First Capital Bank Plc

Consolidated and separate financial statements
for the year ended 31 December 2021

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The Directors have pleasure in submitting their report together with the audited consolidated and separate financial statements of First Capital Bank Plc and its subsidiaries for the year ended 31 December 2021.

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

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

During the year the company paid a total dividend of K4.6bn (2020: K5.5bn) to its shareholder, FMBcapital Holdings Plc as follows:

- K2.1bn final dividend for 2020 paid in April 2021.
- K2.5bn interim dividend for 2021 paid in October 2021.

DIRECTORATE AND SECRETARY

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

Mr. H N Anadkat	Chairman	Non-executive
Mr. T Davidson	Director	Non-executive (from 24 September 2021)
Mr. B Jani	Director	Non-executive
Mr. M Msisha	Director	Non-executive (up to 16 April 2021)
Mrs. C Musopole	Director	Non-executive
Ms. A Lewis	Director	Non-executive (up to 8 April 2021)
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 (up to 30 November 2021)
Mr. E Jangale	Director	Non-executive (from 3 August 2021)
Ms. L Mataya	Director	Non-executive (from 5 November 2021)
Mr. M Kadumbo	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 K144.7 million (2020: K25.4 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	**2021** %	**2020** %
FMBcapital Holdings Plc	100.00	100.00

Mr. Hitesh Anadkat and the Group Managing Director for FMBcapital Holdings Plc 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 2021

Member	16 Mar 21	15 Jun 21	07 Sept 21	30 Nov 21
Mr. H N Anadkat - Chairman	√	√	√	√
Mr. T Davidson	N/A	N/A	N/A	√
Mr. M Msisha	√	N/A	N/A	N/A
Mr. B Jani	√	√	√	x
Mrs. C Musopole	√	√	√	x
Ms. A Lewis	√	N/A	N/A	N/A
Mr. L Katandula	√	√	x	√
Dr. R Mangani	√	√	x	√
Mr. W Swart	√	√	√	√
Mr. T Kadantot	√	√	√	√
Mr. M Gursahani	√	√	√	√
Mr. E Jangale	N/A	N/A	√	√
Ms. L Mataya	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, Head of Personal and Business Banking 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:

Chief Executive Officer (Chairman)
General Manager
Head of Personal and Business Banking
Head of Risk
Head of Credit
Chief Finance Officer
Head of Treasury
Head of Compliance
Management Accountant

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
Head of Personal and Business Banking
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
Head of Legal

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
Head of Personal and Business Banking
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:

Mr. W Swart	Non-executive Director (Chairman)
Mrs. C Musopole	Non-executive Director
Mr. M Msisha SC	Non-executive Director (up to 16 April 2021)
Mr. E Jangale	Non-executive Director (from 3 August 2021)

Audit Committee Meetings Attendance 2021

Members	15 Mar 21	14 Jun 21	06 Sept 21	29 Nov 21
Mr. W Swart (Chairman)	√	√	√	√
Mrs. C Musopole	√	√	√	N/A
Mr. M Msisha SC	√	N/A	N/A	N/A
Mr. E Jangale	N/A	N/A	N/A	√

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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 Compliance, and other Heads attend all Credit Committee meetings in a non-voting capacity. The Credit Committee meets regularly, usually once a quarter, and during the year the following served as members of the Credit Committee:

Mr. L Katandula	Non – Executive Director (Chairman)
Mr. T Kadantot	Non – Executive Director
Mr. M Gursahani	Non – Executive Director

Credit Committee Attendance 2021

Members	15 Mar 21	14 Jun 21	06 Sept 21	29 Nov 21
Mr. L Katandula	√	√	√	√
Mr. T Kadantot	√	√	√	√
Mr. M Gursahani	√	√	√	√

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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. During the year, the following served as members of the Appointments and Remuneration Committee:

Mr. H N Anadkat - Chairman
Mr. L Katandula - Director
Mr. M Gursahani - Director

Appointments and Remuneration Committee Meetings Attendance 2021

Members	15 Mar 2021	14 Jun 2021	6 Sept 2021	29 Nov 2021
Mr. H N Anadkat	√	√	√	√
Mr. L Katandula	√	√	√	√
Mr. M Gursahani	√	√	√	√

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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. During the year, the following served as members of the Risk Committee:

Mr. B Jani	Non-executive Director (Chairman)
Ms. A Lewis	Non-executive Director (up to February 2021)
Dr. R Mangani	Non-executive Director

Risk Committee Meetings Attendance 2021

Member	**15 Mar 21**	**14 Jun 21**	**06 Sept 21**	**29 Nov 21**
Mr. B Jani – Chairman	√	√	√	x
Ms. A Lewis	√	N/A	N/A	N/A
Dr. R Mangani	√	√	√	√
Mr. T Kadantot	N/A	N/A	N/A	√

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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.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

For the year ended 31 December 2021

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 2021 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 **15 March 2022** and are signed on its behalf by:

Director **Director**

By order of the Board

Deloitte.

PO Box 187
Blantyre
Malawi

Deloitte Chartered Accountants
Registered Auditors
First Floor
PCL House, Top Mandala
Kaohsiung Road
Blantyre
Malawi

Tel :+265 (0) 1 822 277
:+265 (0) 1 820 506
Cell :+265 (0) 887 828 002
:+265 (0) 997 515 647
Fax :+265 (0) 1 821 229
Email :btdeloitte@deloitte.co.mw
www.deloitte.com

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 98, which comprise the consolidated and separate statements of financial position as at 31 December 2021, 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 2021, 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.

MAKING AN IMPACT THAT MATTERS since 1845

Key Audit Matter	How the matter was addressed in the audit
Determination of Excepted Credit Losses for loans and advances	

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

As at 31 December 2021, the gross loans and advances were K104.2 billion against which expected credit losses of K3.1 billion were recorded, comprising K570 million of provision against Stage 1 and 2 exposures and K2.6 billion 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.

We gained an understanding of the Bank'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 provision against exposures classified as Stage 1, Stage 2 and Stage 3, we obtained an understanding of the Bank'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 Bank'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 Bank 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 Bank's staging;
- We checked and understood the key data sources and assumptions for data used in determining the haircuts, recovery period of collateral and fair values of collateral;
- 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 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 2021.

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

31 March 2022

FIRST CAPITAL BANK PLC
STATEMENTS OF FINANCIAL POSITION
As at 31 December 2021

	Notes	Consolidated 2021 K'000	Consolidated 2020 K'000	Separate 2021 K'000	Separate 2020 K'000
ASSETS					
Cash and cash equivalents	7	46 300 469	38 839 731	46 300 469	38 839 731
Money market investments	8	134 815 566	90 462 090	134 815 566	90 462 090
Loans and advances to customers	9	101 043 385	79 077 559	101 043 385	79 077 559
Amounts due from related parties	12	378 888	243 662	378 888	243 662
Repurchase agreements	34	45 129 178	57 915 414	45 129 178	57 915 414
Current tax assets	27(c)	43 649	43 649	-	-
Investments at fair value through profit or loss	13	5 386 593	3 792 344	5 386 593	3 792 344
Investment in subsidiaries	14	-	-	208 791	208 791
Right-of-use assets	39(a)	430 982	538 083	430 982	538 083
Intangible assets	15(a)	2 866 531	3 065 695	2 866 531	3 065 695
Property and equipment	15(b)	19 155 072	20 043 605	19 155 072	20 043 605
Assets held for sale	38	216 095	212 018	216 095	212 018
Other assets	11	1 477 472	1 194 018	1 450 022	1 166 605
Total assets		357 243 880	295 427 868	357 381 572	295 565 597
LIABILITIES AND EQUITY					
Liabilities					
Balances due to other banks	17	123 168 231	87 494 170	123 168 231	87 494 170
Customer deposits	18	172 901 302	157 402 033	173 219 131	157 719 862
Current tax liabilities	27(c)	1 822 375	1 879 343	1 812 004	1 868 972
Other payables	19(a)	8 731 072	8 210 426	8 915 165	8 394 555
Lease liabilities	39(b)	526 444	626 819	526 444	626 819
Provisions	19(b)	842 619	599 512	842 619	599 512
Deferred tax	16	1 531 841	1 661 674	1 535 264	1 665 097
Total liabilities		309 523 884	257 873 977	310 018 858	258 368 987
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	7 716 952	7 716 952	7 716 952
Loan loss reserve	22	515 203	1 119 224	515 203	1 119 224
Retained earnings		37 805 681	27 035 555	37 448 399	26 678 274
Total equity		47 719 996	37 553 891	47 362 714	37 196 610
Total equity and liabilities		357 243 880	295 427 868	357 381 572	295 565 597

The consolidated and separate financial statements were approved for issue by the Company's Board of Directors on 15 March 2022 and were signed on its behalf by:

……………………Director
Mr. H N Anadkat

……………………Director
Mrs. C Musopole

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2021

	Notes	Consolidated 2021 K'000	Consolidated 2020 K'000	Separate 2021 K'000	Separate 2020 K'000
Interest income	23(a)	31 336 876	26 287 858	31 336 876	26 287 858
Interest expense	23(b)	(6 228 175)	(5 615 891)	(6 228 175)	(5 615 891)
Net interest income		25 108 701	20 671 967	25 108 701	20 671 967
Fees and commission income		9 850 531	10 964 097	9 850 531	10 964 097
Income/(loss) from investments	24	2 422 436	(821 183)	2 422 436	(821 183)
Gain on foreign exchange transactions		6 143 440	2 607 938	6 143 440	2 607 938
Total non-interest income		18 416 407	12 750 852	18 416 407	12 750 852
Total operating income		43 525 108	33 422 819	43 525 108	33 422 819
Staff and training costs	25	8 671 792	7 157 754	8 671 792	7 157 754
Premises and equipment costs		3 240 759	3 196 410	3 240 759	3 196 410
Depreciation and amortization	15	2 197 225	2 313 428	2 197 225	2 313 428
Other expenses	26	7 628 858	8 175 682	7 628 858	8 175 682
Impairment loss on financial assets	35	1 401 043	291 860	1 401 043	291 860
Total expenses		23 139 677	21 135 134	23 139 677	21 135 134
Profit before income tax expense		20 385 431	12 287 685	20 385 431	12 287 685
Income tax expense	27(a)	(5 619 326)	(4 262 456)	(5 619 326)	(4 262 456)
Profit for the year		14 766 105	8 025 229	14 766 105	8 025 229
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)	-	(428 397)
Total other comprehensive income for the year		-	1 602 180	-	1 602 180
Total comprehensive income for the year		14 766 105	9 627 409	14 766 105	9 627 409
Profit or loss attributable to:					
Owners of the company		14 766 105	8 025 229	14 766 105	8 025 229
Profit for the year		14 766 105	8 025 229	14 766 105	8 025 229
Total comprehensive income attributable to:					
Owners of the company		14 766 105	9 627 409	14 766 105	9 627 409
Total comprehensive income for the year		14 766 105	9 627 409	14 766 105	9 627 409
Basic and diluted earnings per share (tambala)	28	632	344		

FIRST CAPITAL BANK PLC
STATEMENTS OF CHANGES IN EQUITY (Continued)
For the year ended 31 December 2021

Consolidated

	Share capital K'000	Share premium K'000	Property revaluation K'000	Loan loss reserve K'000	Retained earnings K'000	Equity attributable to owners K'000	Total equity K'000
2021							
As at 1 January 2021	116 813	1 565 347	7 716 952	1 119 224	27 035 555	37 553 891	37 553 891
Profit for the year	-	-	-	-	14 766 105	14 766 105	14 766 105
Total comprehensive income for the year	-	-	-	-	14 766 105	14 766 105	14 766 105
Transfers within reserves							
Transfer from loan loss reserve	-	-	-	(604 021)	604 021	-	-
Total Transfers within reserves	-	-	-	(604 021)	604 021	-	-
Transactions with owners, recorded directly in equity							
Contribution by and distribution to owners							
Dividends paid to owners of the parent	-	-	-	-	(4 600 000)	(4 600 000)	(4 600 000)
Total transactions with owners	-	-	-	-	(4 600 000)	(4 600 000)	(4 600 000)
As at 31 December 2021	116 813	1 565 347	7 716 952	515 203	37 805 681	47 719 996	47 719 996

Consolidated

	Share capital K'000	Share premium K'000	Property revaluation K'000	Loan loss reserve K'000	Retained earnings K'000	Equity attributable to owners 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

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
2021						
As at beginning of the year	116 813	1 565 347	7 716 952	1 119 224	26 678 273	37 196 609
Profit for the year	-	-	-	-	14 766 105	14 766 105
Other comprehensive income						
Total comprehensive income for the year	-	-	-	-	14 766 105	14 766 105
Transfers between reserves						
Transfer from loan loss reserve	-	-	-	(604 021)	604 021	-
Total transfers between reserves	-	-	-	(604 021)	604 021	-
Transactions with owners, recorded directly in equity						
Contribution by and distribution to owners						
Dividends paid	-	-	-	-	(4 600 000)	(4 600 000)
As at 31 December 2021	116 813	1 565 347	7 716 952	515 203	37 448 399	47 362 714
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 2021

	Notes	Consolidated 2021 K'000	Consolidated 2020 K'000	Separate 2021 K'000	Separate 2020 K'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest and fees received		44 865 122	37 289 458	44 865 122	37 289 458
Interest paid		(6 228 175)	(5 615 891)	(6 228 175)	(5 615 891)
Cash paid to suppliers and employees		(18 832 114)	(16 706 027)	(18 832 114)	(16 706 027)
		19 804 833	14 967 540	19 804 833	14 967 540
Net increase/(decrease) in net customer balances		30 754 491	(5 063 650)	30 754 491	(5 063 650)
Cash generated from/(used in) operations		50 559 324	9 903 890	50 559 324	9 903 890
Dividend received from listed companies		229 244	30 504	229 244	30 504
Income taxes paid	27c	(5 806 127)	(2 153 446)	(5 806 127)	(2 153 446)
Net cash generated from operating activities		44 982 441	7 780 948	44 982 441	7 780 948
CASH FLOWS FROM INVESTING ACTIVITIES					
(Purchase)/maturity of money market investments	8	(44 591 457)	13 870 366	(44 591 457)	13 870 366
Maturity in currency swaps		12 786 236	13 934 587	12 786 236	13 934 587
Proceeds from disposal of property and equipment		112 629	-	112 629	-
Sale of investments at fair value through profit or loss		598 943	-	598 943	-
Acquisition of property and equipment	15	(1 109 528)	(1 543 967)	(1 109 528)	(1 543 967)
Net cash (used in)/generated from investing activities		(32 203 177)	26 260 986	(32 203 177)	26 260 986
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid to the owners of the company	30	(4 600 000)	(5 524 000)	(4 600 000)	(5 524 000)
Repayment of subordinated debt		-	(7 000 000)	-	(7 000 000)
Long term borrowings and lease liabilities		(3 184 251)	(1 841 483)	(3 184 251)	(1 841 483)
Net cash used in financing activities		(7 784 251)	(14 365 483)	(7 784 251)	(14 365 483)
Net increase in cash and cash equivalents		4 995 013	19 676 451	4 995 013	19 676 451
Cash and cash equivalents at 1 January		38 839 731	16 592 843	38 839 731	16 592 843
Effect of changes in exchange rates		2 465 725	2 570 437	2 465 725	2 570 437
Cash and cash equivalents at 31 December	7	46 300 469	38 839 731	46 300 469	38 839 731

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 35 - Loans and advances to customers - Impairment
- Notes 4(c), 4(w), 10 and 35 - 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 entity 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 2021.

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

3.2 Standards and Interpretations in issue, not yet effective

A number of new standards, amendments to standards and interpretations are issued and effective for annual periods ending 31 December 2021 and have not been applied in preparing these financial statements**.** Those which may be relevant to the entity are set out below. The entity 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.
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.

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	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.
Annual reporting periods beginning on or after 1 January 2023	Amendments to IFRS 17 Amends IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 Insurance Contracts was published in 2017. The main changes are: • Deferral of the date of initial application of IFRS 17 by two years to annual periods beginning on or after 1 January 2023 • Additional scope exclusion for credit card contracts and similar contracts that provide insurance coverage as well as optional scope exclusion for loan contracts that transfer significant insurance risk • Recognition of insurance acquisition cash flows relating to expected contract renewals, including transition provisions and guidance for insurance acquisition cash flows recognised in a business acquired in a business combination • Clarification of the application of IFRS 17 in interim financial statements allowing an accounting policy choice at a reporting entity level

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**
	• Clarification of the application of contractual service margin (CSM) attributable to investment-return service and investment-related service and changes to the corresponding disclosure requirements • Extension of the risk mitigation option to include reinsurance contracts held and non-financial derivatives • Amendments to require an entity that at initial recognition recognises losses on onerous insurance contracts issued to also recognise a gain on reinsurance contracts held • Simplified presentation of insurance contracts in the statement of financial position so that entities would present insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts rather than groups of insurance contracts • Additional transition relief for business combinations and additional transition relief for the date of application of the risk mitigation option and the use of the fair value transition approach
Annual reporting periods beginning on or after 1 January 2023	Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added. To support the amendment, the Board has also developed guidance and examples to explain and demonstrate the application of the ‘four-step materiality process’ described in IFRS Practice Statement 2.
Annual reporting periods beginning on or after 1 January 2023	Definition of Accounting Estimates (Amendments to IAS 8) The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error.
Annual reporting periods beginning on or after 1 January 2023	Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) The amendments clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.

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

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 IFRS 9 adoption was 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.

IFRS 9 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 of the asset.
- 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 an individual and portfolio approach assessment to the calculation of ECLs.
- The assessment is performed on all customer loans and advances after having defined a minimum exposure threshold.

Under IFRS 9, 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
The assessment is performed on all customer loans and advances supported by available historical information.

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; and
- 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 20%
- 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 Malawi economy and business environment. Its overall responsibility is to ensure the soundness of the Group's credit portfolio. Specific responsibilities include:

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

The Chief Executive Officer, General Manager, 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

(i) The Chief Executive Officer

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

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.

(ii) 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.

(iii) Asset and Liability Management Committee (ALCO)

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

- Chief Executive Officer (Chairman);
- General Manager;
- Head of Personal and Business Banking;
- Head of Credit;
- Chief Finance Officer;
- Head of Treasury;
- Management Accountant; and
- Head of Risk.

5. Risk Management (Continued)

(d) Management (Continued)

(iv) 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;
- Head of Personal and Business Banking;
- General Manager;
- Head of Internal Audit;
- Head of Human Resources;
- Head of Credit; and
- Head of Legal.

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

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

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

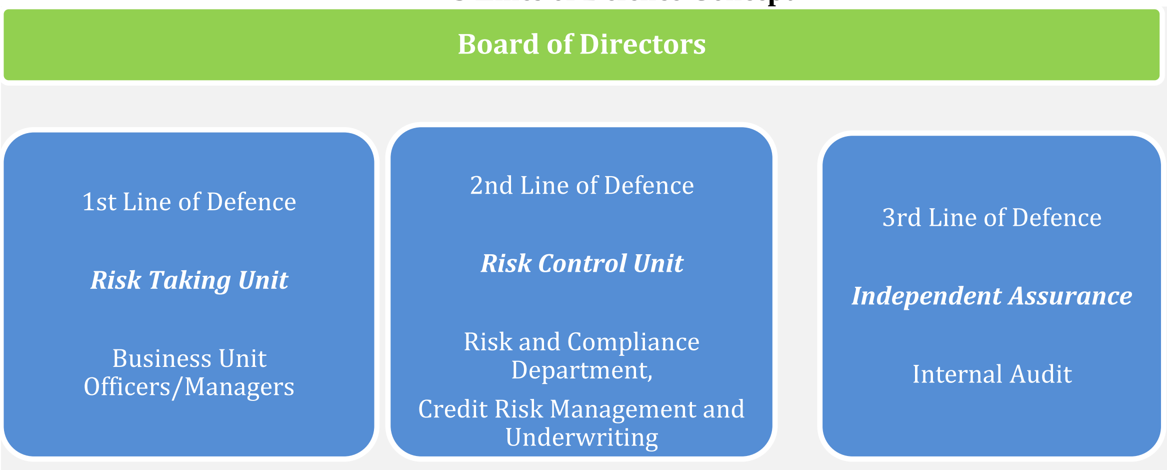
It is chaired by the Chief Executive Officer and meets monthly to review management of credit risk in the Bank.

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 2021

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

	Consolidated		Separate	
	2021	**2020**	**2021**	**2020**
	K'000	**K'000**	**K'000**	**K'000**
Share capital	116 813	116 813	116 813	116 813
Share premium	1 565 347	1 565 347	1 565 347	1 565 347
Retained earnings	37 805 681	27 035 555	37 448 399	26 678 274
Investments in unconsolidated entities	-	-	(119 396)	(119 396)
Total Tier 1 Capital	39 487 841	28 717 715	39 011 163	28 241 038
Tier 2 Capital				
Property revaluation reserve	7 716 952	7 716 952	7 716 952	7 716 952
Loan loss reserve	515 203	1 119 224	515 203	1 119 224
Investments in unconsolidated entities	-	-	(119 396)	(119 396)
Tier 2 Capital	8 232 155	8 836 176	8 112 759	8 716 780
Total qualifying capital	47 719 996	37 553 891	47 123 922	36 957 818
Total risk weighted assets	225 380 163	179 614 836	222 998 158	183 738 413
Tier 1 risk based capital ratio (minimum 10%)	17.5%	16.0%	17.5%	15.4%
Total risk-weighted capital ratio (minimum 15%)	21.2%	20.9%	21.1%	20.1%

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. The PDs are determined individually using Internal rating and Through The Cycle (TTC) probability of default, Probability of default intrinsic term structure and Probability of default macroeconomic adjustment to determine a Point in Time PD.

PDs are mapped into different grades as follows:

i) Customer loans

Stage 1	12 Month PD	Central bank classification Standard / internal category 0 and 1
Stage 2	Life Time PD	Central Bank classification Special Mention / 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.

The amortisation modelling approach for EAD reflects three factors that determine the portfolio's exposure to a borrower for each month from the present to maturity. These will be addressed in turn.

- Loan amortisation schedule (scheduled contractual repayments)
- Prepayment
- Interest accrued to default

The aim is to arrive at a methodology to forecast an expected EAD for each month to maturity to be used in the monthly ECL calculation.
The Credit Conversion Factor approach, that is applied to revolving facilities, assumes a constant EAD based upon the expected increase in the drawn facility exposure as defined by the CCF and uses a behavioural term to determine the length of the EAD cashflows.

5. Risk Management (Continued)

(k) Credit Risk (Continued)

(ii) Credit Risk Management (Continued)

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

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). The LGD as a percentage of EAD is a combination of three components Loss given liquidation, Loss given restructuring, and Loss given cure. Each facility is adjusted for type and level of collateral and an LGD floor for all over collateralized exposures. 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.

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) Lifetime 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 Special Mention, 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.

iii) Lifetime 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.

5. Risk Management (Continued)

(k) Credit Risk (Continued)

(i) Credit Risk Management (Continued)

Benchmarking ECL

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. The Group adopts an amortisation modelling approach for EAD with an aim to arrive at a methodology to forecast an expected EAD for each month to maturity to be used in the monthly ECL calculation.
- 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 threshold. 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.

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 did not identify significant increase in credit risk.

5. Risk Management (Continued)

(k) Credit Risk (Continued)

(i) Credit Risk Management (Continued)

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

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.

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 2021

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		101 043 385	20 547 651	17 732 209	134 815 566	30 071	45 129 178
Standard (fully performing)	1	90 190 745	20 547 651	17 732 209	135 395 392	30 071	45 167 902
Past due but not impaired	2	10 200 745	-	-	-	-	-
Impaired	3	3 790 435	-	-	-	-	-
Gross exposure		104 181 925	20 547 651	17 732 209	135 395 392	30 071	45 167 902
Separate (K'000)							
Carrying amount		101 043 385	20 547 651	17 732 209	134 815 566	30 071	45 129 178
Standard (fully performing)	1	90 190 745	20 547 651	17 732 209	135 395 392	30 071	45 167 902
Past due but not impaired	2	10 200 745	-	-	-	-	-
Impaired	3	3 790 435	-	-	-	-	-
Gross exposure		104 181 925	20 547 651	17 732 209	135 395 392	30 071	45 167 902

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**	
	2021	**2020**	**2021**	**2020**
	K'000	**K'000**	**K'000**	**K'000**
Agriculture	22 896 040	14 714 022	22 896 040	14 714 022
Mining	55 544	83 852	55 544	83 852
Financial Services	709 928	443 875	709 928	443 875
Construction	7 250 223	6 954 998	7 250 223	6 954 998
Energy/Electricity/Ga	5 050 259	3 944 020	5 050 259	3 944 020
Manufacturing	19 533 462	18 998 509	19 533 462	18 998 509
Wholesale and Retail	28 564 466	19 001 657	28 564 466	19 001 657
Individual/Household	10 495 462	4 140 193	10 495 462	4 140 193
Real Estate	215 208	206 064	215 208	206 064
Tourism & Leisure	3 321 220	3 274 371	3 321 220	3 274 371
Transport &	5 778 802	6 509 473	5 778 802	6 509 473
Others	311 311	2 962 341	311 311	2 962 341
	104 181 925	81 233 375	104 181 925	81 233 375

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	2021	2020	2021	2020
		K'000	K'000	K'000	K'000
Gross maximum exposure					
Liquidity reserves deposits with central banks	7	20 547 651	8 733 908	20 547 651	8 733 908
Placements with other banks	7	17 732 209	22 969 881	17 732 209	22 969 881
Money market investments	8	135 395 392	90 803 935	135 395 392	90 803 935
Cheques in course of clearing	7	30 071	435 386	30 071	435 386
Repurchase agreements	34	45 167 902	57 954 138	45 167 902	57 954 138
Loans and advances to customers	9	104 181 925	81 233 376	104 181 925	81 233 376
Total recognised financial assets		323 055 150	262 130 624	323 055 150	262 130 624
Acceptance and letters of credit		1 057 706	16 010 546	1 057 706	16 010 546
Financial guarantees	32	29 656 298	28 521 807	29 656 298	28 521 807
Total unrecognised assets		30 714 004	44 532 353	30 714 004	44 532 353
Total credit risk exposure		353 769 154	306 662 977	353 769 154	306 662 977

(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 2021, 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	2021 Assets (K'm)	2021 Liabilities (K'm)	2021 Net (K'm)	2021 Sensitivity	2020 Assets (K'm)	2020 Liabilities (K'm)	2020 Net (K'm)	2020 Sensitivity
USD	69 033	69 358	(325)	(3.25)	97 181	96 186	995	9.95
GBP	7 253	7 258	(5)	(0.05)	5 487	5 492	(5)	(0.05)
EUR	19 182	18 601	581	5.81	21 138	21 238	(100)	(1.00)
ZAR	533	299	234	2.34	105	278	(173)	(1.73)
INR	-	-	-	-	-	-	-	-
JPY	-	-	-	-	-	-	-	-
BWP	-	-	-	-	-	-	-	-
OTHER	-	-	-	-	-	-	-	-

Separate

Currency	2021 Assets (K'm)	2021 Liabilities (K'm)	2021 Net (K'm)	2021 Sensitivity	2020 Assets (K'm)	2020 Liabilities (K'm)	2020 Net (K'm)	2020 Sensitivity
USD	69 033	69 358	(325)	(3.25)	97 181	96 186	995	9.95
GBP	7 253	7 258	(5)	(0.05)	5 487	5 492	(5)	(0.05)
EUR	19 182	18 601	581	5.81	21 138	21 238	(100)	(1.00)
ZAR	533	299	234	2.34	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.

2021

Consolidated	**Zero rate**	**Floating rate**	**Fixed rate**					**Total**
			0-3 months	**3-6 months**	**6-9 months**	**9-12 months**	**Over 12 months**	
	K'000	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**
Total assets	48 332 213	62 436 041	69 670 424	15 283 368	30 199 971	674 826	130 647 037	357 243 880
Total liabilities and equity	60 647 903	157 499 636	26 772 421	5 418 116	62 925 922	3 142 934	40 836 948	357 243 880
Interest sensitivity gap	(12 315 690)	(95 063 595)	42 898 003	9 865 252	(32 725 951)	(2 468 108)	89 810 089	-

Separate

	Zero rate	**Floating rate**	**Fixed rate**					**Total**
			0-3 months	**3-6 months**	**6-9 months**	**9-12 Months**	**Over 12 months**	
	K'000	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**
Total assets	48 469 905	62 436 041	69 670 424	15 283 368	30 199 971	674 826	130 647 037	357 381 572
Total liabilities and equity	60 467 766	157 817 465	26 772 421	5 418 116	62 925 922	3 142 934	40 836 948	357 381 572
Interest sensitivity gap	(11 997 861)	(95 381 424)	42 898 003	9 865 252	(32 725 951)	(2 468 108)	89 810 089	-

5. Risk Management (Continued)

(l) Market Risk (Continued)

Interest rate gap analysis (Continued)

2020

Consolidated	Zero rate K'000	Floating rate K'000	Fixed rate 0-3 months K'000	Fixed rate 3-6 months K'000	Fixed rate 6-9 months K'000	Fixed rate 9-12 months K'000	Fixed rate Over 12 months K'000	Total K'000
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 K'000	Floating rate K'000	Fixed rate 0-3 months K'000	Fixed rate 3-6 months K'000	Fixed rate 6-9 months K'000	Fixed rate 9-12 months K'000	Fixed rate Over 12 Months K'000	Total K'000
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:

	2021	2020
	%	%
Assets		
Government securities	9.5 – 19.5	6.15 - 13.94
Deposits with banking institutions	11.4 – 11.98	11.14 - 13.8
Loans and advances to customers (Reference/base rate)	11.9 - 13.4	12.3-13.6
Liabilities		
Customer deposits	0 – 10	0 - 10

Equity Risk

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

	2021	2020
	K'000	K'000
Cost of investments in listed companies	674 373	742 441
Fair value of investments in listed companies	5 386 593	3 792 344
Sale of investments in listed companies	(598 943)	-
Net decrease in fair value of investments in listed companies	2 193 192	(851 687)
Impact on profit and equity of:		
Increase of share price by 10%	538 659	379 234
Decrease of share price by 10%	(538 659)	(379 234)

(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 2021 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	46 300 469	46 300 469	35 956 406	-	6 141 497	4 202 566	-	-
Money market investments	134 815 566	135 395 392	31 488 854	37 765 328	12 812 652	23 474 073	26 705 341	3 149 144
Loans and advances to customers	101 043 385	104 181 925	7 132 868	18 123 846	23 133 224	19 392 963	12 471 573	23 927 451
Investments at fair value through P&L	5 386 593	5 386 593	1 077 319	1 077 319	1 077 319	1 077 319	1 077 317	-
Other financial assets	45 508 066	45 546 790	25 336 941	16 125 286	-	4 084 563	-	-
Total assets	333 054 079	336 811 169	100 992 388	73 091 779	43 164 692	52 231 484	40 254 231	27 076 595
Liabilities								
Liabilities to customers	172 901 302	172 901 302	161 343 323	11 484 118	73 861	-	-	-
Due to other banks	123 168 231	123 168 231	51 018 217	40 701 534	873 468	27 433 038	3 141 974	-
Other liabilities	8 337 995	8 337 995	6 075 007	754 330	754 330	754 328	-	-
Total liabilities	304 407 528	304 407 528	218 436 547	52 939 982	1 701 659	28 187 366	3 141 974	-
Net liquidity gap	28 646 551	32 403 641	(117 444 159)	20 151 797	41 463 033	24 044 118	37 112 257	27 076 595
Cumulative liquidity gap	28 646 551	32 403 641	(117 444 159)	(97 292 362)	(55 829 329)	(31 785 211)	5 327 046	32 403 641

5. Risk Management (Continued)

(m) Liquidity risk (Continued)

The maturity gap analysis as at 31 December 2020 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	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 and advances to customers	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	8 266 614	8 266 614	6 373 855	630 920	630 920	630 919	-	-
Total liabilities	253 162 817	253 162 817	177 104 188	5 882 157	1 461 934	63 551 651	5 162 887	-
Net liquidity gap	17 468 215	20 004 600	(94 402 606)	12 779 309	32 690 726	21 259 603	25 595 107	22 082 461
Cumulative liquidity gap	17 468 215	20 004 600	(94 402 606)	(81 623 297)	(48 932 571)	(27 672 968)	(2 077 861)	20 004 600

5. Risk Management (Continued)

(m) Liquidity risk (Continued)
The maturity gap analysis as at 31 December 2021 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	46 300 469	46 300 469	35 956 406	-	6 141 497	4 202 566	-	-
Money market investments	134 815 566	135 395 392	31 488 854	37 765 328	12 812 652	23 474 073	26 705 341	3 149 144
Loans and advances to customers	101 043 385	104 181 925	7 132 868	18 123 846	23 133 224	19 392 963	12 471 573	23 927 451
Investments at fair value through P&L	5 386 593	5 386 593	1 077 319	1 077 319	1 077 319	1 077 319	1 077 317	-
Other financial assets	45 508 066	45 546 790	25 336 941	16 125 286	-	4 084 563	-	-
Total assets	333 054 079	336 811 169	100 992 388	73 091 779	43 164 692	52 231 484	40 254 231	27 076 595
Liabilities								
Liabilities to customers	173 219 131	173 219 131	161 661 152	11 484 118	73 861	-	-	-
Due to other banks	123 168 231	123 168 231	51 018 217	40 701 534	873 468	27 433 038	3 141 974	-
Other liabilities	8 522 088	8 522 088	6 119 729	800 787	800 787	800 785	-	-
Total liabilities	304 909 450	304 909 450	218 799 098	52 986 439	1 748 116	28 233 823	3 141 974	-
Net liquidity gap	28 144 629	31 901 719	(117 806 710)	20 105 340	41 416 576	23 997 661	37 112 257	27 076 595
Cumulative liquidity gap	28 144 629	31 901 719	(117 806 710)	(97 701 370)	(56 284 794)	(32 287 133)	4 825 124	31 901 719

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	0-1 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	8 450 744	8 450 744	6 418 586	677 386	677 386	677 386	-	-
Total liabilities	253 664 776	253 664 776	177 466 748	5 928 623	1 508 400	63 598 118	5 162 887	-
Net liquidity gap	16 938 842	19 475 227	(94 792 580)	12 732 843	32 644 260	21 213 136	25 595 107	22 082 461
Cumulative liquidity gap	16 938 842	19 475 227	(94 792 580)	(82 059 737)	(49 415 477)	(28 202 341)	(2 607 234)	19 475 227

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-21**	**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	-	46 300 469	-	46 300 469	46 300 469
Money market investments	-	134 815 566	-	134 815 566	134 815 566
Investments at FVTPL	5 386 593	-	-	5 386 593	5 386 593
Loans, advances and leases	-	101 043 385	-	101 043 385	101 043 385
Other assets	-	45 508 066	-	45 508 066	45 508 066
	5 386 593	327 667 486	-	333 054 079	333 054 079
Financial liabilities					
Liabilities to customers	-	-	172 901 302	172 901 302	172 901 302
Due to other banks	-	-	123 168 231	123 168 231	123 168 231
Other liabilities	-	-	8 337 995	8 337 995	8 337 995
	-	-	304 407 528	304 407 528	304 407 528
Separate					
Financial assets					
Cash and cash equivalents	-	46 300 469	-	46 300 469	46 300 469
Money market investments	-	134 815 566	-	134 815 566	134 815 566
Investments at FVTPL	5 386 593	-	-	5 386 593	5 386 593
Loans, advances and leases	-	101 043 385	-	101 043 385	101 043 385
Other assets	-	45 508 066	-	45 508 066	45 508 066
	5 386 593	327 667 486	-	333 054 079	333 054 079
Financial liabilities					
Liabilities to customers	-	-	173 219 131	173 219 131	173 219 131
Due to other banks	-	-	123 168 231	123 168 231	123 168 231
Other liabilities	-	-	8 522 088	8 522 088	8 522 088
	-	-	304 909 450	304 909 450	304 909 450

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	-	-	8 266 614	8 266 614	8 266 614
	-	-	253 162 817	253 162 817	253 162 817

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	-	-	8 450 744	8 450 744	8 450 744
	-	-	253 664 776	253 664 776	253 664 776

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

		2021 K'000			**2020 K'000**	
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Financial asset						
Investment at fair value through P&L	5 386 593	-	-	3 792 344	-	-

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	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Deposits with Central Bank	20 547 651	8 733 908	20 547 651	8 733 908
Balances with banks abroad	9 525 244	22 969 881	9 525 244	22 969 881
Cheques in course of clearing	30 071	435 386	30 071	435 386
Placements with other banks	8 206 965	-	8 206 965	-
Cash balances	7 990 538	6 700 556	7 990 538	6 700 556
Total cash and cash equivalents	46 300 469	38 839 731	46 300 469	38 839 731

Amounts deposited with Central Banks for liquidity reserve requirement are not available for the Group's operating activities and do not attract interest. Treasury bills with maturity of less than 90 days are part of deposits with Central Bank. Other cash and cash equivalents with other banks earn interest of 6.15% – 14.65% (2020: 6.15% – 13.94%).

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 K29.9 billion as at 31 December 2021 (2020: K37.2 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	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Gross amount				
Treasury notes	111 350 748	37 276 089	111 350 748	37 276 089
Treasury notes - ECL	(543 671)	(187 628)	(543 671)	(187 628)
Treasury bills	24 044 644	53 527 846	24 044 644	53 527 846
Treasury bills - ECL	(36 155)	(154 217)	(36 155)	(154 217)
Carrying value	134 815 566	90 462 090	134 815 566	90 462 090
Movement during the year was as follows:				
As at 1 January	90 803 935	104 674 301	90 803 935	104 674 301
Purchases/(maturities)	44 591 457	(13 870 366)	44 591 457	(13 70 366)
	135 395 392	90 803 935	135 395 392	90 803 935
As at 31 December				
Expected Credit losses				
Balance at 1 January	(341 845)	(692 905)	(341 845)	(692 905)
(Charge)/recovery for the year (note 36)	(237 981)	351 060	(237 981)	351 060
Balance at 31 December	(579 826)	(341 845)	(579 826)	(341 845)
Carrying amount	134 815 566	90 462 090	134 815 566	90 462 090

9. Loans and advances to customers

	Consolidated		Separate	
	2021	2020	2021	2020
	K'000	K'000	K'000	K'000
Loans and receivables (amortised cost) are receivable as follows:				
Maturing within 3 months	25 256 714	17 366 349	25 256 714	17 366 349
Maturing between 3 and 12 months	42 526 187	33 881 822	42 526 187	33 881 822
Maturing after 12 months	36 399 024	29 985 204	36 399 024	29 985 204
	104 181 925	81 233 375	104 181 925	81 233 375
Specific Impairment allowances (Stage 3)				
Balance at 1 January	(1 647 105)	(775 772)	(1 647 105)	(775 772)
Transfers (Note 10)	-	(191 261)	-	(191 261)
Charge for the year (note 35)	(1 101 346)	(948 232)	(1 101 346)	(948 232)
Provision offset against fees and commission income	66 721	30 507	66 721	30 507
Write offs	113 615	237 653	113 615	237 653
Balance at 31 December	(2 568 115)	(1 647 105)	(2 568 115)	(1 647 105)
Collective impairment allowance (Stages 1 & 2)				
Balance at 1 January	(508 711)	(504 789)	(508 711)	(504 789)
Transfers (Note 10)	-	(12 402)	-	(12 402)
(Charge)/recovery for the year (note 35)	(61 714)	8 480	(61 714)	8 480
Balance at 31 December	(570 425)	(508 711)	(570 425)	(508 711)
Net loans and advances to customers	101 043 385	79 077 559	101 043 385	79 077 559

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 note **and 35.**

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 **37**.

10. Finance lease receivables

	Consolidated		Separate	
	2021	2020	2021	2020
	K'000	K'000	K'000	K'000
Investment in leases (amortised cost) are receivable as follows:				
Less than 1 year	-	-	-	-
Maturing after more than 1 year	-	-	-	-
	-	-	-	-
Specific Impairment (Stage 3) allowances				
Balance at 1 January	-	(191 261)	-	(191 261)
Transfers (Note 9)	-	191 261	-	191 261
Charge for the year	-	-	-	-
Write offs	-	-	-	-
Balance at 31 December	-	-	-	-
Collective impairment (Stages 1 & 2) allowance				
Balance at 1 January	-	(12 402)	-	(12 402)
Transfers (Note 9)	-	12 402	-	12 402
Charge for the year	-	-	-	-
Balance at 31 December	-	-	-	-
Net finance lease receivables	-	-	-	-

All finance lease receivables are recorded under loans and advances.

11. Other assets

	Consolidated		Separate	
	2021	2020	2021	2020
	K'000	K'000	K'000	K'000
Prepayments	316 964	414 571	316 964	414 571
Stock of stationery	249 135	371 424	249 135	371 424
Stock of computer spares and other items	40 024	107 791	40 024	107 791
Other Receivables	871 349	300 232	843 899	272 819
Total other assets	1 477 472	1 194 018	1 450 022	1 166 605

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 K52m (2020: K31m) 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	
	2021	2020	2021	2020
	K'000	K'000	K'000	K'000
First Capital Bank Limited S.A. Mozambique	67 039	25 151	67 039	25 151
First Capital Bank Limited Botswana	17 520	-	17 520	-
First Capital Bank Limited Zimbabwe	257 818	184 737	257 818	184 737
First Capital Bank Limited Zambia	36 511	33 774	36 511	33 774
Total amounts due from related parties	378 888	243 662	378 888	243 662

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	
	2021	2020
	K'000	K'000
Change in fair value		
Balance at 1 January	3 792 344	4 644 031
Sale of shares in a listed company	(598 943)	-
Movement in fair value (note 24)	2 193 192	(851 687)
Balance at 31 December	5 386 593	3 792 344

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	
	2021	2020
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	4 304 286	38 338 700
Share Price (Kwacha)		
Illovo Sugar (Malawi) Plc	265.00	80.48
National Investment Trust Plc	90.00	94.95
Telekom Networks Malawi Plc	19.50	20.07
Market Value (K'000)		
Illovo Sugar (Malawi) Plc	3 422 618	1 039 443
National Investment Trust Plc	1 880 041	1 983 443
Telekom Networks Malawi Plc	83 934	769 458
	5 386 593	3 792 344

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

14. Investments in subsidiaries

	Shares ('000)	Share-holding	Separate 2021 K'000	Separate 2020 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

15. (a) Intangible assets

	Consolidated 2021 K'000	Consolidated 2020 K'000	Separate 2021 K'000	Separate 2020 K'000
Cost				
As at 1 January	7 281 008	7 107 186	7 276 008	7 102 186
Transfer	686 920	30 406	686 920	30 406
Additions	93 022	143 416	93 022	143 416
As at 31 December	8 060 950	7 281 008	8 055 950	7 276 008
Accumulated amortisation				
As at 1 January	4 215 313	3 362 635	4 210 313	3 357 635
Transfer	-	(37 477)	-	(37 477)
Charge for the year	979 106	890 155	979 106	890 155
As at 31 December	5 194 419	4 215 313	5 189 419	4 210 313
Carrying Amount	2 866 531	3 065 695	2 866 531	3 065 695

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 K687 million (2020: K30 million) 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 2021	9 710 517	5 351 471	1 505 135	1 398 862	422 675	7 440 659	1 759 591	27 588 910
Additions	-	-	25 603	-	-	632 190	358,713	1 016 506
Reclassification	-	-	(188 823)	-	(422 675)	(906)	-	(612 404)
Transfers	80 588	472 985	245 969	-	-	355 192	(1 841 654)	(686 920)
Balance at 31 December 2021	9 791 105	5 824 456	1 587 884	1 398 862	-	8 427 135	276 650	27 306 092
Accumulated depreciation								
Balance at 1 January 2021	47 973	228 515	1 222 498	251 394	387 186	5 407 739	-	7 545 305
Charge for the year	203 031	91 171	157 055	83 923	15 958	666 981	-	1 218 119
Released on disposal	-	(26)	(183 096)	-	(403 144)	(26 138)	-	(612 404)
Balance at 31 December 2021	251 004	319 660	1 196 457	335 317	-	6 048 582	-	8 151 020
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	-	-	-	-	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 2020	9 662 544	5 122 956	282 637	1 147 468	35 489	2 032 920	1 759 591	20 043 605
At 31 December 2021	9 540 101	5 504 796	391 427	1 063 545	-	2 378 553	276 650	19 155 072

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.

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 2021	9 710 517	5 231 381	1 485 690	1 398 862	422 675	7 292 673	1 759 591	27 301 389
Additions	-	-	25 603	-	-	632 190	358 713	1 016 506
Disposals	-	-	(188 823)	-	(422 675)	(906)	-	(612 404)
Transfers	80 588	472 985	245 969	-	-	355 192	(1 841 654)	(686 920)
Balance at 31 December 2021	9 791 105	5 704 366	1 568 439	1 398 862	-	8 279 149	276 650	27 018 571
Accumulated depreciation								
Balance at 1 January 2021	47 973	108 425	1 203 053	251 394	387 186	5 259 753	-	7 257 784
Charge for the year	203 031	91 171	157 055	83 923	15 958	666 981	-	1 218 119
Released on disposal	-	(26)	(183 096)	-	(403 144)	(26 138)	-	(612 404)
Balance at 31 December 2021	251 004	199 570	1 177 012	335 317	-	5 900 596	-	7 863 499
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)
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
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 2020	9 662 544	5 122 956	282 637	1 147 468	35 489	2 032 920	1 759 591	20 043 605
At 31 December 2021	9 540 101	5 504 796	391 427	1 063 545	-	2 378 553	276 650	19 155 072

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

2021	Opening balance K'000	Recognised in profit or loss K'000	Recognised in other comprehensive income K'000	Closing balance K'000
Property and equipment	130 671	(100 652)		30 019
Accrued income	1 609 043	280 817	-	1 889 860
Revaluation of property	564 233	-	-	564 233
Gratuity and severance pay liabilities	(168 608)	(107 248)	-	(275 856)
ECL provisions	(266 784)	(89 909)	-	(356 693)
Other temporary differences	(206 881)	(112 841)	-	(319 722)
	1 661 674	(129 833)	-	1 531 841
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

2021				
Property and equipment	134 694	(100 652)		34 042
Accrued income	1 609 043	280 817	-	1 889 860
Revaluation of property	564 233	-	-	564 233
Gratuity and severance pay liabilities	(168 608)	(107 248)	-	(275 856)
ECL provisions	(266 784)	(89 909)	-	(356 693)
Other temporary differences	(207 481)	(112 841)	-	(320 322)
	1 665 097	(129 833)	-	1 535 264
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	
	2021	2020	2021	2020
	K'000	K'000	K'000	K'000
Local banks	41 846 511	39 448 900	41 846 511	39 448 900
European Investment Bank	501 668	1 244 678	501 668	1 244 678
Other foreign banks	75 792 898	39 671 173	75 792 898	39 671 173
FMO Line of credit	5 027 154	7 129 419	5 027 154	7 129 419
Total balance due to other banks	123 168 231	87 494 170	123 168 231	87 494 170
Payable as follows:				
Due within 1 year	120 026 257	82 331 283	120 026 257	82 331 283
Due between 2 and 5 years	3 141 974	5 162 887	3 141 974	5 162 887
	123 168 231	87 494 170	123 168 231	87 494 170

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") and Standard Bank South Africa (''SBSA'') in which the Bank received Dollars. The Currency Swap liability outstanding as at end of the reporting period was K41.8 billion (2020: K39.4 billion). The corresponding asset under the arrangement has been disclosed under **note 34.**

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	
	2021	2020	2021	2020
	K'000	K'000	K'000	K'000
Current and savings accounts	109 122 040	92 479 745	109 439 869	92 797 574
Foreign currency accounts	47 851 152	52 136 648	47 851 152	52 136 648
Term deposit accounts	15 928 110	12 785 640	15 928 110	12 785 640
Total customer deposits	172 901 302	157 402 033	173 219 131	157 719 862
Payable as follows:				
Maturing within 3 months	172 827 441	157 396 380	173 145 270	157 714 209
Maturing after 3 months	73 861	5 653	73 861	5 653
	172 901 302	157 402 033	173 219 131	157 719 862

19 (a). Other payables

	Consolidated		Separate	
	2021	2020	2021	2020
	K'000	K'000	K'000	K'000
Accrued expenses	1 765 327	2 538 894	1 765 327	2 538 894
Bankers cheques issued and uncleared	2 398 885	485 447	2 398 885	485 447
Bills payable	371 347	1 337 809	369 613	1 336 075
Interest payable	595 746	466 606	595 746	466 606
Margins on letters of credit and other instruments	582 448	849 384	582 448	849 384
Trade payables	3 017 319	2 532 286	3 203 146	2 718 149
Total payables	8 731 072	8 210 426	8 915 165	8 394 555

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	
	2021	2020	2021	2020
	K'000	K'000	K'000	K'000
Opening balance at 1 January	599 512	430 610	599 512	430 610
Net Provisions/payments made during the year	243 107	168 902	243 107	168 902
Balance at 31 December	842 619	599 512	842 619	599 512

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	
		2021	2020
		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	
		2021	2020
		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	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Opening balance	7 716 952	6 114 772	7 716 952	6 114 772
Property revaluation	-	2 030 577	-	2 030 577
Deferred tax	-	(428 397)	-	(428 397)
Closing balance	7 716 952	7 716 952	7 716 952	7 716 952

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	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Loan loss reserve	515 203	1 119 224	515 203	1 119 224

Loans loss reserve
In order to comply with asset classification directives by central bank, 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	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Loans and advances	14 371 272	12 207 426	14 371 272	12 207 426
Finance leases	-	70 922	-	70 922
Treasury bills	6 834 886	6 639 906	6 834 886	6 639 906
Promissory and treasury notes	9 774 548	7 052 634	9 774 548	7 052 634
Placements with other banks	356 170	316 970	356 170	316 970
Total interest income	31 336 876	26 287 858	31 336 876	26 287 858

23. (b) Interest expense

	Consolidated		Separate	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Interest paid-customer deposits	2 717 401	2 126 808	2 717 401	2 126 808
Interest paid-Money market	3 510 774	3 489 083	3 510 774	3 489 083
Total interest expense	6 228 175	5 615 891	6 228 175	5 615 891

24. Income/(loss) from investments

	Consolidated		Separate	
	2021	2020	2021	2020
	K'000	K'000	K'000	K'000
Dividend income	229 244	30 504	229 244	30 504
Movement in fair value of investments	2 193 192	(851 687)	2 193 192	(851 687)
Total	2 422 436	(821 183)	2 422 436	(821 183)

25. Staff and training costs

Contributions to defined contribution	515 523	444 521	515 523	444 521
Salaries and wages	5 641 825	4 299 846	5 641 825	4 299 846
Training and other staff costs	2 514 444	2 413 387	2 514 444	2 413 387
Total staff and training costs	8 671 792	7 157 754	8 671 792	7 157 754

26. Other expenses

Administration expenses	3 656 904	4 031 651	3 656 904	4 031 651
Auditor's remuneration	198 000	171 780	198 000	171 780
Bank charges	548 135	468 672	548 135	468 672
Non-executive Directors' remuneration	283 894	186 199	283 894	186 199
Insurance	78 657	70 135	78 657	70 135
Legal and consultancy fees	403 946	1 238 867	403 946	1 238 867
Marketing costs	501 643	245 446	501 643	245 446
Motor vehicle running costs	272 718	208 344	272 718	208 344
Repairs and maintenance	183 690	221 475	183 690	221 475
Operational losses	258 223	73 289	258 223	73 289
Postage	62 855	59 790	62 855	59 790
Printing and stationery	275 886	272 052	275 886	272 052
Professional subscriptions	117 446	90 089	117 446	90 089
Telephone expenses	43 734	41 605	43 734	41 605
Travel expenses	82 862	63 210	82 862	63 210
Interest expense on Right of use assets (note 39(a))	76 302	96 058	76 302	96 058
Depreciation for right-of -use-assets (note 39(a))	238 601	263 847	238 601	263 847
Utilities	345 362	373 173	345 362	373 173
Total other expenses	7 628 858	8 175 682	7 628 858	8 175 682

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	
	2021	**2020**	**2021**	**2020**
	K'000	**K'000**	**K'000**	**K'000**
(a) Current tax expense				
Current year at 30% (2020: 30%) based on profits	5 749 159	4 283 720	5 749 159	4 283 720
Origination and reversal of temporary differences (Note 16)	(129 833)	(21 264)	(129 833)	(21 264)
	5 619 326	4 262 456	5 619 326	4 262 456
(b) Reconciliation of effective tax rate				
Operating Profit	20 385 431	12 287 685	20 385 431	12 287 685
Tax using the domestic tax rate 30% (2020:30%)	6 115 629	3 686 306	6 115 629	3 686 306
Non-deductible expenses	359 469	710 545	359 469	710 545
Tax exempt income	(855 772)	(134 395)	(855 772)	(134 395)
	5 619 326	4 262 456	5 619 326	4 262 456
(c) Income tax (recoverable)/payable				
As at 1 January	1 835 694	(294 580)	1 868 972	(261 302)
Charge for the year	5 749 159	4 283 720	5 749 159	4 283 720
Paid during the year	(5 806 127)	(2 153 446)	(5 806 127)	(2 153 446)
As at 31 December	1 778 726	1 835 694	1 812 004	1 868 972
Presented in the statement of financial position as				
Current tax assets	43 649	43 649	-	-
Current tax liabilities	(1 822 375)	(1 879 343)	(1 812 004)	(1 868 972)
	(1 778 726)	(1 835 694)	(1 812 004)	(1 868 972)

28. Basic and diluted earnings per share

The calculation of basic and diluted earnings per share at 31 December 2021 was based on profit attributable to ordinary shareholders of K14 766 105 000 (2020: K8 025 229 000) and a weighted average number of ordinary shares outstanding of 2 336 250 000 (2020: 2 336 250 000) calculated as follows:

	Consolidated	
	2021	**2020**
Profit attributable to ordinary shareholders (K'000)	14 766 105	8 025 229
Weighted average number of ordinary shares in issue (thousands)	2 336 250	2 336 250
Basic and diluted earnings per share (tambala)	632	344

29. Group subsidiaries

List of subsidiaries

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

Company name	Principal place of business	Ownership interest	
		2021	2020
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%

30. Dividends

In 2021, the Bank paid cash dividend amounting to K4.6 billion to its shareholders (2020: K5.5 billion). K2.1 billion was paid in April 2021 as 2020 final dividend, and the 2021 interim dividend of K2.5 billion was paid in October 2021.

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	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Corporate bodies directly or indirectly related to Directors:				
Balance at the beginning of the year	1 745 586	731 341	1 745 586	731 341
Loans granted during the year	156 443	1 019 706	156 443	1 019 706
Repayments	-	(5 461)	-	(5 461)
Balance at the end of the year	1 902 029	1 745 586	1 902 029	1 745 586
Senior management:				
Balance at the beginning of the year	306 297	288 051	306 297	288 051
Loans granted during the year	83 965	69 035	83 965	69 035
Repayments	(74 258)	(50 789)	(74 258)	(50 789)
Balance at the end of the year	316 004	306 297	316 004	306 297

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 K33.3 million (2020: K34.0 million) of interest free advances and K1.3 billion (2020: K1.0 billion) of advances which carry interest at 7% per annum (2020: 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	2021 (K'000)	2020 (K'000)
First Capital Bank Plc (Malawi)	FMBcapital Holdings Plc (Mauritius)	Shareholder	Deposit account	20 725	48
First Capital Bank Plc (Malawi)	First Capital Shared Services Limited (Mauritius)	Subsidiary of FMBCH	Intercompany	106 342	(7 861)
First Capital Bank Plc (Malawi)	First Capital Bank Ltd (Zimbabwe)	Subsidiary of FMBCH	Deposit account	260 752	-
First Capital Bank Plc (Malawi)	First Capital Bank Ltd (Botswana)	Subsidiary of FMBCH	Deposit account	2 917	-
First Capital Bank Plc (Malawi)	First Capital Bank Ltd (Zimbabwe)	Subsidiary of FMBCH	Intercompany	257 818	184 737
First Capital Bank Plc (Malawi)	First Capital Bank Ltd (Zambia)	Subsidiary of FMBCH	Intercompany	36 511	33 774
First Capital Bank Plc (Malawi)	First Capital Bank Ltd (Botswana)	Subsidiary of FMBCH	Intercompany	17 520	(2 258)
First Capital Bank Plc (Malawi)	First Capital Bank S.A (Mozambique)	Subsidiary of FMBCH	Intercompany	67 039	25 150
First Capital Bank Plc (Malawi)	FMBcapital Holdings Plc (Mauritius)	Ultimate shareholder	Intercompany	147 591	(407 567)
First Capital Bank Plc (Malawi)	First Capital Bank Ltd (Botswana)	Subsidiary of FMBCH	Currency Swaps	(8 204 072)	(17 764 135)

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:

	2021 K'000	2020 K'000
Deposits	-	317 829
Net interest income	-	-

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

	Consolidated		Separate	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Executive Directors				
Salaries	-	-	-	-
Bonuses	-	-	-	-
Non-Executive directors				
Fees and expenses	283 894	186 199	283 894	186 199
	283 894	186 199	283 894	186 199

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.

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	2021 K'000	2020 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 2021, 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	
	2021	2020
H.N Anadkat	1 117 695 155	1 071 163 931
J.M O'Neill	-	1 309 391
M. Msisha	-	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	
	2021	2020	2021	2020
	K'000	K'000	K'000	K'000
Contingent liabilities				
Acceptances and letters of credit	1 057 706	16 010 546	1 057 706	16 010 546
Financial guarantees	29 656 298	28 521 807	29 656 298	28 521 807
	30 714 004	44 532 353	30 714 004	44 532 353

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

During the period the Bank lodged an appeal with the Commissioner General of the Malawi Revenue Authority (MRA) for a claim of K1.3bn (principal plus penalties) relating to Value Added Tax (VAT) on local transactions. The Bank contends that MRA's claim is not in line with the provisions of the then VAT Act when those transactions occurred and, in some cases, appropriate taxes were settled.

Capital commitments

	Consolidated		Separate	
	2021	2020	2021	2020
	K'000	K'000	K'000	K'000
Capital expenditure				
Authorised but not contracted for	3 096 817	1 136 252	3 096 817	1 136 252

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% (2020: 3.75%) of the preceding weeks total deposit liabilities. In the last two weeks of December 2021 the liquidity reserve was 9.69% (2020: 7.04%) 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 2021, the Group's Tier 1 capital ratio of its risk bearing assets and Total capital ratio were as follows:

	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Tier 1 risk based capital ratio (minimum 10%)	17.5%	16.0%	17.5%	15.4%
Total risk-weighted capital ratio (minimum 15%)	21.2%	20.9%	21.1%	20.1%

34. Repurchase agreements

	Consolidated and Separate	
	2021 K'000	2020 K'000
Repurchase agreements	45 129 178	57 915 414
Movement during the year was as follows:		
As at 1 January	57 915 414	71 553 169
Additions	45 206 623	57 954 138
Maturities	(57 954 135)	(71 553 169)
Expected credit losses	(38 724)	(38 724)
As at 31 December	45 129 178	57 915 414

Funds under currency swap	Trade date	Maturity date	K'000	Spot/ Forward Rate
31-Dec-21				
US$ 5.0 million	1-Oct-21	30-Sep-22	4 084 563	815.50/826.47
US$ 7.5 million	29-Jan-21	28-Jan-22	6 126 845	771.20/777.85
US$ 7.5 million	24-Dec-21	25-Mar-22	6 126 845	816.40/817.25
US$ 5.0 million	30-Dec-21	1-Feb-22	4 084 563	816.40/816.71
EUR 4.0 million	24-Dec-21	25-Mar-22	4 674 663	1.13/1.14
EUR 4.5 million	31-Dec-21	7-Jan-22	5 258 996	1.13/1.13
EUR 0.5 million	30-Dec-21	28-Jan-22	525 900	1.13/1.13
EUR 1.0 million	30-Dec-21	28-Jan-22	1 168 666	1.13/1.13
GBP 1.0 million	24-Dec-21	25-Mar-22	1 239 216	1.34/1.34
GBP 3.0 million	30-Dec-21	6-Jan-22	3 717 647	1.35/1.35
MWK 8.2 million	3-Dec-21	28-Nov-22	8 160 000	816.00/773.46
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

34. Repurchase agreements (Continued)

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.**

35. Impairment loss on financial assets

	Consolidated		Separate	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Impairment allowance on loans				
Impairment charge	2 612 399	2 141 444	2 612 399	2 141 444
Recoveries	(1 449 338)	(1 201 692)	(1 449 338)	(1 201 692)
	1 163 061	939 752	1 163 061	939 752
Impairment allowance on other financial assets				
Impairment charge	237 982	-	237 982	-
Recoveries- Money markets	-	(351 060)	-	(351 060)
Recoveries-Repurchase agreements	-	(296 832)	-	(296 832)
	237 982	(647 892)	237 982	(647 892)
Total impairment loss on financial assets	1 401 043	291 860	1 401 043	291 860
Comprising				
Impairment allowance on loans				
Specific impairment charges	1 101 347	948 232	1 101 347	948 232
Collective impairment charges	61 714	(8 480)	61 714	(8 480)
	1 163 061	939 752	1 163 061	939 752
Impairment allowance on other financial assets				
Collective impairment charges/(recoveries)	237 982	(647 892)	237 982	(647 892)
	237 982	(647 892)	237 982	(647 892)
Total impairment loss on financial assets	1 401 043	291 860	1 401 043	291 860

36. 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	**2021** Kwacha	**2020** Kwacha
Malawi Kwacha/GBP	1 239.22	1 085.14
Malawi Kwacha/Rand	61.15	56.12
Malawi Kwacha/US Dollar	816.91	772.35
Malawi Kwacha/Euro	1 168.67	987.21
Malawi Kwacha/Pula	69.03	71.29
Malawi Kwacha/Meticais	12.93	12.20
Malawi Kwacha/Zambia Kwacha	48.65	36.18
Inflation rate %	11.50	7.60

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

Malawi Kwacha/GBP	1 301.34
Malawi Kwacha/Rand	67.07
Malawi Kwacha/US Dollar	816.91
Malawi Kwacha/Euro	1 260.24
Malawi Kwacha/Pula	70.09
Malawi Kwacha/Meticais	13.12
Malawi Kwacha/Zambia Kwacha	46.10
Inflation rate % (February 2022)	13.0

37. 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:

	2021	**2020**
Assets		
Government securities	6.15-14.65%	6.15-13.94%
Deposits with banking institutions	11.14-12.2%	11.14-13.8%
Loans and advances to customers (base rate)	11.9-13.4%	12.3-13.6%
Liabilities		
Customer deposits	0-10%	0-10%

38. Assets held for sale

	Consolidated and Separate	
	2021	**2020**
	K'000	**K'000**
Assets held for sale	216 095	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.

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

2021	**Consolidated and separate**
	K'000
Cost	
At 1 January 2021	1 053 952
Additions	131 500
	1 185 452
Accumulated depreciation	
At 1 January 2021	515 869
Charge for the year	238 601
At 31 December 2021	754 470
Carrying amount	
At 31 December 2021	430 982
Average lease term (years)	6.82
Amounts recognised in profit and loss	
Depreciation expense on right-of-use assets (Note 26)	238 601
Interest expense on lease liabilities (Note 26)	76 302

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)	263 847
Interest expense on lease liabilities (Note 26)	96 058

39(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 39(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.

39(b). Lease liabilities

2021	**Consolidated and separate**
	K'000
Opening liability at 1 January 2021	626 819
Additions	131 500
Lease payments during the year	(308 177)
Interest on lease liabilities	76 302
Carrying amount of lease liabilities	526 444
Analysed as:	
Non-current	322 595
Current	203 849
	526 444
Maturity analysis	
Year 1	248 999
Year 2	191 588
Year 3	53 113
Year 4	35 460
Year 5	24 120
After 5 years	90 258
	643 538
Less unearned interest	(117 094**)**
	526 444

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
Analyzed as:	
Non-current	426 243
Current	200 576
	626 819
Maturity analysis	
Year 1	303 358
Year 2	248 999
Year 3	191 588
Year 4	53 113
Year 5	35 460
After 5 years	114 379
	946 897
Less unearned interest	(320 078)
	626 819

39 (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).

40. 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 K6.3 million (2020: K10.4 million). All other revenues are attributable to the country in which the respective operating segment is domiciled.

During the year, the Bank earned K6.8 billion (2020: K6.6 billion) interest on Government of Malawi treasury bills; K9.8 billion (2020: K7.1 billion) interest on Government of Malawi Treasury Notes and K473.6 million (2020: K330.1 million**)** interest on loans and advances to enterprises controlled by Government of Malawi.

40. Segmental Reporting (Continued)

	Malawi					
	Corporate & Retail Banking	**Others**	**Subtotal**	**Total before adjustments**	**Consolidation adjustments**	**TOTAL**
	K'000	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**
2021						
Interest income	31 336 876	-	31 336 876	31 336 876	-	31 336 876
Interest expense	(6 228 175)	-	(6 228 175)	(6 228 175)	-	(6 228 175)
Net interest income	25 108 701	-	25 108 701	25 108 701	-	25 108 701
Fees and commissions	9 850 531	-	9 850 531	9 850 531	-	9 850 531
Income from investments	2 422 436	-	2 422 436	2 422 436	-	2 422 436
Gain on foreign exchange transactions	6 143 440	-	6 143 440	6 143 440	-	6 143 440
Non-interest income	18 416 407	-	18 416 407	18 416 407	-	18 416 407
Total operating income	43 525 108	-	43 525 108	43 525 108	-	43 525 108
Staff and training costs	(8 671 792)	-	(8 671 792)	(8 671 792)	-	(8 671 792)
Premises and equipment	(3 240 759)	-	(3 240 759)	(3 240 759)	-	(3 240 759)
Depreciation	(2 197 225)	-	(2 197 225)	(2 197 225)	-	(2 197 225)
Other expenses	(7 628 858)	-	(7 628 858)	(7 628 858)	-	(7 628 858)
Impairment of financial assets	(1 401 043)	-	(1 401 043)	(1 401 043)	-	(1 401 043)
Total expenditure	(23 139 677)	-	(23 139 677)	(23 139 677)	-	(23 139 677)
Profit before income tax expense	20 385 431	-	20 385 431	20 385 431	-	20 385 431
Income tax expense	(5 619 326)	-	(5 619 326)	(5 619 326)	-	(5 619 326)
Profit for the year	14 766 105	-	14 766 105	14 766 105	-	14 766 105
Total segment assets	357 381 572	1 047 016	358 428 588	358 428 588	(1 184 708)	357 243 880
Total segment liabilities	310 018 855	41 727	310 060 582	310 060 582	(536 736)	309 523 846

40. 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	26 287 858	-	26 287 858	26 287 858	-	26 287 858
Interest expense	(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
Non-interest income	12 750 852	-	12 750 852	12 750 852	-	12 750 852
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

41. Subsequent events

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

42. Impact of Covid-19

The COVID-19 pandemic continued to manifest through different variants in 2021, with a significant number of cases including deaths in the first quarter of 2021. Measures introduced by the Government to contain the pandemic proved to be successful. The Government of Malawi has benefited from the COVAX facility to access free COVID-19 vaccines from various donor countries.

First Capital Bank's own measures to contain and assess the adverse risk impact on the total advances exposure sector wise have proved to be quite effective as evidenced by low loan defaults and good performance of the loan book. The Bank has also continued to maintain 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 workplaces, continued testing of members of staff and procurement and supply of personal and protective equipment (PPEs) to members of staff.

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.

43. Impact of environmental changes

Malawi, being an agrarian economy relies on stable weather patterns to produce majority of its exports and food for consumption. The 2021/2022 agriculture season has been impacted by extreme weather experiences resulting from tropical cyclones and in some cases no rains at all. We continue to assess the impact of intermittent weather patterns on our financial performance and the business.