Consolidated and separate financial statements for the year ended 31 December 2023

Content

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 2023.

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 Banking Act, 2009. It has four wholly owned subsidiaries incorporated in Malawi as follows:

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

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 Group paid a total dividend of K13.76 billion (2022: K8.48 billion) to its shareholder, FMBcapital Holdings Plc as follows:

- K5.46 billion final dividend for 2022 paid in May 2023.
- K8.30 billion interim dividend for 2023 paid in September 2023.

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
Mrs. C. Musopole	Director	Non-Executive
Mr. W. Swart	Director	Non-Executive (Up to 4 January 2023)
Dr. R. Mangani	Director	Non-Executive (Up to 30 March 2023)
Mr. T. Kadantot	Director	Non-Executive
Mr. B. Jani (Deceased)	Director	Non-Executive (Up to 30 March 2023)
Mrs. L Mataya	Director	Non-Executive
Mr. R. Pant	Director	Non-Executive (From 18 April 2023)
Mr. B. Ndau	Director	Non-Executive (From 8 March 2023)
Mr. P. Chikopa	Director	Non-executive (From 8 March 2023)
Mr. B. Bouke	Director	Non-Executive (From 15 March 2023)
Mr. E. Chinyamunyamu	Director	Non-Executive (From 8 March 2023)
Mr. P. Mzembe	Company Secretary	

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

Donations

Total donations by the companies in the Group during the year amounted to K405.1 million (2022: K164.7 million). The donations were made to charitable causes, which directors regard as non-political.

Auditors

Ernst & Young (EY), Chartered Accountants, P. O. Box 530, Blantyre, have signified their willingness to continue in office and a resolution will be proposed at the forthcoming Annual General Meeting in relation to their appointment as auditors in respect of the year ending 31 December 2024.

Shareholding analysis

	2023	2022
Name	%	%
FMBcapital Holdings Plc	100.00	100.00

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

Director
Mr. H. Anadkat

Director
Mrs. C. Musopole

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 2023

Member	14-Mar-23	13-Jun-23	12-Sep-23	28-Nov-23
Mr. T. Davidson (Chairman)	✓	✓	✓	✓
Mr. H. N. Anadkat	✓	✓	✓	✓
Mrs. C. Musopole	✓	✓	✓	X
Mr. T. Kadantot	✓	✓	✓	✓
Mr. B. Jani	✓	N/A	N/A	N/A
Mrs. L. Mataya	✓	✓	✓	✓
Mr. R. Pant	N/A	✓	✓	✓
Mr. B. Ndau	✓	✓	✓	✓
Mr. P. Chikopa	✓	✓	✓	✓
Mr. B. Bouke	N/A	✓	X	✓
Mr. E. Chinyamunyamu	✓	✓	✓	✓

Key

✓ - Attendance 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.

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, and risk exposure 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
Manager – Financial Reporting (Committee Secretary).

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

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 four times a year. During the year, the following served as members of the Audit Committee:

Mrs. C. Musopole	Non-executive director (Chairman)
Mr. P. Chikopa	Non-executive director
Mr. E. Chinyamunyamu	Non-executive director

Audit Committee Meetings Attendance 2023

Member	**13-Mar-23**	**12-Jun-23**	**11-Sep-23**	**27-Nov-23**
Mrs. C. Musopole	✓	✓	✓	✓
Mr. P. Chikopa	✓	✓	✓	✓
Mr. E. Chinyamunyamu	✓	✓	✓	✓

Key

✓ - Attendance X – Apology N/A – Not Applicable

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. H. N. Anadkat	Non-executive director (Chairman)
Mr. T. Kadantot	Non-executive director
Mr. B. Ndau	Non-executive director

Credit Committee Attendance 2023

Member	13-Mar-23	12-Jun-23	11-Sep-23	27-Nov-23
Mr. H. N. Anadkat	✓	✓	✓	✓
Mr. T. Kadantot	✓	✓	✓	✓
Mr. B. Ndau	✓	✓	✓	✓

Key

✓ - Attendance X – Apology N/A – Not Applicable

Appointments and Remuneration Committee

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

Mr. T. Davidson	Chairman
Mr. B. Ndau	Director
Mr. H. N. Anadkat	Director

Appointments and Remuneration Committee Meetings Attendance 2023

Member	13-Mar-23	12-Jun-23	11-Sep-23	27-Nov-23
Mr. T. Davidson	✓	✓	✓	✓
Mr. B. Ndau	✓	✓	✓	✓
Mr. H. N. Anadkat	✓	✓	✓	✓

Key

✓ - Attendance X – Apology N/A – Not Applicable

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. R. Pant	Non-executive director (Chairman)
Mr. B. Jani	Non-executive director
Mrs. L. Mataya	Non-executive director
Mr. B. Bouke	Non-executive director

Risk Committee Meetings Attendance 2023

Member	13-Mar-23	12-Jun-23	11-Sep-23	27-Nov-23
Mr. R. Pant	N/A	✓	✓	✓
Mr. B. Jani	✓	N/A	N/A	N/A
Mrs. L. Mataya	✓	✓	✓	✓
Mr. B. Bouke	N/A	✓	✓	X

Key

✓ - Attendance X – Apology N/A – Not Applicable

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.

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 2023 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 in the manner required by the Malawi Companies Act, 2013. 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 Bank maintain proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and Bank 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 Bank will continue in business.

The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of the consolidated and separate 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 12 March 2024 and are signed on its behalf by:

Director	**Director**
Mr. H. Anadkat	**Mrs. C. Musopole**

By order of the Board

Building a better working world

Chartered Accountants (Malawi)
Apex House
Kidney Crescent
PO Box 530
Blantyre, Malawi

Tel: +265 999 888 684 / 991 971 035
ey.com

Independent auditor's report to the members of First Capital Bank Plc

Opinion

We have audited the consolidated and separate financial statements of First Capital Bank Plc and its subsidiaries ("the Group"), set out on pages 12 to 109, which comprise the consolidated and separate statements of financial position as at 31 December 2023, 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 material accounting policy information.

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 Plc as at 31 December 2023, 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.

Level	Key audit matter
First Capital Bank Plc	**Expected Credit losses in respect of loans and advances to customers** The disclosures associated with Credit Risk are set out in the consolidated and separate financial statements in the following notes: ▸ Note 4(c) - *Classification and measurement of financial instruments under IFRS 9.* ▸ Note 5(k) – *Risk Management, Credit Risk Management.* ▸ Note 9 - *Loans and advances to customers.* ▸ *Note 35 – Impairment of Loans and Advances.* ▸ *Note 2 (iv)- Use of estimates and judgements.*

Key audit matters (*Continued)*

Expected Credit losses in respect of loans and advances to customers	How the matter was addressed in the audit
We identified the audit of expected credit losses (ECL) as a key audit matter considering the following: ▸ First Capital Bank's loan and advances to customers at K184.8 billion represent 38% of total assets and the associated impairment provisions for expected credit losses of K4.78 billion are material to the consolidated financial statements. ▸ The high degree of estimation uncertainty, significant judgements and assumptions applied in estimating the ECL on loans and advances to customers. ▸ The Significant portion of ECL is calculated on a modelled basis. The development and execution of the model requires significant management judgement, including estimation of the probability of default (PD); exposure at default (EAD) and loss given default (LGD) model parameters. Significant increases in credit risk (SICR) are assessed based on the current risk of default of an account relative to its risk of default at origination. This assessment incorporates judgement and estimation by management, including impact of external factors. ▸ In particular we have focussed on the following areas of significant judgement and estimation which required the use of specialists, additional audit effort and increased discussions with management during the course of the audit:	**Our response to the key audit matter included performing the following audit procedures:** ▸ We obtained an understanding of the bank's policies and procedures, including controls in place around determination of expected credit losses. We confirmed our understanding of the design and the operating effectiveness of the key controls over the processes of credit assessment, loan classification and loan impairment assessment including the oversight role of those charged with governance in the determination, accounting and reporting of expected credit losses. ▸ We carried out procedures to ensure the data being used in the models is complete, accurate, and that assumptions used are reasonable and supportable. ▸ Our internal specialists reviewed the models used to process data and the alignment of these models to the 'methodology' and recalibrations approved for use by the Group. ▸ We assessed the input assumptions applied within the PD, EAD and LGD models (including forward looking information) for compliance with the requirements of IFRS 9 – Financial Instruments ("IFRS 9"). In addition, our procedures included assessing the appropriateness of the models through reperformance and validation procedures. ▸ We obtained an understanding and tested the relevant internal controls relating to the approval of credit facilities, subsequent monitoring and remediation of exposures, key system reconciliations and collateral management. ▸ Evaluating the appropriateness of the Significant Increase in Credit Risk (SICR) criteria used by assessing reasonableness of qualitative staging decisions such as the borrower's financial performance and accuracy of quantitative staging criteria based on days past due.
Modelled ECL provisions. Determination of expected credit losses require consideration of multiple forward-looking macro-economic factors, including consideration of observable relationships between these factors and Non-Performing Loans (NPL) in the past projected into the future. The key factors considered by the bank include inflation, GDP, interest rates, fuel prices, and historical correlations between these inputs against the NPL rate. Calculation of expected losses utilizes models that utilize collateral reports from valuers, legal experts, and credit specialists.	**Modelled ECL provisions.** We have assessed the appropriateness of the macro-economic forecasts and scenario weightings by benchmarking these against external evidence and economic data. Our internal specialists reviewed the correlation between probabilities of default and external macro-economic factors using historical data and results thereof, including reviewing the appropriateness of the statistical methodologies used to project these relationships in the future. For collateral held, we inspected legal agreements and supporting documentation to confirm the existence and legal right to collateral. The collateral valuation techniques applied by management were benchmarked to the market practice and values compared to market achievable disposal values on the market.

Expected Credit losses in respect of loans and advances to customers	How the matter was addressed in the audit
Extensive disclosures in accordance with International Financial Reporting Standards (IFRS). Extensive disclosures are required in the financial statements in order to allow users of the financial statements to understand the additional level of judgement applied by management, this included additional disclosure with regards to management adjustments and sensitivity analyses. Due to the extensive nature of these disclosures which are non-routine and very specific to the environmental conditions, this required significant audit effort to assess the reasonability and compliance with International Financial Reporting Standards (IFRS).	**Extensive disclosures International Financial Reporting Standards (IFRS).** Our financial reporting specialists reviewed the additional disclosures related to adequacy and appropriateness in accordance with the requirements of *IFRS 7- Financial Instruments: Disclosures requirements*. Specifically, we assessed the reasonability of the disclosures in light of the audit work performed and disclosures made elsewhere in the financial statements.

Other matter

The consolidated and separate financial statements of First Capital Bank plc for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those statements on 30 March 2023.

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.

Building a better working world

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and

- Obtain sufficient appropriate audit evidence regarding the financial information of the Group or business activities within the group to express an opinion on the financial statements.

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

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.

Ernst & Young

Chartered Accountants (Malawi)
Chiwemi Chihana
Registered Practicing Accountant

22 March 2024

A member firm of Ernst & Young Global Limited.

	Notes	Consolidated 2023 K'000	Consolidated 2022 K'000	Separate 2023 K'000	Separate 2022 K'000
Assets					
Cash and cash equivalents	7	86 394 065	56 233 428	86 394 065	56 233 428
Money market investments	8	160 650 751	91 765 920	160 650 751	91 765 920
Loans and advances to customers	9	184 826 160	127 331 876	184 826 160	127 331 876
Amounts due from related parties	11	121 111	264 327	121 111	264 327
Repurchase agreements	34	8 383 221	5 128 313	8 383 221	5 128 313
Current tax assets	27(c)	43 649	43 649	-	-
Investments at fair value through profit or loss	12	10 918 842	4 731 173	10 918 842	4 731 173
Other assets	10	4 318 325	2 631 946	4 290 875	2 604 496
Investment in subsidiaries	13	-	-	208 791	208 791
Property and equipment	14(b)	25 792 649	23 618 900	25 792 649	23 618 900
Right-of-use assets	38(a)	332 564	356 744	332 564	356 744
Deferred tax assets	15	497 227	808 944	493 804	805 521
Intangible assets	14(a)	1 369 324	2 047 649	1 369 324	2 047 649
Total assets		**483 647 888**	**314 962 869**	**483 782 157**	**315 097 138**
Liabilities and Equity					
Liabilities					
Balances due to other banks	16	22 878 915	8 289 375	22 878 915	8 289 375
Customer deposits	17	354 465 388	229 814 668	354 783 217	230 132 497
Current tax liabilities	27(c)	4 245 422	2 647 364	4 235 051	2 636 993
Other payables	18(a)	21 839 335	11 598 450	22 023 428	11 782 543
Lease liabilities	38(b)	448 338	453 605	448 338	453 605
Provisions	18(b)	2 217 479	796 000	2 217 479	796 000
Total liabilities		**406 094 877**	**253 599 462**	**406 586 428**	**254 091 013**
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	12 530 399	11 569 879	12 530 399	11 569 879
Loan loss reserve	21	1 089 212	959 916	1 089 212	959 916
Retained earnings		62 251 240	47 151 452	61 893 958	46 794 170
Total equity		**77 553 011**	**61 363 407**	**77 195 729**	**61 006 125**
Total equity and liabilities		**483 647 888**	**314 962 869**	**483 782 157**	**315 097 138**

The consolidated and separate financial statements were approved for issue by the Bank's Board of Directors on 12 March 2024 and were signed on its behalf by:

Director
Mr. H. Anadkat

Director
Mrs. C. Musopole

First Capital Bank Plc

Statements of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2023

		Consolidated		Separate	
	Note	2023 K'000	2022 K'000	2023 K'000	2022 K'000
Interest income	23(a)	60 780 948	39 351 610	60 780 948	39 351 610
Interest expense	23(b)	(14 995 474)	(8 054 676)	(14 995 474)	(8 054 676)
Net interest income		**45 785 474**	**31 296 934**	**45 785 474**	**31 296 934**
Fees and commission income	24(a)	30 410 756	16 195 193	30 410 756	16 195 193
Income from investments	24(b)	6 486 204	3 833 854	6 486 204	3 833 854
Total non-interest income		**36 896 960**	**20 029 047**	**36 896 960**	**20 029 047**
Total operating income		**82 682 434**	**51 325 981**	**82 682 434**	**51 325 981**
Staff and training costs	25	12 504 499	10 706 772	12 504 499	10 706 772
Premises and equipment costs	26(a)	4 760 697	3 908 132	4 760 697	3 908 132
Depreciation and amortization	14	2 518 645	2 237 377	2 518 645	2 237 377
Other expenses	26(b)	16 599 115	9 427 189	16 599 115	9 427 189
Impairment loss on financial assets	35	3 425 242	262 417	3 425 242	262 417
Total expenses		**39 808 198**	**26 541 887**	**39 808 198**	**26 541 887**
Profit before income tax expense		42 874 236	24 784 094	42 874 236	24 784 094
Income tax expense	27(a)	(13 890 152)	(6 513 610)	(13 890 152)	(6 513 610)
Profit for the year		**28 984 084**	**18 270 484**	**28 984 084**	**18 270 484**
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Revaluation surplus on property		1 093 163	3 201 124	1 093 163	3 201 124
Deferred tax on revalued property		(132 643)	651 803	(132 643)	651 803
Total other comprehensive income for the year		**960 520**	**3 852 927**	**960 520**	**3 852 927**
Total comprehensive income for the year		**29 944 604**	**22 123 411**	**29 944 604**	**22 123 411**
Profit or loss attributable to:					
Owners of the company		28 984 084	18 270 484	28 984 084	18 270 484
Profit for the year		**28 984 084**	**18 270 484**	**28 984 084**	**18 270 484**
Total comprehensive income attributable to:					
Owners of the company		29 944 604	22 123 411	29 944 604	22 123 411
Total comprehensive income for the year		**29 944 604**	**22 123 411**	**29 944 604**	**22 123 411**
Basic and diluted earnings per share (tambala)	28	**1 241**	**782**	**-**	**-**

Consolidated

	Share Capital K'000	Share premium K'000	Property revaluation reserve K'000	Loan-loss reserve K'000	Retained earnings K'000	Total equity K'000
2023						
As at 1 January 2023	116 813	1 565 347	11 569 879	959 916	47 151 452	61 363 407
Profit for the year	-	-	-	-	28 984 084	28 984 084
Other Comprehensive Income						
Revaluation surplus on property	-	-	1 093 163	-	-	1 093 163
Deferred tax on revalued assets	-	-	(132 643)	-	-	(132 643)
Total Other Comprehensive Income			**960 520**			**960 520**
Total comprehensive income for the year	**-**	**-**	**960 520**	**-**	**28 984 084**	**29 944 604**
Transfers within reserves						
Transfer to loan loss reserve	-	-	-	129 296	(129 296)	-
Total Transfers within reserves	**-**	**-**	**-**	**129 296**	**(129 296)**	**-**
Transactions with owners, recorded directly in equity						
Dividends paid to owners of the parent	-	-	-	-	(13 755 000)	(13 755 000)
Total transactions with owners	**-**	**-**	**-**	**-**	**(13 755 000)**	**(13 755 000)**
As at 31 December 2023	**116 813**	**1 565 347**	**12 530 399**	**1 089 212**	**62 251 240**	**77 553 011**
2022						
As at 1 January 2022	116 813	1 565 347	7 716 952	515 203	37 805 681	47 719 996
Profit for the year	-	-	-	-	18 270 484	18 270 484
Other Comprehensive Income						
Revaluation surplus on property	-	-	3 201 124	-	-	3 201 124
Deferred tax on revalued assets	-	-	651 803	-	-	651 803
Total Other Comprehensive Income	**-**	**-**	**3 852 927**	**-**	**-**	**3 852 927**
Total comprehensive income for the year	**-**	**-**	**11 569 879**	**-**	**18 270 484**	**22 123 411**
Transfers within reserves						
Transfer to loan loss reserve	-	-	-	444 713	(444 713)	-
Total Transfers within reserves	**-**	**-**	**-**	**444 713**	**(444 713)**	**-**
Transactions with owners, recorded directly in equity						
Dividends paid to owners of the parent	-	-	-	-	(8 480 000)	(8 480 000)
Total transactions with owners	**-**	**-**	**-**	**-**	**(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**

Separate

	Share capital	Share premium	Property revaluation reserve	Loan loss reserve	Retained earnings	Total equity
	K'000	K'000	K'000	K'000	K'000	K'000
2023						
As at beginning of the year	116 813	1 565 347	11 569 879	959 916	46 794 170	61 006 125
Profit for the year	-	-	-	-	28 984 084	28 984 084
Other Comprehensive Income						
Revaluation surplus on property	-	-	1 093 163	-	-	1 093 163
Deferred tax on revalued assets	-	-	(132 643)	-	-	(132 643)
Total Other Comprehensive Income			**960 520**			**960 520**
Total comprehensive income for the year	**-**	**-**	**960 520**	**-**	**28 984 084**	**29 944 604**
Transfers between reserves						
Transfer to loan loss reserve	-	-	-	129 296	(129 296)	-
Total Transfers within reserves	**-**	**-**	**-**	**129 296**	**(129 296)**	**-**
Transactions with owners, recorded directly in equity						
Dividends paid	-	-	-	-	(13 755 000)	(13 755 000)
Total transactions with owners	**-**	**-**	**-**	**-**	**(13 755 000)**	**(13 755 000)**
As at 31 December 2023	**116 813**	**1 565 347**	**12 530 399**	**1 089 212**	**61 893 958**	**77 195 729**
2022						
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	**-**	**-**	**-**	**-**	18 270 484	18 270 484
Other comprehensive income						
Revaluation surplus on property	-	-	3 201 124	-	-	3 201 124
Deferred tax on revalued assets	-	-	651 803	-	-	651 803
Total other comprehensive income	**-**	**-**	**3 852 927**	**-**	**-**	**3 852 927**
Total Transfers within reserves						
Transfer to loan loss reserve	-	-	-	444 713	(444 713)	-
Total Transfers within reserves	**-**	**-**	**-**	**444 713**	**(444 713)**	**-**
Transactions with owners, recorded directly in equity						
Dividends paid	-	-	-	-	(8 480 000)	(8 480 000)
Total transactions with owners	-	-	-	-	(8 480 000)	(8 480 000)
As at 31 December 2022	**116 813**	**1 565 347**	**11 569 879**	**959 916**	**46 794 170**	**61 006 125**

		Consolidated		Separate	
		2023	**2022**	**2023**	**2022**
	Notes	**K'000**	**K'000**	**K'000**	**K'000**
Cashflows from operating activities					
Interest and fees received		83 998 146	55 092 479	83 998 146	55 092 479
Interest paid		(14 131 596)	(8 199 310)	(14 131 596)	(8 199 310)
Cash paid to suppliers and employees		(24 376 482)	(21 621 966)	(24 376 482)	(21 621 966)
Net increase in customer balances		65 506 093	30 162 420	65 506 093	30 162 420
Cash generated from operations		**110 996 161**	**55 433 623**	**110 996 161**	**55 433 623**
Dividend received net of tax		186 673	228 334	186 673	228 334
Income taxes paid	27c	(12 113 020)	(7 377 603)	(12 113 020)	(7 377 603)
Net cash from operating activities		**99 069 814**	**48 284 354**	**99 069 814**	**48 284 354**
Cashflows from investing activities					
(Purchases)/maturities of investment securities	8	(70 366 231)	43 327 658	(70 366 231)	43 327 658
(Purchases)/Maturities of repurchase agreements		(3 286 217)	39 998 728	(3 286 217)	39 998 728
Proceeds from sale of equipment		41 812	43 459	41 812	43 459
Sale of shares in listed companies		111 862	4 260 940	111 862	4 260 940
Acquisition of property and equipment	14	(2 923 784)	(2 681 199)	(2 923 784)	(2 681 199)
Net cash (used in)/from investing activities		**(76 422 558)**	**84 949 586**	**(76 422 558)**	**84 949 586**
Cashflows from financing activities					
Dividend paid to shareholders of the parent	30	(13 755 000)	(8 480 000)	(13 755 000)	(8 480 000)
Proceeds from/(Repayment of) borrowings		14 589 540	(114 878 856)	14 589 540	(114 878 856)
Repayment of lease liabilities	38b	(353 931)	(352 989)	(353 931)	(352 989)
Net cash (used in)/from financing activities		**480 609**	**(123 711 845)**	**480 609**	**(123 711 845)**
Net Increase in cash and cash equivalents		**23 127 865**	**9 522 095**	**23 127 865**	**9 522 095**
Cash and cash equivalents at 1 January		56 233 428	46 300 469	56 233 428	46 300 469
Effect of changes in exchange rates		7 032 772	410 864	7 032 772	410 864
Cash and cash equivalents at year end	7	**86 394 065**	**56 233 428**	**86 394 065**	**56 233 428**

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 (MK), 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 recognized 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 recognized in the financial statements are described in the following notes.

- Notes 4(c), 9 and 35 - Loans and advances to customers – Impairment
- Note 4(r) - Provisions
- Note 5(k)(c) - Expected Credit Losses measurement (ECLs)
- 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 (a).

(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 2023.

The adoption of these new and revised Standards and Interpretations did not have a significant impact on the financial statements of the Group. The following are the standards that became effective during annual reporting period beginning on 1 January 2023;

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

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

Effective date	**Standard, Amendment or Interpretation**
Annual reporting periods beginning on or after 1 January 2023	**IFRS 17 Insurance Contracts** IFRS 17 Insurance Contracts (IFRS 17) is effective for reporting periods beginning on or after 1 January 2023. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance, and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The Bank has not identified contracts that result in the transfer of significant insurance risk, and therefore it has concluded that IFRS 17 does not have a material impact on the financial statements for the year ended 31 December 2023.
Annual reporting periods beginning on or after 1 January 2023	**International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12** The amendments to IAS 12 have been introduced in response to The Organisation for Economic Cooperation and Development (OECD)'s Base Erosion and profit Shifting (BEPS) Pillar Two rules and include: ▶ A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and ▶ Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date. In periods in which Pillar Two legislation is (substantively) enacted but not yet effective, the amendment requires disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes including both qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. Once the legislation is effective, additional disclosures are required for the current tax expense related to Pillar Two income taxes. The requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023. The Bank has determined that it will not be subject to Pillar Two taxes once the legislation becomes effective since its effective tax rate is above 15%.
Annual reporting periods beginning on or after 1 January 2023	**Definition of Accounting Estimates- Amendments to IAS 8** In February 2021, the Board issued amendments to IAS 8, in which it introduces a new definition of accounting estimates'. The amendments apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of the effective date. The amendments did not have a material impact on Banks' financial statements
Annual reporting periods beginning on or after 1 January 2023	**Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2** The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments have had an impact on the Bank's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Bank's financial statements.

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 2023 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 2024	**Amendments to IFRS 16: Lease Liability in a Sale and Leaseback** In September 2022, the IASB issued amendments to IFRS 16 to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16. Earlier application is permitted, and that fact must be disclosed.
Annual reporting periods beginning on or after 1 January 2024	**Amendments to IAS 1: Classification of Liabilities as Current or Non-current** In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify: • What is meant by a right to defer settlement • That a right to defer must exist at the end of the reporting period • That classification is unaffected by the likelihood that an entity will exercise its deferral right • That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification. In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months. The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively.
Annual reporting periods beginning on or after 1 January 2024	**Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7** In May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. The amendments will be effective for annual reporting periods beginning on or after 1 January 2024. Early adoption is permitted but will need to be disclosed.

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. Material 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.

4. Material accounting policies (Continued)

(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 (FVTOCI) – debt investments
3) Fair value through other comprehensive income (FVTOCI) – 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 (FVTOCI)
A debt investment is measured at FVTOCI 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. Material accounting policies (Continued)

(c) Financial assets and liabilities (Continued)

iii. Other business model - Equity investments (FVTOCI)
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 FVTOCI 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. Material 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 FVTOCI 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.

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 significant increase in credit risk (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 Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (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. Material 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. Material accounting policies (Continued)

(c) Financial assets and liabilities (Continued)

De-recognition of financial instruments (Continued)

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

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

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.

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.

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.

Investment securities
Investment securities are initially measured at fair value. Transaction costs for investments at fair value through profit and loss are recognised immediately in profit or loss. Subsequent to initial recognition, investment securities are accounted for depending on their classification as either Fair Value Through Other Comprehensive Income (FVTOCI) or Fair Value Through Profit or Loss (FVTPL).

(d) 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. Material accounting policies (Continued)

(e) 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.

(f) 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(g).

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. Material accounting policies (Continued)

(f) Property and equipment (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 20.0%
- Equipment, fixture and fittings 20.0%
- Corporate Jet 6.0%

(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.

(g) 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. Material accounting policies (Continued)

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) 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. Material accounting policies (Continued)

(l) Net interest income (Continued)

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

(m) 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. Material accounting policies (Continued)

(m) 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.

(n) 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. Material accounting policies (Continued)

(o) 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.

(p) 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. Material accounting policies (Continued)

(q) 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.

(r) 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.

(s) 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. Material accounting policies (Continued)

(s) 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 of these consolidated and separate financial statements.

(t) 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.

(u) Derivative financial instruments

A derivative is a financial instrument whose value changes in response to an underlying variable, requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors and is settled at a future date.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and cross currency swaps.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

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.

(v) 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.

(w) 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.

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 Credit 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 Credit, 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 Bank'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
- Manager – Financial Reporting (Committee Secretary).

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.

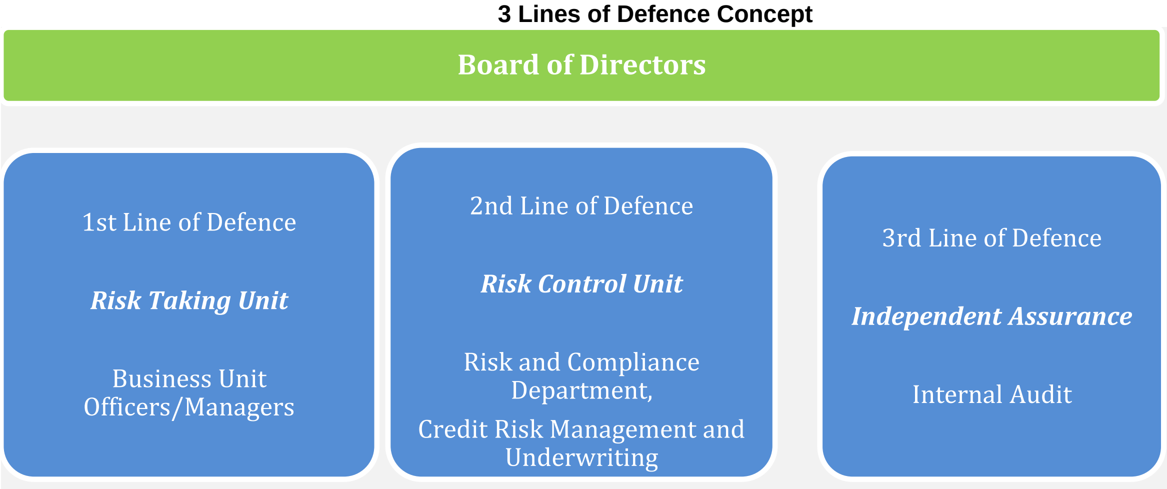
It is chaired by the Chief Executive Officer and meets monthly to review management of credit risk in the Bank.

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**:**

3 Lines of Defence Concept



1st Line of Defence:

Comprises business units and Head Office departments.

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

2nd Line of Defence:

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

Responsibilities of Risk Management and Compliance function include:

- Formulating risk management framework and policies; developing tools and methodologies for risk identification and measurement; and
- Performing independent risk monitoring and reporting to the Risk Committee of the Board.

Responsibilities of Credit Risk Management and Underwriting function include:

- Formulating credit policies; assessing credit facility applications/ proposals and recommending approvals to Credit Committee; and
- Monitoring credit facilities and reporting to the Credit Committee of the Board.

3rd Line of Defence:

Comprises of Internal Audit function

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

5. Risk Management (Continued)

(f) Risk Appetite

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

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

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

(g) Market Disclosures

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

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

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

(h) Stress Testing

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

5. Risk Management (Continued)

(i) Significant Risks

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

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

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

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

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

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

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

5. Risk Management (Continued)

(j) Capital Management (Continued)

***(iv)* Capital Position as at 31 December 2023**

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

	Consolidated		Separate	
	2023	**2022**	**2023**	**2022**
	K'000	**K'000**	**K'000**	**K'000**
Share capital	116 813	116 813	116 813	116 813
Share premium	1 565 347	1 565 347	1 565 347	1 565 347
Retained earnings	62 251 240	47 151 452	61 893 958	46 794 170
Unconsolidated Investments	-	-	(159 896)	(159 896)
Deferred tax assets	(497 227)	(808 944)	(493 804)	(805 521)
Total Tier 1 Capital	63 436 173	48 024 668	62 922 418	47 510 913
Tier 2 Capital				
Property revaluation reserve	12 530 399	11 569 879	12 530 399	11 569 879
Loan loss reserve	1 089 212	959 916	1 089 212	959 916
Unconsolidated Investments	-	-	(159 896)	(159 896)
Tier 2 Capital	13 619 611	12 529 795	13 459 715	12 369 899
Total qualifying capital	77 055 784	60 554 463	76 382 133	59 880 812
Total risk weighted assets	394 312 155	286 747 565	394 312 155	286 747 565
Tier 1 risk-based capital ratio (minimum 10%)	16.09%	16.75%	15.96%	16.57%
Total risk-weighted capital ratio (minimum 15%)	19.54%	21.12%	19.37%	20.88%

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

The Bank's independent Credit Risk Department operates its internal rating models. The Bank runs separate models for its key portfolios in which its customers are rated from 1 to 25 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. Where practical, they also build on information from Good Rating Agency. The grades are as follows:

5. Risk Management (Continued)

(k) Credit Risk *(Continued)*

(i) Credit Risk Management (Continued)

b) Credit risk grading (Continued)

<u>Internal Rating Grades</u>

Internal rating grade	Internal rating description	12-month Basel PD range	Good Rating Agency's rating (when applicable)
Performing			
1-2	High grade	0.00% - 0.06%	Very Good+
3	High grade	0.06% - 0.1%	Very Good
4	High grade	0.10% - 0.50%	Very Good-
5-7	Standard grade	0.50% - 0.90%	Good+
8-9	Standard grade	0.90% - 1.5%	Good
10-12	Standard grade	1.5% - 3.00%	Good-
13-15	Standard grade	3.2% - 6.1%	Average+
16	Standard grade	6.1% - 11.7%	Average
17-18	Sub-standard grade	11.7% - 25.20%	Average-
18-19	Sub-standard grade	25.20% - 29.5%	Bad+
20-21	Past due but not impaired	29.5% - 50%	Bad
22-24	Past due but not impaired	50% - 100%	Bad-
Non-performing			
25	Individually impaired	100%	Very bad

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 loans 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)

(ii) 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 lifetime 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	Lifetime 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 Internal Ratings-Based (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.

An overview of the approach to estimating the allowance for ECL is set out below. To ensure completeness and accuracy, the Bank obtains the data used from third party sources (Reserve Bank of Malawi, National Statistical Office, IMF, and World Bank).

5. Risk Management (Continued)

(k) Credit Risk (Continued)

(ii) Credit Risk Management (Continued)

Its Credit, Risk, and Finance Departments verify the accuracy of inputs to the Bank's ECL models including determining the weights attributable to the multiple scenarios.

The following tables set out the key drivers of expected loss and the assumptions used for the Bank's base case estimate, allowance for ECL based on the base case, plus the effect of the use of multiple economic scenarios as at 31 December 2023. The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations. The figures for "Long term rate" represent a long-term average and so are the same for each scenario.

31 December 2023			**Actual**	**Forecast**			
Key drivers	**ECL Scenario**	**Assigned Weightings**	**2023**	**2024**	**2025**	**2026**	**2027**
GDP Constant Prices, Percent change		**%**					
	Base case	58.33%	1.7	6.6	3.0	4.6	4.3
	Good case	14.99%	1.7	16.3	11.9	13.9	13.5
	Better case	6.42%	1.7	24.7	19.9	22.1	21.6
	Bad case	14.18%	1.7	1.1	0.6	0.9	0.8
	Worse case	6.08%	1.7	0.4	0.2	0.3	0.3
Volume of Exports of goods and services, Percent change							
	Base case	58.33%	18.2	5.0	6.8	9.1	28.8
	Good case	14.99%	18.2	(25.4)	(24.7)	(23.8)	(17.6)
	Better case	6.42%	18.2	(38.1)	(37.7)	(37.1)	(33.0)
	Bad case	14.18%	18.2	51.4	52.7	54.5	70.6
	Worse case	6.08%	18.2	82.2	83.4	85.2	100.5

Below are the current summarised results considering the ECL scenarios above.

	2023		**2022**	
	Total ECL Provision	**Total income statement charge**	**Total ECL Provision**	**Total income statement charge**
	MK	**MK**	**MK**	**MK**
As reported	4 857 746	1 912 533	2 945 213	577 015
Scenarios				
Base case	4 678 184		521 088	
Good case	3 844 184		428 191	
Better case	3 720 825		414 451	
Bad case	6 232 590		694 228	
Worse case	7 965 524		887 254	

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)

(iii) 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.

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 2023

Consolidated (K'000)	ECL Stage	Loans and advances	Balances with central banks	Balances with other banks	Money Market investments	Repurchase agreements
Carrying amount		184 826 160	26 578 710	47 150 783	160 650 751	8 416 667
Standard (fully performing)	1	164 268 845	26 578 710	47 150 783	162 433 965	8 416 667
Past due but not impaired	2	19 546 641	-	-	-	-
Impaired	3	5 795 284	-	-	-	-
Gross exposure		189 610 770	26 578 710	47 150 783	162 433 965	8 416 667

Separate (K'000)	ECL Stage	Loans and advances	Balances with central banks	Balances with other banks	Money Market investments	Repurchase agreements
Carrying amount		184 826 160	26 578 710	47 150 783	160 650 751	8 416 667
Standard (fully performing)	1	164 268 845	26 578 710	47 150 783	162 433 965	8 416 667
Past due but not impaired	2	19 546 641	-	-	-	-
Impaired	3	5 795 284	-	-	-	-
Gross exposure		189 610 770	26 578 710	47 150 783	162 433 965	8 416 667

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 2022

Consolidated (K'000)	ECL Stage	Loans and advances	Balances with central banks	Balances with other banks	Money Market investments	Cheques in the course of clearing	Repurchase agreements
Carrying amount		127 331 876	10 333 702	34 932 944	91 765 920	1 118 511	5 128 313
Standard (fully performing)	1	115 304 098	10 333 702	34 932 944	92 067 734	1 118 511	5 130 450
Past due but not impaired	2	8 662 800	-	-	-	-	-
Impaired	3	6 310 190	-	-	-	-	-
Gross exposure		130 277 088	10 333 702	34 932 944	92 067 734	1 118 511	5 130 450
Separate (K'000)							
Carrying amount		127 331 876	10 333 702	34 932 944	91 765 920	1 118 511	5 128 313
Standard (fully performing)	1	115 304 098	10 333 702	34 932 944	92 067 734	1 118 511	5 130 450
Past due but not impaired	2	8 662 800	-	-	-	-	-
Impaired	3	6 310 190	-	-	-	-	-
Gross exposure		130 277 088	10 333 702	34 932 944	92 067 734	1 118 511	5 130 450

5. Risk Management (Continued)

(k) Credit Risk (Continued)

(ii) Disclosures on credit risk (Continued)

The Bank's maximum exposure to credit risk and expected credit losses are analysed and reconciled as follows:

Maximum credit risk exposure (K'000)	**Maximum credit risk exposure**				**ECL Reconciliation**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
2023								
Loans and advances to customers								
Term loans	27 938 536	14 986 201	3 250 363	**46 175 100**	(73 257)	(100 942)	(832 164)	**(1 006 363)**
Mortgage loans	2 184 258	71 516	15 984	**2 271 758**	(8 182)	(92)	(15 463)	**(23 737)**
Overdraft	113 266 936	4 339 009	2 032 795	**119 638 740**	(937 014)	(21 169)	(1 647 373)	**(2 605 556)**
Consumer lending	17 139 899	44 724	72 707	**17 257 330**	(303 376)	(8 332)	(57 119)	**(368 827)**
Finance leases	3 739 216	105 191	423 435	**4 267 842**	(17 709)	(224)	(33 257)	**(51 190)**
Total	**164 268 845**	**19 546 641**	**5 795 284**	**189 610 770**	**(1 339 538)**	**(130 759)**	**(2 585 376)**	**(4 055 673)**
Cash and cash equivalents								
Deposits with Central Banks	26 578 710	-	-	**26 578 710**	(8 693)	-	-	**(8 693)**
Balances with other banks	6 688 763	-	-	**6 688 763**	(128)	-	-	**(128)**
Placements with other banks	40 462 020	-	-	**40 462 020**	(9 263)	-	-	**(9 263)**
Cash balances	12 664 572	-	-	**12 664 572**	-	-	-	-
Total	**86 394 065**	**-**	**-**	**86 394 065**	**(18 084)**	**-**	**-**	**(18 084)**
Money market investments						**-**		
Held at amortized cost								
Treasury Bills	28 518 733	**-**	**-**	**28 518 733**	(155 542)	**-**	**-**	**(155 542)**
Treasury Notes	133 915 232	-	-	**133 915 232**	(1 627 672)	-	-	**(1 627 672)**
Total	**162 433 965**	**-**	**-**	**162 433 965**	**(1 783 214)**	**-**	**-**	**(1 783 214)**
Repurchase agreements								
Repurchase agreements	8 416 667	-	-	**8 416 667**	(33 446)	-	-	**(33 446)**
Total	**8 416 667**	**-**	**-**	**8 416 667**	**(33 446)**	**-**	**-**	**(33 446)**
Other assets								
Other assets	47 149	-	-	**47 149**	(9 391)	**-**	**-**	**(9 391)**
Total	**47 149**	**-**	**-**	**47 149**	**(9 391)**	**-**	**-**	**(9 391)**
Total on balance sheet	**421 560 691**	**19 546 641**	**5 795 284**	**446 902 616**	**(3 183 673)**	**(130 759)**	**(2 585 376)**	**(5 899 808)**
Off-balance sheet								
Guarantees and letters of credit	85 132 440	40 000	-	**85 172 440**	(728 861)	(76)	-	**(728 937)**
Total off-balance sheet	**85 132 440**	**40 000**	**-**	**85 172 440**	**(728 861)**	**(76)**	**-**	**(728 937)**

5. Risk Management (Continued)
(k) Credit Risk (Continued)

(ii) Disclosures on credit risk (Continued)

The Bank's maximum exposure to credit risk and expected credit losses are analysed and reconciled as follows:

Maximum credit risk exposure
(K'000)

	Maximum credit risk exposure				ECL Reconciliation			
2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers								
Term loans	36 325 770	1 029 294	3 967 495	**41 322 559**	(57 212)	(2 878)	(869 021)	**(929 111)**
Mortgage loans	2 484 978	140 470	19 935	**2 645 383**	(3 095)	(207)	(6 794)	**(10 096)**
Overdraft	66 590 756	7 365 346	1 854 618	**75 810 720**	(208 893)	(44 831)	(1 401 752)	**(1 655 476)**
Consumer lending	6 209 679	15 968	30 580	**6 256 227**	(99 363)	(2 778)	(23 578)	**(125 719)**
Finance leases	3 692 915	111 722	437 562	**4 242 199**	(8 976)	(238)	(28 948)	**(38 162)**
Total	**115 304 098**	**8 662 800**	**6 310 190**	**130 277 088**	**(377 539)**	**(50 932)**	**(2 330 093)**	**(2 758 564)**
Cash and cash equivalents								
Deposits with Central Banks	10 333 702	-	-	**10 333 702**	(972)	-	-	**(972)**
Balances with other banks	29 932 944	-	-	**29 932 944**	(179)	-	-	**(179)**
Placements with other banks	5 000 000	-	-	**5 000 000**	-	-	-	-
Balances in the course of clearing with other banks	1 118 511	-	-	**1 118 511**	-	-	-	-
Cash balances	9 848 271	-	-	**9 848 271**	-	-	-	-
Total	**56 233 428**	**-**	**-**	**56 233 428**	**(1 151)**	**-**	**-**	**(1 151)**
Money market investments						-		
Held at Amortised cost								
Treasury Bills	22 302 499	**-**	**-**	**22 302 499**	(17 654)	**-**	**-**	**(17 654)**
Treasury Notes	69 765 235	-	-	**69 765 235**	(284 160)	-	-	**(284 160)**
Total	**92 067 734**	**-**	**-**	**92 067 734**	**(301 814)**	**-**	**-**	**(301 814)**
Repurchase agreements								
Repurchase agreements	5 130 450	-	-	**5 130 450**	(2 137)	-	-	**(2 137)**
Total	**5 130 450**	**-**	**-**	**5 130 450**	**(2 137)**	**-**	**-**	**(2 137)**
Other assets								
Other assets	40 667	-	-	**40 667**	(179)	-	-	**(179)**
Total	**40 667**	**-**	**-**	**40 667**	**(179)**	**-**	**-**	**(179)**
Total on balance sheet	**268 776 377**	**8 662 800**	**6 310 190**	**283 749 367**	**(682 820)**	**(50 932)**	**(2 330 093)**	**(3 063 845)**
Off-balance sheet								
Guarantees and letters of credit	60 543 464	1 323 990	10 000	**61 877 454**	(183 282)	(2 695)	(674)	(186 651)
Total off-balance sheet	**60 543 464**	**1 323 990**	**10 000**	**61 877 454**	**(183 282)**	**(2 695)**	**(674)**	**(186 651)**

5. Risk Management (Continued)

(k) Credit Risk (Continued)

(ii) Disclosures on credit risk (continued)

The Group has internal rating scale which is mapped into Basel II grading system. The internal rating in broadly classified into Standard (Performing), Past due but not impaired, Nonperforming (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 on 31 December were as follows:

	Consolidated		**Separate**	
	2023	**2022**	**2023**	**2022**
	K'000	**K'000**	**K'000**	**K'000**
Agriculture	36 421 984	22 407 096	36 421 984	22 407 096
Mining	28 085	18 429	28 085	18 429
Financial Services	922 677	520 111	922 677	520 111
Construction	13 812 384	7 754 813	13 812 384	7 754 813
Energy/Electricity/Gas /Water	15 572 593	9 361 711	15 572 593	9 361 711
Manufacturing	36 929 151	29 283 916	36 929 151	29 283 916
Wholesale and Retail	28 937 196	24 106 419	28 937 196	24 106 419
Individual/Households	47 655 308	26 013 646	47 655 308	26 013 646
Real Estate	2 784	270 517	2 784	270 517
Tourism & Leisure	2 635 124	2 867 289	2 635 124	2 867 289
Transport & Communication	5 773 746	7 392 861	5 773 746	7 392 861
Others	919 738	280 280	919 738	280 280
	189 610 770	130 277 088	189 610 770	130 277 088

5. Risk Management (Continued)

(k) Credit Risk (Continued)

(iv) Credit quality per class of financial assets

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

		Consolidated		Separate	
	Notes	**2023**	**2022**	**2023**	**2022**
		K'000	**K'000**	**K'000**	**K'000**
Gross maximum exposure					
Liquidity reserves deposits with central banks	7	26 578 710	10 333 702	26 578 710	10 333 702
Placements with other banks	7	47 150 783	34 932 944	47 150 783	34 932 944
Money market investments	8	162 433 965	92 067 734	162 433 965	92 067 734
Cheques in course of clearing	7	-	1 118 511	-	1 118 511
Repurchase agreements	34	8 416 667	5 130 450	8 416 667	5 130 450
Loans and advances to customers	9	189 610 770	130 277 088	189 610 770	130 277 088
Total recognized financial assets		434 190 895	273 860 429	434 190 895	273 860 429
Acceptance and letters of credit		9 807 747	5 178 413	9 807 747	5 178 413
Financial guarantees	32	85 084 480	56 699 041	85 084 480	56 699 041
Total unrecognized assets		94 892 227	61 877 454	94 892 227	61 877 454
Total credit risk exposure		529 083 122	335 737 883	529 083 122	335 737 883

(v) Collateral for loans and advances to customers

The tables below summarize the Bank's collateral for loans and advances:

5. Risk Management (Continued)

(k) Credit Risk (Continued)

(v) Collateral for loans and advances to customers *(Continued)*

Consolidated and Separate

	Gross carrying amount (MK'000)			Collateral (MK'000)			Net exposure (MK'000)		
31 December 2023	**Total**	**Stage 2**	**Stage 3**	**Total**	**Stage 2**	**Stage 3**	**Total**	**Stage 2**	**Stage 3**
Term loans	46 175 100	14 986 201	3 250 363	33 827 700	13 726 856	2 717 061	12 347 400	1 259 345	533 302
Mortgage loans	2 271 758	71 516	15 984	2 256 656	71 516	9 393	15 102	-	6 591
Overdraft	119 638 740	4 339 009	2 032 795	66 341 599	4 200 093	635 941	53 297 141	138 916	1 396 854
Consumer lending	17 257 330	44 724	72 707	-	-	-	17 257 330	44 724	72 707
Finance leases	4 267 842	105 191	423 435	3 587 904	105 191	422 577	679 938	-	858
Total	**189 610 770**	**19 546 641**	**5 795 284**	**106 013 859**	**18 103 656**	**3 784 972**	**83 596 911**	**1 442 985**	**2 010 312**

	Gross carrying amount (MK'000)			Collateral (MK'000)			Net exposure (MK'000)		
31 December 2022	**Total**	**Stage 2**	**Stage 3**	**Total**	**Stage 2**	**Stage 3**	**Total**	**Stage 2**	**Stage 3**
Term loans	41 322 559	1 029 294	3 967 495	34 279 237	1 011 450	3 355 842	7 043 322	17 844	611 653
Mortgage loans	2 645 383	140 470	19 935	2 627 767	140 431	16 700	17 616	39	3 235
Overdraft	75 810 720	7 365 346	1 854 618	58 599 681	7 323 268	527 634	17 211 039	42 078	1 326 984
Consumer lending	6 256 227	15 968	30 580	-	-	-	6 256 227	15 968	30 580
Finance leases	4 242 199	111 722	437 562	3 991 188	111 722	437 062	251 011	-	500
Total	**130 277 088**	**8 662 800**	**6 310 190**	**99 497 873**	**8 586 871**	**4 337 238**	**30 779 215**	**75 929**	**1 972 952**

(vi) Collateral and other credit enhancements

The tables on the following pages show the maximum exposure to credit risk by class of financial asset. They also show the total fair value of collateral, any surplus (the extent to which the fair value of collateral held is greater than the exposure to which it relates), and the net exposure to credit risk.

5. Risk Management (Continued)
(k) Credit Risk (Continued)
(vi) Collateral and other credit enhancements *(Continued)*

Consolidated and Separate					**Fair value of collateral and credit enhancements held**						
Type of collateral or credit enhancement	**Maximum exposure to credit risk**	**Cash**	**Securities**	**3rd party/gov guarantees**	**Property**	**Other**	**Surplus collateral**	**Total collateral**	**Net exposure**	**% of exposure subject to collateral requirements**	**Associated ECL**
31 December 2023											
In MK'000											
Loans and advances to customers											
Term loans	46 175 100	596 696	6 400 000	-	59 331 985	19 036 992	(51 537 972)	**33 827 701**	12 347 399	**73.3%**	1 006 362
Mortgage loans	2 271 758	67 913	-	-	7 504 081	-	(5 315 338)	**2 256 656**	15 102	**99.3%**	23 738
Overdraft	119 638 740	1 926 484	-	11 625 116	240 450 228	29 278 174	(216 938 404)	**66 341 598**	53 297 142	**55.5%**	2 605 556
Consumer Lending	17 257 330	-	-	-	-	-	-	-	17 257 330	**0.0%**	368 827
Finance leases	4 267 842	1 722	-	-	2 871 777	5 022 470	(4 308 066)	**3 587 903**	679 939	**84.1%**	51 190
Total	**189 610 770**	**2 592 815**	**6 400 000**	**11 625 116**	**310 158 071**	**53 337 636**	**(278 099 780)**	**106 013 858**	**83 596 912**	**55.9%**	**4 055 673**
Cash and cash equivalents											
Deposits with Central Banks	26 578 710	-	-	-	-	-	-	-	26 578 710	**0.0%**	8 693
Balances with other banks	6 688 763	-	-	-	-	-	-	-	6 688 763	**0.0%**	128
Placements with other banks	40 462 020	-	-	-	-	-	-	-	40 462 020	**0.0%**	9 263
Cash balances	12 664 572	-	-	-	-	-	-	-	12 664 572	**0.0%**	-
Total	**86 394 065**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**86 394 065**	**0.0%**	**18 084**
Money market investments											
Held at Amortized cost											
Treasury Bills	28 518 733	-	-	-	-	-	-	-	28 518 733	**0.0%**	137 458
Treasury Notes	133 915 232	-	-	-	-	-	-	-	133 915 232	**0.0%**	1 627 672
Total	**162 433 965**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**162 433 965**	**0.0%**	**1 765 130**
Repurchase agreements											
Repurchase agreements	8 416 667	-	-	-	-	-	-	-	8 416 667	**0.0%**	33 446
Total	**8 416 667**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8 416 667**	**0.0%**	**33 446**
Other assets											
Other receivables	2 536 852	-	-	-	-	-	-	-	2 536 852	**0.0%**	9 391
Total	**2 536 852**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2 536 852**	**0.0%**	**9 391**
Total on balance sheet	**449 392 319**	**2 592 815**	**6 400 000**	**11 625 116**	**310 158 071**	**53 337 636**	**(278 099 780)**	**106 013 858**	**343 378 461**	**23.6%**	**5 881 724**
Guarantees and letters of credit											
Guarantees	85 084 480	7 312 811	-	-	34 864 824	15 671 392	(15 234 747)	**42 614 280**	42 470 200	**50.1%**	727 991
Letters of credit	47 960	-	-	-	-	-	-	**-**	47 960	**0.0%**	946
Total	**85 132 440**	**7 312 811**	**-**	**-**	**34 864 824**	**15 671 392**	**(15 234 747)**	**42 614 280**	**42 518 160**	**50.0%**	**728 937**

5. Risk Management (Continued)
(k) Credit Risk (Continued)
(vi) Collateral and other credit enhancements *(Continued)*

Consolidated and Separate

Type of collateral or credit enhancement	Maximum exposure to credit risk	Cash	Securities	3rd party/gov guarantees	Property	Other	Offsetting agreements	Surplus collateral	Total collateral	Net exposure	% of exposure subject to collateral requirements	Associated ECL
		Fair value of collateral and credit enhancements held										
31 December 2022												
In MK'000												
Loans and advances to customers												
Term loans	41 322 559	148 374	6 400 000	-	45 988 490	19 371 445	-	(37 629 072)	**34 279 237**	7 043 322	**83.0%**	929 179
Mortgage loans	2 645 383	66 440	-	-	8 186 642	1 958	-	(5 627 274)	**2 627 766**	17 617	**99.3%**	10 097
Overdraft	75 810 720	1 021 843	65 075	9 392 616	129 332 132	16 816 571	-	(98 028 556)	**58 599 681**	17 211 039	**77.3%**	1 655 475
Consumer Lending	6 256 227	-	-	-	-	-	-	-	-	6 256 227	**0.0%**	125 719
Finance leases	4 242 199	1 302	-	-	1 623 634	-	4 756 236	(2 389 984)	**3 991 188**	251 011	**94.1%**	38 162
Total	**130 277 088**	**1 237 959**	**6 465 075**	**9 392 616**	**185 130 898**	**36 189 974**	**4 756 236**	**(143 674 886)**	**99 497 872**	**30 779 216**	**76.4%**	**2 758 632**
Cash and cash equivalents												
Deposits with Central Banks	10 333 702	-	-	-	-	-	-	-	-	10 333 702	**0.0%**	179
Balances with other banks	29 932 944	-	-	-	-	-	-	-	-	29 932 944	**0.0%**	972
Placements with other banks	5 000 000	-	-	-	-	-	-	-	-	5 000 000	**0.0%**	-
Balances in the course of clearing with other banks	1 118 511	-	-	-	-	-	-	-	-	1 118 511	**0.0%**	-
Cash balances	9 848 271	-	-	-	-	-	-	-	-	9 848 271	**0.0%**	-
Total	**56 233 428**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**56 233 428**	**0.0%**	**1 151**
Money market investments						-						
Treasury Bills	22 302 499	-	-	-	-	-	-	-	-	22 302 499	**0.0%**	17 654
Treasury Notes	69 765 235	-	-	-	-	-	-	-	-	69 765 235	**0.0%**	284 160
Total	**92 067 734**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**92 067 734**	**0.0%**	**301 814**
Repurchase agreements												
Repurchase agreements	5 130 450	-	-	-	-	-	-	-	-	5 130 450	**0.0%**	2 137
Total	**5 130 450**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5 130 450**	**0.0%**	**2 137**
Other assets												
Other receivables	1 761 446	-	-	-	-	-	-	-	-	1 761 446	**0.0%**	179
Total	**1 761 446**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1 761 446**	**0.0%**	**179**
Total on balance sheet	**285 470 146**	**1 237 959**	**6 465 075**	**9 392 616**	**185 130 898**	**36 189 974**	**4 756 236**	**(143 674 886)**	**99 497 872**	**185 972 274**	**34.9%**	**3 063 913**
Guarantees and letters of credit												
Guarantees	56 699 041	1 783 574	-	-	43 457 195	14 167 342	-	(26 514 041)	**32 894 070**	23 804 971	**58.0%**	186 087
Letters of credit	102 244	-	-	-	-	-	-	-	-	102 244	**0.0%**	564
Total	**56 801 285**	**1 783 574**	**-**	**-**	**43 457 195**	**14 167 342**	**-**	**(26 514 041)**	**32 894 070**	**23 907 215**	**57.9%**	**186 651**

5. Risk Management (Continued)

(k) Credit Risk (Continued)
(vi) Collateral and other credit enhancements *(Continued)*

The below tables provide an analysis of the current fair values of collateral held and credit enhancements for stage 3 assets. Dependent on the level of collateral, exposures may not have individual ECL when the expected value of the collateral, measured using multiple economic scenarios, is greater than the LGD. However, ECL can be higher than net exposure shown below when the future value of collateral, measured using multiple economic scenarios, is lower than fair value at the reporting date.

Type of collateral or credit enhancement		**Fair value of collateral and credit enhancements held under the base case scenario**							
31 December 2023	**Maximum exposure to credit risk**	**Cash**	**Property**	**Other**	**Surplus collateral**	**Total collateral**	**Net exposure**	**% of exposure subject to collateral requirements**	**Associated ECL**
In MK'000									
Loans and advances to customers									
Term loans	3 250 363	-	7 376 933	84 497	(4 744 368)	**2 717 062**	533 301	**83.6%**	832 163
Mortgage loans	15 984	-	4 000	48 011	(3 118)	**48 893**	(32 909)	**305.9%**	15 463
Overdraft	2 032 795	-	1 591 276	232 503	(1 172 600)	**651 179**	1 381 616	**32.0%**	1 647 373
Consumer lending	72 707	-	-	-	-	-	72 707	**0.0%**	57 119
Finance leases	423 435	-	651 848	53 573	(337 582)	**367 839**	55 596	**86.9%**	33 257
Total	**5 795 284**	**-**	**9 624 057**	**418 584**	**(6 257 668)**	**3 784 973**	**2 010 311**	**65.3%**	**2 585 375**

31 December 2022	**Maximum exposure to credit risk**	**Cash**	**Property**	**Other**	**Surplus collateral**	**Total collateral**	**Net exposure**	**% of exposure subject to collateral requirements**	**Associated ECL**
In MK'000									
Loans and advances to customers									
Term loans	4,026,271	29 863	5 109 781	102 931	(1 886 734)	**3 355 842**	670 429	**83.3%**	868 417
Mortgage loans	19,935	-	16 700	-	-	**16 700**	3 235	**83.8%**	6 794
Overdraft	1,854,618	-	1 052 136	134 006	(658 509)	**527 633**	1 326 985	**28.4%**	1 401 752
Consumer Lending	30,580	-	-	-	-	**-**	30 580	**0.0%**	23 578
Finance leases	437,562	-	620 000	135 477	(318 414)	**437 063**	499	**99.9%**	28 948
Total	**6,368,966**	**29 863**	**6 798 617**	**372 414**	**(2 863 657)**	**4 337 238**	**2 031 728**	**68.1%**	**2 329 489**

5. Risk Management (Continued)

(k) Credit Risk (Continued)
(vii) Exposure to credit risk
A reconciliation of changes in gross carrying amount and corresponding allowance for ECL by stage is as follows:

31 December 2023 In MK'000	Gross carrying amount				ECL			
	Loans and advances				Loans and advances			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Opening Balance	115 013 738	8 646 832	6 338 386	**129 998 956**	401 718	50 932	2 305 911	**2 758 561**
Additions	66 089 932	8 036 727	687 852	**74 814 511**	679 060	63 724	1 662 649	**2 405 433**
De-recognitions	(5 234 881)	(8 584 280)	-	**(13 819 161)**	-	(36 101)	-	**(36 101)**
Transfer (to)/from stage 1	(14 581 317)	14 540 059	41 258	**-**	(21 798)	21 635	163	**-**
Transfer (to)/from stage 2	2 981 373	(3 092 697)	111 324	**-**	16 862	(17 050)	188	**-**
Accounts written off	-	-	(958 811)	**(958 811)**	-	-	(958 811)	**(958 811)**
Recoveries	-	-	(424 725)	**(424 725)**	-	-	(424 725)	**(424 725)**
Changes to models	-	-	-	**-**	263 695	47 621	-	**311 316**
Closing Balance	**164 268 845**	**19 546 641**	**5 795 284**	**189 610 770**	**1 339 537**	**130 761**	**2 585 375**	**4 055 673**

	Money market investments				Money market investments			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Opening Balance	92 067 734	-	-	**92 067 734**	300 993	-	-	**300 993**
Additions	115 169 538	-	-	**115 169 538**	1 574 414	-	-	**1 574 414**
Maturities	(44 803 307)	-	-	**(44 803 307)**	(110 277)	-	-	**(110 277)**
Closing Balance	**162 433 965**	**-**	**-**	**162 433 965**	**1 765 130**	**-**	**-**	**1 765 130**

	Other assets				Other assets			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Opening Balance	36 051	-	-	**36 051**	180	-	-	**180**
Additions	11 097	-	-	**11 097**	9 211	-	-	**9 211**
Closing Balance	**47 148**	**-**	**-**	**47 148**	**9 391**	**-**	**-**	**9 391**

	Cash and balances with central banks				Cash and balances with central banks			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Opening Balance	10 333 702	-	-	**10 333 702**	641	-	-	**641**
Additions	16 245 008	-	-	**16 245 008**	8 052	-	-	**8 052**
Closing Balance	26 578 710	-	-	**26 578 710**	8 693	**-**	**-**	**8 693**

	Repurchase agreements				Repurchase agreements			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Opening Balance	5 130 450	-	-	**5 130 450**	2 137	-	-	**2 137**
Additions	8 416 667	-	-	**8 416 667**	33 446	-	-	**33 446**
Maturities	(5 130 450)	-	-	**(5 130 450)**	(2 137)	-	-	**(2 137)**
Closing Balance	8 416 667	-	-	**8 416 667**	33 446	**-**	**-**	**33 446**

	Guarantees and letters of credit				Guarantees and letters of credit			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Opening Balance	55 467 295	1 323 990	10 000	**56 801 285**	183 282	2 695	674	**186 651**
Additions	46 043 452	-	-	**46 043 452**	257 557	-	-	**257 557**
De-recognitions	(16 705 786)	(956 511)	(10 000)	**(17 672 297)**	(64 187)	(2 029)	(674)	**(66 890)**
Transfer (to)/from stage 1	327 479	(327 479)	-	**-**	623	(623)	-	**-**
Changes to models	-	-	-	**-**	351 586	33	-	**351 619**
Closing Balance	85 132 440	40 000	**-**	**85 172 440**	728 861	**76**	**-**	**728 937**

5. Risk Management (Continued)

(k) Credit Risk (Continued)

(vii) Exposure to credit risk *(Continued)*

31 December 2022
In MK'000

Loans and advances

	Gross carrying amount Stage 1	Stage 2	Stage 3	Total	ECL Stage 1	Stage 2	Stage 3	Total
Opening Balance	78 048 208	21 945 921	3 878 335	**103 872 464**	409 033	169 850	2 608 439	**3 187 322**
Additions	40 383 369	333 764	1 099 554	**41 816 687**	33 581	1 140	1 694 597	**1 729 318**
De-recognitions	(4 933 999)	(8 494 928)	-	**(13 428 927)**	(56 058)	(118 882)	-	**(174 940)**
Transfer (to)/from stage 1	(5 733 057)	5 594 409	138 648	**-**	(19 134)	12 467	6 667	**-**
Transfer (to)/from stage 2	7 515 201	(10 716 368)	3 201 167	**-**	10 077	(13 643)	3 566	**-**
Transfer (to)/from stage 3	24 376	2	(24 378)	**-**	40	-	(40)	**-**
Accounts written off	-	-	(1 026 545)	**(1 026 545)**	-	-	(1 026 545)	**(1 026 545)**
Recoveries	-	-	(956 591)	**(956 591)**	-	-	(956 591)	**(956 591)**
Closing Balance	**115 304 098**	**8 662 800**	**6 310 190**	**130 277 088**	**377 539**	**50 932**	**2 330 093**	**2 758 564**

Money market investments

	Gross carrying amount Stage 1	Stage 2	Stage 3	Total	ECL Stage 1	Stage 2	Stage 3	Total
Opening Balance	135 395 392	-	-	**135 395 392**	578 824	-	-	**578 824**
Additions	60 463 378	-	-	**60 463 378**	301 665	-	-	**301 665**
Maturities	(103 791 036)	-	-	**(103 791 036)**	(579 826)	-	-	**(579 826)**
Closing Balance	**92 067 734**	**-**	**-**	**92 067 734**	**300 663**	**-**	**-**	**300 663**

Other assets

	Gross carrying amount Stage 1	Stage 2	Stage 3	Total	ECL Stage 1	Stage 2	Stage 3	Total
Opening Balance	25 992	-	-	**25 992**	144	-	-	**144**
Additions	14 675	-	-	**14 675**	35	-	-	**35**
Closing Balance	**40 667**	**-**	**-**	**40 667**	**179**	**-**	**-**	**179**

Cash and balances with central banks

	Gross carrying amount Stage 1	Stage 2	Stage 3	Total	ECL Stage 1	Stage 2	Stage 3	Total
Opening Balance	8 281 213	-	-	**8 281 213**	858	-	-	**858**
Additions	2 052 488	-	-	**2 052 488**	114	-	-	**114**
Closing Balance	**10 333 701**	**-**	**-**	**10 333 701**	**972**	**-**	**-**	**972**

Repurchase agreements

	Gross carrying amount Stage 1	Stage 2	Stage 3	Total	ECL Stage 1	Stage 2	Stage 3	Total
Opening Balance	45 167 902	-	-	**45 167 902**	38 724	-	-	**38 724**
Additions	5 130 451	-	-	**5 130 451**	2 137	-	-	**2 137**
Maturities	(45 167 902)	-	-	**(45 167 902)**	(38 724)	-	-	**(38 724)**
Closing Balance	**5 130 451**	**-**	**-**	**5 130 451**	**2 137**	**-**	**-**	**2 137**

Guarantees and letters of credit

	Gross carrying amount Stage 1	Stage 2	Stage 3	Total	ECL Stage 1	Stage 2	Stage 3	Total
Opening Balance	29 460 636	1 253 367	-	**30 714 003**	114 450	2 741	-	**117 191**
Additions	55 386 740	1 323 990	-	**56 710 730**	169 659	2 695	-	**172 354**
De-recognitions	(24 303 912)	(1 243 367)	-	**(25 547 279)**	(100 828)	(2 068)	-	**(102 896)**
Transfer (to)/from stage 3	-	(10 000)	10 000	**-**	-	(674)	674	**-**
Closing Balance	**60 543 464**	**1 323 990**	**10 000**	**61 877 454**	**183 281**	**2 694**	**674**	**186 649**

5. Risk Management (Continued)

(k) Credit Risk (Continued)

(vii) Exposure to credit risk *(Continued)*

Modified or forborne loans

From a risk management perspective, once an asset is forborne or modified due to financial difficulties of the borrower, the Bank's Credit Department continues to monitor the exposure until it exits forbearance through either cure or ultimate derecognition.

The table shows the gross carrying amount of previously modified financial assets for which loss allowance has changed to 12-month ECL measurement during the period, with the related modification loss suffered by the Bank:

31 December 2023 **In MK'000**	**Post-modification**		**Pre-modification**	
	Gross carrying amount	**Corresponding ECL**	**Gross carrying amount**	**Corresponding ECL**
Facilities that have cured since modification and are now measured using 12m ECL (Stage 1)	1 617 479	8 460	1 957 437	20 816
Facilities that reverted to (Stage 2/3) LTECL having once cured	-	-	-	-

31 December 2022 **In MK'000**	**Post-modification**		**Pre-modification**	
	Gross carrying amount	**Corresponding ECL**		**Corresponding ECL**
Facilities that have cured since modification and are now measured using 12m ECL (Stage 1)	-	-	-	-
Facilities that reverted to (Stage 2/3) LTECL having once cured	-	-	-	-

(l) Market Risk

Market Risk Management

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

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

Foreign Exchange Risk

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

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

5. Risk Management (Continued)
(l) Market Risk (Continued)

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

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

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

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

Policies
The Group has several policies which cover:

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

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

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

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

In 2023, 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.

5. Risk Management (Continued)

(l) Market Risk (Continued)

Stress Testing/scenario analysis (Continued)

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%.

Exposure to Market Risk

Foreign exchange exposures were as follows:

Consolidated and Separate

	2023				2022			
Currency	**Assets (K'm)**	**Liabilities (K'm)**	**Net (K'm)**	**Sensitivity (1%)**	**Assets (K'm)**	**Liabilities (K'm)**	**Net (K'm)**	**Sensitivity (1%)**
USD	105 271	(102 282)	2 989	29.89	52 309	(52 066)	243	2.43
GBP	16 189	(15 498)	691	6.91	12 940	(12 287)	653	6.53
EUR	10 378	(10 785)	(407)	(4.07)	13 170	(13 169)	1	0.01
ZAR	1 307	(2 243)	(936)	(9.36)	1 026	(998)	28	0.28

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

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

5. Risk Management (Continued)

(l) Market Risk (Continued)

Interest rate gap analysis

The tables below summarize 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.

31 December 2023

			Fixed rate					
Consolidated	**Zero rate**	**Floating rate**	**0-3 months**	**3-6 months**	**6-9 months**	**9-12 months**	**Over 12 months**	**Total**
	K'000	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**
Total assets	52 939 885	151 417 376	63 922 314	33 986 288	44 667 843	142 565	106 825 830	453 902 101
Total liabilities and equity	118 769 527	157 361 476	13 766 609	4 592 292	5 190	87 925 784	17 300 000	399 720 878
Interest sensitivity gap	(65 829 642)	(5 944 100)	50 155 705	29 393 996	44 662 653	(87 783 219)	89 525 830	54 181 223

			Fixed rate					
Separate	**Zero rate**	**Floating rate**	**0-3 months**	**3-6 months**	**6-9 months**	**9-12 months**	**Over 12 months**	**Total**
	K'000	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**
Total assets	53 077 577	151 417 376	63 922 314	33 986 288	44 667 843	142 565	106 825 830	454 039 793
Total liabilities and equity	118 943 249	157 679 305	13 766 609	4 592 292	5 190	87 925 784	17 300 000	400 212 429
Interest sensitivity gap	(65 865 672)	(6 261 929)	50 155 705	29 393 996	44 662 653	(87 783 219)	89 525 830	53 827 364

5. Risk Management (Continued)

(l) Market Risk (Continued)

Interest rate gap analysis (Continued)

31 December 2022

			Fixed rate					
Consolidated	**Zero rate K'000**	**Floating rate K'000**	**0-3 months K'000**	**3-6 months K'000**	**6-9 months K'000**	**9-12 months K'000**	**Over 12 months K'000**	**Total K'000**
Total assets	34 763 521	120 696 883	57 941 565	7 870 502	19 034 843	-	46 980 267	287 287 581
Total liabilities and equity	108 936 677	96 172 584	14 109 169	5 381 592	1 583 790	24 469 223	-	250 653 035
Interest sensitivity gap	(74 173 156)	24 524 299	43 832 396	2 488 910	17 451 053	(24 469 223)	46 980 267	36 634 546

			Fixed rate					
Separate	**Zero rate K'000**	**Floating rate K'000**	**0-3 months K'000**	**3-6 months K'000**	**6-9 months K'000**	**9-12 Months K'000**	**Over 12 months K'000**	**Total K'000**
Total assets	34 901 213	120 696 883	57 941 565	7 870 502	19 034 843	-	46 980 267	287 425 273
Total liabilities and equity	109 110 399	96 490 413	14 109 169	5 381 592	1 583 790	24 469 223	-	251 144 586
Interest sensitivity gap	(74 209 186)	24 206 470	43 832 396	2 488 910	17 451 053	(24 469 223)	46 980 267	36 280 687

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:

	2023	**2022**
	%	%
Assets		
Government securities	13.00 - 28.00	14.98 - 21.35
Deposits with banking institutions	15.00 - 23.00	11.70 - 15.00
Loans and advances to customers (Reference/base rate)	17.30 - 23.60	13.50 - 17.30
Liabilities		
Customer deposits	0 - 21.50	0 - 14.50

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

	2023	**2022**
	K'000	**K'000**
Cost of investments in listed companies	41 820	308 058
Fair value of investments in listed companies (note 12)	10 918 842	4 731 173
Sale of investments in listed companies	(111 861)	(4 260 940)
Net increase in fair value of investments in listed companies	6 299 530	3 605 520
Impact on profit and equity of:		
Increase of share price by 10%	1 091 884	473 117
Decrease of share price by 10%	(1 091 884)	(473 117)

(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 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 daily. 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 to cover liquidity gaps. Weekly and fortnightly Liquidity Reports are also produced.

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

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

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

5. Risk Management (Continued)

(m) Liquidity risk (Continued)

The maturity gap analysis as at 31 December 2023 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	86 394 065	86 394 065	86 394 065	-	-	-	-	-
Money market investments	160 650 751	162 433 965	-	6 236 640	28 518 733	41 784 706	61 754 227	24 139 659
Loans and advances to customers	184 826 160	189 610 770	58 122 261	12 880 170	35 632 832	29 158 459	22 803 220	31 013 828
Investments at fair value through P&L	10 918 842	10 918 842	2 183 768	2 183 768	2 183 768	2 183 768	2 183 770	-
Other financial assets	11 068 634	11 102 081	2 685 413	8 416 668	-	-	-	-
Total assets	453 858 452	460 459 723	149 385 507	29 717 246	66 335 333	73 126 933	86 741 217	55 153 487
Liabilities								
Liabilities to customers	354 465 388	354 465 388	336 737 447	17 084 623	543 318	100 000	-	-
Due to other banks	22 878 915	22 878 915	17 300 000	5 578 915	-	-	-	-
Other liabilities	17 682 815	17 682 815	8 035 916	3 215 634	3 215 634	3 215 631	-	-
Total liabilities	395 027 118	395 027 118	362 073 363	25 879 172	3 758 952	3 315 631	-	-
Net liquidity gap	58 831 334	65 432 605	(212 687 856)	3 838 074	62 576 381	69 811 302	86 741 217	55 153 487
Cumulative liquidity gap	58 831 334	65 432 605	(212 687 856)	(208 849 782)	(146 273 401)	(76 462 099)	10 279 118	65 432 605

5. Risk Management (Continued)

(m) Liquidity risk (Continued)

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

Consolidated

	Carrying amount K'000	Gross nominal amount K'000	Up to 1 month K'000	1-3 months K'000	3-6 months K'000	6-12 months K'000	1-3 years K'000	Over 3 years K'000
Assets								
Cash and cash equivalents	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	7 181 535	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)	(102 222 172)	(77 704 924)	(48 753 610)	18 666 848	42 487 426

5. Risk Management (Continued)

(m) Liquidity risk (Continued)

The maturity gap analysis as at 31 December 2023 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	86 394 065	86 394 065	86 394 065	-	-	-	-	-
Money market investments	160 650 751	162 433 965	-	6 236 640	28 518 733	41 784 706	61 754 227	24 139 659
Loans and advances to customers	184 826 160	189 610 770	58 122 261	12 880 170	35 632 832	29 158 459	22 803 220	31 013 828
Investments at fair value through P&L	10 918 842	10 918 842	2 183 768	2 183 768	2 183 768	2 183 768	2 183 770	-
Other financial assets	11 041 184	11 074 631	2 657 963	8 416 668	-	-	-	-
Total assets	453 831 002	460 432 273	149 358 057	29 717 246	66 335 333	73 126 933	86 741 217	55 153 487
Liabilities								
Liabilities to customers	354 783 217	354 783 217	337 055 276	17 084 623	543 318	100 000	-	-
Due to other banks	22 878 915	22 878 915	17 300 000	5 578 915	-	-	-	-
Other liabilities	17 866 908	17 866 908	8 080 637	3 262 090	3 262 090	3 262 091	-	-
Total liabilities	395 529 040	395 529 040	362 435 913	25 925 628	3 805 408	3 362 091	-	-
Net liquidity gap	58 301 962	64 903 233	(213 077 856)	3 791 618	62 529 925	69 764 842	86 741 217	55 153 487
Cumulative liquidity gap	58 301 962	64 903 233	(213 077 856)	(209 286 238)	(146 756 313)	(76 991 471)	9 749 746	64 903 233

5. Risk Management (Continued)

(m) Liquidity risk (Continued)

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

Separate

	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	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

5. Risk Management (Continued)

m) Liquidity risk (Continued)

Analysis of encumbered and unencumbered assets

Below is the analysis of the Bank's encumbered and unencumbered assets that would be available to obtain additional future funding as securities.

In MK'000	**Encumbered**		**Unencumbered**		
As at 31 December 2023	**Pledged as collateral**	**Other**	**Available as collateral**	**Other**	**Total**
Asset type					
Cash and balances with central banks	-	-	86 394 065	-	86 394 065
Money market investments	20 000 000	-	140 650 751	-	160 650 751
Derivative financial instruments	-	-	8 383 221	-	8 383 221
Financial assets at fair value through profit or loss	-	-	10 918 842	-	10 918 842
Loans and advances to customers	-	-	184 826 160	-	184 826 160
Other assets	-	-	2 685 413	-	2 685 413
Total	**20 000 000**	**-**	**433 858 452**	**-**	**453 858 452**

As at 31 December 2022	**Pledged as collateral**	**Other**	**Available as collateral**	**Other**	**Total**
Asset type					
Cash and balances with central banks	-	-	56 233 428	-	56 233 428
Money market investments	-	-	91 765 920	-	91 765 920
Derivative financial instruments	-	-	5 128 313	-	5 128 313
Financial assets at fair value through profit or loss	-	-	4 731 173	-	4 731 173
Loans and advances to customers	-	-	127 331 876	-	127 331 876
Other assets	-	-	3 077 615	-	3 077 615
Total	**-**	**-**	**288 268 325**	**-**	**288 268 325**

(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, lawsuits, 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.

5. Risk Management (Continued)

(n) Operational Risk *(Continued)*

Operational Risk Management (Continued)
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, 2017 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, and money laundering to ensure that management operates within limits and conditions set in the laws, regulations and directives issued by the government and the regulator. Senior management is responsible for effective management of compliance risk by implementing and instituting a risk management framework to identify, assess, monitor and control the compliance risk in the Group as well as to report to the Board on management of risk and compliance failures, if any, from time to time. Senior management reviews the compliance management framework, operational manuals and employee guidelines periodically for appropriateness and soundness.

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

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

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

Reputational Risk

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

Reputational Risk Management

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

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

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

5. Risk Management (Continued)

(o) Other Risks (Continued)

Reputational Risk (Continued)

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

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

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

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

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

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

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

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

6. Financial assets and liabilities

Classification of financial instruments

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

31-Dec-23 Consolidated	Financial assets at FVTPL K'000	Financial assets at amortized cost K'000	Financial liabilities at amortized cost K'000	Total Carrying amount K'000	Fair values K'000
Financial assets					
Cash and cash equivalents	-	86 394 065	-	86 394 065	86 394 065
Money market investments	-	160 650 751	-	160 650 751	160 650 751
Investments at FVTPL	10 918 842	-	-	10 918 842	10 918 842
Loans and advances	-	184 826 160	-	184 826 160	184 826 160
Other assets	-	11 068 634	-	11 068 634	11 068 634
	10 918 842	442 939 610	-	453 858 452	453 858 452
Financial liabilities					
Liabilities to customers	-	-	354 465 388	354 465 388	354 465 388
Due to other banks	-	-	22 878 915	22 878 915	22 878 915
Other liabilities	-	-	17 682 815	17 682 815	17 682 815
	-	-	395 027 118	395 027 118	395 027 118
Separate					
Financial assets					
Cash and cash equivalents	-	86 394 065	-	86 394 065	86 394 065
Money market investments	-	160 650 751	-	160 650 751	160 650 751
Investments at FVTPL	10 918 842	-	-	10 918 842	10 918 842
Loans and advances	-	184 826 160	-	184 826 160	184 826 160
Other assets	-	11 041 184	-	11 041 184	11 041 184
	10 918 842	442 912 160	-	453 831 002	453 831 002
Financial liabilities					
Liabilities to customers	-	-	354 783 217	354 783 217	354 783 217
Due to other banks	-	-	22 878 915	22 878 915	22 878 915
Other liabilities	-	-	17 866 908	17 866 908	17 866 908
	-	-	395 529 040	395 529 040	395 529 040

6. Financial assets and liabilities (Continued)

Classification of financial instruments (Continued)

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
	4 731 173	282 512 759	-	287 243 932	287 243 932
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
	-	-	248 005 671	248 005 671	248 005 671
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
	4 731 173	282 485 309	-	287 216 482	287 216 482
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
	-	-	248 507 593	248 507 593	248 507 593

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

	2023 K'000			2022 K'000		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Financial asset						
Investment at fair value through P&L	10 918 842	-	-	4 731 173	-	-

Valuation for investments at fair value through profit or loss is done using quoted prices on 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

	Consolidated		Separate	
	2023 K'000	**2022 K'000**	**2023 K'000**	**2022 K'000**
Deposits with Central Bank	26 578 710	10 333 702	26 578 710	10 333 702
Balances with banks abroad	6 688 763	29 932 944	6 688 763	29 932 944
Cheques in course of clearing	-	1 118 511	-	1 118 511
Placements with other banks	40 462 020	5 000 000	40 462 020	5 000 000
Cash balances	12 664 572	9 848 271	12 664 572	9 848 271
Total cash and cash equivalents	86 394 065	56 233 428	86 394 065	56 233 428

7. Cash and cash equivalents (Continued)

Deposits with Central Bank are amounts held at Reserve Bank of Malawi. These amounts do not attract interest and are regulated as disclosed in note 33 (i). Other cash and cash equivalents with other banks earn interest of 15.00% **-** 23.00% (2022: 11.70% **-** 15.00%).

The currency analysis of cash is in note 5(l).

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 K85.9 billion as at 31 December 2023 (2022: K47.3 billion). These have a tenor of more than 12 months with maturities ranging between January 2025 and June 2027 and with a coupon rate of 28% (2022: 12%).

	Consolidated		Separate	
	2023	**2022**	**2023**	**2022**
	K'000	**K'000**	**K'000**	**K'000**
Gross amount				
Treasury notes	133 915 232	69 765 235	133 915 232	69 765 235
Treasury notes - ECL	(1 627 672)	(284 160)	(1 627 672)	(284 160)
Treasury bills	28 518 733	22 302 499	28 518 733	22 302 499
Treasury bills - ECL	(155 542)	(17 654)	(155 542)	(17 654)
Carrying value	160 650 751	91 765 920	160 650 751	91 765 920
Movement during the year was as follows:				
As at 1 January	92 067 734	135 395 392	92 067 734	135 395 392
Purchases/(Maturities)	70 366 231	(43 327 658)	70 366 231	(43 327 658)
As at 31 December	162 433 965	92 067 734	162 433 965	92 067 734
Expected Credit Losses				
Balance at 1 January	(301 814)	(579 826)	(301 814)	(579 826)
(Charge)/Recovery for the year (note 35)	(1 481 400)	278 012	(1 481 400)	278 012
Balance at 31 December	(1 783 214)	(301 814)	(1 783 214)	(301 814)
Carrying amount	160 650 751	91 765 920	160 650 751	91 765 920

9. Loans and advances to customers

	Consolidated		Separate	
	2023	2022	2023	2022
	K'000	K'000	K'000	K'000
Loans and advances (amortized cost) are receivable as follows:				
Maturing within 3 months	71 002 431	56 428 787	71 002 431	56 428 787
Maturing between 3 and 12 months	64 791 291	30 817 926	64 791 291	30 817 926
Maturing after 12 months	53 817 048	43 030 375	53 817 048	43 030 375
	189 610 770	130 277 088	189 610 770	130 277 088
Specific impairment allowances (Stage 3)				
Balance at 1 January	(2 306 584)	(2 568 115)	(2 306 584)	(2 568 115)
Charge for the year (note 35)	(1 181 184)	(549 136)	(1 181 184)	(549 136)
Write-offs	925 902	810 667	925 902	810 667
Balance at 31 December	(2 561 866)	(2 306 584)	(2 561 866)	(2 306 584)
Collective impairment allowance (Stages 2)				
Balance at 1 January	(53 628)	(172 591)	(53 628)	(172 591)
Charge for the year (note 35)	(82 765)	118 963	(82 765)	118 963
Balance at 31 December	(136 393)	(53 628)	(136 393)	(53 628)
Collective impairment allowance (Stages 1)				
Balance at 1 January	(585 000)	(523 484)	(585 000)	(523 484)
Charge for the year (note 35)	(1 501 351)	(61 516)	(1 501 351)	(61 516)
Balance at 31 December	(2 086 351)	(585 000)	(2 086 351)	(585 000)
Net loans and advances to customers	184 826 160	127 331 876	184 826 160	127 331 876

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 **35**.

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

Effective base interest rates for loans and advances have been disclosed in note **37**.

A reconciliation of changes in gross carrying amount and corresponding allowance for ECL by stage is as disclosed in note **5(k)(vii)**.

10. Other assets

	Consolidated		Separate	
	2023	2022	2023	2022
	K'000	K'000	K'000	K'000
Prepayments	1 395 268	475 029	1 395 268	475 029
Stock of stationery	324 202	267 221	324 202	267 221
Stock of computer spares and other items	34 553	100 801	34 553	100 801
Other receivables	2 564 302	1 788 895	2 536 852	1 761 445
Total other assets	4 318 325	2 631 946	4 290 875	2 604 496

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 K186m (2022: K676m) 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

	Consolidated and Separate	
	2023	2022
	K'000	K'000
First Capital Bank Limited S.A. Mozambique	9 154	45 808
First Capital Bank Limited Botswana	-	7 722
First Capital Bank Limited Zimbabwe	102 210	76 399
First Capital Bank Limited Zambia	9 747	134 398
Total amounts due from related parties	121 111	264 327

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

	Consolidated and separate	
	2023	2022
	K'000	K'000
Change in fair value		
Balance at 1 January	4 731 173	5 386 593
Sale of shares in a listed company	(111 861)	(4 260 940)
Movement in fair value (note 24(b))	6 299 530	3 605 520
Balance at 31 December	10 918 842	4 731 173

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:

	Consolidated and separate	
	2023	**2022**
Shares held		
Illovo Sugar (Malawi) Plc	8 665 541	8 665 541
Telekom Networks Malawi Plc	-	4 304 286
Share Price (Kwacha)		
Illovo Sugar (Malawi) Plc	1 260.03	540.00
Telekom Networks Malawi Plc	-	12.03
Market Value (K'000)		
Illovo Sugar (Malawi) Plc	10 918 842	4 679 392
Telekom Networks Malawi Plc	-	51 781
	10 918 842	4 731 173

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. Details of the fair value inputs have been disclosed in note 6.

13. Investments in subsidiaries

			Separate	
	Shares (‘000)	**Share-holding**	**2023 K’000**	**2022 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%	10 000	10 000
FMB Pensions Limited	1 000	100.0%	-	-
			208 791	208 791

14. (a) Intangible assets

	Consolidated		Separate	
	2023 K'000	2022 K'000	2023 K'000	2022 K'000
Cost				
As at 1 January	8 182 198	8 060 950	8 177 198	8 055 950
Transfer from work in progress	61 901	74 305	61 901	74 305
Additions	79 301	46 943	79 301	46 943
Disposals	(74 187)	-	(74 187)	-
As at 31 December	8 249 213	8 182 198	8 244 213	8 177 198
Accumulated amortization				
As at 1 January	6 134 549	5 194 419	6 129 549	5 189 419
Charge for the year	819 522	940 130	819 522	940 130
Depreciation On Disposals	(74 182)	-	(74 182)	-
As at 31 December	6 879 889	6 134 549	6 874 889	6 129 549
Carrying amount	1 369 324	2 047 649	1 369 324	2 047 649

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 K62 million (2022: K74 million) from capital work in progress disclosed under note 14(b) to intangible assets following successful completion of the development of the software.

14. (b) Property and equipment

Consolidated	Freehold Property	Leasehold Improvements	Motor Vehicles	Aero plane	Equipment, Fixtures & Fittings	Capital Work in Progress	Total
	K'000	K'000	K'000	K'000	K'000	K'000	K'000
Cost or valuation							
Balance at 1 January 2023	11 589 187	7 365 880	2 038 004	1 398 862	9 615 697	655 152	32 662 782
Additions	37 459	-	176 341	-	1 693 334	937 349	2 844 483
Disposals	-	-	(85 199)	-	(444 980)	-	(530 179)
Revaluation surplus	550 076	163 510	-	-	-	-	713 586
Transfer from work in progress	124 828	-	-	-	111 553	(298 282)	(61 901)
Balance at 31 December 2023	12 301 550	7 529 390	2 129 146	1 398 862	10 975 604	1 294 219	35 628 771
Accumulated depreciation							
Balance at 1 January 2023	-	475 391	1 365 085	419 240	6 784 166	-	9 043 882
Charge for the year	259 403	212 921	195 248	83 923	947 628	-	1 699 123
Released on disposal	-	-	(85 118)	-	(442 188)	-	(527 306)
Eliminated on revaluation	(259 403)	(120 174)	-	-	-	-	(379 577)
Balance at 31 December 2023	-	568 138	1 475 215	503 163	7 289 606	-	9 836 122
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
Transfer from work in progress	9 495	310 534	199 873	-	374 895	(969 102)	(74 305)
Balance at 31 December 2022	11 589 187	7 365 880	2 038 004	1 398 862	9 615 697	655 152	32 662 782
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	84 245	217 730	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	-	475 391	1 365 085	419 240	6 784 166	-	9 043 882
Carrying amount							
At 31 December 2023	12 301 550	6 961 252	653 931	895 699	3 685 998	1 294 219	25 792 649
At 31 December 2022	11 589 187	6 890 489	672 919	979 622	2 831 531	655 152	23 618 900

14. (b) Property and equipment (Continued)

Following successful completion of projects, the Bank capitalised completed projects to property and equipment and intangible assets. In 2022, 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.

Separate	Freehold Property	Leasehold Improvements	Motor Vehicles	Aero plane	Equipment, Fixtures & Fittings	Capital Work in Progress	Total
	K'000	K'000	K'000	K'000	K'000	K'000	K'000
Cost or valuation							
Balance at 1 January 2023	11 589 187	7 245 790	2 018 559	1 398 862	9 467 711	655 152	32 375 261
Additions	37 459	-	176 341	-	1 693 334	937 349	2 844 483
Disposals	-	-	(85 199)	-	(444 980)	-	(530 179)
Revaluation surplus	550 076	163 510	-	-	-	-	713 586
Transfers	124 828	-	-	-	111 553	(298 282)	(61 901)
Balance at 31 December 2023	12 301 550	7 409 300	2 109 701	1 398 862	10 827 618	1 294 219	35 341 250
Accumulated depreciation							
Balance at 1 January 2023	-	355 301	1 345 640	419 240	6 636 180	-	8 756 361
Charge for the year	259 403	212 921	195 248	83 923	947 628	-	1 699 123
Released on disposal	-	-	(85 118)	-	(442 188)	-	(527 306)
Eliminated on revaluation	(259 403)	(120 174)	-	-	-	-	(379 577)
Balance at 31 December 2023	-	448 048	1 455 770	503 163	7 141 620	-	9 548 601
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	11 589 187	7 245 790	2 018 559	1 398 862	9 467 711	655 152	32 375 261
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	84 245	217 730	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	-	355 301	1 345 640	419 240	6 636 180	-	8 756 361
Carrying amount							
At 31 December 2023	12 301 550	6 961 252	653 931	895 699	3 685 998	1 294 219	25 792 649
At 31 December 2022	11 589 187	6 890 489	672 919	979 622	2 831 531	655 152	23 618 900

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 fully 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 realized. The valuers are independent entities and are not related to the Group.

The fair values of the properties were determined based on the following valuation techniques:

(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.

The freehold properties and leasehold improvements were also subjected to a desktop valuation as at 31 December 2023 with the resultant surplus being credited to revaluation reserve. This was necessitated by the macroeconomic environment in the period which was marred by high inflation rates and a 44% devaluation of the Malawi Kwacha. This valuation was also done by Bernard J. Mughogho BSc (Est. Mgmt.) of Knight Frank Malawi.

Had land and buildings been carried at historical cost less depreciation and accumulated impairment losses, their carrying value would have been approximately K1.59 billion (2022: K1.65 billion).

The Group assessed its property and equipment for indicators of impairment. There were no impairments to the items of property and equipment and as such no impairment losses were recognized on these assets.

15. Deferred tax

Movements in temporary differences during the year

Consolidated

2023	**Opening balance K'000**	**Recognized in profit or loss K'000**	**Recognized in other comprehensive income K'000**	**Closing balance K'000**
Property and equipment	102 390	21 896	-	124 286
Accrued income	(554 701)	(2 576 089)	-	(3 130 790)
Revaluation of property	87 570	-	(132 643)	(45 073)
Gratuity and severance pay liabilities	348 751	461 164	-	809 915
ECL provisions	245 079	1 384 126	-	1 629 205
Other temporary differences	579 855	529 829	-	1 109 684
	808 944	(179 074)	(132 643)	497 227
2022				
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	319 722	260 133	-	579 855
	(1 531 841)	1 688 982	651 803	808 944

Separate

2023	**Opening balance K'000**	**Recognized in profit or loss K'000**	**Recognized in other comprehensive income K'000**	**Closing balance K'000**
Property and equipment	98 367	21 896	-	120 263
Accrued income	(554 701)	(2 576 089)	-	(3 130 790)
Revaluation of property	87 570	-	(132 643)	(45 073)
Gratuity and severance pay liabilities	348 751	461 164	-	809 915
ECL provisions	245 079	1 384 126	-	1 629 205
Other temporary differences	580 455	529 829	-	1 110 284
	805 521	(179 074)	(132 643)	493 804
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	320 322	260 133	-	580 455
	(1 535 264)	1 688 982	651 803	805 521

16. Balances due to other banks

	Consolidated		Separate	
	2023	2022	2023	2022
	K'000	K'000	K'000	K'000
Local banks	22 878 915	5 132 174	22 878 915	5 132 174
FMO Line of credit	-	3 157 201	-	3 157 201
Total balance due to other banks	22 878 915	8 289 375	22 878 915	8 289 375
Payable as follows:				
Due within 1 year	22 878 915	8 289 375	22 878 915	8 289 375
	22 878 915	8 289 375	22 878 915	8 289 375

All balances due to other banks are stated at amortised cost. Balances due to local banks represent short-term borrowings by the Group and a repurchase agreement 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 amount outstanding, due to this agreement, as at end of the reporting period was K8.4 billion (2022: K5.1 billion). The corresponding asset under the arrangement has been disclosed under note 34.

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 was denominated in US Dollars, carried interest rate equivalent to Secured Overnight Financing Rate (SOFR) rate plus a margin of 3.5% per annum and was repayable in equal quarterly instalments. The facility was fully repaid on 08 December 2023.

17. Customer deposits

	Consolidated		Separate	
	2023	2022	2023	2022
	K'000	K'000	K'000	K'000
Current and savings accounts	167 273 860	138 019 702	167 591 689	138 337 531
Foreign currency accounts	86 480 568	54 540 567	86 480 568	54 540 567
Term deposit accounts	100 710 960	37 254 399	100 710 960	37 254 399
Total customer deposits	354 465 388	229 814 668	354 783 217	230 132 497
Payable as follows:				
Maturing within 3 months	353 822 070	229 743 168	354 139 899	230 060 997
Maturing after 3 months	643 318	71 500	643 318	71 500
	354 465 388	229 814 668	354 783 217	230 132 497

Interest rates and currency analysis for customer deposits have been disclosed in note 5(l).

18 (a). Other payables

	Consolidated		Separate	
	2023	**2022**	**2023**	**2022**
	K'000	**K'000**	**K'000**	**K'000**
Accrued expenses	4 047 172	1 942 980	4 047 172	1 942 980
Bankers' cheques issued and uncleared	349 952	342 888	349 952	342 888
Bills payable	1 080 983	500 545	1 079 249	498 811
Interest payable	1 314 989	451 111	1 314 989	451 111
Margins on letters of credit and other instruments	2 074 357	702 609	2 074 357	702 609
Employee benefits liabilities	109 348	207 447	109 348	207 447
Trade payables	12 862 534	7 450 870	13 048 361	7 636 697
Total payables	21 839 335	11 598 450	22 023 428	11 782 543

All payables are expected to be settled within a period of twelve (12) months. All amounts included in other payables are non-interest bearing.

The currency analysis of other payables is in note 5(l).

(b). Provisions

	Consolidated		Separate	
	2023	**2022**	**2023**	**2022**
	K'000	**K'000**	**K'000**	**K'000**
Opening balance at 1 January	796 000	727 500	796 000	727 500
Provisions made during the year	2 174 982	68 500	2 174 982	68 500
Payments made during the year	(753 503)	-	(753 503)	-
Balance at 31 December	2 217 479	796 000	2 217 479	796 000

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

		Consolidated and separate	
		2023	**2022**
		K'000	**K'000**
(a)	Share capital	116 813	116 813

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

		Consolidated and separate	
		2023	**2022**
		K'000	**K'000**
(b)	Share premium	1 565 347	1 565 347

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

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

20. Property revaluation reserve

	Consolidated 2023 K'000	Consolidated 2022 K'000	Separate 2023 K'000	Separate 2022 K'000
Opening balance	11 569 879	7 716 952	11 569 879	7 716 952
Property revaluation	960 520	3 852 927	960 520	3 852 927
Closing balance	12 530 399	11 569 879	12 530 399	11 569 879

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

The fair value measurement for properties has been categorised as level 2 fair value based on the inputs to the valuation techniques used. The valuation approaches adopted takes cognisance of the performance of the property market at the time of valuation. The approaches rely on sales data and all relevant factors pertaining to the property market. The methods recognise that property can be assembled, not only for occupation and use of the owner, but also to let to one or more tenants who will pay the owner rent for the right to the use and occupation of the property.

21. Loan loss reserve

	Consolidated 2023 K'000	Consolidated 2022 K'000	Separate 2023 K'000	Separate 2022 K'000
As at 1 January	959 916	515 203	959 916	515 203
Transfer from retained earnings	129 296	444 713	129 296	444 713
As at 31 December	1 089 212	959 916	1 089 212	959 916

Loans loss reserve

To comply with requirements of the Financial Services (Financial Asset Classification for banks) Directive, 2018, 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. The Loan Loss Reserve (LLR) amount relates to additional credit impairments for exposures that have remained in non-performing status for at least 18 months as per the requirements of the Directive.

22. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities presented according to when they are expected to be recovered or settled. Trading assets and liabilities including derivatives have been classified to mature and/or be repaid within 12 months, regardless of the actual contractual maturities of the products. With regard to loans and advances to customers, the Bank uses the same basis of expected repayment behavior that was used for estimating the EIR. Issued debt reflects the contractual coupon amortization.

22. Maturity analysis of assets and liabilities *(Continued)*

As at 31 December 2023

	Consolidated			Separate		
In thousands of Malawi Kwacha	**Within 12 months**	**After 12 months**	**Total Carrying Amount**	**Within 12 months**	**After 12 months**	**Total Carrying Amount**
ASSETS						
Cash and cash equivalents	86 394 065	-	86 394 065	86 394 065	-	86 394 065
Money market investments	74 756 865	85 893 886	160 650 751	74 756 865	85 893 886	160 650 751
Loans and advances to customers	131 009 112	53 817 048	184 826 160	131 009 112	53 817 048	184 826 160
Amounts due from related parties	121 111	-	121 111	121 111	-	121 111
Repurchase agreements	8 383 221	-	8 383 221	8 383 221	-	8 383 221
Current tax asset	43 649	-	43 649	-	-	-
Investments at fair value through profit or loss	8 735 072	2 183 770	10 918 842	8 735 072	2 183 770	10 918 842
Investment in subsidiary companies	-	-	-	-	208 791	208 791
Right of use assets	-	332 564	332 564	-	332 564	332 564
Deferred tax assets	-	497 227	497 227	-	493 804	493 804
Intangible assets	-	1 369 324	1 369 324	-	1 369 324	1 369 324
Property and equipment	-	25 792 649	25 792 649	-	25 792 649	25 792 649
Other assets	-	4 318 325	4,318,325	-	4 290 875	4 290 875
Total assets	309 443 095	174 204 793	483 647 888	309 399 446	174 382 711	483 782 157
LIABILITIES						
Liabilities						
Balances due to other banks	22 878 915	-	22 878 915	22 878 915	-	22 878 915
Customer deposits	354 465 388	-	354 465 388	354 783 217	-	354 783 217
Income tax payable	4 245 422	-	4 245 422	4 235 051	-	4 235 051
Other payables	21 839 335	-	21 839 335	22 023 428	-	22 023 428
Lease liabilities	257 297	191 041	448 338	257 297	191 041	448 338
Provisions	2 217 479	-	2 217 479	2 217 479	-	2 217 479
Total liabilities	405 903 836	191 041	406 094 877	406 395 387	191 041	406 586 428

22. Maturity analysis of assets and liabilities *(Continued)*

As at 31 December 2022

In thousands of Malawi Kwacha	**Consolidated**			**Separate**		
	Within 12 months	**After 12 months**	**Total Carrying Amount**	**Within 12 months**	**After 12 months**	**Total Carrying Amount**
ASSETS						
Cash and cash equivalents	56 233 428	-	56 233 428	56 233 428	-	56 233 428
Money market investments	44 501 493	47 264 427	91 765 920	44 501 493	47 264 427	91 765 920
Loans and advances to customers	84 301 501	43 030 375	127 331 876	84 301 501	43 030 375	127 331 876
Amounts due from related parties	264 327	-	264 327	264 327	-	264 327
Repurchase agreements	5 128 313	-	5 128 313	5 128 313	-	5 128 313
Current tax asset	43 649	-	43 649	-	-	-
Investments at fair value through profit or loss	3 784 940	946 233	4 731 173	3 784 940	946 233	4 731 173
Investment in subsidiary companies	-	-	-	-	208 791	208 791
Right of use assets	-	356 744	356 744	-	356 744	356 744
Deferred tax assets	-	808 944	808 944	-	805 521	805 521
Intangible assets	-	2 047 649	2 047 649	-	2 047 649	2 047 649
Property and equipment	-	23 618 900	23 618 900	-	23 618 900	23 618 900
Other assets	-	2 631 947	2 631 947	-	2 604 497	2 604 497
Total assets	194 257 651	120 705 219	314 962 870	194 214 002	120 883 137	315 097 139
LIABILITIES						
Liabilities						
Balances due to other banks	8 289 375	-	8 289 375	8 289 375	-	8 289 375
Customer deposits	229 814 668	-	229 814 668	230 132 497	-	230 132 497
Income tax payable	2 647 364	-	2 647 364	2 636 993	-	2 636 993
Other payables	11 598 451	-	11 598 451	11 782 544	-	11 782 544
Lease liabilities	230 476	223 129	453 605	230 476	223 129	453 605
Provisions	796 000	-	796 000	796 000	-	796 000
Total liabilities	253 376 334	223 129	253 599 463	253 867 885	223 129	254 091 014

23. (a) Interest income

	Consolidated		Separate	
	2023	2022	2023	2022
	K'000	K'000	K'000	K'000
Loans and advances	29 192 160	19 406 621	29 192 160	19 406 621
Treasury bills	6 620 108	4 863 638	6 620 108	4 863 638
Treasury notes	22 665 663	13 490 578	22 665 663	13 490 578
Placements with other banks	2 303 017	1 590 773	2 303 017	1 590 773
Total interest income	60 780 948	39 351 610	60 780 948	39 351 610

(b) Interest expense

	Consolidated		Separate	
	2023	2022	2023	2022
	K'000	K'000	K'000	K'000
Interest paid-Customer deposits*	14 122 983	3 779 780	14 122 983	3 779 780
Interest paid-Money market	872 491	4 274 896	872 491	4 274 896
Total interest expense	14 995 474	8 054 676	14 995 474	8 054 676

* For the year ended 31 December 2023, there was a significant increase in term deposits.

24. Non-Interest Income

(a) Fees and commissions

	Consolidated		Separate	
	2023	2022	2023	2022
	K'000	K'000	K'000	K'000
Fees and commissions	28 170 758	14 525 088	28 170 758	14 525 088
Other income	2 239 998	1 670 105	2 239 998	1 670 105
Total	30 410 756	16 195 193	30 410 756	16 195 193

(b) Income from investments

	Consolidated		Separate	
	2023	2022	2023	2022
	K'000	K'000	K'000	K'000
Dividend income	186 673	228 334	186 673	228 334
Movement in fair value of investments (note 12)	6 299 531	3 605 520	6 299 531	3 605 520
Total	6 486 204	3 833 854	6 486 204	3 833 854

25. Staff and training costs

	Consolidated		Separate	
	2023	**2022**	**2023**	**2022**
	K'000	**K'000**	**K'000**	**K'000**
Contributions to defined contribution pension plans	825 554	592 108	825 554	592 108
Salaries and wages	8 207 115	6 529 809	8 207 115	6 529 809
Training and other staff costs	3 471 830	3 584 855	3 471 830	3 584 855
Total staff and training costs	12 504 499	10 706 772	12 504 499	10 706 772

26. (a) Premises and equipment costs

	Consolidated		Separate	
	2023	**2022**	**2023**	**2022**
	K'000	**K'000**	**K'000**	**K'000**
IT and communication costs	2 599 145	2 195 392	2 599 145	2 195 392
Card operating expenses	1 075 193	717 737	1 075 193	717 737
Security costs	665 735	595 180	665 735	595 180
Other expenses	420 624	399 823	420 624	399 823
Total Premises and equipment costs	4 760 697	3 908 132	4 760 697	3 908 132

(b) Other expenses

	Consolidated		Separate	
	2023	**2022**	**2023**	**2022**
	K'000	**K'000**	**K'000**	**K'000**
Administration expenses	8 205 733	5 036 695	8 205 733	5 036 695
Auditor's remuneration	214 728	158 464	214 728	158 464
Bank charges	871 235	593 967	871 235	593 967
Non-executive Directors' remuneration	467 710	366 582	467 710	366 582
Insurance	82 391	90 547	82 391	90 547
Legal and consultancy fees	2 715 989	322 860	2 715 989	322 860
Marketing costs	1 277 866	665 731	1 277 866	665 731
Motor vehicle running costs	455 642	392 611	455 642	392 611
Repairs and maintenance	345 031	234 339	345 031	234 339
Operational losses	474 917	252 828	474 917	252 828
Postage	67 735	49 364	67 735	49 364
Printing and stationery	366 327	317 662	366 327	317 662
Professional subscriptions	67 707	28 416	67 707	28 416
Telephone expenses	12 525	38 159	12 525	38 159
Travel expenses	223 050	168 527	223 050	168 527
Interest expense on right of use assets (note 38(b))	73 343	82 425	73 343	82 425
Depreciation for right-of -use-assets (note 38(b))	283 617	271 963	283 617	271 963
Utilities	393 569	356 049	393 569	356 049
Total other expenses	16 599 115	9 427 189	16 599 115	9 427 189

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

27. Income tax expense

Recognised in the statement of comprehensive income

	Consolidated		Separate	
	2023 (K'000)	**2022 (K'000)**	**2023 (K'000)**	**2022 (K'000)**
(a) Current tax expense				
Current year at 30% (40% for taxable profits above MK10 billion) (2022: 30%) based on profits	13 711 078	8 202 592	13 711 078	8 202 592
Origination and reversal of temporary differences (Note 15)	179 074	(1 688 982)	179 074	(1 688 982)
	13 890 152	6 513 610	13 890 152	6 513 610
(b) Reconciliation of effective tax rate				
Operating Profit	42 874 236	24 784 094	42 874 236	24 784 094
Tax using the domestic tax rate of 30% (and 40% for taxable profits above MK10 billion) (2022: 30%)	16 014 787	7 435 228	16 014 787	7 435 228
Non-deductible expenses	628 144	340 849	628 144	340 849
Tax exempt income	(2 752 779)	(1 262 467)	(2 752 779)	(1 262 467)
	13 890 152	6 513 610	13 890 152	6 513 610
(c) Income tax (recoverable)/payable				
As at 1 January	2 603 715	1 778 726	2 636 993	1 812 004
Charges for the year	13 711 078	8 202 592	13 711 078	8 202 592
Paid during the year	(12 113 020)	(7 377 603)	(12 113 020)	(7 377 603)
As at 31 December	4 201 773	2 603 715	4 235 051	2 636 993
Presented in the statement of financial position as				
Current tax assets	43 649	43 649	-	-
Current tax liabilities	(4 245 422)	(2 647 364)	(4 235 051)	(2 636 993)
	(4 201 773)	(2 603 715)	(4 235 051)	(2 636 993)

28. Basic and diluted earnings per share

The calculation of basic and diluted earnings per share as at 31 December 2023 was based on profit attributable to ordinary shareholders of K 28 984 084 000 (2022: K18 270 484 000) and a weighted average number of ordinary shares outstanding of 2 336 250 000 (2022: 2 336 250 000) calculated as follows:

	Consolidated	
	2023	**2022**
Profit attributable to ordinary shareholders (K'000)	28 984 084	18 270 484
Weighted average number of ordinary shares in issue (thousands)	2 336 250	2 336 250
Basic and diluted earnings per share (tambala)	1 241	782

29. Group subsidiaries

List of subsidiaries

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

Company name	Principal place of business	Ownership interest	
		2023	**2022**
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%

30. Dividends

In 2023, the Bank paid, to its shareholders, cash dividend amounting to K13.76 billion (2022: K8.48 billion). K5.46 billion was paid in May 2023 as 2022 final dividend, K8.30 billion was paid in September 2023 as 2023 interim dividend.

31. Related party transactions

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

Loans to Directors, senior management, and other related parties

	Consolidated		Separate	
	2023	**2022**	**2023**	**2022**
	K'000	**K'000**	**K'000**	**K'000**
Corporate bodies directly or indirectly related to Directors:				
Balance at the beginning of the year	2 929 524	1 902 029	2 929 524	1 902 029
Loans granted during the year	-	1 027 495	-	1 027 495
Repayments	(896 909)	-	(896 909)	-
Balance at the end of the year	2 032 615	2 929 524	2 032 615	2 929 524
Senior management:				
Balance at the beginning of the year	979 394	316 004	979 394	316 004
Loans granted during the year	60 437	730 836	60 437	730 836
Repayments	(112 115)	(67 446)	(112 115)	(67 446)
Balance at the end of the year	927 716	979 394	927 716	979 394

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 K39.2 million (2022: K72.9 million) of interest free advances and K3.0 billion (2022: K2.6 billion) of advances which carry interest at 11.8% per annum (2022: 7.0%). All other transactions with related parties are carried out on an arm's length basis on normal commercial terms. There were no non-performing loans and overdrafts to related parties.

31. Related party transactions (Continued)

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

Counter party	Name of related parties	Relationship	Nature of transactions	2023 (K'000)	2022 (K'000)
First Capital Bank Plc (Malawi)	FMBcapital Holdings Plc (Mauritius)	Shareholder	Deposit account	17 616	13 700
First Capital Bank Plc (Malawi)	First Capital Shared Services Limited (Mauritius)	Subsidiary of FMBCH	Intercompany	1 068 698	246 908
First Capital Bank Plc (Malawi)	First Capital Bank Ltd (Zimbabwe)	Subsidiary of FMBCH	Deposit account	246 944	254 645
First Capital Bank Plc (Malawi)	First Capital Bank Ltd (Botswana)	Subsidiary of FMBCH	Deposit account	6 059	3 678
First Capital Bank Plc (Malawi)	First Capital Bank Ltd (Zimbabwe)	Subsidiary of FMBCH	Intercompany	-	76 399
First Capital Bank Plc (Malawi)	First Capital Bank Ltd (Zambia)	Subsidiary of FMBCH	Intercompany	102 210	134 397
First Capital Bank Plc (Malawi)	First Capital Bank Ltd (Botswana)	Subsidiary of FMBCH	Intercompany	9 731	7 722
First Capital Bank Plc (Malawi)	First Capital Bank S.A (Mozambique)	Subsidiary of FMBCH	Intercompany	9 154	45 808
First Capital Bank Plc (Malawi)	FMBcapital Holdings Plc (Mauritius)	Ultimate shareholder	Intercompany	279 226	400 293
First Capital Bank Plc (Malawi)	First Capital Bank Ltd (Zambia)	Subsidiary of FMBCH	Interest on Placement	7 014	-
First Capital Bank Plc (Malawi)	First Capital Bank S.A (Mozambique)	Subsidiary of FMBCH	Interest on Placement	9 164	-
First Capital Bank Plc (Malawi)	First Capital Bank Ltd (Zambia)	Subsidiary of FMBCH	Placement	8 416 667	-
First Capital Bank Plc (Malawi)	First Capital Bank S.A (Mozambique)	Subsidiary of FMBCH	Placement	11 783 334	-

Intercompany receivables have zero default rates. All balances are constantly being paid off by companies in the Group and where necessary, they are netted off. As such, they have no expected credit loss allowance. The Group expects no change to this in the foreseeable future.

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:

	2023 K'000	2022 K'000
Deposits	317 829	317 829

31. Related party transactions (Continued)

The following transactions were conducted with related parties:

Counter party	Name of related parties	Relationship	Nature of transactions	2023 (K'000)	2022 (K'000)
First Capital Bank Plc (Malawi)	First Capital Bank Ltd (Botswana)	Subsidiary of FMBCH	Interest Income (Placement with Affliated)	123 920	29 358
First Capital Bank Plc (Malawi)	First Capital Bank S.A (Mozambique)	Subsidiary of FMBCH	Interest Income (Placement with Affliated)	146 637	-
First Capital Bank Plc (Malawi)	First Capital Bank Ltd (Zambia)	Subsidiary of FMBCH	Interest Income (Placement with Affliated)	143 785	-
First Capital Bank Plc (Malawi)	First Capital Bank S.A (Mozambique)	Subsidiary of FMBCH	LCs Establishment Commission	95 235	144 647
First Capital Bank Plc (Malawi)	First Capital Bank Ltd (Zambia)	Subsidiary of FMBCH	LCs Establishment Commission	-	620
First Capital Bank Plc (Malawi)	First Capital Bank Ltd (Zambia)	Subsidiary of FMBCH	Other expense (cash swap expense)	109 572	108 477
First Capital Bank Plc (Malawi)	First Capital Bank Ltd (Botswana)	Subsidiary of FMBCH	Other expense (currency swap interest expense)	-	519 079
First Capital Bank Plc (Malawi)	FMBcapital Holdings Plc (Mauritius)	Ultimate shareholder	Group shares services	5 616 904	2 684 082
First Capital Bank Plc (Malawi)	First Capital Shared Services Limited (Mauritius)	Subsidiary of FMBCH	Group shares services	2 803 730	1 335 249

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

	Consolidated		Separate	
	2023 K'000	2022 K'000	2023 K'000	2022 K'000
Non-executive directors				
Directors' fees and expenses	467 710	366 582	467 710	366 582
Compensation of key management personnel				
Salaries, bonuses, and benefits	2 367 772	1 661 823	2 367 772	1 661 823

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.

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	2023 K'000	2022 K'000
Chief M'Mbelwa Building	7-Jun-03	80 000	80 000
Livingstone Towers	3-Oct-03	9 000	9 000
Livingstone Car Park	26-Jun-14	151 774	151 774
		240 774	240 774

31. Related party transactions (Continued)

Other related parties (Continued)

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 capitalized 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 capitalized in 2004. This office space within Livingstone Towers currently houses First Capital Bank Plc's Head Office.

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 of 31 December 2023, the total direct and indirect interests of the Directors and parties related thereto in the issued share capital of the parent company (FMBCH Plc) were as follows:

	Ordinary shares	
	2023	**2022**
H. N. Anadkat	1 117 695 155	1 117 695 155
T. Kadantot	1 587 600	1 587 600

32. Capital commitments and contingent liabilities

In conjunction with other banks, the Bank conducts business involving acceptances, guarantees, performance bonds and indemnities. Most 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:

32. Capital commitments and contingent liabilities *(Continued)*

	Consolidated		Separate	
	2023	**2022**	**2023**	**2022**
	K'000	**K'000**	**K'000**	**K'000**
Contingent liabilities				
Acceptances and letters of credit	9 807 747	5 178 413	9 807 747	5 178 413
Financial guarantees	85 084 480	56 699 041	85 084 480	56 699 041
	94 892 227	61 877 454	94 862 227	61 877 454
Other contingent liabilities				
Tax claims	1 333 320	1 333 320	1 333 320	1 333 320
Legal claims	286 283	1 407 242	286 283	1 407 242
	1 619 603	2 740 562	1 619 603	2 740 562

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 K1.33 billion (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 2023, the outcome of which is uncertain. The amount disclosed of MK0.29 billion (2022: MK1.41 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

	Consolidated		Separate	
	2023	**2022**	**2023**	**2022**
	K'000	**K'000**	**K'000**	**K'000**
Capital expenditure (authorized but not contracted for)				
Property and equipment	4 267 334	3 376 875	4 267 334	3 376 875
Intangible Assets	1 670 020	459 112	1 670 020	459 112
Total	5 937 354	3 835 987	5 937 354	3 835 987

33. Statutory requirements

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

(i) Liquidity Reserve Requirement
The Bank is required to maintain a liquidity reserve as defined by the Reserve Bank of Malawi, calculated on a fortnight average basis, of not less than 7.75% (2022: 3.75%) of the preceding weeks total deposit liabilities. In the last two weeks of December 2023 the liquidity reserve was 7.76% (2022: 10.36%) of total customer deposits.

33. 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, the Group's Tier 1 capital ratio of its risk bearing assets and Total capital ratio were as follows:

	Consolidated		Separate	
	2023	**2022**	**2023**	**2022**
	K'000	**K'000**	**K'000**	**K'000**
Tier 1 risk-based capital ratio (minimum 10%)	16.09%	16.75%	15.96%	16.57%
Total risk-weighted capital ratio (minimum 15%)	19.54%	21.12%	19.37%	20.88%

34. Repurchase agreements

	Consolidated and Separate	
	2023 K'000	**2022 K'000**
Repurchase agreements	8 383 221	5 128 313
Movement during the year was as follows:		
As at 1 January	5 128 313	45 129 178
Additions	8 416 667	5 130 450
Maturities	(5 128 313)	(45 129 178)
Expected credit losses	(33 446)	(2 137)
As at 31 December	8 383 221	5 128 313

Funds under repurchase agreement	**Trade date**	**Maturity date**	**K'000**	**Spot/ Forward Rate**
31-Dec-23				
US$ 5.0 million	29-Sep-23	29-Mar-24	8 416 667	1115.78/1120.54
31-Dec-22				
US$ 5.0 million	30-Sep-22	31-Mar-23	5 130 450	1026.43/1031.08

The Bank entered into an arrangement with the Reserve Bank of Malawi (RBM) in which the Bank sold US Dollars to RBM. The deal is listed above. The corresponding liability under the arrangement has been disclosed in **note 16.**

35. Impairment loss on financial assets

	Consolidated		Separate	
	2023	**2022**	**2023**	**2022**
	K'000	**K'000**	**K'000**	**K'000**
Impairment allowance on loans and advances				
Impairment charge	2 332 653	2 036 458	2 332 653	2 036 458
Recoveries	(420 120)	(1 459 443)	(420 120)	(1 459 443)
	1 912 533	577 015	1 912 533	577 015
Impairment allowance on other financial assets				
Impairment charge	1 512 709	-	1 512 709	-
Recoveries	-	(314 598)	-	(314 598)
	1 512 709	(314 598)	1 512 709	(314 598)
Total impairment loss on financial assets	3 425 242	262 417	3 425 242	262 417
Comprising				
Impairment allowance on loans and advances				
Specific impairment charges	328 418	508 812	328 418	508 812
Collective impairment charges	1 584 115	68 203	1 584 115	68 203
	1 912 533	577 015	1 912 533	577 015
Impairment allowance on other financial assets				
Collective impairment charges/(recoveries)	1 512 709	(314 598)	1 512 709	(314 598)
	1 512 7089	(314 598)	1 512 709	(314 598)
Total impairment loss on financial assets	3 425 242	262 417	3 425 242	262 417

A reconciliation of changes in gross carrying amount and corresponding allowance for ECL by stage has been disclosed in note **5(k)(vii)**.

36. Exchange rates and inflation

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

Exchange rates	**2023 Kwacha**	**2022 Kwacha**
Malawi Kwacha/GBP	2 216.71	1 273.21
Malawi Kwacha/Rand	94.54	62.33
Malawi Kwacha/US Dollar	1 683.33	1 026.09
Malawi Kwacha/Euro	1 922.30	1 125.15
Malawi Kwacha/Pula	128.30	82.54
Malawi Kwacha/Meticais	37.86	16.38
Malawi Kwacha/Zambia Kwacha	69.42	58.66
Inflation rate %	28.80	25.40

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

	2024 Kwacha
Malawi Kwacha/GBP	2 285.53
Malawi Kwacha/Rand	95.66
Malawi Kwacha/US Dollar	1 733.83
Malawi Kwacha/Euro	1 884.82
Malawi Kwacha/Pula	125.80
Malawi Kwacha/Meticais	26.41
Malawi Kwacha/Zambia Kwacha	67.16
Inflation rate % (January 2024)	35.0

37. Effective interest rates of financial assets and liabilities

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

	2023	**2022**
Assets		
Government securities	13.00 - 28.00 %	14.98 - 21.35 %
Deposits with banking institutions	15.00 - 23.00 %	11.70 - 15.00 %
Loans and advances to customers (base rate)	17.30 - 23.60 %	13.50 - 17.30 %
Liabilities		
Customer deposits	0 - 21.50 %	0 - 14.50%

38. Leases

The Bank leases several building assets for its operations. The average lease term is 4.3 years. The maturity analysis of lease liabilities is presented in (b) below. 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.

(a). Right-of-use-assets

	Consolidated and Separate	
	2023	**2022**
Cost	**K'000**	**K'000**
At 1 January	1 383 177	1 185 452
Additions	259 437	197 725
Remeasurement adjustment	(101 877)	-
Disposals	(423 491)	-
	1 117 246	1 383 177
Accumulated depreciation		
At 1 January	1 026 433	754 470
Charge for the year	283 617	271 963
Remeasurement adjustment	(101 877)	-
Disposals	(423 491)	-
At 31 December	784 682	1 026 433
Carrying amount		
At 31 December	332 564	356 744
Average lease term (years)	4.3	6.8

(b). Lease liabilities

	Consolidated and separate	
	2023	**2022**
	K'000	**K'000**
Opening liability at 1 January	453 605	526 444
Additions	259 437	197 725
Interest on lease liabilities	73 343	82 425
Lease payments during the year	(353 931)	(330 912)
Lease liability adjustment	15 884	(22 077)
Carrying amount of lease liabilities	448 338	453 605
Analyzed as:		
Non-current	191 041	223 129
Current	257 297	230 476
	448 338	453 605

	Consolidated and separate	
	2023	**2022**
	K'000	**K'000**
Maturity analysis		
Year 1	222 283	262 668
Year 2	119 910	92 319
Year 3	52 636	52 884
Year 4	30 741	41 544
Year 5	26 443	25 727
After 5 years	115 723	65 984
	567 736	541 126
Less: unearned interest	(119 398)	(87 521)
	448 338	453 605
Amounts recognized in profit and loss		
Depreciation expense on right-of-use assets (Note 26(b))	283 617	271 963
Interest expense on lease liabilities (Note 26(b))	73 343	82 425

The Bank does not face a significant liquidity risk regarding 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).

The currency analysis of lease liabilities is included in note 5(l).

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 K205.3 million (2022: K27.5 million). All other revenues are attributable to the country in which the respective operating segment is domiciled.

During the year, the Bank earned K6.6 billion (2022: K4.9 billion) interest on Government of Malawi treasury bills; K22.7 billion (2022: K13.5 billion) interest on Government of Malawi Treasury Notes and K346.1 million (2022: K254.2 million) interest on loans and advances to enterprises controlled by Government of Malawi.

39. Segmental Reporting (Continued)

	Corporate & Retail Banking	Malawi Others	Subtotal	Total before adjustments	Consolidation adjustments	TOTAL
2023	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**
Interest income	60 780 948	-	60 780 948	60 780 948	-	60 780 948
Interest expense	(14 995 474)	-	(14 995 474)	(14 995 474)	-	(14 995 474)
Net interest income	45 785 474	-	45 785 474	45 785 474	-	45 785 474
Fees and commissions	30 410 756	-	30 410 756	30 410 756	-	30 410 756
Income from investments	6 486 204	-	6 486 204	6 486 204	-	6 486 204
Non-interest income	36 896 960	-	36 896 960	36 896 960	-	36 896 960
Total operating income	82 682 434	-	82 682 434	82 682 434	-	82 682 434
Staff and training costs	(12 504 499)	-	(12 504 499)	(12 504 499)	-	(12 504 499)
Premises and equipment	(4 760 697)	-	(4 760 697)	(4 760 697)	-	(4 760 697)
Depreciation	(2 518 645)	-	(2 518 645)	(2 518 645)	-	(2 518 645)
Other expenses	(16 599 115)	-	(16 599 115)	(16 599 115)	-	(16 599 115)
Impairment of financial assets	(3 425 242)	-	(3 425 242)	(3 425 242)	-	(3 425 242)
Total expenditure	(39 808 198)	-	(39 808 198)	(39 808 198)	-	(39 808 198)
Profit before income tax expense	42 874 236	-	42 874 236	42 874 236	-	42 874 236
Income tax expense	(13 890 152)	-	(13 890 152)	(13 890 152)	-	(13 890 152)
Profit for the year	28 984 084	-	28 984 084	28 984 084	-	28 984 084
Other comprehensive income						
Revaluation surplus on property	1 093 163	-	1 093 163	1 093 163	-	1 093 163
Deferred tax on revalued property	(132 643)	-	(132 643)	(132 643)	-	(132 643)
Total other comprehensive income for the period	960 520	-	960 520	960 520	-	960 520
Total comprehensive income for the period	29 944 604	-	29 944 604	29 944 604	-	29 944 604
Total segment assets	483 782 157	1 051 505	484 833 662	484 833 662	(1 185 774)	483 647 888
Total segment liabilities	406 586 425	46 215	406 632 640	406 632 640	(537 802)	406 094 838

39. Segmental Reporting (Continued)

	Corporate & Retail Banking	Others	Malawi Subtotal	Total before adjustments	Consolidation adjustments	TOTAL
	K'000	K'000	K'000	K'000	K'000	K'000
2022						
Interest income	39 351 610	-	39 351 610	39 351 610	-	39 351 610
Interest expense	(8 054 676)	-	(8 054 676)	(8 054 676)	-	(8 054 676)
Net interest income	31 296 934	-	31 296 934	31 296 934	-	31 296 934
Fees and commissions	9 176 343	-	9 176 343	9 176 343	-	9 176 343
Income from investments	3 833 854	-	3 833 854	3 833 854	-	3 833 854
Gain on foreign exchange transactions	7 018 850	-	7 018 850	7 018 850	-	7 018 850
Non-interest income	20 029 047	-	20 029 047	20 029 047	-	20 029 047
Total operating income	51 325 981	-	51 325 981	51 325 981	-	51 325 981
Staff and training costs	(10 706 772)	-	(10 706 772)	(10 706 772)	-	(10 706 772)
Premises and equipment	(3 908 132)	-	(3 908 132)	(3 908 132)	-	(3 908 132)
Depreciation	(2 237 377)	-	(2 237 377)	(2 237 377)	-	(2 237 377)
Other expenses	(9 427 189)	-	(9 427 189)	(9 427 189)	-	(9 427 189)
Impairment of financial assets	(262 417)	-	(262 417)	(262 417)	-	(262 417)
Total expenditure	(26 541 887)	-	(26 541 887)	(26 541 887)	-	(26 541 887)
Profit before income tax expense	24 784 094	-	24 784 094	24 784 094	-	24 784 094
Income tax expense	(6 513 610)	-	(6 513 610)	(6 513 610)	-	(6 513 610)
Profit for the year	18 270 484	-	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	-	3 201 124
Deferred tax on revalued property	651 803	-	651 803	651 803	-	651 803
Total other comprehensive income for the period	3 852 927	-	3 852 927	3 852 927	-	3 852 927
Total comprehensive income for the period	22 123 411	-	22 123 411	22 123 411	-	22 123 411
Total segment assets	315 097 138	1 051 505	316 148 643	316 148 643	(1 185 774)	314 962 869
Total segment liabilities	254 091 010	46 215	254 137 225	254 137 225	(537 802)	253 599 423

40. Subsequent events

The Central Bank revised the policy rate from 24% to 26% in February 2024 and inflation rose to 35% in January 2024, dropping to 33.5% in February 2024. The Malawi Kwacha devalued against the US dollar by 3% in March 2024. The impact of these events will be reflected in the financial statements for the year ending 31 December 2024.

41. Impact of environmental changes

Malawi, being an agrarian economy relies on stable weather patterns to produce majority of its exports and food for consumption. The 2023/2024 agriculture season has been impacted by intermittent weather patterns with some areas having no rains at all. We continually assess the impact of such intermittent weather patterns on the business and where appropriate this is reflected on our financial results.