First Capital Bank Plc

Consolidated and separate financial statements
for the year ended 31 December 2020

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REPORT OF THE DIRECTORS

For the year ended 31 December 2020

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 2020.

NATURE OF BUSINESS, SUBSIDIARIES AND REGISTERED OFFICE

First Capital Bank Plc 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 Financial Services Act, 2010. 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

First Capital Bank Plc transferred its shareholding in First Capital Bank Limited, Botswana and First Capital Bank S.A. Mozambique on 28 February 2019 and 30 June 2019 respectively to FMBcapital Holdings Plc through a dividend in specie.

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 Bank 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 Bank paid a total of K5.5bn dividend to its shareholder, FMBcapital Holdings Plc during the year as follows:

- K3.6bn interim dividend paid in March 2020.
- K1.9bn final dividend paid in November 2020.

DIRECTORATE AND SECRETARY

The following Directors and Company Secretary of the Bank served during the year:

Mr. H N Anadkat	Chairman	Non-executive
Mr. D Dikshit	Group Managing Director	Non-executive (up to 31 October, 2020)
Mr. B Jani	Director	Non-executive
Mr. M Msisha	Director	Non-executive
Mrs. C Musopole	Director	Non-executive
Ms. A Lewis	Director	Non-executive
Mr. L Katandula	Director	Non-executive
Mr. W Swart	Director	Non-executive
Dr. R Mangani	Director	Non-executive
Mr. T Kadantot	Director	Non-executive
Mr. M Gursahani	Director	Non-executive (from 16 December, 2020)
Mr. O Mtokale	Company Secretary	

Total remuneration paid to Non-Executive Directors and expenses incurred on their behalf are disclosed in note 31.

DONATIONS

Total donations by the companies in the Group during the year amounted to K25.4 million (2019: K64.6 million). 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	2020 %	2019 %
FMBcapital Holdings Plc	100.00	100.00

Mr. Hitesh Anadkat and Mr. Dheeraj Dikshit hold one share each in trust for FMBcapital Holdings Plc.

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 2020

Member	10 Jan 20	13 Mar 20	27 May 20	29 Sept 20	08 Dec 20
Mr. H N Anadkat – Chairman	√	√	√	√	√
Mr. D Dikshit	√	√	√	√	√
Mr. M Msisha	x	x	√	√	√
Mr. B Jani	√	√	√	√	√
Mrs. C Musopole	√	√	√	√	√
Ms. A Lewis	√	√	√	√	√
Mr. L Katandula	√	√	√	x	√
Dr. R Mangani	√	√	√	√	x
Mr. W Swart	√	√	√	√	√
Mr. T Kadantot	x	√	√	√	√
Mr. M Gursahani	N/A	N/A	N/A	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, Chief Commercial Officer, The Head of Digital Transformation and Ecosystems, and The Head of Treasury. 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 members of management and meets regularly, usually once a month. The members of the ALCO are:

Head of Risk
Chief Executive Officer (Chairman)
General Manager
Chief Commercial Officer
Head of Credit
Chief Finance Officer
Head of Treasury
Head of Compliance
Management Accountant
Head of Digital Transformation and Ecosystems

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)
Head of Service Delivery
Chief Commercial Officer
Head of Risk
Head of Information Technology
General Manager
Head of Internal Audit
Head of Human Resources
Head of Administration
Head of Credit
Head of Compliance
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
Chief Commercial Officer
Chief Finance Officer

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:

Mrs. C. Musopole	Non-executive Director
Mr. W. Swart	Non-executive Director (Chairman)
Mr. M. Msisha SC	Non-executive Director

Audit Committee Meetings Attendance 2020

Members	12 Mar 20	22 May 20	28 Sept 20	07 Dec 20
Mr. W. Swart (Chairman)	√	√	√	√
Mrs. C. Musopole	√	√	√	√
Mr. M. Msisha SC	x	x	√	x

Key
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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 Head of Credit, 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. D. Dikshit	Non – Executive Director (up to 31 October, 2020)
Mr. L. Katandula	Non – Executive Director (Chairman)
Mr. T. Kadantot	Non – Executive Director
Mr. M. Gursahani	Non – Executive Director (from 16 December, 2020)

Credit Committee Attendance 2020

Members	12 Mar 20	22 May 20	28 Sept 20	07 Dec 20
Mr. D. Dikshit	√	√	√	N/A
Mr. L. Katandula	√	√	√	√
Mr. T. Kadantot	√	√	√	√
Mr. M. Gursahani	N/A	N/A	N/A	√

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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. D Dikshit - Director (up to 31 October, 2020)
Mr. L Katandula - Director
Mr. M Gursahani - Director (from 16 December, 2020)

Appointments and Remuneration Committee Meetings Attendance 2020

Members	12 Mar 2020	26 May 2020	28 Sept 2020	07 Dec 2020
Mr. H N Anadkat	√	√	√	√
Mr. D Dikshit	√	√	√	N/A
Mr. L Katandula	√	√	√	√
Mr. M Gursahani	N/A	N/A	N/A	√

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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 Head of Service Delivery, General Manager, Group Head of Compliance, Chief Financial Officer, Head of Risk, Head of Compliance and Head of Credit attend all meetings. The members of the committee are:

Mr. B Jani	Non-executive Director (Chairman)
Ms. A Lewis	Non-executive Director
Dr. R Mangani	Non-executive Director

Risk Committee Meetings Attendance 2020

Member	**12 Mar 20**	**25 May 20**	**08 Sept 20**	**07 Dec 20**
Mr. B Jani – Chairman	√	√	√	√
Ms. A Lewis	√	√	√	√
Dr. R Mangani	√	√	√	x

Key
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DIRECTORS' QUALIFICATIONS

H.N. Anadkat, BSc (Econ), MBA	-	Chairman
M. Msisha, SC. LLM (Toronto), LLB (Hons) Mw	-	Director
B. Jani, Post Grad. (Commerce), B Comm. (Banking & Fin. Mgt.)	-	Director
R. Mangani, BsocSc, MSc, PhD	-	Director
C. Musopole, BAcc., FCCA, CA (M)	-	Director
A. Lewis, LLB (Hons)	-	Director
L. Katandula, BAcc, FCCA, CA(M), CFA, CISA	-	Director
W. Swart, BAcc. Hon, CA (SA)	-	Director
T. Kadantot, BSc (Physics), MBA (Finance and Accounting), Postgrad. Diploma (Business Administration)	-	Director
M. Gursahani, B Comm., ACA	-	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 Bank are required to abide by a code of conduct containing detailed guidelines governing ethics and integrity in the workplace.

FIRST CAPITAL BANK PLC
STATEMENT OF DIRECTORS' RESPONSIBILITIES
For the year ended 31 December 2020

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 2020 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 which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, and the requirements of 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 Bank 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 the requirements of 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 **16 March 2021** and are signed on its behalf by:

....
Director **Director**

By order of the Board

Deloitte.

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Blantyre
Malawi

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF FIRST CAPITAL BANK PLC

Opinion

We have audited the consolidated and separate financial statements of First Capital Bank Plc and its subsidiaries ("the Group"), set out on pages 13 to 102, which comprise the consolidated and separate statements of financial position as at 31 December 2020, 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 consolidated and separate financial position of the Group as at 31 December 2020, and of their consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Companies Act, 2013.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and other independence requirements applicable to performing audits of financial statements in Malawi. We have fulfilled our ethical responsibilities in accordance with these requirements and IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the 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 Matter	How the matter was addressed in the audit
Impairment against loans and advances	

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

Key areas of judgment included:

- Consideration of Forward Looking Information (FLI). The objective of the impairment requirements according to IFRS 9 *Financial Instruments* is to recognise expected credit losses on financial instruments– whether assessed on an individual or collective basis – considering all reasonable and supportable information, including that which is forward-looking.
- Consideration of collateral. According to IFRS 9, the estimate of expected cash shortfalls shall reflect the cash flows expected from collateral and other credit enhancements that are part of the contractual terms and are not recognised separately by the Group. Furthermore, the Group uses a number of assumptions around cost to sell collateral, recovery period of collateral and fair values of collateral.
- The significance of the judgements used in determining the impact of COVID 19 on the expected credit losses.
- Staging of facilities. The Group adopted the IFRS 9 requirements on classifying assets between stage 1, 2 and 3, depending on credit risk. Management have used both quantitative and qualitative factors in the classification. The use of qualitative factors is evident in the individual assessment approach where the Ongoing Risk Monitoring (ORM) Tool is used.

As at 31 December 2020, the gross loans and advances and finance lease receivables from customers were K81.2 billion (2019: K73.6 billion) against which expected credit losses of K2.2 billion (2019: K1.5 billion) were recorded, comprising K509 million (2019: K517 million) of provision against Stage 1 and 2 exposures and K1.6 billion (2019: K967 million) against exposures classified under Stage 3. This is disclosed in notes 9 and 10 (loans and advances to customers and finance lease receivables) to the financial statements. The impairment provision policy is presented in accounting policies in note 4 to the financial statements. Loans and advances are stated at amortised cost net of identified impairments.

We gained understanding of the Group's key credit processes comprising granting, booking, monitoring and provisioning and tested the relevant internal controls over impairment of loans and advances.

We examined a sample of exposures and performed procedures to evaluate the:

- Timely identification of exposures with a significant deterioration in credit quality.
- For exposures determined to be individually impaired, we examined management's estimate of future cash flows, assessed their reasonableness and checked the resultant provision calculation.

For provision against exposures classified as Stage 1, Stage 2 and Stage 3, we obtained an understanding of the Group's provisioning methodology and assessed the reasonableness of the underlying assumptions and the sufficiency of the data used by management. Our procedures in this regard are discussed in further detail below.

- We evaluated the Group's IFRS 9 based impairment provisioning policy against the requirements of IFRS 9;
- 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;
- For a sample of exposures, we checked the appropriateness of the Group's staging;
- 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;
- For forward looking assumptions including COVID 19 impact used by the Group's management in its ECL calculations, we held discussions with management and corroborated the assumptions used to publicly available information;
- We assessed assumptions used in the determination of ECLs for reasonability;
- 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;
- 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.
- We recomputed ECLs and compared with amounts recognised by the Group; and
- 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 2020.

We found that the modelling approach and methods applied in determining expected credit losses against loans and advances as well as other financial assets were appropriate and that the amount impaired and recognised in the financial statements was reasonable and complied with IFRS 9 *Financial Instruments*. We further concluded that the financial statements disclosures in relation to impairment of loans and advances as well as other financial assets were appropriate.

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 the 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 Group'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;

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

Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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.

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

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the 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

23 March 2021

FIRST CAPITAL BANK PLC
STATEMENTS OF FINANCIAL POSITION
As at 31 December 2020

	Notes	Consolidated 2020 K'000	Consolidated 2019 K'000	Separate 2020 K'000	Separate 2019 K'000
ASSETS					
Cash and cash equivalents	7	38 839 731	16 592 843	38 839 731	16 592 843
Money market investments	8	90 462 090	103 981 396	90 462 090	103 981 396
Loans and advances to customers	9	79 077 559	71 592 468	79 077 559	71 592 468
Finance lease receivables	10	-	511 461	-	511 461
Amounts due from related parties	12	243 662	681 250	243 662	681 250
Repurchase agreements	35	57 915 414	71 553 169	57 915 414	71 553 169
Current tax assets	27(c)	43 649	304 951	-	261 302
Investments at fair value through profit or loss	13	3 792 344	4 644 031	3 792 344	4 644 031
Investment in subsidiaries	14	-	-	208 791	208 791
Right-of-use assets	40(a)	538 083	801 929	538 083	801 929
Intangible assets	15(a)	3 065 695	3 744 551	3 065 695	3 744 551
Property and equipment	15(b)	20 043 605	18 103 633	20 043 605	18 103 633
Assets held for sale	39	212 018	212 018	212 018	212 018
Other assets	11	1 194 018	1 626 453	1 166 604	1 601 041
Total assets		295 427 868	294 350 153	295 565 596	294 489 883
LIABILITIES AND EQUITY					
Liabilities					
Balances due to other banks	17	87 494 170	109 261 699	87 494 170	109 261 699
Customer deposits	18	157 402 033	134 553 968	157 719 862	134 871 797
Current tax liabilities	27(c)	1 879 343	10 371	1 868 972	-
Other payables	19(a)	8 210 426	7 515 635	8 394 555	7 701 766
Lease liabilities	40(b)	626 819	872 847	626 819	872 847
Provisions	19(b)	599 512	430 610	599 512	430 610
Subordinated debt	34	-	7 000 000	-	7 000 000
Deferred tax	16	1 661 674	1 254 541	1 665 097	1 257 964
Total liabilities		257 873 977	260 899 671	258 368 987	261 396 683
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	7 716 952	6 114 772	7 716 952	6 114 772
Loan loss reserve	22	1 119 224	1 047 525	1 119 224	1 047 525
Retained earnings		27 035 555	24 606 025	26 678 273	24 248 743
Total equity		37 553 891	33 450 482	37 196 609	33 093 200
Total equity and liabilities		295 427 868	294 350 153	295 565 596	294 489 883

The consolidated and separate financial statements were approved for issue by the Company's Board of Directors on 16 March 2021 and were signed on its behalf by:

…………………………………Director
Mr. H N Anadkat

…………………………………Director
Mr. T Kadantot

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2020

	Notes	Consolidated 2020 K'000	Consolidated 2019 K'000	Separate 2020 K'000	Separate 2019 K'000
Interest income	23(a)	26 287 858	27 236 894	26 287 858	22 886 270
Interest expense on deposits and other accounts	23(b)	(5 615 891)	(7 351 626)	(5 615 891)	(5 637 300)
Net interest income		20 671 967	19 885 268	20 671 967	17 248 970
Fees and commission income		10 964 097	9 036 321	10 964 097	8 015 963
Income from investments	24	(821 183)	(560 092)	(821 183)	(560 092)
Gain on foreign exchange transactions		2 607 938	4 184 343	2 607 938	3 076 988
Total operating income		12 750 852	12 660 572	12 750 852	10 532 859
Total income		33 422 819	32 545 840	33 422 819	27 781 829
Staff and training costs	25	7 157 754	8 634 479	7 157 754	6 803 238
Premises and equipment costs		3 196 410	2 877 828	3 196 410	2 328 861
Depreciation and amortization	15	2 313 428	2 351 890	2 313 428	2 115 850
Other expenses	26	8 175 682	7 205 467	8 175 682	5 938 191
Impairment loss on financial assets	36	291 860	1 765 667	291 860	1 546 327
Total expenses		21 135 134	22 835 331	21 135 134	18 732 467
Profit before income tax expense		12 287 685	9 710 509	12 287 685	9 049 362
Income tax expense	27(a)	(4 262 456)	(3 080 673)	(4 262 456)	(3 010 296)
Profit for the year		8 025 229	6 629 836	8 025 229	6 039 066
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Revaluation surplus on property		2 030 577	-	2 030 577	-
Deferred tax on revalued property		(428 397)	917 803	(428 397)	917 803
Total other comprehensive income for the year		1 602 180	917 803	1 602 180	917 803
Total comprehensive income for the year		9 627 409	7 547 639	9 627 409	6 956 869
Profit or loss attributable to:					
Owners of the company		8 025 229	6 432 518	8 025 229	6 039 066
Non-controlling interest	29(b)	-	197 318	-	-
Profit for the year		8 025 229	6 629 836	8 025 229	6 039 066
Total comprehensive income attributable to:					
Owners of the company		9 627 409	7 350 321	9 627 409	6 956 869
Non-controlling interests		-	197 318	-	-
Total comprehensive income for the year		9 627 409	7 547 639	9 627 409	6 956 869
Basic and diluted earnings per share (tambala)	28	344	275		

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
2019									
As at 1 January 2019	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
Profit for the year	-	-	-	-	-	6 432 518	6 432 518	197 318	6 629 836
Other Comprehensive income									
Deferred tax on revalued assets	-	-	-	917 803	-	-	917 803	-	917 803
Total other comprehensive income	-	-	-	917 803	-	-	917 803	-	917 803
Total comprehensive income for the year	-	-	-	917 803	-	6 432 518	7 350 321	197 318	7 547 639
Transfers within reserves									
Transfer from loan loss reserve	-	-	-	-	224 047	(224 047)	-	-	-
Total Transfers within reserves	-	-	-	-	224 047	(224 047	-	-	-
Transactions with owners, recorded directly in equity									
Contribution by and distribution to owners									
Eliminated on disposal of subsidiary	-	-	(1 217 714)	(1 451)	(262 732)	(28 202)	(1 510 099)	(9 927 320)	(11 437 419)
Dividends paid to owners of the parent	-	-	-	-	-	(10 089 494)	(10 089 494)	-	(10 089 494)
Total transactions with owners	-	-	(1 217 714)	(1 451)	(262 732)	(10 117 696)	(11 599 593)	(9 927 320)	(21 526 913)
As at 31 December 2019	116 813	1 565 347	-	6 114 772	1 047 525	24 606 025	33 450 482	-	33 450 482

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
2020									
As at 1 January 2020	116 813	1 565 347	-	6 114 772	1 047 525	24 606 025	33 450 482	-	33 450 482
Profit for the year	-	-	-	-	-	8 025 229	8 025 229	-	8 025 229
Other Comprehensive income									
Property revaluation	-	-	-	2 030 577	-	-	2 030 577	-	2 030 577
Deferred tax on revalued assets	-	-	-	(989 330)	-	-	(989 330)	-	(989 330)
Deferred Tax released on property revaluation surplus	-	-	-	560 933	-	-	560 933	-	560 933
Total other comprehensive income	-	-	-	1 602 180	-	-	1 602 180	-	1 602 180
Total comprehensive income for the year	-	-	-	1 602 180	-	8 025 229	9 627 409	-	9 627 409
Transfers within reserves									
Transfer to loan loss reserve	-	-	-	-	71 699	(71 699)	-	-	-
Total Transfers within reserves	-	-	-	-	71 699	(71 699)	-	-	-
Transactions with owners, recorded directly in equity									
Contribution by and distribution to owners									
Dividends paid to owners of the parent	-	-	-	-	-	(5 524 000)	(5 524 000)	-	(5 524 000)
Total transactions with owners	-	-	-	-	-	(5 524 000)	(5 524 000)	-	(5 524 000)
As at 31 December 2020	116 813	1 565 347	-	7 716 952	1 119 224	27 035 555	37 553 891	-	37 553 891

FIRST CAPITAL BANK PLC
STATEMENTS OF CHANGES IN EQUITY (Continued)
For the year ended 31 December 2020

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
2019						
As at beginning of the year	116 813	1 565 347	5 196 969	823 478	28 523 218	36 225 825
Profit for the year	-	-	-	-	6 039 066	6 039 066
Other comprehensive income						
Deferred tax on revalued assets	-	-	917 803	-	-	917 803
Total other comprehensive income	-	-	917 803	-	-	917 803
Total comprehensive income for the year	-	-	917 803	-	6 039 066	6 956 869
Transfers between reserves						
Transfer from loan loss reserve	-	-	-	224 047	(224 047)	-
Total transfers between reserves	-	-	-	224 047	(224 047)	-
Transactions with owners, recorded directly in equity						
Contribution by and distribution to owners						
Dividends paid	-	-	-	-	(10 089 494)	(10 089 494)
As at 31 December 2019	116 813	1 565 347	6 114 772	1 047 525	24 248 743	33 093 200
2020						
As at beginning of the year	116 813	1 565 347	6 114 772	1 047 525	24 248 743	33 093 200
Profit for the year	-	-	-	-	8 025 229	8 025 229
Other comprehensive income						
Property revaluation	-	-	2 030 577	-	-	2 030 577
Deferred tax on revalued assets	-	-	(989 330)	-	-	(989 330)
Deferred Tax released on property revaluation surplus	-	-	560 933	-	-	560 933
Total other comprehensive income	-	-	1 602 180	-	-	1 602 180
Total comprehensive income for the year	-	-	1 602 180	-	8 025 229	9 627 409
Transfers between reserves						
Transfer from loan loss reserve	-	-	-	71 699	(71 699)	-
Total transfers between reserves	-	-	-	71 699	(71 699)	-
Transactions with owners, recorded directly in equity						
Contribution by and distribution to owners						
Dividends paid	-	-	-	-	(5 524 000)	(5 524 000)
As at 31 December 2020	116 813	1 565 347	7 716 952	1 119 224	26 678 273	37 196 609

FIRST CAPITAL BANK PLC
STATEMENTS OF CASH FLOWS
For the year ended 31 December 2020

	Notes	Consolidated 2020 K'000	Consolidated 2019 K'000	Separate 2020 K'000	Separate 2019 K'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest and fees received		37 289 458	40 442 946	37 289 458	33 820 767
Interest paid		(5 615 891)	(7 351 626)	(5 615 891)	(5 637 300)
Cash paid to suppliers and employees		(16 706 027)	(12 090 703)	(16 706 027)	(13 956 873)
		14 967 540	21 000 617	14 967 540	14 226 594
Net (decrease)/increase in net customer balances		(5 063 650)	67 664 211	(5 063 650)	50 514 083
Cash generated from/(used in) operations		9 903 890	88 664 828	9 903 890	64 740 677
Dividend received from listed companies		30 504	19 169	30 504	19 169
Income taxes paid	27c	(2 153 446)	(2 256 483)	(2 153 446)	(2 432 216)
Net cash generated by/(used in) operating activities		7 780 948	86 427 514	7 780 948	62 327 630
CASH FLOWS FROM INVESTING ACTIVITIES					
Maturity/(purchases) of money market investments	8	13 870 366	(36 803 887)	13 870 366	(36 803 887)
Maturity/(investment) in currency swaps		13 934 587	(49 702 223)	13 934 587	(49 702 223)
Proceeds from sale of equipment		-	46 365	-	46 365
Net cash flows on derecognition of subsidiaries		-	(101 984 896)	-	-
Sale of investments at fair value through profit or loss		-	365 797	-	365 797
Acquisition of property and intangible assets	15	(1 543 967)	(2 692 587)	(1 543 967)	(2 692 587)
Net cash generated by/(used in) investing activities		26 260 986	(190 771 431)	26 260 986	(88 786 535)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid to the owners of the company	30	(5 524 000)	-	(5 524 000)	-
Repayment of subordinated debt		(7 000 000)	-	(7 000 000)	-
Long term borrowings and lease liabilities		(1 841 483)	7 997 792	(1 841 483)	7 997 792
Net cash used in financing activities		(14 365 483)	7 997 792	(14 365 483)	7 997 792
Net increase/(decrease) in cash and cash equivalents		19 676 451	(96 346 125)	19 676 451	(18 461 113)
Cash and cash equivalents at 1 January		16 592 843	112 650 131	16 592 843	34 765 119
Effect of changes in exchange rates		2 570 437	288 837	2 570 437	288 837
Cash and cash equivalents at 31 December	7	38 839 731	16 592 843	38 839 731	16 592 843

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), 4(w), 9 and 36 - Loans and advances to customers - Impairment
- Notes 4(c), 4(w), 10 and 36 - 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 and other payables as disclosed in note 19.

(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 2020.

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

3.2 Standards and Interpretations in issue, not yet effective

A number of new standards, amendments to standards and interpretations are in issue but not yet effective for period ended 31 December 2021, and have not been applied in preparing these financial statements. Those which may be relevant to the company are set out below. The Bank does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2023	IFRS 17 Insurance Contracts IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts. IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach. The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.
Annual reporting periods beginning on or after 1 January 2023	Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.
Annual reporting periods beginning on or after 1 January 2022	Reference to the Conceptual Framework (Amendments to IFRS 3) The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard.

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

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

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2022	Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16) The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.
Annual reporting periods beginning on or after 1 January 2022	Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37) The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).
Annual reporting periods beginning on or after 1 January 2022	Annual Improvements to IFRS Standards 2018–2020 Makes amendments to the following standards: • **IFRS 1 –** The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs. • **IFRS 9 –** The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. • **IFRS 16 –** The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example. • **IAS 41 –** The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

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

4. Significant accounting policies

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

(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 Capital Markets Limited and International Commercial Bank Limited (Malawi), (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 IFRS 9 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. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7, *Financial Instruments: Disclosures*.

Classification of financial instruments

Under IFRS 9, 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 IFRS 9 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.

4. Significant accounting policies (Continued)

(c) Financial assets and liabilities (Continued)

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

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.

4. Significant accounting policies (Continued)

(c) Financial assets and liabilities (Continued)

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.

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; and
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); and
- 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.

(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.

4. Significant accounting policies (Continued)

(i) 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.

(j) 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.

(k) 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)

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) 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

The Group as a lessee

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

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

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

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

The lease liability is presented as a separate line in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

4. Significant accounting policies (Continued)

(r) Leases (continued)

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Bank has used this practical expedient.

The Group as lessor

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the 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.

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

4. Significant accounting policies (Continued)

(s) Fees and commission income

The Group 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. 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.

(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.

4. Significant accounting policies (Continued)

(u) Income tax (Continued)

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)

(z) Derivative financial instruments

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.

(aa) 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.

(ab) 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.

(ac) 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, General Manager, Group Head of Compliance, Head of Service Delivery, Chief Financial Officer, Head of Risk and Head of Compliance attend the meetings.

(ii) The Credit Committee

The Credit Committee comprises three Directors with a good knowledge of the Mal
awi 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, Group General Manager Treasury & International Banking, Head of Risk, 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

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

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

(ii)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:

- Chief Executive Officer;
- General Manager;
- Chief Commercial Officer;
- Head of Credit;
- Chief Finance Officer;
- Head of Treasury;
- Management Accountant;
- Head of Risk; and
- Head of Digital Transformation & Ecosystems.

5. Risk Management (Continued)

(d) Management (Continued)

(iii) Management Risk Committee (MRC)
The Management Risk Committee (MRC) comprises:

- Chief Executive Officer (Chairman);
- Head of Risk;
- Head of Information Technology;
- Head of Service Delivery;
- Chief Commercial Officer;
- General Manager;
- Head of Internal Audit;
- Head of Human Resources;
- 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.

(iv) Management Credit Committee (MCC)
The Management Credit Committee (MCC) comprises:

- Chief Executive Officer (Chairman);
- Head of Credit;
- General Manager; and
- Chief Finance Officer.

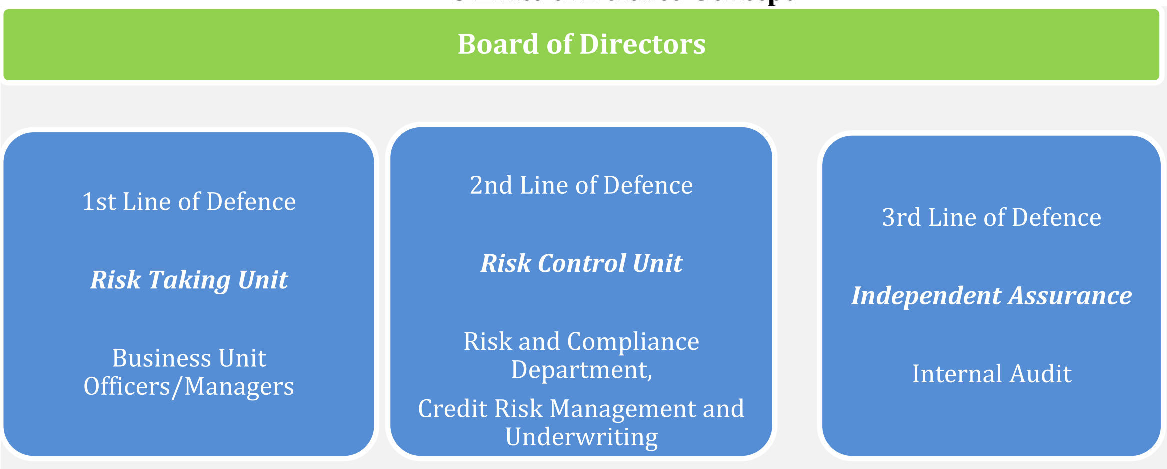
It is chaired by the Chief Executive Officer and meets monthly to review management of credit risk in the Bank.

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 Group 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 Chief Executive Officer 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)

***(iv)* Capital Position as at 31 December 2020**

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

	Consolidated		Separate	
	2020 K'000	2019 K'000	2020 K'000	2019 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	27 035 555	24 606 025	26 678 273	24 248 743
Investments in unconsolidated entities	-	-	(119 396)	(119 396)
Total Tier 1 Capital	28 717 715	26 288 185	28 241 037	25 811 507
Tier 2 Capital				
Property revaluation reserve	7 716 952	6 114 772	7 716 952	6 114 772
Loan loss reserve	1 119 224	1 047 525	1 119 224	1 047 525
Investments in unconsolidated entities	-	-	(119 396)	(119 396)
Eligible subordinated debt	-	5 600 000	-	5 600 000
Tier 2 Capital	8 836 176	12 762 297	8 716 780	12 642 901
Total qualifying capital	37 553 891	39 050 482	36 957 817	38 454 408
Total risk weighted assets	179 614 836	186 640 521	183 738 413	161 830 713
Tier 1 risk based capital ratio (minimum 10%)	16.0%	14.1%	15.4%	15.9%
Total risk-weighted capital ratio (minimum 15%)	20.9%	20.9%	20.1%	23.8%

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; and
- Continually improving collection and recovery.

a) Risk limit and mitigation policies

The Bank uses 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; and
- 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:

The Group uses 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)

(i) Credit Risk Management (Continued)

b) Credit risk grading (Continued)

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)

IFRS 9 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)

(i) Credit Risk Management (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)

(i) Credit Risk Management (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); and
- 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); and
- 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); and
- 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 IFRS 9 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.

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)

(i) Credit Risk Management (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, the Bank considers 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.

5. Risk Management (Continued)

(k) Credit Risk (Continued)

(i) Credit Risk Management (Continued)

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

During the year, the Group also carried out an exercise to categorize individual borrowers into Low, Medium and High Covid-19 impact categories and further determined the exposures where potential stage movements were anticipated. The major factors that would directly impact the ECL computations due to COVID-19 second wave were as listed below:

- Covid-19 impact on security realization periods and on collateral haircuts;
- Potential stage migration of accounts given the impact of Covid-19 and risks identified in the Covid-19 review process; and
- Risk mitigation steps to counter risks.

Results from the analysis identified 21% of the total exposure was rated High Risk with a highest percentage in the agricultural sector. From the analysis, the overall provision increase based on stage migrations for customers showing significant increase in credit risk was determined to be K222 million (excluding the impact of FLI).

The table below shows the ECL movements after restaging the facilities with significant increase in credit risk, resulting in the additional K221.7 million provision:

IFRS 9 migration		**Outstanding Balances**	**ECL without impact of covid-19**	**Revised ECL due to SICR**	**Change**
		K'000	**K'000**	**K'000**	**K'000**
From stage 1	To stage 2	25 945 239	7 476	164 986	(157 510)
	To stage 3	4 206 327	851	65 060	(64 209)
From stage 2	To stage 3	2 115 430	-	-	-
Total		32 266 996	8 327	230 046	(221 719)

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)

(i) Credit Risk Management (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 Bank 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.

The Bank 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)

(ii) Disclosures on credit risk

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

31 December 2019

Consolidated (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		71 592 468	511 461	2 318 954	7 125 719	103 981 396	65 191	71 553 169
Standard (fully performing)	1	66 540 695	224 262	2 318 954	7 125 719	104 674 301	65 191	71 888 725
Past due but not impaired	2	1 959 947	23 343	-	-	-	-	-
Impaired	3	4 372 387	467 519	-	-	-	-	-
Gross exposure		72 873 029	715 124	2 318 954	7 125 719	104 674 301	65 191	71 888 725

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		71 592 468	511 461	2 318 954	7 125 719	103 981 396	65 191	71 553 169
Standard (fully performing)	1	66 540 695	224 262	2 318 954	7 125 719	104 674 301	65 191	71 888 725
Past due but not impaired	2	1 959 947	23 343	-	-	-	-	-
Impaired	3	4 372 387	467 519	-	-	-	-	-
Gross exposure		72 873 029	715 124	2 318 954	7 125 719	104 674 301	65 191	71 888 725

5. Risk Management (Continued)

(k) Credit Risk (Continued)

(ii) Disclosures on credit risk (Continued)
Maximum exposure to credit risk by credit quality grade before credit enhancements is summarised below:

31 December 2020
Consolidated (K'000)

	ECL Stage	Loans and advances	Balances with central banks	Balances with other banks	Money Market investments	Cheques in the course of clearing	Repurchase agreements
Carrying amount		79 077 559	8 733 908	22 969 881	90 462 090	435 386	57 915 414
Standard (fully performing)	1	70 332 753	8 733 908	22 969 881	90 803 935	435 386	57 954 138
Past due but not impaired	2	7 139 372	-	-	-	-	-
Impaired	3	3 761 250	-	-	-	-	-
Gross exposure		81 233 375	8 733 908	22 969 881	90 803 935	435 386	57 954 138

Separate (K'000)

	ECL Stage	Loans and advances	Balances with central banks	Balances with other banks	Money Market investments	Cheques in the course of clearing	Repurchase agreements
Carrying amount		79 077 559	8 733 908	22 969 881	90 462 090	435 386	57 915 414
Standard (fully performing)	1	70 332 753	8 733 908	22 969 881	90 803 935	435 386	57 954 138
Past due but not impaired	2	7 139 372	-	-	-	-	-
Impaired	3	3 761 250	-	-	-	-	-
Gross exposure		81 233 375	8 733 908	22 969 881	90 803 935	435 386	57 954 138

5. Risk Management (Continued)

(k) Credit Risk (Continued)

(ii) Disclosures on credit risk (continued)

The Group has 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).

- **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.

- **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.

- **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.

(iii) 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	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Agriculture	14 714 022	12 707 012	14 714 022	12 707 012
Mining	83 852	105 216	83 852	105 216
Financial Services	443 875	3 061 916	443 875	3 061 916
Construction	6 954 998	4 469 528	6 954 998	4 469 528
Energy/Electricity/Gas	3 944 020	2 363 609	3 944 020	2 363 609
Manufacturing	18 998 509	17 221 413	18 998 509	17 221 413
Wholesale and Retail	19 001 657	17 381 801	19 001 657	17 381 801
Individual/Households	4 140 193	3 214 207	4 140 193	3 214 207
Real Estate	206 064	81 755	206 064	81 755
Tourism & Leisure	3 274 371	3 386 060	3 274 371	3 386 060
Transport & Communication	6 509 473	5 559 401	6 509 473	5 559 401
Others	2 962 341	4 036 235	2 962 341	4 036 235
	81 233 375	73 588 153	81 233 375	73 588 153
Split into:				
Loans and advances (Note 9)	81 233 375	72 873 029	81 233 375	72 873 029
Finance lease receivables (Note 10)	-	715 124	-	715 124
	81 233 375	73 588 153	81 233 375	73 588 153

5. Risk Management (Continued)

(k) Credit Risk (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	2020	2019	2020	2019
		K'000	K'000	K'000	K'000
Gross maximum exposure					
Liquidity reserves deposits with central banks	7	8 733 908	2 318 954	8 733 908	2 318 954
Placements with other banks	7	22 969 881	7 125 719	22 969 881	7 125 719
Money market investments	8	90 803 935	104 674 301	90 803 935	104 674 301
Cheques in course of clearing	7	435 386	65 191	435 386	65 191
Repurchase agreements	35	57 954 138	71 888 725	57 954 138	71 888 725
Finance lease receivables	10	-	715 124	-	715 124
Loans and advances to	9	81 233 375	72 873 029	81 233 375	72 873 029
Total recognised financial assets		262 130 623	259 661 043	262 130 623	259 661 043
Acceptance and letters of	32	16 010 546	16 274 702	16 010 546	16 274 702
Financial guarantees	32	28 521 807	15 444 790	28 521 807	15 444 790
Total unrecognised assets		44 532 353	31 719 492	44 532 353	31 719 492
Total credit risk exposure		306 662 976	291 380 535	306 662 976	291 380 535

(l) 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 Group 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.

5. Risk Management (Continued)

(l) Market Risk (Continued)

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.

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.

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 2020, market risk was properly managed and the Group operated within limits.

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)

(l) Market Risk (Continued)

Exposure to Market Risk

Foreign exchange exposures were as follows:

Consolidated

Currency	2019 Assets (K'm)	2019 Liabilities (K'm)	2019 Net (K'm)	2019 Sensitivity	2020 Assets (K'm)	2020 Liabilities (K'm)	2020 Net (K'm)	2020 Sensitivity
USD	72 006	71 954	52	0.52	97 181	96 186	995	9.95
GBP	16 409	16 370	39	0.39	5 487	5 492	(5)	(0.05)
EUR	3 854	3 829	25	0.25	21 138	21 238	(100)	(1.00)
ZAR	757	587	170	1.70	105	278	(173)	(1.73)
INR	-	-	-	-	-	-	-	-
JPY	-	-	-	-	-	-	-	-
BWP	-	-	-	-	-	-	-	-
OTHER	-	-	-	-	-	-	-	-

Separate

Currency	2019 Assets (K'm)	2019 Liabilities (K'm)	2019 Net (K'm)	2019 Sensitivity	2020 Assets (K'm)	2020 Liabilities (K'm)	2020 Net (K'm)	2020 Sensitivity
USD	72 006	71 954	52	0.52	97 181	96 186	995	9.95
GBP	16 409	16 370	39	0.39	5 487	5 492	(5)	(0.05)
EUR	3 854	3 829	25	0.25	21 138	21 238	(100)	(1.00)
ZAR	757	587	170	1.70	105	278	(173)	(1.73)
INR	-	-	-	-	-	-	-	-

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)

(l) Market Risk (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.

2019

Consolidated	**Zero rate**	**Floating rate**	**Fixed rate** 0-3 months	3-6 months	6-9 months	9-12 months	Over 12 months	**Total**
Total assets	39 610 221	48 811 922	40 005 530	32 540 212	46 166 691	61 502 533	25 713 044	294 350 153
Total liabilities and equity	42 661 639	118 810 408	67 278 025	3 130 597	782 957	54 454 618	7 231 909	294 350 153
Interest sensitivity gap	(3 051 418)	(69 998 486)	(27 272 495)	29 409 615	45 383 734	7 047 915	18 481 135	-

Separate	**Zero rate**	**Floating rate**	**Fixed rate** 0-3 months	3-6 months	6-9 months	9-12 months	Over 12 months	**Total**
Total assets	39 749 951	48 811 922	40 005 530	32 540 212	46 166 691	61 502 533	25 713 044	294 489 883
Total liabilities and equity	42 483 540	119 128 237	67 278 025	3 130 597	782 957	54 454 618	7 231 909	294 489 883
Interest sensitivity gap	(2 733 589)	(70 316 315)	(27 272 495)	29 409 615	45 383 734	7 047 915	18 481 135	-

5. Risk Management (Continued)

(l) Market Risk (Continued)

Interest rate gap analysis (Continued)

2020

Consolidated	**Zero rate**	**Floating rate**	**Fixed rate** 0-3 months	3-6 months	6-9 months	9-12 months	Over 12 months	**Total**
Total assets	45 038 206	62 436 041	66 752 792	17 611 200	54 658 328	13 968 706	34 962 595	295 427 868
Total liabilities and equity	49 904 846	145 243 212	26 772 421	5 418 116	62 925 922	464	5 162 887	295 427 868
Interest sensitivity gap	(4 866 640)	(82 807 171)	39 980 371	12 193 084	(8 267 594)	13 968 242	29 799 708	-

Separate	**Zero rate**	**Floating rate**	**Fixed rate** 0-3 months	3-6 months	6-9 months	9-12 months	Over 12 months	**Total**
Total assets	45 175 934	62 436 041	66 752 792	17 611 200	54 658 328	13 968 706	34 962 595	295 565 596
Total liabilities and equity	49 724 745	145 561 041	26 772 421	5 418 116	62 925 922	464	5 162 887	295 565 596
Interest sensitivity gap	(4 548 811)	(83 125 000)	39 980 371	12 193 084	(8 267 594)	13 968 242	29 799 708	-

5. Risk Management (Continued)

(l) Market Risk (Continued)

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

	2020	2019
	%	%
Assets		
Government securities	6.15 - 13.94	6.15 - 19.5
Deposits with banking institutions	11.14 - 13.8	2.8 - 14.5
Loans and advances to customers (Reference/base rate)	12.3-13.6	12.3 - 14.9
Liabilities		
Customer deposits	0 - 10	0 - 10

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

	2020	2019
	K'000	K'000
Cost of investments in listed companies	742 441	742 441
Fair value of investments in listed companies	3 792 344	4 644 031
Sale of investments in listed companies	-	(365 797)
Net decrease in fair value of investments in listed companies	(851 687)	(579 261)
Impact on profit and equity of:		
increase of share price by 10%	379 234	464 403
decrease of share price by 10%	(379 234)	(464 403)

(m) 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)

(m) Liquidity 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 Group's liquidity position. The results are discussed with ALCO and the Risk Committee.

5. Risk Management (Continued)

(m) Liquidity risk (Continued)

The maturity gap analysis as at 31 December 2019 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	16 592 843	16 592 843	16 592 843	-	-	-	-	-
Money market investments	103 981 396	104 674 301	-	28 266 187	-	61 707 147	14 700 967	-
Loans, advances and leases	72 103 929	73 588 153	7 385 945	9 712 010	10 361 667	22 168 984	12 044 279	11 915 268
Investments at fair value through P&L	4 644 031	4 644 031	928 806	928 806	928 806	928 806	928 807	-
Other financial assets	72 234 419	72 569 975	27 888 812	2 265 834	42 415 329	-	-	-
Total assets	269 556 618	272 069 303	52 796 406	41 172 837	53 705 802	84 804 937	27 674 053	11 915 268
Liabilities								
Liabilities to customers	134 553 968	134 553 968	118 269 481	16 247 075	36 852	560	-	-
Due to other banks	109 261 699	109 261 699	-	43 699 030	3 093 745	11 817 297	43 419 718	7 231 909
Subordinated debt	7 000 000	7 000 000	-	-	-	-	-	7 000 000
Other liabilities	6 957 429	6 957 429	5 182 885	591 515	591 515	591 513	-	-
Total liabilities	257 773 096	257 773 096	123 452 366	60 537 620	3 722 112	12 409 370	43 419 718	14 231 909
Net liquidity gap	11 783 522	14 296 207	(70 655 960)	(19 364 783)	49 983 690	72 395 567	(15 745 665)	(2 316 641)
Cumulative liquidity gap	11 783 522	14 296 207	(70 655 960)	(90 020 743)	(40 037 053)	32 358 514	16 612 849	14 296 208

5. Risk Management (Continued)

(m) Liquidity risk (Continued)

The maturity gap analysis as at 31 December 2020 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	38 839 731	38 839 731	38 839 731	-	-	-	-	-
Money market investments	90 462 090	90 803 935	27 371 391	3 727 384	12 518 288	25 090 089	19 036 602	3 060 181
Loans, advances and leases	79 077 559	81 233 375	3 190 736	14 175 613	17 014 134	16 867 688	10 962 924	19 022 280
Investments at fair value through P&L	3 792 344	3 792 344	758 469	758 469	758 469	758 469	758 468	-
Other financial assets	58 459 308	58 498 032	12 541 255	-	3 861 769	42 095 008	-	-
Total assets	270 631 032	273 167 417	82 701 582	18 661 466	34 152 660	84 811 254	30 757 994	22 082 461
Liabilities								
Liabilities to customers	157 402 033	157 402 033	152 804 087	4 592 756	5 190	-	-	-
Due to other banks	87 494 170	87 494 170	17 926 246	658 481	825 824	62 920 732	5 162 887	-
Other liabilities	6 289 745	6 289 745	4 396 986	630 920	630 920	630 919	-	-
Total liabilities	251 185 948	251 185 948	175 127 319	5 882 157	1 461 934	63 551 651	5 162 887	-
Net liquidity gap	19 445 084	21 981 469	(92 425 737)	12 779 309	32 690 726	21 259 603	25 595 107	22 082 461
Cumulative liquidity gap	19 445 084	21 981 469	(92 425 737)	(79 646 428)	(46 955 702)	(25 696 099)	(100 992)	21 981 469

5. Risk Management (Continued)

(m) Liquidity risk (Continued)

The maturity gap analysis as at 31 December 2019 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	16 592 843	16 592 843	16 592 843	-	-	-	-	-
Money market investments	103 981 396	104 674 301	-	28 266 187	-	61 707 147	14 700 967	-
Loans, advances and leases	72 103 929	73 588 153	7 385 945	9 712 010	10 361 667	22 168 984	12 044 279	11 915 268
Investments at fair value through P&L	4 644 031	4 644 031	928 806	928 806	928 806	928 806	928 807	-
Other financial assets	72 234 419	72 569 975	27 888 812	2 265 834	42 415 329	-	-	-
Total assets	269 556 618	272 069 303	52 796 406	41 172 837	53 705 802	84 804 937	27 674 053	11 915 268
Liabilities								
Liabilities to customers	134 871 797	134 871 797	118 587 310	16 247 075	36 852	560	-	-
Due to other banks	109 261 699	109 261 699	-	43 699 030	3 093 745	11 817 297	43 419 718	7 231 909
Subordinated debt	7 000 000	7 000 000	-	-	-	-	-	7 000 000
Other liabilities	7 141 560	7 141 560	5 227 617	637 981	637 981	637 981	-	-
Total liabilities	258 275 056	258 275 056	123 814 927	60 584 086	3 768 578	12 455 838	43 419 718	14 231 909
Net liquidity gap	11 281 562	13 794 247	(71 018 521)	(19 411 249)	49 937 224	72 349 099	(15 745 665)	(2 316 641)
Cumulative liquidity gap	11 281 562	13 794 247	(71 018 521)	(90 429 770)	(40 492 546)	31 856 553	16 110 888	13 794 247

5. Risk Management (Continued)

(m) Liquidity risk (Continued)

The maturity gap analysis as at 31 December 2020 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	38 839 731	38 839 731	38 839 731	-	-	-	-	-
Money market investments	90 462 090	90 803 935	27 371 391	3 727 384	12 518 288	25 090 089	19 036 602	3 060 181
Loans, advances and leases	79 077 559	81 233 375	3 190 736	14 175 613	17 014 134	16 867 688	10 962 924	19 022 280
Investments at fair value through P&L	3 792 344	3 792 344	758 469	758 469	758 469	758 469	758 468	-
Other financial assets	58 431 894	58 470 618	12 513 841	-	3 861 769	42 095 008	-	-
Total assets	270 603 618	273 140 003	82 674 168	18 661 466	34 152 660	84 811 254	30 757 994	22 082 461
Liabilities								
Liabilities to customers	157 719 862	157 719 862	153 121 916	4 592 756	5 190	-	-	-
Due to other banks	87 494 170	87 494 170	17 926 246	658 481	825 824	62 920 732	5 162 887	-
Other liabilities	6 473 875	6 473 875	4 441 717	677 386	677 386	677 386	-	-
Total liabilities	251 687 907	251 687 907	175 489 879	5 928 623	1 508 400	63 598 118	5 162 887	-
Net liquidity gap	18 915 711	21 452 096	(92 815 711)	12 732 843	32 644 260	21 213 136	25 595 107	22 082 461
Cumulative liquidity gap	18 915 711	21 452 096	(92 815 711)	(80 082 868)	(47 438 608)	(26 225 472)	(630 365)	21 452 096

5. Risk Management (Continued)

(n) 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 Group 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 Head of Service Delivery 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 Head of Service Delivery. 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 Chief Commercial Officer.

Other specialized departments like Credit, Treasury, Risk, Compliance, Legal, Finance, Human Resources, Internal Audit report directly to the Chief Executive Officer. 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)

(n) Operational Risk (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.

(o) 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)

(o) 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)

(o) Other Risks (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 Group'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
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.

Strategic Risk Management
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-19	Financial assets at FVTPL K'000	Financial assets at Amortised cost K'000	Financial liabilities at amortised cost K'000	Total Carrying amount K'000	Fair values K'000
Financial assets					
Cash and cash equivalents	-	16 592 843	-	16 592 843	16 592 843
Money market investments	-	103 981 396	-	103 981 396	103 981 396
Investments at FVTPL	4 644 031	-	-	4 644 031	4 644 031
Loans, advances and leases	-	72 103 929	-	72 103 929	72 103 929
Other assets	-	72 234 419	-	72 234 419	72 234 419
	4 644 031	264 912 587	-	269 556 618	269 556 618
Financial liabilities					
Liabilities to customers	-	-	134 553 968	134 553 968	134 553 968
Due to other banks	-	-	109 261 699	109 261 699	109 261 699
Subordinated debt	-	-	7 000 000	7 000 000	7 000 000
Other liabilities	-	-	6 957 429	6 957 429	6 957 429
	-	-	257 773 096	257 773 096	257 773 096

Separate

	Financial assets at FVTPL K'000	Financial assets at Amortised cost K'000	Financial liabilities at amortised cost K'000	Total Carrying amount K'000	Fair values K'000
Financial assets					
Cash and cash equivalents	-	16 592 843	-	16 592 843	16 592 843
Money market investments	-	103 981 396	-	103 981 396	103 981 396
Investments at FVTPL	4 644 031	-	-	4 644 031	4 644 031
Loans, advances and leases	-	72 103 929	-	72 103 929	72 103 929
Other assets	-	72 234 419	-	72 234 419	72 234 419
	4 644 031	264 912 587	-	269 556 618	269 556 618
Financial liabilities					
Liabilities to customers	-	-	134 871 797	134 871 797	134 871 797
Due to other banks	-	-	109 261 699	109 261 699	109 261 699
Subordinated debt	-	-	7 000 000	7 000 000	7 000 000
Other liabilities	-	-	7 141 560	7 141 560	7 141 560
	-	-	258 275 056	258 275 056	258 275 056

6. Financial assets and liabilities (Continued)

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-20	**Financial assets at FVTPL K'000**	**Financial assets at Amortised cost K'000**	**Financial liabilities at amortised cost K'000**	**Total Carrying amount K'000**	**Fair values K'000**
Financial assets					
Cash and cash equivalents	-	38 839 731	-	38 839 731	38 839 731
Money market investments	-	90 462 090	-	90 462 090	90 462 090
Investments at FVTPL	3 792 344	-	-	3 792 344	3 792 344
Loans, advances and leases	-	79 077 559	-	79 077 559	79 077 559
Other assets	-	58 459 308	-	58 459 308	58 459 308
	3 792 344	266 838 688	-	270 631 032	270 631 032
Financial liabilities					
Liabilities to customers	-	-	157 402 033	157 402 033	157 402 033
Due to other banks	-	-	87 494 170	87 494 170	87 494 170
Other liabilities	-	-	6 289 745	6 289 745	6 289 745
	-	-	251 185 948	251 185 948	251 185 948

Separate

	Financial assets at FVTPL K'000	**Financial assets at Amortised cost K'000**	**Financial liabilities at amortised cost K'000**	**Total Carrying amount K'000**	**Fair values K'000**
Financial assets					
Cash and cash equivalents	-	38 839 731	-	38 839 731	38 839 731
Money market investments	-	90 462 090	-	90 462 090	90 462 090
Investments at FVTPL	3 792 344	-	-	3 792 344	3 792 344
Loans, advances and leases	-	79 077 559	-	79 077 559	79 077 559
Other assets	-	58 431 894	-	58 431 894	58 431 894
	3 792 344	266 811 274	-	270 603 618	270 603 618
Financial liabilities					
Liabilities to customers	-	-	157 719,862	157 719,862	157 719,862
Due to other banks	-	-	87 494 170	87 494 170	87 494 170
Other liabilities	-	-	6 473 875	6 473 875	6 473 875
	-	-	251 687 907	251 687 907	251 687 907

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

	2020 K'000			2019 K'000		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Financial asset						
Investment at fair value through P&L	3 792 344	-	-	4 644 031	-	-

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	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Liquidity reserve deposits with Central Banks	8 733 908	2 318 954	8 733 908	2 318 954
Placements with other banks	22 969 881	7 125 719	22 969 881	7 125 719
Cheques in course of clearing	435 386	65 191	435 386	65 191
Cash balances	6 700 556	7 082 979	6 700 556	7 082 979
Total cash and cash equivalents	38 839 731	16 592 843	38 839 731	16 592 843

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 6.15% – 13.94% (2019: 6.5% – 19.5%).

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 K37.2 billion as at 31 December 2020 (2019: K38.6 billion). These have a tenor of more than 12 months (with maturities ranging between May 2022 and June 2027 and with a coupon rate of 12%.

	Consolidated		Separate	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Gross amount				
Treasury notes	37 276 089	38 924 910	37 276 089	38 924 910
Treasury bills	53 527 846	65 749 391	53 527 846	65 749 391
	90 803 935	104 674 301	90 803 935	104 674 301
Impairment allowance	(341 845)	(692 905)	(341 845)	(692 905)
Carrying value	90 462 090	103 981 396	90 462 090	103 981 396
Movement during the year was as follows:				
As at 1 January	104 674 301	84 779 464	104 674 301	67 870 414
On derecognition of subsidiaries	-	(16 909 050)	-	-
(Maturities)/purchases	(13 870 366)	36 803 887	(13 870 366)	36 803 887
As at 31 December	90 803 935	104 674 301	90 803 935	104 674 301
Expected Credit losses				
Balance at 1 January	(692 905)	(323 257)	(692 905)	(301 819)
Recovery/(charge) for the year (note 36)	351 060	(369 648)	351 060	(391 086)
Balance at 31 December	(341 845)	(692 905)	(341 845)	(692 905)
Carrying amount	90 462 090	103 981 396	90 462 090	103 981 396

9. Loans and advances to customers

	Consolidated		Separate	
	2020	**2019**	**2020**	**2019**
	K'000	**K'000**	**K'000**	**K'000**
Loans and receivables (amortised cost) are receivable as follows:				
Maturing within 3 months	17 366 349	17 035 638	17 366 349	17 035 638
Maturing between 3 and 12 months	33 881 822	32 383 435	33 881 822	32 383 435
Maturing after 12 months	29 985 204	23 453 956	29 985 204	23 453 956
	81 233 375	72 873 029	81 233 375	72 873 029
Specific Impairment allowances (Stage 3)				
Balance at 1 January	(775 772)	(2 618 133)	(775 772)	(926 506)
Transfers (Note 10)	(191 261)	-	(191 261)	-
(Charge)/Recoveries for the year (note 36)	(948 232)	(915 688)	(948 232)	(696 348)
Provision offset against fees and commission income	30 507	(44 252)	30 507	(44 252)
On derecognition of subsidiaries	-	1 910 967	-	-
Write offs	237 653	891 334	237 653	891 334
Balance at 31 December	(1 647 105)	(775 772)	(1 647 105)	(775 772)
Collective impairment allowance (Stages 1 & 2)				
Balance at 1 January	(504 789)	(2 044 064)	(504 789)	(505 557)
Transfers (Note 10)	(12 402)	-	(12 402)	-
On derecognition of subsidiaries	-	1 538 507	-	-
Charge for the year (note 36)	8 480	768	8 480	768
Balance at 31 December	(508 711)	(504 789)	(508 711)	(504 789)
Net loans and advances to customers	79 077 559	71 592 468	79 077 559	71 592 468

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 **5(k) (ii) and 36.**

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

Effective base interest rates for loans and advances have been disclosed in note **38**.

10. Finance lease receivables

	Consolidated		Separate	
	2020	**2019**	**2020**	**2019**
	K'000	**K'000**	**K'000**	**K'000**
Investment in leases (amortised cost) are receivable as follows:				
Less than 1 year	-	209 533	-	209 533
Maturing after more than 1 year	-	505 591	-	505 591
	-	715 124	-	715 124
Specific Impairment (Stage 3) allowances				
Balance at 1 January	(191 261)	(274 868)	(191 261)	(274 868)
Transfers (Note 9)	191 261	-	191 261	-
Charge for the year (note 36)	-	(389 861)	-	(389 861)
Write offs	-	473 468	-	473 468
Balance at 31 December	-	(191 261)	-	(191 261)
Collective impairment (Stages 1 & 2) allowance				
Balance at 1 January	(12 402)	(187 609)	(12 402)	(187 609)
Transfers (Note 9)	12 402	-	12 402	
Charge for the year (note 36)	-	175 207	-	175 207
Balance at 31 December	-	(12 402)	-	(12 402)
Net finance lease receivables	-	511 461	-	511 461

All finance lease receivables are recorded under loans and advances.

11. Other assets

	Consolidated		Separate	
	2020	**2019**	**2020**	**2019**
	K'000	**K'000**	**K'000**	**K'000**
Prepayments	414 571	1 026 401	414 571	1 026 401
Stock of stationery	371 424	169 221	371 424	169 221
Stock of computer spares and other items	107 791	48 606	107 791	48 606
Other Receivables	300 232	382 225	272 818	356 813
Total other assets	1 194 018	1 626 453	1 166 604	1 601 041

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 Group.

The group grants loans to its employees at interest rates lower than market rates. Included in other receivables is K31m (2019: K53m) representing the difference between the amount outstanding 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.*

12. Amounts due from related parties

	Consolidated		Separate	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
First Capital Bank Limited S.A. Mozambique	25 151	89 226	25 151	89 226
First Capital Bank Limited Botswana	-	42 787	-	42 787
First Capital Bank Limited Zimbabwe	184 737	464 438	184 737	464 438
First Capital Bank Limited Zambia	33 774	84 799	33 774	84 799
Total amounts due to related parties	243 662	681 250	243 662	681 250

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

13. Investments at fair value through profit or loss

	Consolidated and separate	
	2020	2019
	K'000	K'000
Change in fair value		
Balance at 1 January	4 644 031	5 589 089
Sale of shares in a listed company	-	(365 797)
Movement in fair value (note 24)	(851 687)	(579 261)
Balance at 31 December	3 792 344	4 644 031

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	
	2020	2019
Shares held		
Illovo Sugar (Malawi) Plc	12 915 541	12 915 541
National Investment Trust Plc	20 889 343	20 889 343
Telekom Networks Malawi Plc	38 338 700	38 338 700
Share Price (Kwacha)		
Illovo Sugar (Malawi) Plc	80.48	153.00
National Investment Trust Plc	94.95	80.00
Telekom Networks Malawi Plc	20.07	26.00
Market Value (K'000)		
Illovo Sugar (Malawi) Plc	1 039 443	1 976 078
National Investment Trust Plc	1 983 443	1 671 147
Telekom Networks Malawi Plc	769 458	996 806
	3 792 344	4 644 031

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.

14. Investments in subsidiaries

	Shares ('000)	Share-holding	Separate 2020 K'000	Separate 2019 K'000
Investment in subsidiaries				
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
			208 791	208 791
Movement during the year was as follows:				
As at 1 January			-	10 298 285
Disposals during the year			-	(10 089 494)
As at 31 December			208 791	208 791
Disposal of shares in subsidiaries were as follows:				
First Capital Bank S.A. - Mozambique		80.0%	-	(9 185 640)
First Capital Bank Limited - Botswana		38.6%	-	(903 854)

In 2019, the Group completed its restructuring plan to simplify the group structure by incorporating a holding company, FMBcapital Holdings Plc (FMBCH). After obtaining regulatory approvals, First Capital Bank Plc (FCBM) transferred its shareholdings in First Capital Bank Zambia (FCBZ), First Capital Bank Botswana (FCBB) and First Capital Bank Mozambique (FCBMZ) to its holding company FMBCH by means of a dividend in specie. There is now one identifiable direct holding company for all the financial institutions within the FMBCH group.

Being a common control transaction, there is no specific IFRS guidance on how to account for some aspects of the transaction in both the consolidated and separate financial statements of First Capital Bank plc. Having considered available related guidance, management accounted for the transaction as follows in the 2019 consolidated and separate financial statements:

14. Investments in subsidiaries (Continued)

Separate financial statements

- Measured the distribution at the carrying amount of the investment; and
- Derecognised the investments and reduced retained earnings by the carrying amount of the investments.

Consolidated financial statements

- In accordance with IFRS 10, the consolidated financial statements, derecognised the net assets of FCCB and FCBMZ from the consolidated statement of financial position. However, consolidate FCBB and FCBMZ results in the consolidated statement of comprehensive income up to the effective date of the distribution;
- Reduced the consolidated reserves accordingly by the net assets derecognised as above;
- No gain/loss was recognised in profit/loss considering that this is a common control transaction. Consequently, the difference between the value of the net assets of the investment and carrying amount of the same was recorded directly in reserves. Similarly, the foreign currency translation reserve relating to FCBB and FCBMZ had been eliminated directly from reserves.

15. (a) Intangible assets

	Consolidated		Separate	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Cost				
As at 1 January	7 107 186	9 041 020	7 102 186	6 375 244
Transfer	30 406	147 244	30 406	147 244
On derecognition of subsidiaries	-	(2 660 776)	-	-
Additions	143 416	579 698	143 416	579 698
As at 31 December	7 281 008	7 107 186	7 276 008	7 102 186
Accumulated amortisation				
As at 1 January	3 362 635	4 461 768	3 357 635	2 494 917
Transfer	(37 477)	37 476	(37 477)	37 476
Charge for the year	890 155	825 242	890 155	825 242
On derecognition of subsidiaries	-	(1 961 851)	-	-
As at 31 December	4 215 313	3 362 635	4 210 313	3 357 635
Carrying Amount	3 065 695	3 744 551	3 065 695	3 744 551

Intangible assets relate to computer software and are measured at cost incurred in the acquisition and development of computer software, including website development costs. During the year, the Bank transferred development costs valued at K30 million (2019: K147million) from capital work in progress disclosed under note 15(b) to intangible assets following successful completion of the development.

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 2019	11 065 167	4 243 136	1 819 939	1 398 862	436 430	9 535 900	3 336 411	31 835 845
Additions	-	11 761	3 879	-	9 695	751 469	1 336 085	2 112 889
Reclassification	690 378	(690 378)	(71 576)	-	-	71 576	(10 668)	(10 668)
Disposals	-	-	(59 159)	-	(23 450)	(27 741)	-	(110 350)
On derecognition of subsidiaries	(4 136 469)	(1 053 764)	(377 869)	-	-	(3 404 347)	(45 059)	(9 017 508)
Transfers	964 218	1 837 012	-	-	-	50 430	(2 998 904)	(147 244)
Balance at 31 December 2019	8 583 294	4 347 767	1 315 214	1 398 862	422 675	6 977 287	1 617 865	24 662 964
Accumulated depreciation								
Balance at 1 January 2019	298 834	543 424	1 070 273	83 548	234 114	6 027 982	-	8 258 175
Charge for the year	161 395	216 107	233 379	83 923	-	831 844	-	1 526 648
Released on disposal	-	-	(33 679)	-	(17 587)	(27 224)	-	(78 490)
Charge on operating lease	-	-	-	-	91 168	-	-	91 168
On derecognition of subsidiaries	(297 280)	(511 307)	(240 682)	-	-	(2 188 901)	-	(3 238 170)
Balance at 31 December 2019	162 949	248 224	1 029 291	167 471	307 695	4 643 701	-	6 559 331
Cost or valuation								
Balance at 1 January 2020	8 583 294	4 347 767	1 315 214	1 398 862	422 675	6 977 287	1 617 865	24 662 964
Additions	41 810	4 694	189 921	-	-	490 226	673 900	1 400 551
Revaluation surplus	943 670	651 152	-	-	-	-	-	1 594 822
Reclassification	-	-	-	-	-	(39 021)	-	(39 021)
Transfers	141 743	347 858	-	-	-	12 167	(532 174)	(30 406)
Balance at 31 December 2020	9 710 517	5 351 471	1 505 135	1 398 862	422 675	7 440 659	1 759 591	27 588 910
Accumulated depreciation								
Balance at 1 January 2020	162 949	248 224	1 029 291	167 471	307 695	4 643 701	-	6 559 331
Charge for the year	227 329	90 679	193 207	83 923	-	811 447	-	1 406 585
Charge on operating lease rates	-	-	-	-	16 688	-	-	16 688
Reclassification	(1 102)	(15 836)	-	-	62 803	(47 409)	-	(1 544)
Eliminated on revaluation	(341 203)	(94 552)	-	-	-	-	-	(435 755)
Balance at 31 December 2020	47 973	228 515	1 222 498	251 394	387 186	5 407 739	-	7 545 305
Carrying amount								
At 31 December 2019	8 420 345	4 099 543	285 923	1 231 391	114 980	2 333 586	1 617 865	18 103 633
At 31 December 2020	9 662 544	5 122 956	282 637	1 147 468	35 489	2 032 920	1 759 591	20 043 605

15. (b) Property and equipment (Continued)

Following successful completion of projects, the Bank capitalised completed projects to property and equipment and intangible assets. The Bank also made some reclassifications within the classes of property and equipment.

During the year, the Bank reclassified part of its cost, K39.0 million, from fixtures and fittings to accumulated depreciation for property and equipment (K1.5 million) and accumulated depreciation for software (K37.5 million). This did not affect the closing net book value of the bank's total non-current assets.

The residual balance of K10 million on capital work in progress in 2019 relates to expenses within capital work in progress that did not qualify as assets for capitalisation and were expensed accordingly through profit or loss.

Separate	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 2019	6 928 698	3 069 282	1 422 625	1 398 862	436 430	5 983 567	3 291 352	22 530 816
Additions	-	11 761	3 879	-	9 695	751 469	1 336 085	2 112 889
Reclassification	690 378	(690 378)	(71 576)	-	-	71 576	(10 668)	(10 668)
Disposals	-	-	(59 159)	-	(23 450)	(27 741)	-	(110 350)
Transfers	964 218	1 837 012	-	-	-	50 430	(2 998 904)	(147 244)
Balance at 31 December 2019	8 583 294	4 227 677	1 295 769	1 398 862	422 675	6 829 301	1 617 865	24 375 443
Accumulated depreciation								
Balance at 1 January 2019	1 554	48 023	810 146	83 548	234 114	3 791 139	-	4 968 524
Charge for the year	161 395	80 111	233 379	83 923	-	731 800	-	1 290 608
Charge on operating lease	-	-	-	-	91 168	-	-	91 168
Released on disposal	-	-	(33 679)	-	(17 587)	(27 224)	-	(78 490)
Balance at 31 December 2019	162 949	128 134	1 009 846	167 471	307 695	4 495 715	-	6 271 810
Cost or valuation								
Balance at 1 January 2020	8 583 294	4 227 677	1 295 769	1 398 862	422 675	6 829 301	1 617 865	24 375 443
Additions	41 810	4 694	189 921	-	-	490 226	673 900	1 400 551
Revaluation surplus	943 670	651 152	-	-	-	-	-	1 594 822
Reclassification	-	-	-	-	-	(39 021)	-	(39 021)
Disposals	-	-	-	-	-	-	-	-
Transfers	141 743	347 858	-	-	-	12 167	(532 174)	(30 406)
Balance at 31 December 2020	9 710 517	5 231 381	1 485 690	1 398 862	422 675	7 292 673	1 759 591	27 301 389
Accumulated depreciation								
Balance at 1 January 2020	162 949	128 134	1 009 846	167 471	307 695	4 495 715	-	6 271 810
Charge for the year	227 329	90 679	193 207	83 923	-	811 447	-	1 406 585
Charge against lease income	-	-	-	-	16 688	-	-	16 688
Released on disposal	-	-	-	-	-	-	-	-
Reclassification	(1 102)	(15 836)	-	-	62 803	(47 409)	-	(1 544)
Eliminated on revaluation	(341 203)	(94 552)	-	-	-	-	-	(435 755)
Balance at 31 December 2020	47 973	108 425	1 203 053	251 394	387 186	5 259 753	-	7 257 784
Carrying amount								
At 31 December 2019	8 420 345	4 099 543	285 923	1 231 391	114 980	2 333 586	1 617 865	18 103 633
At 31 December 2020	9 662 544	5 122 956	282 637	1 147 468	35 489	2 032 920	1 759 591	20 043 605

15. (b) Property and equipment (Continued)

Registers of land and buildings giving details as required under the Malawi Companies Act, 2013 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 as at 31 December 2020 by Don Whayo BSc; MRICS; MSIM of Knight Frank Malawi. 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 2 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 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. 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. 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.

16. Deferred tax

Movements in temporary differences during the year

Consolidated

2019	**Opening balance K'000**	**Recognised in profit or loss K'000**	**Recognised in other comprehensive income K'000**	**Transferred on derecognition of subsidiaries K'000**	**Closing balance K'000**
Property and equipment	755 237	(153 732)	-	(148 707)	452 798
Accrued income	1 380 210	74 985	-	(23 555)	1 431 640
Revaluation of property	1 053 071	-	(917 803)	568	135 836
Gratuity and severance pay liabilities	(158 851)	1 557	-	1 631	(155 663)
ECL provisions	(590 393)	(133 714)	-	260 411	(463 696)
Other temporary differences	(626 112)	53 202	-	426 536	(146 374)
	1 813 162	(157 702)	(917 803)	516 884	1 254 541
2020					
Property and equipment	452 798	(322 127)	-	-	130 671
Accrued income	1 431 640	177 403	-	-	1 609 043
Revaluation of property	135 836	-	428 397	-	564 233
Gratuity and severance pay liabilities	(155 663)	(12 945)	-	-	(168 608)
ECL provisions	(463 696)	196 912	-	-	(266 784)
Other temporary differences	(146 374)	(60 507)	-	-	(206 881)
	1 254 541	(21 264)	428 397	-	1 661 674

Separate

2019					
Property and equipment	610 553	(153 732)	-	-	456 821
Accrued income	1 356 264	75 376	-	-	1 431 640
Revaluation of property	1 053 639	-	(917 803)	-	135 836
Gratuity and severance pay liabilities	(157 193)	1 530	-	-	(155 663)
ECL provisions	(325 661)	(138 035)	-	-	(463 696)
Other temporary differences	(193 098)	46 124	-	-	(146 974)
	2 344 504	(168 737)	(917 803)	-	1 257 964
2020					
Property and equipment	456 821	(322 127)	-	-	134 694
Accrued income	1 431 640	177 403	-	-	1 609 043
Revaluation of property	135 836	-	428 397	-	564 233
Gratuity and severance pay liabilities	(155 663)	(12 945)	-	-	(168 608)
ECL provisions	(463 696)	196 912	-	-	(266 784)
Other temporary differences	(146 974)	(60 507)	-	-	(207 481)
	1 257 964	(21 264)	428 397	-	1 665 097

17. Balances due to other banks

	Consolidated		Separate	
	2020	**2019**	**2020**	**2019**
	K'000	**K'000**	**K'000**	**K'000**
Local banks	39 448 900	47 741 195	39 448 900	47 741 195
European Investment Bank	1 244 678	2 411 958	1 244 678	2 411 958
Other foreign banks	39 671 173	51 731 578	39 671 173	51 731 578
FMO Line of credit	7 129 419	7 376 968	7 129 419	7 376 968
Total balance due to other banks	87 494 170	109 261 699	87 494 170	109 261 699
Payable as follows:				
Due within 1 year	45 587 780	58 610 072	45 587 780	58 610 072
Due between 2 and 5 years	41 906 390	50 651 627	41 906 390	50 651 627
	87 494 170	109 261 699	87 494 170	109 261 699

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") in which the Bank received Malawi Kwacha from the RBM. Balances due to other foreign banks are short-term borrowings and Currency Swap liabilities with First Capital Bank Limited (Botswana) ("FCBB") in which the Bank received Dollars from FCBB. The Currency Swap liability outstanding as at end of the reporting period was K57.2 billion (2019: K71.5 billion). The corresponding asset under the arrangement has been disclosed under **note 35.**

The facility with European Investment Bank (EIB) was made available to the Bank for 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.

In December 2019, First Capital Bank plc also entered into a US$10million credit arrangement with Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V (FMO) in which a facility was made available to the Bank for lending to customers in specified economic sectors. The FMO line of credit which is denominated in US Dollars, carries interest rate equivalent to LIBOR rate plus a margin of 3.5% per annum and is repayable in equal quarterly instalments ending on 10 December 2023.

18. Customer deposits

	Consolidated		Separate	
	2020	**2019**	**2020**	**2019**
	K'000	**K'000**	**K'000**	**K'000**
Current and savings accounts	92 479 745	82 647 068	92 797 574	82 964 897
Foreign currency accounts	52 136 648	35 290 493	52 136 648	35 290 493
Term deposit accounts	12 785 640	16 616 407	12 785 640	16 616 407
Total customer deposits	157 402 033	134 553 968	157 719 862	134 871 797
Payable as follows:				
Maturing within 3 months	157 396 380	134 516 556	157 714 209	134 834 385
Maturing after 3 months	5 653	37 412	5 653	37 412
	157 402 033	134 553 968	157 719 862	134 871 797

19 (a). Other payables

	Consolidated		Separate	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Accrued expenses	2 538 894	1 431 053	2 538 894	1 433 053
Bankers cheques issued and	485 447	994 625	485 447	994 625
Bills payable	1 337 810	555 310	1 336 075	553 576
Interest payable	466 606	940 565	466 606	940 565
Margins on letters of credit and	849 384	1 228 023	849 384	1 228 023
Trade payables	2 532 285	2 366 059	2 718 149	2 551 924
Total payables	8 210 426	7 515 635	8 394 555	7 701 766

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	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Opening balance at 1 January	430 610	601 323	430 610	601 323
Net Provisions/payments made during the year	168 902	(170 713)	168 902	(170 713)
Balance at 31 December	599 512	430 610	599 512	430 610

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	
		2020	2019
		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	
		2020	2019
		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	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Opening balance	6 114 772	5 198 420	6 114 772	5 198 420
Property revaluation	2 030 577	-	2 030 577	-
Deferred tax	(428 397)	917 803	(428 397)	917 803
Eliminated on disposal	-	(1 451)	-	(1 451)
Closing balance	7 716 952	6 114 772	7 716 952	6 114 772

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	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Loan loss reserve	1 119 224	1 047 525	1 119 224	1 047 525

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.

23. (a) Interest income

	Consolidated		Separate	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Loans and advances	12 207 426	13 855 082	12 207 426	10 870 599
Finance leases	70 922	348 893	70 922	348 893
Treasury bills	6 639 906	5 457 982	6 639 906	5 027 641
Promissory and treasury notes	7 052 634	6 467 577	7 052 634	6 467 577
Placements with other banks	316 970	1 107 360	316 970	171 560
Total interest income	26 287 858	27 236 894	26 287 858	22 886 270

23. (b) Interest expense

	Consolidated		Separate	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Interest paid-customer deposits	2 126 807	4 317 704	2 126 807	2 720 317
Interest paid-Money market	3 489 084	3 033 922	3 489 084	2 916 983
Total interest expense	5 615 891	7 351 626	5 615 891	5 637 300

24. Income from investments

	Consolidated		Separate	
	2020	**2019**	**2020**	**2019**
	K'000	**K'000**	**K'000**	**K'000**
Dividend income	30 504	19 169	30 504	19 169
Movement in fair value of investments	(851 687)	(579 261)	(851 687)	(579 261)
Total write down on investments	(821 183)	(560 092)	(821 183)	(560 092)

25. Staff and training costs

Staff and training costs

Contributions to defined contribution	444 521	496 095	444 521	427 637
Salaries and wages	4 299 846	5 198 525	4 299 846	4 039 083
Training and other staff costs	2 413 387	2 939 859	2 413 387	2 336 518
Total staff and training costs	7 157 754	8 634 479	7 157 754	6 803 238

26. Other expenses

Administration expenses	4 031 650	2 536 231	4 031 650	2 139 501
Auditor's remuneration	171 780	201 055	171 780	149 304
Bank charges	468 672	386 774	468 672	283 146
Non-executive Directors' remuneration	186 199	251 532	186 199	239 828
Insurance	70 135	87 205	70 135	59 062
Legal and consultancy fees	1 238 867	770 355	1 238 867	662 386
Marketing costs	245 446	519 468	245 446	384 482
Motor vehicle running costs	208 344	239 312	208 344	228 160
Repairs and maintenance	221 475	191 260	221 475	160 197
Operational losses	73 289	299 742	73 289	93 294
Postage	59 790	96 940	59 790	91 027
Printing and stationery	272 052	404 187	272 052	376 784
Professional subscriptions	90 089	37 841	90 089	37 841
Telephone expenses	41 605	132 543	41 605	102 796
Travel expenses	63 210	332 166	63 210	255 236
Interest expense on lease liabilities (note 40(b))	96 058	106 954	96 058	106 954
Depreciation for right-of -use-assets (note 40(a))	263 846	252 023	263 846	252 023
Utilities	373 175	359 879	373 175	316 170
Total other expenses	8 175 682	7 205 467	8 175 682	5 938 191

Interest expense on the lease liability in each period during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. The periodic rate of interest is the Group's incremental borrowing rate.

27. Income tax expense

Recognised in the statement of comprehensive income

	Consolidated		Separate	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
(a) Current tax expense				
Current year at 30% (2019: 30%) based on profits	4 283 720	3 238 375	4 283 720	3 179 033
Origination and reversal of temporary differences (Note 16)	(21 264)	(157 702)	(21 264)	(168 737)
	4 262 456	3 080 673	4 262 456	3 010 296
(b) Reconciliation of effective tax rate				
Operating Profit	12 287 685	9 710 509	12 287 685	9 049 362
Tax using the domestic tax rate 30% (2019:30%)	3 686 306	2 913 153	3 686 306	2 714 809
Non-deductible expenses	455 039	86 520	455 039	214 487
Tax exempt income	121 111	81 000	121 111	81 000
	4 262 456	3 080 673	4 262 456	3 010 296
(c) Income tax (recoverable)/payable				
As at 1 January	(294 580)	(1 622 626)	(261 302)	(1 008 119)
On derecognition of subsidiaries	-	346 154	-	-
Charge for the year	4 283 720	3 238 375	4 283 720	3 179 033
Paid during the year	(2 153 446)	(2 256 483)	(2 153 446)	(2 432 216)
As at 31 December	1 835 694	(294 580)	1 868 972	(261 302)
Presented in the statement of financial position as				
Current tax assets	43 649	304 951	-	261 302
Current tax liabilities	(1 879 343)	(10 371)	(1 868 972)	-
	(1 835 694)	294 580	(1 868 972)	261 302

28. Basic and diluted earnings per share

The calculation of basic and diluted earnings per share at 31 December 2020 was based on profit attributable to ordinary shareholders of K8 025 229 000 (2019: K6 432 518 000) and a weighted average number of ordinary shares outstanding of 2 336 250 000 (2019: 2 336 250 000) calculated as follows:

	Consolidated	
	2020	2019
Profit attributable to ordinary shareholders (thousands)	8 025 229	6 432 518
Weighted average number of ordinary shares in issue (thousands)	2 336 250	2 336 250
Basic and diluted earnings per share (tambala)	344	275

29. 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 2020	Ownership interest 2019
FMB Capital Markets Limited	Malawi	100.0%	100.0%
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%

(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). Both subsidiaries were derecognised in 2019.

	First Capital Bank SA - Mozambique		First Capital Bank - Botswana		Total	
NCI percentage and voting rights	*20.0%*	*20.00%*	*61.4%*	*61.4%*		
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
	K'000	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**
Assets						
Cash and cash equivalents	-	27 115 498	-	73 983 891	-	101 099 389
Money market investments	-	9 323 743	-	7 656 706	-	16 980 449
Loans and advances to customers	-	12 484 852	-	111 626 912	-	124 111 764
Other assets	-	702 186	-	1 103 218	-	1 805 404
Current tax asset	-	335 155	-	239 203	-	574 358
Intangible assets	-	82 253	-	637 689	-	719 942
Property and equipment	-	1 611 657	-	5 165 735	-	6 777 392
	-	51 655 344	-	200 413 354	-	252 068 698

NCI percentage and voting rights	*20.0%*	*20.00%*	*61.4%*	*61.4%*		
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
	K'000	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**
Liabilities						
Customer deposits	-	34 522 038	-	174 298 519	-	208 820 557
Balances due to other financial institutions	-	1 878 731	-	-	-	1 878 731
Other payables	-	7 066 427	-	5 433 480	-	12 499 907
Deferred tax liabilities	-	(549 370)	-	260 691	-	(288 679)
Preference shares	-	-	-	1 463 960	-	1 463 960
Subordinated debt	-	604 670	-	5 437 567	-	6 042 237
	-	43 522 496	-	186 894 217	-	230 416 713
Net Assets	-	8 132 848	-	13 519 137	-	21 651 985
Net assets attributable to NCI	-	1 626 570	-	8 300 750	-	9 927 320
Carrying amount of NCI	-	1 626 570	-	8 300 750	-	9 927 320

29. Group subsidiaries (Continued)

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

	First Capital Bank SA - Mozambique		**First Capital Bank – Botswana**		**Total**	
NCI percentage and voting rights	-	*20.00%*	-	*61.4%*		
	YTD 31 December 2020 K'000	**YTD 30 June 2019 K'000**	**YTD 31 December 2020 K'000**	**YTD 28 February 2019 K'000**	**December 2020 K'000**	**December 2019 K'000**
Interest income	-	2 186 748	-	2 163 842	-	4 350 590
Interest expense on deposits and other accounts	-	(726 786)	-	(988 099)	-	(1 714 885)
Fees and commissions	-	736 524	-	283 696	-	1 020 220
Gain on foreign exchange transactions	-	756 066	-	351 098	-	1 107 164
Total income	-	2 952 552	-	1 810 537	-	4 763 089
Staff and training costs	-	1 172 869	-	658 371	-	1 831 240
Premises and equipment costs	-	388 416	-	160 552	-	548 968
Depreciation expense	-	135 996	-	100 044	-	236 040
Other expenses	-	571 999	-	695 234	-	1 267 233
Impairment loss on loans and advances	-	214 543	-	4 797	-	219 340
Income tax expense	-	70 155	-	-	-	70 155
Total expenses	-	2 553 978	-	1 618 998	-	4 172 976
Operating profit/(loss)	-	398 574	-	191 539	-	590 113
Profit/(loss) allocated to NCI	-	79 715	-	117 603	-	197 318

30. Dividends

In 2020, the Bank paid cash dividend amounting to K5.5billion to its shareholders (2019: K10.1billion). K3.6 billion was paid as interim dividend in March 2020 and the final dividend was paid in November 2020. In 2019, the Bank transferred its entire shareholding in First Capital Bank Limited Botswana (38.6%) and First Capital Bank S.A Mozambique (80%) to FMBcapital Holdings Plc. The transfer was completed through a dividend in specie equal to the carrying value of the investments which was K10.1billion as at the date of transaction.

31. 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	
	2020	**2019**	**2020**	**2019**
	(K'000)	**(K'000)**	**(K'000)**	**(K'000)**
Corporate bodies directly or indirectly related to Directors:				
Balance at the beginning of the year	731 341	3 796 333	731 341	3 796 333
Loans granted during the year	1 019 706	860	1 019 706	860
On derecognition of subsidiaries	(1 343)	(1 805 517)	(1 343)	(1 805 517)
Repayments	(4 118)	(1 260 335)	(4 118)	(1 260 335)
Balance at the end of the year	1 745 586	731 341	1 745 586	731 341
Senior management:				
Balance at the beginning of the year	288 051	317 678	288 051	317 678
Loans granted during the year	69 035	81 600	69 035	81 600
On derecognition of subsidiaries	-	(15 273)	-	(15 273)
Repayments	(50 789)	(95 954)	(50 789)	(95 954)
Balance at the end of the year	306 297	288 051	306 297	288 051

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 Chief Executive Officer. Advances to employees include K34.0 million (2019: K23.9 million) of interest free advances and K1.0 billion (2019: K1.1 billion) of advances which carry interest at 7% per annum (2019: 7%). 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.

31. 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	2020 (K'000)	2019 (K'000)
First Capital Bank Plc (Malawi)	FMBcapital Holdings Plc (Mauritius)	Shareholder	Deposit account	48	105
First Capital Bank Plc (Malawi)	First Capital Bank Ltd (Zimbabwe)	Subsidiary of FMBCH	Intercompany	184 737	464 439
First Capital Bank Plc (Malawi)	First Capital Bank Ltd (Zambia)	Subsidiary of FMBCH	Intercompany	33 774	84 799
First Capital Bank Plc (Malawi)	First Capital Bank Ltd (Botswana)	Subsidiary of FMBCH	Intercompany	(2 258)	42 787
First Capital Bank Plc (Malawi)	First Capital Bank S.A (Mozambique)	Subsidiary of FMBCH	Intercompany	25 150	89 226
First Capital Bank Ltd (Botswana)	FMBcapital Holdings Plc (Mauritius)	Ultimate shareholder	Preference shares	-	1 431 633
First Capital Bank Plc (Malawi)	First Capital Shared Services Limited (Mauritius)	Subsidiary of FMBCH	Intercompany	(7 861)	-
First Capital Bank Plc (Malawi)	FMBcapital Holdings Plc (Mauritius)	Ultimate shareholder	Intercompany	(407 567)	-
First Capital Bank Plc (Malawi)	First Capital Bank Ltd (Botswana)	Subsidiary of FMBCH	Currency Swaps	(17 764 135)	(11 065 452)

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

	2020 K'000	2019 K'000
Deposits	317 829	317 829
Net interest income	-	558

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

	Consolidated		Separate	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Executive Directors				
Salaries	-	-	-	-
Bonuses	-	-	-	-
Non-Executive directors				
Fees and expenses	186 199	251 532	186 199	239 828
	186 199	251 532	186 199	239 828

There were no Executive directors within the employment of the Group during the year.

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.

31. Related party transactions (Continued)

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	2020 K'000	2019 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.

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 2020, 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 2020	2019
H.N Anadkat	1 071 163 931	1 071 163 931
N. Dikshit	-	12 000 000
J.M O'Neill	1 309 391	1 309 391
M. Msisha	1 050 000	1 050 000
T. Kadantot	1 587 600	1 587 600

32. 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	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Contingent liabilities				
Acceptances and letters of credit	16 010 546	16 274 702	16 010 546	16 274 702
Financial guarantees	28 521 807	15 444 790	28 521 807	15 444 790
	44 532 353	31 719 492	44 532 353	31 719 492

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

Other contingent liabilities represent civil litigation matters that will crystallise into a liability only in the unlikely event of an unfavourable judgement. All probable legal claims against the Group were provided for in the current year and hence there were no significant residual claims considered for disclosure, (2019:nil).

Capital commitments

	Consolidated		Separate	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Capital expenditure				
Authorised but not contracted for	1 136 252	1 335 464	1 136 252	1 335 464

33. 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 3.75% (2019: 7.5%) of the preceding weeks total deposit liabilities. In the last two weeks of December 2020 the liquidity reserve was 7.04% (2019: 8.81%) 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.

33. Statutory requirements (Continued)

(ii) Capital Adequacy Requirement (Continued)

As at 31 December 2020, the Group's Tier 1 capital ratio of its risk bearing assets and Total capital ratio were as follows:

	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Tier 1 risk based capital ratio (minimum 10%)	16.0%	14.1%	15.4%	15.9%
Total risk-weighted capital ratio (minimum 15%)	20.9%	20.9%	20.1%	23.8%

34. Subordinated debt

	Consolidated		Separate	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Carrying amount	-	7 000 000	-	7 000 000
Movement during the year:				
As at 1 January	7 000 000	12 886 911	7 000 000	7 000 000
On derecognition of subsidiary	-	(5 886 911)	-	-
Repayment	(7 000 000)	-	(7 000 000)	-
As at 31 December	-	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 would 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 was referenced against the published average yield for 91-day Treasury Bills for auctions preceding repricing dates and is payable quarterly in arrears. On 26 June 2020, the bank exercised its option for early settlement of the subordinated loan to the holders in accordance with the placement agreement.

b) The subordinated debt notes constitute direct, subordinated and unsecured obligations of First Capital Bank Plc. The notes ranked *pari passu* among themselves and were subordinated to general creditors and claims of depositors.

35. Repurchase agreements

	Consolidated and Separate	
	2020	2019
	K'000	K'000
Repurchase agreements	57 915 414	71 553 169
Movement during the year was as follows:		
As at 1 January	71 553 169	21 850 946
Additions	57 954 138	71 888 725
Maturities	(71 553 169)	(21 850 946)
Expected credit losses	(38 724)	(335 556)
As at 31 December	57 915 414	71 553 169

Funds under currency swap	**Trade date**	**Maturity date**	**K'000**	**Spot/ Forward Rate**
31-Dec-20				
US$ 5.0 million	2-Oct-20	1-Oct-21	3 861 769	751.37/765.14
US$ 10.0 million	15-Sep-20	15-Sep-21	7 723 537	750.81/764.61
US$ 7.5 million	27-Nov-20	26-Nov-21	5 792 653	758.30/765.00
US$ 5.0 million	21-Dec-20	20-Dec-21	3 861 769	764.25/771.00
US$ 5.0 million	18-Dec-20	18-Jun-21	3 861 769	764.25/767.71
US$ 15.0 million	31-Jan-20	29-Jan-21	11 585 306	736.52/742.87
US$ 5.0 million	2-Dec-20	2-Dec-21	3 861 769	761.28/768.02
ZAR 7.3 million	31-Dec-20	4-Jan-21	412 052	14.68/14.69
MWK 5.7 billion	27-Nov-20	26-Nov-21	5 696 108	759.48/722.84
MWK 3.8 billion	2-Dec-20	2-Dec-21	3 797 406	759.48/722.84
MWK 7.5 billion	15-Sep-20	15-Sep-21	7 500 000	750.00/710.39
31-Dec-19				
US$ 15.0 million	1-Feb-19	31-Jan-20	11 065 452	729.77/746.47
US$ 20.0 million	17-Sep-19	15-Sep-20	14 753 936	735.68/747.32
US$ 5.0 million	4-Oct-19	2-Oct-20	3 688 484	734.45/740.78
US$ 7.5 million	29-Nov-19	27-Nov-20	5 532 726	736.32/742.66
US$ 7.5 million	3-Dec-19	2-Dec-20	5 532 726	736.32/742.66
US$ 10.0 million	23-Dec-19	21-Dec-20	7 376 968	736.40/742.75
GBP 1.55 million	1-Feb-19	31-Jan-20	1 501 858	1.31/1.33
GBP 3.5 million	7-Oct-19	7-Apr-20	3 391 292	1.23/1.24
GBP 4.85 million	30-Dec-19	6-Jan-20	4 699 362	1.313/1.314
EUR 4.0 million	31-Oct-19	4-Feb-20	3 311 021	1.117/1.124
MWK 5.52 billion	29-Nov-19	27-Nov-20	5 522 400	736.20/694.20
MWK 5.51 billion	3-Dec-19	2-Dec-20	5 512 500	735.00/692.96

The Bank entered into a Currency Swap arrangement with the Reserve Bank of Malawi (RBM) in which the Bank sold US Dollars to the RBM. The Bank also entered into US$/ZAR and MWK/US$ swap arrangements with First Capital Bank Limited, Botswana. The deals are listed above. The corresponding liability under the arrangements has been disclosed in **note 17.**

36. Impairment losses on financial assets

	Consolidated		Separate	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Impairment allowance on loans				
Impairment charge	2 141 444	1 325 363	2 141 444	1 325 363
Recoveries	(1 201 692)	(410 443)	(1 201 692)	(629 783)
	939 752	914 920	939 752	695 580
Impairment allowance on finance leases				
Impairment charge	-	499 926	-	499 926
Recoveries	-	(285 272)	-	(285 272)
	-	214 654	-	214 654
Impairment allowance on other financial assets				
Impairment charge	-	651 120	-	651 120
Recoveries- Money markets	(351 060)	(15 027)	(351 060)	(15 027)
Recoveries-Repurchase agreements	(296 832)	-	(296 832)	-
	(647 892)	636 093	(647 892)	636 093
Total impairment loss on financial assets	291 860	1 765 667	291 860	1 546 327
Comprising				
Impairment allowance on loans				
Specific impairment charges	948 232	915 688	948 232	696 348
Collective impairment charges	(8 480)	(768)	(8 480)	(768)
	939 752	914 920	939 752	695 580
Impairment allowance on leases				
Specific impairment charges	-	389 861	-	389 861
Collective impairment charges	-	(175 207)	-	(175 207)
	-	214 654	-	214 654
Impairment allowance on other financial assets				
Specific impairment charges	-	-	-	-
Collective impairment (recoveries)/charges	(647 892)	636 093	(647 892)	636 093
	(647 892)	636 093	647 892)	636 093
Total impairment loss on financial assets	291 860	1 765 667	291 860	1 546 327

During the year, the uncertainty extent surrounding the effects of Covid-19 on the economy, led to an increase in provisions of K221.7 million on the basis of an impact assessment carried out on the credit portfolio.

37. 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	**2020** Kwacha	**2019** Kwacha
Malawi Kwacha/GBP	1 085.14	945.78
Malawi Kwacha/Rand	56.12	51.48
Malawi Kwacha/US Dollar	772.35	737.70
Malawi Kwacha/Euro	987.21	827.76
Malawi Kwacha/Pula	71.29	68.40
Malawi Kwacha/Meticais	12.20	12.09
Malawi Kwacha/Zambia Kwacha	36.18	52.69
Inflation rate %	7.60	11.50

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

Malawi Kwacha/GBP	1 132.18
Malawi Kwacha/Rand	56.71
Malawi Kwacha/US Dollar	783.25
Malawi Kwacha/Euro	997.82
Malawi Kwacha/Pula	70.81
Malawi Kwacha/Meticais	10.83
Malawi Kwacha/Zambia Kwacha	35.31
Inflation rate % (January 2021)	7.7

38. 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:

	2020	**2019**
Assets		
Government securities	6.15-13.94%	6.15-19.5%
Deposits with banking institutions	11.14-13.8%	2.8-14.5%
Loans and advances to customers (base rate)	12.3-13.6%	12.3-14.9%
Liabilities		
Customer deposits	0-10%	0-10%

39. Assets held for sale

	Consolidated and Separate 2020 K'000	Consolidated and Separate 2019 K'000
Assets held for sale	212 018	212 018

See accounting policy note 4 (ab). In 2017, the Bank 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 Bank's operations.

40. (a). Right-of-use-assets

2020	Consolidated and separate K'000
Cost	
At 1 January 2020	1 053 952
Additions	-
	1 053 952
Accumulated depreciation	
At 1 January 2020	252 023
Charge for the year	263 846
At 31 December 2020	515 869
Carrying amount	
At 31 December 2020	538 083
Average lease term (years)	6.32
Amounts recognised in profit and loss	
Depreciation expense on right-of-use assets (Note 26)	263 846
Interest expense on lease liabilities (Note 26)	96 058

2019	Consolidated and separate K'000
Cost	
At 1 January 2019	912 012
Additions	141 940
At 31 December 2019	1 053 952
Accumulated depreciation	
At 1 January 2019	-
Charge for the year	252 023
At 31 December 2019	252 023
Carrying amount	
At 31 December 2019	801 929
Average lease term (years)	6.32
Amounts recognised in profit and loss	
Depreciation expense on right-of-use assets (Note 26)	252 023
Interest expense on lease liabilities (Note 26)	106 954

40(a). Right-of-use assets (Continued)

The Bank leases several building assets for its operations. The average lease term is 6.32 years. The maturity analysis of lease liabilities is presented in Note 40(b). The Bank has no lease agreements with clauses for variable payments. There are no expectations for such payments in future years. There are no future cash outflows to which the Bank is potentially exposed that are not reflected in the measurement of lease liabilities arising from: (i) variable lease payments; (ii) extension options and termination options: (iii) residual value guarantees; (iv) leases not yet commenced to which the Bank is committed. As at the reporting date, there are no onerous terms linked to restrictions or covenants imposed by leases; or any sale and leaseback transactions contained within the agreements.

40(b). Lease liabilities

2020	**Consolidated and separate K'000**
Opening liability at 1 January 2020	872 847
Lease payments during the year	(342 086)
Interest on lease liabilities	96 058
Carrying amount of lease liabilities	626 819
Analysed as:	
Non-current	426 243
Current	200 576
	626 819
Maturity analysis	
Year 1	200 576
Year 2	160 612
Year 3	122 091
Year 4	36 544
Year 5	25 624
After 5 years	81 372
	626 819

2019	**Consolidated and separate K'000**
Opening liability at 1 January 2019	912 012
Additions	141 940
Lease payments during the year	(288 059)
Interest on lease liabilities	106 954
Carrying amount of lease liabilities	872 847
Analysed as:	
Non-current	626 819
Current	246 028
	872 847
Maturity analysis	
Year 1	246 027
Year 2	201 511
Year 3	160 736
Year 4	122 232
Year 5	36 703
After 5 years	105 638
	872 847

40(b). Lease liabilities (Continued)

The Bank does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Bank's Administration function. Lease obligations are denominated in either Malawi Kwacha (MWK) or United States Dollars (USD).

41. 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
- FMB Capital Markets Limited - asset management in Malawi - dormant
- 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 K40.4 million (2019: K40.4 million). All other revenues are attributable to the country in which the respective operating segment is domiciled.

During the year, the Bank earned K6.6 billion (2019: K5.0 billion) interest on Government of Malawi treasury bills; K7.0 billion (2019: K6.5 billion) interest on Government of Malawi Treasury Notes and K393.5 million (2019: K259.7 million) interest on loans and advances to enterprises controlled by Government of Malawi.

41. Segmental Reporting (Continued)

	Malawi Corporate & Retail Banking	Malawi Others	Malawi Subtotal	Mozambique Corporate & Retail Banking	Botswana 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
2019								
Interest income – external	22 886 270	592	22 886 862	2 186 748	2 163 842	27 237 452	(558)	27 236 894
Interest expense – external	(5 637 300)	1	(5 637 299)	(726 786)	(988 099)	(7 352 184)	558	(7 351 626)
Net interest income	17 248 970	593	17 249 563	1 459 962	1 175 743	19 885 268	-	19 885 268
Fees and commissions	8 015 963	160	8 016 123	736 524	283 696	9 036 343	(22)	9 036 321
Income from investments	(560 092)	-	(560 092)	-	-	(560 092)	-	(560 092)
Gain on foreign exchange transactions	3 076 988	-	3 076 988	756 066	351 098	4 184 152	191	4 184 343
Total operating income	27 781 829	753	27 782 582	2 952 552	1 810 537	32 545 671	169	32 545 840
Staff and training costs	(6 803 238)	-	(6 803 238)	(1 172 870)	(658 370)	(8 634 478)	(1)	(8 634 479)
Premises and equipment	(2 328 861)	-	(2 328 861)	(388 415)	(160 552)	(2 877 828)	-	(2 877 828)
Depreciation	(2 115 850)	-	(2 115 850)	(135 996)	(100 044)	(2 351 890)	-	(2 351 890)
Other expenses	(5 938 191)	(64)	(5 938 255)	(571 999)	(695 235)	(7 205 489)	22	(7 205 467)
Impairment of financial assets	(1 546 327)	-	(1 546 327)	(214 543)	(4 797)	(1 765 667)	-	(1 765 667)
Total expenditure	(18 732 467)	(64)	(18 732 531)	(2 483 823)	(1 618 998)	(22 835 352)	21	(22 835 331)
Profit before income tax expense	9 049 362	689	9 050 051	468 729	191 539	9 710 319	190	9 710 509
Income tax expense	(3 010 296)	(222)	(3 010 518)	(70 155)	-	(3 080 673)	-	(3 080 673)
Profit for the year	6 039 066	467	6 039 533	398 574	191 539	6 629 646	190	6 629 836
Other comprehensive income	-	-	-	-	-	-	-	-
Revaluation surplus on property	-	-	-	-	-	-	-	-
Deferred tax on revalued property	917 803	-	917 803	-	-	917 803	-	917 803
Other movements	-	-	-	-	-	-	-	-
Total other comprehensive income for the period	917 803	-	917 803	-	-	917 803	-	917 803
Total comprehensive income for the period	6 956 869	467	6 957 336	398 574	191 539	7 547 449	190	7 547 639
Total segment assets	294 489 883	1 047 015	295 536 898	51 655 344	200 413 354	547 605 596	(253 255 443)	294 350 153
Total segment liabilities	261 396 683	41 726	261 438 409	43 522 496	186 884 891	491 845 796	(230 946 125)	260 899 671

41. Segmental Reporting (Continued)

	Corporate & Retail Banking	Others	Subtotal	Total before adjustments	Consolidation adjustments	TOTAL
	K'000	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**
2020						
Interest income – external	26 287 858	-	26 287 858	26 287 858	-	26 287 858
Interest expense – external	(5 615 891)	-	(5 615 891)	(5 615 891)	-	(5 615 891)
Net interest income	20 671 967	-	20 671 967	20 671 967	-	20 671 967
Fees and commissions	10 964 097	-	10 964 097	10 964 097	-	10 964 097
Income from investments	(821 183)	-	(821 183)	(821 183)	-	(821 183)
Gain on foreign exchange transactions	2 607 938	-	2 607 938	2 607 938	-	2 607 938
Total operating income	33 422 819	-	33 422 819	33 422 819	-	33 422 819
Staff and training costs	(7 157 754)	-	(7 157 754)	(7 157 754)	-	(7 157 754)
Premises and equipment	(3 196 410)	-	(3 196 410)	(3 196 410)	-	(3 196 410)
Depreciation	(2 313 428)	-	(2 313 428)	(2 313 428)	-	(2 313 428)
Other expenses	(8 175 682)	-	(8 175 682)	(8 175 682)	-	(8 175 682)
Impairment of financial assets	(291 860)	-	(291 860)	(291 860)	-	(291 860)
Total expenditure	(21 135 134)	-	(21 135 134)	(21 135 134)	-	(21 135 134)
Profit before income tax expense	12 287 685	-	12 287 685	12 287 685	-	12 287 685
Income tax expense	(4 262 456)	-	(4 262 456)	(4 262 456)	-	(4 262 456)
Profit for the year	8 025 229	-	8 025 229	8 025 229	-	8 025 229
Other comprehensive income						
Revaluation surplus on property	2 030 577	-	2 030 577	2 030 577	-	2 030 577
Deferred tax on revalued property	(428 397)	-	(428 397)	(428 397)	-	(428 397)
Total other comprehensive income for the period	1 602 180	-	1 602 180	1 602 180	-	1 602 180
Total comprehensive income for the period	9 627 409	-	9 627 409	9 627 409	-	9 627 409
Total segment assets	295 565 596	1 047 016	296 612 612	296 612 612	(1 184 744)	295 427 868
Total segment liabilities	258 368 987	41 727	258 410 714	258 410 714	(536 737)	257 873 977

42. Subsequent events

Subsequent to year end, no significant events have occurred necessitating adjustments in these financial statements.

43. Impact of Covid-19

The COVID-19 pandemic has continued to develop in 2020, with a significant number of cases including deaths. Measures taken by various governments to contain the virus have affected economic activity. The Malawi Government had revised downwards its 2020 economic growth projections from 1.90% to 1.20%, reflecting adverse impact of the coronavirus pandemic.

First Capital Bank developed a mechanism which was meant to contain and assess the adverse risk impact on the total advances exposure sector wise. The Bank has also taken a number of safety and health measures to monitor and mitigate the effects of COVID-19, such as social distancing, working from home, disinfection of work places, continued testing of members of staff and procurement and supply of personal and protective equipment (PPEs) to members of staff.

At this stage, the impact on our business and results has not been significant, and based on our experience to date, we expect this to remain the case. We will continue to follow the various government policies and advice and, in parallel, we will do our utmost to continue our operations in the best and safest way possible without jeopardizing the health of our people.