

First Capital Bank Plc

Consolidated and separate financial statements
for the year ended 31 December 2022

FIRST CAPITAL BANK PLC
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
For the year ended 31 December 2022

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FIRST CAPITAL BANK PLC
REPORT OF THE DIRECTORS
For the year ended 31 December 2022

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 2022.

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 K8.48bn (2021: K4.60bn) to its shareholder, FMBcapital Holdings Plc as follows:

- K4.80bn final dividend for 2021 paid in April 2022.
- K2.50bn first interim dividend for 2022 paid in August 2022.
- K1.18bn second interim dividend for 2022 paid in November 2022.

FIRST CAPITAL BANK PLC
REPORT OF THE DIRECTORS (Continued)
 For the year ended 31 December 2022

DIRECTORATE AND SECRETARY

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

Mr. T. Davidson	Chairman	Non-executive
Mr. H. N Anadkat	Director	Non-executive
Mr. B. Jani	Director	Non-executive
Mrs. C. Musopole	Director	Non-executive
Mr. L. Katandula	Director	Non-executive (up to 30 November 2022)
Mr. W. Swart	Director	Non-executive
Dr. R. Mangani	Director	Non-executive
Mr. T. Kadantot	Director	Non-executive
Mr. E. Jangale	Director	Non-executive (up to 7 May 2022)
Ms. L. Mataya	Director	Non-executive
Mr. P. Mzembe	Company Secretary	(From 11 October 2022)

Total remuneration paid to Non-Executive Directors and expenses incurred on their behalf are disclosed in note 30.

DONATIONS

Total donations by the companies in the Group during the year amounted to K164.7 million (2021: K144.7 million). The donations were made to charitable causes, which directors regard as non-political.


AUDITORS


In accordance with the provision of the Reserve Bank of Malawi Directive on Auditor Rotation, Deloitte will retire at the next Annual General Meeting. A resolution for appointing external auditors for the forthcoming year and authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting.

SHAREHOLDING ANALYSIS

<u>Name</u>	<u>2022</u> %	<u>2021</u> %
FMBcapital Holdings Plc	<u>100.00</u>	<u>100.00</u>

Mr. Hitesh Anadkat and the Group Managing Director for FMBcapital Holdings Plc hold one share each in trust for FMBcapital Holdings Plc.


 Director
 Mr. H. Anadkat


 Director
 Mrs. C. Musopole

FIRST CAPITAL BANK PLC
STATEMENT ON CORPORATE GOVERNANCE
 For the year ended 31 December 2022

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 2022

<u>Member</u>	<u>15 Mar 22</u>	<u>15 Jun 22</u>	<u>13 Sep 22</u>	<u>29 Nov 22</u>
Mr. T. Davidson - Chairman	√	√	√	√
Mr. H. N. Anadkat	√	√	√	√
Mr. B. Jani	√	√	√	√
Mr. T. Kadantot	√	√	√	√
Mr. L. Katandula	X	√	X	√
Mr. W. Swart	√	√	√	√
Mrs. C. Musopole	√	√	√	√
Ms. L. Mataya	√	√	√	√
Mr. E. Jangale	√	N/A	N/A	N/A
Dr. R. Mangani	√	√	√	√

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.

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 Finance Officer (Chairman)
Chief Executive Officer
Deputy Chief Executive Officer
Head of Corporate and Institutional Banking
Head of Personal and Business Banking
Head of Risk
Head of Credit
Head of Treasury
Head of Compliance
Accountant – ALCO and Reporting

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)
Deputy Chief Executive Officer
Chief Finance Officer
Head of Operations and Projects
Head of Personal and Business Banking
Head of Risk
Head of Information Technology
Head of Corporate and Institutional Banking
Head of Internal Audit
Head of Human Resources
Head of Products
Head of Compliance
Head of Legal
Head of Treasury

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)
- Deputy Chief Executive Officer
- Head of Credit
- Head of Corporate and Institutional Banking
- Head of Personal and Business Banking
- Head of Treasury
- Head of Risk

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. E. Jangale | Non-executive Director (up to 7 May 2022) |

Audit Committee Meetings Attendance 2022

<u>Member</u>	<u>14 Mar 22</u>	<u>14 Jun 22</u>	<u>12 Sep 22</u>	<u>28 Nov 22</u>
Mr. W. Swart - Chairman	√	√	√	√
Mrs. C. Musopole	√	√	√	√
Mr. E. Jangale	√	N/A	N/A	N/A

Key

- √ = Attended
- X = Apology
- N/A = Not Applicable

BOARD AND MANAGEMENT COMMITTEES (Continued)

Credit Committee

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

The Chief Executive Officer, Head of Credit, Group 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) (Up to 30 November 2022)
Mr. T. Kadantot	Non – Executive Director
Mr. H. N. Anadkat	Non – Executive Director

Credit Committee Attendance 2022

<u>Member</u>	<u>14 Mar 22</u>	<u>14 Jun 22</u>	<u>12 Sep 22</u>	<u>28 Nov 22</u>
Mr. L Katandula - Chairman	√	√	√	√
Mr. T Kadantot	√	√	√	√
Mr. H N Anadkat	√	√	√	√

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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. T. Davidson	- Director

Appointments and Remuneration Committee Meetings Attendance 2022

<u>Member</u>	<u>14 Mar 22</u>	<u>14 Jun 22</u>	<u>12 Sep 22</u>	<u>28 Nov 22</u>
Mr. H. N. Anadkat - Chairman	√	√	√	√
Mr. L. Katandula	√	√	X	X
Mr. T. Davidson	√	√	√	√

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FIRST CAPITAL BANK PLC
STATEMENT ON CORPORATE GOVERNANCE (Continued)
 For the year ended 31 December 2022

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 Operations, Head of Corporate and Institutional Banking, 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. L. Mataya	Non-executive Director
Dr. R. Mangani	Non-executive Director

Risk Committee Meetings Attendance 2022

<u>Member</u>	<u>14 Mar 22</u>	<u>14 Jun 22</u>	<u>12 Sep 22</u>	<u>28 Nov 22</u>
Mr. B. Jani - Chairman	√	√	√	√
DR. R. Mangani	√	√	√	√
Ms. L. Mataya	√	√	√	√

Key

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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.

FIRST CAPITAL BANK PLC
STATEMENT OF DIRECTORS' RESPONSIBILITIES
For the year ended 31 December 2022

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 2022 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 ~~24~~ **March 2023** and are signed on its behalf by:


.....
Director
Mr. H. Anadkat


.....
Director
Mrs. C. Musopole

By order of the Board

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 95, which comprise the consolidated and separate statements of financial position as at 31 December 2022, and consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and 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 First Capital Bank as at 31 December 2022, and of its 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 Group 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 Group and Company financial statements.



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.
- Staging of facilities. The Bank 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 2022, the gross loans and advances were K130.3 billion against which expected credit losses of K2.9 billion were recorded, comprising K638.6 million of provision against stages 1 and 2 exposures and K2.3 billion against exposures classified under stage 3. This is disclosed in note 9 (loans and advances to customers) 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 2022.

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 and 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;

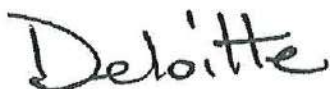
Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements
(Continued)

- 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.

The logo for Deloitte, written in a stylized, cursive script.

Chartered Accountants

Vilengo Beza
Partner

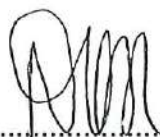
30 March 2023

FIRST CAPITAL BANK PLC
STATEMENTS OF FINANCIAL POSITION
As at 31 December 2022

	Notes	Consolidated		Separate	
		2022 K'000	2021 K'000	2022 K'000	2021 K'000
ASSETS					
Cash and cash equivalents	7	56 233 428	46 300 469	56 233 428	46 300 469
Money market investments	8	91 765 920	134 815 566	91 765 920	134 815 566
Loans and advances to customers	9	127 331 876	101 043 385	127 331 876	101 043 385
Amounts due from related parties	11	264 327	378 888	264 327	378 888
Repurchase agreements	33	5 128 313	45 129 178	5 128 313	45 129 178
Current tax assets	26(c)	43 649	43 649	-	-
Investments at fair value through profit or loss	12	4 731 173	5 386 593	4 731 173	5 386 593
Investment in subsidiaries	13	-	-	208 791	208 791
Right-of-use assets	38(a)	356 744	430 982	356 744	430 982
Deferred tax assets	15	808 944	-	805 521	-
Intangible assets	14(a)	2 047 649	2 866 531	2 047 649	2 866 531
Property and equipment	14(b)	23 618 900	19 155 072	23 618 900	19 155 072
Assets held for sale	37	-	216 095	-	216 095
Other assets	10	2 631 946	1 477 472	2 604 496	1 450 022
Total assets		<u>314 962 869</u>	<u>357 243 880</u>	<u>315 097 138</u>	<u>357 381 572</u>
LIABILITIES AND EQUITY					
Liabilities					
Balances due to other banks	16	8 289 375	123 168 231	8 289 375	123 168 231
Customer deposits	17	229 814 668	172 901 302	230 132 497	173 219 131
Current tax liabilities	26(c)	2 647 364	1 822 375	2 636 993	1 812 004
Other payables	18(a)	11 598 450	8 846 191	11 782 543	9 030 284
Lease liabilities	38(b)	453 605	526 444	453 605	526 444
Provisions	18(b)	796 000	727 500	796 000	727 500
Deferred tax liabilities	15	-	1 531 841	-	1 535 264
Total liabilities		<u>253 599 462</u>	<u>309 523 884</u>	<u>254 091 013</u>	<u>310 018 858</u>
Equity					
Share capital	19(a)	116 813	116 813	116 813	116 813
Share premium	19(b)	1 565 347	1 565 347	1 565 347	1 565 347
Property revaluation reserve	20	11 569 879	7 716 952	11 569 879	7 716 952
Loan loss reserve	21	959 916	515 203	959 916	515 203
Retained earnings		<u>47 151 452</u>	<u>37 805 681</u>	<u>46 794 170</u>	<u>37 448 399</u>
Total equity		<u>61 363 407</u>	<u>47 719 996</u>	<u>61 006 125</u>	<u>47 362 714</u>
Total equity and liabilities		<u>314 962 869</u>	<u>357 243 880</u>	<u>315 097 138</u>	<u>357 381 572</u>

The consolidated and separate financial statements were approved for issue by the Company's Board of Directors on ²⁴.....March 2023 and were signed on its behalf by:


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


.....Director
Mrs. C. Musopole

FIRST CAPITAL BANK PLC

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Notes	Consolidated		Separate	
		2022 K'000	2021 K'000	2022 K'000	2021 K'000
Interest income	22(a)	39 351 610	31 336 876	39 351 610	31 336 876
Interest expense	22(b)	<u>(8 054 676)</u>	<u>(6 228 175)</u>	<u>(8 054 676)</u>	<u>(6 228 175)</u>
Net interest income		<u>31 296 934</u>	<u>25 108 701</u>	<u>31 296 934</u>	<u>25 108 701</u>
Fees and commission income		9 176 343	9 850 531	9 176 343	9 850 531
Income from investments	23	3 833 854	2 422 436	3 833 854	2 422 436
Gain on foreign exchange transactions		<u>7 018 850</u>	<u>6 143 440</u>	<u>7 018 850</u>	<u>6 143 440</u>
Total non-interest income		<u>20 029 047</u>	<u>18 416 407</u>	<u>20 029 047</u>	<u>18 416 407</u>
Total operating income		<u>51 325 981</u>	<u>43 525 108</u>	<u>51 325 981</u>	<u>43 525 108</u>
Staff and training costs	24	10 706 772	8 671 792	10 706 772	8 671 792
Premises and equipment costs		3 908 132	3 240 759	3 908 132	3 240 759
Depreciation and amortization	14	2 237 377	2 197 225	2 237 377	2 197 225
Other expenses	25	9 427 189	7 628 858	9 427 189	7 628 858
Impairment loss on financial assets	34	<u>262 417</u>	<u>1 401 043</u>	<u>262 417</u>	<u>1 401 043</u>
Total expenses		<u>26 541 887</u>	<u>23 139 677</u>	<u>26 541 887</u>	<u>23 139 677</u>
Profit before income tax expense		24 784 094	20 385 431	24 784 094	20 385 431
Income tax expense	26(a)	<u>(6 513 610)</u>	<u>(5 619 326)</u>	<u>(6 513 610)</u>	<u>(5 619 326)</u>
Profit for the year		<u>18 270 484</u>	<u>14 766 105</u>	<u>18 270 484</u>	<u>14 766 105</u>
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Revaluation surplus on property		3 201 124	-	3 201 124	-
Deferred tax on revalued property		<u>651 803</u>	<u>-</u>	<u>651 803</u>	<u>-</u>
Total other comprehensive income for the year		<u>3 852 927</u>	<u>-</u>	<u>3 852 927</u>	<u>-</u>
Total comprehensive income for the year		<u>22 123 411</u>	<u>14 766 105</u>	<u>22 123 411</u>	<u>14 766 105</u>
Profit or loss attributable to:					
Owners of the company		<u>18 270 484</u>	<u>14 766 105</u>	<u>18 270 484</u>	<u>14 766 105</u>
Profit for the year		<u>18 270 484</u>	<u>14 766 105</u>	<u>18 270 484</u>	<u>14 766 105</u>
Total comprehensive income attributable to:					
Owners of the company		<u>22 123 411</u>	<u>14 766 105</u>	<u>22 123 411</u>	<u>14 766 105</u>
Total comprehensive income for the year		<u>22 123 411</u>	<u>14 766 105</u>	<u>22 123 411</u>	<u>14 766 105</u>
Basic and diluted earnings per share (tambala)	27	<u>782</u>	<u>632</u>	<u>-</u>	<u>-</u>

FIRST CAPITAL BANK PLC
STATEMENTS OF CHANGES IN EQUITY
For the year ended 31 December 2022

Consolidated

	Share capital K'000	Share premium K'000	Property revaluation reserve K'000	Loan loss reserve K'000	Retained earnings K'000	Equity attributable to owners K'000	Total equity K'000
2022							
As at 1 January 2022	116 813	1 565 347	7 716 952	515 203	37 805 681	47 719 996	47 719 996
Profit for the year	-	-	-	-	18 270 484	18 270 484	18 270 484
Other Comprehensive Income							
Revaluation surplus on property	-	-	3 201 124	-	-	3 201 124	3 201 124
Deferred tax on revalued assets	-	-	651 803	-	-	651 803	651 803
Total comprehensive income for the year	-	-	3 852 927	-	18 270 484	22 123 411	22 123 411
Transfers within reserves							
Transfer from loan loss reserve	-	-	-	444 713	(444 713)	-	-
Total Transfers within reserves	-	-	-	444 713	(444 713)	-	-
Transactions with owners, recorded directly in equity							
<u>Contribution by and distribution to owners</u>							
Dividends paid to owners of the parent	-	-	-	-	(8 480 000)	(8 480 000)	(8 480 000)
Total transactions with owners	-	-	-	-	(8 480 000)	(8 480 000)	(8 480 000)
As at 31 December 2022	116 813	1 565 347	11 569 879	959 916	47 151 452	61 363 407	61 363 407

FIRST CAPITAL BANK PLC
STATEMENTS OF CHANGES IN EQUITY (Continued)
For the year ended 31 December 2022

Consolidated

2021	Share capital K'000	Share premium K'000	Property revaluation reserve K'000	Loan loss reserve K'000	Retained earnings K'000	Equity attributable to owners K'000	Total equity K'000
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	-	-	-	-	(4 600 000)	(4 600 000)	(4 600 000)
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

FIRST CAPITAL BANK PLC
STATEMENTS OF CHANGES IN EQUITY (Continued)
For the year ended 31 December 2022

Separate

	<u>Share capital K'000</u>	<u>Share premium K'000</u>	<u>Property revaluation reserve K'000</u>	<u>Loan loss reserve K'000</u>	<u>Retained earnings K'000</u>	<u>Total equity K'000</u>
<u>2022</u>						
As at beginning of the year	116 813	1 565 347	7 716 952	515 203	37 448 399	47 362 714
Profit for the year	-	-	-	-	<u>18 270 484</u>	<u>18 270 484</u>
Other comprehensive income						
Revaluation surplus on property	-	-	3 201 124	-	-	3 201 124
Deferred tax on revalued assets	-	-	<u>651 803</u>	-	-	<u>651 803</u>
Total comprehensive income for the year	-	-	<u>3 852 927</u>	-	<u>18 270 484</u>	<u>22 123 411</u>
Transfers between reserves						
Transfer from loan loss reserve	-	-	-	<u>444 713</u>	<u>(444 713)</u>	-
Total transfers between reserves	-	-	-	<u>444 713</u>	<u>(444 713)</u>	-
Transactions with owners, recorded directly in equity						
<u>Contribution by and distribution to owners</u>						
Dividends paid	-	-	-	-	<u>(8 480 000)</u>	<u>(8 480 000)</u>
As at 31 December 2022	<u>116 813</u>	<u>1 565 347</u>	<u>11 569 879</u>	<u>959 916</u>	<u>46 794 170</u>	<u>61 006 125</u>
<u>2021</u>						
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	-	-	-	-	<u>14 766 105</u>	<u>14 766 105</u>
Other comprehensive income						
Total comprehensive income for the year	-	-	-	-	<u>14 766 105</u>	<u>14 766 105</u>
Transfers between reserves						
Transfer from loan loss reserve	-	-	-	<u>(604 021)</u>	<u>604 021</u>	-
Total transfers between reserves	-	-	-	<u>(604 021)</u>	<u>604 021</u>	-
Transactions with owners, recorded directly in equity						
<u>Contribution by and distribution to owners</u>						
Dividends paid	-	-	-	-	<u>(4 600 000)</u>	<u>(4 600 000)</u>
As at 31 December 2021	<u>116 813</u>	<u>1 565 347</u>	<u>7 716 952</u>	<u>515 203</u>	<u>37 448 399</u>	<u>47 362 714</u>

FIRST CAPITAL BANK PLC
STATEMENTS OF CASH FLOWS
For the year ended 31 December 2022

	Notes	<u>Consolidated</u>		<u>Separate</u>	
		<u>2022</u> K'000	<u>2021</u> K'000	<u>2022</u> K'000	<u>2021</u> K'000
Cashflows from operating activities					
Interest and fees received		55 092 479	44 865 122	55 092 479	44 865 122
Interest paid		(8 199 310)	(6 099 035)	(8 199 310)	(6 099 035)
Cash paid to suppliers and employees		<u>(21 621 966)</u>	<u>(18 961 254)</u>	<u>(21 621 966)</u>	<u>(18 961 254)</u>
		25 271 203	19 804 833	25 271 203	19 804 833
Net increase in customer balances		<u>30 162 420</u>	<u>30 754 491</u>	<u>30 162 420</u>	<u>30 754 491</u>
Cash generated from operations					
Dividend received net of tax		228 334	229 244	228 334	229 244
Income taxes paid	26c	<u>(7 377 603)</u>	<u>(5 806 127)</u>	<u>(7 377 603)</u>	<u>(5 806 127)</u>
Cash flows from operating activities		<u>48 284 354</u>	<u>44 982 441</u>	<u>48 284 354</u>	<u>44 982 441</u>
Cashflows from investing activities					
Maturities/(purchases) of investment securities	8	43 327 658	(44 591 457)	43 327 658	(44 591 457)
Maturities of repurchase agreements		39 998 728	12 786 236	39 998 728	12 786 236
Proceeds from sale of equipment		43 459	112 629	43 459	112 629
Sale of shares in listed companies		4 260 940	598 943	4 260 940	598 943
Acquisition of property and equipment	14	<u>(2 681 199)</u>	<u>(1 109 528)</u>	<u>(2 681 199)</u>	<u>(1 109 528)</u>
Net cash generated from/(used in) investing activities		<u>84 949 586</u>	<u>(32 203 177)</u>	<u>84 949 586</u>	<u>(32 203 177)</u>
Cashflows from financing activities					
Dividend paid to shareholders of the parent	29	(8 480 000)	(4 600 000)	(8 480 000)	(4 600 000)
Repayment of long-term borrowings		(114 878 856)	(2 876 074)	(114 878 856)	(2 876 074)
Repayment of lease liabilities		<u>(352 989)</u>	<u>(308 177)</u>	<u>(352 989)</u>	<u>(308 177)</u>
Cash flows from financing activities		<u>(123 711 845)</u>	<u>(7 784 251)</u>	<u>(123 711 845)</u>	<u>(7 784 251)</u>
Net Increase in cash and cash equivalents					
Cash and cash equivalents at 1 January		46 300 469	38 839 731	46 300 469	38 839 731
Effect of changes in exchange rates		<u>410 864</u>	<u>2 465 725</u>	<u>410 864</u>	<u>2 465 725</u>
Cash and cash equivalents at period end	7	<u>56 233 428</u>	<u>46 300 469</u>	<u>56 233 428</u>	<u>46 300 469</u>

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.

(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 34 - Loans and advances to customers – Impairment
- Note 4(w) - Provisions
- Notes 6, 12 and 14 (b) - 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 16, customer deposits as disclosed in note 17 and other payables as disclosed in note 18.

(vi) Comparatives

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

3. Adoption of new and revised International Financial Reporting Standards

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

In the current year, the Group has adopted those new and revised Standards and Interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee of the International Accounting Standards Board that are relevant to its operations and are effective for annual reporting periods beginning on 1 January 2022.

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

3.2 Standards and Interpretations in issue, not yet effective

A number of new standards, amendments to standards and interpretations are in issue but not effective for the year ended 31 December 2022 and have not been applied in preparing these financial statements. Those which may be relevant to the Group are set out below. The Group 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	<p>IFRS 17 Insurance Contracts</p> <p>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.</p> <p>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.</p>
Annual reporting periods beginning on or after 1 January 2024	<p>Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)</p> <p>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.</p>
Annual reporting periods beginning on or after 1 January 2023	<p>Amendments to IFRS 17</p> <p>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:</p> <p>Deferral of the date of initial application of IFRS 17 by two years to annual periods beginning on or after 1 January 2023;</p> <p>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;</p> <p>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;</p> <p>Clarification of the application of IFRS 17 in interim financial statements allowing an accounting policy choice at a reporting entity level;</p> <p>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;</p>

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 2023 (Continued)	<ul style="list-style-type: none"> • 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; and • 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	<p>Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)</p> <p>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.</p>
Annual reporting periods beginning on or after 1 January 2023	<p>Definition of Accounting Estimates (Amendments to IAS 8)</p> <p>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.</p>
Annual reporting periods beginning on or after 1 January 2023	<p>Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)</p> <p>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.</p>
Annual reporting periods beginning on or after 1 January 2024	<p>Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)</p> <p>The amendment clarifies how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale.</p>
Annual reporting periods beginning on or after 1 January 2024	<p>Non-current Liabilities with Covenants (Amendments to IAS 1)</p> <p>The amendment clarifies how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.</p>

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

4. Significant accounting policies

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

(a) Basis of consolidation

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

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

(i) Subsidiaries

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

(ii) Loss of control

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

(iii) Transactions eliminated on consolidation

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

(b) Foreign currency

Foreign currency transactions

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

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

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

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Malawi Kwacha at exchange rates (mid-rate) ruling at the reporting date. The income and expenses of foreign operations are translated to Malawi Kwacha at average exchange rates during the year. Exchange differences arising on the translation of the assets and liabilities of foreign operations are recognised directly in other comprehensive income and accumulated in equity in the translation reserve. When a foreign operation is disposed of in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

4. Significant accounting policies (Continued)

(b) Foreign currency (Continued)

Foreign operations (Continued)

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

(c) Financial assets and liabilities

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

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

The adoption of IFRS 9 has resulted in changes in the Group's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7, *Financial Instruments: Disclosures*.

Classification of financial instruments

Under IFRS 9, on initial recognition, a financial asset is classified as measured at:

- 1) Amortised cost
- 2) Fair value through other comprehensive income (FVOCI) – debt investments
- 3) Fair value through other comprehensive income (FVOCI) – equity investments or
- 4) Fair value through Profit and Loss (FVTPL).

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. The classifications are explained as follows:

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

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

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

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

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

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

4. Significant accounting policies (Continued)

(c) Financial assets and liabilities (Continued)

iii. Other business model - Equity investments (FVOCI)

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

iv. Hold to sell - (FVTPL)

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

Restructures/modification of loans and advances

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

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

Other payables 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)

(p) Net interest income (Continued)

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

(q) 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); and
- 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.

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.

4. Significant accounting policies (Continued)

(q) Leases (Continued)

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.

(r) 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.

4. Significant accounting policies (Continued)

(s) 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.

(t) 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.

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.

4. Significant accounting policies (Continued)

(u) 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.

(v) 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.

(w) 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.

4. Significant accounting policies (Continued)

(w) Fair value measurement (Continued)

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.

(x) 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.

(y) Derivative financial instruments

Derivatives 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 and are not measured at FVTPL.

Offsetting

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

(z) Financial guarantees, acceptances and letters of credit

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

(aa) Amounts due from related parties

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

(ab) Assets held for sale

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

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

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

5. Risk Management

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

5. Risk Management (Continued)

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.

(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, Deputy Chief Executive Officer, Head of Corporate and Institutional Banking, Group Head of Compliance, Head of Operations, 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, Deputy Chief Executive Officer, Head of Corporate and Institutional Banking, Head of Treasury, Head of Personal & Business Banking, Head of Risk, and other Heads attend the meetings.

5. Risk Management (Continued)

(c) Board Sub-Committees (Continued)

(ii) The Credit Committee (Continued)

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, Deputy Chief Executive Officer and Credit Committee.

(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 and Head Compliance, who head independent Risk and Compliance functions 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 Finance Officer (Chairman);
- Chief Executive Officer;
- Deputy Chief Executive Officer;
- Head of Corporate and Institutional Banking;
- Head of Personal and Business Banking;
- Head of Risk;
- Head of Credit;
- Head of Treasury;
- Head of Compliance; and
- Accountant – ALCO and Reporting.

5. Risk Management (Continued)

(d) Management (Continued)

(iv) Management Risk Committee (MRC)

The Management Risk Committee (MRC) comprises:

- Chief Executive Officer (Chairman);
- Deputy Chief Executive Officer;
- Head of Risk;
- Chief Finance Officer;
- Head of Information Technology;
- Head of Operations;
- Head of Personal and Business Banking;
- Head of Corporate and Institutional Banking;
- Head of Internal Audit;
- Head of Credit;
- Head of Products;
- Head of Compliance;
- Head of Treasury; 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:

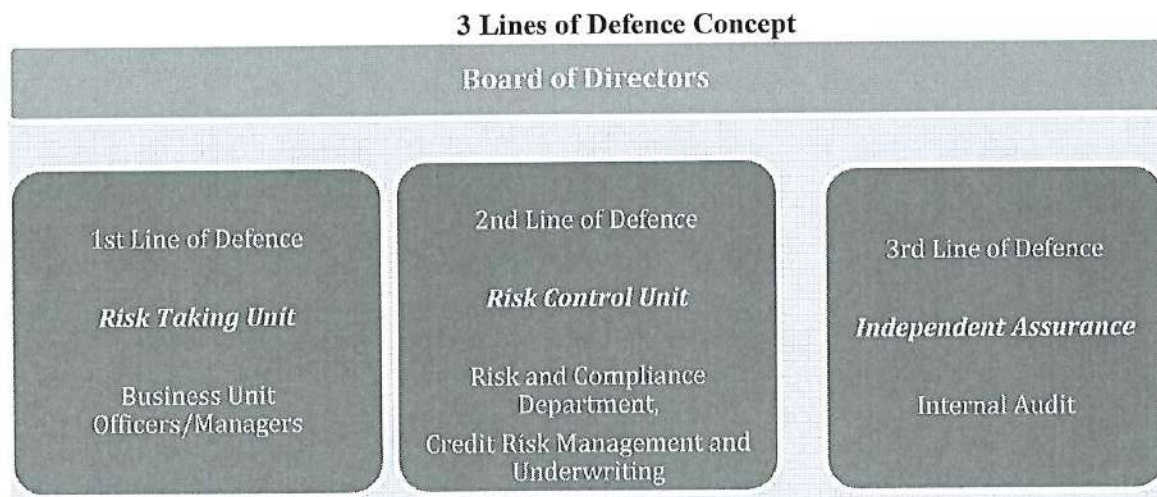
- Chief Executive Officer (Chairman);
- Deputy Chief Executive Officer;
- Head of Credit;
- Head of Corporate and Institutional Banking;
- Head of Treasury; and
- Head of Risk.

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:



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; and
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%

FIRST CAPITAL BANK PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2022

5. **Risk Management (Continued)**

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

(iv) **Capital Position as at 31 December 2022**

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

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2022</u> K'000	<u>2021</u> K'000	<u>2022</u> K'000	<u>2021</u> 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	47 151 452	37 805 681	46 794 170	37 448 399
Investments in unconsolidated entities	-	-	(159 896)	(119 396)
Total Tier 1 Capital	<u>48 833 612</u>	<u>39 487 841</u>	<u>48 316 434</u>	<u>39 011 163</u>
Tier 2 Capital				
Property revaluation reserve	11 569 879	7 716 952	11 569 879	7 716 952
Loan loss reserve	959 916	515 203	959 916	515 203
Investments in unconsolidated entities	-	-	(159 896)	(119 396)
Tier 2 Capital	<u>12 529 795</u>	<u>8 232 155</u>	<u>12 369 899</u>	<u>8 112 759</u>
Total qualifying capital	<u>61 363 407</u>	<u>47 719 996</u>	<u>60 686 333</u>	<u>47 123 922</u>
Total risk weighted assets	<u>287 647 528</u>	<u>225 380 163</u>	<u>287 647 528</u>	<u>222 998 158</u>
Tier 1 risk based capital ratio (minimum 10%)	17.0%	17.5%	16.8%	17.5%
Total risk-weighted capital ratio (minimum 15%)	21.3%	21.2%	21.1%	21.1%

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).

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).

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

5. Risk Management (Continued)

(k) Credit Risk (Continued)

(i) Credit Risk Management (Continued)

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

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.

Loss Given Default (LGD)

LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by 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; and
- Internal benchmark based on historical recoverability.

5. Risk Management (Continued)

(k) Credit Risk (Continued)

(ii) Credit Risk Management (Continued)

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

i) 12 month ECLs (Stage 1 - no increase in credit risk)

ECLs measured at an amount equal to the portion of lifetime ECLs that result from default events possible within the next 12 months. The 12 month ECL is calculated for the following exposures:

- Customer loans and advances with days past due 0 to 29; 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; 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; and
- Exposures which are 90 days+ past due.

These are a product of default PD, LGD2 and EAD.

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; and
- 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 Revolving facilities EAD is 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; and
- For other financial assets/low risk financial instruments: Outstanding exposures.

5. Risk Management (Continued)

(k) Credit Risk (Continued)

(i) Credit Risk Management (Continued)

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; and
- 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.

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; and
- 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.

5. Risk Management (Continued)

(k) Credit Risk (Continued)

(i) Credit Risk Management (Continued)

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; and
- 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.

FIRST CAPITAL BANK PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2022

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 2022

Consolidated (K'000)	<u>ECL Stage</u>	<u>Loans and advances</u>	<u>Balances with central banks</u>	<u>Balances with other banks</u>	<u>Money Market investments</u>	<u>Cheques in the course of clearing</u>	<u>Repurchase agreements</u>
Carrying amount		<u>127 331 876</u>	<u>10 333 702</u>	<u>34 932 944</u>	<u>91 765 920</u>	<u>1 118 511</u>	<u>5 128 313</u>
Standard (fully performing)	1	115 350 646	10 333 702	34 932 944	92 067 734	1 118 511	5 130 450
Past due but not impaired	2	8 646 832	-	-	-	-	-
Impaired	3	<u>6 279 610</u>	-	-	-	-	-
Gross exposure		<u>130 277 088</u>	<u>10 333 702</u>	<u>34 932 944</u>	<u>92 067 734</u>	<u>1 118 511</u>	<u>5 130 450</u>
Separate (K'000)							
Carrying amount		<u>127 331 876</u>	<u>10 333 702</u>	<u>34 932 944</u>	<u>91 765 920</u>	<u>1 118 511</u>	<u>5 128 313</u>
Standard (fully performing)	1	115 350 646	10 333 702	34 932 944	92 067 734	1 118 511	5 130 450
Past due but not impaired	2	8 646 832	-	-	-	-	-
Impaired	3	<u>6 279 610</u>	-	-	-	-	-
Gross exposure		<u>130 277 088</u>	<u>10 333 702</u>	<u>34 932 944</u>	<u>92 067 734</u>	<u>1 118 511</u>	<u>5 130 450</u>

FIRST CAPITAL BANK PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2022

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 2021		<u>ECL</u> <u>Stage</u>	<u>Balances</u> <u>with central</u> <u>banks</u>	<u>Balances</u> <u>with other</u> <u>banks</u>	<u>Money Market</u> <u>investments</u>	<u>Cheques in</u> <u>the course of</u> <u>clearing</u>	<u>Repurchase</u> <u>agreements</u>
Consolidated (K'000)							
Carrying amount			<u>101 043 385</u>	<u>17 732 209</u>	<u>134 815 566</u>	<u>30 071</u>	<u>45 129 178</u>
Standard (fully performing)	1		90 190 745	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			<u>104 181 925</u>	<u>17 732 209</u>	<u>135 395 392</u>	<u>30 071</u>	<u>45 167 902</u>
Separate (K'000)							
Carrying amount			<u>101 043 385</u>	<u>17 732 209</u>	<u>134 815 566</u>	<u>30 071</u>	<u>45 129 178</u>
Standard (fully performing)	1		90 190 745	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			<u>104 181 925</u>	<u>17 732 209</u>	<u>135 395 392</u>	<u>30 071</u>	<u>45 167 902</u>

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 is 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 which the group believes that there is a significant increase in credit risk but are not impaired.

• **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:

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2022</u> K'000	<u>2021</u> K'000	<u>2022</u> K'000	<u>2021</u> K'000
Agriculture	22 407 097	22 896 040	22 407 097	22 896 040
Mining	18 429	55 544	18 429	55 544
Financial Services	520 111	709 928	520 111	709 928
Construction	7 754 813	7 250 223	7 754 813	7 250 223
Energy/Electricity/Gas	9 361 711	5 050 259	9 361 711	5 050 259
Manufacturing	29 283 916	19 533 462	29 283 916	19 533 462
Wholesale and Retail	24 106 419	28 564 466	24 106 419	28 564 466
Individual/Households	26 013 646	10 495 462	26 013 646	10 495 462
Real Estate	270 517	215 208	270 517	215 208
Tourism & Leisure	2 867 289	3 321 220	2 867 289	3 321 220
Transport & Communication	7 392 861	5 778 802	7 392 861	5 778 802
Others	280 279	311 311	280 279	311 311
	<u>130 277 088</u>	<u>104 181 925</u>	<u>130 277 088</u>	<u>104 181 925</u>

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.

	<u>Notes</u>	<u>Consolidated</u>		<u>Separate</u>	
		<u>2022</u> K'000	<u>2021</u> K'000	<u>2022</u> K'000	<u>2021</u> K'000
Gross maximum exposure					
Liquidity reserves deposits with central banks	7	10 333 702	20 547 651	10 333 702	20 547 651
Placements with other banks	7	34 932 944	17 732 209	34 932 944	17 732 209
Money market investments	8	92 067 734	135 395 392	92 067 734	135 395 392
Cheques in course of clearing	7	1 118 511	30 071	1 118 511	30 071
Repurchase agreements	33	5 130 450	45 167 902	5 130 450	45 167 902
Loans and advances to customers	9	<u>130 277 088</u>	<u>104 181 925</u>	<u>130 277 088</u>	<u>104 181 925</u>
Total recognised financial assets		<u>273 860 429</u>	<u>323 055 150</u>	<u>273 860 429</u>	<u>323 055 150</u>
Acceptance and letters of credit		5 178 413	3 332 918	5 178 413	3 332 918
Financial guarantees	31	<u>56 699 041</u>	<u>29 656 298</u>	<u>56 699 041</u>	<u>29 656 298</u>
Total unrecognised assets		<u>61 877 454</u>	<u>32 989 216</u>	<u>61 877 454</u>	<u>32 989 216</u>
Total credit risk exposure		<u>335 737 883</u>	<u>356 044 366</u>	<u>335 737 883</u>	<u>356 044 366</u>

(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)

(I) 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 2022, 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)

(I) Market Risk (Continued)

Exposure to Market Risk

Foreign exchange exposures were as follows:

Consolidated

Currency	Assets (K'm)	Liabilities (K'm)	<u>2022</u>		<u>2021</u>		Net (K'm)	<u>Sensitivity</u>
			Net (K'm)	<u>Sensitivity</u>	Assets (K'm)	Liabilities (K'm)		
USD	52 309	52 066	243	2.43	69 033	69 358	(325)	(3.25)
GBP	12 940	12 287	653	6.53	7 253	7 258	(5)	(0.05)
EUR	13 170	13 169	1	0.01	19 182	18 601	581	5.81
ZAR	1 026	998	28	0.28	533	299	234	2.34

Separate

USD	52 309	52 066	243	2.43	69 033	69 358	(325)	(3.25)
GBP	12 940	12 287	653	6.53	7 253	7 258	(5)	(0.05)
EUR	13 170	13 169	1	0.01	19 182	18 601	581	5.81
ZAR	1 026	998	28	0.28	533	299	234	2.34

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.

FIRST CAPITAL BANK PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2022

5. Risk Management (Continued)

(1) 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.

2022	Consolidated	Zero rate K'000	Floating rate K'000	0-3 months K'000	3-6 months K'000	Fixed rate			Total K'000
						6-9 months K'000	9-12 months K'000	Over 12 months K'000	
	Total assets	62 438 809	120 696 883	57 941 565	7 870 502	19 034 843	-	46 980 267	314 962 869
	Total liabilities and equity	<u>173 246 511</u>	<u>96 172 584</u>	<u>14 109 169</u>	<u>5 381 592</u>	<u>1 583 790</u>	<u>24 469 223</u>	-	<u>314 962 869</u>
	Interest sensitivity gap	<u>(110 807 702)</u>	<u>24 524 299</u>	<u>43 832 396</u>	<u>2 488 910</u>	<u>17 451 053</u>	<u>(24 469 223)</u>	<u>46 980 267</u>	-
	Separate								
	Total assets	62 573 078	120 696 883	57 941 565	7 870 502	19 034 843	-	46 980 267	315 097 138
	Total liabilities and equity	<u>173 062 951</u>	<u>96 490 413</u>	<u>14 109 169</u>	<u>5 381 592</u>	<u>1 583 790</u>	<u>24 469 223</u>	-	<u>315 097 138</u>
	Interest sensitivity gap	<u>(110 489 873)</u>	<u>24 206 470</u>	<u>43 832 396</u>	<u>2 488 910</u>	<u>17 451 053</u>	<u>(24 469 223)</u>	<u>46 980 267</u>	-

FIRST CAPITAL BANK PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2022

5. Risk Management (Continued)

(l) Market Risk (Continued)

Interest rate gap analysis (Continued)

2021

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

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

	<u>2022</u> %	<u>2021</u> %
Assets		
Government securities	14.98-21.35	9.5 – 19.5
Deposits with banking institutions	11.70-15.00	11.4 – 11.98
Loans and advances to customers (Reference/base rate)	13.50-17.30	11.9 - 13.4
Liabilities		
Customer deposits	0-14.50	0 - 10

Equity Risk

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

	<u>2022</u> K'000	<u>2021</u> K'000
Cost of investments in listed companies	308 058	674 373
Fair value of investments in listed companies	4 731 173	5 386 593
Sale of investments in listed companies	(4 260 940)	(598 943)
Net decrease in fair value of investments in listed companies	<u>3 605 520</u>	<u>2 193 192</u>
Impact on profit and equity of:		
Increase of share price by 10%	473 117	538 659
Decrease of share price by 10%	<u>(473 117)</u>	<u>(538 659)</u>

(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.

FIRST CAPITAL BANK PLC
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 For the year ended 31 December 2022

5. Risk Management (Continued)

(m) Liquidity risk (Continued)

The maturity gap analysis as at 31 December 2022 is given below:

Consolidated

Assets	Carrying amount K'000	Gross nominal amount K'000	Up to 1 month K'000	1-3 months K'000	3-6 months K'000	6-12 months K'000	1-3 years K'000	Over 3 years K'000
Cash and cash equivalents	56 233 428	56 233 428	56 233 428	-	-	-	-	-
Money market investments	91 765 920	92 067 734	6 829 952	11 050 356	7 888 156	19 034 843	44 006 667	3 257 760
Loans and advances to customers	127 331 876	130 277 088	12 257 309	44 171 478	18 406 375	12 411 551	22 467 558	20 562 818
Investments at fair value through P&L	4 731 173	4 731 173	946 235	946 235	946 235	946 235	946 235	-
Other financial assets	7 181 535	7 183 673	2 053 222	5 130 451	-	-	-	-
Total assets	287 243 932	290 493 096	78 320 146	61 298 520	27 240 766	32 392 629	67 420 458	23 820 578
Liabilities								
Liabilities to customers	229 814 668	229 814 668	196 082 432	33 660 736	71 500	-	-	-
Due to other banks	8 289 375	8 289 375	-	5 921 475	789 300	1 578 600	-	-
Other liabilities	9 901 628	9 901 628	4 313 477	1 862 718	1 862 718	1 862 715	-	-
Total liabilities	248 005 671	248 005 671	200 395 909	41 444 929	2 723 518	3 441 315	-	-
Net liquidity gap	39 238 261	42 487 425	(122 075 763)	19 853 591	24 517 248	28 951 314	67 420 458	23 820 578
Cumulative liquidity gap	39 238 261	42 487 425	(122 075 763)	(102 222 173)	(77 704 925)	(48 753 611)	18 666 847	42 487 425

FIRST CAPITAL BANK PLC
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 For the year ended 31 December 2022

5. Risk Management (Continued)

(m) Liquidity risk (Continued)

The maturity gap analysis as at 31 December 2021 is given below:

<u>Consolidated</u>	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	<u>45 508 066</u>	<u>45 546 790</u>	<u>25 336 941</u>	<u>16 125 286</u>	-	<u>4 084 563</u>	-	-
Total assets	<u>333 054 079</u>	<u>336 811 169</u>	<u>100 992 388</u>	<u>73 091 779</u>	<u>43 164 692</u>	<u>52 231 484</u>	<u>40 254 231</u>	<u>27 076 595</u>
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	<u>8 337 995</u>	<u>8 337 995</u>	<u>6 075 007</u>	<u>754 330</u>	<u>754 330</u>	<u>754 328</u>	-	-
Total liabilities	<u>304 407 528</u>	<u>304 407 528</u>	<u>218 436 547</u>	<u>52 939 982</u>	<u>1 701 659</u>	<u>28 187 366</u>	<u>3 141 974</u>	-
Net liquidity gap	<u>28 646 551</u>	<u>32 403 641</u>	<u>(117 444 159)</u>	<u>20 151 797</u>	<u>41 463 033</u>	<u>24 044 118</u>	<u>37 112 257</u>	<u>27 076 595</u>
Cumulative liquidity gap	<u>28 646 551</u>	<u>32 403 641</u>	<u>(117 444 159)</u>	<u>(97 292 362)</u>	<u>(55 829 329)</u>	<u>(31 785 211)</u>	<u>5 327 046</u>	<u>32 403 641</u>

FIRST CAPITAL BANK PLC
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 For the year ended 31 December 2022

5. Risk Management (Continued)

(m) Liquidity risk (Continued)

The maturity gap analysis as at 31 December 2022 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	56 233 428	56 233 428	56 233 428	-	-	-	-	-
Money market investments	91 765 920	92 067 734	6 829 952	11 050 356	7 888 156	19 034 843	44 006 667	3 257 760
Loans and advances to customers	127 331 876	130 277 088	12 257 309	44 171 478	18 406 375	12 411 551	22 467 558	20 562 818
Investments at fair value through P&L	4 731 173	4 731 173	946 235	946 235	946 235	946 235	946 233	-
Other financial assets	7 154 085	7 156 223	2 025 772	5 130 451	-	-	-	-
Total assets	287 216 482	290 465 646	78 292 696	61 298 520	27 240 766	32 392 629	67 420 458	23 820 578
Liabilities								
Liabilities to customers	230 132 497	230 132 497	196 400 261	33 660 736	71 500	-	-	-
Due to other banks	8 289 375	8 289 375	-	5 921 475	789 300	1 578 600	-	-
Other liabilities	10 085 721	10 085 721	4 358 198	1 909 174	1 909 174	1 909 175	-	-
Total liabilities	248 507 593	248 507 593	200 758 459	41 491 385	2 769 974	3 487 775	-	-
Net liquidity gap	38 708 889	41 958 053	(122 465 763)	19 807 135	24 470 792	28 904 854	67 420 458	23 820 578
Cumulative liquidity gap	38 708 889	41 958 053	(122 465 763)	(102 658 628)	(78 187 836)	(49 282 982)	18 137 476	41 958 054

FIRST CAPITAL BANK PLC
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 For the year ended 31 December 2022

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)

(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 Operations 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 Operations. 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.

FIRST CAPITAL BANK PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2022

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-22	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	-	56 233 428	-	56 233 428	56 233 428
Money market investments	-	91 765 920	-	91 765 920	91 765 920
Investments at FVTPL	4 731 173	-	-	4 731 173	4 731 173
Loans and advances	-	127 331 876	-	127 331 876	127 331 876
Other assets	-	7 181 535	-	7 181 535	7 181 535
	<u>4 731 173</u>	<u>282 512 759</u>	<u>-</u>	<u>287 243 932</u>	<u>287 243 932</u>
Financial liabilities					
Liabilities to customers	-	-	229 814 668	229 814 668	229 814 668
Due to other banks	-	-	8 289 375	8 289 375	8 289 375
Other liabilities	-	-	9 901 628	9 901 628	9 901 628
	<u>-</u>	<u>-</u>	<u>248 005 671</u>	<u>248 005 671</u>	<u>248 005 671</u>
Separate					
Financial assets					
Cash and cash equivalents	-	56 233 428	-	56 233 428	56 233 428
Money market investments	-	91 765 920	-	91 765 920	91 765 920
Investments at FVTPL	4 731 173	-	-	4 731 173	4 731 173
Loans and advances	-	127 331 876	-	127 331 876	127 331 876
Other assets	-	7 154 085	-	7 154 085	7 154 085
	<u>4 731 173</u>	<u>282 485 309</u>	<u>-</u>	<u>287 216 482</u>	<u>287 216 482</u>
Financial liabilities					
Liabilities to customers	-	-	230 132 497	230 132 497	230 132 497
Due to other banks	-	-	8 289 375	8 289 375	8 289 375
Other liabilities	-	-	10 085 721	10 085 721	10 085 721
	<u>-</u>	<u>-</u>	<u>248 507 593</u>	<u>248 507 593</u>	<u>248 507 593</u>

FIRST CAPITAL BANK PLC
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
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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-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
	<u>5 386 593</u>	<u>327 667 486</u>	<u>-</u>	<u>333 054 079</u>	<u>333 054 079</u>
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
	<u>-</u>	<u>-</u>	<u>304 407 528</u>	<u>304 407 528</u>	<u>304 407 528</u>
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
	<u>5 386 593</u>	<u>327 667 486</u>	<u>-</u>	<u>333 054 079</u>	<u>333 054 079</u>
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
	<u>-</u>	<u>-</u>	<u>304 909 450</u>	<u>304 909 450</u>	<u>304 909 450</u>

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

	<u>2022</u>			<u>2021</u>		
	K'000			K'000		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial asset						
Investment at fair value through P&L	<u>4 731 173</u>	<u>-</u>	<u>-</u>	<u>5 386 593</u>	<u>-</u>	<u>-</u>

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

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

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
	K'000	K'000	K'000	K'000
Deposits with Central Bank	10 333 702	20 547 651	10 333 702	20 547 651
Balances with banks abroad	29 932 944	9 525 244	29 932 944	9 525 244
Cheques in course of clearing	1 118 511	30 071	1 118 511	30 071
Placements with other banks	5 000 000	8 206 965	5 000 000	8 206 965
Cash balances	<u>9 848 271</u>	<u>7 990 538</u>	<u>9 848 271</u>	<u>7 990 538</u>
Total cash and cash equivalents	<u>56 233 428</u>	<u>46 300 469</u>	<u>56 233 428</u>	<u>46 300 469</u>

Deposits with Central Bank are amounts held at Reserve Bank of Malawi. These amounts, for liquidity reserve requirement, are not available for the Group's operating activities and do not attract interest. Other cash and cash equivalents with other banks earn interest of 14.98% - 21.35 % (2021: 6.15% - 14.65%). The currency analysis of cash is in note 5(I).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2022

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 gross amount of K47.3 billion as at 31 December 2022 (2021: K29.9 billion). These have a tenor of more than 12 months with maturities ranging between February 2024 and June 2027 and with a coupon rate of 12% (2021: 12%).

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2022</u> K'000	<u>2021</u> K'000	<u>2022</u> K'000	<u>2021</u> K'000
Gross amount				
Treasury notes	69 765 235	111 350 748	69 765 235	111 350 748
Treasury notes - ECL	(284 160)	(543 671)	(284 160)	(543 671)
Treasury bills	22 302 499	24 044 644	22 302 499	24 044 644
Treasury bills - ECL	<u>(17 654)</u>	<u>(36 155)</u>	<u>(17 654)</u>	<u>(36 155)</u>
Carrying value	<u>91 765 920</u>	<u>134 815 566</u>	<u>91 765 920</u>	<u>134 815 566</u>
<u>Movement during the year was as follows:</u>				
As at 1 January	135 395 392	90 803 935	135 395 392	90 803 935
(Maturities)/purchases	<u>(43 327 658)</u>	<u>44 591 457</u>	<u>(43 327 658)</u>	<u>44 591 457</u>
As at 31 December	<u>92 067 734</u>	<u>135 395 392</u>	<u>92 067 734</u>	<u>135 395 392</u>
Expected Credit Losses				
Balance at 1 January	(579 826)	(341 845)	(579 826)	(341 845)
Recovery/(charge) for the year (note 34)	<u>278 012</u>	<u>(237 981)</u>	<u>278 012</u>	<u>(237 981)</u>
Balance at 31 December	<u>(301 814)</u>	<u>(579 826)</u>	<u>(301 814)</u>	<u>(579 826)</u>
Carrying amount	<u>91 765 920</u>	<u>134 815 566</u>	<u>91 765 920</u>	<u>134 815 566</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2022

9. Loans and advances to customers

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
	<u>K'000</u>	<u>K'000</u>	<u>K'000</u>	<u>K'000</u>
Loans and advances (amortised cost) are receivable as follows:				
Maturing within 3 months	56 428 787	25 256 714	56 428 787	25 256 714
Maturing between 3 and 12 months	30 817 926	42 526 187	30 817 926	42 526 187
Maturing after 12 months	<u>43 030 375</u>	<u>36 399 024</u>	<u>43 030 375</u>	<u>36 399 024</u>
	<u>130 277 088</u>	<u>104 181 925</u>	<u>130 277 088</u>	<u>104 181 925</u>
Specific impairment allowances (Stage 3)				
Balance at 1 January	(2 568 115)	(1 647 105)	(2 568 115)	(1 647 105)
Charge for the year (note 34)	(508 812)	(1 101 346)	(508 812)	(1 101 346)
Provision offset against fees and commission income	(40 324)	66 721	(40 324)	66 721
Write offs	<u>810 667</u>	<u>113 615</u>	<u>810 667</u>	<u>113 615</u>
Balance at 31 December	<u>(2 306 584)</u>	<u>(2 568 115)</u>	<u>(2 306 584)</u>	<u>(2 568 115)</u>
Collective impairment allowance (Stages 1 & 2)				
Balance at 1 January	(570 425)	(508 711)	(570 425)	(508 711)
Charge for the year (note 34)	<u>(68 203)</u>	<u>(61 714)</u>	<u>(68 203)</u>	<u>(61 714)</u>
Balance at 31 December	<u>(638 628)</u>	<u>(570 425)</u>	<u>(638 628)</u>	<u>(570 425)</u>
Net loans and advances to customers	<u>127 331 876</u>	<u>101 043 385</u>	<u>127 331 876</u>	<u>101 043 385</u>

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 Credit 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 34.

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 36.

10. Other assets

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2022</u> K'000	<u>2021</u> K'000	<u>2022</u> K'000	<u>2021</u> K'000
Prepayments	475 029	316 964	475 029	316 964
Stock of stationery	267 221	249 135	267 221	249 135
Stock of computer spares and other items	100 801	40 024	100 801	40 024
Other receivables	<u>1 788 895</u>	<u>871 349</u>	<u>1 761 445</u>	<u>843 899</u>
Total other assets	<u>2 631 946</u>	<u>1 477 472</u>	<u>2 604 496</u>	<u>1 450 022</u>

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 K676m (2021: K52m) 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*.

11. Amounts due from related parties

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2022</u> K'000	<u>2021</u> K'000	<u>2022</u> K'000	<u>2021</u> K'000
First Capital Bank Limited S.A. Mozambique	45 808	67 039	45 808	67 039
First Capital Bank Limited Botswana	7 722	17 520	7 722	17 520
First Capital Bank Limited Zimbabwe	76 399	257 818	76 399	257 818
First Capital Bank Limited Zambia	<u>134 398</u>	<u>36 511</u>	<u>134 398</u>	<u>36 511</u>
Total amounts due from related parties	<u>264 327</u>	<u>378 888</u>	<u>264 327</u>	<u>378 888</u>

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

12. Investments at fair value through profit or loss

	<u>Consolidated and separate</u>	
	<u>2022</u> K'000	<u>2021</u> K'000
Change in fair value		
Balance at 1 January	5 386 593	3 792 344
Sale of shares in a listed company	(4 260 940)	(598 943)
Movement in fair value (note 23)	<u>3 605 520</u>	<u>2 193 192</u>
Balance at 31 December	<u>4 731 173</u>	<u>5 386 593</u>

12. Investments at fair value through profit or loss (Continued)

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:

	<u>Consolidated and separate</u>	
	<u>2022</u>	<u>2021</u>
Shares held		
Illovo Sugar (Malawi) Plc	8 665 541	12 915 541
National Investment Trust Ltd	-	20 889 343
Telekom Networks Malawi Plc	<u>4 304 286</u>	<u>4 304 286</u>
Share Price (Kwacha)		
Illovo Sugar (Malawi) Plc	540.00	265.00
National Investment Trust Ltd	112.01	90.00
Telekom Networks Malawi Plc	<u>12.03</u>	<u>19.50</u>
Market Value (K'000)		
Illovo Sugar (Malawi) Plc	4 679 392	3 422 618
National Investment Trust Ltd	-	1 880 041
Telekom Networks Malawi Plc	<u>51 781</u>	<u>83 934</u>
	<u>4 731 173</u>	<u>5 386 593</u>

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.

13. Investments in subsidiaries

	Shares (‘000)	Share- holding	<u>Separate</u>	
			<u>2022</u> K'000	<u>2021</u> K'000
Investment in subsidiaries (Dormant)				
International Commercial Bank 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%	<u>10 000</u>	<u>10 000</u>
			<u>208 791</u>	<u>208 791</u>

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14. (a) Intangible assets

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2022</u> K'000	<u>2021</u> K'000	<u>2022</u> K'000	<u>2021</u> K'000
Cost				
As at 1 January	8 060 950	7 281 008	8 055 950	7 276 008
Transfer	74 305	686 920	74 305	686 920
Additions	<u>46 943</u>	<u>93 022</u>	<u>46 943</u>	<u>93 022</u>
As at 31 December	<u>8 182 198</u>	<u>8 060 950</u>	<u>8 177 198</u>	<u>8 055 950</u>
Accumulated amortisation				
As at 1 January	5 194 419	4 215 313	5 189 419	4 210 313
Charge for the year	<u>940 130</u>	<u>979 106</u>	<u>940 130</u>	<u>979 106</u>
As at 31 December	<u>6 134 549</u>	<u>5 194 419</u>	<u>6 129 549</u>	<u>5 189 419</u>
Carrying amount	<u>2 047 649</u>	<u>2 866 531</u>	<u>2 047 649</u>	<u>2 866 531</u>

Intangible assets have finite useful lives and 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 K74 million (2021: K687 million) from capital work in progress disclosed under note 14(b) to intangible assets following successful completion of the development.

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14. (b) Property and equipment

<u>Consolidated</u>	<u>Freehold property</u> K'000	<u>Leasehold improvements</u> K'000	<u>Motor vehicles</u> K'000	<u>Aero plane</u> K'000	<u>Motor vehicles - operating lease</u> K'000	<u>Equipment, fixtures & fittings</u> K'000	<u>Capital work in progress</u> K'000	<u>Total</u> K'000
Cost or valuation								
Balance at 1 January 2022	9 791 105	5 824 456	1 587 884	1 398 862	-	8 427 135	276 650	27 306 092
Additions	-	215 601	257 384	-	-	813 667	1 347 604	2 634 256
Disposals	-	-	(7 137)	-	-	-	-	(7 137)
Revaluation surplus	1 788 587	1 015 289	-	-	-	-	-	2 803 876
Transfers	9 495	310 534	199 873	-	-	374 895	(969 102)	(74 305)
Balance at 31 December 2022	<u>11 589 187</u>	<u>7 365 880</u>	<u>2 038 004</u>	<u>1 398 862</u>	<u>-</u>	<u>9 615 697</u>	<u>655 152</u>	<u>32 662 782</u>
Accumulated depreciation								
Balance at 1 January 2022	251 004	319 660	1 196 457	335 317	-	6 048 582	-	8 151 020
Charge for the year	204 175	97 800	175 765	83 923	-	735 584	-	1 297 247
Released on disposal	-	-	(7 137)	-	-	-	-	(7 137)
Eliminated on revaluation	(335 249)	(61 999)	-	-	-	-	-	(397 248)
Balance at 31 December 2022	<u>119 930</u>	<u>355 461</u>	<u>1 365 085</u>	<u>419 240</u>	<u>-</u>	<u>6 784 166</u>	<u>-</u>	<u>9 043 882</u>
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	<u>9 791 105</u>	<u>5 824 456</u>	<u>1 587 884</u>	<u>1 398 862</u>	<u>-</u>	<u>8 427 135</u>	<u>276 650</u>	<u>27 306 092</u>
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
Reclassification	-	(26)	(183 096)	-	(403 144)	(26 138)	-	(612 404)
Balance at 31 December 2021	<u>251 004</u>	<u>319 660</u>	<u>1 196 457</u>	<u>335 317</u>	<u>-</u>	<u>6 048 582</u>	<u>-</u>	<u>8 151 020</u>
Carrying amount								
At 31 December 2022	<u>11 469 257</u>	<u>7 010 419</u>	<u>672 919</u>	<u>979 622</u>	<u>-</u>	<u>2 831 531</u>	<u>655 152</u>	<u>23 618 900</u>
At 31 December 2021	<u>9 540 101</u>	<u>5 504 796</u>	<u>391 427</u>	<u>1 063 545</u>	<u>-</u>	<u>2 378 553</u>	<u>276 650</u>	<u>19 155 072</u>

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14. (b) Property and equipment (Continued)

Following successful completion of projects, the Bank capitalised completed projects to property and equipment and intangible assets. In 2021, the Bank made some reclassifications within property and equipment line items of cost and accumulated depreciation. This had no impact on the net book values reported.

<u>Separate</u>	<u>Freehold property</u>	<u>Leasehold improvements</u>	<u>Motor vehicles</u>	<u>Aero plane</u>	<u>Motor vehicles operating lease</u>	<u>Equipment, fixtures & Fittings</u>	<u>Capital work in Progress</u>	<u>Total</u>
	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000
Cost or valuation								
Balance at 1 January 2022	9 791 105	5 704 366	1 568 439	1 398 862	-	8 279 149	276 650	27 018 571
Additions	-	215 601	257 384	-	-	813 667	1 347 604	2 634 256
Disposals	-	-	(7 137)	-	-	-	-	(7 137)
Revaluation surplus	1 788 587	1 015 289	-	-	-	-	-	2 803 876
Transfers	9 495	310 534	199 873	-	-	374 895	(969 102)	(74 305)
Balance at 31 December 2022	<u>11 589 187</u>	<u>7 245 790</u>	<u>2 018 559</u>	<u>1 398 862</u>	<u>-</u>	<u>9 467 711</u>	<u>655 152</u>	<u>32 375 261</u>
Accumulated depreciation								
Balance at 1 January 2022	251 004	199 570	1 177 012	335 317	-	5 900 596	-	7 863 499
Charge for the year	204 175	97 800	175 765	83 923	-	735 584	-	1 297 247
Released on disposal	-	-	(7 137)	-	-	-	-	(7 137)
Eliminated on revaluation	(335 249)	(61 999)	-	-	-	-	-	(397 248)
Balance at 31 December 2022	<u>119 930</u>	<u>235 371</u>	<u>1 345 640</u>	<u>419 240</u>	<u>-</u>	<u>6 636 180</u>	<u>-</u>	<u>8 756 361</u>
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
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	<u>9 791 105</u>	<u>5 704 366</u>	<u>1 568 439</u>	<u>1 398 862</u>	<u>-</u>	<u>8 279 149</u>	<u>276 650</u>	<u>27 018 571</u>
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
Reclassification	-	(26)	(183 096)	-	(403 144)	(26 138)	-	(612 404)
Balance at 31 December 2021	<u>251 004</u>	<u>199 570</u>	<u>1 177 012</u>	<u>335 317</u>	<u>-</u>	<u>5 900 596</u>	<u>-</u>	<u>7 863 499</u>
Carrying amount								
At 31 December 2022	<u>11 469 257</u>	<u>7 010 419</u>	<u>672 919</u>	<u>979 622</u>	<u>-</u>	<u>2 831 531</u>	<u>655 152</u>	<u>23 618 900</u>
At 31 December 2021	<u>9 540 101</u>	<u>5 504 796</u>	<u>391 427</u>	<u>1 063 545</u>	<u>-</u>	<u>2 378 553</u>	<u>276 650</u>	<u>19 155 072</u>

14. (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 and software.

The freehold properties and leasehold improvements for First Capital Bank Plc (Malawi) were last revalued as at 31 December 2022 by Bernard J. Mughogho BSc (Est. Mgmt.) 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 fair values of the properties were determined based on the following approaches:

(a) Investment method

The valuation process makes comparisons between the subject property and comparable property based on a collation and analysis of appropriate comparable investment, rental transactions, and an estimate of the future potential net income capable of being generated using the property. The process further considers size, location, terms, covenant, together with evidence of demand within the vicinity of the subject properties and other material factors.

(b) Depreciated Replacement Cost (DRC)

The DRC method is a cost-based approach to estimate the Market Value for the existing use of the land and buildings. The method uses the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimisation. This method is used for certain types of properties which are rarely, if ever, sold on the open market, except by way of a sale of the business of which they are a part (called the business in occupation), due to their uniqueness arising from the specialised nature and design of the buildings, their configuration, size, location, and any other factors which may be deemed to be relevant.

Had land and buildings been carried at historical cost less depreciation and accumulated impairment losses, their carrying value would have been approximately K1.65 billion (2021: K1.70 billion).

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15. Deferred tax

Movements in temporary differences during the year

Consolidated 2022	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	30 019	(132 409)	-	(102 390)
Accrued income	1 889 860	(1 335 159)	-	554 701
Revaluation of property	564 233	-	(651 803)	(87 570)
Gratuity and severance pay liabilities	(275 856)	(72 895)	-	(348 751)
ECL provisions	(356 693)	111 614	-	(245 079)
Other temporary differences	<u>(319 722)</u>	<u>(260 133)</u>	<u>-</u>	<u>(579 855)</u>
	<u>1 531 841</u>	<u>(1 688 982)</u>	<u>(651 803)</u>	<u>(808 944)</u>
2021				
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	<u>(206 881)</u>	<u>(112 841)</u>	<u>-</u>	<u>(319 722)</u>
	<u>1 661 674</u>	<u>(129 833)</u>	<u>-</u>	<u>1 531 841</u>
Separate 2022				
Property and equipment	34 042	(132 409)	-	(98 367)
Accrued income	1 889 860	(1 335 159)	-	554 701
Revaluation of property	564 233	-	(651 803)	(87 570)
Gratuity and severance pay liabilities	(275 856)	(72 895)	-	(348 751)
ECL provisions	(356 693)	111 614	-	(245 079)
Other temporary differences	<u>(320 322)</u>	<u>(260 133)</u>	<u>-</u>	<u>(580 455)</u>
	<u>1 535 264</u>	<u>(1 688 982)</u>	<u>(651 803)</u>	<u>(805 521)</u>
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	<u>(207 481)</u>	<u>(112 841)</u>	<u>-</u>	<u>(320 322)</u>
	<u>1 665 097</u>	<u>(129 833)</u>	<u>-</u>	<u>1 535 264</u>

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16. Balances due to other banks

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2022</u> K'000	<u>2021</u> K'000	<u>2022</u> K'000	<u>2021</u> K'000
Local banks	5 132 174	41 846 511	5 132 174	41 846 511
European Investment Bank	-	501 668	-	501 668
Other foreign banks	-	75 792 898	-	75 792 898
FMO Line of credit	<u>3 157 201</u>	<u>5 027 154</u>	<u>3 157 201</u>	<u>5 027 154</u>
Total balance due to other banks	<u>8 289 375</u>	<u>123 168 231</u>	<u>8 289 375</u>	<u>123 168 231</u>
Payable as follows:				
Due within 1 year	8 289 375	120 026 257	8 289 375	120 026 257
Due between 2 and 5 years	<u>-</u>	<u>3 141 974</u>	<u>-</u>	<u>3 141 974</u>
	<u>8 289 375</u>	<u>123 168 231</u>	<u>8 289 375</u>	<u>123 168 231</u>

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. The Currency Swap liability outstanding as at end of the reporting period was K5.1 billion (2021: K41.8 billion). The corresponding asset under the arrangement has been disclosed under **note 33**.

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, carried interest between 3.9% and 5.8% per annum and was repaid by 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 Secured Overnight Financing Rate (SOFR) rate plus a margin of 3.5% per annum and is repayable in equal quarterly instalments ending on 10 December 2023.

17. Customer deposits

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2022</u> K'000	<u>2021</u> K'000	<u>2022</u> K'000	<u>2021</u> K'000
Current and savings accounts	138 019 702	109 122 040	138 337 531	109 439 869
Foreign currency accounts	54 540 567	47 851 152	54 540 567	47 851 152
Term deposit accounts	<u>37 254 399</u>	<u>15 928 110</u>	<u>37 254 399</u>	<u>15 928 110</u>
Total customer deposits	<u>229 814 668</u>	<u>172 901 302</u>	<u>230 132 497</u>	<u>173 219 131</u>
Payable as follows:				
Maturing within 3 months	229 743 168	172 827 441	230 060 997	173 145 270
Maturing after 3 months	<u>71 500</u>	<u>73 861</u>	<u>71 500</u>	<u>73 861</u>
	<u>229 814 668</u>	<u>172 901 302</u>	<u>230 132 497</u>	<u>173 219 131</u>

Interest rates and currency analysis for customer deposits are as disclosed in note 5(I).

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18 (a). Other payables

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2022</u> K'000	<u>2021</u> K'000	<u>2022</u> K'000	<u>2021</u> K'000
Accrued expenses	1 942 980	1 765 327	1 942 980	1 765 327
Bankers cheques issued and uncleared	342 888	2 398 885	342 888	2 398 885
Bills payable	500 545	371 347	498 811	369 613
Interest payable	451 111	595 746	451 111	595 746
Margins on letters of credit and other instruments	702 609	582 448	702 609	582 448
Employee benefits liabilities	207 447	115 119	207 447	115 119
Trade payables	<u>7 450 870</u>	<u>3 017 319</u>	<u>7 636 697</u>	<u>3 203 146</u>
Total payables	<u>11 598 450</u>	<u>8 846 191</u>	<u>11 782 543</u>	<u>9 030 284</u>

All payables are expected to be settled within a period of twelve (12) months. Margins on letters of credit and other instruments are fully cash collateralised. Amounts included in other payables are non-interest bearing.

18 (b). Provisions

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2022</u> K'000	<u>2021</u> K'000	<u>2022</u> K'000	<u>2021</u> K'000
Opening balance at 1 January	727 500	638 711	727 500	638 711
Net provisions made during the year	<u>68 500</u>	<u>88 789</u>	<u>68 500</u>	<u>88 789</u>
Balance at 31 December	<u>796 000</u>	<u>727 500</u>	<u>796 000</u>	<u>727 500</u>

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.

19. Share capital

	<u>Consolidated and separate</u>	
	<u>2022</u> K'000	<u>2021</u> K'000
(a) Share capital	<u>116 813</u>	<u>116 813</u>

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

	<u>Consolidated and separate</u>	
	<u>2022</u> K'000	<u>2021</u> K'000
(b) Share premium	<u>1 565 347</u>	<u>1 565 347</u>

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.

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20. Property revaluation reserve

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2022</u> K'000	<u>2021</u> K'000	<u>2022</u> K'000	<u>2021</u> K'000
Opening balance	7 716 952	7 716 952	7 716 952	7 716 952
Property revaluation	<u>3 852 927</u>	<u>-</u>	<u>3 852 927</u>	<u>-</u>
Closing balance	<u>11 569 879</u>	<u>7 716 952</u>	<u>11 569 879</u>	<u>7 716 952</u>

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

21. Loan loss reserve

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2022</u> K'000	<u>2021</u> K'000	<u>2022</u> K'000	<u>2021</u> K'000
Loan loss reserve	<u>959 916</u>	<u>515 203</u>	<u>959 916</u>	<u>515 203</u>

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.

22. (a) Interest income

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2022</u> K'000	<u>2021</u> K'000	<u>2022</u> K'000	<u>2021</u> K'000
Loans and advances	19 406 620	14 371 272	19 406 620	14 371 272
Treasury bills	4 863 638	6 834 886	4 863 638	6 834 886
Promissory and Treasury notes	13 490 578	9 774 548	13 490 578	9 774 548
Placements with other banks	<u>1 590 774</u>	<u>356 170</u>	<u>1 590 774</u>	<u>356 170</u>
Total interest income	<u>39 351 610</u>	<u>31 336 876</u>	<u>39 351 610</u>	<u>31 336 876</u>

22. (b) Interest expense

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2022</u> K'000	<u>2021</u> K'000	<u>2022</u> K'000	<u>2021</u> K'000
Interest paid-Customer deposits	3 779 780	2 717 401	3 779 780	2 717 401
Interest paid-Money market	<u>4 274 896</u>	<u>3 510 774</u>	<u>4 274 896</u>	<u>3 510 774</u>
Total interest expense	<u>8 054 676</u>	<u>6 228 175</u>	<u>8 054 676</u>	<u>6 228 175</u>

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23. Income from investments

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2022</u> K'000	<u>2021</u> K'000	<u>2022</u> K'000	<u>2021</u> K'000
Dividend income	228 334	229 244	228 334	229 244
Movement in fair value of investments	<u>3 605 520</u>	<u>2 193 192</u>	<u>3 605 520</u>	<u>2 193 192</u>
Total	<u>3 833 854</u>	<u>2 422 436</u>	<u>3 833 854</u>	<u>2 422 436</u>

24. Staff and training costs

Contributions to defined contribution	592 108	515 523	592 108	515 523
Salaries and wages	6 529 809	5 641 825	6 529 809	5 641 825
Training and other staff costs	<u>3 584 855</u>	<u>2 514 444</u>	<u>3 584 855</u>	<u>2 514 444</u>
Total staff and training costs	<u>10 706 772</u>	<u>8 671 792</u>	<u>10 706 772</u>	<u>8 671 792</u>

25. Other expenses

Administration expenses	5 036 695	3 656 904	5 036 695	3 656 904
Auditor's remuneration	158 464	198 000	158 464	198 000
Bank charges	593 967	548 135	593 967	548 135
Non-executive Directors' remuneration	366 582	283 894	366 582	283 894
Insurance	90 547	78 657	90 547	78 657
Legal and consultancy fees	322 860	403 946	322 860	403 946
Marketing costs	665 731	501 643	665 731	501 643
Motor vehicle running costs	392 611	272 718	392 611	272 718
Repairs and maintenance	234 339	183 690	234 339	183 690
Operational losses	252 828	258 223	252 828	258 223
Postage	49 364	62 855	49 364	62 855
Printing and stationery	317 662	275 886	317 662	275 886
Professional subscriptions	28 416	117 446	28 416	117 446
Telephone expenses	38 159	43 734	38 159	43 734
Travel expenses	168 527	82 862	168 527	82 862
Interest expense on right of use assets (note 38(a))	82 425	76 302	82 425	76 302
Depreciation for right-of -use-assets (note 38(a))	271 963	238 601	271 963	238 601
Utilities	<u>356 049</u>	<u>345 362</u>	<u>356 049</u>	<u>345 362</u>
Total other expenses	<u>9 427 189</u>	<u>7 628 858</u>	<u>9 427 189</u>	<u>7 628 858</u>

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.

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26. Income tax expense

Recognised in the statement of comprehensive income

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2022</u> K'000	<u>2021</u> K'000	<u>2022</u> K'000	<u>2021</u> K'000
(a) Current tax expense				
Current year at 30% (2021: 30%) based on profits	8 202 592	5 749 159	8 202 592	5 749 159
Origination and reversal of temporary differences (Note 15)	<u>(1 688 982)</u>	<u>(129 833)</u>	<u>(1 688 982)</u>	<u>(129 833)</u>
	<u>6 513 610</u>	<u>5 619 326</u>	<u>6 513 610</u>	<u>5 619 326</u>
(b) Reconciliation of effective tax rate				
Operating Profit	24 784 094	20 385 431	24 784 094	20 385 431
Tax using the domestic tax rate 30% (2021:30%)	7 435 228	6 115 629	7 435 228	6 115 629
Non-deductible expenses	340 849	359 469	340 849	359 469
Tax exempt income	<u>(1 262 467)</u>	<u>(855 772)</u>	<u>(1 262 467)</u>	<u>(855 772)</u>
	<u>6 513 610</u>	<u>5 619 326</u>	<u>6 513 610</u>	<u>5 619 326</u>
(c) Income tax (recoverable)/payable				
As at 1 January	1 778 726	1 835 694	1 812 004	1 868 972
Charge for the year	8 202 592	5 749 159	8 202 592	5 749 159
Paid during the year	<u>(7 377 603)</u>	<u>(5 806 127)</u>	<u>(7 377 603)</u>	<u>(5 806 127)</u>
As at 31 December	<u>2 603 715</u>	<u>1 778 726</u>	<u>2 636 993</u>	<u>1 812 004</u>
Presented in the statement of financial position as				
Current tax assets	43 649	43 649	-	-
Current tax liabilities	<u>(2 647 364)</u>	<u>(1 822 375)</u>	<u>(2 636 993)</u>	<u>(1 812 004)</u>
	<u>(2 603 715)</u>	<u>(1 778 726)</u>	<u>(2 636 993)</u>	<u>(1 812 004)</u>

27. Basic and diluted earnings per share

The calculation of basic and diluted earnings per share at 31 December 2022 was based on profit attributable to ordinary shareholders of K 18 270 484 000 (2021: K14 766 105 000) and a weighted average number of ordinary shares outstanding of 2 336 250 000 (2021: 2 336 250 000) calculated as follows:

	<u>Consolidated</u>	
	<u>2022</u>	<u>2021</u>
Profit attributable to ordinary shareholders (K'000)	18 270 484	14 766 105
Weighted average number of ordinary shares in issue (thousands)	2 336 250	2 336 250
Basic and diluted earnings per share (tambala)	<u>782</u>	<u>632</u>

28. Group subsidiaries

List of subsidiaries

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

<u>Company name</u>	<u>Principal place of business</u>	<u>Ownership interest</u>	
		<u>2022</u>	<u>2021</u>
FMB Capital Markets Limited (dormant)	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%

29. Dividends

In 2022, the Bank paid cash dividend amounting to K8.48 billion to its shareholders (2021: K4.60 billion). K4.80 billion was paid in April 2022 as 2021 final dividend, K2.50 billion was paid in August 2022 as 2022 first interim dividend and 2022 second interim dividend of K1.18 billion was paid in November 2022.

30. 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

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2022</u> K'000	<u>2021</u> K'000	<u>2022</u> K'000	<u>2021</u> K'000
Corporate bodies directly or indirectly related to Directors:				
Balance at the beginning of the year	1 902 029	1 745 586	1 902 029	1 745 586
Loans granted during the year	<u>1 027 495</u>	<u>156 443</u>	<u>1 027 495</u>	<u>156 443</u>
Balance at the end of the year	<u>2 929 524</u>	<u>1 902 029</u>	<u>2 929 524</u>	<u>1 902 029</u>
Senior management:				
Balance at the beginning of the year	316 004	306 297	316 004	306 297
Loans granted during the year	730 836	83 965	730 836	83 965
Repayments	<u>(67 446)</u>	<u>(74 258)</u>	<u>(67 446)</u>	<u>(74 258)</u>
Balance at the end of the year	<u>979 394</u>	<u>316 004</u>	<u>979 394</u>	<u>316 004</u>

Loans granted in the period represent increase in utilisation of overdraft limits by parties related to directors. These are done 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 K72.9 million (2021: K33.3 million) of interest free advances and K2.6 billion (2021: K1.3 billion) of advances which carry interest at 7% per annum (2021: 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.

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30. 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	2022	2021
				(K'000)	(K'000)
First Capital Bank Plc (Malawi)	FMBcapital Holdings Plc (Mauritius)	Shareholder	Deposit account	13 700	20 725
First Capital Bank Plc (Malawi)	First Capital Shared Services Limited (Mauritius)	Subsidiary of FMBCH	Intercompany	246 908	106 342
First Capital Bank Plc (Malawi)	First Capital Bank Ltd (Zimbabwe)	Subsidiary of FMBCH	Deposit account	254 645	260 752
First Capital Bank Plc (Malawi)	First Capital Bank Ltd (Botswana)	Subsidiary of FMBCH	Deposit account	3 678	2 917
First Capital Bank Plc (Malawi)	First Capital Bank Ltd (Zimbabwe)	Subsidiary of FMBCH	Intercompany	76 399	257 818
First Capital Bank Plc (Malawi)	First Capital Bank Ltd (Zambia)	Subsidiary of FMBCH	Intercompany	134 397	36 511
First Capital Bank Plc (Malawi)	First Capital Bank Ltd (Botswana)	Subsidiary of FMBCH	Intercompany	7 722	17 520
First Capital Bank Plc (Malawi)	First Capital Bank S.A (Mozambique)	Subsidiary of FMBCH	Intercompany	45 808	67 039
First Capital Bank Plc (Malawi)	FMBcapital Holdings Plc (Mauritius)	Ultimate shareholder	Intercompany	400 293	147 591
First Capital Bank Plc (Malawi)	First Capital Bank Ltd (Botswana)	Subsidiary of FMBCH	Currency Swaps	-	(8 204 072)

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:

	2022 K'000	2021 K'000
Deposits	317 829	317 829
Net interest income	-	-

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

	Consolidated		Separate	
	2022 K'000	2021 K'000	2022 K'000	2021 K'000
Directors' fees and expenses	366 582	283 894	366 582	283 894
	<u>366 582</u>	<u>283 894</u>	<u>366 582</u>	<u>283 894</u>

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.

30. Related party transactions (Continued)

Other related parties

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

	Agreement date	<u>2022</u> K'000	<u>2021</u> 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	<u>151 774</u>	<u>151 774</u>
		<u>240 774</u>	<u>240 774</u>

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 2022, 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:

	<u>2022</u>	<u>2021</u>
	Ordinary shares	
H. N. Anadkat	1 117 695 155	1 117 695 155
T. Kadantot	1 587 600	1 587 600

31. 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:

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2022</u> K'000	<u>2021</u> K'000	<u>2022</u> K'000	<u>2021</u> K'000
Contingent liabilities				
Acceptances and letters of credit	5 178 413	3 332 918	5 178 413	3 332 918
Financial guarantees	<u>56 699 041</u>	<u>29 656 298</u>	<u>56 699 041</u>	<u>29 656 298</u>
	<u>61 877 454</u>	<u>32 989 216</u>	<u>61 877 454</u>	<u>32 989 216</u>
Other contingent liabilities				
Tax claims	1 333 320	1 333 320	1 333 320	1 333 320
Legal claims	<u>1 407 242</u>	<u>1 387 008</u>	<u>1 407 242</u>	<u>1 387 008</u>
	<u>2 740 562</u>	<u>2 720 328</u>	<u>2 740 562</u>	<u>2 720 328</u>

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

The tax claim relates to an appeal the Bank lodged with the Commissioner General of the Malawi Revenue Authority (MRA) in 2021, for a claim of K1.33bn (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.

Legal claims represent outstanding legal cases against the Bank as at 31 December 2022, the outcome of which is uncertain. The amount disclosed of MK1.41 billion (2021: MK1.39 billion) represents an estimate of the cost to the Group in the event that legal proceedings find the Group to be in the wrong. Management is accordingly satisfied that the legal proceedings currently pending against the Bank should not have a material adverse effect on the Bank's financial position and the directors are satisfied that the Bank has adequate provisions in place to meet claims that may succeed.

Capital commitments

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2022</u> K'000	<u>2021</u> K'000	<u>2022</u> K'000	<u>2021</u> K'000
Capital expenditure				
Authorised but not contracted for	<u>3 835 987</u>	<u>3 096 817</u>	<u>3 835 987</u>	<u>3 096 817</u>

32. 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% (2021: 3.75%) of the preceding weeks total deposit liabilities. In the last two weeks of December 2022 the liquidity reserve was 10.36% (2021: 9.69%) of total customer deposits.

32. Statutory requirements (Continued)

(ii) **Capital Adequacy Requirement**

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

The total capital is made up of the following:

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

As at 31 December 2022, the Group's Tier 1 capital ratio of its risk bearing assets and Total capital ratio were as follows:

	<u>2022</u> K'000	<u>2021</u> K'000	<u>2022</u> K'000	<u>2021</u> K'000
Tier 1 risk based capital ratio (minimum 10%)	17.0%	17.5%	16.8%	17.5%
Total risk-weighted capital ratio (minimum 15%)	21.3%	21.2%	21.1%	21.1%

33. Repurchase agreements

	<u>Consolidated and Separate</u>	
	<u>2022</u> K'000	<u>2021</u> K'000
Repurchase agreements	<u>5 128 313</u>	<u>45 129 178</u>
Movement during the year was as follows:		
As at 1 January	45 129 178	57 915 414
Additions	5 169 176	45 206 623
Maturities	(45 167 904)	(57 954 135)
Expected credit losses	<u>(2 137)</u>	<u>(38 724)</u>
As at 31 December	<u>5 128 313</u>	<u>45 129 178</u>

<u>Funds under currency swap</u>	<u>Trade date</u>	<u>Maturity date</u>	<u>K'000</u>	<u>Spot/Forward Rate</u>
<u>31-Dec-22</u>				
US\$ 5.0 million	30-Sep-22	31-Mar-23	5 130 451	1026.43/1031.08
<u>31-Dec-21</u>				
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

FIRST CAPITAL BANK PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2022

33. 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 deal is listed above. The corresponding liability under the arrangements has been disclosed in note 17.

34. Impairment loss on financial assets

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2022</u> K'000	<u>2021</u> K'000	<u>2022</u> K'000	<u>2021</u> K'000
Impairment allowance on loans				
Impairment charge	2 036 458	2 612 399	2 036 458	2 612 399
Recoveries	<u>(1 459 443)</u>	<u>(1 449 338)</u>	<u>(1 459 443)</u>	<u>(1 449 338)</u>
	<u>577 015</u>	<u>1 163 061</u>	<u>577 015</u>	<u>1 163 061</u>
Impairment allowance on other financial assets				
Impairment charge	-	237 982	-	237 982
Recoveries- Money markets	(278 012)	-	(278 012)	-
Recoveries-Repurchase agreements	<u>(36 586)</u>	<u>-</u>	<u>(36 586)</u>	<u>-</u>
	<u>(314 598)</u>	<u>237 982</u>	<u>(314 598)</u>	<u>237 982</u>
Total impairment loss on financial assets	<u>262 417</u>	<u>1 401 043</u>	<u>262 417</u>	<u>1 401 043</u>
<i>Comprising</i>				
Impairment allowance on loans				
Specific impairment charges	508 812	1 101 347	508 812	1 101 347
Collective impairment charges	<u>68 203</u>	<u>61 714</u>	<u>68 203</u>	<u>61 714</u>
	<u>577 015</u>	<u>1 163 061</u>	<u>577 015</u>	<u>1 163 061</u>
Impairment allowance on other financial assets				
Collective impairment charges/(recoveries)	<u>(314 598)</u>	<u>237 982</u>	<u>(314 598)</u>	<u>237 982</u>
	<u>(314 598)</u>	<u>237 982</u>	<u>(314 598)</u>	<u>237 982</u>
Total impairment loss on financial assets	<u>262 417</u>	<u>1 401 043</u>	<u>262 417</u>	<u>1 401 043</u>

35. 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.

FIRST CAPITAL BANK PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2022

<u>Exchange rates</u>	<u>2022</u> Kwacha	<u>2021</u> Kwacha
Malawi Kwacha/GBP	1 273.21	1 239.22
Malawi Kwacha/Rand	62.33	61.15
Malawi Kwacha/US Dollar	1 026.09	816.91
Malawi Kwacha/Euro	1 125.15	1 168.67
Malawi Kwacha/Pula	82.54	69.03
Malawi Kwacha/Meticais	16.38	12.93
Malawi Kwacha/Zambia Kwacha	58.66	48.65
 <u>Inflation rate %</u>	 <u>25.40</u>	 <u>11.50</u>

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

	<u>2022</u> Kwacha
Malawi Kwacha/GBP	1 279.98
Malawi Kwacha/Rand	58.14
Malawi Kwacha/US Dollar	1 026.09
Malawi Kwacha/Euro	1 132.76
Malawi Kwacha/Pula	79.48
Malawi Kwacha/Meticais	16.42
Malawi Kwacha/Zambia Kwacha	52.30
 Inflation rate % (February 2023)	 <u>26.7</u>

36. 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:

	<u>2022</u>	<u>2021</u>
Assets		
Government securities	14.98-21.35%	6.15-14.65%
Deposits with banking institutions	11.70-15.0%	11.14-12.2%
Loans and advances to customers (base rate)	13.5-17.3%	11.9-13.4%
 Liabilities		
Customer deposits	0-14.5%	0-10%

37. Assets held for sale

	<u>Consolidated and Separate</u>	
	<u>2022</u> K'000	<u>2021</u> K'000
Assets held for sale	<u>-</u>	<u>216 095</u>

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 were earmarked for disposal through sale transactions. Disposal of these assets has failed to materialise within the period that was originally envisaged. The directors have since reclassified these assets under IAS 16, Property, Plant and Equipment.

FIRST CAPITAL BANK PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2022

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

	Consolidated and Separate	
	<u>2022</u>	<u>2021</u>
	K'000	K'000
Cost		
At 1 January	1 185 452	1 053 952
Additions	<u>197 725</u>	<u>131 500</u>
	<u>1 383 177</u>	<u>1 185 452</u>
 Accumulated depreciation		
At 1 January	754 470	515 869
Charge for the year	<u>271 963</u>	<u>238 601</u>
At 31 December	<u>1 026 433</u>	<u>754 470</u>
 Carrying amount		
At 31 December	<u>356 744</u>	<u>430 982</u>
 Average lease term (years)	4.8	6.8
 Amounts recognised in profit and loss		
Depreciation expense on right-of-use assets (Note 25)	271 963	238 601
Interest expense on lease liabilities (Note 25)	82 425	76 302

The Bank leases several building assets for its operations. The average lease term is 4.8 years. The maturity analysis of lease liabilities is presented in Note 38(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.

<u>2022</u>	Consolidated and separate	
	<u>2022</u>	<u>2021</u>
	K'000	K'000
Opening liability at 1 January 2022	526 444	626 819
Additions	197 725	131 500
Lease payments during the year	(352 989)	(308 177)
Interest on lease liabilities	<u>82 425</u>	<u>76 302</u>
Carrying amount of lease liabilities	<u>453 605</u>	<u>526 444</u>
 Analyzed as:		
Non-current	223 129	322 595
Current	<u>230 476</u>	<u>203 849</u>
	<u>453 605</u>	<u>526 444</u>
 Maturity analysis		
Year 1	262 668	248 999
Year 2	92 319	191 588
Year 3	52 884	53 113
Year 4	41 544	35 460
Year 5	25 727	24 120
After 5 years	<u>65 984</u>	<u>90 258</u>
	541 126	643 538
Less unearned interest	<u>(87 521)</u>	<u>(117 094)</u>
	<u>453 605</u>	<u>526 444</u>

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

39. 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 K27.5 million (2021: K6.3 million). All other revenues are attributable to the country in which the respective operating segment is domiciled.

During the year, the Bank earned K4.9 billion (2021: K6.8 billion) interest on Government of Malawi treasury bills; K13.5 billion (2021: K9.8 billion) interest on Government of Malawi Treasury Notes and K254.2 million (2021: K330.1 million) interest on loans and advances to enterprises controlled by Government of Malawi.

FIRST CAPITAL BANK PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2022

39. Segmental Reporting (Continued)

	<u>Malawi</u>				TOTAL K'000
	<u>Corporate & Retail Banking</u> K'000	<u>Others</u> K'000	<u>Subtotal</u> K'000	<u>Total before adjustments</u> K'000	
2022					
Interest income	39 351 610	-	39 351 610	39 351 610	-
Interest expense	(8 054 676)	-	(8 054 676)	(8 054 676)	-
Net interest income	<u>31 296 934</u>	-	<u>31 296 934</u>	<u>31 296 934</u>	-
Fees and commissions	9 176 343	-	9 176 343	9 176 343	-
Income from investments	3 833 854	-	3 833 854	3 833 854	-
Gain on foreign exchange transactions	7 018 850	-	7 018 850	7 018 850	-
Non-interest income	<u>20 029 047</u>	-	<u>20 029 047</u>	<u>20 029 047</u>	-
Total operating income	<u>51 325 981</u>	-	<u>51 325 981</u>	<u>51 325 981</u>	-
Staff and training costs	(10 706 772)	-	(10 706 772)	(10 706 772)	-
Premises and equipment	(3 908 132)	-	(3 908 132)	(3 908 132)	-
Depreciation	(2 237 377)	-	(2 237 377)	(2 237 377)	-
Other expenses	(9 427 189)	-	(9 427 189)	(9 427 189)	-
Impairment of financial assets	(262 417)	-	(262 417)	(262 417)	-
Total expenditure	<u>(26 541 887)</u>	-	<u>(26 541 887)</u>	<u>(26 541 887)</u>	-
Profit before income tax expense	24 784 094	-	24 784 094	24 784 094	-
Income tax expense	(6 513 610)	-	(6 513 610)	(6 513 610)	-
Profit for the year	<u>18 270 484</u>	-	<u>18 270 484</u>	<u>18 270 484</u>	-
Other comprehensive income	3 201 124	-	3 201 124	3 201 124	-
Revaluation surplus on property	651 803	-	651 803	651 803	-
Deferred tax on revalued property	3 852 927	-	3 852 927	3 852 927	-
Total other comprehensive income for the period	<u>22 123 411</u>	-	<u>22 123 411</u>	<u>22 123 411</u>	-
Total comprehensive income for the period	315 097 138	1 051 505	316 148 643	316 148 643	(1 185 774)
Total segment assets	254 091 010	46 215	254 137 225	254 137 225	(537 802)
Total segment liabilities					

40. Subsequent events

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