assessment is performed on all customer loans and advances after having defined a minimum exposure threshold.

Banks in the Group elected to use a country rating by sovereign debt approach, which forms the basis of calculating the PD's of all financials assets within scope of IFRS9 guidelines. The sovereign debt PD is adjusted by individual corporate PD rates based on external rating provider S&P's information.

LGD's of individually assessed customer loans and advances, have been determined in terms of:

- Stages 1 and 2: An internal benchmark applied to a net exposure after application of future realisable cash flows, predominantly collateral held.
- Stage 3: Net exposure after application of future realisable cash flows, predominantly collateral held.

**5. Risk Management** (Continued)

**(k) Credit Risk** (Continued)

**c) Expected Credit Losses measurement (ECLs) (**Continued**)**

**Benchmarking ECL (**Continued**)**

LGD's on various financial assets/low risk financial instruments, with the exception of customer loans and advances, have been determined in terms of:

- Basel II & III Guidelines: the treatment of sovereign exposures in the banking book
- Basel II Guidelines: applied under foundation IRB and observed in the Committee's study on Banks
- Internal benchmark based on historical recoverability.

EAD is determined as below:

- For customer loans and advances: Outstanding exposures plus undrawn limits;
- For other financial assets/low risk financial instruments: Outstanding exposures.

**d) Significant increase in credit risk (SICR)**

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, banks in the Group consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the banks' historical experience and informed credit assessment and including forward-looking information.

The use of the Rebuttable Presumption of significant increase in risk means that an account is categorized as Stage 2 when the DPD is > 30 days and < 90 days. In addition to the Rebuttable Presumption the Group will also consider the output of its multi factor early warning/risk monitoring analysis as a qualitative measure, which include but are not limited to:

- Significant adverse changes in regulatory, business, financial or economic conditions in which the borrower operates in
- Actual or expected restructuring of debt
- Early signs of cash-flow/liquidity problems such as delay in servicing debt
- Significant decline in account turnover
- Breach or anticipation of breach of significant debt covenants
- Significant changes in the value of the collateral supporting the facility
- Significant change in the quality of the guarantee or financial support provided by the shareholder

The assessment of SICR incorporates forward looking information and is performed on a monthly basis at a portfolio level below internal thresholds. Customer loans and advances exceeding internal thresholds and low risk financial instrument exposures are assessed on a monthly and quarterly basis by the Credit department, Bank management and the Loans Review Committee.

**e) Default**

The Group considers a financial asset to be in default when:

Based on the Rebuttable Presumption a customer loan and/or advance is categorized as Substandard/Doubtful/Loss on the central bank asset classification when the DPD is 90 days or more.

**5. Risk Management** (Continued)

**(k) Credit Risk** (Continued)

**e) Default (**Continued**)**

In addition to the Rebuttable Presumption the Group will also consider the output of its multi factor risk analysis using internal risk monitoring as a qualitative measure. Qualitative examples of a significant increase in risk include but are not limited to:

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held)
- The borrower commits an act of insolvency
- The borrower's financial statements are qualified as to going concern
- The borrower or its Executive commit an act of fraud.

**f) Forward–looking information incorporated in the ECL model**

The Group subscribes to a forward looking view informed by the identification and use of economic factors which demonstrate a strong correlation with default experience. The ECL model allows the banks in the Group to develop potential future scenarios, attach probabilities thereto and to incorporate this into the calculation of ECL.

However, in the absence of strongly correlating factors, allowance is also made for the use of Management's expert view in a holistic manner; implemented by way of adjustment of the PD/LGD/EAD levers built into the ECL model for this purpose.

Banks in the Group considered the composition of its customer loans and advances portfolio, limited number of defaults experienced and the unique causes of defaults in concluding that defaults did not strongly correlate to specific macroeconomic factors.

The Group has thus developed an alternative methodology which allows the direct amendment of key ECL Model inputs, the probability of occurrence of these events, and their impact on the provision model outputs.

**g) Write – offs**

The Group's policy provides that an asset should be written off if there is no near term realistic chance of recovery once collateral has been recovered. Recoveries are actively pursued but write-off of an account shall also not be unduly delayed. An asset shall not be written off earlier than:

- Unsecured – 6 months after Default
- Secured – 18 months after Default

However, final or earlier write-off shall remain at the discretion of Management and the board.

**h) ECL Model governance**

The ECL Models used for PD, EAD and LGD calculations are governed on a day to day basis through the Management Credit Committee comprising of senior managers in risk, finance and the business. Decisions and key judgements made by the Committee relating to the impairments and model overrides will be taken to Board Risk Committee, Board Credit Committee and Board Audit Committee as appropriate. Credit risk processes from origination to monitoring and other operational processes around impairments now take into cognisance IFRS9 requirements.

**5. Risk Management** (Continued)

**(k) Credit Risk** (Continued)

**i) Disclosures on credit risk**

Maximum exposure to credit risk by credit quality grade before credit enhancements is summarised below:

**Consolidated (K'000)**
**31 December 2018**

| | ECL Stage | Loans and advances | Investments in finance leases | Balances with central banks | Balances with other banks | Money Market investments | Cheques in the course of clearing | Repurchase agreements |
|---|---|---|---|---|---|---|---|---|
| **Carrying amount** | | **178 897 390** | **1 625 094** | **20 794 638** | **81 481 879** | **84 456 207** | **1 273 067** | **21 850 946** |
| Standard (fully performing) | 1 | 168 610 722 | 567 956 | 20 794 638 | 81 481 879 | 84 456 207 | 1 273 067 | 21 850 946 |
| Past due but not impaired | 2 | 6 668 155 | 576 135 | - | - | - | - | - |
| Impaired | 3 | 8 280 710 | 943 480 | - | - | - | - | - |
| **Gross exposure** | | **183 559 587** | **2 087 571** | **20 794 638** | **81 481 879** | **84 456 207** | **1 273 067** | **21 850 946** |

**Separate (K'000)**

| | ECL Stage | Loans and advances | Investments in finance leases | Balances with central banks | Balances with other banks | Money Market investments | Cheques in the course of clearing | Repurchase agreements |
|---|---|---|---|---|---|---|---|---|
| **Carrying amount** | | **61 136 710** | **1 625 094** | **10 616 620** | **17 488 551** | **67 568 595** | **1 202 376** | **21 850 946** |
| Standard (fully performing) | 1 | 56 653 700 | 567 956 | 10 616 620 | 17 488 551 | 67 568 595 | 1 202 376 | 21 850 946 |
| Past due but not impaired | 2 | 3 862 106 | 576 135 | - | - | - | - | - |
| Impaired | 3 | 3 052 967 | 943 480 | - | - | - | - | - |
| **Gross exposure** | | **63 568 773** | **2 087 571** | **10 616 620** | **17 488 551** | **67 568 595** | **1 202 376** | **21 850 946** |

## 5. Risk Management (Continued)

## (k) Credit Risk (Continued)

### i) Disclosures on credit risk (continued)

### 31 December 2017

| | Consolidated (K'000) | | | Separate (K'000) | | |
|---|---|---|---|---|---|---|
| | Loans and advances to customers | Finance lease receivables | Money market investments | Loans and advances to customers | Finance lease receivables | Money market investments |
| **Carrying amount** | **172 705 794** | **3 829 790** | **116 446 394** | **43 147 303** | **3 829 790** | **81 493 263** |
| Standard (fully performing) | 156 188 940 | 2 987 311 | 116 446 394 | 39 602 332 | 2 987 311 | 81 493 263 |
| Past due but not impaired | 11 452 535 | 471 549 | - | 3 162 249 | 471 549 | - |
| Impaired | 10 549 902 | 903 101 | - | 3 270 804 | 903 101 | - |
| **Gross receivable** | **178 191 377** | **4 361 961** | **116 446 394** | **46 035 385** | **4 361 961** | **81 493 263** |
| Past due but not impaired assets | | | | | | |
| 30 - 60 days | 5 808 847 | 380 224 | - | 2 345 550 | 380 224 | - |
| 61 - 90 days | 5 643 688 | 91 325 | - | 816 699 | 91 325 | - |
| | **11 452 535** | **471 549** | **-** | **3 162 249** | **471 549** | **-** |
| **An estimate of the fair value of collateral held** | | | | | | |
| **Against individually impaired** | | | | | | |
| Property | 19 988 347 | 501 912 | - | 4 160 569 | 501 912 | - |
| Others * | 242 678 | 419 300 | - | 77 884 | 419 300 | - |
| | **20 231 025** | **921 212** | **-** | **4 238 453** | **921 212** | **-** |
| **Against past due but not impaired** | | | | | | |
| Property | 22 537 711 | 290 000 | - | 4 943 627 | 290 000 | - |
| Others * | 2 828 415 | 353 312 | - | 75 836 | 353 312 | - |
| | **25 366 126** | **643 312** | **-** | 5 019 463 | 643 312 | - |

* *Other collateral held includes moveable assets, receivables and share certificates pledged. The Group's policy is to pursue the timely realisation of the collateral in an orderly manner. The Group does not use any non-cash collateral for its own operations.*

**5. Risk Management** (Continued)

**(k) Credit Risk** (Continued)

**i) Disclosures on credit risk** (continued)

Banks in the Group have internal rating scale which is mapped into Basel II grading system. The internal rating in broadly classified into Standard (Performing), Past due but not impaired, Non performing (impaired).

**(i) Performing loans and securities**
These are loans and securities for which are neither past due nor impaired and which are not part of restructured loans.

**(ii) Past due but not impaired loans**
These are loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

**(i) Impaired loans and securities**
These are loans and securities for which the Group has determined that there is probability that it will be unable to collect all principal and/or interest due according to the contractual terms of the loan / securities agreements.

**(v) Distribution of Credit Exposure by Sector**
The Group monitors concentrations of credit risk by sector. Economic sector risk concentrations within the customer loan and finance lease portfolio at 31 December were as follows:

| | Consolidated | | Separate | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **K'000** | K'000 | **K'000** | K'000 |
| Agriculture | 13 212 590 | 13 841 229 | 11 969 846 | 11 269 328 |
| Mining | 33 280 | 1 032 341 | 33 280 | 1 419 |
| Financial Services | 66 932 285 | 18 962 781 | 1 160 307 | 1 603 618 |
| Construction | 11 544 680 | 13 953 941 | 2 263 736 | 1 565 775 |
| Energy/Electricity/Gas /Water | 1 252 999 | 8 153 236 | 1 224 586 | 6 905 958 |
| Manufacturing | 24 322 551 | 16 074 614 | 19 282 945 | 6 983 499 |
| Wholesale and Retail | 18 035 718 | 22 729 937 | 15 816 031 | 12 053 934 |
| Individual/Households | 36 724 690 | 30 954 220 | 2 719 803 | 2 444 752 |
| Real Estate | 218 396 | 20 749 864 | 218 396 | 100 268 |
| Tourism & Leisure | 2 329 897 | 12 968 234 | 2 329 897 | 507 351 |
| Transport & Communication | 3 472 260 | 12 166 836 | 3 019 242 | 3 568 163 |
| Others | 7 567 812 | 10 966 105 | 5 618 275 | 3 393 281 |
| | 185 647 158 | 182 553 338 | 65 656 344 | 50 397 346 |
| **Split into:** | | | | |
| Loans and advances (Note 9) | 183 559 587 | 178 191 377 | 63 568 773 | 46 035 385 |
| Finance lease receivables (Note 10) | 2 087 571 | 4 361 961 | 2 087 571 | 4 361 961 |
| | 185 647 158 | 182 553 338 | 65 656 344 | 50 397 346 |

**5. Risk Management** (Continued)

**Credit quality per class of financial assets**

The table below shows maximum exposure to credit risk without taking into account any collateral. The maximum exposure is presented gross, before effect of mitigation through the use of master netting and collateral agreements.

| | | Consolidated | | Separate | |
|---|---|---|---|---|---|
| | Notes | 2018 | 2017 | 2018 | 2017 |
| | | K'000 | K'000 | K'000 | K'000 |
| **Gross maximum exposure** | | | | | |
| Liquidity reserves deposits with central banks | 7 | 20 794 638 | 20 150 931 | 10 616 620 | 8 537 247 |
| Placements with other banks | 7 | 81 481 879 | 45 190 431 | 17 488 551 | 23 023 183 |
| Money market investments | 8 | 84 456 207 | 116 446 394 | 67 568 595 | 81 493 263 |
| Cheques in course of clearing | 7 | 1 273 067 | 185 189 | 1 202 376 | 166 834 |
| Repurchase agreements | 37 | 21 941 495 | 25 194 393 | 21 941 495 | 25 194 393 |
| Finance lease receivables | 10 | 2 087 571 | 4 361 961 | 2 087 571 | 4 361 961 |
| Loans and advances to customers | 9 | 183 559 587 | 178 191 377 | 63 568 773 | 46 035 385 |
| **Total recognised financial assets** | | 395 594 444 | 389 720 676 | 184 473 981 | 188 812 266 |
| Acceptance and letters of credit | 34 | 43 846 434 | 13 099 194 | 10 945 686 | 11 324 987 |
| Financial guarantees | 34 | 29 169 126 | 45 064 440 | 26 761 735 | 23 305 955 |
| **Total unrecognised assets** | | 73 015 560 | 58 163 634 | 37 707 421 | 34 630 942 |
| **Total credit risk exposure** | | 468 610 004 | 447 884 310 | 222 181 402 | 223 443 208 |

**5. Risk Management** (Continued)

**(n) Market Risk**

**Market Risk Management**

This is the risk that the Group's earnings, capital or its ability to meet its business objectives will be adversely affected by changes in market prices and conditions, such as interest rates, foreign exchange rates, equity prices and commodity prices.

Senior management and ALCO are mandated to manage market risk. Apart from the requirement to set aside capital for market risk under Basel II – Pillar I, the Group has internal procedures for identifying, measuring, monitoring and controlling market risk. The Group is exposed to foreign exchange risk, interest rate risk and equity risk. All these risks are properly managed as follows:

**Foreign Exchange Risk**

The Bank has a foreign exchange business policy and a foreign exchange risk management policy. The policies have exposure limits, limits for investments, trading limits and levels of authorization of foreign currency transactions. Forex exposure positions are regularly monitored by Treasury department and senior management.

The Group is exposed to foreign exchange risk in the trading book and the banking book. The policy for trading book exposure is that the position should be almost square. In the banking book, assets and liabilities mismatch is minimized. Most of the foreign currency borrowings by the Group are hedged by foreign currency loans to customers, to minimize risk exposure.

**Interest Rate Risk**

The Group does not usually offer fixed rate loans and advances to its customers. This minimizes interest rate risk because the Group is able to adjust base lending rates of its entities whenever there is a significant change in the market. Lending to other banks at a fixed rate is usually on short term tenors, so interest rate risk exposure on these assets is minimal.

The Group is exposed to interest rate risk on its liabilities, especially term deposits and subordinated debt. However, the risk exposure is minimized through limiting the proportion of fixed rate term deposit in its overall liabilities to customers.

Overall, the Group usually has more rate sensitive assets than liabilities. Its net interest margin is also wide enough to cover possible losses.

**Equity Risk**

The performance of the equity market and the Group's equity investments are closely monitored and appropriate risk mitigation measures are implemented where necessary. Investments in equities are at fair value and marked to market with any revaluation gains or losses immediately recognized in the profit or loss.

**(o) Policies**

The Group has several policies which cover:

- Foreign exchange business limits for individual currencies, forex exposures and trading limits for the Bank and dealers;
- Domestic money market limits for counterparties and dealers;
- Types of instruments that the Group can invest in and maximum amounts that it can invest;
- Market risk management and stress testing; and
- Categorization of assets into trading book and banking book.

**5. Risk Management** (Continued)

**(p) Assessment of Market Risk**

Apart from the capital charge calculations in accordance with RBM guidelines, the Group conducts internal risk assessments on foreign exchange risk, interest rate risk and equity risk at the end of each quarter. A risk management report is prepared by the Risk and Compliance function. This is presented to management and the Board Risk Committee.

For quantitative assessment, ratios are used to measure risk levels in terms of low, moderate and high. For qualitative assessment, several parameters are used to categorize the quality of market risk management in terms of strong, acceptable or weak. Qualitative and quantitative risk levels are used to arrive at the composite rating of each of the three components of market risk.

ALCO meets every month and discusses market risk exposure. ALCO ensures that the Group operates within regulatory and internal limits and approved policies and procedures.

In 2018, market risk was properly managed and the Group operated within limits.

**(q) Stress Testing/scenario analysis**

Stress testing is done by an independent Risk and Compliance function every quarter to ascertain impact on the Bank's capital adequacy of changes in interest rates, exchange rates and share prices. Based on the result, management takes corrective steps acting on the advice of ALCO and the Board.

The following are the assumptions used:

1) Increase/(decrease) in interest rate by 1%, 2%, 3%, 5%, 7.5% and 10%. The same is used to measure the level of Interest Rate Risk in the Banking Book.

2) Foreign exchange rate devaluation/appreciation by 5%, 10%, 25% and 50%.

3) Fall in share prices by 10%, 20%, 40% and 50%.

## 5. Risk Management (Continued)

### 5 (r) Exposure to Market Risk

Foreign exchange exposures were as follows:

**Consolidated**

| Currency | 2018 Assets (K'm) | 2018 Liabilities (K'm) | 2018 Net (K'm) | 2018 Sensitivity | 2017 Assets (K'm) | 2017 Liabilities (K'm) | 2017 Net (K'm) | 2017 Sensitivity |
|---|---|---|---|---|---|---|---|---|
| USD | 91 922 | 98 617 | (6 695) | (66.95) | 125 741 | 118 207 | 7 534 | 75.34 |
| GBP | 12 807 | 12 787 | 20 | 0.20 | 17 004 | 16 997 | 7 | 0.07 |
| EUR | 13 513 | 10 775 | 2 738 | 27.38 | 10 106 | 9 945 | 161 | 1.61 |
| ZAR | 12 117 | 6 585 | 5 532 | 55.32 | 3 004 | 2 131 | 873 | 8.73 |
| INR | 69 | - | 69 | 0.69 | 259 | 20 | 239 | 2.39 |
| JPY | 46 | - | 46 | 0.46 | 95 | - | 95 | 0.95 |
| BWP | 128 763 | 133 510 | (4 747) | (47.47) | - | - | - | - |
| OTHER | 678 | 19 | 659 | 6.59 | - | - | - | - |

**Separate**

| Currency | 2018 Assets (K'm) | 2018 Liabilities (K'm) | 2018 Net (K'm) | 2018 Sensitivity | 2017 Assets (K'm) | 2017 Liabilities (K'm) | 2017 Net (K'm) | 2017 Sensitivity |
|---|---|---|---|---|---|---|---|---|
| USD | 46 944 | 45 949 | 995 | 9.95 | 53 335 | 47 432 | 5 903 | 59.03 |
| GBP | 10 502 | 10 542 | -40 | -0.4 | 14 217 | 14 179 | 38 | 0.38 |
| EUR | 4 579 | 4 587 | -8 | -0.08 | 6 335 | 6 217 | 118 | 1.18 |
| ZAR | 792 | 609 | 183 | 1.83 | 585 | 464 | 121 | 1.21 |
| INR | 38 | 19 | 19 | 0.19 | 51 | 20 | 31 | 0.31 |

A 1% strengthening of the Malawi Kwacha against the foreign currencies above at the reporting date will increase/(decrease) profit or loss by the amounts shown in the sensitivity column above. The analysis assumes that all other variables in particular, interest rates, remain constant.

A 1% weakening of the Malawi Kwacha against the currencies above at the reporting date would have the equal but opposite effect.

**5. Risk Management** (Continued)

**5 (r) Exposure to Market Risk as per December Financial Statements** (Continued)

**Interest rate gap analysis**

The tables below summarises the exposure to interest rate risk. Included in the tables are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. The Group does not bear an interest rate risk on unrecognised financial instruments.

| **2018** | | | **Fixed rate** | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Consolidated** | **Zero rate** | **Floating rate** | **0-3 months** | **3-6 months** | **6-9 months** | **9-12 months** | **Over 12 months** | **Total** |
| Total assets | 65 318 409 | 49 056 358 | 180 111 597 | 26 207 246 | 32 077 181 | 14 050 042 | 71 758 819 | 438 579 652 |
| Total liabilities and equity | 62 375 779 | 197 673 298 | 87 362 486 | 61 058 660 | 6 129 886 | 6 188 631 | 17 790 912 | 438 579 652 |
| **Interest sensitivity gap** | **2 942 630** | **(148 616 940)** | **(92 749 111)** | **(34 851 414)** | **25 947 295** | **7 861 411** | **53 967 907** | **-** |

| **Separate** | | | **Fixed rate** | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Zero rate** | **Floating rate** | **0-3 months** | **3-6 months** | **6-9 months** | **9-12 months** | **Over 12 months** | **Total** |
| Total assets | 57 986 674 | 49 210 564 | 50 039 738 | 6 684 694 | 19 942 564 | 7 226 162 | 37 545 465 | 228 635 861 |
| Total liabilities and equity | 45 004 284 | 115 381 250 | 53 207 804 | 451 877 | 6 129 888 | 6 123 474 | 2 337 284 | 228 635 861 |
| **Interest sensitivity gap** | **12 982 390** | **(66 170 686)** | **(3 168 066)** | **6 232 817** | **13 812 676** | **1 102 688** | **35 208 181** | **-** |

## 5. Risk Management (Continued)

### 5 (r) Exposure to Interest Rate Risk as per December Financial Statements (Continued)

| **2017** | - | - | | | **Fixed rate** | | | |
|---|---|---|---|---|---|---|---|---|
| **Consolidated** | **Zero rate** | **Floating rate** | **0-3 months** | **3-6 months** | **6-9 months** | **9-12 months** | **Over 12 months** | **Total** |
| Total assets | 97 842 080 | 181 539 142 | 63 433 864 | 27 183 190 | 19 853 367 | 24 351 206 | 23 284 935 | 437 487 784 |
| Total liabilities and equity | 73 497 496 | 3 301 209 | 22 273 837 | 9 257 870 | 13 216 760 | 2 939 841 | 992 916 | 437 487 784 |
| **Interest sensitivity gap** | **24 344 584** | **178 237 933** | **41 160 027** | **17 925 320** | **6 636 607** | **21 411 365** | **22 292 019** | **-** |

| | - | - | | | **Fixed rate** | | | |
|---|---|---|---|---|---|---|---|---|
| **Separate** | **Zero rate** | **Floating rate** | **0-3 months** | **3-6 months** | **6-9 months** | **9-12 months** | **Over 12 months** | **Total** |
| Total assets | 56 138 784 | 51 166 950 | 47 134 069 | 23 873 169 | 25 548 051 | 21 519 839 | 7 408 875 | 232 789 737 |
| Total liabilities and equity | 52 916 252 | 114 500 906 | 25 543 865 | 11 777 622 | 24 118 335 | - | 3 932 757 | 232 789 737 |
| **Interest sensitivity gap** | **3 222 532** | **(63 333 956)** | **21 590 204** | **12 095 547** | **1 429 716** | **21 519 839** | **3 476 118** | **-** |

**5. Risk Management** (Continued)

**(r) Exposure to Market Risk** (Continued)

The effective interest rates for the principal financial assets and liabilities of the Bank at 31 December were:

| | 2018 | 2017 |
|---|---|---|
| **Assets** | % | % |
| Government securities | 11.4 – 19.5 | 12 - 26 |
| Deposits with banking institutions | 14 - 15 | 14 - 17 |
| Loans and advances to customers (base rate) | 23 | 25 |
| **Liabilities** | | |
| Customer deposits | 0.15 - 10 | 0.15 - 14 |

**Equity Risk**

The value of investments in listed companies as at 31 December were as follows:

| | 2018 K'000 | 2017 K'000 |
|---|---|---|
| Cost of investments in listed companies | 739 679 | 739 679 |
| Fair value of investments in listed companies | 5 589 089 | 5 203 185 |
| Net increase in fair value of investments in listed companies | 385 904 | 2 028 684 |
| Impact on profit and equity of: | | |
| increase of share price by 10% | 558 909 | 520 319 |
| decrease of share price by 10% | (558 909) | (520 319) |

**Liquidity Risk**

Liquidity risk is the potential for loss to an institution arising from its inability to meet its obligations as they fall due and/or fund its asset book and operations due to insufficient cash flow.

Liquidity risk is often triggered by consequences of other financial risks such as credit risk, market risk and operational risk. For instance, increasing credit risk through asset concentration may increase liquidity risk and a large loan default or changes in interest rate can adversely impact the liquidity position. If management misjudges the impact on liquidity of entering into a new business or product line, the Group's liquidity risk would increase. Large off-balance sheet exposures, high concentrations in deposits and rapid growth in assets may pose relatively high levels of liquidity risk to the Group.

**Policies**

The Group has an asset liability management policy which outlines policies and procedures in liquidity management including a contingency funding plan. All liquidity policies and procedures are subject to Board approval.

**Liquidity Risk Management**

The Board and senior management are responsible for liquidity risk management. The responsibility for managing the overall liquidity of the Group is delegated to ALCO. ALCO is responsible for the implementation of sound policies and procedures keeping in view the strategic direction and risk appetite specified by the Board. ALCO meets every month. The committee interacts regularly with line managers and Board members to enable it to monitor and control liquidity risk arising from new products and future business activities.

**5. Risk Management** (Continued)

**(r) Exposure to Market Risk** (Continued)

**Liquidity Risk Management** (Continued)

ALCO measures the Group's liquidity position using liquidity ratios 1 and 2, liquidity analysis also known as maturity gap analysis, its ability to keep the liquidity reserve requirements, cash flow projections, credit/deposit ratio and other ratios. The Group has an asset liability management policy, liquidity risk management policy and compliance policy. Credit and investments policies and limits are set with liquidity risk management in mind. All these policies are subject to Board approval. Apart from internal policies, the Group is also guided by the Policy Statement on Prudential Aspects of Bank Liquidity issued by the RBM.

**Assessment of Liquidity Risk**
Liquidity risk is assessed and monitored on a daily basis. A daily dashboard is circulated to executive management every morning and a Liquidity Position Report is produced by Treasury back office before end of day. This report is used for making decisions on whether to invest surplus funds or borrow funds from the interbank market in order to cover liquidity gaps. Weekly and fortnightly Liquidity Reports are also produced.

An independent Risk and Compliance function prepares reports for ALCO, on a monthly basis, and reports for the Risk Committee on a quarterly basis.

For quantitative assessment, gap analysis and ratios are used to measure risk levels. For qualitative assessment, several parameters are used to determine the quality of liquidity risk management.

**Stress Testing**
Stress testing is done by Risk and Compliance function every quarter to ascertain the impact of sudden changes in short term liabilities and liquid assets on the Bank's liquidity position. The results are discussed with ALCO and the Risk Committee.

## 5. Risk Management (Continued)

### Liquidity Risk

The maturity gap analysis as at 31 December 2018 is given below:

**Consolidated**

| | Carrying amount K'000 | Gross nominal amount K'000 | Up to 1 month K'000 | 1-3 months K'000 | 3-6 months K'000 | 6-12 months K'000 | 1-3 years K'000 | Over 3 years K'000 |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and cash equivalents | 112 650 131 | 112 650 131 | 112 650 131 | - | - | - | - | - |
| Money market investments | 84 456 207 | 84 779 464 | 18 768 385 | 26 072 151 | 1 922 257 | 14 798 757 | 23 217 914 | - |
| Loans, advances and leases | 180 522 484 | 185 647 158 | 71 877 752 | 13 777 114 | 26 435 515 | 20 660 940 | 30 049 558 | 22 846 279 |
| Investments at fair value through P&L | 5 589 089 | 5 589 089 | 1 117 818 | 1 117 818 | 1 117 818 | 1 117 818 | 1 117 817 | - |
| Other financial assets | 25 527 279 | 25 527 279 | 6 234 429 | 7 583 622 | 142 584 | 11 566 644 | - | - |
| **Total assets** | 408 745 190 | 414 163 121 | 210 648 515 | 48 550 705 | 29 618 174 | 48 144 159 | 54 385 289 | 22 846 279 |
| **Liabilities** | | | | | | | | |
| Liabilities to customers | 335 770 978 | 335 770 978 | 202 237 336 | 63 238 558 | 60 656 798 | 71 569 | 9 566 717 | - |
| Due to other banks | 26 114 351 | 26 114 351 | 3 121 633 | 8 006 624 | 401 862 | 12 246 948 | 2 070 664 | 266 620 |
| Subordinated debt | 12 886 911 | 12 886 911 | - | - | - | 594 235 | 5 292 676 | 7 000 000 |
| Other liabilities | 8 191 239 | 8 191 239 | 5 770 677 | 806 854 | 806 854 | 806 854 | - | - |
| **Total liabilities** | 382 963 479 | 382 963 479 | 211 129 646 | 72 052 036 | 61 865 514 | 13 719 606 | 16 930 057 | 7 266 620 |
| **Net liquidity gap** | 25 781 711 | 31 229 642 | (481 131) | (23 501 331) | (32 247 340) | 34 424 553 | 37 455 232 | 15 579 659 |
| **Cumulative liquidity gap** | 25 781 711 | 31 229 642 | (481 131) | (23 982 462) | (56 229 802) | (21 805 249) | 15 649 983 | 31 229 642 |

## 5. Risk Management (Continued)

### Liquidity Risk

The maturity gap analysis as at 31 December 2017 is given below:

**Consolidated**

| Assets | Carrying amount K'000 | Gross nominal amount K'000 | Up to 1 month K'000 | 1-3 months K'000 | 3-6 months K'000 | 6-12 months K'000 | 1-3 years K'000 | Over 3 years K'000 |
|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 79 515 242 | 79 515 242 | 79 515 242 | - | - | - | - | - |
| Money market investments | 116 446 394 | 116 446 394 | 4 218 024 | 24 263 676 | 23 060 766 | 31 483 205 | 27 321 154 | 6 099 969 |
| Loans, advances and leases | 176 535 584 | 182 553 338 | 60 300 537 | 5 568 566 | 9 819 900 | 11 667 512 | 66 936 107 | 28 260 716 |
| Investments at fair value through P&L | 5 203 185 | 5 203 185 | 1 040 637 | 1 040 637 | 1 040 637 | 1 040 637 | 1 040 637 | - |
| Other financial assets | 32 115 446 | 32 115 446 | 6 921 053 | 25 194 393 | - | - | - | - |
| **Total assets** | 409 815 851 | 415 833 605 | 151 995 493 | 56 067 272 | 33 921 303 | 44 191 354 | 95 297 898 | 34 360 685 |
| | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Liabilities to customers | 312 007 855 | 312 007 855 | 217 142 432 | 37 087 142 | 47 446 535 | 5 612 119 | 4 719 627 | - |
| Due to other banks | 41 681 224 | 41 681 224 | 3 760 073 | 11 251 055 | 9 257 870 | 13 479 469 | 2 939 841 | 992 916 |
| Subordinated debt | 10 301 209 | 10 301 209 | - | - | - | - | - | 10 301 209 |
| Other liabilities | 15 334 329 | 15 334 329 | 15 334 329 | - | - | - | - | - |
| **Total liabilities** | 379 324 617 | 379 324 617 | 236 236 834 | 48 338 197 | 56 704 405 | 19 091 588 | 7 659 468 | 11 294 125 |
| | | | | | | | | |
| **Net liquidity gap** | 30 491 234 | 36 508 988 | (84 241 341) | 7 729 075 | (22 783 102) | 25 099 766 | 87 638 430 | 23 066 560 |
| | | | | | | | | |
| **Cumulative liquidity gap** | 30 491 234 | 36 508 988 | (84 241 341) | (76 512 266) | (99 295 368) | (74 195 602) | 13 442 828 | 36 509 388 |

**5. Risk Management** (Continued)

**Liquidity Risk**

The maturity gap analysis as at 31 December 2018 is given below:

**Separate**

| **Assets** | **Carrying amount K'000** | **Gross nominal amount K'000** | **Up to 1 month K'000** | **1-3 months K'000** | **3-6 months K'000** | **6-12 months K'000** | **1-3 years K'000** | **Over 3 years K'000** |
|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 34 765 119 | 34 765 119 | 34 765 119 | - | - | - | - | - |
| Money market investments | 67 568 595 | 67 870 414 | 18 768 386 | 9 164 085 | 1 922 257 | 14 798 757 | 23 216 929 | - |
| Loans, advances and leases | 63 761 804 | 65 656 344 | 9 250 598 | 13 600 863 | 8 325 431 | 13 172 883 | 11 292 698 | 10 013 871 |
| Investments at fair value through P&L | 5 589 089 | 5 589 089 | 1 117 818 | 1 117 818 | 1 117 818 | 1 117 818 | 1 117 817 | - |
| Other financial assets | 24 320 605 | 24 320 605 | 5 370 344 | 7 583 622 | 17 589 | 11 349 050 | - | - |
| **Total assets** | 196 005 212 | 198 201 571 | 69 272 265 | 31 466 388 | 11 383 095 | 40 438 508 | 35 627 444 | 10 013 871 |
| | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Liabilities to customers | 139 582 070 | 139 582 070 | 115 381 250 | 24 144 393 | 50 015 | 6 412 | - | - |
| Due to other banks | 37 049 507 | 37 049 507 | 3 121 633 | 18 941 780 | 401 862 | 12 246 948 | 2 070 664 | 266 620 |
| Subordinated debt | 7 000 000 | 7 000 000 | - | - | - | - | - | 7 000 000 |
| Other liabilities | 5 283 571 | 5 283 571 | 3 593 352 | 563 407 | 563 407 | 563 405 | - | - |
| **Total liabilities** | 188 915 148 | 188 915 148 | 122 096 235 | 43 649 580 | 1 015 284 | 12 816 765 | 2 070 664 | 7 266 620 |
| | | | | | | | | |
| **Net liquidity gap** | 7 090 064 | 9 286 423 | (52 823 970) | (12 183 192) | 10 367 811 | 27 621 743 | 33 556 780 | 2 747 251 |
| | | | | | | | | |
| **Cumulative liquidity gap** | 7 090 064 | 9 286 423 | (52 823 970) | (65 007 162) | (54 639 351) | (27 017 608) | 6 539 172 | 9 286 423 |

**5. Risk Management** (Continued)

**Liquidity Risk**
The maturity gap analysis as at 31 December 2017 is given below:

**Separate**

| Assets | Carrying amount K'000 | Gross nominal amount K'000 | Up to 1 month K'000 | 1-3 months K'000 | 3-6 months K'000 | 6-12 months K'000 | 1-3 years K'000 | Over 3 years K'000 |
|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 37 631 055 | 37 631 055 | 37 631 055 | - | - | - | - | - |
| Money market investments | 81 493 263 | 81 493 263 | 3 395 871 | 11 991 302 | 22 145 550 | 22 856 758 | 21 103 782 | - |
| Loans, advances and leases | 46 977 093 | 50 397 346 | 11 327 239 | 1 294 787 | 7 313 637 | 9 904 332 | 13 771 168 | 6 786 183 |
| Investments at fair value through P&L | 5 203 185 | 5 203 185 | 1 040 637 | 1 040 637 | 1 040 637 | 1 040 637 | 1 040 637 | - |
| Other financial assets | 27 244 342 | 27 244 342 | 2 049 949 | 25 194 393 | - | - | - | - |
| **Total assets** | 198 548 938 | 201 969 191 | 55 444 751 | 39 521 119 | 30 499 824 | 33 801 727 | 35 915 587 | 6 786 183 |
| | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Liabilities to customers | 129 712 918 | 129 712 918 | 121 420 466 | 8 091 513 | 164 163 | 36 776 | - | - |
| Due to other banks | 43 160 567 | 43 160 567 | 3 144 701 | 11 251 055 | 487 786 | 24 344 268 | 2 939 841 | 992 916 |
| Subordinated debt | 7 000 000 | 7 000 000 | - | - | - | - | - | 7 000 000 |
| Other liabilities | 12 993 041 | 12 993 041 | 12 993 041 | - | - | - | - | - |
| **Total liabilities** | 192 866 526 | 192 866 526 | 137 558 208 | 19 342 568 | 651 949 | 24 381 044 | 2 939 841 | 7 992 916 |
| | | | | | | | | |
| **Net liquidity gap** | 5 682 412 | 9 102 665 | (82 113 457) | 20 178 551 | 29 847 875 | 9 420 683 | 32 975 746 | (1 206 733) |
| | | | | | | | | |
| **Cumulative liquidity gap** | 5 682 412 | 9 102 665 | (82 113 457) | (61 934 906) | (32 087 031) | (22 666 348) | 10 309 398 | 9 102 665 |

**5. Risk Management** (Continued)

**Operational Risk**
Operational risk is a risk of loss or reputational damage resulting from inadequate or failed internal processes, people and systems/technology or from external events. Losses due to damage to physical assets, natural disasters, law suits, frauds, staff injuries, robberies and theft are all part of operational risk.

**Operational Risk Management**
The Board and senior management have created a culture that places high priority on effective operational risk management and adherence to sound operating controls. This culture emphasises high standards of ethical behaviour, honesty and integrity at all levels of the Group. The Bank has an organisational structure with clear reporting lines, efficient lay-out of premises conducive to close supervision, sound work systems and procedures and strong internal controls.

The Group has operations manuals, IT policies and manuals, a system of vetting employees, employee-friendly personnel policies, an employee training centre, systems of regular reconciliations of suspense accounts, an array of periodic Management Information Systems (MIS) reports, security and internal audit functions for effective management of operational risk in the Group. Disaster recovery and business continuity plans are in place to manage business disruptions. New products are thoroughly examined by a senior management committee and the risk management function before the Board accords approval for adoption. Insurance policies are in place for premises, various assets and employee fidelity and professional indemnity.

The policies, plans and manuals are regularly reviewed and updated, to ensure that they continue to be relevant to the environment within which the Group operates.

**Processes**
The Group has policies, operational manuals, guidelines and structures to manage its processes.

At bank level, the Bank has a Chief Operating Officer who heads the Operations department and oversees Administration, IT, Central Clearing, Card Centre, Regional Processing Centres, Quality Control department, Branch Supervision and Head Office Operations department. All these departments have departmental heads at senior or middle management levels.

All customer service back office processes are centralised. The centralized processes are handled at the central processing centre (CPC). This was done with the aim of minimizing operational risk and improving efficiency. The CPC manager reports to the Chief Operating Officer. Work done by CPC is reviewed every day by an independent Quality Control department in Head Office to ensure that procedures are adhered to and any errors are detected at the earliest.

Branch and Agency Managers report to Regional Managers who report to the Head of Branch Banking and Agriculture.

Other specialized departments like Credit, Treasury, Risk, Compliance, Legal, Finance, Human Resources, Internal Audit report directly to the Chief Executive Officer or the Group Managing Director. Credit, Risk and Compliance and Internal Audit also have direct reporting to the Board sub-committees.

**Fraud**
The Group has systems and controls to mitigate fraud risk. The Group has a fraud policy which outlines what is to be done in cases of frauds. The Group encourages staff and the public to report actual or suspected fraud through the tip-offs anonymous service, line management or the Compliance Officer. Internal Audit department investigates all fraud cases.

**5. Risk Management** (Continued)

**IT Risk**
The risk that the Group can suffer losses or business disruptions due to technological system failure is very high. To manage and mitigate this risk, the Group has the following in place:

1. Policies
2. Modern data centre
3. IT disaster recovery site
4. Offsite backup centre
5. Trained personnel in hardware and software systems
6. Maintenance agreements with system providers

**People Risk**
The Group realizes that its human capital is one of its most important resources. The Group has policies and guidelines on operations to ensure that employees are motivated and perform their duties at high standards at all times. The Group has a Learning and Development Centre (L&D) under Human Resources Department. All new staff go through induction training. L&D organizes training throughout the year for staff at all levels. Timely communication is made to staff on the Group's plans, new products and other developments. The Group recruits qualified staff and police clearance is sought for all new staff.

**Assessment of Operational Risk**
An independent Risk and Compliance function conducts ad-hoc risk assessments on premises, products and processes and reports the findings to business units or respective departments and the Managing Director. It conducts operational risk assessments as part of the bank-wide risk assessments and reports to the Managing Director and the Risk Committee on a quarterly basis.

Each entity in the Group has a risk management framework which gives guidelines on how to identify, assess, monitor and control/mitigate operational risk. In addition, there are policies and procedures on operational risk management that are aligned to the overall business strategy and support continuous improvement of overall risk management in the Group.

The Group has an Operational Risk Management System (ORMS) for recording all operational risk incidents and losses.

**Stress Testing**
Stress testing is done using operational risk scenarios.

**Other Risks**

**Compliance Risk**
This is the risk of legal or regulatory sanctions, material financial loss or damage to reputation that the Group may suffer as a result of failure to comply with laws, regulations, internal policies or code of conduct applicable to the Group's activities.

The Group's Board of Directors has set in place systems for identifying, measuring, monitoring and controlling all the potential lapse areas to ensure continued compliance with all the sections of the Banking Act 2009, Reserve Bank of Malawi Act 1989, Financial Services Act 2010, Financial Crimes Act, 2016 and RBM directives/prudential guidelines and all other relevant laws in Malawi and other territories in which it conducts operations.

**5. Risk Management** (Continued)

**Other Risks** (Continued)

***Compliance Risk Management***
To achieve proper management of compliance risk, the Board has set limits and guidelines through policies on liquidity, credit, money laundering, etc. to ensure that management operates within limits and conditions set in the laws, regulations and directives issued by the government and the regulator. Senior management is responsible for effective management of compliance risk by implementing and instituting a risk management framework to identify, assess, monitor and control the compliance risk in the Group as well as to report to the Board on management of risk and compliance failures, if any, from time to time. Senior management reviews the compliance management framework, operational manuals and employee guidelines periodically for appropriateness and soundness.

Each entity in the Group has a Compliance Officer who is responsible for monitoring and ensuring that regulations and policies are followed. Any breach of limits or regulations are made known to the Compliance Officer and these are reported to the Managing Director and the Board Risk Committee and the Board

Every functional head and line manager in the Group is responsible for ensuring that the Group complies with regulations and policies. Assets and Liability Committee (ALCO) is very instrumental in identifying the potential violation areas and minutes of ALCO meetings are tabled in Board meetings, to ensure that the Board is kept informed of all compliance risk management concerns.

Internal audit function conducts periodical audits and provides reasonable assurance that all activities and aspects of compliance risk are being properly managed. Internal auditors also inform management and the audit committee of any breaches or violations.

**Reputational Risk**

Reputational risk is the potential that negative publicity, whether true or not, will cause a decline in the customer base, costly litigations or revenue reductions. This risk can be a result of the Group's failure to effectively manage any or all of the risk types and it can emerge at all business levels.

***Reputational Risk Management***
At First Capital Bank Malawi, it is every employee's responsibility to ensure that the Group's reputation is guarded at all times. From product development stage, we ensure that all products have been vetted to ensure that they don't tarnish the Group's image. All employees and senior management are encouraged to report any negative publicity in newspapers, social media and the grapevine to ensure that any incorrect perceptions are corrected. First Capital Bank Malawi has a Marketing department and has suggestion boxes at its service centres, a call centre and tip-off anonymous service to enhance customer service but also as a means of getting feedback and information from customers and the public.

The Group has the following Board approved policies which have been formulated to manage reputation risk:

1. Reputation risk management policy, which contain guidance for management of reputation risk.
2. Disclosure policy which defines what information can be disclosed by whom to the public.
3. Market disclosure policy which defines when and what can be disclosed in the risk management report under Basel II - Pillar III.

**5. Risk Management** (Continued)

**Reputational Risk** (Continued)

The Board and the Chief Executive Officer have the ultimate responsibility of managing reputation risk.

Risk and Compliance function independently assesses and reports level of reputational risk to the Risk committee.

The Bank's Internal Audit function checks that reputation risk is being managed effectively in the company during their scheduled audits and reports findings to the Board Audit Committee.

**Strategic Risk Management**

**Strategic Risk**
This is the risk of adverse impact on earnings, capital, and reputation arising from changes in the environment and from adverse strategic decisions, improper implementation of decisions or lack of responsiveness to industry, economic or technical changes.

The Group is guided in its strategic decision-making by a strategic plan also known as a business plan covering five years. The plan is developed by the Board of Directors in collaboration with senior management and it is reviewed regularly. The plan is updated whenever there are significant changes or new developments in the market, changes in government policies and shifts in customer behaviour. Within the ambit of the operative business plan, annual budgets are prepared and implemented by management after approval by the Board.

Board and senior management are responsible for strategic risk management. This is achieved by among other things formulating strategy and policies, setting the Group's and individual entities' risk appetites as well as careful assessment before introduction of new products and exiting from certain products. It is the duty of the Board to establish adequate systems and controls to ensure that overall risk remains within acceptable levels. The Board has a duty to assess expansion of business arenas, monitor market changes and emergence of new financial products.

All decisions and actions that have or may have an impact on the Group's strategy have prior approval of the Board. All actions or decisions touching on strategy involve functional managers' first-hand assessments of the competitive and practical considerations underlying such decisions or actions. Strategic decisions are clearly communicated throughout the organization in a timely manner to ensure that appropriate employees are aware and engaged and act in a manner consistent with such decisions.

The Risk and Compliance function conducts periodic strategic risk assessments and reports the results to the Risk Committee.

## 6. Financial assets and liabilities

### Classification of financial instruments

The disclosed fair value of these financial assets and liabilities measured at amortised cost approximate their value because of their short term nature except for loans, advances and leases which are at variable interest rates.

**Consolidated**

| **31-Dec-18** | **Financial assets at FVTPL** | **Financial assets at Amortised cost** | **Financial assets at FVOCI** | **Financial liabilities at amortised cost** | **Total Carrying amount** | **Fair values** |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and cash equivalents | - | 112 650 131 | - | - | 112 650 131 | 112 650 131 |
| Money market investments | - | 84 456 207 | - | - | 84 456 207 | 84 456 207 |
| Investments at FVTPL | 5 589 089 | - | - | - | 5 589 089 | 5 589 089 |
| Financial assets at FVOCI | - | - | 31 878 | - | 31 878 | 31 878 |
| Loans, advances and leases | - | 180 522 484 | - | - | 180 522 484 | 180 522 484 |
| Other assets | - | 26 256 398 | - | - | 26 256 398 | 26 256 398 |
| | **5 589 089** | **403 885 220** | **31 878** | **-** | **409 506 187** | **409 506 187** |
| **Financial liabilities** | | | | | | |
| Liabilities to customers | - | - | - | 335 770 978 | 335 770 978 | 335 770 978 |
| Due to other banks | - | - | - | 26 114 351 | 26 114 351 | 26 114 351 |
| Subordinated debt | - | - | - | 12 886 911 | 12 886 911 | 12 886 911 |
| Preference shares | - | - | - | 1 431 633 | 1 431 633 | 1 431 633 |
| Other liabilities | - | - | - | 8 191 239 | 8 191 239 | 8 191 239 |
| | **-** | **-** | **-** | **384 395 112** | **384 395 112** | **384 395 112** |
| **Separate** | | | | | | |
| **Financial assets** | | | | | | |
| Cash and cash equivalents | - | 34 765 119 | - | - | 34 765 119 | 34 765 119 |
| Money market investments | - | 67 568 595 | - | - | 67 568 595 | 67 568 595 |
| Investments at FVTPL | 5 589 089 | - | - | - | 5 589 089 | 5 589 089 |
| Loans, advances and leases | - | 63 761 804 | - | - | 63 761 804 | 63 761 804 |
| Other assets | - | 24 320 605 | - | - | 24 320 605 | 24 320 605 |
| | **5 589 089** | **190 416 123** | **-** | **-** | **196 005 212** | **196 005 212** |
| **Financial liabilities** | | | | | | |
| Liabilities to customers | - | - | - | 139 582 070 | 139 582 070 | 139 582 070 |
| Due to other banks | - | - | - | 37 049 507 | 37 049 507 | 37 049 507 |
| Subordinated debt | - | - | - | 7 000 000 | 7 000 000 | 7 000 000 |
| Other liabilities | - | - | - | 5 283 571 | 5 283 571 | 5 283 571 |
| | **-** | **-** | **-** | **188 915 148** | **188 915 148** | **188 915 148** |

**Consolidated**

**6. Financial assets and liabilities** (Continued)

**Fair value hierarchy of assets and liabilities held at fair value**

The following table 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. The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

**Level 1:** Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

**Level 2:** Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

**Level 3**: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

**Consolidated and separate**

| | **2018 K'000** | | | **2017 K'000** | | |
|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Level 1** | **Level 2** | **Level 3** |
| **Financial asset** | | | | | | |
| Investment at fair value through P&L | 5 589 089 | - | - | 5 203 185 | - | - |

Valuation for investments at fair value through profit or loss is done using quoted prices by the Malawi Stock Exchange

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates and credit spreads used in estimating discount rates, bond and equity prices, and foreign currency exchange rates.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models for determining the fair value of common and simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, and exchange-traded derivatives. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

**6. Financial assets and liabilities** (Continued)

**Fair value hierarchy of assets and liabilities held at fair value** (Continued)

The Group does not provide fair value disclosure for financial instruments not measured at fair value, when the carrying amount is a reasonable approximation of fair value and for an investment in equity instruments that do not have a quoted price in an active market for an identical instrument.

## 7. Cash and cash equivalents

| | Consolidated | | Separate | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | K'000 | K'000 | K'000 | K'000 |
| Liquidity reserve deposits with Central Banks | 20 794 638 | 20 150 931 | 10 616 620 | 8 537 247 |
| Placements with other banks | 81 481 879 | 45 190 431 | 17 488 551 | 23 023 183 |
| Cheques in course of clearing | 1 273 067 | 185 189 | 1 202 376 | 166 834 |
| Cash balances | 9 100 547 | 13 988 691 | 5 457 572 | 5 903 791 |
| Total cash and cash equivalents | 112 650 131 | 79 515 242 | 34 765 119 | 37 631 055 |

Amounts deposited with Central Banks for liquidity reserve requirement are not available for the Group's operating activities and do not attract interest. Other cash and cash equivalents with other banks earn interest of 10% – 19.5% (2017: 14 - 26%).

## 8. Money market investments

The interest rate on money market investments approximates the market interest rate and hence the carrying amount reasonably approximates the fair value.

All money market investments mature within 12 months, except for treasury notes with a carrying amount of K23.2 billion as at 31 December 2018 (2017: K21.4 billion). These have a tenor of 36 months from 26 September 2017 to 26 September 2020, with a coupon rate of 12%.

| | Consolidated | | Separate | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | K'000 | K'000 | K'000 | K'000 |
| **Gross amount** | | | | |
| Promissory and Treasury notes | 26 912 572 | 33 330 847 | 26 912 572 | 33 330 847 |
| Treasury bills | 45 892 888 | 67 499 604 | 40 957 842 | 48 162 416 |
| Corporate and Government bonds | 11 974 004 | 15 615 943 | - | - |
| | 84 779 464 | 116 446 394 | 67 870 414 | 81 493 263 |
| Impairment allowance | (323 257) | - | (301 819) | - |
| **Carrying value** | **84 456 207** | **116 446 394** | **67 568 595** | **81 493 263** |
| Movement during the year was as follows: | | | | |
| As at 1 January | 116 446 394 | 69 016 614 | 81 493 263 | 48 548 466 |
| Purchases and maturities | (31 666 930) | 47 429 780 | (13 622 849) | 32 944 797 |
| As at 31 December | 84 779 464 | 116 446 394 | 67 870 414 | 81 493 263 |
| **Expected Credit losses** | | | | |
| Balance at 1 January 2018 | - | - | - | - |
| IFRS 9 transition adjustment | (591 000) | - | (591 000) | - |
| Recovery for the year (note 38) | 267 743 | - | 289 181 | - |
| Balance at 31 December | (323 257) | - | (301 819) | - |
| **Carrying amount** | **84 456 207** | **116 446 394** | **67 568 595** | **81 493 263** |

## 9. Loans and advances to customers

| | Consolidated | | Separate | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **K'000** | **K'000** | **K'000** | **K'000** |
| **Loans and receivables (amortised cost) are receivable as follows:** | | | | |
| Maturing within 3 months | 85 098 901 | 65 271 873 | 22 295 496 | 12 024 795 |
| Maturing between 3 and 12 months | 46 728 057 | 20 696 646 | 21 129 916 | 16 427 203 |
| Maturing after 12 months | 51 732 629 | 92 222 858 | 20 143 361 | 17 583 387 |
| | **183 559 587** | **178 191 377** | **63 568 773** | **46 035 385** |
| **Specific Impairment allowances (Stage 3)** | | | | |
| **Balance at 1 January** | (3 015 064) | (1 246 785) | (1 899 847) | (345 213) |
| IFRS 9 transition adjustment | 394 736 | - | 394 736 | - |
| Reclassification of interest in suspense | (1 386 027) | - | (925 921) | - |
| (Charge)/Recoveries for the year (note 38) | (2 571 451) | (2 682 027) | (212 839) | (878 408) |
| Provision increase offset against fees and commission income | 114 822 | (29 785) | 114 822 | (29 785) |
| Transfer on acquisition of OIBM | - | (983 401) | - | (983 401) |
| On recognition of a subsidiary | 459 303 | - | - | - |
| Effect of exchange rate difference | (272 119) | - | - | - |
| Write offs | 3 657 667 | 1 926 934 | 1 602 543 | 336 960 |
| **Balance at 31 December** | **(2 618 133)** | **(3 015 064)** | **(926 506)** | **(1 899 847)** |
| **Collective impairment allowance (Stage 1 & 2)** | | | | |
| Balance at 1 January | (1 084 492) | (525 225) | (62 314) | (58 498) |
| IFRS 9 transition adjustment | (2 434 979) | - | (1 262 812) | - |
| Transfer from loan loss reserve | - | (223 538) | - | - |
| On derecognition of a subsidiary | 99 732 | - | - | - |
| Effects of exchange rate difference | 205 434 | - | - | - |
| Charge for the year (note 38) | 1 170 241 | (335 729) | 819 569 | (3 816) |
| **Balance at 31 December** | **(2 044 064)** | **(1 084 492)** | **(505 557)** | **(62 314)** |
| **Interest in suspense** | | | | |
| Balance at 1 January | (1 386 027) | (1 398 859) | (925 921) | (915 201) |
| Adjustment due to adoption of IFRS 9 | 1 386 027 | - | 925 921 | - |
| Interest suspended for the year | - | 12 832 | - | (10 720) |
| **Balance at 31 December** | **-** | **(1 386 027)** | **-** | **(925 921)** |
| **Net loans and advances to customers** | **178 897 390** | **172 705 794** | **62 136 710** | **43 147 303** |

The Directors consider that the carrying amounts of loans and advances are a reasonable approximation of their fair value.

The Group manages these loans and advances in accordance with its investment strategy. Internal reporting and performance measurement of these loans and advances are at amortised cost.

Impairment of loans and advances has been calculated as disclosed in notes **5k (iii) and 38.**

Loans and advances as per industry/sector have been disclosed in note **5(k)(v).**

Effective base interest rates for loans and advances have been disclosed in note **40**.

## 10. Finance lease receivables

| | Consolidated | | Separate | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | K'000 | K'000 | K'000 | K'000 |
| **Investment in leases (amortised cost) are receivable as follows:** | | | | |
| Less than 1 year | 924 363 | 1 537 585 | 924 363 | 1 537 585 |
| Maturing after more than 1 year | 1 163 208 | 2 824 376 | 1 163 208 | 2 824 376 |
| | 2 087 571 | 4 361 961 | 2 087 571 | 4 361 961 |
| **Specific Impairment (Stage 3) allowances** | | | | |
| **Balance at 1 January** | (144 205) | (32 460) | (144 205) | - |
| IFRS 9 transition adjustment | 222 263 | - | 222 263 | - |
| Reclassification of interest in suspense | (339 603) | - | (339 603) | - |
| Charge for the year (note 38) | (58 043) | (127 796) | (58 043) | - |
| Transfer | - | - | - | (144 205) |
| Write offs | 44 720 | 16 051 | 44 720 | - |
| **Balance at 31 December** | (274 868) | (144 205) | (274 868) | (144 205) |
| **Collective impairment (Stage 1 & 2) allowance** | | | | |
| Balance at 1 January | (48 363) | (56 402) | (48 363) | - |
| IFRS 9 transition adjustment | (139 825) | - | (139 825) | - |
| Transfer | - | 8 039 | - | (48 363) |
| Charge for the year (note 38) | 579 | - | 579 | - |
| **Balance at 31 December** | (187 609) | (48 363) | (187 609) | (48 363) |
| **Interest in suspense** | | | | |
| Balance at 1 January | (339 603) | (402 174) | (339 603) | - |
| Adjustment due to adoption of IFRS 9 | 339 603 | - | 339 603 | - |
| Transfer | - | - | - | (339 603) |
| Interest suspended for the year | - | 62 571 | - | - |
| **Balance at 31 December** | - | (339 603) | - | (339 603) |
| **Net finance lease receivables** | **1 625 094** | **3 829 790** | **1 625 094** | **3 829 790** |

## 11. Other assets

| | Consolidated | | Separate | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | K'000 | K'000 | K'000 | K'000 |
| Prepayments | 1 003 156 | 881 070 | 690 909 | 486 805 |
| Dividend receivable | 8 626 | 6 901 | 8 626 | 6 901 |
| Stock of stationery | 242 489 | 91 834 | 242 489 | 79 702 |
| Stock of computer spares and other items | 214 301 | 118 529 | 214 301 | 107 465 |
| Non-customer treasury account | - | 4 376 809 | - | - |
| Other Receivables | 1 776 811 | 2 319 475 | 1 170 615 | 2 043 047 |
| | **3 245 383** | **7 794 618** | **2 326 940** | **2 723 920** |

All other assets are recoverable/realisable within 12 months and no interest is charged on overdue balances. Prepayments consists of expenses paid in advance including rentals paid for retail outlets, annual maintenance contracts and software licence fees for several items of software and hardware used in the day to day operations of the bank.

The group grants loans to its employees at interest rates lower than market rates. Included in Other receivables is K129m (2017: K422m) representing the difference between the amount advanced and fair value of these loans using market rates. The difference has been recognised as an employee benefit in compliance with IAS 19 *Employee Benefits.*

Non-customer treasury account in 2017, relates to transactions for First Capital Bank Zambia Limited which occur with customers who have a dealing mandate with the bank but do not have a bank account.

**12. Amounts due from related parties**

| | Consolidated | | Separate | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | K'000 | K'000 | K'000 | K'000 |
| Capital Bank Limited Mozambique | - | - | 199 363 | - |
| First Capital Bank Limited Botswana | - | - | 114 954 | - |
| First Capital Bank Limited Zambia | 253 431 | - | 253 431 | 72 847 |
| Total amounts due to related parties | 253 431 | - | 567 748 | 72 847 |

Balances due from related parties have no fixed repayment terms, are unsecured and are interest free.

**13(a). Investments at fair value through profit or loss**

| | Consolidated and separate | |
|---|---|---|
| | 2018 | 2017 |
| | K'000 | K'000 |
| **Change in fair value** | | |
| Balance at 1 January | 5 203 185 | 3 174 501 |
| Movement in fair value (note 26) | 385 904 | 2 028 684 |
| **Balance at 31 December** | 5 589 089 | 5 203 185 |

All investments in listed companies are designated at fair value through profit or loss upon initial recognition. The movement in fair value is taken to profit or loss. At end of the reporting period the Group's portfolio of investments in listed companies comprised:

| | Consolidated and separate | |
|---|---|---|
| | 2018 | 2017 |
| **Shares held** | | |
| Illovo Sugar (Malawi) Plc | 12 915 541 | 12 915 541 |
| National Investment Trust Plc | 25 766 628 | 25 766 628 |
| Telekom Networks Malawi Plc | 38 338 700 | 38 338 700 |
| **Share Price (Kwacha)** | | |
| Illovo Sugar (Malawi) Plc | 200.00 | 240.00 |
| National Investment Trust Plc | 75.00 | 60.06 |
| Telekom Networks Malawi Plc | 28.00 | 14.50 |
| **Market Value (K'000)** | | |
| Illovo Sugar (Malawi) Plc | 2 583 108 | 3 099 730 |
| National Investment Trust Plc | 1 932 497 | 1 547 544 |
| Telekom Networks Malawi Plc | 1 073 484 | 555 911 |
| | 5 589 089 | 5 203 185 |

Fair value measurement of investments in listed companies has been categorised as Level 1 fair value based on quoted prices on the Malawi Stock Exchange.

## 13(b). Financial assets at fair value through other comprehensive income (FVOCI)

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | K'000 | K'000 |
| Balance at 1 January | 32 679 | 27 089 |
| Effects of exchange rate movement | (801) | 5 590 |
| **Balance at 31 December** | **31 878** | **32 679** |

Financial assets at FVOCI refer to the shares held by Capital Bank S.A in SIMO - Sociedade Interbancária de Moçambique, S.A., a financial company responsible for clearing. The bank holds 0.5% of the shares.

## 14. Investments in subsidiaries

| | Shares | Share- | Separate 2018 | Separate 2017 |
|---|---|---|---|---|
| | | | K'000 | K'000 |
| **Investment in subsidiaries** | | | | |
| Capital Bank S.A. - Mozambique | 6 955 | 80.0% | 9 185 640 | 9 185 640 |
| ICB Malawi Limited | 7 149 | 100.0% | 148 791 | 148 791 |
| FMB Capital Markets Limited | 500 | 100.0% | 50 000 | 50 000 |
| FMB Forex Bureau Limited | 10 000 | 100.0% | 10 000 | 10 000 |
| FMB Pensions Limited | 1 000 | 100.0% | - | - |
| First Capital Bank Limited - Botswana | 31 588 | 38.6% | 903 854 | 903 854 |
| First Capital Bank Zambia Limited | 50 960 | 49.0% | - | 3 393 251 |
| | | | 10 298 285 | 13 691 536 |
| **Movement during the year was as follows:** | | | | |
| **As at 1 January** | | | 13 691 536 | 9 348 047 |
| Additions during the year | | | - | 4 409 400 |
| Disposals during the year | | | (3 393 251) | - |
| Merged subsidiary | | | - | (65 911) |
| **As at 31 December** | | | 10 298 285 | 13 691 536 |
| | | | | |
| **Subscription in shares in subsidiaries were as** | | | | |
| First Capital Bank Plc contribution: | | | | |
| Capital Bank S.A. - Mozambique | | | | |
| (2018: 80% 2017:80%) | | | - | 4 409 400 |
| **Disposal of shares in subsidiaries were as** | | | | |
| First Capital Bank Zambia Limited | | 49% | (3 393 251) | - |

Pursuant to its restructuring plan, and to simplify the group structure, a holding company, FMB capital Holdings Plc (FMBCH) was incorporated. Subject to regulatory approvals, First Capital Bank Plc (FCBM) decided to transfer its shareholdings in First Capital Bank Zambia (FCBZ), First Capital Bank Botswana (FCBB) and Capital Bank Mozambique (CBM) to its holding company FMBCH by means of a dividend in specie. Thereafter, there will be one identifiable direct holding company for all the financial institutions within the FMBCH group.

After satisfying all regulatory conditions, on 31 December 2018, FCBM disposed of its 49% shareholding in FCBZ through a transfer shares of FCBZ shares from FCBM to FMBCH. The transaction does not change the ultimate beneficial ownership of FCBZ as FMBCH directly owns 100% of FCBM. The transaction did not result in any loss to FCBM. The transfer of shares in CBM and FCBB is expected to follow once regulatory approvals are obtained.

### 15. (a) Intangible Assets

| | Consolidated | | Separate | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **K'000** | **K'000** | **K'000** | **K'000** |
| **Cost** | | | | |
| As at 1 January | 9 129 755 | 7 360 259 | 5 639 021 | 4 379 262 |
| Transfer | - | 275 505 | - | 131 426 |
| On derecognition of a subsidiary | (896 439) | - | - | - |
| Effects of changes in exchange rates | (141 399) | 254 097 | - | - |
| Additions | 949 103 | 1 239 894 | 736 223 | 1 128 333 |
| **As at 31 December** | 9 041 020 | 9 129 755 | 6 375 244 | 5 639 021 |
| **Accumulated amortisation** | | | | |
| As at 1 January | 3 809 380 | 2 600 602 | 1 769 800 | 1,174,805 |
| Effects of changes in exchange rates | (96 963) | 151 951 | - | - |
| Transfer | - | 15 032 | - | 15 032 |
| On derecognition of a subsidiary | (497 058) | - | - | - |
| Charge for the year | 1 246 409 | 1 041 795 | 725 117 | 579 963 |
| **As at 31 December** | 4 461 768 | 3 809 380 | 2 494 917 | 1 769 800 |
| **Carrying Amount** | 4 579 252 | 5 320 375 | 3 880 327 | 3 869 221 |

Intangible assets relate to computer software and are measured at cost incurred in the acquisition and development of computer software, including website development costs.

## 15. (b) Property and equipment

| Consolidated | Freehold property K'000 | Leasehold improvements K'000 | Motor vehicles K'000 | Aero plane K'000 | Motor vehicles - operating Lease K'000 | Equipment, fixtures & fittings K'000 | Capital work in progress K'000 | Total K'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | | | |
| **Balance at 1 January 2018** | 6 400 706 | 4 657 765 | 1 604 691 | - | 699 246 | 8 856 231 | 3 361 261 | 25 579 900 |
| Additions | 2 828 775 | 64 941 | 246 813 | 2 692 | 13 090 | 1 583 899 | 2 132 720 | 6 872 930 |
| Revaluation surplus | 2 068 615 | 57 567 | - | - | - | - | - | 2 126 182 |
| Impairment loss on revalued assets | (134 339) | - | - | - | - | - | - | (134 339) |
| Effects of changes in exchange rates | (98 590) | (26 340) | 1 246 | - | - | (170 709) | - | (294 393) |
| Disposals | - | (14 819) | (4 797) | - | (275 906) | (14 784) | - | (310 306) |
| On derecognition of subsidiary | - | (1 186 356) | (99 590) | - | - | (936 901) | (71 021) | (2 293 868) |
| Transfers | - | 690 378 | 71 576 | 1 396 170 | - | 218 164 | (2 086 549) | 289 739 |
| **Balance at 31 December 2018** | 11 065 167 | 4 243 136 | 1 819 939 | 1 398 862 | 436 430 | 9 535 900 | 3 336 411 | 31 835 845 |
| **Accumulated depreciation** | | | | | | | | |
| **Balance at 1 January 2018** | 367 879 | 1 031 800 | 828 029 | - | 310 479 | 5 852 231 | - | 8 390 418 |
| Charge for the year | 219 696 | 360 343 | 325 602 | 83 548 | - | 1 038 115 | - | 2 027 304 |
| Released on disposal | - | (2 808) | (5 092) | - | (189 332) | (8 176) | - | (205 408) |
| Effects of changes in exchange | (20 531) | 63 770 | (4 702) | - | - | (184 168) | - | (145 631) |
| Charge on operating lease | - | - | - | - | 112 967 | - | - | 112 967 |
| On derecognition of subsidiary | - | (805 107) | (73 564) | - | - | (670 020) | - | (1 548 691) |
| Eliminated on revaluation | (268 210) | (104 574) | - | - | - | - | - | (372 784) |
| **Balance at 31 December 2018** | 298 834 | 543 424 | 1 070 273 | 83 548 | 234 114 | 6 027 982 | - | 8 258 175 |
| **Cost or valuation** | | | | | | | | |
| **Balance at 1 January 2017** | 4 226 167 | 3 918 296 | 1 235 217 | - | 676 862 | 7 030 019 | 529 943 | 17 616 504 |
| Additions | - | 313 615 | 93 509 | - | 22 384 | 805 057 | 3 341 554 | 4 576 119 |
| Effects of changes in exchange rates | 95 739 | 118 855 | 32 836 | - | - | 197 425 | 12 554 | 457 409 |
| Disposals | - | - | (25 773) | - | - | (6 863) | - | (32 636) |
| Transfers | 2 078 800 | 306 999 | 268 902 | - | - | 830 593 | (522 790) | 2 962 504 |
| **Balance at 31 December 2017** | 6 400 706 | 4 657 765 | 1 604 691 | - | 699 246 | 8 856 231 | 3 361 261 | 25 579 900 |
| **Accumulated depreciation** | | | | | | | | |
| **Balance at 1 January 2017** | 213 689 | 703 901 | 563 295 | - | 167 815 | 4 870 986 | - | 6 519 686 |
| Charge for the year | 138 161 | 297 360 | 265 941 | - | - | 849 029 | - | 1 550 491 |
| Released on disposal | - | - | (25 773) | - | - | (6 863) | - | (32 636) |
| Transfers | - | - | - | - | - | (15 032) | - | (15 032) |
| Effects of changes in exchange rates | 16 029 | 30 539 | 24 566 | - | - | 154 111 | - | 225 245 |
| Charge on operating lease | - | - | - | - | 142 664 | - | - | 142 664 |
| **Balance at 31 December 2017** | 367 879 | 1 031 800 | 828 029 | - | 310 479 | 5 852 231 | - | 8 390 418 |
| **Carrying amount** | | | | | | | | |
| At 31 December 2018 | 10 766 333 | 3 699 712 | 749 666 | 1 315 314 | 202 316 | 3 507 918 | 3 336 411 | 23 577 670 |
| At 31 December 2017 | 6 032 827 | 3 625 965 | 776 662 | - | 388 767 | 3 004 000 | 3 361 261 | 17 189 482 |

## 15. (b) Property and equipment (Continued)

| | Freehold Property | Leasehold Improvements | Motor Vehicles | Aero plane | Motor vehicles - operating lease | Equipment, Fixtures & Fittings | Capital Work in Progress | Total |
|---|---|---|---|---|---|---|---|---|
| | ( K'000) | ( K'000) | ( K'000) | ( K'000) | ( K'000) | ( K'000) | ( K'000) | ( K'000) |
| **Cost or valuation** | | | | | | | | |
| **Balance at 1 January 2018** | **5 006 066** | **2 276 637** | **1 218 311** | **-** | **-** | **5 920 001** | **3 290 234** | **17 711 249** |
| Additions | - | 59 519 | 132 738 | 2 692 | 13 090 | 558 592 | 2 087 666 | 2 854 297 |
| Revaluation surplus | 2 056 971 | 57 567 | - | - | - | - | - | 2 114 538 |
| Impairment loss on revalued assets | (134 339) | - | - | - | - | - | - | (134 339) |
| Disposals | - | (14 819) | - | - | (275 906) | (13 944) | - | (304 669) |
| Transfers | - | 690 378 | 71 576 | 1 396 170 | 699 246 | (481 082) | (2 086 548) | 289 740 |
| **Balance at 31 December 2018** | 6 928 698 | 3 069 282 | 1 422 625 | 1 398 862 | 436 430 | 5 983 567 | 3 291 352 | 22 530 816 |
| | | | | | | | | |
| **Accumulated depreciation** | | | | | | | | |
| **Balance at 1 January 2018** | **120 943** | **96 354** | **555 729** | **-** | **-** | **3 405 397** | **-** | **4 178 423** |
| Charge for the year | 148 821 | 59 051 | 254 417 | 83 548 | - | 704 355 | - | 1 250 192 |
| Charge against lease income | - | - | - | - | 112 967 | - | - | 112 967 |
| Released on disposal | - | (2 808) | - | - | (189 332) | (8 134) | - | (200 274) |
| Transfers | - | - | - | - | 310 479 | (310 479) | - | - |
| Eliminated on revaluation | (268 210) | (104 574) | - | - | - | - | - | (372 784) |
| **Balance at 31 December 2018** | 1 554 | 48 023 | 810 146 | 83 548 | 234 114 | 3 791 139 | - | 4 968 524 |
| | | | | | | | | |
| **Cost or valuation** | | | | | | | | |
| **Balance at 1 January 2017** | **2 801 266** | **2 276 637** | **826 272** | **-** | **-** | **4 013 180** | **121 532** | **10 038 887** |
| Additions | - | - | 64 899 | - | - | 494 970 | 3 094 620 | 3 654 489 |
| Disposals | - | - | (13 338) | - | - | (1 716) | - | (15 054) |
| Transfers | 2 204 800 | - | 340 478 | - | - | 1 413 567 | 74 082 | 4 032 927 |
| **Balance at 31 December 2017** | 5 006 066 | 2 276 637 | 1 218 311 | - | - | 5 920 001 | 3 290 234 | 17 711 249 |
| | | | | | | | | |
| **Accumulated depreciation** | | | | | | | | |
| Balance at 1 January 2017 | **16 167** | **41 664** | **354 430** | **-** | **-** | **2 534 807** | **-** | **2 947 068** |
| Charge for the year | 102 743 | 54 690 | 173 630 | - | - | 525 229 | - | 856 292 |
| Released on disposal | - | - | (13 338) | - | - | (1 716) | - | (15 054) |
| Transfers | 2 033 | - | 41 007 | - | - | 347 077 | - | 390 117 |
| **Balance at 31 December 2017** | 120 943 | 96 354 | 555 729 | - | - | 3 405 397 | - | 4 178 423 |
| | | | | | | | | |
| Carrying amount | | | | | | | | |
| **At 31 December 2018** | 6 927 144 | 3 021 259 | 612 479 | 1 315 314 | 202 316 | 2 192 428 | 3 291 352 | 17 562 292 |
| At 31 December 2017 | 4 885 123 | 2 180 283 | 662 582 | - | - | 2 514 604 | 3 290 234 | 13 532 826 |

The transfers relate to assets arising from the acquisition of and subsequent merger with Opportunity International Bank of Malawi Limited (OIBM) and the merger with the Leasing and Finance Company of Malawi Limited (LFC).

**15. (b) Property and equipment** (Continued)

Registers of land and buildings giving details as required under the Companies Act are maintained at the registered office of the company and are open for inspection by members or their duly authorised agents.

Capital work in progress represents development costs on the Bank's various branches.

The freehold properties and leasehold improvements for First Capital Bank Plc (Malawi) were last revalued on 31 December 2018 by Don Whayo BSc; MRICS; MSIM of Knight Frank Malawi Limited while those for First Capital Bank Ltd (Botswana), were last revalued on 09 May 2018 by Curtis Matobolo BSc (Hons); MRICS; MSIM of Knight Frank Botswana Limited. Valuation was done on an open market value basis and the resultant surplus was credited to revaluation reserve. This is not available for distribution until realised. The valuers are independent entities and are not related to the Group.

The fair value measurement for properties has been categorised as Level 3 fair value based on inputs to the valuation techniques used.

The following table shows the valuation technique used in measuring the fair values of freehold properties and leasehold improvements, as well as the significant unobservable inputs used.

| Valuation technique | Significant unobservable inputs |
|---|---|
| **Open Market Value Basis**<br>Open market value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.<br><br>The valuation process makes comparisons between the subject property and comparable property which has gone through the market in order to formulate an opinion as to a fair market value using an estimate of the future potential net income capable of being generated by the use of the property. | The valuation approach adopted takes cognisance of the performance of the property market at the time of valuation. The approach relies on sales data and all relevant factors pertaining to the property market.<br><br>The method recognises that property can be assembled, not only for occupation and use of the owner, but also to let to one or more tenants who will pay the owner rent for the right to the use and occupation of the property. |

**15. (c) Investment property**

| | Consolidated | |
|---|---|---|
| | **2018** | **2017** |
| | **(K'000)** | **(K'000)** |
| Balance at 1 January | 867 947 | 878 175 |
| Change in fair value | 289 827 | |
| Effects of changes in exchange rates | (136 373) | (10 228) |
| On derecognition of subsidiary | (1 021 401) | - |
| Balance at 31 December | - | 867 947 |

Investment property related to land held by First Capital Bank Zambia Limited for capital appreciation rather than administrative purposes as a bank. The fair value of the Bank's investment property was arrived at on the basis of valuation carried out by Messrs Classic Property Consultants, independent valuers not related to the Bank.

## 16. Deferred tax

### Movements in temporary differences during the year

**Consolidated**

| **2018** | Opening balance (K'000) | Recognised directly in retained earnings | Recognised in profit or loss (K'000) | Recognised in other comprehensive income (K'000) | Transferred on acquisition or derecognition of subsidiary (K'000) | Effect of changes in exchange rate (K'000) | Closing balance (K'000) |
|---|---|---|---|---|---|---|---|
| Property and equipment | 647 077 | | 113 060 | - | 14 345 | (19 245) | 755 237 |
| Accrued income | 1 498 233 | | 87 121 | - | (205 144) | - | 1 380 210 |
| Revaluation of property | 298 153 | | - | 753 894 | 1 024 | - | 1 053 071 |
| Gratuity and severance pay liabilities | (384 183) | | 213 235 | - | 12 097 | - | (158 851) |
| ECL Provisions | - | (916 248) | 305 712 | - | - | 20 143 | (590 393) |
| Other temporary differences | (344 128) | - | (749 651) | - | 408 035 | 59 632 | (626 112) |
| | **1 715 152** | **(916 248)** | **(30 523)** | **753 894** | **230 357** | **60 530** | **1 813 162** |
| **2017** | | | | | | | |
| Property and equipment | 831 832 | - | 30 833 | - | (235 414) | 19 826 | 647 077 |
| Accrued income | 1 383 445 | - | (114 302) | - | 229 090 | - | 1 498 233 |
| Revaluation of property | 305 437 | - | (3 130) | - | (4 154) | - | 298 153 |
| Tax losses | (361 919) | - | 361 919 | - | - | - | - |
| Gratuity and severance pay liabilities | (297 312) | - | (73 116) | - | (13 755) | - | (384 183) |
| Other temporary differences | (99 489) | - | 2 495 005 | - | (2 706 093) | (33 551) | (344 128) |
| | **1 761 994** | **-** | **2 697 209** | **-** | **(2 730 326)** | **(13 725)** | **1 715 152** |

**16. Deferred tax** (Continued)

**Movements in temporary differences during the year**

**Separate**

| **2018** | **Opening balance (K'000)** | **Recognised directly in retained earnings (K'000)** | **Recognised in profit or loss (K'000)** | **Recognised in other comprehensive income (K'000)** | **Transferred on merger and acquisition (K'000)** | **Closing balance (K'000)** |
|---|---|---|---|---|---|---|
| Property and equipment | 497 197 | | 113 356 | - | - | 610 553 |
| Accrued income | 1 269 143 | | 87 121 | - | - | 1 356 264 |
| Revaluation of property | 302 307 | | - | 751 332 | - | 1 053 639 |
| Gratuity and severance pay liabilities | (370 428) | | 213 235 | - | - | (157 193) |
| ECL provisions | | (631 373) | 305 712 | | | (325 661) |
| Other temporary differences | (158 771) | - | (34 327) | - | - | (193 098) |
| | **1 539 448** | **(631 373)** | **685 097** | **751 332** | **-** | **2 344 504** |
| **2017** | | | | | | |
| Property and equipment | 668 623 | - | 54 284 | - | (225 710) | 497 197 |
| Accrued income | 1 202 247 | - | (138 248) | - | 205 144 | 1 269 143 |
| Revaluation of property | 303 331 | - | - | - | (1 024) | 302 307 |
| Gratuity and severance pay liabilities | (286 873) | - | (71 458) | - | (12 097) | (370 428) |
| Other temporary differences | (18 501) | - | 2 566 941 | - | (2 707 211) | (158 771) |
| | **1 868 827** | **-** | **2 411 519** | **-** | **(2 740 898)** | **1 539 448** |

## 17. Balances due to other banks

| | Consolidated | | Separate | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | K'000 | K'000 | K'000 | K'000 |
| Local banks | 7 452 266 | 32 440 744 | 18 387 422 | 23 057 123 |
| European Investment Bank | 3 902 724 | 5 801 304 | 3 902 724 | 5 801 304 |
| Other foreign banks | 14 759 361 | 3 439 176 | 14 759 361 | 14 302 140 |
| Total balance due to other banks | 26 114 351 | 41 681 224 | 37 049 507 | 43 160 567 |
| **Payable as follows:** | | | | |
| Due within 1 year | 23 777 067 | 37 748 467 | 34 712 223 | 39 227 810 |
| Due between 2 and 5 years | 2 337 284 | 3 932 757 | 2 337 284 | 3 932 757 |
| | 26 114 351 | 41 681 224 | 37 049 507 | 43 160 567 |

All balances due to other banks are stated at amortised cost. Balances due to local banks represent short term borrowings by the Group and Currency Swap liabilities which First Capital Bank Plc entered into with the Reserve Bank of Malawi ("RBM") and Standard Bank (South Africa) ("SBSA") in which the Bank received Malawi Kwacha from the RBM and US Dollars from SBSA. The liability outstanding as at end of the reporting period was K22.2 billion (2017: K26.2 billion). The corresponding asset under the arrangement has been disclosed under note 37.

The facility with European Investment Bank (EIB) was made available to the Bank for on lending to customers in specified economic sectors. The EIB line of credit which is denominated in US Dollars, carries interest between 3.9% and 5.8% per annum and is repayable in equal bi-annual instalments ending on 16 June 2022.

## 18. Customer deposits

| | Consolidated | | Separate | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | K'000 | K'000 | K'000 | K'000 |
| Current and savings accounts | 134 594 587 | 117 586 995 | 83 402 630 | 77 789 734 |
| Foreign currency accounts | 61 647 078 | 77 425 151 | 31 978 620 | 36 711 172 |
| Term deposit accounts | 139 529 313 | 116 995 709 | 24 200 820 | 15 212 012 |
| Total customer deposits | 335 770 978 | 312 007 855 | 139 582 070 | 129 712 918 |
| **Payable as follows:** | | | | |
| Maturing within 3 months | 265 475 894 | 254 229 574 | 139 525 643 | 129 511 979 |
| Maturing after 3 months | 70 295 084 | 57 778 281 | 56 427 | 200 939 |
| | 335 770 978 | 312 007 855 | 139 582 070 | 129 712 918 |

### 19 (a). Other payables

| | Consolidated | | Separate | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | K'000 | K'000 | K'000 | K'000 |
| Accrued expenses | 5 527 303 | 2 902 152 | 1 310 058 | 1 724 966 |
| Bankers cheques issued and uncleared | 1 717 582 | 1 504 322 | 1 592 802 | 1 293 664 |
| Bills payable | 848 608 | 1 001 697 | 388 102 | 304 239 |
| Interest payable | 657 502 | 630 873 | 506 509 | 739 378 |
| Margins on letters of credit and other instruments | 542 532 | 7 715 234 | 542 532 | 7 715 234 |
| Trade payables | 3 255 050 | 4 155 174 | 2 253 626 | 2 940 526 |
| Total payables | 12 548 577 | 17 909 452 | 6 593 629 | 14 718 007 |

Margins on letters of credit and other instruments are fully cash collateralised. Amounts included in other payables are non-interest bearing.

### 19 (b). Provisions

| | Consolidated | | Separate | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | K'000 | K'000 | K'000 | K'000 |
| Opening balance at 1 January | 74 453 | 74 453 | 74 453 | 74 453 |
| Provisions made during the year | 526 870 | - | 526 870 | - |
| Balance at 31 December | 601 323 | 74 453 | 601 323 | 74 453 |

The amount recognised as a provision has been deemed as the best estimate of the expenditure for various legal cases that the Group is currently defending in the courts. The estimates of outcome and the resultant financial effect have been determined using management's judgement, supplemented by reports by the Group's legal consultants.

### 20. Share capital

| | | Consolidated and separate | |
|---|---|---|---|
| | | 2018 | 2017 |
| | | K'000 | K'000 |
| **(a)** | Share capital | 116 813 | 116 813 |

Share capital represent authorised, issued and fully paid up 2 336 250 000 ordinary shares at 5 tambala each.

| | | Consolidated and separate | |
|---|---|---|---|
| | | 2018 | 2017 |
| | | K'000 | K'000 |
| **(b)** | Share premium | 1 565 347 | 1 565 347 |

On 19 June 2006, following an offer to the public, 225 000 000 ordinary shares of 5 tambala each were allotted at a premium of 245 tambala per share.

The resultant premium on issue of K551.25m less offer expenses of K37.215m was credited to share premium account. In 2009, the company issued by way of bonus issue from retained earnings, 111,250,000 ordinary shares of 5 tambala each at 950 tambala per share giving rise to a share premium of K1.051 billion which was also credited to the share premium account.

## 21. Property revaluation reserve

| | Consolidated | | Separate | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | K'000 | K'000 | K'000 | K'000 |
| Property revaluation reserve | 5 198 420 | 3 458 925 | 5 196 969 | 3 460 979 |

This represents the surplus arising on revaluation of property net of the related deferred taxation provision and is not available for distribution to the owners.

## 22. Loan loss reserve

| | Consolidated | | Separate | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | K'000 | K'000 | K'000 | K'000 |
| Loan loss reserve | 1 086 210 | 1 351 927 | 823 478 | 963 988 |

**Loans loss reserve**

In order to comply with asset classification directives by central banks, the Directors have made a transfer to the loan loss reserve in addition to provisions charged to profit or loss in accordance with International Financial Reporting Standards.

## 24. Translation reserve

| | Consolidated | | Separate | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | K'000 | K'000 | K'000 | K'000 |
| Translation reserve | 1 217 714 | 2 591 039 | - | - |

This represents retranslation differences arising on retranslation of foreign investments at the end of the reporting period

## 25 (a) Interest income

| | Consolidated | | Separate | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | K'000 | K'000 | K'000 | K'000 |
| Loans and advances | 24 740 958 | 20 777 328 | 8 736 386 | 7 853 611 |
| Finance leases | 698 053 | 1 335 573 | 698 053 | - |
| Treasury bills | 11 261 810 | 14 327 180 | 6 948 291 | 11 320 347 |
| Promissory notes | 5 747 985 | 2 897 592 | 5 747 985 | 2 835 804 |
| Placements with other banks | 1 719 352 | 2 594 064 | 207 267 | 384 689 |
| Total interest income | 44 168 158 | 41 931 737 | 22 337 982 | 22 394 451 |

## 25 (b) Interest expense

| | Consolidated | | Separate | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | K'000 | K'000 | K'000 | K'000 |
| Interest paid-customer deposits | 10 851 600 | 9 121 519 | 4 061 946 | 2 638 514 |
| Interest paid-Money market | 3 737 870 | 5 252 258 | 3 651 008 | 5 399 993 |
| Total interest expense | 14 589 470 | 14 373 777 | 7 712 954 | 8 038 507 |

## 26. Income from investments

| | Consolidated | | Separate | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | K'000 | K'000 | K'000 | K'000 |
| Dividend income | 51 708 | 48 249 | 51 708 | 294 088 |
| Movement in fair value of investments | 385 904 | 2 028 684 | 385 904 | 2 028 684 |
| Total income from investments | 437 612 | 2 076 933 | 437 612 | 2 322 772 |
| Gain on bargain purchase of OIBM (note 42) | - | 52 108 | - | 52 108 |

## 27. Staff and training costs

| | Consolidated 2018 K'000 | Consolidated 2017 K'000 | Separate 2018 K'000 | Separate 2017 K'000 |
|---|---|---|---|---|
| Contributions to defined contribution pension plans | 670 025 | 535 516 | 405 079 | 304 994 |
| Salaries and wages | 10 402 165 | 9 985 610 | 4 473 138 | 4 753 845 |
| Training and other staff costs | 5 189 276 | 3 786 707 | 3 272 735 | 2 443 761 |
| Total staff and training costs | 16 261 466 | 14 307 833 | 8 150 952 | 7 502 600 |

## 28. Other expenses

| | Consolidated 2018 K'000 | Consolidated 2017 K'000 | Separate 2018 K'000 | Separate 2017 K'000 |
|---|---|---|---|---|
| Administration expenses | 2 257 048 | 1 215 654 | 712 573 | 461 370 |
| Auditor's remuneration | 416 749 | 376 412 | 158 775 | 87 662 |
| Bank charges | 1 158 628 | 843 722 | 301 652 | 200 061 |
| Non-executive Directors' remuneration | 478 885 | 402 983 | 306 916 | 238 367 |
| Insurance | 241 654 | 217 872 | 127 156 | 113 043 |
| Legal and consultancy fees | 636 317 | 573 658 | 133 050 | 171 486 |
| Marketing costs | 1 358 722 | 618 737 | 783 141 | 422 435 |
| Motor vehicle running costs | 407 388 | 282 365 | 359 547 | 227 701 |
| Repairs and maintenance | 236 376 | 265 284 | 132 170 | 177 192 |
| Operational losses | 846 712 | 115 736 | 379 380 | 69 308 |
| Postage | 126 047 | 156 782 | 105 032 | 114 619 |
| Printing and stationery | 472 020 | 549 527 | 329 913 | 382 776 |
| Professional subscriptions | 79 321 | 77 844 | 51 614 | 56 625 |
| Telephone expenses | 485 000 | 280 679 | 307 631 | 145 742 |
| Travel expenses | 540 457 | 388 353 | 194 407 | 181 413 |
| Utilities | 492 085 | 306 065 | 376 336 | 217 410 |
| Total other expenses | 10 233 409 | 6 671 673 | 4 759 293 | 3 267 210 |

## 29. Income tax expense

*Recognised in the statement of comprehensive income*

| | Consolidated | | Separate | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **K'000** | **K'000** | **K'000** | **K'000** |
| ***(a) Current tax expense*** | | | | |
| Current year at 30% (2017: 30%) based on profits | 4 486 649 | 1 677 829 | 2 184 242 | 59 693 |
| Origination and reversal of temporary differences | (30 523) | 2 697 209 | 685 097 | 2 411 519 |
| | 4 456 126 | 4 375 038 | 2 869 339 | 2 471 212 |
| ***(b) Reconciliation of effective tax rate*** | | | | |
| Operating Profit | 15 230 529 | 14 439 473 | 9 524 289 | 10 109 209 |
| Tax using the domestic tax rate 30% (2017:30%) | 4 569 159 | 4 331 842 | 2 857 287 | 3 032 763 |
| Non-deductible expenses | (72 504) | 292 541 | 147 146 | 154 433 |
| Losses of subsidiary companies not tax deductible | - | 466 640 | - | - |
| Tax exempt income | (40 529) | (715 985) | (135 094) | (715 984) |
| | 4 456 126 | 4 375 038 | 2 869 339 | 2 471 212 |
| ***(c) Income tax (recoverable)/payable*** | | | | |
| As at 1 January | (2 917 715) | (1 083 165) | (2 182 804) | (483 886) |
| Charge for the year | 4 486 649 | 1 677 829 | 2 184 242 | 59 693 |
| Paid during the year | (3 191 560) | (3 512 379) | (1 009 557) | (1 758 611) |
| **As at 31 December** | (1 622 626) | (2 917 715) | (1 008 119) | (2 182 804) |
| **Presented in the statement of financial position as** | | | | |
| Current tax assets | 2 366 584 | 3 170 291 | 1 008 119 | 2 182 804 |
| Current tax liabilities | (743 958) | (252 576) | - | - |
| | 1 622 626 | 2 917 715 | 1 008 119 | 2 182 804 |

## 30. Basic and diluted earnings per share

The calculation of basic and diluted earnings per share at 31 December 2018 was based on profit attributable to ordinary shareholders of K8 495 512 (2017: K8 466 145 000) and a weighted average number of ordinary shares outstanding of 2 336 250 000 (2017: 2 336 250 000) calculated as follows:

| | Consolidated | |
|---|---|---|
| | **2018** | **2017** |
| Profit attributable to ordinary shareholders (thousands) | 8 495 512 | 8 466 145 |
| Weighted average number of ordinary shares in issue | 2 336 250 | 2 336 250 |
| Basic and diluted earnings per share (tambala) | 364 | 362 |

## 31. Group subsidiaries

### (a) List of subsidiaries

The table below provides details of the subsidiaries of the Group.

| Company name | Principal place of business | Ownership interest 2018 | 2017 |
|---|---|---|---|
| Capital Bank S.A. | Mozambique | 80.0% | 80.0% |
| FMB Capital Markets Limited | Malawi | 100.0% | 100.0% |
| Capital Bank Limited | Botswana | 38.6% | 38.6% |
| First Capital Bank Zambia Limited | Zambia | - | 49.0% |
| FMB Forex Bureau Limited (dormant) | Malawi | 100.0% | 100.0% |
| International Commercial Bank Limited (dormant) | Malawi | 100.0% | 100.0% |
| FMB Pensions Limited (dormant) | Malawi | 100.0% | 100.0% |

Pursuant to its restructuring plan, and to simplify the group structure, a holding company, FMBcapital Holdings Plc (FMBCH) was incorporated. Subject to regulatory approvals, First Capital Bank Plc (FCBM) has decided to transfer its shareholdings in First Capital Bank Zambia (FCBZ), First Capital Bank Botswana (FCBB) and Capital Bank SA Mozambique (CBM) to its holding company FMBCH by means of dividends in specie. Thereafter, there will be one identifiable direct holding company for all the financial institutions within the FMBCH group.

After satisfying all regulatory conditions, on 31 December 2018, FCBM disposed of its 49% shareholding in FCBZ through a transfer shares of FCBZ shares from FCBM to FMBCH. The transaction does not change the ultimate beneficial ownership of FCBZ as FMBCH directly owns 100% of FCBM. The transaction did not result in any loss to FCBM

**31. Group subsidiaries** (Continued)

**(b) Non-controlling interest in subsidiaries**
The following table summarises the information relating to the Group's subsidiaries that have material non-controlling interests (NCI).

| | **Capital Bank S.A - Mozambique** | | **First Capital Bank - Botswana** | | **First Capital Bank - Zambia** | | **Total** | |
|---|---|---|---|---|---|---|---|---|
| *NCI percentage* | *20.0%* | *20.00%* | *61.4%* | *61.4%* | *51.0%* | *51.0%* | | |
| | **2018 (K'000)** | **2017 (K'000)** | **2018 (K'000)** | **2017 (K'000)** | **2018 (K'000)** | **2017 (K'000)** | **2018 (K'000)** | **2017 (K'000)** |
| **Assets** | | | | | | | | |
| Cash and cash equivalents | 19 416 873 | 7 967 596 | 69 403 297 | 38 530 111 | - | 9 472 998 | 88 820 170 | 55 970 705 |
| Money market investments | 6 032 183 | 9 693 072 | 10 855 430 | 12 274 014 | - | 12 986 044 | 16 887 613 | 34 953 130 |
| Loans and advances to customers | 8 659 362 | 8 715 106 | 107 901 319 | 87 800 953 | - | 32 821 616 | 116 560 681 | 129 337 675 |
| Other assets | 207 389 | 118 178 | 789 653 | 695 674 | - | 4 615 975 | 997 042 | 5 429 827 |
| Current tax asset | 328 182 | 512 165 | 255 977 | - | - | 332 576 | 584 159 | 844 741 |
| Intangible assets | 49 820 | 221 153 | 649 106 | 711 914 | - | 518 088 | 698 926 | 1 451 155 |
| Investment property | - | - | - | - | - | 867 947 | - | 867 947 |
| Property and equipment | 993 040 | 950 450 | 5 021 502 | 1 599 546 | - | 1 105 825 | 6 014 542 | 3 655 821 |
| | **35 686 849** | **28 177 720** | **194 876 284** | **141 612 212** | **-** | **62 721 069** | **230 563 133** | **232 511 001** |
| **Liabilities** | | | | | | | | |
| Customer deposits | 27 214 434 | 19 274 757 | 169 288 910 | 123 935 915 | - | 40 156 238 | 196 503 344 | 183 366 910 |
| Balances due to other financial institutions | - | 613 481 | - | - | - | 8 770 140 | - | 9 383 621 |
| Other payables | 684 816 | 597 397 | 5 614 896 | 1 035 847 | - | 4 620 327 | 6 299 712 | 6 253 571 |
| Income tax payable | - | - | - | (99 862) | - | 248 877 | - | 149 015 |
| Deferred tax liabilities | (402 576) | - | (124 493) | 210 749 | - | (245 181) | (527 069) | (34 432) |
| Preference shares | - | - | 1 431 633 | - | - | - | 1 431 633 | - |
| Subordinated debt | 594 235 | - | 5 292 676 | 3 301 209 | - | - | 5 886 911 | 3 301 209 |
| | **28 090 909** | **20 485 635** | **181 503 622** | **128 383 858** | **-** | **53 550 401** | **209 594 531** | **202 419 894** |
| **Net Assets** | **7 595 940** | **7 692 085** | **13 372 662** | **13 228 354** | **-** | **9 170 668** | **20 968 602** | **30 091 107** |
| Net assets attributable to NCI | 1 519 188 | 1 538 417 | 8 210 814 | 8 122 209 | - | 4 677 041 | 9 730 002 | 14 337 666 |
| **Carrying amount of NCI** | **1 519 188** | **1 538 417** | **8 210 814** | **8 122 209** | **-** | **4 677 041** | **9 730 002** | **14 337 666** |

**31. Group subsidiaries** (Continued)

**(b) Non-Controlling interest in subsidiaries** (Continued)

| | **Capital Bank S.A- Mozambique** | | **First Capital Bank - Botswana** | | **First Capital Bank - Zambia** | | **Total** | |
|---|---|---|---|---|---|---|---|---|
| *NCI percentage* | *20.0%* | *20.00%* | *61.4%* | *61.4%* | *51.0%* | *51.0%* | | |
| | **2018 (K'000)** | **2017 (K'000)** | **2018 (K'000)** | **2017 (K'000)** | **2018 (K'000)** | **2017 (K'000)** | **2018 (K'000)** | **2017 (K'000)** |
| Interest income | 4 371 482 | 3 569 970 | 11 048 505 | 8 190 458 | 6 973 510 | 5 422 025 | 22 393 497 | 17 182 453 |
| Interest expense on deposits and other accounts | (1 471 932) | (1 667 556) | (4 041 867) | (2 184 793) | (1 937 256) | (1 572 891) | (7 451 055) | (5 425 240) |
| Fees and commissions | 841 951 | 380 563 | 1 827 706 | 1 650 665 | 2 206 239 | 1 731 409 | 4 875 896 | 3 762 637 |
| Gain on foreign exchange transactions | 843 009 | 425 750 | 1 994 205 | 1 209 641 | 2 323 200 | 1 687 252 | 5 160 414 | 3 322 643 |
| **Total income** | **4 584 510** | **2 708 727** | **10 828 549** | **8 865 971** | **9 565 693** | **7 267 795** | **24 978 752** | **18 842 493** |
| Staff and training costs | 1 988 418 | 1 317 419 | 3 193 515 | 2 821 585 | 2 928 582 | 2 247 985 | 8 110 515 | 6 386 989 |
| Premises and equipment costs | 619 615 | 794 472 | 878 671 | 675 937 | 795 108 | 794 076 | 2 293 394 | 2 264 485 |
| Depreciation expense | 378 801 | 297 932 | 440 253 | 370 795 | 479 350 | 447 100 | 1 298 404 | 1 115 827 |
| Other expenses | 1 111 042 | 914 207 | 2 607 597 | 1 336 962 | 1 771 854 | 968 504 | 5 490 493 | 3 219 673 |
| Impairment loss on financial assets | 357 668 | 940 163 | 1 218 907 | 1 075 434 | 518 268 | 119 935 | 2 094 843 | 2 135 532 |
| Income tax expense | 35 503 | - | 453 008 | 606 961 | 1 092 675 | 1 023 028 | 1 581 186 | 1 629 989 |
| **Total expenses** | **4 491 047** | **4 264 193** | **8 791 951** | **6 887 674** | **7 585 837** | **5 600 628** | **20 868 835** | **16 752 495** |
| **Operating profit/(loss)** | **93 463** | **(1 555 466)** | **2 036 598** | **1 978 297** | **1 979 856** | **1 667 167** | **4 109 917** | **2 089 998** |
| **Profit/(loss) allocated to NCI** | **18 693** | **(466 639)** | **1 250 471** | **1 214 674** | **1 009 727** | **850 255** | **2 278 891** | **1 598 290** |

## 32. Dividends

In 2018, the Company paid a cash dividend of K4.5billion (2017: K1.168billion) to its shareholders. During the year, the Company transferred its entire shareholding (49%) in First Capital Bank Zambia Limited to FMB capital Holdings Plc. The transfer was through a dividend in specie equal to the carrying value of the investment which was K3.394 billion as at the date of transaction.

## 33. Related party transactions

The Group transacts part of its business with related parties including Directors and parties related to or under the control of the Directors. Details of related party transactions of the Group are set out below:

**Loans to Directors, senior management and other related parties**

| | Consolidated | | Separate | |
|---|---|---|---|---|
| | **2018 (K'000)** | **2017 (K'000)** | **2018 (K'000)** | **2017 (K'000)** |
| **Corporate bodies directly or indirectly related to Directors:** | | | | |
| Balance at the beginning of the year | 2 201 351 | 791 344 | 2 177 440 | 767 433 |
| Loans granted during the year | 6 498 679 | 5 157 417 | 2 026 305 | 5 157 417 |
| Repayments | (4 903 697) | (3 747 410) | (2 212 929) | (3 747 410) |
| **Balance at the end of the year** | 3 796 333 | 2 201 351 | 1 990 816 | 2 177 440 |
| **Senior management:** | | | | |
| Balance at the beginning of the year | 425 744 | 423 647 | 263 979 | 261 882 |
| Loans granted during the year | 200 460 | 159 838 | 168 613 | 159 838 |
| Repayments | (308 526) | (157 741) | (130 187) | (157 741) |
| **Balance at the end of the year** | 317 678 | 425 744 | 302 405 | 263 979 |

Advances to Directors and parties related thereto are in the normal course of business. All loans are secured and, other than staff loans to senior management in the ordinary course of business as part of employment practices, are made on an arms' length basis. They are approved on terms no more favourable than those, which would be offered under prevailing conditions to persons other than related parties. Other than staff loans in the ordinary course of business, credit decisions on loans to related parties are made only by the board of Directors exclusive of the relevant related parties.

Loans to senior management, like all other staff loans are approved by Credit executive and/or the Managing Director. Advances to employees include K20.39 million (2017: K44.9 million) of interest free advances and K1.03 billion (2017: K1.2 billion) of advances which carry interest at one quarter of the prevailing prime lending rate of the Bank. All other transactions with related parties are carried out on an arm's length basis on normal commercial terms.

There were no non-performing loans and overdrafts to related parties.

**33. Related party transactions** (Continued)

The following intercompany balances by group companies were outstanding at year end.

| **Counter party** | **Name of related parties** | **Relationship** | **Nature of transactions** | **2018** | **2017** |
|---|---|---|---|---|---|
| | | | | **(K'000)** | **(K'000)** |
| First Capital Bank Plc (Malawi) | FMBcapital holdings Plc (Mauritius) | Shareholder | Deposit account | 1 511 178 | - |
| First Capital Bank Plc (Malawi) | First Capital Bank Ltd (Zimbabwe) | Sub-subsidiary of FMBCH | Intercompany | 330 275 | - |
| First Capital Bank Ltd (Botswana) | FMBcapital holdings Plc (Mauritius) | Ultimate shareholder | Preference shares | 1 431 633 | - |
| Capital Bank SA (Mozambique) | FMBcapital holdings Plc (Mauritius) | Ultimate shareholder | Subordinated debt | 594 235 | - |

Details of related party transactions and balances between the Bank and its subsidiaries, FMB Forex Bureau Limited, FMB Pensions Limited, FMB Capital Markets Limited, Capital Bank Mozambique S.A and First Capital Bank Botswana which have been eliminated on consolidation are as follows:

| | **2018** | **2017** |
|---|---|---|
| | **K'000** | **K'000** |
| Loans and overdrafts | - | 220 815 |
| Balances due to other financial institutions | 10 935 156 | 10 862 964 |
| Deposits | 314 317 | 1 071 974 |
| Fees and commissions received | 16 959 | (39 470) |
| Net interest income | 574 539 | 454 424 |
| Dividends received | - | 245 839 |
| First Capital Bank Zambia Limited | - | 72 847 |
| First Capital Bank Limited Botswana | 114 954 | - |
| Capital Bank Mozambique S.A | 199 363 | - |
| Placements by group companies | 2 191 657 | 2 452 034 |

**33. Related party transactions** (Continued)

During the year, the Bank obtained US$15 million from First Capital Bank Botswana Limited through two separate advances of US$5 million and US$10 million at 5.0% and 6.5% interest rate respectively. The amounts are outstanding as of year-end.

Compensation for First Capital Bank Plc's key personnel is as follows:

| | Consolidated | | Separate | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | K'000 | K'000 | K'000 | K'000 |
| **Executive Directors** | | | | |
| Salaries | - | 226 800 | - | 226 800 |
| Bonuses | - | 105 000 | - | 105 000 |
| **Non-Executive directors** | | | | |
| Fees and expenses | 478 885 | 397 950 | 306 916 | 238 367 |
| | 478 885 | 729 750 | 306 916 | 570 167 |

There were no Executive directors within the employment of Group banks during the year. The estimated value of total non-cash benefits to Directors amounts in 2017 amounted to K49.3 million.

Any Director who performs services which are outside the scope of the ordinary duties of a Director, are paid extra remuneration at a rate determined by other Directors. These payments have been included as part of remuneration for non-executive Directors.

**Other related parties**

First Capital Bank Plc has three separate agreements with Livingstone Exports Limited, in which First Capital Bank Plc Director, Mr H.N Anadkat, is beneficially interested:

| | Agreement date | 2018 K'000 | 2017 K'000 |
|---|---|---|---|
| Chief M'Mbelwa Building | 7-Jun-03 | 80 000 | 80 000 |
| Livingstone Towers | 3-Oct-03 | 9 000 | 9 000 |
| Livingstone Car Park | 26-Jun-14 | 151 774 | 151 774 |
| | | 240 774 | 240 774 |

**Chief M'Mbelwa Building**

On 7 June 2003, First Capital Bank Plc entered into a debenture agreement which has no fixed term with Livingstone Exports Limited. The agreement required First Capital Bank Plc to loan K80m to Livingstone Exports Limited secured by way of the registered debenture giving First Capital Bank Plc a proportionate share of office space in Chief M'Mbelwa Building. First Capital Bank Plc uses the office space determined in the debenture agreement on a peppercorn rental basis. Total expenditure to convert and renovate the proportionate share of the premises for use by First Capital Bank Plc was K138.1m and was capitalised in 2004. This office space currently houses First Capital Bank Plc's Capital City Branch.

## 33. Related party transactions (Continued)

**Other related parties** (Continued)

**Livingstone Towers Building**

On 3 October 2003, First Capital Bank Plc entered into a 99 year (expiring 30 June 2102) lease agreement with Livingstone Exports Limited. First Capital Bank Plc paid a single lease premium of K9 million and erected at its cost and expense office space. Total expenditure incurred of K142.9million was capitalised in 2004. This office space within Livingstone Towers currently houses First Capital Bank Plc's Head Office and First Corporate Service Branch, International Banking Department.

**Livingstone Car Park**

On 26 June 2014, First Capital Bank Plc entered into a debenture agreement which has no fixed term with Livingstone Exports Limited. The agreement required First Capital Bank Plc to loan K151.7m to Livingstone Exports Limited secured by way of the registered debenture for development of a car park opposite Livingstone Towers. First Capital Bank Plc was given a proportionate (68.85%) share in the property comprising 42 vehicle parking spaces used by First Capital Bank Plc The parking spaces are used by First Capital Bank Plc on a peppercorn rental basis.

**Directors' interests**
As at 31 December 2018, the total direct and indirect interests of the Directors and parties related thereto in the issued share capital of the parent company (FMBCH Plc) were as follows:

| | Ordinary shares | |
|---|---|---|
| | **2018** | **2017** |
| H.N Anadkat | 1 071 163 931 | 1 071 163 931 |
| D. Dikshit | 12 000 000 | 12 000 000 |
| J.M O'Neill | 1 309 391 | 1 309 391 |
| M. Msisha | 1 050 000 | 1 050 000 |

## 34. Capital commitments and contingent liabilities

In common with other banks, the Bank conducts business involving acceptances, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

The contractual amounts of the Bank's off balance sheet financial instruments that may commit it to extend credit to customers are as follows:

| | Consolidated | | Separate | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **K'000** | **K'000** | **K'000** | **K'000** |
| **Contingent liabilities** | | | | |
| Acceptances and letters of credit | 43 846 434 | 13 099 194 | 10 945 686 | 11 324 987 |
| Financial guarantees | 29 169 126 | 45 064 440 | 26 761 735 | 23 305 955 |
| | 73 015 560 | 58 163 634 | 37 707 421 | 34 630 942 |
| **Other contingent liabilities** | | | | |
| Legal claims | 361 300 | 285 000 | 361 300 | 285 000 |

## 34. Capital commitments and contingent liabilities

Contingencies in respect of letters of credit will only crystallise into an asset or a liability when bills are presented in accordance with the terms and conditions of payment of the individual letters of credit. Contingencies in respect of guarantees and performance bonds issued will only crystallise into an asset and a liability in the event of default by the relevant counterparty.

Other contingent liabilities represent civil litigation matters that will crystallise into a liability only in the unlikely event of an unfavourable judgement

**Capital commitments**

| | Consolidated | | Separate | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **K'000** | **K'000** | **K'000** | **K'000** |
| **Capital expenditure** | | | | |
| Authorised but not contracted | 636 000 | 4 530 425 | 636 000 | 4 530 425 |

## 35. Statutory requirements

In accordance with Financial Services (Capital Adequacy for Banks) Directive 2012 and Directive No. LRR-07 FMO-Liquidity Reserve Requirement, the Reserve Bank of Malawi has established the following requirements as at the financial reporting date:

***(i) Liquidity Reserve Requirement***

The Bank is required to maintain a liquidity reserve as defined by the Reserve Bank of Malawi, calculated on a fortnight average basis, of not less than 7.5% (2017: 7.5%) of the preceding weeks total deposit liabilities. In the last two weeks of December 2018, the liquidity reserve was 11.88% (2017: 8.41%) of total customer deposits.

***(ii) Capital Adequacy Requirement***

Reserve Bank of Malawi requires the bank to maintain a minimum Tier 1 capital and Total Capital of **10%** and **15%,** respectively as a percentage of total risk-weighted assets.

The total capital is made up of the following:

(1) Tier 1 capital, which includes paid-up share capital, share premium, retained earnings, non-controlling interest, non-distributable reserves less investment in unconsolidated financial institutions; and
(2) Tier 2 capital, which includes subordinated debt, asset revaluation reserves, translation reserves, loan loss reserves and non-controlling interests.

As at 31 December 2017, the Group's Tier 1 capital ratio of its risk bearing assets and Total capital ratio were as follows:

| | **2018** | **2017** | **2018** | **2017** |
|---|---|---|---|---|
| | **K'000** | **K'000** | **K'000** | **K'000** |
| Tier 1 risk based capital ratio (minimum 10%) | 11.7% | 14.5% | 15.7% | 18.8% |
| Total risk-weighted capital ratio (minimum 15%) | 17.6% | 21.1% | 20.3% | 22.2% |

## 36. Subordinated debt

| | Consolidated | | Separate | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **K'000** | **K'000** | **K'000** | **K'000** |
| Carrying amount | 12 886 911 | 10 301 209 | 7 000 000 | 7 000 000 |
| Movement during the year: | | | | |
| As at 1 January | 10 301 209 | 9 031 122 | 7 000 000 | 7 000 000 |
| Additions | 2 249 709 | 1 100 403 | - | - |
| Unamortised issue cost | (24 818) | (29 480) | - | - |
| Effects of changes in exchange rates | 360 811 | 199 164 | - | - |
| **As at 31 December** | **12 886 911** | **10 301 209** | **7 000 000** | **7 000 000** |

a) On 3 June 2016, First Capital Bank Plc issued through private placement K7 billion, fixed term unsecured floating rate subordinated note and will mature in its entirety on 3 June 2023. This debt was a replacement of the US Dollar denominated placement which was redeemed on 4 July 2016. Interest is referenced against the published average yield for 91 day Treasury Bills for auctions preceding repricing dates and is payable quarterly in arrears.

b) First Capital Bank Botswana issued P30 million floating rates notes maturing on 18 January 2022 which earn interest at 70 basis points below the bank rate for the first 5 years, and thereafter at 20 basis points below the bank rate. During the year, the Bank also issued P15 million rate notes of P1.00 maturing on 1 July 2027 and earning interest at 270 basis points above the bank rate. The Bank has an early optional redemption date of 18 January 2022 subject to prior written consent from the Bank of Botswana.

c) On 1 July 2018 First Capital Bank Botswana issued P33 million rate notes of P1.00 maturing and earning interest at 290 basis points above the bank rate. The bank has an early optional redemption date of 25 January 2023 subject to prior written consent from Bank of Botswana.

d) The subordinated debt notes constitute direct, subordinated and unsecured obligations of First Capital Bank Plc and Capital Bank Botswana, respectively. The notes rank *pari passu* among themselves and are subordinated to general creditors and claims of depositors.

e) In July 2018, Capital Bank Mozambique S.A entered into a subordinated loan arrangement with FMBcapital Holding Plc (a related entity). The principal amount under the arrangement is 50 million meticais for a period of 7 years, with payment of semi-annual coupons, with the rate for the first coupon being 18.55%.

### 37. Repurchase agreements

| | Consolidated and Separate | |
|---|---|---|
| | 2018 | 2017 |
| | K'000 | K'000 |
| Repurchase agreements | 21 850 946 | 25 194 393 |
| **Movement during the year was as follows:** | | |
| As at 1 January | 25 194 393 | 19 288 094 |
| Additions | 21 941 495 | 43 299 333 |
| Maturities | (25 194 393) | (37 393 034) |
| Expected credit losses | (90 549) | - |
| As at 31 December | 21 850 946 | 25 194 393 |

| Funds under currency swap | Trade date | Maturity date | K'000 | Spot/Forward Rate |
|---|---|---|---|---|
| **31-Dec-18** | | | | |
| US$ 10.0 million | 3-Aug-18 | 1-Feb-19 | 7 291 238 | 725.99/739.86 |
| US$ 10.0 million | 17-Sep-18 | 17-Sep-19 | 7 291 238 | 726.15/753.32 |
| US$ 5.0 million | 4-Oct-18 | 4-Oct-19 | 3 645 619 | 728.13/755.37 |
| GBP 4.0 million | 3-Aug-18 | 30-Jan-19 | 3 713 400 | 1.30/1.31 |
| **31-Dec-17** | | | | |
| US$ 10.0 million | 16-Jun-17 | 15-Jun-18 | 7 241 976 | 725.78/748.03 |
| US$ 10.0 million | 30-Jun-17 | 29-Jun-18 | 7 241 976 | 725.64/811.73 |
| US$ 10.0 million | 5-Jun-17 | 5-July-18 | 7 241 976 | 725.45/811.51 |
| € 4.0 million | 27-Dec-17 | 26-Jan-18 | 3 468 465 | 867.12/870.61 |

The Group entered into a Currency Swap arrangement with the Reserve Bank of Malawi (RBM) in which the Group sold US Dollars to the RBM. The Group also arranged a GBP/US$ swap with Standard Bank South Africa with a principal amount of GBP4 million. The deals are listed above. The corresponding liability under the arrangements has been disclosed in note 17**.**

## 38. Impairment losses on financial assets

| | Consolidated | | Separate | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | K'000 | K'000 | K'000 | K'000 |
| **Impairment allowance on loans** | | | | |
| Impairment charge | 3 831 997 | 6 051 064 | 1 498 489 | 3 811 417 |
| Recoveries | (2 430 787) | (3 033 308) | (2 105 219) | (2 929 193) |
| | 1 401 210 | 3 017 756 | (606 730) | 882 224 |
| **Impairment allowance on finance leases** | | | | |
| Impairment charge | 531 211 | 136 064 | 531 211 | - |
| Recoveries | (473 747) | (16 307) | (473 747) | - |
| | 57 464 | 119 757 | 57 464 | - |
| **Impairment allowance on other financial assets** | | | | |
| Impairment charge | 86 903 | - | - | - |
| Recoveries | (309 572) | - | (309 572) | - |
| | (222 669) | - | (309 572) | - |
| **Total impairment loss on financial assets** | 1 236 005 | 3 137 513 | (858 838) | 882 224 |
| ***Comprising*** | | | | |
| **Impairment allowance on loans** | | | | |
| Specific impairment charges | 2 571 451 | 2 682 027 | 212 839 | 878 408 |
| Collective impairment charges | (1 170 241) | 335 729 | (819 569) | 3 816 |
| | 1 401 210 | 3 017 756 | (606 730) | 882 224 |
| **Impairment allowance on leases** | | | | |
| Specific impairment charges | 58 043 | 127 796 | 58 043 | - |
| Collective impairment charges | (579) | (8 039) | (579) | - |
| | 57 464 | 119 757 | 57 464 | - |
| **Impairment allowance on other financial assets** | | | | |
| Collective impairment charges | (222 669) | - | (309 572) | - |
| **Total impairment loss on financial assets** | 1 236 005 | 3 137 513 | (858 838) | 882 224 |

## 39. Exchange rates and inflation

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

| **Exchange rates** | **2018** Kwacha | **2017** Kwacha |
|---|---|---|
| Malawi Kwacha/GBP | 928.35 | 943.8 |
| Malawi Kwacha/Rand | 50.99 | 55.2 |
| Malawi Kwacha/US Dollar | 729.12 | 724.2 |
| Malawi Kwacha/Euro | 835.08 | 824.3 |
| Malawi Kwacha/Pula | 67.97 | 70.2 |
| Malawi Kwacha/Meticais | 11.89 | 11.5 |
| Malawi Kwacha/Zambia Kwacha | 61.27 | 75.8 |
| **Inflation rate %** | **9.9%** | **7.1%** |

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

| | | |
|---|---|---|
| Malawi Kwacha/GBP | 966.1 | 1015.8 |
| Malawi Kwacha/Rand | 50.4 | 62.0 |
| Malawi Kwacha/US Dollar | 731.0 | 724.2 |
| Malawi Kwacha/Euro | 824.0 | 898.2 |
| Malawi Kwacha/Pula | 67.5 | 75.9 |
| Malawi Kwacha/Meticais | 11.5 | 11.3 |
| Malawi Kwacha/Zambia Kwacha | 60.8 | 73.7 |

## 40. Effective interest rates of financial assets and liabilities

The effective interest rates for the principal financial assets and liabilities of the Bank at 31 December were in the following ranges:

| | **2018** | **2017** |
|---|---|---|
| **Assets** | | |
| Government securities | 11.4 – 19.5% | 12 – 26% |
| Deposits with banking institutions | 14.0 – 15.0% | 14.73% |
| Loans and advances to customers (base rate) | 23% | 25% |
| **Liabilities** | | |
| Customer deposits | 0.15% - 10.0% | 0.15% - 14% |

**41. Assets held for sale**

| | Consolidated and Separate | |
|---|---|---|
| | 2018 | 2017 |
| | K'000 | K'000 |
| Assets held for sale | 217 594 | 217 594 |

See accounting policy note 4 (ab). In 2017, the Group took over assets from Opportunity International Bank of Malawi Limited (OIBM) through an acquisition. Some of the acquired assets related to closed operations of OIBM. These assets have been earmarked for disposal through sale transactions and will not be used for the Group's operations.

**42. Business Combination**

As part of the Group's growth strategy, it acquired 100% shareholding in Opportunity International Bank of Malawi Limited ('OIBM') in 2017. First Capital Bank Plc also merged with its subsidiary, The Leasing and Finance Company of Malawi Limited ('LFC').

**a) Acquisition of and subsequent merger with OIBM**

On 31 October 2017, the Bank acquired 100% of the issued share capital of Opportunity International Bank of Malawi Limited; a commercial bank targeting the entrepreneurial, poor and disadvantaged people of Malawi in underserved areas. The acquisition has expanded First Capital Bank Plc's branch/agency/ATM network, improved its agri-finance business and bolstered First Capital Bank Plc's transactional banking strategy.

**i. Identifiable assets acquired and liabilities recognised at the date of the acquisition**

The following table summarises the fair values of the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

| | 2017 |
|---|---|
| | K'000 |
| Cash and cash equivalents | 1 671 611 |
| Money market deposits | 4 726 703 |
| Loans and advances | 2 144 477 |
| Other receivables | 255 243 |
| Property and equipment | 3 096 885 |
| Deferred tax asset | 2 954 457 |
| Total liabilities | (14 708 560) |
| Total identifiable net assets acquired | 140 816 |

Included in property and equipment is the fair value of buildings amounting to K2.08 billion. The fair value was arrived at on the basis of a valuation carried out by the Ministry of Lands, Housing and Urban Development, not related to the Group. The fair value was determined on an open market value basis.

The fair value of loans and advances and other receivables was determined by the Directors with reference to the best estimate of expected future cash flows. Loans and advances had gross contractual amounts of K3.3 billion.

As of the acquisition date, OIBM had assessed cumulative tax losses of K8.4 billion, up to 31 December 2016. These resulted in a recognized deferred tax asset of K2.7 billion as of the acquisition date. Confirmation of tax losses which are subject to the Malawi Revenue Authority's (MRA's) assessment is still an outstanding matter.

**42. Business Combinations** (Continued)

**a) Acquisition of and subsequent merger with OIBM** (Continued)

The initial accounting for the acquisition had only been provisionally determined as at 31 December 2017. Confirmation of tax losses which are subject to the Malawi Revenue Authority's (MRA's) assessment is still an outstanding matter. Bargain purchase did not take into account a potential deferred tax asset of about K390 million arising from pre-acquisition tax losses of OIBM not yet agreed with MRA.

**ii Gain on bargain purchase**

Upon determining the difference between the fair value of consideration paid and the fair value of assets acquired and liabilities assumed as of the acquisition date in accordance with IFRS 3 Business Combinations, the Group recognised a gain of K52 million in 'Income from investments' for the year ended 31 December 2017.

The acquisition resulted in a bargain purchase transaction because the fair value of assets acquired and liabilities assumed exceeded the total of the fair value of consideration paid.

Gain from a bargain purchase arising from the acquisition has been recognised as follows:

| | **2017**<br>**K'000** |
|---|---|
| Total fair value of identifiable net assets | (140 816) |
| Consideration transferred | 88 708 |
| Gain on bargain purchase | (52 108) |

**iii Consideration transferred**

The following table summarises the acquisition date fair value of consideration transferred and net cash inflows.

| Payment for acquisition of business, net of cash acquired | **2017**<br>**K'000** |
|---|---|
| Total cash consideration | 88 708 |
| Less: Cash and cash equivalents acquired | (1 671 611) |
| Net cash inflow | (1 582 903) |

**V. Acquisition related costs**

The Group incurred acquisition related costs of K580 million on legal fees, due diligence and restructuring costs. These costs were recognised in the Group's profit and loss in accordance with IFRS 3.

**42. Business Combinations** (Continued)

**a) <u>Acquisition of and subsequent merger with OIBM</u>** (Continued)

**iv Subsequent merger with OIBM**

On the same acquisition date, OIBM merged with First Capital Bank Plc. This was through a Scheme of Arrangement approved by the Reserve Bank of Malawi (RBM). The merger of the two entities was also approved as a Qualified Reorganisation under Section 70F of the Taxation Act by the Malawi Revenue Authority.

OIBM's assets acquired and liabilities assumed were transferred into the statement of financial position of First Capital Bank Plc at the same fair values determined as part of the acquisition date accounting. For taxation purposes, OIBM's assets have been transferred across at their tax written down values as at the date of the merger. This treatment complies with the requirements of Section 70F of the Taxation Act on Qualified Reorganizations.

**<u>b) Merger with LFC</u>**

On 22 December 2017, First Capital Bank Plc merged with the Leasing and Finance Company of Malawi Limited (LFC). This was through a Scheme of Arrangement approved by the Reserve Bank of Malawi (RBM). The merger of the two entities was approved as a Qualified Reorganisation under Section 70F of the Taxation Act by the Malawi Revenue Authority.

This approved qualified reorganisation was effectively a combination of the two companies. The accounting standard that deals with this business combinations is IFRS 3 Business Combinations. However, IFRS 3 does not apply to a combination of entities or businesses under common control and there is no accounting standard which addresses the treatment of a combination of entities under common control or one which allows merger accounting. The Directors believe that the transaction should be accounted for using the principles of merger accounting. The reasons for this position are detailed out below:

- In the framework for Preparation and Presentation of Financial Statements issued by the International Accounting Standards Board, the concept of ***faithful representation*** of information is discussed as "to be reliable, information must represent faithfully the transactions and other events it either purports to represent or could reasonably be expected to represent. Most financial information is subject to some risk of being less than a faithful representation of that which it purports to portray. This is not due to bias, but rather to inherent difficulties either in identifying the transactions and other events to be measured or in devising and applying measurement and presentation techniques that convey the messages that correspond with those transactions and events", and
- The framework also considers the issue of ***substance over form*** "if information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance.

**42. Business Combinations** (Continued)

**b) Merger with LFC (Continued)**

The Directors' objective is to make a faithful representation of the transaction which is in effect a merger of the two companies. The Directors believe an overarching principle of accounting allow an entity to transfer the assets from one company to another at their book values because the economic reality is that the two entities are combining. Accordingly, the transaction has been accounted in the financial statements as follows:

- Transferring the assets and liabilities of LFC into the statement of financial position of First Capital Bank Plc at their book values;
- The share capital of LFC has been eliminated against the carrying amount of First Capital Bank Plc's investment in LFC and the residual share capital, which represents the capitalisation of retained earnings in LFC in 2009, has been transferred to First Capital Bank Malawi's retained earnings;
- Other reserves, comprising revaluation reserve and loan loss reserve, have been added together;
- The statements of comprehensive income for the two entities have been maintained as separate, up to the point of the merger.
- For tax purposes, LFC's assets have been transferred across at their tax written down values as at the date of the merger. This treatment complies with the requirements of Section 70F of the Taxation Act on Qualified Reorganizations.

**i. Identifiable assets acquired and liabilities assumed on merger**

The following table summarises the book values of the assets and liabilities transferred from LFC to First Capital Bank Plc

| | **2017** |
|---|---|
| | **K'000** |
| Cash and cash equivalents | 2 371 584 |
| Money market deposits | 4 989 224 |
| Loans and advances | 3 829 790 |
| Other receivables | 37 234 |
| Property and equipment | 665 274 |
| Total liabilities | (8 686 874) |
| Net assets on merger | 3 206 232 |

**43. Preference shares**

During the year First Capital Bank (Botswana) Limited ("FCBB") concluded a preference share issuance agreement with FMBcapital Holdings Plc (FMBCH), a related entity. The shares have been issued to sustain the bank's balance sheet growth. Salient terms under the agreement are as follows:

| | |
|---|---|
| Term: | No fixed repayment terms and capable of redemption at the option of First Capital Bank Botswana but not within 5 years from issuance. |
| Security: | Unsecured and subordinate to claims by depositors and general creditors of First Capital Bank Botswana |
| Coupon: | Proposed at Bank Rate (currently 5.0%) plus 300 basis points, 8.00%, payable six monthly in arrears and reset every payment date. The coupon is cumulative, so if not paid (in part or in full) the amount not paid will be payable when distributable reserves are available without creating a default event. |
| Voting: | Each preference share carries a vote equivalent to an ordinary share and ranks parri passu with ordinary shares other than on winding up, in which case the preference shares are paid in priority to ordinary shares. |

## 44. Segmental Reporting

Separate financial information is presented to the Group's chief operating decision makers in respect of the individual legal entities comprised in the Group, namely:

- First Capital Bank Plc - corporate and retail banking in Malawi
- FMB Forex Bureau Limited - dormant
- FMB Pensions Limited - dormant
- First Capital Bank Limited - corporate and retail banking in Botswana
- Capital Bank S.A. Mozambique - corporate and retail banking in Mozambique
- FMB Capital Markets Limited - asset management in Malawi
- International Commercial Bank Limited - dormant

In the case of First Capital Bank Plc, information on income and expenditure, assets and liabilities is further disaggregated between its various individual branches and agencies and its head office operations. Head office income includes group treasury income from dealing in foreign currency and trading in financial instruments and income from transfer secretarial services. Head office expenditure includes all head office staff, premises and overhead costs including the costs of group treasury and capital market operations which are not separately identified in internal reports.

Branches and agencies of First Capital Bank Plc are all engaged in corporate and retail banking, offer similar products and services to similar classes of customer and are governed by the same regulatory environment. Given their common economic characteristics, these individual segments are aggregated and presented in a single segment, Malawi corporate and retail banking, in these financial statements.

FMB Pensions Limited, International Commercial Bank Limited and FMB Capital Markets Limited do not meet any of the quantitative thresholds set out in *IFRS 8 Segment Reporting* for separate disclosure and reporting and this segment has been aggregated into the Malawi corporate and retail banking segment information presented below.

Income tax expense, assets and liabilities are not disaggregated but allocated in full to head office.

Included in external interest income is income from placements with banks abroad of K22.6 million (2017: K17.38 million). All other revenues are attributable to the country in which the respective operating segment is domiciled.

During the year, the Bank earned K6.9 billion (2017: K11.3 billion) interest on Government of Malawi treasury bills and K144.7 million (2017: K265 million**)** interest on loans and advances to enterprises controlled by Government of Malawi.

**44. Segmental Reporting** (Continued)

| | Malawi | | | Mozambique | Botswana | Zambia | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Corporate & Retail Banking | Others | Subtotal | Corporate & Retail Banking | Corporate & Retail Banking | Corporate & Retail Banking | Total before adjustments | Consolidation adjustments | TOTAL |
| | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 |
| **2018** | | | | | | | | | |
| Interest income – external | 22 337 982 | 11 218 | 22 349 200 | 4 371 482 | 11 048 505 | 6 973 510 | 44 742 697 | (574 539) | 44 168 158 |
| Interest expense – external | (7 712 954) | - | (7 712 954) | (1 471 932) | (4 041 867) | (1 937 256) | (15 164 009) | 574 539 | (14 589 470) |
| **Net interest income** | **14 625 028** | **11 218** | **14 636 246** | **2 899 550** | **7 006 638** | **5 036 254** | **29 578 688** | **-** | **29 578 688** |
| Fees and commissions | 8 536 924 | 4 500 | 8 541 424 | 841 951 | 1 827 706 | 2 206 239 | 13 417 320 | (16 959) | 13 400 361 |
| Income from investments | 437 612 | - | 437 612 | - | - | - | 437 612 | - | 437 612 |
| Gain on foreign exchange transactions | 2 396 374 | - | 2 396 374 | 843 009 | 1 994 205 | 2 323 200 | 7 556 788 | - | 7 556 788 |
| **Total operating income** | **25 995 938** | **15 718** | **26 011 656** | **4 584 510** | **10 828 549** | **9 565 693** | **50 990 408** | **(16 959)** | **50 973 449** |
| Staff and training costs | (8 150 952) | - | (8 150 952) | (1 988 418) | (3 193 514) | (2 928 582) | (16 261 466) | - | (16 261 466) |
| Premises and equipment | (2 444 933) | - | (2 444 933) | (619 615) | (878 671) | (795 108) | (4 738 327) | - | (4 738 327) |
| Depreciation | (1 975 309) | - | (1 975 309) | (378 801) | (440 253) | (479 350) | (3 273 713) | - | (3 273 713) |
| Other expenses | (4 759 293) | (583) | (4 759 876) | (1 111 042) | (2 607 596) | (1 771 854) | (10 250 368) | 16 959 | (10 233 409) |
| Impairment of financial assets | 858 838 | - | 858 838 | (357 668) | (1 218 907) | (518 268) | (1 236 005) | - | (1 236 005) |
| **Total expenditure** | **(16 471 649)** | **(583)** | **(16 472 232)** | **(4 455 544)** | **(8 338 941)** | **(6 493 162)** | **(35 759 879)** | **16 959** | **(35 742 920)** |
| **Profit before income tax expense** | **9 524 289** | **15 135** | **9 539 424** | **128 966** | **2 489 608** | **3 072 531** | **15 230 529** | **-** | **15 230 529** |
| Income tax expense | (2 869 339) | (5 601) | (2 874 940) | (35 503) | (453 008) | (1 092 675) | (4 456 126) | - | (4 456 126) |
| **Profit for the year** | **6 654 950** | **9 534** | **6 664 484** | **93 463** | **2 036 600** | **1 979 856** | **10 774 403** | **-** | **10 774 403** |
| **Other comprehensive income** | | | | | | | | | |
| Revaluation surplus on property | 2 487 322 | - | 2 487 322 | - | 11 644 | - | 2 498 966 | - | 2 498 966 |
| Deferred tax on revalued property | (751 332) | - | (751 332) | - | (2 562) | - | (753 894) | - | (753 894) |
| Other movements | - | - | - | (419 264) | (765 907) | - | (1 185 171) | - | (1 185 171) |
| **Total other comprehensive income for the period** | **1 735 990** | **-** | **1 735 990** | **(419 264)** | **(756 825)** | **-** | **559 901** | **-** | **559 901** |
| **Total comprehensive income for the period** | **8 390 940** | **9 534** | **8 400 474** | **(325 801)** | **1 279 775** | **1 979 856** | **11 334 304** | **-** | **11 334 304** |
| **Total segment assets** | 229 396 858 | 1 046 470 | 230 443 328 | 35 686 849 | 194 876 284 | 74 583 635 | 534 829 099 | (96 249 447) | **439 340 649** |
| **Total segment liabilities** | 193 171 033 | 41 646 | 193 212 679 | 28 090 909 | 181 503 622 | 65 020 818 | 467 828 028 | (75 917 135) | **391 910 893** |

## 44. Segmental Reporting (Continued)

| | Malawi | | | | Mozambique | Botswana | Zambia | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Corporate & Retail Banking | Asset Finance | Others | Subtotal | Corporate & Retail Banking | Corporate & Retail Banking | Corporate & Retail Banking | | | |
| | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 |
| **2017** | | | | | | | | | | |
| Interest income – external | 22 394 451 | 2 791 840 | 17 417 | 25 203 708 | 3 569 970 | 8 190 458 | 5 422 025 | 42 386 161 | (454 424) | 41 931 737 |
| Interest expense – external | (8 038 507) | (1 364 454 | - | (9 402 961) | (1 667 556) | (2 184 793) | (1 572 891) | (14 828 201) | 454 424 | (14 373 777) |
| **Net interest income** | 14 355 944 | 1 427 386 | 17 417 | 15 800 747 | 1 902 414 | 6 005 665 | 3 849 134 | 27 557 960 | - | 27 557 960 |
| Fees and commissions | 6 818 144 | 210 229 | 12 631 | 7 041 004 | 380 563 | 1 650 665 | 1 731 409 | 10 803 641 | (39 470) | 10 764 171 |
| Income from investments | 2 374 880 | - | - | 2 374 880 | - | - | - | 2 374 880 | (245 839) | 2 129 041 |
| Gain on foreign exchange transactions | 1 662 280 | - | - | 1 662 280 | 425 750 | 1 209 641 | 1 687 252 | 4 984 923 | - | 4 984 923 |
| **Total operating income** | 25 211 248 | 1 637 615 | 30 048 | 26 878 911 | 2 708 727 | 8 865 971 | 7 267 795 | 45 721 404 | (285 309) | 45 436 095 |
| Staff and training costs | (7 502 600) | (418 244) | - | (7 920 844) | (1 317 419) | (2 821 585) | (2 247 985) | (14 307 833) | - | (14 307 833) |
| Premises and equipment | (2 013 750) | (8 184) | (898) | (2 022 832) | (794 472) | (675 937) | (794 076) | (4 287 317) | - | (4 287 317) |
| Depreciation | (1 436 255) | (38 328) | (1 875) | (1 476 458) | (297 932) | (370 796) | (447 100) | (2 592 286) | - | (2 592 286) |
| Other expenses | (3 267 210) | (221 918) | (2 342) | (3 491 470) | (914 207) | (1 336 962) | (968 504) | (6 711 143) | 39 470 | (6 671 673) |
| Impairment of financial assets | (882 224) | (119 757) | - | (1 001 981) | (940 163) | (1 075 434) | (119 935) | 3 137 513 | - | (3 137 513) |
| **Total expenditure** | (15 102 039) | 806 431 | (5 115) | (15 913 585) | (4 264 193) | (6 280 714) | (4 577 600) | (31 036 092) | 39 470 | (30 996 622) |
| **Profit before income tax expense** | 10 109 209 | 831 184 | 24 933 | 10 965 326 | (1 555 466) | 2 585 257 | 2 690 195 | 14 685 312 | (245 839) | 14 439 473 |
| Income tax expense | (2 471 212) | 266 902 | (6 935) | (2 745 049) | - | (606 961) | (1 023 028 | (4 375 038) | | (4 375 038) |
| **Profit for the year** | 7 637 997 | 564 282 | 17 998 | 8 220 277 | (1 555 466) | 1 978 296 | 1 667 167 | 10 310 274 | (245 839) | 10 064 435 |
| **Other comprehensive income** | | | | | | | | | | |
| Deferred tax on revalued property | - | 3 153 | - | 3 153 | - | - | - | 3 153 | - | 3 153 |
| Other movements | - | 7 934 | - | 7 934 | 718 960 | 747 493 | (157 142) | 1 317 245 | - | 1 317 245 |
| **Total other comprehensive income for the period** | - | 11 087 | - | 11 087 | 718 960 | 747 493 | (157 142) | 1 320 398 | - | 1 320 398 |
| **Total comprehensive income for the period** | 7 637 997 | 575 369 | 17 998 | 8 231 364 | (836 506) | 2 725 789 | 1 510 025 | 11 630 672 | (245 839) | 11 384 833 |
| **Total segment assets** | 232 789 737 | 11 893 106 | 1 033 742 | 245 716 585 | 28 177 719 | 141 712 073 | 62 721 070 | 478 327 477 | (40 839) | 437 487 784 |
| **Total segment liabilities** | 196 205 393 | 8 686 861 | 38 453 | 204 930 707 | 20 485 644 | 128 483 721 | 53 550 402 | 407 450 474 | (23 508) | 383 941 921 |