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Annual Report 2019

STANDARD BANK PLC

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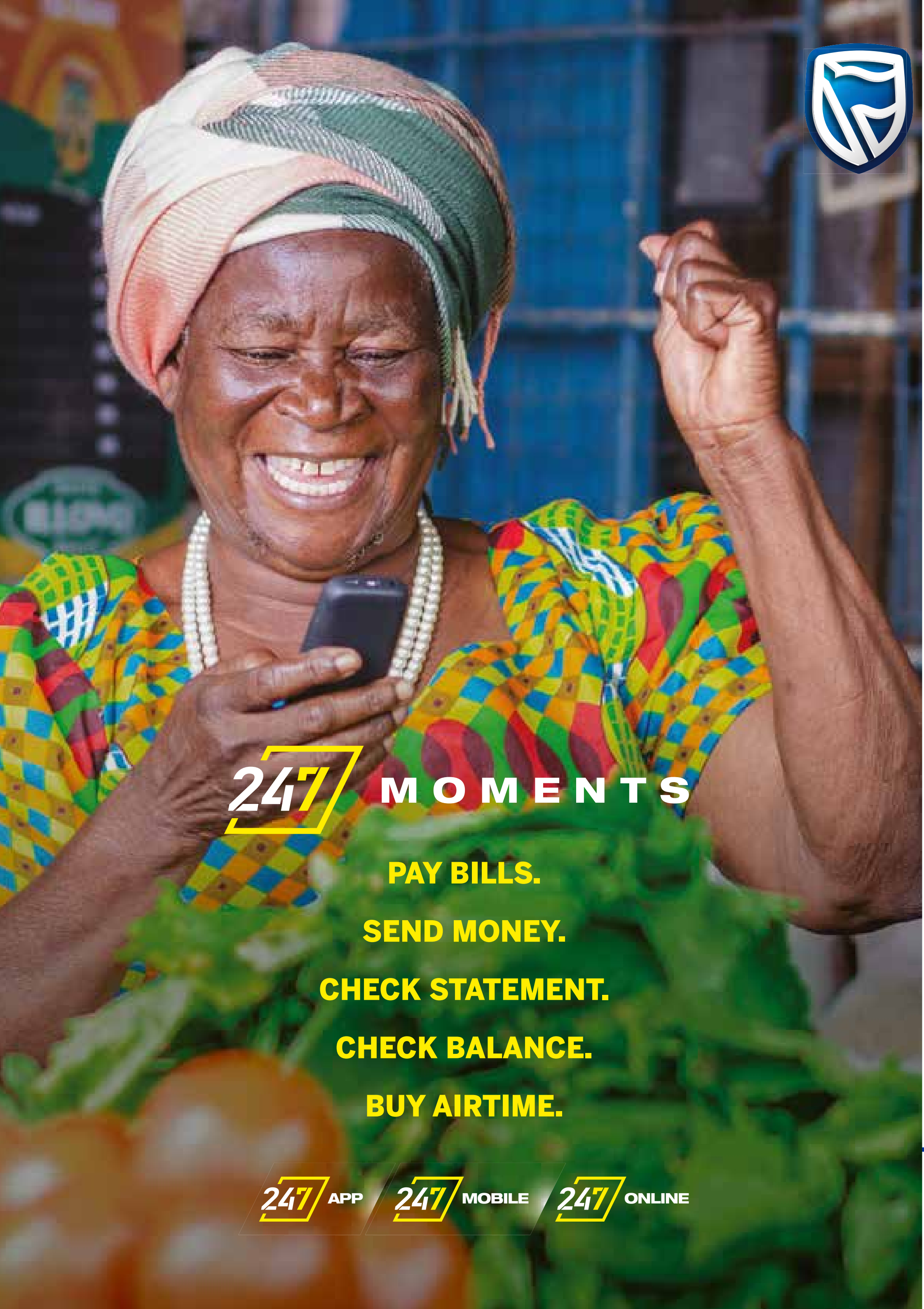
ANNUAL REPORT 2019

Standard Bank


247 MOMENTS
PAY BILLS.
SEND MONEY.
CHECK STATEMENT.
CHECK BALANCE.
BUY AIRTIME.
247 APP
247 MOBILE
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CONTENTS

MALAWI IS OUR HOME – WE DRIVE HER GROWTH

Our Values

Our success and growth over the long term is built on making a difference in the communities in which we operate. We are committed to moving Malawi forward.

01 Serving our customers

02 Growing our people

03 Delivering to our shareholders

04 Being proactive

05 Working in teams

06 Constantly raising the bar

07 Respecting each other

08 Upholding the highest levels of integrity

Chairman's and Chief Executive's Report

ECONOMIC OVERVIEW

Headline inflation averaged 9.4% in 2019 which was higher than 9.2% registered in the previous year. Food inflation remained in double-digits and closed in December 2019 at 19.3%, significantly higher than 12% recorded in the same month in 2018. The Malawi Kwacha continued to lose ground against the United States Dollar during 2019 on the back of excess local demand for foreign currency. The policy rate remained relatively stable in the year and closed at 13.5%.

PERFORMANCE

The Group delivered a good set of results in 2019. The Group's profit after tax of MK15.9billion was 50% above prior year due to a year on year increase of 12% in net interest income, emanating from growth of the customer loan book despite a general decline in the level of interest rates during the year. Growth in customer loans and advances was 32% year on year while financial investments grew by 18%. Customer deposits grew by 6% which contributed to the growth of interest earning assets.

Growth in net interest income was subdued due to the declining net interest margins as a result of a decrease of the base lending rate in 2019 to 12.5% from 23% in 2018. Non interest revenue was 3% above prior year due to growth in transaction volumes.

Credit impairments were 62% below prior year due to a decline in the size of the non-performing loan book. The decline in credit impairments was due to the Group's focus on robust credit risk management practices. The Group continues to place emphasis on loan recoveries previously written off.

Operating costs growth was kept to 1% year on year despite inflationary increases of goods and services. As a result of the higher revenue base and lower growth in operating costs, the cost to income ratio was reduced to 58% compared to 63% in the prior year. The Group will continue to focus on diversifying its revenue base and will continue to focus on cost management.

Earnings per share for the year increased from MK45 in 2018 to MK68 in 2019.

STRATEGY

Malawi is our home and we drive her growth. We aspire to be the "undisputed number one financial services organisation in Malawi, delivering superior value to all stakeholders."

To achieve our aspiration, we will focus on Client Centricity where we promise to deliver value to our clients while driving Digitisation to offer our clients and prospective clients a truly Universal Financial Services Organisation (UFSO) experience. This means our business units and corporate functions will work as an integrated whole to service our client's financial needs in a seamless way. We understand that as a Bank we need to constantly transform in order to remain relevant to our clients. We have therefore welcomed the digital revolution as one of our biggest opportunities.

LEADERSHIP

As we continue to develop our people across all levels of the organisation, leadership development continued and will continue to be a major focus area. With the myriad of complexities and changes that exist in the banking industry today, the requirement for authentic, agile and visionary leaders remains key for the bank's sustainability. Our leaders are skilled to perform and transform, to empower, to create meaning and direction, and to inspire and influence others. Our leadership programmes endeavour to develop the necessary skills and capabilities to drive innovations and efficiencies in order to excel in the changing environment we operate in today and to ensure that the organisation is future ready.

To create the required shift and to have a competitive edge in business performance, robust development and training solutions and interventions are in place to equip, assess and support our leaders to lead and thrive today and remain relevant in future. This shift in leadership capability is being cascaded to impact all our people, at every level and across every function. We will continue to have meaningful engagement with our people to effectively achieve this.

CORPORATE GOVERNANCE AND DIRECTORSHIP

The Group maintains high standards of corporate governance. Compliance with applicable legislations, codes, regulations and standards is an essential part of the Group's operations. The Board monitors regulatory compliance through management reporting.

PROSPECTS

The Group expects macroeconomic stability to continue in 2020 on the back of a normal agricultural season that would lend support to the local currency and sustain low and stable inflation and interest rates.

We remain committed to ensuring customer satisfaction in all we do. The Group continues to focus and drive digitisation in order to improve client experience. Cost rationalisation while we continue investing for the future, prudent management of risk and liquidity, diversifying balance sheet and maintaining a healthy capital position remains at the core of what we do.

APPRECIATION

We thank our colleagues on the Board for their guidance and support during the year. We thank the executive team and the staff for the results delivered in 2019. We also thank our customers and our suppliers for their continued support without whom we would have not achieved this good result.

"For the board to be an effective custodian of sustainable performance and long-term value creation requires that we are adept at managing the complexities of change."

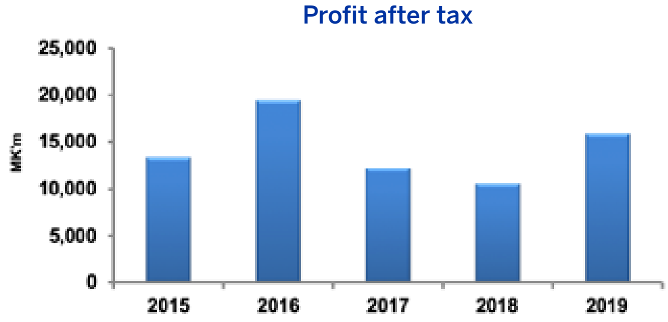
Dr. R Harawa
Chairman

Mr. W le Roux
Chief Executive

Review of performance

MK15.9 billion ⬆

Profit after tax
2018: MK10.6 billion



Lead transaction advisor to the

MK27.92 billion

Airtel Malawi Plc Initial Public Offering (IPO). This was the largest IPO on the Malawi Stock Exchange and the first to use digital payment solutions for subscribing.

Arranged and financed pre-export and trade facilities totalling

US$50 million

for the Tobacco and Petroleum sectors.

Awards

Best Investment Bank in Malawi 2019
- EuroMoney Awards for Excellence

Best illustration of Ecosystem Marketing in East Africa 2019
- Group Marketing and Communication - Africa Regions Awards

Best Corporate Social Responsibility Bank in 2019
- Global Banking and Finance

Employees ⬇
739
2018: 747

MK242.1billion ⬆
Deposits from Customers
2018: MK229.3 billion

Return on Equity ⬆
18%
2018: 14%

Cost-to-income ratio ⬇
58%
2018: 63%

MK148.5billion ⬆
Loans and Advances to Customers
2018: 112.6 billion

Credit Loss Ratio ⬇
1%
2018: 4%

Our Socioeconomic Impact

We will ensure long-term sustainability by harmonising the needs of our customers, our people and our shareholders and by being relevant to the societies in which we operate.

Partnered with UN Women in a project that aims to close the gender gap in agriculture by empowering women farmers through climate smart agriculture of groundnut farming **MK340 million** (Financial contribution provided by Standard Bank Group)

MK458 million

contributed to corporate social investment

Sponsored 6 university students from each of the following universities: Luanar, Chancellor College, Polytechnic, Malawi University of Science and Technology and Mzuzu University. **MK30 million**

Raised **MK15 million** through Be More Race which impacted four special needs schools across Malawi through donations of food items, learning materials, braille machines and lotions for students with albinism

Assisted Mzuzu Government Secondary School by constructing 2 classroom blocks and furnishing them with desks and chairs.
MK51 million

Provided financial literacy workshops in partnership with Global Fund to improve the financial tools and skills of the organization that implements programs to fight diseases in Malawi.
MK9 million

Donated a variety of textbooks for form 1 to 4 students to Phereni CDSS. This is the first donation of learning materials Phereni received since the school opened in 2018 without a single textbook
MK2 million

Donated 40 computers and 100 chairs to the Malawi College of Health Sciences Lilongwe campus to enable the college to provide quality training to their students.
MK2 million

Donated 14 computers to Franciso Palau Primary School to enhance the learning experience and delivery of lessons for both students and teachers.
MK2 million

MK7 million
in tree planting initiatives and donations of learning materials to various schools across the country were undertaken by departments and individual staff members

Our Business Structure

PERSONAL AND BUSINESS BANKING

Provides banking and other financial services to individual customers and small to medium-sized enterprises.

WHAT WE OFFER

Mortgage lending / Card products / Instalment sale and finance leases / Lending products / Bancassurance

CORPORATE AND INVESTMENT BANKING

Provides corporate and investment banking services to governments, parastatals, larger corporates, financial institutions and international counterparties.

WHAT WE OFFER

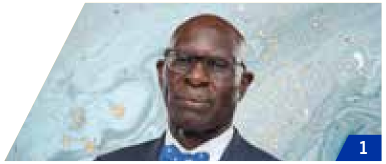
Global markets / Investment banking / Transactional products and services

OTHER

Include the results of centralised support functions (back office), including those functions that were previously embedded in the business segments. The direct costs of support functions are recharged to the business segments.

Board of Directors

GENDER 4/ 9 /



1. DR. REX HARAWA 62
Chairman
PhD. (Finance & Economics)
Appointed: August 2007

2. WILLIAM LE ROUX 58
Executive Director
Bachelor of Commerce
Appointed: December 2017

3. TEMWANI SIMWAKA 49
Executive Director
Fellow of the Association of Chartered Certified Accountants
Appointed: May 2010

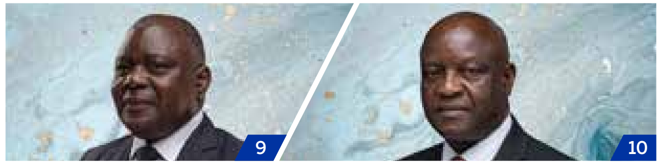
4. NORAH NSANJA 35
Head, Legal and Company Secretary
Graduate, Governance Institute; LLB(Hons)Mw
Appointed: June 2019

5. RODERICK PHIRI 69
Director
Bachelor of Social Science (Economics & Statistics)
Appointed October 2006

6. CATHERINE MTONDA 58
Director
Master of Business Administration
Appointed: June 2012

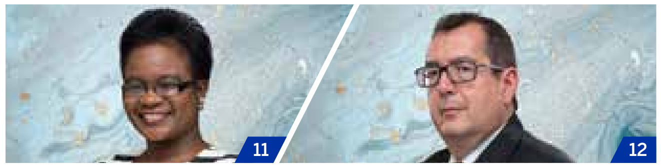
7. SHADRECK ULEMU 60
Director
MSc Electronic Engineering
Appointed: May 2016

8. DAVID PINTO 46
Director
Bcom Management Finance
Appointed: May 2016



9. ANDREW CHIOKO 66
Director
Fellow of the Association of Chartered Certified Accountants
Appointed: June 2007

10. ALAN CHINULA SC 62
Director
LL.B Honours
Appointed: June 2012



11. PROF. NGEYI KANYONGOLO 51
Director
PhD in Law (Warwick)
Appointed: June 2012

12. ANTONIO COUTINHO 52
Executive Director
Baccalaures in Handel (Bachelor of Science in Business)
Appointed: July 2018

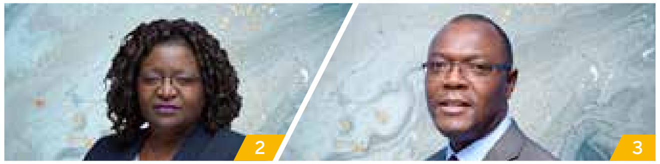
13. JAYESH PATEL 50
Director
M.A Economics
Appointed: October 2008

AIR | For more information on how our remuneration structures support performance, refer to the remuneration report on page 24.

Executive Committee

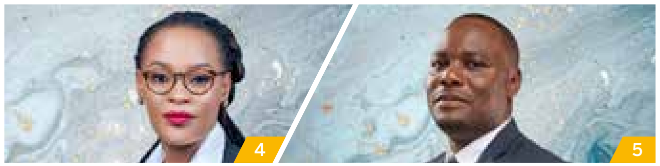
GENDER


1. WILLIAM LE ROUX 58
Chief Executive
Bachelor of Commerce
Joined: December 2017



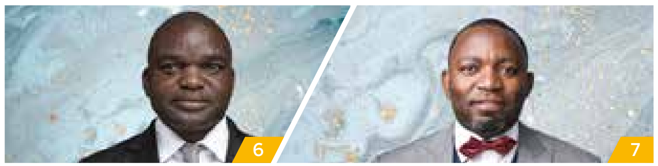
2. TEMWANI SIMWAKA 49
Chief Financial Officer
Fellow of the Association of Chartered Certified Accountants
Joined: September 2006

3. WILLIAM NUKA 55
Head, Information Technology
Bachelor of Science in Electrical Engineering
Joined: January 2000



4. NORAH NSANJA 35
Head, Legal and Company Secretary
Graduate, Governance Institute;
LLB(Hons)Mw
Joined: May 2012

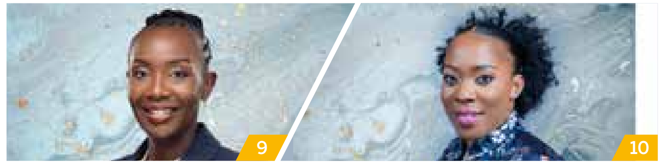
5. DANIEL MBOZI 49
Head, Operations
Chartered Management Accountant
Joined: May 2004



6. FRANK CHANTAYA 44
Head, Corporate and Investment Banking,
Bachelor of Business Administration
Joined: April 2008

7. BEN WANDAWANDA 46
Head of Business Development
MSc in Strategic Management
Joined: January 2019

8. CHARITY MUGHOGHO 50
Acting Head, Personal and Business Banking
MSc. Strategic Management - Marketing
Appointed: 21st August 2019 up to 31st December 2019



9. LINDA MANDA 44
Deputy Head Corporate and Investment Banking and Head Client Coverage
Fellow of the Association of Chartered Certified Accountants
Joined: January 2016 up to July 2019

10. THOKO UNYOLO 39
Head, Marketing and Communication
Master of Business Administration
Joined: January 2015

11. KONDWANI MLILIMA 46
Chief Risk Officer
Master of Arts Economics
Joined: October 2002

12. MC LEWEN SIKWESE 34
Head, Global Markets
MSc. Finance, Economic Policy
Joined: September 2016

13. ZANDILE PHANGAPHANGA 37
Head, Human Capital
Master of Business Administration
Joined: February 2017

AIR | For more information on how our remuneration structures support performance, refer to the remuneration report on page 24.

Statement of Corporate Governance

CODES AND REGULATIONS

The Group complies with applicable legislation, regulations, standards and codes. The Board of Directors monitors compliance with these by means of management reports, which include information on the outcomes of any significant interaction with key stakeholders such as the Group's various regulators.

The Group operates within a clearly defined governance framework. Through the framework, delegation of authority is given to management by the Board, while the Board retains effective control.

Board and Directors

Ultimate responsibility for governance rests with the Board of Directors ("Board"). The Group has a unitary Board structure and the roles of Chairman and the Chief Executive are separate and distinct. The Chairman is a non-executive director. The number and stature of independent non-executive directors ensures that sufficient independence is brought to bear on decision making. There are nine non-executive directors on the Board and three executive directors.

It is the Board's responsibility to ensure that effective management is in place to implement the Group's strategy, and to consider issues relating to succession planning. The Board is satisfied that the current pool of talent available within the Group and the ongoing work to deepen the talent pool provide adequate succession plan, in both the short and long term. During the year, the Board also considered other key people-related challenges including talent retention.

Regular interaction between the Board and Executive Management is encouraged. Directors are provided with unrestricted access to Management and Group information, as well as the resources required to carry out their responsibilities at the Group's expense.

A feature of the way the Board operates is the role played by Board Committees which facilitate the discharge of Board's responsibilities. Each Committee has a Board approved mandate that is regularly reviewed. Details on how these committees operate are provided below.

Skills, Knowledge, Experience and Attributes Of Directors

The Board ensures that directors possess the skills, knowledge and experience necessary to fulfil their obligations. The directors bring a balanced mix of attributes to the Board, including:

- International and domestic experience;
- Operational experience;
- Knowledge and understanding of both the macroeconomic and the microeconomic factors affecting the Group; and
- Financial, legal, entrepreneurial and banking skills.

Board Responsibilities

The key terms of reference in the Board's mandate, which forms the basis for its responsibilities, are to:

- Agree on the Group's objectives, strategies and plans for achieving those objectives;
- Regularly review the corporate governance process and assess achievement against objectives;
- Delegate to the Chief Executive or any director holding any executive office or any senior executive, any of the powers, authorities and discretions vested in the Board, including the power of sub-delegation. Delegate, similarly, such powers, authorities and discretions to any committee and subsidiary company boards as may exist or be created from time to time;
- Determine the terms of reference and procedures of all board committees in consultation with Stanbic Africa Holdings Limited ("SAHL");
- Consider and evaluate reports submitted by Management;
- Ensure that an effective risk management process exists and is maintained throughout the Group;
- Monitor the performance of the Chief Executive and the Executive team;
- Establish, review regularly and approve major changes to the Group's policies;
- Ensure that an adequate budget and planning process exists, that performance is measured against budgets and plans and approves annual budgets for the Group, in line with the policies and procedures of the Group;
- Consider and approve capital expenditure as recommended by management;
- Consider and approve any significant changes proposed in accounting policy or practice and consider the recommendations of the Board Audit Committee.
- Assume ultimate responsibility for systems of financial, operational and internal controls, the adequacy and review of which is delegated to sub-committees, and the Board ensures that reporting on these issues is adequate;
- Take ultimate responsibility for regulatory compliance and ensure that reporting to the Board is comprehensive;
- Ensure balanced reporting to stakeholders on the Group's position and that such reporting is done in a manner that can be understood by stakeholders;
- Review non-financial matters that have not been specifically delegated to any sub-committee. The review includes code of ethics, environmental issues and social issues.

Strategy

The Board is responsible for setting the Group's strategy, which is considered and formally approved at a Board meeting. A separate annual session is held with the Executive Committee, where the strategy is deliberated and the Board's input into the strategy is provided to Executive Management for inclusion into the Bank's strategy. Once the strategy is finalised by management, the same is presented to the Board through the Board Audit Committee. Once the financial and governance objectives for the following year have been agreed, the Board monitors performance on an ongoing basis. Performance against financial objectives is monitored by way of management quarterly reports and representations at board meetings.

Board Effectiveness and Evaluation

The Board assesses itself against its objectives by conducting an annual Board Self Evaluation. The aim of the evaluation is to assist the Board in improving its effectiveness. The outcome of the evaluation is discussed at a board meeting and any areas of concern are addressed. Relevant action points are also noted for implementation. The performance of the Chairman, Chief Executive Officer, the individual directors, the Company Secretary and the Board Committees are also assessed annually.

Board Meetings

The Board meets quarterly with an additional annual meeting to consider the Group's Strategy. Ad hoc meetings are held when necessary. The directors are provided with comprehensive board documentation at least four days prior to each of the scheduled meetings.

Board Meetings - Meeting Attendance

Member	28–Feb-19	07-June-19	31-July 19	29–Nov-19
Dr. R Harawa (Chairman)**	√	√	√	√
Mr. J P Patel**	√	√	A	√
Mr. R K Phiri**	√	√	√	√
Mr. A A Chioko**	√	√	√	√
Prof. N R Kanyongolo**	√	√	A	√
Mr. A J W Chunula Sc**	√	√	√	√
Mrs. C Mtonda**	√	√	√	√
Mr. A Coutinho*	√	√	√	√
Mr. W le Roux*	√	√	√	√
Mrs. T Simwaka *	A	√	√	√
Mr. S Ulemu**	A	√	√	√
Mr. D Pinto**	√	√	A	A

Key

√	= Attended the meeting
A	= Apology
*	= Executive Director
**	= Non-executive Director

Board committees are established to assist the Board in discharging its responsibilities. They operate in terms of Board approved mandates which are reviewed and approved by the Board on an annual basis. The mandates set out their roles, responsibilities, scope of authority, composition and procedures for reporting to the Board.

Board Audit Committee

The role of this Committee is to review the Group's financial position and make recommendations to the Board on all financial matters. This includes assessing the integrity and the effectiveness of the audit, accounting, financial and internal control systems. The Committee also ensures effective communication between the internal auditors, external auditors, the Board, Management and Regulators. The Committee's key terms of reference comprise various categories of responsibilities and among others include the following:

- Annual review and recommendation to the Board for approval of the Board Audit Committee mandate;
- Review of the audit plan with the external auditors, with specific reference to the proposed audit scope and approach to the Group's activities falling within the high-risk areas, the effectiveness of the audit and audit fee.
- Consider with Management, areas of special concern and the procedures being developed to monitor and contain risks in those areas;
- Review with Management copies of reports and letters received from the external auditors concerning deviations from and weaknesses in accounting and operational controls, and ensure that prompt action is taken by Management and that issues are satisfactorily resolved;
- Review the adequacy of capital, provisions for bad debts and diminution in the value of other assets, and the formulae applied by the Group in determining charges for and levels of general debt provisions, within the framework of the Group policy;
- Review the accounting policies adopted by the Group and all proposed changes in accounting policies and practices and recommend such changes where these are considered appropriate in terms of International Financial Reporting Standards and also considers the adequacy of disclosures in the financial statements;
- Review the Group's interim and audited annual financial statements and all financial information intended for distribution to the shareholders and the general public, prior to submission to the full Board;
- Assess the performance of financial management and review the quality of internal accounting control systems and reports produced by management;
- Review the basis on which the Group has been determined as a going concern and make recommendations to the Board;
- Review written reports furnished by the Internal Audit Department of the Bank and of the Standard Bank Group, detailing the adequacy and overall effectiveness of the Group's internal audit function and its implementation by Management, the scope and depth of coverage, reports on internal control

Board Audit Committee (continued)

and any recommendations and confirmation that appropriate action has been taken;

- Monitor compliance with the Financial Services Act, Companies Act, Banking Act and the Stock Exchange Listings Requirements and all other applicable legislation in as far as they impact financial reporting.
- Monitor ethical conduct of the Standard Bank Group and Executives and reviewing reports from Management on violations of the Group's Code of Ethics;
- Consider the development of standards and requirements and review statements on ethical standards or requirements for the Group; and
- Review and make recommendations on any potential conflicts of interest relating to situations of a material nature.

The membership of this committee comprised of:

Mr. A A Chioko	-	Chairman
Mr. S Ulemu	-	Member
Mr. A Coutinho	-	Member

The committee met four times during the year.

Board Audit Committee – Meeting attendance

Member	26-Feb-19	06-June-19	30-Jul-19	28-Nov-19
Mr. A A Chioko	√	√	√	√
Mr. S Ulemu	√	√	√	√
Mr. A Coutinho	√	√	√	A

Key

√	= Attended the meeting
A	= Apology

Board Credit Committee

The role of this Committee is to ensure that effective credit governance is in place in order to provide for the adequate management, measurement, monitoring and control of credit risk, including country risk. This involves ensuring that all committees within the Credit governance structure operate within clearly defined mandates and delegated authorities, as delegated to them by the Board, and that an appropriate credit framework and structure exists. The responsibilities of the Committee also include:

- Annual and recommendation to the Board for approval of the Board Credit Committee mandate, the management Credit Committee mandate and the Credit Risk Management Committee mandate;
- Establish sub-committees as required for the proper performance of its mandate and ensure that such sub-committees have clearly defined and appropriate mandates and delegated authority;
- Consider and ratify all insider credit applications pertaining to Directors and Senior management and parties related to them irrespective of size, and to ensure that all regulatory requirements are complied with;
- Review and ratify credit approvals made by the various delegated authorities;
- Approve the agreed credit risk appetite framework as required by Standard Bank Group Credit Risk Governance Standard;
- Quarterly review of the credit and country risk portfolio reports; the credit and country risk impairment adequacy, and the credit and country risk sections of the report to the Board;
- Consider any other Credit related matters as may be necessary.

The membership of this committee comprised of:

Mr. J P Patel	-	Chairman
Mrs. C Mtonda	-	Member
Mr. R Phiri	-	Member

The committee met four times during the year.

Board Credit Committee – Meeting attendance

Member	27-Feb-19	05-June-19	29–Jul 19	27–Nov-19
Mr. J P Patel	√	√	A	√
Mrs. C Mtonda	√	√	√	√
Mr. R Phiri	√	√	√	√

Key

√	= Attended the meeting
A	= Apology

Board Risk Committee

The role of this Committee is to ensure quality, integrity and reliability of the Group's risk management procedures. This Committee also assists the Board in the discharge of its duties relating to the corporate accountability and associated risks in terms of management, assurance and reporting. The Committee reviews and assesses the integrity of the risk control systems and ensures that risk policies and strategies are effectively identified and managed. The responsibilities of the Committee also include:

- Annual review and recommendation to the Board for approval of the Board Risk Committee mandate;
- Reviewing, with the Group's Legal Counsel, any legal matters that could have a significant impact on the Group's business;
- Reviewing of reports by the Head of Compliance on matters of regulatory and reputational risk, including such areas as breaches, fines, material malfunctions and changes in legislation;
- Monitor compliance with the Companies Act, Banking Act, the MSE Rules and Listings Requirements, all other applicable legislation and governance codes and review all reports detailing the extent of compliance;
- Provide independent and objective oversight and review the information presented by management relating to the practice of corporate accountability and reporting of specifically associated risk, including emerging and prospective impact;
- Reviewing the adequacy and effectiveness of the enterprise risk management framework which, includes the risk strategy, standards, policies, procedures, practices and controls as implemented;
- Ensuring compliance with such policies, and with the overall risk profile of the Group including all risks associated with the Bank's information technology, market risk, credit risk, operational risk, legal risk, compliance risk, liquidity risk, reputational risk, country risk and other risks appropriate to the business which may be identified from time to time;
- Monitoring procedures to deal with and review the disclosure of information to customers, the resolution of major customer complaints and compliance with the Group's code of banking practices and ethics;
- In terms of risk appetite (RA), recommend proposed RA Statement for approval to Board and receive report on risk profile and risk tendency compared to risk appetite and risk tolerance triggers;
- In terms of the Bank's stress-testing framework, review the recommended macroeconomic scenarios; stress testing results, recommendations on financial resources and the required capital buffer based on the stress-testing results.

The membership of this committee comprised of:

Mr. A Chinula Sc	-	Chairman
Prof. N R Kanyongolo	-	Member
Mr. D Pinto	-	Member

The committee met four times during the year.

Board Risk Committee - Meeting attendance

Member	27-Feb-19	05-June-19	29-July-19	27–Nov-19
Mr. A Chinula Sc	√	√	√	√
Prof. N R Kanyongolo	√	A	√	√
Mr. D Pinto	√	√	A	√

Key

√	= Attended the meeting
A	= Apology

Board Human Capital Committee

The role of this Committee is to ensure that appropriate human capital policies are in place to enable the Group source and maintain staff with appropriate skills (and mix of skills) in the right jobs and to have back up skills and resources available at all times. The Committee also ensures that management has put in place measures to ensure that reward packages are fair and in accordance with the market forces, reward performance initiatives and motivate the work force. The responsibilities of the Committee also include:

- Annual review and recommendation to the Board for approval of the Board Human Capital Committee mandate;
- Recommending to the Board for approval the Group's Human Capital Policies, Strategy and any amendments on a regular basis, such strategy and policies shall require that Management put in place effective mechanisms for recruiting, management and reward systems to ensure motivation and retention of quality staff;
- Review and approval of proposals for amendments to the organisational structure in conjunction with Standard Bank Group standards;
- Recommend for Board approval, major changes in employee benefit structures for the Group;
- Ensuring that employees of the Group are provided with appropriate incentives to encourage performance and are, in a fair and responsible manner rewarded for their individual contributions to the success of the Group;
- Providing insight to the recruitment and termination of employment of senior management staff or as may be required by the Reserve Bank of Malawi (RBM) or any regulatory authority with the power to regulate such appointments; and
- Making recommendations to the Board on the reinforcement, through transparency of sound corporate governance principles covering among other things, information about the incentive structure of the Group, including compensation policies, executive compensation etc.

The membership of this committee comprised of:

Mr. R K Phiri	-	Chairman
Prof. N R Kanyongolo	-	Member
Mr. A Chinula Sc	-	Member

The committee met four times during the year.

Board Human Capital Committee - Meeting attendance

Member	26-Feb-19	06-June-19	30–Jul-19	28–Nov-19
Mr. R K Phiri	√	√	√	√
Prof. N R Kanyongolo	√	√	√	√
Mr. A Chinula Sc	√	√	√	√

Key

√	= Attended the meeting

Board Technology and Information Committee

The Committee was constituted in June 2019 to ensure effective monitoring by the Board of the Group's strategy on technology and information. The role of the Committee is to oversee the governance of technology and information in a way that supports the Group in setting and achieving its strategic objectives. The responsibilities of the Committee include:

- Annual review and recommendation to the Board for approval of the Board Technology and Information mandate;
- Have an overview of the arrangements for governing and managing technology and information;
- Review the key areas of focus including objectives, significant changes in policy, significant acquisitions and remedial actions taken as a result of major incidents;
- Review the actions taken to monitor the effectiveness of technology and information management and how the outcomes were addressed.

The membership of this committee comprised of:

Mr. D Pinto	-	Chairman
Prof. N R Kanyongolo	-	Member
Mrs. C Mtonda	-	Member

The committee met four times during the year.

Member	30–Jul - 19	28 – Nov - 19
Mr. D Pinto	A	√
Prof. N R Kanyongolo	√	√
Mrs. C Mtonda	√	√

Key

√	= Attended the meeting
A	= Apology

MANAGEMENT COMMITTEES

Credit Risk Management Committee

The Credit Risk Management Committee is a senior management credit oversight function with a defined oversight role as determined by the Board of Directors through the Board Credit Committee from time to time. The purpose of the Credit Risk Management Committee is to establish and define the principles under which the Group is prepared to assume credit risk and the overall framework for the consistent and unified governance, identification, measurement, management and reporting of credit risk.

For purposes of complying with its duties and responsibilities, the Credit Risk Management Committee has the right to delegate responsibilities to sub-committees and/or individuals within clearly defined mandates and delegated authorities.

Asset and Liability Committee (ALCO)

This Committee is responsible for the management and monitoring of the trading book risk, market risk, the banking liquidity and interest rate risks. The Committee also monitors capital adequacy of the Bank. It comprises the Chief Executive Officer, the Chief Financial Officer, the Chief Risk Officer, the Treasurer and the Departmental Heads for Global Markets, Corporate and Investment Banking, Personal and Business Banking, Operations, Transactional Products Services, Investment Banking and Business Banking.

Executive Committee (EXCO)

This Committee comprises of senior executives of the Group and its main role is to guide and control the overall direction of the business of the Group including the day to day running of the Group and it is responsible to the Board.

COMPANY SECRETARY

The role of the Company Secretary is to ensure that the Board remains cognisant of its duties and responsibilities. In addition to providing the Board with guidance on its responsibilities, the Company Secretary keeps the Board abreast of relevant changes in legislation and governance best practices. The Company Secretary oversees the induction of new directors, as well as the ongoing training of directors. All directors have access to the services of the Company Secretary.

GOING CONCERN

On the recommendation of the Board Audit Committee, the board annually considers and assesses the going concern basis for the preparation of financial statements at the year end. At the interim reporting period, a similar process is followed to enable the Board to consider whether or not there is sufficient reason for this conclusion to be affirmed.

RELATIONSHIPS WITH SHAREHOLDERS

The shareholders' role is to appoint the Board of Directors and the external auditors. This role is extended to holding the Board accountable and responsible for efficient and effective corporate governance.

SUSTAINABILITY REPORTING

Management of the Group's economic, social and environmental impacts and responsibilities is being systematically entrenched in the Group's culture through the emphasis placed on the application of the Group's vision and values in all its operations.

ETHICS AND ORGANISATIONAL INTEGRITY

The Group's code of ethics is designed to empower employees and enable faster decision making at all levels of the Group's business according to defined ethical principles. It also aims to ensure that, as a significant organisation in the financial services industry, we adhere to the highest standards of responsible business practice.

The code interprets and defines Standard Bank's values in detail and provides values-based decision making principles to guide the Group's conduct. It is aligned with other Standard Bank policies and procedures and supports the relevant industry regulations and laws of the country.

The code of ethics is supported by the appropriate organisational structure, namely an ethics advice process and an ethics reporting process. These processes link into existing human capital and compliance structures wherever possible, including grievance processes and a fraud hotline. New structures and roles, including those of business unit ethics officers, have been created to ensure that our values and ethics are effectively embedded. The code includes targeted communications, coaching, reference guides and induction packs distributed to all members of staff.

New members of staff are taken through the Code of Ethics and each is given a soft copy. In the year there were no material breaches to the Code of Ethics.

REMUNERATION

Remuneration Philosophy

Our reward strategies and remuneration structure supports the development of an engaged, high performing and diverse employee population, who deliver outstanding business performance. In addition the reward strategy is designed to attract, motivate and retain high calibre people, at all levels of the organisation, in a highly competitive market. Consideration is given to total reward and the appropriate balance between fixed and variable pay for all employees, depending on seniority and roles.

The Group's Board of Directors sets the principles for the remuneration philosophy in line with approved business strategy and objectives. The philosophy aims to maintain an appropriate balance between employee and shareholder interests.

A key success factor for the Group is its ability to attract, retain and motivate the talent it requires to achieve its strategic and operational objectives.

Remuneration Governance

The remuneration of Board members is approved in-country and reviewed by the Standard Bank Group Remuneration Committee (REMCO). The remuneration of executive management in-country is reviewed by Standard Bank Group Remuneration Committee.

The following key factors have formed the implementation of reward policies and procedures that support the achievement of business goals:

- the provision of rewards that enable the attraction, retention and motivation of employees and the development of a high performance culture;
- maintaining competitive remuneration in line with our markets, trends and required statutory obligations;
- rewarding people according to their contribution;
- allowing a reasonable degree of flexibility in remuneration processes and choice of benefits by employees and;
- educating employees on the full employee value proposition.

Remuneration Structure

Non-Executive Directors

Terms of Service

Directors are appointed by the shareholders at the annual general meeting (AGM) and interim board appointments are allowed between AGMs. The interim appointees are required to retire at the next AGM where they make themselves available for appointment by shareholders. In addition, one third of the non-executive directors is required to retire at each AGM and may offer themselves for re-election. There is no limitation to the number of times a non-executive director may stand for re-election.

Fees

Non-executive directors receive fixed fees for their service on the Board and Board Committees. This includes a retainer that has been calculated in line with market practices. There are no contractual arrangements for compensation for loss of office. Non-executive directors do not receive short-term incentives, nor do they participate in any long-term incentive schemes.

Management and Staff

Terms of Service

The terms and conditions of employment for managers are guided by the legislation in Malawi and are aligned to Standard Bank Group practice. Notice periods to terminate employment vary from one month to three months depending on seniority. Notice periods also depend on the level of responsibility of a particular manager and whether or not they are leaving to join a competitor.

All general staff are unionised. Their terms and conditions of employment are therefore guided by collective agreement(s) signed with the Commercial, Industrial and Allied Workers' Union of Malawi (CIAWU).

Fixed Remuneration

Managerial total remuneration comprises a fixed cash portion, compulsory benefits (medical aid and retirement fund membership) and optional benefits. Market data is used to benchmark salary levels and benefits before the annual review which is normally done in March.

For all employees, performance-related payments have formed an increasing proportion of total remuneration over time to achieve business objectives and reward individual contribution.

All employees (executives, managers and general staff) are rated on the basis of their annual performance and this is used to determine performance-related remuneration.

The outcome of the annual performance and the consequent pay decision is done on an individual basis. There is therefore a link between the individual performance outcome and reward.

Short-Term Incentives

All members of staff participate in a performance bonus scheme. Our approach towards reward enables the Group to recognise the performance of the employees by recommending rewards that acknowledge the staffs' contribution to the performance of the Bank, the business and team. In keeping with the remuneration philosophy, the bonus scheme seeks to attract and retain high-performing employees.

Long-Term Incentives

It is essential for the Group to retain key skills over the longer term for sustainable business continuity. This is done particularly through group share-linked incentive awards to guarantee higher levels of retention.

The purpose of these is to align the interests of the Group and its employees, as well as to attract and retain skilled and competent people.

Post-Employment Benefits

The Group operates a contributory pension fund to provide for retirement benefits for employees. Both, employee and employer contributions are made in line with the Pension Act of 2011. Currently, NICO Life Insurance Company are the fund managers.

The Group's Highlights For The Year

As our existing and prospective shareholders are providers of capital to the Group, we are responsible for providing them with reliable, relevant and timely information to help them make informed investment decisions.

The following are the highlights of the year:

- The Group was accorded the best Investment Bank at the EMEA Finance Africa Banking Awards in September 2019.
- The Group was appointed as Lead Advisor to a transaction that involved the issuance of shares for Airtel Malawi Limited, a company that was listed on the Malawi Stock Exchange in the first quarter of 2020.
- The Group grew its assets under custody in the year from acquisition of new business in the financial services sector.
- The Group offered 65% of its off-balance sheet solutions to Power and Infrastructure sector worth MK64 billion.
- The Bank enhanced its digital banking offering by offering a host-to-host functionality on its online banking platform to one of the biggest clients in the consumer sector to promote secure and efficient transactions.
- The Bank rolled out a digital unsecured lending offering where customers are scored based on their behaviour.

GROUP SNAPSHOT

	2019	2018
Points of representation	27	27
ATMs	86	84
POS devices	551	428
Headcount	739	747

OUR STAKEHOLDERS

Shareholders

Delivering to our shareholders – We understand that we earn the right to exist by providing appropriate long-term returns to our shareholders. We try extremely hard to meet our various targets and deliver on our commitments.

As our existing and prospective shareholders are providers of capital to the Group, we are responsible for providing them with reliable, relevant and timely information to help them make informed investment decisions. Our shareholder base is diverse, including individuals and institutional shareholders both locally and internationally. The composition of the Groups shareholders is analysed on page 29.

To ensure effective and meaningful shareholder engagement, we have developed various communication channels to meet different shareholders' information needs, and to manage shareholders' expectations positively and transparently.

In addition to the various press releases that are published in the papers, the Group's Chairman encourages shareholders to attend the annual general meetings where interaction is welcomed. The other Directors and Group Executives are also available at the meetings to respond to questions from shareholders.

Customers

Serving our customers – We do everything in our power to ensure that we provide our customers with the products, services and solutions to suit their needs provided that everything we do for them is based on sound business principles.

Our customers range from individuals and small businesses to large corporate and government entities. Sustainable business performance depends on our ability to engage meaningfully with our customers, to be sensitive to their different needs and to provide relevant products and services. Extensive research is conducted to better understand customer needs and market dynamics.

Our customers' worlds are defined largely by the economic and competitive particulars of their industry sectors and local market circumstances. Where we are able to bring insight through deep sector knowledge, drawn globally from across a range of companies, together with local market knowledge, we do so.

Our Corporate and Investment Banking (CIB) division serves a wide range of customer requirements for banking, finance, trading, investment and risk management. In line with the growing sophistication of customers' requirements, the division has built a deep understanding of Malawi's market and economics dynamics.

This is served by operating a client-centric and distribution-focused business model, supported by a culture that prioritises client relationships and economic returns, and a business structure that enables an integrated, multi-product service offering. CIB offers this comprehensive range of products and services through our Investment Banking, Global Markets and Transactional Products and Services divisions.

Our client relationship managers develop close relationships with clients and link in our specialist product and global distribution teams to deliver innovatively and appropriately on individual requirements. We maintain a specific focus on industry sectors that are most relevant to emerging markets and have strong sector value propositions in mining and metals, oil, gas and renewable, telecommunications and media, power and infrastructure, agribusiness and financial institutions.

In Personal and Business Banking (PBB) division, we offer service through Personal Markets and Business Banking.

In Business Banking (both Commercial and Small and Medium Enterprises (SME) markets), relationship building and management has been key to how we relate with our customers. We provide SME customers with opportunities to access affordable loans in the form of working capital or bridging finance to move their businesses forward.

In Personal Markets, we continue to provide personalised banking solutions through our private banking unique proposition and branch network franchise, where achiever and priority banking services are offered. We have also taken particular initiative to serve our personal customers where they work through our robust Work Place Banking proposition. In this regard, we now provide and have become one of the leading Banks in providing unsecured personal loans.

Whilst we continue to expose our customers to top class banking solutions that are commensurate with latest offerings in the developed world, we strive to remain locally relevant by framing our solutions with a complete understanding of the local dynamics.

Employees

Growing our people – We encourage and help our people to develop to their full potential, and measure our leaders on how well they grow and challenge the people they lead.

Talent Management

The Group believes that critical to the achievement of its business objectives, now and into the future, is the effective attraction, retention of critical talent, and the development of executive talent. Our strategy in this regard primarily relies on internal development and assessment of our staff in order to build and strengthen our future talent pool.

Those that are identified to have high potential are engaged in more intensive development processes which amongst others include being placed in mentoring and coaching relationships with senior level executives outside their reporting structure as well as offering them developmental cross functional and international experience to maximise their development opportunities.

Leadership Development

Leadership remains our core competency in order for the Group to continue to have a competitive edge in business performance. With the support of our Global Leadership Centre, we continue to develop and offer the entire spectrum of appropriate leadership development and training interventions at all levels of leadership in the Group. These are customised according to individual development needs, aimed at giving our leaders focused development propositions to enable the transitions required from one level to another.

Occupation-Directed Education, Training and Development

The Group recognizes that to maintain a committed and competent workforce, it needs to ensure that there is adequate training and development provided for all employees. All education, training and development activities are directed at meeting business objectives, developing a culture of continuous improvement, and more importantly, enabling our staff realize their full potential, develop and grow in the organization. Through its Banking Education scheme and support to tertiary education, the Group has continued to support staff that are keen to further their studies provided the further study is considered necessary by the Group and will be beneficial to both the Group and employee.

Health Risk Management

All employees are able to access this service through the intranet. The service enables employees to engage online with specialists such as doctors, pharmacists, physiotherapists, personal trainers and nutritionists, with all queries being responded to within 24 hours.

Independent Counselling and Advisory Services

Independent Counselling and Advisory Services confidentially assists and supports employees and their immediate families with many personal issues including stress management, trauma, HIV/Aids, divorce, bereavement and legal issues.

The Group receives a country report for all staff in Malawi and Standard Bank Africa receives a combined report on what issues are prevalent across the continent. This enables the Group to plan the required interventions around the behavioural risk issues it is facing.

Staff Recognition Programme

The Group has a recognition programme where we publicly recognise achievements that are considered to be beyond what is expected from an individual or teams. Recognition remains key to the upholding of the Group's values and achievement of its strategic goals. To this end, over and above the incentive programmes that it runs which are based on performance and behaviour, the Group encourages a culture of recognition on an ongoing basis formally and informally to acknowledge and reinforce desired behaviour.

Regulators

Being proactive – We strive to stay ahead by anticipating rather than reacting, and our actions are always carefully considered.

We view regulatory compliance not only as a requirement by law, but also as one of the key components of sustainable development. The Reserve Bank of Malawi is our primary regulator and supervisor, and the relationship is one of mutual trust built through regular and open communication. Various other supervisory bodies also monitor our compliance with specific pieces of legislation.

Suppliers

The Group is committed to procure from all levels of suppliers ranging from large corporations to individuals. The Group set up a procurement committee that looks at supplier relationships to ensure that that the Group deals with all suppliers equitably and facilitate a governed process of procuring goods and services from qualified and accredited suppliers in our Group.

Community

We will ensure long-term sustainability by harmonising the needs of our customers, our people and our shareholders and by being relevant to the societies in which we operate.

Health

We continued with our partnership with The Global Fund's Principal recipients and Sub-recipients. We facilitated and funded MK9 million towards Financial Management and Capacity Building Trainings to administer and account for funds disbursed for the fight against AIDS, Malaria and Tuberculosis in Malawi.

Standard Bank PLC partnered with Nation Publications Limited (NPL) for the Mother's Day Fun Run which is an annual corporate social responsibility organised to support safe motherhood by taking care of the wellbeing of expectant mothers and their unborn children, through provision of maternal and neonatal healthcare equipment and supplies to needy, poorly funded and under-resourced public hospitals and health centres. This year we donated medical equipment for Likoma and Ntcheu District Hospital.

Education

In the Education sector, we continued with our four-year bursary program covering 30 students from five universities in Malawi namely; the Polytechnic, Chancellor College, Mzuzu University, Malawi University of Science and Technology and Lilongwe University of Agriculture and Natural Resources. Valued at MK120 million, the scholarships are spread over the initial four academic years and cover tuition fees, accommodation, food, book allowance and stipend for the most needy but hardworking students.

Standard Bank PLC committed MK46 million to construct two classroom blocks at Mzuzu Governemnt School and furnished it with desks to the tune of MK4.8 million. Other donations in the education sector included the donation of a variety of textbooks worth MK2 million to Phereni Community Day Secondary School, the donation of 100 chairs and 40 computers to Malawi College of Health Sciences, as well as the donation of 14 computers to Francisco Palau Primary School.

The MK15 million raised from the 2019 Be More Race was used to donate food items and learning materials to special needs schools across Malawi namely; Ekwendeni School for the Blind, Chilanga School for the Blind, Malingunde School for the Blind and Karonga School for the Hard of Hearing.

Female employees of the Bank continued their monthly visits to Dedza and Salima to mentor girls under the partnership with UNICEF.

Youth and Sustainable Development

Our passion for Youth and Sustainable Development in Malawi is backed by our contribution towards the progress of youth and economic matters. The Group partnered with UN Women and sponsored MK340 million towards a three year project that will target 10,000 women farmers engaged in groundnut farming in Lilongwe, Mchinji and Mzimba. This project is part of an overarching initiative being implemented in Malawi, Nigeria, Uganda and South Africa to promote the economic empowerment of women through climate smart agriculture. In Malawi, the main aim is to provide entrepreneurial and financial capacities, affordable technologies and resources to women farmers to improve their groundnut production, create a value chain and link them to profitable markets thus closing the gender gap in agricultural productivity.

In addition to this, we continued to support events for the Rotary Club. We supported the Mighty Bed Race held by the Rotary Club of Blantyre as well as the Mighty Bed Race held by the Rotary Club of Mzuzu. Their proceeds went towards improving the medical care in children wards and a scholarship fund for Mzuzu Community Day Secondary School. We also supported the Lions Club Golf tournament; their proceeds went towards improving New Sight Hospital.

Risk Management and Control

The effective management of risk is fundamental to the business activities of the Group as we remain committed to the objective of increasing shareholder value by developing and growing business that is consistent with agreed risk appetite. We seek to achieve an appropriate balance between risk and reward in our business and continue to build and enhance the risk management capabilities that will assist in delivering our growth plans in a controlled environment.

Risk management is at the core of the operating and management structures of the Group. The Group seeks to limit adverse variations in earnings and equity by managing the statement of financial position and capital within agreed levels of risk appetite. Managing and controlling risks, and in particular avoiding undue concentrations of exposure, limiting potential losses from stress events, and restricting significant positions in less quantifiable risk areas, are essential elements of the Group's risk management and control framework which ultimately leads to the protection of the Group's reputation.

Responsibility and accountability for risk management resides at all levels within the Group, from the Board and executive down through the organisation to each business manager, risk specialist and staff.

Key aspects of risk management are the risk governance and the organisational structures established by the Group to manage risk according to a set of risk governance standards which are implemented across the Group and are supported by appropriate risk policies and procedures.

RISK MANAGEMENT FRAMEWORK

The Group's approach to risk management is based on well-established governance processes and relies on both individual responsibility and collective oversight, supported by comprehensive reporting. This approach balances strong corporate oversight at the Board level with independent risk management structures.

Unit heads are specifically responsible for the management of risk within their areas. As such, they are responsible for ensuring that there are appropriate risk management frameworks that are adequate in design, effective in operation and meet minimum Group standards.

The Group has developed a set of risk governance standards for each major risk type. The standards set out and ensure alignment and consistency in the manner in which the major risk types across the Group are governed, identified, measured, managed, controlled and reported. It is the responsibility of each unit's head to ensure that the requirements of the risk governance standards, policies and procedures are implemented within their unit while independent oversight is provided by the Risk Function, Risk Committees at management level and Risk Committees at board level. Each standard is supported by policy and procedural documents as required. The Group is required to self-assess, at least annually, its compliance with risk standards and policies.

For extensive disclosures on how the Group manages its risk and capital, log on to our website at www.standardbank.co.mw to access a copy of the Risk and Capital Management Report.

Directors' Report

Incorporation and registered office

Standard Bank PLC is a Company incorporated and domiciled in Malawi. It was listed on the Malawi Stock Exchange on 28 June 1998. The address of its registered office is:
Standard Bank Centre
Africa Unity Avenue.
P O Box 30380
Lilongwe 3
Malawi

Principal Activities

Standard Bank PLC is registered as a financial institution under the Banking Act, 2010. It is in the business of banking and the provision of other related services. Its subsidiaries Standard Bank Bureau De Change Limited is involved in foreign exchange trading and Standard Bank Nominees Limited is dormant.

Financial Performance

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

Dividend

The net profit for the year of **MK15.9 billion** (2018: MK10.6 billion) has been added to retained earnings. An interim dividend of **MK2.1 billion** (2018: MK1.7 billion) was paid in September 2019 representing **MK8.95** (2018: MK7.24) per ordinary share. The directors recommend a final dividend of **MK5 billion** (2018: MK4 billion) representing **MK21.31** (2018: MK17.05) per ordinary share to be tabled at the forthcoming Annual General Meeting.

Directorate and Secretary

Details of directors and company secretary as at the date of the annual financial statements are as follows:

Dr. R Harawa*	-	Chairman all year
Mr. R K Phiri*	-	All year
Mr. A A Chioko*	-	All year
Mr. J Patel*	-	All year
Mrs. T Simwaka*	-	All year
Mr. A J W Chinula Sc*	-	All year
Prof. N R Kanyongolo*	-	All year
Mrs. C Mtonda*	-	All year
Mr. S Ulemu*	-	All year
Mr. D Pinto***	-	All year
Mr. W le Roux**	-	All year
Mr. A Coutinho**	-	All Year
Mrs. E Chanza*	-	Company Secretary up to April 2019
Mrs N. Nsanja*	-	Company Secretary from 25th June 2019

* Malawian

** South African

*** Portuguese

Directors interest

The following directors held shares in the Bank as at 31 December 2019.

Mr. J Patel	- **146,668** (2018: 146,668) Ordinary shares
Mrs. T Simwaka	- **102,809** (2018: 102,809) Ordinary shares
Mr. A A Chioko	- **25,668** (2018: 25,668) Ordinary shares

Shareholding analysis

The shareholders of the Group as at 31 December 2019 were as below:

Stanbic Africa Holdings Limited	**60.18%**
NICO Holdings Limited	**20.00%**
Old Mutual Life Assurance Company Limited	**5.38%**
Press Trust	**2.32%**
Magetsi Pension Fund	**1.38%**
Public	**10.74%**
Total	**100.00%**

Auditors

The Group's auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office and a resolution will be proposed at the forthcoming Annual General Meeting to re-appoint them as auditors for the year ending 31 December 2020.

Dr. R Harawa	Mr. A A Chioko
Chairman	**Director**

Statement of Directors' Responsibilities

The Directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements of Standard Bank PLC, comprising the statements of financial position at 31 December 2019, the income statements, the statements of other comprehensive income, changes in equity and cash flows for the year then ended, and the notes comprising significant accounting policies and other explanatory information, in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2013, of Malawi (the "Act").

The Act also requires the directors to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the consolidated and separate statement of financial position of the Group and ensure the consolidated and separate financial statements comply with the Act.

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 consolidated and separate financial statements, subject to any material departures being disclosed and explained in the consolidated and separate financial statements; and
- Preparation of consolidated and separate financial statements on a going concern basis unless it is inappropriate to presume the Group will continue in business.

The Directors are also responsible for such internal controls as the directors determine necessary to enable the preparation of 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' responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The Directors have made an assessment of the Group and Company's ability to continue as a going concern and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the consolidated and separate financial statements.

The Directors have made an assessment and they attest to the adequacy of accounting records and effectiveness of the systems of internal controls and effective risk management for the Group.

The external auditor is responsible for reporting on whether the consolidated and separate financial statements are fairly presented in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Act.

Approval of consolidated and separate financial statements

The consolidated and separate financial statements of Standard Bank PLC, as identified in the first paragraph, were approved by the Board of Directors on **27 February 2020** and are signed on its behalf by.

By order of the Board

Dr. R Harawa	Mr. A A Chioko
Chairman	**Director**

Our Corporate Social Investment

1 INTERNATIONAL DAY OF THE GIRL CHILD

In October 2019, on the day the world commemorates International Day of the Girl Child, we partnered with other organizations to host over 400 girls in some of our branches for a mentorship initiative that aims to expose young girls to the workplace and inspire their career aspirations at a tender age.

2 COMPUTER DONATION – MALAWI COLLEGE OF HEALTH SCIENCES

In October 2019, we donated 40 computers to Malawi College of Health Sciences library to further build the capacity in teaching, learning and research at the institution.

3 UN WOMEN CLIMATE SMART AGRICULTURE PROJECT

Standard Bank in partnership with UN Women launched a 3 year Climate Smart Agriculture project. Standard Bank Group funded this project to the tune of MK340 million which will impact over 10,000 women in groundnut farming across Malawi.

Our People

1 2 DREAM BIGGER

In November 2019, Standard Bank held a conference entitled "Dream Bigger", for female staff members who volunteer to mentor primary school girls in Dedza and Salima under the Standard Bank Girls Mentorship Program.

3 50TH ANNIVERSARY STAFF BRAAIS

In commemorating 50th Anniversary, we hosted Braais across the regions where our Staff members had a chance to celebrate their achievements.

Our Sponsorships

1 2 BE MORE RACE

For the third year running, we hosted our annual athletics and wellness event, Be More Race in Lilongwe. The event held in June, attracted over a thousand professional and casual runners from Malawi and across the globe.

3 BE MORE GOLF

In December 2019, we hosted a Be More @50 Invitational Golf Tournament at Lilongwe Golf Club. The tournament encompassed all golfers from men, ladies, kids and professionals.

Our Events

1 CULTURAL DIVERSITY NIGHT

In celebrating the various cultures we interact with in the course of our work, we hosted a Cultural Diversity Night in Lilongwe in November 2019 where multi-cultural food, music, dress and dance were the main characteristic of the night.

2 STANDARD BANK GROUP CE VISIT

Standard Bank Group CE Sim Tshabalala and his Group ExCo team visited Malawi in August. During his visit, he interacted with key Corporate and Investment Banking as well as Personal and Business Banking customers to deepen and build sound mutually beneficial relationships

3 50TH ANNIVERSARY DINNER

We commemorated 50th Anniversary with a high-profile stakeholders' dinner in April 2019 at the Bingu International Convention Centre (BICC) in Lilongwe where Reserve Bank Governor Dr Dalitso Kabambe was the guest of honour. From Standard Bank Group, this was attended by the Africa Regions Chief Executive – Africa Regions, Sola David-Bohra.

Independent Auditor's Report

To the shareholders of Standard Bank PLC

OUR OPINION

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Standard Bank PLC (the "Company" or "Bank") and its subsidiaries (together the "Group") as at 31 December 2019, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, 2013 of Malawi.

What we have audited

Standard Bank PLC's consolidated and separate financial statements set out on pages 47 to 210 comprise:

- the consolidated and separate statements of financial position as at 31 December 2019;
- the consolidated and separate income statements for the year then ended;
- the consolidated and separate statements of other comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report.

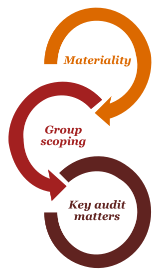
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) issued by the International Ethics Standards Board for Accountants and other independence requirements applicable to performing audits of financial statements in Malawi. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and in accordance with other ethical requirements applicable to performing audits of financial statements in Malawi.

OUR AUDIT APPROACH

Overview



Overall Group materiality	• MK1,168,600,000 which represents 5% of consolidated profit before income tax expense.
Group audit scope	• The Group consists of three entities. Full scope audits were performed on two entities. The remaining entity is financially insignificant.
Key audit matters	• Expected credit losses on loans and advances to customers.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

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R Mbene – Senior Partner
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Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall Group materiality	MK1,168,600,000
How we determined it	5% of consolidated profit before income tax expense.
Rationale for the materiality benchmark applied	We chose consolidated profit before income tax expense as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group consists of three entities, Standard Bank PLC (the 'Bank') and its subsidiaries, Standard Bank Bureau De Change Limited and Standard Bank Nominees Limited, all operating in Malawi. The Bank represents 95% of the consolidated profit before income tax for the year ended 31 December 2019 and is thus considered to be a financially significant component. We performed full scope audits on the Bank and Standard Bank Bureau De Change Limited due to financial significance and statutory reporting requirements. Standard Bank Nominees Limited is a dormant entity and has no financial significance to the Group.

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 period. 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.

Key audit matter	How our audit addressed the key audit matter
Expected credit losses on loans and advances to customers *This key audit matter relates to both the consolidated and separate financial statements.* Refer to the following accounting policies and notes to the consolidated and separate financial statements for details: 3(g) - Financial assets and financial liabilities, 4 (b) - Credit risk, 5 - Accounting estimates and judgements and 12 - Loans and advances to customers. Expected credit losses (ECLs) on loans and advances is considered to be a matter of most significance to the audit of the consolidated and separate financial statements due to the magnitude of the loans and advances balances to the consolidated and separate financial statements, the level of subjective judgement applied by management in determining the ECL and the impact that the ECL has on the Group and Bank's credit risk management processes and operations.	Our audit addressed the ECL on loans and advances to customers by performing the following procedures: We obtained an understanding of and tested the relevant controls relating to loans and advances to customers that included: • the processes over credit approval for loans and advances; and • the monitoring of credit including the internal rating tool and the watch list. Our audit addressed the key areas of significant management judgement as follows: **Evaluation of SICR** For CIB we selected a sample of exposures and assessed their assigned credit rating as follows: • Tested the inputs into the credit rating systems against the financial information related to the exposure and the Group's 25-point master rating scale; and

Key audit matter	How our audit addressed the key audit matter
As of 31 December 2019 the Group and Bank reported total gross loans and advances to customers of MK155,535m and MK155,817m, respectively, and an ECL of MK 6,478m and MK 6,478m, respectively. The Group and Bank calculate ECL on Corporate and Investment Banking (CIB) exposures as well as Personal and Business Banking (PBB) exposures. ECL on CIB exposures are calculated separately based on rating models for each of the asset classes, whilst ECL on PBB exposures is calculated on a portfolio basis. For both CIB and PBB exposures, the key areas of significant management judgement within the ECL calculations include: • Evaluation of Significant Increase in Credit Risk ("SICR"); • Incorporation of macro-economic inputs and forward-looking information into the SICR assessment and ECL measurement; • Assessment of ECL raised for Stage 3 exposures; and • Input assumptions applied to estimate the probability of default (PD), exposure at default (EAD) and loss given default (LGD) as inputs into the ECL measurement. **Evaluation of SICR** For CIB exposures which include certain PBB business banking exposures, SICR is largely driven through the movement in credit ratings assigned to clients on origination and reporting date, based on the Bank and Group's 25-point master rating scale to quantify credit risk for each exposure. For PBB exposures, the risk of default of a portfolio is assessed relative to the risk of its defined vintage considering the portfolio's behavioural score, historical experience and the rebuttable presumption that accounts which are 30 days past due are classified as stage 2. **Incorporation of macro-economic inputs and forward-looking information into the SICR assessment and ECL measurement** For CIB exposures which includes certain PBB business banking exposures, macroeconomic expectations are incorporated in CIB's client ratings to reflect the Group and Company's expectation of future economic and business conditions. Further adjustments, based on point-in-time market data, are made to the PDs assigned to each risk grade to produce PDs and ECL representative of existing market conditions.	• Assessed management assumptions made during the credit risk rating process for reasonability, by obtaining an understanding of the exposure and industry factors, performing an independent assessment of the exposure and comparing the results to those used by management. • We assessed whether the stage classification of stage 1 and stage 2 exposures was appropriate in terms of the Group's accounting policy for SICR at reporting date since the origination date of these exposures. These procedures included the inspection of credit risk ratings at reporting date relative to origination date. For PBB exposures management provided us with a quantitative assessment of the Group's calculation of the impact of SICR against the requirements of IFRS 9 - Financial Instruments. We inspected management's calculation to confirm that the resultant ECL was not materially different for the portfolios. We evaluated behavioural scores which are used to inform the significant increase in credit risk against the group's accounting policies. We evaluated the reasonability of changes in credit risk of the portfolio against key performance indicators. We performed sensitivity analyses to assess the impact of change in credit risk on the ECL recognised. We tested the design and effectiveness of relevant controls that identify renegotiated and cured loans to assess whether the curing policies were appropriately applied. **Incorporation of macro-economic inputs and forward-looking information into the SICR assessment and ECL measurement** We evaluated the appropriateness of forward looking economic expectations included in the ECL by comparing to independent industry data. We evaluated management's economic response models to assess whether the macro-economic inputs are appropriately incorporated into the ECL models. Where management applied out-of-model adjustments to the forward looking information, we evaluated these for reasonableness against historical experience and evaluated the methodology applied to incorporate these into the forecasts.

Key audit matter	How our audit addressed the key audit matter
For PBB exposures, forward-looking economic expectations are included in the ECL based on the Group's and Bank's macro-economic outlook, using models that correlate these parameters with macro-economic variables. Where modelled correlations are not viable or predictive, adjustments are based on judgement to predict the outcomes based on the Group's and Bank's macro-economic outlook expectations. **Assessment of ECL raised for Stage 3 exposures** For CIB exposures which includes certain PBB business banking exposures, management applies its internal credit risk management approach and definitions to determine the recoverable amounts (including collateral) and timing of the future cash flows for Stage 3 exposures at an individual exposure level. For PBB exposures, impairment is assessed on individual exposures above a quantitative threshold in stage 3, and for accounts placed on the watchlist due to evidence of increased credit risk e.g. potential security shortfalls, deteriorating financial performance, etc. This assessment relates primarily to business lending accounts and incorporates judgement in determining the foreclosure value of the underlying collateral. **Input assumptions applied to estimate the probability of default (PD), exposure at default (EAD) and loss given default (LGD) as inputs into the ECL measurement** For CIB exposures which includes certain PBB business banking exposures, input assumptions applied to estimate the PD, EAD and LGD as inputs into the ECL measurement are subject to management judgement and is determined at a counterparty level. For PBB exposures, the ECL is calculated using statistical models which incorporate observable data, assumptions and estimates relating to historical default experience and the loss experience given a default; and timing and amount of forecasted cash flows and the value of collateral.	**Assessment of ECL raised for Stage 3 exposures** We evaluated management's process for identifying non-performing loans considering days past due, the current macroeconomic environment, industry factors and other known client specific factors identified from public sources of information and inspection of credit monitoring records. No CIB exposures were classified as stage 3 loans and advances to customers. We tested the mathematical accuracy of the expected credit losses for a sample of loans and noted no significant differences. **Input assumptions applied to estimate the probability of default (PD), exposure at default (EAD) and loss given default (LGD) as inputs into the ECL measurement** Making use of our internal valuation expertise, we assessed the assumptions relating to historical default experience, estimated timing and amount of forecasted cash flows and the value of collateral applied within the PD, EAD and LGD models for compliance with the requirements of IFRS 9. In addition, our procedures included assessing the appropriateness of the statistical models by way of reperformance and validation procedures. Based on our work performed, we accepted the accounting policies and the credit impairment methodologies applied to the PBB and CIB segment as being consistent with the requirements of IFRS 9.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the document titled "Standard Bank PLC Consolidated and Separate Financial Statements For the year ended 31 December 2019", which we obtained prior to the date of this auditor's report, and the other sections of the document titled "Standard Bank PLC Annual Report 2019", which is expected to be made available to us after that date. The other information does not include the consolidated or the 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 and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above 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 Companies Act, 2013 of Malawi, 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 consolidated and separate financial statements, the directors are responsible for assessing the Group and the Company'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 Group and/or the Company 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 consolidated and separate financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated and separate 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 and the Company'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 and the Company'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 and / or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors 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 period 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.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants (Malawi)
Lilongwe

Andrew Vere

5 March 2020

Statements of Financial Position

As at 31 December 2019

	Note	Consolidated 2019 MKm	Consolidated 2018 MKm	Separate 2019 MKm	Separate 2018 MKm
Assets					
Cash and balances held with the Central Bank	8	**22,870**	29,385	**22,603**	29,260
Derivative assets	9	**601**	369	**601**	369
Trading assets	10	**722**	11,993	**722**	11,993
Loans and advances to banks	11	**59,930**	76,448	**59,952**	76,383
Loans and advances to customers	12	**148,490**	112,632	**148,772**	113,255
Financial investments	13	**100,631**	85,376	**100,631**	85,376
Investment in subsidiaries	14	**-**	-	**100**	100
Other assets	15	**6,789**	5,623	**6,800**	5,653
Property, equipment and right of use assets[1]	16	**16,991**	15,845	**16,991**	15,845
Intangible assets	17	**18,092**	19,487	**18,092**	19,487
Total assets		**375,116**	357,158	**375,264**	357,721
Liabilities					
Derivative liabilities	9	**242**	160	**242**	160
Trading liabilities	19	**454**	444	**454**	444
Deposits and loans from banks	20	**22,932**	34,579	**22,924**	34,583
Deposits from customers	21	**242,082**	229,284	**244,995**	231,859
Other liabilities	22	**11,639**	8,267	**11,633**	8,268
Income tax payable	23	**1,941**	408	**1,855**	264
Provisions	24	**4,331**	3,761	**4,331**	3,761
Deferred tax liabilities	18	**4,256**	3,015	**4,259**	3,050
Total liabilities		**287,877**	279,918	**290,693**	282,389
Equity					
Share capital	25	**234**	234	**234**	234
Share premium	25	**8,492**	8,492	**8,492**	8,492
Revaluation reserve	26	**7,347**	7,533	**7,347**	7,533
Fair value through OCI reserve	26	**177**	(151)	**177**	(151)
Retained earnings	26	**70,989**	61,132	**68,321**	59,224
Total equity		**87,239**	77,240	**84,571**	75,332
Total liabilities and equity		**375,116**	357,158	**375,264**	357,721

[1] The Group and Company have, as permitted by IFRS 16, elected not to restate their comparative annual financial statements. Therefore, comparability will not be achieved by the fact that the comparative annual financial information was prepared on an IAS 17 basis.

These financial statements were approved for issue by the Board of Directors on 27 February 2020 and were signed on its behalf by:

Dr. R Harawa
Chairman

Mr. A A Chioko
Director

Income Statements

For the year ended 31 December 2019

	Note	Consolidated 2019 MKm	Consolidated 2018 MKm	Separate 2019 MKm	Separate 2018 MKm
Interest income	27	**43,171**	38,998	**43,163**	39,048
Interest expense	27	**(4,294)**	(4,258)	**(4,294)**	(4,263)
Net interest income	27	**38,877**	34,740	**38,869**	34,785
Fee and commission income	28	**13,790**	12,976	**13,790**	12,976
Fee and commission expense	28	**(1,080)**	(871)	**(1,080)**	(871)
Net fee and commission income	28	**12,710**	12,105	**12,710**	12,105
Net trading income	29	**9,117**	8,955	**7,834**	7,362
Other operating income	30	**152**	117	**216**	187
Other gains and losses on financial instruments	31	**-**	69	**-**	69
Total operating income		**60,856**	55,986	**59,629**	54,508
Credit impairment charges	32	**(1,872)**	(4,902)	**(1,872)**	(4,902)
Income after credit impairment charges		**58,984**	51,084	**57,757**	49,606
Staff costs	33	**(15,034)**	(13,769)	**(15,034)**	(13,769)
Depreciation and amortisation[1]	34	**(4,188)**	(3,639)	**(4,188)**	(3,639)
Other operating expenses	35	**(16,390)**	(17,904)	**(16,255)**	(17,583)
Total expenditure		**(35,612)**	(35,312)	**(35,477)**	(34,991)
Profit before income tax expense		**23,372**	15,772	**22,280**	14,615
Income tax expense	36	**(7,493)**	(5,190)	**(7,161)**	(4,846)
Profit for the year attributable to ordinary shareholders		**15,879**	10,582	**15,119**	9,769
Earnings per share					
Basic and diluted (MK per share)	37	**67.86**	45.22	**64.61**	41.75

[1] The Group and Company have, as permitted by IFRS 16, elected not to restate their comparative annual financial statements. Therefore, comparability will not be achieved by the fact that the comparative annual financial information was prepared on an IAS 17 basis.

Statements of Other Comprehensive Income

For the year ended 31 December 2019

	Consolidated		Separate	
	2019 MKm	2018 MKm	2019 MKm	2018 MKm
Profit for the year	**15,879**	10,582	**15,119**	9,769
Items that will not be reclassified to profit or loss				
Net revaluation reversal on property and equipment	**(186)**	-	**(186)**	-
Items that may be reclassified subsequently to profit or loss				
Net change in expected credit losses	**(12)**	19	**(12)**	19
Net change in debt financial assets measured at fair value through other comprehensive income (OCI)	**340**	(540)	**340**	(540)
	328	(521)	**328**	(521)
Total comprehensive income for the year attributable to ordinary shareholders	**16,021**	10,061	**15,261**	9,248

Statements of Changes in Equity

For the year ended 31 December 2019

Consolidated	Share capital MKm	Share premium MKm	Available for sale reserve MKm	Fair value through OCI reserve MKm	Share based payment reserve MKm	Revaluation reserve MKm	Loan loss reserve MKm	Retained earnings MKm	Total MKm
2019									
Balance at 1 January 2019	234	8,492	-	(151)	-	7,533	-	61,132	77,240
IFRS 16 transition adjustment	-	-	-	-	-	-	-	79	79
Restated balance at 1 January 2019	234	8,492	-	(151)	-	7,533	-	61,211	77,319
Profit for the year	-	-	-	-	-	-	-	15,879	15,879
Other comprehensive income									
Net revaluation reversal on property and equipment	-	-	-	-	-	(186)	-	-	(186)
Change in fair value of financial assets at fair value through OCI, net of tax	-	-	-	328	-	-	-	-	328
Total comprehensive income for the year	-	-	-	328	-	(186)	-	15,879	16,021
Transactions with owners of the company									
Dividends paid	-	-	-	-	-	-	-	(6,101)	(6,101)
Total transactions with owners of the company	-	-	-	-	-	-	-	(6,101)	(6,101)
Balance at 31 December 2019	234	8,492	-	177	-	7,347	-	70,989	87,239

Statements of Changes in Equity

For the year ended 31 December 2019

Consolidated	Share capital MKm	Share premium MKm	Available for sale reserve MKm	Fair value through OCI reserve MKm	Share based payment reserve MKm	Revaluation reserve MKm	Loan loss reserve MKm	Retained earnings MKm	Total MKm
2018									
Balance at 1 January 2018	234	8,492	358	-	2	7,533	2,845	52,768	72,232
IFRS 9 transition adjustment	-	-	(358)	370	-	-	-	(2,364)	(2,352)
Restated balance at 1 January 2018	234	8,492	-	370	2	7,533	2,845	50,404	69,880
Profit for the year	-	-	-	-	-	-	-	10,582	10,582
Other comprehensive income									
Revaluation surplus, net of tax	-	-	-	-	-	-	-	-	-
Change in fair value of financial assets at fair value through OCI, net of tax	-	-	-	(521)	-	-	-	-	(521)
Total comprehensive income for the year	-	-	-	(521)	-	-	-	10,582	10,061
Transactions with owners of the company									
Dividends paid	-	-	-	-	-	-	-	(2,699)	(2,699)
Transfer (from)/to loan loss reserve	-	-	-	-	-	-	(2,845)	2,845	-
Transfer (from)/ to share ownership scheme reserve	-	-	-	-	(2)	-	-	-	(2)
Total transactions with owners of the company	-	-	-	-	(2)	-	(2,845)	146	(2,701)
Balance at 31 December 2018	234	8,492	-	(151)	-	7,533	-	61,132	77,240

Separate	Share capital MKm	Share premium MKm	Available for sale reserve MKm	Fair value through OCI reserve MKm	Share based payment reserve MKm	Revaluation reserve MKm	Loan loss reserve MKm	Retained earnings MKm	Total MKm
2019									
Balance at 1 January 2018	**234**	**8,492**	**-**	**(151)**	**-**	**7,533**	**-**	**59,224**	**75,332**
IFRS 16 transition adjustment	-	-	-	-	-	-	-	79	79
Restated balance at 1 January 2019	**234**	**8,492**	**-**	**(151)**	**-**	**7,533**	**-**	**59,303**	**75,411**
Profit for the year	-	-	-	-	-	-	-	**15,119**	**15,119**
Other comprehensive income									
Net revaluation reversal on property and equipment	-	-	-	-	-	**(186)**	-	-	**(186)**
Change in fair value of financial assets at fair value through OCI, net of tax	-	-	-	**328**	-	-	-	-	**328**
Total comprehensive income for the year	-	-	-	**328**	-	**(186)**	-	**15,119**	**15,261**
Transactions with owners of the company									
Dividends paid	-	-	-	-	-	-	-	**(6,101)**	**(6,101)**
Total transactions with owners of the company	-	-	-	-	-	-	-	**(6,101)**	**(6,101)**
Balance at 31 December 2019	**234**	**8,492**	**-**	**177**	**-**	**7,347**	**-**	**68,321**	**84,571**

Statements of Changes in Equity

For the year ended 31 December 2019

Separate	Share capital MKm	Share premium MKm	Available for sale reserve MKm	Fair value through OCI reserve MKm	Share based payment reserve MKm	Revaluation reserve MKm	Loan loss reserve MKm	Retained earnings MKm	Total MKm
2018									
Balance at 1 January 2018	234	8,492	358	-	2	7,533	2,845	51,676	71,140
IFRS 9 transition adjustment	-	-	(358)	370	-	-	-	(2,367)	(2,355)
Restated balance at 1 January 2018	234	8,492	-	370	2	7,533	2,845	49,309	68,785
Profit for the year	-	-	-	-	-	-	-	9,769	9,769
Other comprehensive income									
Revaluation surplus, net of tax	-	-	-	-	-	-	-	-	-
Change in fair value of financial assets at fair value through OCI, net of tax	-	-	-	(521)	-	-	-	-	(521)
Total comprehensive income for the year	-	-	-	(521)	-	-	-	9,769	9,248
Transactions with owners of the company									
Dividends paid	-	-	-	-	-	-	-	(2,699)	(2,699)
Transfer (from)/to loan loss reserve	-	-	-	-	-	-	(2,845)	2,845	-
Transfer (from)/ to share ownership scheme reserve	-	-	-	-	(2)	-	-	-	(2)
Total transactions with owners of the company	-	-	-	-	(2)	-	(2,845)	146	(2,701)
Balance at 31 December 2018	234	8,492	-	(151)	-	7,533	-	59,224	75,332

Statements of Cash Flows

For the year ended 31 December 2019

	Note	Consolidated 2019 MKm	Consolidated 2018 MKm	Separate 2019 MKm	Separate 2018 MKm
Cash flows from operating activities:					
Interest income	27	**43,171**	38,998	**43,163**	39 048
Interest expense	27	**(4,294)**	(4,258)	**(4,294)**	(4,263)
Fee and commission income	28	**13,790**	12,976	**13,790**	12,976
Fee and commission expenses	28	**(1,080)**	(871)	**(1,080)**	(871)
Trading and other income		**9,130**	9,499	**7,910**	8,008
Recoveries from impairment losses		**360**	411	**360**	411
Payments to employees and suppliers		**(31,622)**	(32,478)	**(31,488)**	(32,155)
Cash flows from operating activities before changes in operating assets and liabilities		**29,455**	24,277	**28,361**	23,154
Changes in operating assets and liabilities:					
Loans and advances to customers		**(38,167)**	(26,620)	**(37,826)**	(26,858)
Liquidity reserve requirements	41	**7,150**	1 310	**7,150**	1,310
Trading assets maturing over 90 days		**11,269**	7 872	**11,269**	7,872
Financial investments over 90 days		**(15,558)**	(38,892)	**(15,558)**	(38,892)
Derivative assets		**5,643**	38,082	**5,643**	38,082
Other assets		**(695)**	3,867	**(677)**	3,851
Deposits from customers		**12,176**	(29,999)	**12,514**	(27,757)
Deposits and loans from other banks		**(11,829)**	(24,789)	**(11,841)**	(24,807)
Other liabilities		**3,880**	(13,289)	**3,876**	(13,284)
Net cash generated from / (used in) operating activities before income tax		**3,324**	(58,181)	**2,911**	(57,329)
Income tax paid		**(4,653)**	(2,506)	**(4,296)**	(2,219)
Net cash used in operating activities		**(1,329)**	(60,687)	**(1,385)**	(59,548)
Cash flows from investing activities					
Purchase of property and equipment	16,17	**(3,415)**	(2,854)	**(3,415)**	(2,854)
Proceeds from sale of property and equipment		**59**	25	**59**	25
Net cash used in investing activities		**(3,356)**	(2,829)	**(3,356)**	(2,829)
Cash flows from financing activities					
Dividends paid		**(6,101)**	(2,699)	**(6,101)**	(2,699)
Net cash used in financing activities		**(6,101)**	(2,699)	**(6,101)**	(2,699)
Net decrease in cash and cash equivalents		**(10,786)**	(66,215)	**(10,842)**	(65,076)
Cash and cash equivalents at 1 January		**58,745**	127,096	**58,556**	125,768
Effect of exchange rate fluctuations on cash and cash equivalents held		**414**	(2,136)	**414**	(2,136)
Cash and cash equivalents at 31 December	41	**48,373**	58,745	**48,128**	58,556

Notes to the Consolidated and Separate Financial Statements

For the year ended 31 December 2019

1. Reporting Entity

Standard Bank PLC is a company domiciled in Malawi. The address of the Group's registered office is Standard Bank Centre, African Unity Avenue, P O Box 30380, Lilongwe 3, Malawi. The Group is primarily involved in investment, corporate and retail banking, and in providing asset management services. The consolidated and separate financial statements present the financial position, financial performance and cash flows of Standard Bank PLC and its subsidiaries Standard Bank Bureau De Change Limited and Standard Bank Nominees Limited collectively referred to as the Group. The separate financial statements present the separate financial position, financial performance and cash flows of Standard Bank PLC and are referred to as the Company. When reference is made to the Group in the accounting policies, it should be interpreted as also referring to the Company where the context requires unless otherwise noted.

General information

Standard Bank PLC provides retail and corporate banking services through its **27** (2018: 27) service centres located across Malawi. The Company is listed on the Malawi Stock Exchange.

The Group's ultimate parent Company is Standard Bank Group Limited, which is a limited liability company incorporated in South Africa and listed on the Johannesburg Securities Exchange with a secondary listing on the Namibian Stock Exchange. Standard Bank Bureau de Change Limited is a 100% owned subsidiary of Standard Bank PLC whose line of business is foreign currency trading.

Standard Bank Nominees Limited is a 100% owned subsidiary of Standard Bank PLC and is dormant. Its main line of business is to make investments on behalf of the clients and managing their portfolios.

2. Basis of preparation

(a) Statement of compliance

These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRSIC) applicable to Companies reporting under IFRS.The consolidated and separate financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB). These consolidated and separate financial statements have also been prepared in accordance with the requirements of the Companies Act,2013 of Malawi.

(b) Basis of measurement

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

- investments held for trading are measured at fair value;
- derivative financial instruments are measured at fair value;
- financial instruments at fair value through profit or loss are measured at fair value;
- fair value through OCI financial assets are measured at fair value; and
- buildings and freehold land is measured at revalued amounts.

(c) Functional and presentation currency

The annual financial statements are presented in Malawi Kwacha which is the presentation currency of the Group and the functional and presentation currency of the Company. Except where indicated otherwise, financial information presented in Malawi Kwacha has been rounded to the nearest million.

(d) Use of estimates and judgements

The preparation of consolidated and separate financial statements in conformity with IFRS requires the use of accounting estimates. It also requires management to exercise its judgement in the application of policies and reported amounts in assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of the IFRSs that have significant effect on the consolidated and separate financial statements and estimates on the amounts recognised are discussed in Note 5.

(e) Changes in accounting policies

The Group has consistently applied the accounting policies as set out in Note 3 to all periods presented in these consolidated and separate financial statements.

(i) Adoption of new and amended standards effective for the current financial period

- IFRS 9 Financial Instruments (amendment) (IFRS 9), the amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortised cost or at fair value through other comprehensive income. The amendment is required to be applied retrospectively.

- IAS 19 Employee Benefits (amendments) (IAS 19), the amendments require a company to use the updated assumptions when a change to a plan either an amendment, curtailment or settlement, takes place to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Until now, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. The amendment will be applied retrospectively.

- IAS 28 Interest in Associates and Joint Ventures (amendment) (IAS 28), this amendment clarifies that an entity should apply IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture only when the equity method is not applied. The amendments will be applied retrospectively.

- IFRIC 23 Uncertainty over Income Tax Treatments (IFRIC 23), this interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined by applying this interpretation. This interpretation addresses: whether an entity considers uncertain tax treatments separately; the assumptions an entity makes about the examination of tax treatments by taxation authorities; how

2. Basis of preparation (Continued)

(e) Changes in accounting policies (continued)

(i) Adoption of new and amended standards effective for the current financial period (continued)

an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances. The IFRIC will be applied retrospectively only if possible without the use of hindsight. The impact on the annual financial statements is not expected to be significant.

- Annual improvements 2015-2017 cycle, the IASB has issued various amendments and clarifications to existing IFRS.

Early adoption of revised standards

- IAS 1 Presentation of Financial Statements (IAS 1) and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8), the amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. The amendments ensure that the definition of material is consistent across all IFRS Standards. The amendments will be applied prospectively.

The adoption of new and amended standards on 1 January 2019 did not affect the Group's previously reported financial results, disclosures or accounting policies and did not impact the Group's results upon transition.

IFRS 16 with effect from 1 January 2019, replaced IAS 17 as well as the related interpretations. IFRS 16 introduced a single lease accounting model for a lessees which impacted the group's results upon transition and materially impacted the group's accounting policies for lessees, refer to the page 59 and 60 for more detail on IFRS 16 transition.

IFRS 16 Leases

Background

With effect from 1 January 2019, IFRS 16 replaced IAS 17 as well as the related interpretations. The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on balance sheet. The most significant change pertaining to the accounting treatment for operating leases is from the lessees' perspective. IFRS 16 eliminates the classification of leases for lessees as either operating or finance leases, and as was required by IAS 17, and introduces a single lessee accounting model, where a right of use (ROU) asset together with a lease liability for the future payments is recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 did not introduce significant changes for lessors, as a result the accounting policies applicable to the group as a lessor are not different from those under IAS 17.

Adoption and transition

The Group and Company retrospectively adopted IFRS 16 on 1 January 2019 with an adjustment to the group and company's opening 1 January 2019 reserves and, as permitted by IFRS 16, did not restate its comparative financial results. Accordingly, the Group and Company's previously reported financial results up to 31 December 2018 are presented in accordance with the requirements of IAS 17 and for 2019, and future reporting periods, are presented in terms of IFRS 16.

On adoption of IFRS 16, the Group and Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group and Company's incremental borrowing rate as at 1 January 2019.

Right of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018

Practical expedients applied

In applying IFRS 16 for the first time, the Group and Company used the following practical expedients permitted by IFRS 16:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases provided there was no option to extend the term,
- the exclusion of initial direct costs for the measurement of the right of use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group and Company have also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group and Company relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

The Group and Company's leasing activities and how these are accounted for

The Group and Company lease various offices, branch space and ATM space. Rental contracts are typically made for fixed average periods of between three to ten years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until the 2018 financial year, leases of property and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. From 1 January 2019, all existing operating leases, which were either not less than 12 months or not deemed a low value asset, were recognised as a right of use asset and a corresponding lease liability.

Extension and termination options

Extension and termination options are included in a number of building and branch space leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are considered in the lease term when there is reasonable certainty that those options will be exercised. The assessment of reasonable certainty is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

2. Basis of preparation (Continued)

(e) Changes in accounting policies (continued)

(i) Adoption of new and amended standards effective for the current financial period (continued)

Table 1: Impact on the Group's statement of financial position on 1 January 2019

Consolidated	31 December 2018 MKm	IFRS 16 transition adjustment at 1 January 2019 MKm	1 January 2019 MKm
Assets			
Property, equipment and right of use asset	15,845	594	**16,439**
Other financial and non-financial assets	341,313	-	**341,313**
Total assets	357,158	594	**357,752**
Equity and liabilities			
Equity attributable to the ordinary shareholder	77,240	79	**77,319**
Liabilities	279,918	515	**280,433**
Total equity and liabilities	357,158	594	**357,752**

Separate	31 December 2018 MKm	IFRS 16 transition adjustment at 1 January 2019 MKm	1 January 2019 MKm
Assets			
Property, equipment and right of use asset	15,845	594	**16,439**
Other financial and non-financial assets	341,876	-	**341,876**
Total assets	357,721	594	**358,315**
Equity and liabilities			
Equity attributable to the ordinary shareholder	75,332	79	**75,411**
Liabilities	282,389	515	**282,904**
Total equity and liabilities	357,721	594	**358,315**

Table 2: Impact on the Group's statement of changes in equity on 1 January 2019

Consolidated	31 December 2018 MKm	IFRS 16 transition adjustment at 1 January 2019 MKm	1 January 2019 MKm
Ordinary share capital and share premium	8,726	-	**8,726**
Retained earnings	61,132	**79**	**61,211**
Other reserves	7 382	-	**7,382**
Total ordinary shareholder's equity	77,240	**79**	**77,319**

Separate	31 December 2018 MKm	IFRS 16 transition adjustment at 1 January 2019 MKm	1 January 2019 MKm
Ordinary share capital and share premium	8,726	-	**8,726**
Retained earnings	59,224	**79**	**59,303**
Other reserves	7 382	-	**7,382**
Total ordinary shareholder's equity	75,332	**79**	**75,411**

2. Basis of preparation (Continued)

(f) Going concern

The financial statements have been prepared on a going concern basis as directors have made assessment of the Group's ability to continue as a going concern and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Group continues to adopt the going concern basis in preparing the financial statements.

3. Significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the years presented except as explained in note 2(e) which addresses changes in accounting policies.

(a) Basis of consolidation

The consolidated financial statements comprise Standard Bank PLC (the "Bank") and its subsidiaries, Standard Bank Bureau de Change Limited and Standard Bank Nominees Limited, which are controlled by the Bank.

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at cost in the separate financial statements. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

Subsidiaries

'Subsidiaries' are investees 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 and separate financial statements from the date on which control commences until the date when control ceases.

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 (NCI) 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.

Transactions eliminated on consolidation

Inter-company balances and transactions and any unrealised income and expenses arising from inter-company transactions are eliminated in preparing the consolidated and separate 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 transactions

Transactions in foreign currencies during the year are translated into Malawi Kwacha at rates ruling at the transaction dates. Monetary assets and liabilities at the reporting date, which are expressed in foreign currencies, are translated into Malawi Kwacha at spot rates at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the transaction date, and those measured at fair value are translated at the exchange rate at the date that the fair value was determined. Exchange rate differences on non-monetary items are accounted for based on the classification of the underlying items. Foreign exchange gains and losses on equities (debt) classified as fair value through OCI financial assets are recognised in the fair value through OCI in OCI (trading revenue), whereas the exchange differences on equities (debt) that are classified as held at fair value through profit or loss are reported as part of the other revenue (trading revenue).

(c) Financial assets and financial liabilities

(i) Recognition

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

(ii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all risks and rewards of ownership and it does not retain control of the financial assets. Any interest in a transferred asset that is created or retained by the Group is recognised as a separate asset or liability.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of the consideration received and any cumulative gain or loss that has been recognised in other comprehensive income is recognised in profit or loss.

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

(iii) Offsetting

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

3. Significant accounting policies (Continued)

(c) Financial assets and financial liabilities (continued)

(iii) Offsetting (continued)

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activities.

(iv) 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 recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price. Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

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

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

(d) Cash and cash equivalents

Cash and cash equivalents includes notes and coins on hand, unrestricted balances with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management its short-term commitments.

Cash and cash equivalents held for reserving requirements and physical cash on hand is measured at fair value through profit or loss. All other cash and cash equivalents are measured at amortised cost.

(e) Derivative assets and liabilities

In the normal course of business, the Group enters into a variety of derivative transactions for both trading and hedging purposes. Derivative financial instruments are entered into for trading purposes and for hedging foreign exchange, interest rate, inflation and credit exposures. Derivative instruments used by the Group in both trading and hedging activities include swaps, options, forwards, futures and other similar types of instruments based on foreign exchange rates, credit risk, inflation risk, interest rates and the prices of commodities and equities.

Derivatives are initially recognised at fair value. Derivatives that are not designated in a qualifying hedge accounting relationship are classified as held for trading with all changes in fair value being recognised within trading revenue. All derivative instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

In terms on IFRS 9, embedded derivatives included in hybrid instruments, where the host is a financial asset, is assessed in terms of the accounting policy on financial assets. In all other instances (being non-financial host contracts and financial liabilities), the embedded derivatives are treated and disclosed as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. The host contract is accounted for and measured applying the relevant Group accounting policy.

(f) Trading assets and trading liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and trading liabilities are initially recognised and subsequently measured at fair value in the consolidated and separate statements of financial position with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. Trading assets and liabilities are not re-classified subsequent to their initial recognition, except that non-derivative trading assets, may be reclassified out of the fair value through profit or loss (i.e. trading category) if they are no longer held for the purpose of being sold or repurchased in the near term and the following terms are met:

- If the financial asset would have met the definition of instruments that would have otherwise been classified as amortised cost or fair value through OCI (if the financial asset had not been required to be classified as held for trading at initial recognition), then it may be reclassified if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met

3. Significant accounting policies (continued)

(f) Trading assets and trading liabilities (continued)

the definition of loans and receivables, then it may be classified out of the trading category only in 'rare circumstances.

(g) Financial assets and financial liabilities

Financial assets

(i) Initial measurement

All financial instruments are measured initially at fair value plus directly attributable transaction costs and fees, except for those financial instruments that are subsequently measured at fair value through profit or loss where such transaction costs and fees are immediately recognised in profit or loss. Financial instruments are recognised (derecognised) on the date the Group commits to purchase (sell) the instruments (trade date accounting).

Amortised cost

A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss): held within a business model whose objective is to hold the debt instrument (financial asset) in order to collect contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are not considered de minimis and are inconsistent with a basic lending arrangement, the financial asset is classified as fair value through profit or loss - default.

Fair value through OCI

Includes a debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss):

- Held within a business model in which the debt instrument (financial asset) is managed to both collect contractual cash flows and sell financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are not considered de minimis and are inconsistent with a basic lending arrangement, the financial asset is classified as fair value through profit or loss - default.

Equity financial assets which are not held for trading and are irrevocably elected (on an instrument-by-instrument basis) to be presented at fair value through OCI.

Held for trading

Those financial assets acquired principally for the purpose of selling in the near term (including all derivative financial assets) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

Designated at fair value through profit or loss

Financial assets are designated to be measured at fair value to eliminate or significantly reduce an accounting mismatch that would otherwise arise.

Fair value through profit or loss - default

Financial assets that are not classified into one of the above mentioned financial asset categories.

(ii) Subsequent measurement

Subsequent to initial measurement, financial assets are classified in their respective categories and measured at either amortised cost or fair value as follows:

Amortised cost

Amortised cost using the effective interest method with interest recognised in interest income, less any expected credit impairment losses which are recognised as part of credit impairment charges.

Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate.

Fair value through OCI

Debt instrument: Fair value, with gains and losses recognised directly in the fair value through OCI reserve. When a debt financial asset is disposed of, the cumulative fair value adjustments, previously recognised in OCI, are reclassified to the other gains and losses on financial instruments within non-interest revenue.

Interest income on a debt financial asset is recognised in interest income in terms of the effective interest rate method. Dividends received are disclosed separately from interest income within profit or loss
Equity instrument: Fair value, with gains and losses recognised directly in the fair value through OCI reserve. When equity financial assets are disposed of, the cumulative fair value adjustments in OCI are reclassified within reserves to retained income.

Dividends received on equity instruments are recognised in other revenue within non-interest income.

Held for trading

Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.

Designated at fair value through profit or loss

Fair value gains and losses (including interest and dividends) on the financial asset are recognised in the income statement as part of other gains and losses on financial instruments within non-interest revenue.

Fair value through profit or loss – default

Fair value gains and losses (including interest and dividends) on the financial asset are recognised in the income statement as part of other gains and losses on financial instruments within non-interest revenue.

(iii) Impairment

ECL is recognised on debt financial assets classified as at either amortised cost or fair value through OCI, financial guarantee contracts that are not designated at fair value through profit or loss as well as loan commitments that are neither measured at fair value through profit or loss nor are used to provide a loan at a below market interest rate.

The measurement basis of the ECL of a financial asset includes assessing whether there has been a SICR at the reporting date which includes forward-looking information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The measurement basis of the ECL is measured as the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and forward-looking information.

3. Significant accounting policies (Continued)

(g) Financial assets and financial liabilities (continued)

(iii) Impairment (continued)

Stage 1	A 12-month ECL is calculated for financial assets which are neither credit-impaired on origination nor for which there has been a SICR.
Stage 2	A lifetime ECL allowance is calculated for financial assets that are assessed to have displayed a SICR since origination and are not considered low credit risk.
Stage 3 (credit impaired assets)	A lifetime ECL is calculated for financial assets that are assessed to be credit impaired. The following criteria are used in determining whether the financial asset is impaired: • default • significant financial difficulty of borrower and/or modification • probability of bankruptcy or financial reorganisation disappearance of an active market due to financial difficulties.

The key components of the impairment methodology are described as follows:

Significant increase in credit risk	At each reporting date the Group assesses whether the credit risk of its exposures has increased significantly since initial recognition by considering the change in the risk of default occurring over the expected life of the financial asset. Credit risk of exposures which are overdue for more than 30 days are also considered to have increased significantly.
Low credit risk	Exposures are generally considered to have a low credit risk where there is a low risk of default, the exposure has a strong capacity to meet its contractual cash flow obligations and adverse changes in economic and business conditions may not necessarily reduce the exposure's ability to fulfil its contractual obligations.
Default	The Group's definition of default has been aligned to its internal credit risk management definitions and approaches. A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or Groups of financial assets: • significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower); • a breach of contract, such as default or delinquency in interest and/or principal payments; • disappearance of active market due to financial difficulties; • it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; • where the Group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the Group would not otherwise consider and • exposures which are overdue for more than 90 days are also considered to be in default.

Forward-looking information	Forward-looking information is incorporated into the Group's impairment methodology calculations and in the Group's assessment of SICR. The Group includes all forward looking information which is reasonable and available without undue cost or effort. The information will typically include expected macro-economic conditions and factors that are expected to impact portfolios or individual counterparty exposures.
Write-off	Financial assets are written off when there is no reasonable expectation of recovery. Financial assets which are written off may still be subject to enforcement activities.
Financial assets measured at amortised cost (including loan commitments)	Recognised as a deduction from the gross carrying amount of the asset (group of assets). Where the impairment allowance exceeds the gross carrying amount of the asset (group of assets), the excess is recognised as a provision within other liabilities.
Off-balance sheet exposures (excluding loan commitments)	Recognised as a provision within other liabilities.
Financial assets measured at fair value through OCI	Recognised in the fair value reserve within equity. The carrying value of the financial asset is recognised in the statement of financial position at fair value.

(iv) Reclassification

Reclassifications of debt financial assets are permitted when, and only when, the Group changes its business model or managing financial assets, in which case all affected financial assets are reclassified. Reclassifications are accounted for prospectively from the date of reclassification as follows:

- Financial assets that are reclassified from amortised cost to fair value are measured at fair value at the date of reclassification with any difference in measurement basis being recognised in other gains and losses on financial instruments
- The fair value of a financial asset that is reclassified from fair value to amortised cost becomes the financial asset's new carrying value
- Financial assets that are reclassified from amortised cost to fair value through OCI are measured at fair value at the date of reclassification with any difference in measurement basis being recognised in OCI
- The fair value of a financial asset that is reclassified from fair value through OCI to amortised cost becomes the financial asset's new carrying value with the cumulative fair value adjustment recognised in OCI being recognised against the new carrying value
- The carrying value of financial assets that are reclassified from fair value

3. Significant accounting policies (Continued)

(g) Financial assets and financial liabilities (continued)

(iv) Reclassification (continued)

through profit or loss to fair value through OCI remains at fair value

- The carrying value of financial assets that are reclassified from fair value through OCI to fair value through profit or loss remains at fair value, with the cumulative fair value adjustment in OCI being recognised in the income statement at the date of reclassification.

Financial liabilities

(v) Initial classification

Held-for-trading

Those financial liabilities incurred principally for the purpose of repurchasing in the near term (including all derivative financial liabilities) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

Designated at fair value through profit or loss

Financial liabilities are designated to be measured at fair value in the following instances:

- to eliminate or significantly reduce an accounting mismatch that would otherwise arise where the financial liabilities are managed and their performance evaluated and reported on a fair value basis
- where the financial liability contains one or more embedded derivatives that significantly modify the financial liability's cash flows.

Amortised cost

All other financial liabilities not included in the above categories.

(vi) Subsequent measurement

Subsequent to initial measurement, financial liabilities are classified in their respective categories and measured at either amortised cost or fair value as follows:

Held-for-trading

Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.

Designated at fair value through profit or loss

Fair value, with gains and losses arising from changes in fair value (including interest and dividends but excluding fair value gains and losses attributable to own credit risk) are recognised in the other gains and losses on financial instruments as part of non-interest revenue.

Fair value gains and losses attributable to changes in own credit risk are recognised within OCI, unless this would create or enlarge an accounting mismatch in which case the own credit risk changes are recognised within trading revenue.

Amortised cost

Amortised cost using the effective interest method recognised in interest expense.

(vii) Derecognition and modification of financial assets and liabilities.

	Derecognition	Modification
Financial assets	Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the Group has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in the transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. The Group enters into transactions whereby it transfers assets, recognised in its statement of financial position, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with the retention of all or substantially all risks and rewards include securities lending and repurchase agreements. When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions. In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.	Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability at fair value, including calculating a new effective interest rate, with the difference in the respective carrying amounts being recognised in other gains and losses on financial instruments within non-interest revenue. The date of recognition of a new asset is consequently considered to be the date of initial recognition for impairment calculation purposes. If the terms are not substantially different for financial assets or financial liabilities, the Group recalculates the new gross carrying amount by discounting the modified cash flows of the financial asset or financial liability using the original effective interest rate. The difference between the new gross carrying amount and the original gross carrying amount is recognised as a modification gain or loss within credit impairments (for distressed financial asset modifications) or in other gains and losses on financial instruments within non-interest revenue (for all other modifications).
Financial liabilities	Financial liabilities are derecognised when the financial liabilities' obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.	

3. Significant accounting policies (Continued)

(g) Financial assets and financial liabilities (continued)

Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Financial guarantee contracts (that are not designated at fair value through profit or loss) are subsequently measured at the higher of the:

- ECL calculated for the financial guarantee or
- unamortised premium.

(h) Loans and advances

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 short term. Loans and advances are recognised when cash is advanced to borrowers. Loans and advances are initially recognised at fair value (plus any directly attributable transaction costs). Subsequent to initial recognition, loans and advances are measured at amortised cost, using the effective interest method.

Loans and advances are classified as loans and receivables and are measured at amortised cost.

(i) Property and equipment

(i) Recognition and measurement

All property and equipment is initially recorded at cost. Leasehold and freehold land and buildings are subsequently carried at revalued amount, being its fair value, based on valuations by external independent valuers, less subsequent accumulated depreciation, and subsequent accumulated impairment losses. All other property and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour plus any other cost directly attributable to bringing the asset to a working condition for its intended use.

Increases in the carrying amount arising on revaluation are recognised in OCI and accumulated in equity under the heading revaluation reserve. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and charged against the revaluation reserve, all other decreases are charged to profit or loss. The revaluation reserve is a non-distributable reserve and therefore not available for distribution as dividends.

(ii) Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The cost of the day-to-day servicing of property and equipment is recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated on the straight line basis to write down the carrying value or the revalued amounts of each asset, to its residual value over its estimated useful life. The following are the estimated useful lives for the current and comparative periods:

Buildings	13 - 40 years
Fixtures, fittings and equipment	3 - 13 years
Motor vehicles	5 years
Computer equipment	5 years

Freehold land is not depreciated as it is deemed to have an unlimited useful life.

Capitalised leased assets are depreciated over the shorter of the lease term and their useful lives, except where it is reasonably certain that the Group will obtain ownership at the end of the lease term, in which case the period of expected useful life of the asset is used.

Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

Depreciation methods, useful lives and residual values of property and equipment are reviewed at the end of each reporting period. Gains and losses on disposal of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment and are recognised in other operating income/other operating expense in profit or loss. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

(j) Work in progress

Work in progress represents costs incurred on capital projects relating to refurbishment of the Group's branch network. It is measured at cost accumulated to the reporting date. Costs include all expenditure related directly to the specific projects and an allocation of fixed and variable overheads incurred in normal operating capacity.

Work in progress is presented under property and equipment in the consolidated and separate statements of financial position and is transferred to respective class of assets upon completion of the projects. Work in progress is not depreciated.

(k) Intangible assets

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when:

- The Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits;
- The Group can reliably measure the costs to complete the development;
- It is technically and commercially feasible; and
- There are sufficient resources to complete development and to use the asset.

The capitalised cost of internally developed software includes all costs directly attributable to developing the software, and are amortised over its useful life.

Subsequent expenditure on software is capitalised only if it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as it is incurred.

Amortisation is recognised in profit or loss on a straight line basis over the estimated useful life of the software, from the date it is available for use. The estimated useful life of software is between three to fifteen years.

The carrying amount of intangible 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 exceeds its recoverable amount. Intangible assets that are not yet available for use are tested for impairment on an annual basis.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Impairment of non-financial assets

These assets are reviewed for impairment at each reporting date and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in non-trading and capital related items for the amount by which the asset's carrying amount exceeds its recoverable

3. Significant accounting policies (Continued)

(k) Intangible assets (continued)

Impairment of non-financial assets (continued)

amount. The recoverable amount is determined as the higher of an asset's fair value less costs to sell and value in use. Fair value less costs to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset.

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. For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest CGUs. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. The carrying amount of these other assets may, however, not be reduced below the higher of the CGU's fair value less costs to sell and its value in use.

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 through non-trading and capital related items 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.

(l) Leases – IFRS 16

Single lessee accounting model

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- leases of low value assets; and
- leases with a duration of twelve months or less.

Lease liabilities

Initially measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate implicit in the lease unless (as is typically the case for the group) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. The Group's internal funding rate is the base on which the incremental borrowing rate is calculated. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate. On initial recognition, the carrying value of the lease liability also includes:

- Amounts expected to be payable under any residual value guarantee;
- The exercise price of any purchase option granted in favour of the Group, should it be reasonably certain that this option will be exercised;
- Any penalties payable for terminating the lease, should the term of the lease be estimated on the basis of this termination option being exercised.

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made.

Right of use assets

Initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset.

The Group applies the cost model subsequent to the initial measurement of the right of use assets.

Termination of leases

When the Group or lessor terminates or cancels a lease, the right of use asset and lease liability are derecognised.

Interest expense on lease liabilities

A lease finance cost, determined with reference to the interest rate implicit in the lease or the Group's incremental borrowing rate, is recognised within interest expense over the lease period.

Depreciation on right of use assets

Subsequent to initial measurement, the right of use assets are depreciated on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset should this term be shorter than the lease term unless ownership of the underlying asset transfers to the Group at the end of the lease term, whereby the right of use assets are depreciated on a straight-line basis over the remaining economic life of the asset. This depreciation is recognised as part of operating expenses.

Termination of leases

On derecognition of the right of use asset and lease liability, any difference is recognised as a derecognition gain or loss in profit or loss.

Reassessment of lease terms and lease modifications that are not accounted for as a separate lease

When the Group reassesses the terms of any lease (i.e. it re-assesses the probability of exercising an extension or termination option) or modifies the terms of a lease without increasing the scope of the lease or where the increased scope is not commensurate with the stand-alone price, it adjusts the carrying amount of the lease liability to reflect the payments to be made over the revised term, which are discounted at the applicable rate at the date of reassessment or modification. The carrying amount of lease liability is similarly revised when the variable element of future lease payments dependent on a rate or index is revised.

For reassessments to the lease terms, an equivalent adjustment is made to the carrying amount of the right of use asset, with the revised carrying amount being depreciated over the revised lease term. However, if the carrying amount of the right of use asset is reduced to zero any further reduction in the measurement of the lease liability is recognised in profit or loss.

For lease modifications that are not accounted for as a separate lease, an equivalent adjustment is made to the carrying amount of the right of use asset, with the revised carrying amount being depreciated over the revised lease term. However, for lease modifications that decrease the scope of the lease the carrying amount of the right-of-use asset is decreased to reflect the partial or full termination of the lease, with any resulting difference being recognised in profit or loss as a gain or loss relating to the partial or full termination of the lease.

Lease modifications that are accounted for as a separate lease

When the Group modifies the terms of a lease resulting in an increase in scope and the consideration for the lease increases by an amount commensurate with a stand-alone price for the increase in scope, the Group accounts for these modifications as a separate new lease. This accounting treatment equally applies to leases which the Group elected the short-term lease exemption and the lease term is subsequently modified.

3. Significant accounting policies (Continued)

(i) Leases - IFRS 16 (continued)

Leases – IAS 17

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. A lease of assets is either classified as a finance lease or operating lease.

(i) Finance lease

Lessee

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset. Lease payments are separated using the effective interest method to identify the finance cost, which is charged as an expense over the lease period and the capital repayment which reduces the liability.

Lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable at an amount equal to the net investment in the lease. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Finance income is recognised over the term of the lease using the effective interest method (before tax), which reflects a constant periodic rate of return. Lease payments are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

(ii) Operating lease

Lessee

Leases of assets are classified as operating leases if the lease does not transfer substantially all the risks and rewards. All leases that do not meet the criteria of a financial lease are classified as operating leases. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the period of the lease. Contingent rentals are expensed as they are incurred.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which the termination takes place.

(m) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. If such an estimate cannot be made, a contingent liability is disclosed.

When the effect of discounting is material, provisions are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before the provision is established, the Group recognises any impairment loss on the assets associated with the contract.

(n) Income tax expense

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

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.

Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. The following temporary differences are not provided for:

- initial recognition of goodwill,
- investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future, and
- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits.

Tax rates enacted or substantively enacted at the reporting date are used to determine deferred tax, taking consideration of the expected manner of recovery or realisation or settlement of the carrying amount of the assets and liabilities.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related deferred tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Additional income taxes that arise from the distribution of dividend are recognised at the same time as the liability to pay the related dividend is recognised.

(o) Dividends

Dividends are recognised in the period in which they are declared. Dividends declared after reporting date are disclosed in the dividends note.

(p) Interest income and expense

Interest income and expense are recognised in profit or loss for all instruments measured at amortised cost using the effective interest method and for all fair value through OCI financial assets.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, when appropriate, a shorter period to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate the Group estimates future cash flows considering all the contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income includes coupons earned on fixed income investments and securities, loans and receivables and accrued discount and premium on treasury bills and other discounted instruments. When loans and advances become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

3. Significant accounting policies (Continued)

(p) Interest income and expense (continued)

Interest income and expense presented in the income statements include:

- Interest on financial assets and liabilities at amortised cost on an effective interest basis.
- Interest on interest bearing fair value through OCI on an effective interest basis.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and presented together with the changes in the fair value of trading assets and in net trading income.

Fair value changes on other financial assets and financial liabilities carried at fair value through profit or loss, are presented in net income on other financial instruments at fair value through profit and loss in the consolidated and separate income statements.

(q) Employee benefits

Employee entitlements to gratuity and long service awards are recognised as they accrue to employees. A liability is recognised for such entitlements as a result of services rendered by employees up to the reporting date.

(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 provision is recognised for the amount expected to be paid under short-term cash bonus 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 measured reliably.

(ii) Leave pay liability

Employee benefits in the form of annual leave entitlements are provided for when they accrue to employees with reference to services rendered up to the reporting date.

(iii) Termination benefits

Termination benefits are recognised when the Group is committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy when it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(iv) Retirement contribution plan

The Group operates a defined contribution retirement scheme for employees. Under the defined contribution plan the Group pays fixed contributions to a separate entity and will have no legal or constructive obligations to pay further amounts. The assets of the schemes are held in separate trustee administered funds, which are funded by contributions from both the Group and employees.

The Group's contributions to the defined contribution scheme are recognised in profit or loss in the year to which they relate.

(v) Share-based payment transactions

The fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the number of share options for which the related service and non-market performance vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share options that do meet the related service and non-market performance conditions at the vesting date.

The fair value of the amount payable to employees in respect of share appreciation rights (SAR's), which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is

re-measured at each reporting date and at settlement date based on the fair value of the SARs. Any changes in the liability are recognised in profit or loss.

The employee share options are valued by independent experts at the Standard Bank Group level and the values relating to their employees are communicated to the Group subsidiary.

(r) Acceptances, guarantees and letters of credit

Acceptances, guarantees (other than financial guarantees) and letters of credit are not recognised in the annual financial statements, but are disclosed in the notes to the annual financial statements unless the terms and conditions thereof have not been met.

(s) Fees and commissions

Fees and commissions are generally recognised on an accrual basis as the service is provided. Commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants.

Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportionate basis. Asset management fees related to investment funds are recognised over the period in which the service is provided.

Both principles are applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

Other fees and commission expense relates mainly to transactions and service fees which are expensed as the services are received.

(t) Net trading income

Trading income includes gains and losses from spot and forward contracts, options, futures, and foreign exchange differences and gains and losses on trading assets and liabilities. Interest rate instruments include the results of making markets in instruments in government securities, corporate debt securities, money market instruments, interest rate and currency swaps, options and other derivatives.

(u) Earnings per share

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

(v) Determination and presentation of operating segments

The Group determines and presents operating segments based on the information that is internally provided to the Group Executive Committee which is

3. Significant accounting policies (Continued)

(v) Determination and presentation of operating segments (continued)

the Group's chief operating decision maker. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group's Executive Committee to make decisions about resource allocation to the segment and assess its performance and for which discrete information is available.

(w) New standards and interpretations not yet adopted

The following new or revised standards, amendments and interpretations are not yet effective for the year ended 31 December 2019 and have not been applied in preparing these annual consolidated and separate financial statements. The Group does not plan to adopt these standards early:

(i) IFRS 3 *Business Combinations (amendment)*

The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment is not expected to have a material impact on the group.

IFRS 3 is effective for annual reporting periods beginning on or after 1 January 2020 with earlier application permitted.

(ii) IFRS 7 *Financial Instruments: Disclosures, IFRS 9 Financial Instruments (amendments) and IAS 39 Financial Instruments: Recognition and Measurement*

Interest Rate Benchmark Reform resulted in amendments to IFRS 9, IAS 39 and IFRS 7 requirements for hedge accounting to support the provision of useful financial information during the period of uncertainty caused by the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs) on hedge accounting. The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

IFRS 7 Financial Instruments: Disclosures, IFRS 9 Financial Instruments (amendments) and IAS 39 Financial Instruments is effective 1 January 2020 with earlier application permitted.

(iii) IFRS 17 *Insurance Contracts*

This standard replaces IFRS 4 Insurance Contracts which provided entities with dispensation to account for insurance contracts (particularly measurement) using local actuarial practice, resulting in a multitude of different approaches.

The overall objective of IFRS 17 is to provide a more useful and consistent accounting model for insurance contracts among entities issuing insurance contracts globally. The standard requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. A general measurement model (GMM) will be applied to long-term insurance contracts and is based on a fulfilment objective (risk-adjusted present value of best estimate future cash flows) and uses current estimates, informed by actual trends and investment markets.

IFRS 17 establishes what is called a contractual service margin (CSM) in the initial measurement of the liability which represents the unearned profit on the contract and results in no gain on initial recognition. The CSM is released over the life of the contract, but interest on the CSM is locked in at inception rates. The CSM will be utilised as a "shock absorber" in the event of changes to best estimate cash flows. On loss making (onerous) contracts, no CSM is set up and the full loss is recognised at the point of contract inception. The GMM is modified for contracts which have participation features.

An optional simplified premium allocation approach (PAA) is available for all contracts that are less than 12 months at inception. The PAA is similar to the current unearned premium reserve profile over time.

The requirement to eliminate all treasury shares has been amended such that treasury shares held for a Group of direct participating contracts or investment funds are not required to be eliminated and can be accounted for as financial assets.

These requirements will provide transparent reporting about an entity's financial position and risk and will provide metrics that can be used to evaluate the performance of insurers and how that performance changes over time. An entity may re-assess its classification and designation of financial instruments under IFRS 9, on adoption of IFRS 17.

The standard will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021 with earlier application permitted.

(iv) IFRS 10 *and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments will be applied prospectively and are not expected to have a material impact on the group's financial statements.

The effective date for these amendments was deferred indefinitely until further notice

(x) Comparative figures

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

4. Risk management

(a) Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:
- Credit risk
- Liquidity risk
- Market risk

The Group also has exposure to operational, legal, reputational, business and compliance risks.

This note presents information about the Group's exposure to key risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk measurement and control

The effective management of risk is critical to earnings and statement of financial position growth within the Standard Bank Group where the culture encourages sound commercial decision making which adequately balances risk and reward.

Risk management approach

The Group has governance standards for all major risk types. All standards are applied consistently across the Group and are approved by the Board.

The standards form an integral part of the Group's governance infrastructure, reflecting the expectations and requirements of the Board in respect of key areas of control across the Group. The standards ensure alignment and consistency in the manner that major risk types across the Group are identified, measured, managed, controlled, and reported.

The Group's Internal Audit Department independently audits the adequacy and effectiveness of the Group's risk management, control and governance processes. The Head of Internal Audit department provides independent assurance to the Board Audit Committee and has unrestricted access to the Chief Executive and the Chairman of the Board.

Risk appetite and risk tolerance

Risk appetite is the quantum of risk the Group is willing to accept in the normal course of business in pursuit of its strategic and financial objectives. Risk taken within "appetite" may give rise to expected losses, but these should be covered by expected earnings.

Risk tolerance is an assessment of the maximum risk the Group is willing to sustain for short periods of time. It emphasises the "downside" of the risk distribution, and the Group's capacity to survive unexpected losses. The capacity to take unexpected losses depends on having sufficient capital and liquidity available to avoid insolvency. Risk tolerance typically provides a useful upper boundary for the Group's risk appetite.

The Group's board of directors has ultimate responsibility for risk management, which includes evaluating key risk areas and ensuring the process for risk management and systems of internal control are implemented. It has delegated its risk-related responsibilities primarily to three committees, as follows: the risk management committee, the audit committee and the credit committee - with each committee focusing on different risk exposures.

Risk management

Naturally, the Group faces a number of risks when conducting its business which it may choose to take, transfer or mitigate as described in the notes to the consolidated and separate financial statements from 4(b) to 4(h).

(b) Credit risk

Credit risk is the risk that a loss will be incurred if counterparty to a credit transaction does not fulfil its contractual obligations in a timely manner.

The Group's Personal and Business Banking and Corporate and Investment Banking credit policies cover the entire credit risk management process within the Group. These polices are more stringent than the Banking Act of Malawi and Reserve Bank of Malawi (RBM) Directives. They are subject to review and require the approval of the Group's Board of Directors. The policies outline issues pertaining to delegated lending limits, risk concentrations and internal lending constraints, security and legal documentation, risk weightings applied to lending, excesses and irregular accounts reporting and the treatment of non-performing loans.

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

Management of credit risk

The Board of Directors has delegated the responsibility of the management of credit risk to its Credit Committee. A separate Credit Function (within the Risk Management Department), that reports quarterly to the Credit Committee of the Board through the Credit Risk Management Committee, is responsible for oversight of the credit risk, including:

- **Formulating credit policies** in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

- **Establishing the authorisation structure** for approvals and renewals of credit facilities. Authorisation limits are provided to credit officers and credit committees. Large credit limits require approval by the country Credit Risk Management Committee and the Head of Credit as delegated by the Board.

- **Reviewing and assessing credit risk.** The Credit Function assesses all credit exposures and prepares a watch list which includes all those clients which have exceeded their limits or repayments are in arrears.

- **Limit concentration of exposure** to counterparts' location and type of customer in relation to the Group loans and advances to customers by carrying a balanced portfolio.

- **Reviewing compliance** so that exposure limits remain within the acceptable range.

- **Providing advice, guidance and specialist skills** to business units to promote best practice throughout the Group in the management of credit risk.

Regular audits of business units and credit processes are undertaken by the internal audit department.

Maximum exposure to credit risk without taking into account any collateral or other credit enhancements

The table overleaf shows the maximum exposure to credit risk by class of financial instrument. Financial instruments include financial instruments defined and recognised under IAS 32 Financial Instruments: Presentation as well as other financial instruments not recognised. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

4. Risk management (Continued)

(b) Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of financial asset (gross) for credit risk related items, based on the Group's credit rating system.

At 31 December 2019 Consolidated	Note	Gross Carrying amount	SB 1 - 12		SB 13 - 20		SB 21 - 25		Default	Total gross carrying amount of default exposures	Securities and expected recoveries on default exposures	Interest in suspense on default exposures	Balance sheet expected credit loss on default exposures	Gross default coverage	Non-performing exposures
			Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3						
		MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm	%	%
Loans and advances at amortised cost															
Personal Business Banking															
Mortgage loans	12	3,892	-	-	3,482	-	-	358	52	52	9	5	38	82%	1%
Vehicle and asset finance	12	10,440	-	-	9,072	-	-	885	483	483	218	-	265	55%	4%
Other loans and advances	12	59,869	-	-	47,495	-	-	8,243	4,131	4,131	565	562	3,004	86%	7%
Corporate and Investment Banking															
Corporates	12	81,334	432	-	80,880	-	-	22	-	-	-	-	-	-	-
Sovereign	11	44,392	-	-	44,392	-	-	-	-	-	-	-	-	-	-
Banks	11	15,538	15,538	-	-	-	-	-	-	-	-	-	-	-	-
Gross carrying amount		215,465	15,970	-	185,321	-	-	9,508	4,666	4,666	792	567	3,307	83%	2%
Less: Interest in suspense	12	(567)													
Less: Total expected credit losses for loans and advances	11,12	(6,478)													
Net carrying amount of loans and advances measured at amortised cost		208,420													
Financial investments measured at amortised cost															
Sovereign	13	89,279	-	-	89,279	-	-	-	-						
Gross carrying amount		89,279	-	-	89,279	-	-	-	-						
Less: total expected credit loss for financial investments	13	(185)													
Net carrying amount of financial investments measured at amortised cost		89,094													
Financial investments at fair value through OCI															
Sovereign		11,330	-	-	11,330	-	-	-	-						
Gross carrying amount		11,330	-	-	11,330	-	-	-	-						
Add: Fair value reserve relating to fair value adjustments (before the ECL balance)	26	177													
Total financial investment at fair value through OCI	13	11,507													

4. Risk management (Continued)

(b) Credit risk (continued)

Credit quality per class of financial assets (continued)

At 31 December 2019 Consolidated	Note	Gross Carrying amount
		MKm
Off-balance sheet exposures		
Letters of credit and banker's acceptances	39	14,263
Guarantees	39	96,666
Irrevocable unutilised facilities	39	263
Total exposure to off-balance sheet credit risk		111,192
Expected credit losses for off-balance sheet exposures	24	(180)
Net carrying amount of off-balance sheet exposures		111,012
Total exposure to credit risk on financial assets subject to an expected credit loss		420,033
Add the following other banking activities exposures:		
Cash and balances held with the Central Bank	8	22,870
Derivative assets	9	601
Trading assets	10	722
Other financial assets	15	3,442
Total		447,668

4. Risk management (Continued)

(b) Credit risk (continued)

Credit quality per class of financial assets (continued)

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of financial asset (gross) for credit risk related items, based on the Group's credit rating system.

At 31 December 2018 Consolidated	Note	Gross Carrying amount	SB 1 - 12		SB 13 - 20		SB 21 - 25		Default	Total gross carrying amount of default exposures	Securities and expected recoveries on default exposures	Interest in suspense on default exposures	Balance sheet expected credit loss on default exposures	Gross default coverage	Non-performing exposures
			Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3						
		MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm	%	%
Loans and advances at amortised cost															
Personal Business Banking															
Mortgage loans	12	1,870	-	-	1,131	262	415	-	62	62	57	(7)	12	8%	3%
Vehicle and asset finance	12	6,259	-	-	3,509	1,656	687	-	407	407	165	-	242	59%	7%
Other loans and advances	12	45,086	-	-	21,871	8,077	7,452	-	7,686	7,686	1,695	1,501	4,490	78%	17%
Corporate and Investment Banking															
Corporates	12	68,234	950	-	67,152	132	-	-	-	-	-	-	-	-	-
Sovereign	11	46,964	-	-	46,964	-	-	-	-	-	-	-	-	-	-
Banks	11	29,617	29,617	-	-	-	-	-	-	-	-	-	-	-	-
Gross carrying amount		198,030	30,567	-	140,627	10,127	8,554	-	8,155	8,155	1,917	1,494	4,744	76%	4%
Less: Interest in suspense	12	(1,494)													
Less: Total expected credit losses for loans and advances	11,12	(7,456)													
Net carrying amount of loans and advances measured at amortised cost		189,080													
Financial investments measured at amortised cost															
Sovereign	13	68,368	-	-	68,368	-	-	-	-						
Gross carrying amount		68,368	-	-	68,368	-	-	-	-						
Less: total expected credit loss for financial investments	13	(119)													
Net carrying amount of financial investments measured at amortised cost		68,249													
Financial investments at fair value through OCI															
Sovereign		17,248	-	-	17,248	-	-	-	-						
Gross carrying amount		17,248	-	-	17,248	-	-	-	-						
Less: Fair value reserve relating to fair value adjustments (before the ECL balance)	26	(151)													
Total financial investment at fair value through OCI	13	17,097													

4. Risk management (Continued)

(b) Credit risk (continued)

Credit quality per class of financial assets (continued)

At 31 December 2018 Consolidated	Note	Gross Carrying amount
		MKm
Off-balance sheet exposures		
Letters of credit and banker's acceptances	39	15,850
Guarantees	39	92,266
Irrevocable unutilised facilities	39	-
Total exposure to off-balance sheet credit risk		108,116
Expected credit losses for off-balance sheet exposures	24	(182)
Net carrying amount of off-balance sheet exposures		107,934
Total exposure to credit risk on financial assets subject to an expected credit loss		382,360
Add the following other banking activities exposures:		
Cash and balances held with the Central Bank	8	29,385
Derivative assets	9	369
Trading assets	10	11,993
Other financial assets	15	1,201
Total exposure to credit risk		425,308

4. Risk management (Continued)

(b) Credit risk (continued)

Credit quality per class of financial assets (continued)

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of financial asset (gross) for credit risk related items, based on the Group's credit rating system.

At 31 December 2019 Separate	Note	Gross Carrying amount	SB 1 - 12		SB 13 - 20		SB 21 - 25		Default	Total gross carrying amount of default exposures	Securities and expected recoveries on default exposures	Interest in suspense on default exposures	Balance sheet expected credit loss on default exposures	Gross default coverage	Non-performing exposures
			Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3						
		MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm	%	%
Loans and advances at amortised cost															
Personal Business Banking															
Mortgage loans	12	3,892	-	-	3,482	-	-	358	52	52	9	5	38	82%	1%
Vehicle and asset finance	12	10,440	-	-	9,072	-	-	885	483	483	218	-	265	55%	3%
Other loans and advances	12	59,869	-	-	47,495	-	-	8,243	4,131	4,131	565	562	3,004	86%	5%
Corporate and Investment Banking															
Corporates	12	81,616	432	-	81,162	-	-	22	-	-	-	-	-	-	-
Sovereign	11	44,392	-	-	44,392	-	-	-	-	-	-	-	-	-	-
Banks	11	15,560	15,560	-	-	-	-	-	-	-	-	-	-	-	-
Gross carrying amount		215,769	15,992	-	185,603	-	-	9,508	4,666	4,666	792	567	3,307	83%	2%
Less: Interest in suspense	12	(567)													
Less: Total expected credit losses for loans and advances	11,12	(6,478)													
Net carrying amount of loans and advances measured at amortised cost		208,724													
Financial investments measured at amortised cost															
Sovereign	13	89,279	-	-	89,279	-	-	-	-						
Gross carrying amount		89,279	-	-	89,279	-	-	-	-						
Less: total expected credit loss for financial investments	13	(185)													
Net carrying amount of financial investments measured at amortised cost		89,094													
Financial investments at fair value through OCI															
Sovereign		11,330	-	-	11,330	-	-	-	-						
Gross carrying amount		11,330	-	-	11,330	-	-	-	-						
Add: Fair value reserve relating to fair value adjustments (before the ECL balance)	26	177													
Total financial investment at fair value through OCI	13	11,507													

4. Risk management (Continued)

(b) Credit risk (continued)

Credit quality per class of financial assets (continued)

At 31 December 2019 Separate	Note	Gross Carrying amount
		MKm
Off-balance sheet exposures		
Letters of credit and banker's acceptances	39	14,263
Guarantees	39	96,666
Irrevocable unutilised facilities	39	263
Total exposure to off-balance sheet credit risk		111,192
Expected credit losses for off-balance sheet exposures	24	(180)
Net carrying amount of off-balance sheet exposures		111,012
Total exposure to credit risk on financial assets subject to an expected credit loss		420,337
Add the following other banking activities exposures:		
Cash and balances held with the Central Bank	8	22,603
Derivative assets	9	601
Trading assets	10	722
Other financial assets	15	3,453
Total exposure to credit risk		447,716

4. Risk management (Continued)

(b) Credit risk (continued)

Credit quality per class of financial assets (continued)

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of financial asset (gross) for credit risk related items, based on the Group's credit rating system.

At 31 December 2018 Separate	Note	Gross Carrying amount	SB 1 - 12 Stage 1	SB 1 - 12 Stage 2	SB 13 - 20 Stage 1	SB 13 - 20 Stage 2	SB 21 - 25 Stage 1	SB 21 - 25 Stage 2	Default Stage 3	Total gross carrying amount of default exposures	Securities and expected recoveries on default exposures	Interest in suspense on default exposures	Balance sheet expected credit loss on default exposures	Gross default coverage	Non-performing exposures
		MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm	%	%
Loans and advances at amortised cost															
Personal and Business Banking:															
Mortgage loans	12	1,870	-	-	1,131	262	415	-	62	62	57	(7)	12	8%	3%
Vehicle and asset finance	12	6,259	-	-	3,509	1,656	687	-	407	407	165	-	242	59%	7%
Other loans and advances	12	45,086	-	-	21,871	8,077	7,452	-	7,686	7,686	1,695	1,501	4,490	78%	17%
Corporate and Investment Banking:															
Corporates	12	68,856	950	-	67,774	132	-	-	-	-	-	-	-	-	-
Sovereign	11	46,964	-	-	46,964	-	-	-	-	-	-	-	-	-	-
Banks	11	29,552	29,552	-	-	-	-	-	-	-	-	-	-	-	-
Gross carrying amount		198,587	30,502	-	141,249	10,127	8,554	-	8,155	8,155	1,917	1,494	4,744	76%	4%
Less: Interest in suspense	12	(1,494)													
Less: Total expected credit losses for loans and advances	11,12	(7,455)													
Net carrying amount of loans and advances measured at amortised cost		189,638													
Financial investments measured at amortised cost															
Sovereign	13	68,368	-	-	68,368	-	-	-	-						
Gross carrying amount		68,368	-	-	68,368	-	-	-	-						
Less: total expected credit loss for financial investments	13	(119)													
Net carrying amount of financial investments measured at amortised cost		68,249													
Financial investments at fair value through OCI															
Sovereign		17,248	-	-	17,248	-	-	-	-						
Gross carrying amount		17,248	-	-	17,248	-	-	-	-						
Less: Fair value reserve relating to fair value adjustments (before the ECL balance)	26	(151)													
Total financial investment at fair value through OCI	13	17,097													

4. Risk management (Continued)

(b) Credit risk (continued)

Credit quality per class of financial assets (continued)

At 31 December 2018 Separate	Note	Gross Carrying amount MKm
Off-balance sheet exposures		
Letters of credit and banker's acceptances	39	15,850
Guarantees	39	92,266
Irrevocable unutilised facilities	39	-
Total exposure to off-balance sheet credit risk		108,116
Expected credit losses for off-balance sheet exposures	24	(182)
Net carrying amount of off-balance sheet exposures		107,934
Total exposure to credit risk on financial assets subject to an expected credit loss		382,918
Add the following other banking activities exposures:		
Cash and balances held with the Central Bank	8	29,260
Derivative assets	9	369
Trading assets	10	11,993
Other financial assets	15	1,232
Total exposure to credit risk		425,772

The fair value of collateral that the Group holds relating to loans individually determined to be impaired at 31 December 2019 amounts to **MK792million** (2018: MK1,917 million). The collateral consists of securities, mortgages over property and guarantees. The amount of renegotiated loans as at 31 December 2019 was **MK 1,337 million** (2018: MK4,713 million).

4. Risk management (Continued)

(b) Credit risk (continued)

Credit quality per class of financial assets (continued)

Description of collateral held as security and other credit enhancements, in respect of the exposures.

The Group holds mortgages over property, registered securities and guarantees as collateral within the following classes:	Consolidated and Separate 2019 MKm	2018 MKm
Personal and Business Banking		
- Mortgage lending	9,207	6,395
- Installment sales and finance leases	18,573	6,409
- Other loans and advances and off-balance sheet items	59,484	122,311
Corporate and Investment Banking		
- Corporate lending and off-balance sheet items	150,642	124,863
	237,906	259 978
Collateral repossessed		
Residential property	4,233	1,383
Commercial property	18,971	14,381
Other (Vehicle and asset finance)	2,176	23
	25,380	15,787

Collateral includes:

- financial securities that have a tradable market, such as shares and other securities.
- physical items, such as property, plant and equipment.
- financial guarantees, suretyships and intangible assets.

The Group's collateral valuation guidelines outline general requirements covering the valuation of collateral received to mitigate credit risk, specifically related to non-trading limits and exposures and are designed to facilitate a consistent valuation approach to Banking Book Collateral. Credit assessments focus on appropriateness, suitability and recovery of assets proposed and held as collateral. Collateral is regularly verified and treated as a potential loss given default mitigant when there is satisfaction on its value and the Group's legal right to take control and realise such collateral to offset exposures. As at 31 December 2019, guarantees dominated the collateral portfolio in Corporate and Investment Banking and property in Personal and Business Banking.

The unsecured loans and advances in Personal and Business Banking were comprised mostly of the personal loan segment, while 12.0% (2018:7.2%) of the Corporate and Investment Banking loans and advances was unsecured.

It is the Group's policy to dispose off repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

Net exposure to credit risk without taking into account any collateral or other credit enhancements

In respect of certain financial assets, the Group has legally enforceable rights to offset them with financial liabilities. However, in normal circumstances, there would be no intention of settling net, or of realising the financial assets and settling the financial liabilities simultaneously. Consequently, the financial assets are not offset against the respective financial liabilities for financial reporting purposes as there are no master netting arrangements for any of the exposures. However, the exposure to credit risk relating to the respective financial assets is mitigated as follows:

Consolidated	Note	At 31 December 2019 Carrying amount MKm	Offset MKm	Net exposure to credit risk MKm
Cash and balances held with the Central Bank	8	22,870	-	22,870
Derivative assets	9	601	-	601
Trading assets	10	722	-	722
Loans and advances to banks	11	59,930	-	59,930
Loans and advances to customers	12	148,490	(26)	148,464
Financial investments	13	100,601	-	100,601
Other assets	15	3,442	-	3,442
		336,656	(26)	336,630

4. Risk management (Continued)

(b) Credit risk (continued)

Net exposure to credit risk without taking into account any collateral or other credit enhancements (continued)

Consolidated	Note	At 31 December 2018 Carrying amount MKm	Offset MKm	Net exposure to credit risk MKm
Cash and balances held with the Central Bank	8	29,385	-	29,385
Derivative assets	9	369	-	369
Trading assets	10	11,993	-	11,993
Loans and advances to banks	11	76,448	-	76,448
Loans and advances to customers	12	112,632	(176)	112,456
Financial investments	13	85,346	-	85,346
Other assets	15	1,201	-	1,201
		317,374	(176)	317,198

Separate	Note	At 31 December 2019 Carrying amount MKm	Offset MKm	Net exposure to credit risk MKm
Cash and balances held with the Central Bank	8	22,603	-	22,603
Derivative assets	9	601	-	601
Trading assets	10	722	-	722
Loans and advances to banks	11	59 952	-	59,952
Loans and advances to customers	12	148,772	(26)	148,746
Financial investments	13	100,601	-	100,601
Other assets	15	3,453	-	3,453
		336,704	(26)	336,678

Separate	Note	At 31 December 2018 Carrying amount MKm	Offset MKm	Net exposure to credit risk MKm
Cash and balances held with the Central Bank	8	29,260	-	29,260
Derivative assets	9	369	-	369
Trading assets	10	11,993	-	11,993
Loans and advances to banks	11	76,383	-	76,383
Loans and advances to customers	12	113,255	(176)	113,079
Financial investments	13	85,346	-	85,346
Other assets	15	1,232	-	1,232
		317,838	(176)	317,662

Impaired loans and advances to customers

For the definition of 'impaired loans and advances, see overleaf.

The table below sets out a reconciliation of changes in the carrying amount of impaired loans and advances to customers.

	Consolidated and Separate 2019 MKm	2018 MKm
Impaired loans and advances to customers at 1 January	8,155	13,821
Classified as impaired during the year	1,575	4,257
Transferred to not impaired during the year	(25)	(242)
Amount written off	(5,039)	(9,681)
Impaired loans and advances to customers at 31 December	4,666	8,155

4. Risk management (Continued)

(b) Credit risk (continued)

Credit portfolio characteristics and metrics in terms of IFRS 9

Default

The Group's definition of default has been aligned to its internal credit risk management definitions and approaches. Whilst the specific determination of default varies according to the nature of the product, it is generally determined (aligned to the BASEL definition) as occurring at the earlier of:

- where, in the group's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as the realisation of security; or
- when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit).The Group will not rebut IFRS 9's 90 days past due rebuttable presumption.

A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or groups of financial assets:

- significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower)
- a breach of contract, such as default or delinquency in interest and/or principal payments
- disappearance of active market due to financial difficulties
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation
- where the Group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the Group would not otherwise consider.

Exposures which are overdue for more than 90 days are also considered to be in default.

Loss allowance

Net impairments raised/(released) less recoveries of amounts written off in previous years equals income statement impairment charge (refer to credit impairment charges note 32)

The Group's policy is to transfer opening balances based on the ECL stage at the end of the reporting period. Therefore, exposures can be transferred directly from stage 3 to stage 1 as the curing requirements would have been satisfied during the reporting period. Furthermore, the expected credit loss recognised on new exposures originated during the reporting period (which are not included in opening balances) are included within the column "ECL on new exposure raised" based on the exposures ECL stage as at the end of the reporting period.

Below is an explanation of significant changes in the gross carrying amount on financial instruments used to determine the changes in ECL

The ECL on new exposures raised/(released) primarily relates to the growth in the gross carrying amount of:

- Other loans and advances in Personal and Business Banking and Corporate lending (see Note 12).
- Off balance sheet exposures (see Note 39),
- Financial investments recognised during the period and as well as releases of financial instruments derecognised during the period (see Note 13)

The decrease in ECL due to impaired accounts written-off of **MK5,039 billion** (2018: MK9,681 billion) resulted in an equal decrease to the gross carrying amount of loans and advances as exposures are 100% provided for before being written off.

Subsequent changes in ECL were driven by:

- Impact on the measurement of ECL due to changes in PDs,EADs and LGD in the period arising from regular refreshing of inputs to models.
- Impact on the measurement of ECL due to changes made to models and assumptions.
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis.

The Group monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

		Consolidated		Separate	
Loans and advances to customers		**2019**	**2018**	**2019**	**2018**
	Note	**MKm**	**MKm**	**MKm**	**MKm**
Segmental analysis – industry					
Agriculture		**65,455**	49,801	**65,455**	49,801
Construction		**2,795**	1,291	**2,795**	1,291
Energy		**893**	650	**893**	650
Finance, real estate and other business services		**5,053**	5,275	**5,335**	5,897
Individuals, community, social and personal services		**46,564**	29,841	**46,564**	29,841
Manufacturing		**8,209**	6,526	**8,209**	6,526
Mining		**11**	1	**11**	1
Transport, storage and communication		**12,761**	12,170	**12,761**	12,170
Wholesale		**13,794**	15,894	**13,794**	15,894
	12	**155,535**	121,449	**155,817**	122,071

Economic sector risk concentrations within the customer loan portfolio were as follows:

	Consolidated		Separate	
	2019	**2018**	**2019**	**2018**
Agriculture	**42%**	41%	**42%**	41%
Construction	**2%**	1%	**2%**	1%
Energy	**1%**	1%	**1%**	1%
Finance, real estate and other business services	**3%**	4%	**3%**	5%
Individuals, community, social and personal services	**30%**	25%	**30%**	24%
Manufacturing	**5%**	5%	**5%**	5%
Mining	**0%**	0%	**0%**	0%
Transport, storage and communication	**8%**	10%	**8%**	10%
Wholesale	**9%**	13%	**9%**	13%
	100%	100%	**100%**	100%

4. Risk management (Continued)

(b) Credit risk (continued)

Industry segmental analysis for stage 3 loans and advances to customers

	Consolidated and Separate	
	2019	2018
	MKm	MKm
Agriculture	1,235	1,443
Construction	186	53
Energy	-	-
Finance, real estate and other business services	21	-
Individuals, community, social and personal services	975	705
Manufacturing	35	2,058
Mining	-	-
Transport, storage and communication	123	-
Wholesale	2,091	3,896
	4,666	8,155

The risk that counterparties to trading instruments might default on their obligations is monitored on an on-going basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and the volatility of the fair value of trading instruments.

To manage the level of credit risk, the Group deals with counterparties of good credit standing, enters into master netting agreements whenever possible, and when appropriate, obtains collateral. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default.

(c) Liquidity risk

Liquidity risk arises from exposure to daily calls on the Group's cash resources. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

Management of liquidity risk

The Group has access to a diverse funding base. Funds are raised mainly from deposits and shareholders. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Group strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business objectives. In addition the Group holds a portfolio of liquid assets as part of its liquidity risk management strategy.

The table below analyses financial assets and liabilities into relevant maturity rankings based on the remaining period at 31 December 2019 to the contractual maturity date on a discounted basis. All figures are in millions of Malawi Kwacha.

At 31 December 2019		Up to 1 month	1-3 months	3-12 months	Over 1 Year	Undated	Total
Consolidated	Note	MKm	MKm	MKm	MKm	MKm	MKm
Assets							
Cash and balances held with the Central Bank	8	22,870	-	-	-	-	22,870
Derivative assets	9	167	347	87	-	-	601
Trading assets	10	2	561	159	-	-	722
Gross loans and advances to banks	11	37,365	-	22,565	-	-	59,930
Gross loans and advances to customers	12	25,906	32,066	26,581	70,982	-	155,535
Financial investments	13	6,983	2,933	46,502	44,368	30	100,816
Other assets	15	3,442	-	-	-	-	3,442
Total assets		96,735	35,907	95,894	115,350	30	343,916

4. Risk management (Continued)

(c) Liquidity risk (continued)

At 31 December 2019		Up to 1 month	1-3 months	3-12 months	Over 1 Year	Undated	Total
Consolidated	**Note**	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**
Liabilities							
Derivative liabilities	9	161	28	53	-	-	242
Trading liabilities	19	-	-	454	-	-	454
Deposits and loans from banks	20	21,920	479	533	-	-	22,932
Deposits from customers	21	237,877	2,686	1,502	17	-	242,082
Other liabilities	22	10,303	-	-	-	-	10,303
Total liabilities		270,261	3,193	2,542	17	-	276,013
On balance sheet liquidity gap		(173,526)	32,714	93,352	115,333	30	67,903
Off balance sheet exposures							
Letters of credit and guarantees	39	4,252	69,407	18,460	18,810	-	110,929
Unutilised loan commitments	39	-	-	146	117	-	263
Total off balance sheet exposures		4,252	69,407	18,606	18,927	-	111,192
Total liquidity gap (on and off balance sheet)		(177,778)	(36,693)	74,746	96,406	30	(43,289)

At 31 December 2018		Up to 1 month	1-3 months	3 -12 months	Over 1 Year	Undated	Total
Consolidated	**Note**	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**
Assets							
Cash and balances held with the Central Bank	8	29,385	-	-	-	-	29,385
Derivative assets	9	158	207	4	-	-	369
Trading assets	10	4,472	2,616	4,905	-	-	11,993
Gross loans and advances to banks	11	53,913	22,668	-	-	-	76,581
Gross loans and advances to customers	12	13,668	31,710	18,252	57,819	-	121,449
Financial investments	13	-	4,216	33,492	47,757	30	85,495
Other assets	15	1,201	-	-	-	-	1,201
Total assets		102,797	61,417	56,653	105,576	30	326,473
Liabilities							
Derivative liabilities	9	133	23	4	-	-	160
Trading liabilities	19	119	325	-	-	-	444
Deposits and loans from banks	20	32,350	85	2,144	-	-	34,579
Deposits from customers	21	225,830	3,029	407	18	-	229,284
Other liabilities	22	7,245	-	-	-	-	7,245
Total liabilities		265,677	3,462	2,555	18	-	271,712
On balance sheet liquidity gap		(162,880)	57,955	54,098	105,558	30	54,761
Off balance sheet exposures							
Letters of credit and guarantees	39	4,875	15,013	17,662	70,566	-	108,116
Unutilised loan commitments	39	-	-	-	-	-	-
Total off balance sheet exposures		4,875	15,013	17,662	70,566	-	108,116
Total liquidity gap (on and off balance sheet)		(167,755)	42,942	36,436	34,992	30	(53,355)

4. Risk management (Continued)

(c) Liquidity risk (continued)

At 31 December 2019		Up to 1 month	1-3 months	3 -12 months	Over 1 Year	Undated	Total
Separate	**Note**	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**
Assets							
Cash and balances held with the Central Bank	8	22,603	-	-	-	-	22,603
Net derivative assets	9	167	347	87	-	-	601
Trading assets	10	2	561	159	-	-	722
Gross loans and advances to banks	11	37,387	-	22,565	-	-	59,952
Gross loans and advances to customers	12	26,188	32,066	26,581	70,982	-	155,817
Financial investments	13	6,983	2,933	46,502	44,368	30	100,816
Other assets	15	3,453	-	-	-	-	3,453
Total assets		**96,783**	**35,907**	**95,894**	**115,350**	**30**	**343,964**
Liabilities							
Derivative liabilities	9	161	28	53	-	-	242
Trading liabilities	19	-	-	454	-	-	454
Deposits and loans from banks	20	21,912	479	533	-	-	22,924
Deposits from customers	21	240,790	2,686	1,502	17	-	244,995
Other liabilities	22	10,297	-	-	-	-	10,297
Total liabilities		**273,160**	**3,193**	**2,542**	**17**	**-**	**278,912**
On balance sheet liquidity gap		**(176,377)**	**32,714**	**93,352**	**115,333**	**30**	**65,052**
Off balance sheet exposures							
Letters of credit and guarantees	39	4,252	69,407	18,460	18,810	-	110,929
Unutilised loan commitments	39	-	-	146	117	-	263
Total off balance sheet exposures		**4,252**	**69,407**	**18,606**	**18,927**	**-**	**111,192**
Total liquidity gap (on and off balance sheet)		**(180,629)**	**(36,693)**	**74,746**	**96,406**	**30**	**(46,140)**

4. Risk management (Continued)

(c) Liquidity risk (continued)

At 31 December 2018		Up to 1 month	1-3 months	3 -12 months	Over 1 Year	Undated	Total
Separate	**Note**	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**
Assets							
Cash and balances held with the Central Bank	8	29,260	-	-	-	-	29,260
Net derivative assets	9	158	207	4	-	-	369
Trading assets	10	4,472	2,616	4,905	-	-	11,993
Gross loans and advances to banks	11	53,848	22,668	-	-	-	76,516
Gross loans and advances to customers	12	14,290	31,710	18,252	57,819	-	122,071
Financial investments	13	-	4,216	33,492	47,757	30	85,495
Other assets	15	1,232	-	-	-	-	1,232
Total assets		103,260	61,417	56,653	105 576	30	326,936
Liabilities							
Derivative liabilities	9	133	23	4	-	-	160
Trading liabilities	19	119	325	-	-	-	444
Deposits and loans from banks	20	32,354	85	2,144	-	-	34,583
Deposits from customers	21	228,405	3,029	407	18	-	231,859
Other liabilities	22	7,246	-	-	-	-	7,246
Total liabilities		268,257	3,462	2,555	18	-	274,292
On balance sheet liquidity gap		(164,997)	57,955	54,098	105,558	30	52,644
Off balance sheet exposures							
Letters of credit and guarantees	39	4,875	15,013	17,662	70,566	-	108,116
Unutilised loan commitments	39	-	-	-	-	-	-
Total off balance sheet exposures		4,875	15,013	17,662	70,566	-	108,116
Total liquidity gap (on and off balance sheet)		(169,872)	42,942	36,436	34,992	30	(55,472)

The contractual liquidity gap shows the mismatch before any adjustments are made for product and customer behavioural assumptions. The Group's Asset and Liability Committee (ALCO) manages this mismatch by setting guidelines and limits for anticipated liquidity gaps and monitors these gaps daily.

Monitoring of liquidity risk using structural gaps is facilitated by the adoption of maximum mismatch tolerance limits appetite triggers and monitoring items.

Should there be breaches, the Group triggers the contingency funding plan to raise additional funding.

ALCO reviews the product and customer behavioural assumptions when there is indication that there is a shift in one or more of the variables.

4. Risk management (Continued)

(c) Liquidity risk (continued)

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the remaining contractual maturities of the Group's non derivative financial assets and liabilities based on undiscounted cashflows:

At 31 December 2019		Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 6 months but within 12 months	Maturing over 1 year	Undated	Gross nominal inflow/(outflow)	Carrying amount
Consolidated	Note	MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm
Non-derivative financial assets									
Cash and balances held with the Central Bank	8	22,870	-	-	-	-	-	22,870	22,870
Trading assets	10	-	2	761	-	-	-	763	722
Gross loans and advances to banks	11	15,538	21,958	23,719	-	-	-	61,215	59,930
Gross loans and advances to customers	12	6 413	18 565	42 458	17 754	108 541	-	193,731	148,490
Financial investments	13	-	7,003	2,996	47,479	49,181	30	106,689	100,631
Other assets	15	3,442	-	-	-	-	-	3,442	3,442
Non-derivative financial liabilities									
Deposits and loans from banks	20	(1,971)	(21,205)	-	-	-	-	(23,176)	(22,932)
Deposits from customers	21	(232,745)	(5,094)	(4,051)	(215)	(19)	-	(242,124)	(242,082)
Other liabilities	22	-	(10,303)	-	-	-	-	(10,303)	(10,303)
Off balance sheet exposures									
Letters of credit and guarantees	39	-	(4,251)	(74,568)	(13,298)	(18,812)	-	(110,929)	(110,929)
Unutilised loan commitments	39	-	-	-	(146)	(117)	-	(263)	(263)
Total non-derivative financial instruments		(186,453)	6,675	(8,685)	51,574	138,774	30	1,915	(50,424)

4. Risk management (Continued)

(c) Liquidity risk (continued)

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the remaining contractual maturities of the Group's derivative financial assets and liabilities based on undiscounted cash flows:

At 31 December 2019		Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 1 month but within 12 months	Gross nominal inflow/(outflow)	Carrying amount
Consolidated	**Note**	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**
Derivative financial assets							
Derivative assets							
Trading:	9	-	-	-	-	-	601
Inflow		-	5,623	21,918	25,727	53,268	
Outflow		-	(5,564)	(21,825)	(25,746)	(53,135)	
Derivatives and trading liabilities							
Trading:	9,19	-	-	-	-	-	(696)
Inflow		-	9,813	5,976	747	16,536	
Outflow		-	(9,934)	(5,977)	(746)	(16,657)	
Total derivative financial instruments		-	(62)	92	(18)	12	(95)

4. Risk management (Continued)

(c) Liquidity risk (continued)

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the remaining contractual maturities of the Group's non derivative financial assets and liabilities based on undiscounted cashflows:

At 31 December 2018		Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 6 months but within 12 months	Maturing over 1 year	Undated	Gross nominal inflow/(outflow)	Carrying amount
Consolidated	Note	MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm
Non-derivative financial assets									
Cash and balances held with the Central Bank	8	29,385	-	-	-	-	-	29,385	29,385
Trading assets	10	-	5,070	3,054	5,499	-	-	13,623	11,993
Gross loans and advances to banks	11	33,674	20,414	23,420	-	-	-	77,508	76,448
Gross loans and advances to customers	12	5,984	9,259	46,967	18,512	94,684	-	175,406	112,632
Financial investments	13	-	-	18,072	22,608	51,703	30	92,413	85,376
Other assets	15	1,201	-	-	-	-	-	1,201	1,201
Non-derivative financial liabilities									
Deposits and loans from banks	20	(1,316)	(31,108)	(2,229)	-	-	-	(34,653)	(34,579)
Deposits from customers	21	(223,369)	(2,683)	(5,722)	(3,220)	(18)	-	(235,012)	(229,284)
Other liabilities	22	(7,245)	-	-	-	-	-	(7,245)	(7,245)
Off balance sheet exposures									
Letters of credit and guarantees	39	-	(4,876)	(27,117)	(5,557)	(70,566)	-	(108,116)	(108,116)
Unutilised loan commitments	39	-	-	-	-	-	-	-	-
Total non-derivative financial instruments		(161,686)	(3,924)	56,445	37,842	75,803	30	4,510	(62,189)

4. Risk management (Continued)

(c) Liquidity risk (continued)

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the remaining contractual maturities of the Group's derivative financial assets and liabilities based on undiscounted cash flows:

At 31 December 2018		Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Gross nominal inflow/(outflow)	Carrying amount
Consolidated	Note	MKm	MKm	MKm	MKm	MKm
Derivative financial assets						
Derivative assets		-	-	-	-	369
Trading:	9	-	16,981	26,120	43,101	
Inflow		-	(16,921)	(26,389)	(43,310)	
Outflow		-				
Derivatives and trading liabilities						
Trading:	9,19	-	-	-	-	(604)
Inflow		-	7,708	1,787	9,495	
Outflow		-	(7,850)	(1,840)	(9,690)	
Total derivative financial instruments		-	(82)	(322)	(404)	(235)

4. Risk management (Continued)

(c) Liquidity risk (continued)

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the remaining contractual maturities of the Group's non derivative financial assets and liabilities based on undiscounted cashflows:

At 31 December 2019		Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 6 months but within 12 months	Maturing over 1 year	Undated	Gross nominal inflow/(outflow)	Carrying amount
Separate	Note	MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm
Non-derivative financial assets									
Cash and balances held with the Central Bank	8	22,603	-	-	-	-	-	22,603	22,603
Trading assets	10	-	2	761	-	-	-	763	722
Gross loans and advances to banks	11	15,560	21,958	23,719	-	-	-	61,237	59,952
Gross loans and advances to customers	12	6,695	18,565	42,458	17,754	108,541	-	194,013	148,772
Financial investments	13	-	7,003	2,996	47,479	49,181	30	106,689	100,631
Other assets	15	3,453	-	-	-	-	-	3,453	3,453
Non-derivative financial liabilities									
Deposits and loans from banks	20	(1,963)	(21,205)	-	-	-	-	(23,168)	(22,924)
Deposits from customers	21	(235,658)	(5,094)	(4,051)	(215)	(19)	-	(245,037)	(244,995)
Other liabilities	22	-	(10,297)	-	-	-	-	(10,297)	(10,297)
Off balance sheet exposures									
Letters of credit and guarantees	39	-	(4 251)	(74,568)	(13,298)	(18,812)	-	(110,929)	(110,929)
Unutilised loan commitments	39	-	-	-	(146)	(117)	-	(263)	(263)
Total non-derivative financial instruments		(189,310)	6,681	(8,685)	51,574	138,774	30	(936)	(53,275)

4. Risk management (Continued)

(c) Liquidity risk (continued)

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the remaining contractual maturities of the Group's derivative financial assets and liabilities based on undiscounted cash flows:

At 31 December 2019		Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 1 month but within 12 months	Gross nominal inflow/(outflow)	Carrying amount
Separate	Note	MKm	MKm	MKm	MKm	MKm	MKm
Derivative financial assets							
Derivative assets							
Trading:	9	-	-	-	-	-	601
Inflow		-	5,623	21,918	25,727	53,268	
Outflow		-	(5,564)	(21,825)	(25,746)	(53,135)	
Derivatives and trading liabilities							
Trading:	9,19	-	-	-	-	-	(696)
Inflow		-	9,813	5,976	747	16,536	
Outflow		-	(9,934)	(5,977)	(746)	(16,657)	
Total derivative financial instruments		-	(62)	92	(18)	12	(95)

4. Risk management (Continued)

(c) Liquidity risk (continued)

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the remaining contractual maturities of the Group's non derivative financial assets and liabilities based on undiscounted cashflows:

At 31 December 2018		Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 6 months but within 12 months	Maturing over 1 year	Undated	Gross nominal inflow/(outflow)	Carrying amount
Separate	Note	MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm
Non-derivative financial assets									
Cash and balances held with the Central Bank	8	29,260						29,260	29,260
Trading assets	10	-	5,070	3,054	5,499	-	-	13,623	11,993
Gross loans and advances to banks	11	33,624	20,414	23,420	-	-	-	77,458	76,383
Gross loans and advances to customers	12	6,606	9,259	46,967	18,512	94,684	-	176,028	113,255
Financial investments	13	-	-	18,072	22,608	51,703	30	92,413	85,376
Other assets	15	1,232	-	-	-	-	-	1,232	1,232
Non-derivative financial liabilities									
Deposits and loans from banks	20	(1,320)	(31,109)	(2,229)	-	-	-	(34,658)	(34,583)
Deposits from customers	21	(225,944)	(2,683)	(5,722)	(3,220)	(18)	-	(237,587)	(231,859)
Other liabilities	22	(7,246)	-	-	-	-	-	(7,246)	(7,246)
Off balance sheet exposures									
Letters of credit and guarantees	39	-	(4,876)	(27,117)	(5,557)	(70,566)	-	(108,116)	(108,116)
Unutilised loan commitments	39	-	-	-	-	-	-	-	-
Total non-derivative financial instruments		(163,788)	(3,925)	56,445	37,842	75,803	30	2,407	(64,305)

4. Risk management (Continued)

(c) Liquidity risk (continued)

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the remaining contractual maturities of the Group's derivative financial assets and liabilities based on undiscounted cash flows:

At 31 December 2018		Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Gross nominal inflow/(outflow)	Carrying amount
Separate	**Note**	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**
Derivative financial assets						
Derivative assets						
Trading:	9	-	-	-	-	369
Inflow		-	16,981	26,120	43,101	
Outflow		-	(16,921)	(26,389)	(43,310)	
Derivatives and trading liabilities						
Trading:	9,19	-	-	-	-	(604)
Inflow		-	7,708	1,787	9,495	
Outflow		-	(7,850)	(1,840)	(9,690)	
Total derivative financial instruments		-	(82)	(322)	(404)	(235)

4. Risk management (Continued)

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates and other price risk will affect the Group's income or the value of holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Global Markets unit, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

All foreign exchange risk within the Group is transferred and sold down by the banking book. Accordingly, the foreign exchange position is treated as part of the Group's trading portfolios for risk management purposes.

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO). Group Risk is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

Exposure to market risks – Trading portfolios

The principal tool used to measure and control market risk exposure with the Group's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that would arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 95% confidence level and assumes a one-day holding period. The VaR Model used is based mainly on historical simulation taking account of market data from the one-year data or from at least 250 business days, and observed relationships between different markets and prices.
The model generates a wide range of plausible future scenarios for market price movements.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A one day holding period assumes it is possible to hedge or dispose off positions within that period. This is considered to be a realistic assumption in almost all the cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- A 95% confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a 5% probability that losses could exceed the VaR;
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature;
- The VaR measure is dependent upon the Group's position and the volatility of market prices; and
- The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The Group uses VaR limits for specific foreign exchange, present value (PV01) limit and other price risks. The overall structure of VaR limits is subject to review and approval by ALCO. VaR is measured at least daily. VaR limits are allocated to trading portfolios.

(i) Assets and liabilities subject to market risk between trading and non-trading portfolios:

At 31 December 2019 Consolidated	Note	Trading portfolio MKm	Non-trading portfolio MKm	Total MKm
Assets subject to market risk				
Cash and balances held with the Central Bank	8	-	22,870	22,870
Derivative assets	9	601	-	601
Trading assets	10	722	-	722
Gross loans and advances to banks	11	-	59,930	59,930
Gross loans and advances to customers	12	-	155,535	155,535
Gross financial investments	13		100,816	100,816
Other assets	15	-	3,442	3,442
Total assets		1,323	342,593	343,916
Liabilities subject to market risk				
Derivative liabilities	9	242	-	242
Trading liabilities	19	454	-	454
Deposits and loans from banks	20	-	22,932	22,932
Deposits from customers	21	-	242,082	242,082
Other liabilities	22	-	10,303	10,303
Total liabilities		696	275,317	276,013

4. Risk management (Continued)

(d) Market risk (continued)

At 31 December 2018 Consolidated	Note	Trading portfolio MKm	Non-trading portfolio MKm	Total MKm
Assets subject to market risk				
Cash and balances held with the Central Bank	8	-	29,385	29,385
Derivative assets	9	369	-	369
Trading assets	10	11,993	-	11,993
Gross loans and advances to banks	11	-	76,581	76,581
Gross loans and advances to customers	12	-	121,449	121,449
Gross financial investments	13	-	85,495	85,495
Other assets	15	-	1,201	1,201
Total assets		12,362	314,111	326,473
Liabilities subject to market risk				
Derivative liabilities	9	160	-	160
Trading liabilities	19	444	-	444
Deposits and loans from banks	20	-	34,579	34,579
Deposits from customers	21	-	229,284	229,284
Other liabilities	22	-	7,245	7,245
Total liabilities		604	271,108	271,712

At 31 December 2019 Separate	Note	Trading portfolio MKm	Non-trading portfolio MKm	Total MKm
Assets subject to market risk				
Cash and balances held with the Central Bank	8	-	22,603	22,603
Derivative assets	9	601	-	601
Trading assets	10	722	-	722
Gross loans and advances to banks	11	-	59,952	59,952
Gross loans and advances to customers	12	-	155,817	155,817
Gross financial investments	13	-	100,816	100,816
Other assets	15	-	3,453	3,453
Total assets		1,323	342,641	343,964
Liabilities subject to market risk				
Derivative liabilities	9	242	-	242
Trading liabilities	19	454	-	454
Deposits and loans from banks	20	-	22,924	22,924
Deposits from customers	21	-	244,995	244,995
Other liabilities	22	-	10,297	10,297
Total liabilities		696	278,216	278,912

4. Risk management (Continued)

(d) Market risk (continued)

At 31 December 2018 Separate	Note	Trading portfolio MKm	Non-trading portfolio MKm	Total MKm
Assets subject to market risk				
Cash and balances held with the Central Bank	8	-	29,260	29,260
Derivative assets	9	369	-	369
Trading assets	10	11,993	-	11,993
Gross loans and advances to banks	11	-	76,516	76,516
Gross loans and advances to customers	12	-	122,071	122,071
Gross financial investments	13	-	85,495	85,495
Other assets	15	-	1,232	1,232
Total assets		12 362	314,574	326,936
Liabilities subject to market risk				
Derivative liabilities	9	160	-	160
Trading liabilities	19	444	-	444
Deposits and loans from banks	20	-	34,583	34,583
Deposits from customers	21	-	231,859	231,859
Other liabilities	22	-	7,246	7,246
Total liabilities		604	273,688	274,292

Exposure to market risk – Value at Risk

The Group applies a Value at Risk (VaR) methodology to its trading and non-trading portfolios, to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Assets and Liabilities Committee (ALCO) sets limits on the value of risk that may be acceptable for the Group, which are monitored on a daily basis by market risk. VaR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Group might lose, but only to a certain level of confidence (95%). There is therefore a specified statistical probability (5%) that actual loss could be greater than the VaR estimate.

Diversified normal VaR exposures (USD'000)

Desk name	High	Min	Average	31-Dec-19	Limit
Bank wide	76	15	35	53	281
Forex trading	43	1	21	39	139
Money markets trading	43	6	20	23	225

Desk name	High	Min	Average	31-Dec-18	Limit
Bank wide	45	9	25	32	245
Forex trading	33	1	13	19	121
Money markets trading	29	6	16	16	184

Stress tests

Stress testing is done to augment other risk measures that are used by the Group, such as VaR and market risk factor sensitivities (e.g. PV01's). These stress scenarios are typically used to highlight exposures that may not be explicitly incorporated by the VaR calculations. Such tests provide an indication of the potential size of losses that could arise in extreme market conditions. The stress tests carried out by the Group include: cross market stress testing where stress movements are applied to each risk factor across different markets and interest rate hypothetical stress testing where stress movements are applied to different interest rate scenarios

Diversified Stress VaR exposures (USD'000)

Desk name	High	Min	Average	31-Dec-19	Limit
Bank wide	993	126	496	548	3,664
Forex trading	748	13	374	463	3,406
Money markets trading	792	122	269	184	1,169

Desk name	High	Min	Average	31-Dec-18	Limit
Bank wide	868	365	620	580	3,198
Forex trading	726	16	275	248	2,973
Money markets trading	842	293	575	490	964

As VaR constitutes an integral part of the Group's market risk control regime, VaR limits are established by the Board of Directors (the Board) annually for all trading non trading portfolios. Actual exposure against limits, together with a consolidated group wide VaR, is reviewed daily by Bank's treasury and market risk

The Stress VaR model is based upon a 99% confidence level and assumes a ten-day holding period. The model used is based on historical simulation taking account of market data from five-year data or from at least 1,250 business days.

4. Risk management (Continued)

(d) Market risk (continued)

The quality of the VaR model is continuously monitored by back testing the VaR results for trading books. All back testing exceptions and any exceptional revenues on the profit side of the VaR distribution are investigated.

As VaR constitutes an integral part of the Group's market risk control regime, VaR limits are established by the Board of Directors (the Board) annually for all trading and non-trading portfolios. Actual exposure against limits, together with a consolidated group wide VaR, is reviewed daily by Bank's treasury and market risk.

The quality of the VaR model is continuously monitored by back testing the VaR results for trading books. All back testing exceptions and any exceptional revenues on the profit side of the VaR distribution are investigated.

Sensitivity analysis for each type of market risk

Interest rate risk

The table below indicates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's profit or loss in local currency:

Consolidated and separate	decrease in basis points	Sensitivity of net interest income
		MKm
2019		
	350	**(1,805)**
Consolidated and separate		
2018		
	350	(1,060)

The table below indicates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's equity in local currency

Consolidated and separate	decrease in basis points	Sensitivity of equity
		MKm
2019		
	350	**549**
Consolidated and separate		
2018		
	350	628

To reflect the volatile interest rate environment, the relative change in interest rates are measured monthly by calculating a market calibrated shock using the historic volatility over a period of five years, with a 95% confidence interval, assuming a holding period of one month. This calculation is then used to determine the quantum of an upward and downward parallel interest rate shock and as such rate shocks are subject to change from time to time.

Interest rate gap analysis

The table below summarises the exposure to interest rate risks. Included in the table are the Group's gross assets and liabilities categorised by the earlier of contractual re-pricing or maturity dates. The Group does not bear an interest rate risk on unrecognized financial instruments.

At 31 December 2019 Consolidated	Note	Up to 1 Month MKm	1-3 months MKm	3-12 months MKm	Over 1 Year MKm	Non rate sensitive MKm	Total MKm
Assets							
Cash and balances held with the Central Bank	8	-	-	-	-	22,870	22,870
Derivative assets	9	-	-	-	-	601	601
Trading assets	10	-	-	-	-	722	722
Gross loans and advances to banks	11	36,841	-	23,089	-	-	59,930
Gross loans and advances to customers	12	146,310	14	3,688	117	5,406	155,535
Gross financial investments	13	6,384	2,792	42,505	40,355	8,780	100,816
Other assets	15	-	-	-	-	3,442	3,442
Total assets		**189,535**	**2,806**	**69,282**	**40,472**	**41,821**	**343,916**
Liabilities							
Derivative liabilities	9	-	-	-	-	242	242
Trading liabilities	19	-	-	-	-	454	454
Deposits and loans from banks	20	22,059	-	-	-	873	22,932
Deposits from customers	21	115,855	7,329	1,490	17	117,391	242,082
Other liabilities	22	-	-	-	-	10,303	10,303
Total liabilities		**137,914**	**7,329**	**1,490**	**17**	**129,263**	**276,013**
Interest sensitivity gap		**51,621**	**(4,523)**	**67,792**	**40,455**	**(87,442)**	**67,903**

4. Risk management (Continued)

(d) Market risk (continued)

At 31 December 2018 Consolidated	Note	Up to 1 Month MKm	1-3 months MKm	3-12 months MKm	Over 1 Year MKm	Non rate sensitive MKm	Total MKm
Assets							
Cash and balances held with the Central Bank	8	-	-	-	-	29,385	29,385
Derivative assets	9	-	-	-	-	369	369
Trading assets	10	-	-	-	-	11,993	11,993
Gross loans and advances to banks	11	40,340	36,374	-	-	(133)	76,581
Gross loans and advances to customers	12	110,469	1,286	38	42	9,614	121,449
Gross financial investments	13	-	4,015	32,010	44,262	5,208	85,495
Other assets	15	-	-	-	-	1,201	1,201
Total assets		150,809	41,675	32,048	44,304	57,637	326,473
Liabilities							
Derivative liabilities	9	-	-	-	-	160	160
Trading liabilities	19	-	-	-	-	444	444
Deposits and loans from banks	20	12,616	18,342	-	-	3,621	34,579
Deposits from customers	21	196,967	5,484	395	-	26,438	229,284
Other liabilities	22	-	-	-	-	7,245	7,245
Total liabilities		209,583	23,826	395	-	37,908	271,712
Interest sensitivity gap		(58,774)	17,849	31,653	44,304	19,729	54,761

At 31 December 2019 Separate	Note	Up to 1 Month MKm	1-3 months MKm	3-12 months MKm	Over 1 Year MKm	Non rate sensitive MKm	Total MKm
Assets							
Cash and balances held with the Central Bank	8	-	-	-	-	22,603	22,603
Derivative assets	9	-	-	-	-	601	601
Trading assets	10	-	-	-	-	722	722
Gross loans and advances to banks	11	36,863	-	23,089	-	-	59,952
Gross loans and advances to customers	12	146,592	14	3,688	117	5,406	155,817
Gross financial investments	13	6,384	2,792	42,505	40,355	8,780	100,816
Other assets	15	-	-	-	-	3,453	3,453
Total assets		189,839	2,806	69,282	40,472	41,565	343,964
Liabilities							
Derivative liabilities	9	-	-	-	-	242	242
Trading liabilities	19	-	-	-	-	454	454
Deposits and loans from banks	20	22,051	-	-	-	873	22,924
Deposits from customers	21	118,768	7,329	1,490	17	117,391	244,995
Other liabilities	22	-	-	-	-	10,297	10,297
Total liabilities		140,819	7,329	1,490	17	129,257	278,912
Interest sensitivity gap		49,020	(4,523)	67,792	40,455	(87,692)	65,052

4. Risk management (Continued)

(d) Market risk (continued)

At 31 December 2018 Separate	Note	Up to 1 Month MKm	1-3 months MKm	3-12 months MKm	Over 1 Year MKm	Non rate sensitive MKm	Total MKm
Assets							
Cash and balances held with the Central Bank	8	-	-	-	-	29,260	29,260
Derivative assets	9	-	-	-	-	369	369
Trading assets	10	-	-	-	-	11,993	11,993
Gross loans and advances to banks	11	40,275	36,374	-	-	(133)	76,516
Gross loans and advances to customers	12	111,091	1,286	38	42	9,614	122,071
Gross financial investments	13	-	4,015	32,010	44,262	5,208	85,495
Other assets	15	-	-	-	-	1,232	1,232
Total assets		151,366	41,675	32,048	44,304	57,543	326,936
Liabilities							
Derivative liabilities	9	-	-	-	-	160	160
Trading liabilities	19	-	-	-	-	444	444
Deposits and loans from banks	20	12,620	18,342	-	-	3,621	34,583
Deposits from customers	21	199,542	5,484	395	-	26,438	231,859
Other liabilities	22	-	-	-	-	7,246	7,246
Total liabilities		212,162	23,826	395	-	37,909	274,292
Interest sensitivity gap		(60,796)	17,849	31,653	44,304	19,634	52,644

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios.

The Group has an Interest Rate of the Banking Book (IRRBB) policy which it refers to when managing interest rate risk of the banking book.

(e) Currency risk

This risk relates to the exposure of the Group's foreign exchange position to adverse movements in foreign exchange rates. These movements may impact on the Group's future cash flows. The Group manages this risk by adhering to internally set limits and those set by the Reserve Bank of Malawi. Transactions that require the Group to guarantee the provision of foreign currency in future are only undertaken where the Group is certain that foreign currency will be available. Occasionally the Group buys appropriate derivative instruments to hedge against the risk.

In respect of monetary assets and liabilities in foreign currency, the Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

The Group had the following significant foreign currency positions (all amounts expressed in millions of Malawi Kwacha):

Consolidated At 31 December 2019	USD	GBP	Euro	ZAR	Total
Assets					
Cash and balances held with the Central Bank	1,650	37	101	1,162	2,950
Loans and advances to banks	7,201	1,126	4,139	1,765	14,231
Loans and advances to customers	46,740	2	-	182	46,924
Other assets	365	24	-	171	560
Derivatives assets	40,686	17	8	1,453	42,164
Total assets	96,642	1,206	4,248	4,733	106,829
Liabilities					
Deposits and loans from banks	22,102	-	-	-	22,102
Deposits from customers	68,491	1,050	3,811	365	73,717
Other liabilities	1,125	131	188	4,226	5,670
Derivative liabilities	267	10	-	100	377
Total liabilities	91,985	1,191	3,999	4,691	101 866
Net position	4,657	15	249	42	4,963

4. Risk management (Continued)

(e) Currency risk (continued)

Consolidated

At 31 December 2018	USD	GBP	Euro	ZAR	Total
Assets					
Cash and balances held with the Central Bank	1,298	24	34	482	1,838
Trading assets	134	-	-	-	134
Loans and advances to banks	22,950	1,272	4,859	3,824	32,905
Loans and advances to customers	33,982	2	-	-	33,984
Other assets	51	60	-	139	250
Derivatives assets	43,006	71	239	96	43,412
Total assets	101,421	1,429	5,132	4,541	112,523
Liabilities					
Trading liabilities	127	-	-	-	127
Deposits and loans from banks	18,342	-	-	-	18,342
Deposits from customers	77,288	1,264	4,462	329	83,343
Other liabilities	1,505	145	248	4,141	6,039
Derivative liabilities	1,107	77	222	62	1,468
Total liabilities	98,369	1,486	4,932	4,532	109,319
Net position	3,052	(57)	200	9	3,204

Separate

At 31 December 2019	USD	GBP	Euro	ZAR	Total
Assets					
Cash and balances held with the Central Bank	1,644	31	57	1,082	2,814
Loans and advances to banks	7,201	1,126	4,139	1,765	14,231
Loans and advances to customers	46,740	2	-	182	46,924
Other assets	365	24	-	171	560
Derivatives assets	40,686	17	8	1,453	42,164
Total assets	96,636	1,200	4,204	4,653	106,693
Liabilities					
Deposits and loans from banks	22,102	-	-	-	22,102
Deposits from customers	68,491	1,050	3,811	365	73,717
Other liabilities	1,125	131	188	4,226	5,670
Derivative liabilities	267	10	-	100	377
Total liabilities	91,985	1,191	3,999	4,691	101,866
Net position	4,651	9	205	(38)	4,827

4. Risk management (Continued)

(e) Currency risk (continued)

Separate

At 31 December 2018	USD	GBP	Euro	ZAR	Total
Assets					
Cash and balances held with the Central Bank	1,298	24	34	482	1,838
Trading assets	134	-	-	-	134
Loans and advances to banks	22,900	1,272	4,859	3 824	32,855
Loans and advances to customers	33,982	2	-	-	33,984
Other assets	51	60	-	139	250
Derivatives assets	43,006	71	239	96	43,412
Total assets	101,371	1,429	5,132	4,541	112,473
Liabilities					
Trading liabilities	127	-	-	-	127
Deposits and loans from banks	18,342	-	-	-	18,342
Deposits from customers	77,288	1,264	4,462	329	83,343
Other liabilities	1,505	145	248	4,141	6,039
Derivative liabilities	1,107	77	222	62	1,468
Total liabilities	98,369	1,486	4,932	4,532	109,319
Net position	3,002	(57)	200	9	3,154

Foreign currency sensitivity analysis

The foreign currency risk sensitivity analysis below reflects the expected financial impact in Kwacha equivalent resulting from a **10%** (2018:10%) shock to foreign currency risk exposures, with respect to derivative financial instruments, foreign denominated balances and accruals.

The sensitivity analysis reflects the sensitivity to profit or loss and equity on the Group's foreign denominated exposures with all variables held constant.

All amounts expressed below are in millions of Malawi Kwacha.

Consolidated

At 31 December 2019	USD	GBP	Euro	ZAR	Total
Sensitivity					
Total net long/(short) position	**4,657**	**15**	**249**	**42**	**4,963**
Impact of 10% weakening of the Kwacha on profit or loss	**466**	**1**	**25**	**4**	**496**
Impact of 10% strengthening of the Kwacha on profit or loss	**(466)**	**(1)**	**(25)**	**(4)**	**(496)**

At 31 December 2018

Sensitivity	USD	GBP	Euro	ZAR	Total
Total net long/(short) position	3,052	(57)	200	9	3,204
Impact of 10% weakening of the Kwacha on profit or loss	305	(6)	20	1	320
Impact of 10% strengthening of the Kwacha on profit or loss	(305)	6	(20)	(1)	(320)

4. Risk management (Continued)

(e) Currency risk (continued)

Separate

At 31 December 2019	USD	GBP	Euro	ZAR	Total
Sensitivity					
Total net long/(short) position	**4,651**	**9**	**205**	**(38)**	**4,827**
Impact of 10% weakening of the Kwacha on profit or loss	**465**	**1**	**20**	**(4)**	**482**
Impact of 10% strengthening of the Kwacha on profit or loss	**(465)**	**(1)**	**(20)**	**4**	**(482)**

At 31 December 2018	USD	GBP	Euro	ZAR	Total
Sensitivity					
Total net long/(short) position	3,002	(57)	200	9	3,154
Impact of 10% weakening of the Kwacha on profit or loss	300	(6)	20	1	315
Impact of 10% strengthening of the Kwacha on profit or loss	(300)	6	(20)	(1)	(315)

(f) Derivatives held for risk management purposes

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by a central treasury department (Bank Treasury) under policies approved by the Board of Directors. Bank Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments.

Derivatives are recognised initially at fair value and subsequently measured at fair value. Fair values are obtained from appropriate pricing models.

Gains and losses on derivatives are included in net trading income as they arise.

(g) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business entities.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The management of this risk is done through the implementation of an Operational Risk Management (ORM) Policy and Framework. The ORM model involves use of risk tables, risk control self-assessments, key risk indicators, incident management, audit findings, compliance reports, information risk management, loss control programmes and business continuity management. Audits and routine control (or operational integrity) processes provide an independent assurance on the adequacy and effectiveness of the management of operational risk, including, but not limited to, the processes, systems and controls.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by the Internal Audit Department. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

(h) Compliance risk

Compliance is an independent core risk management activity, the head of which also has unrestricted access to the Chief Executive Officer and the Chairman of the Board. The Group is subject to extensive supervisory and regulatory regimes, and the executive management remains responsible for overseeing the management of the Group's compliance risk.

Money laundering control and occupational health and safety (including aspects of environmental risk management) are managed within the compliance function and there are increasingly onerous legislative requirements being imposed in both these areas. The Group has adopted anti-money laundering policies including Know Your Customer policies and procedures and adheres to the country's anti-money laundering legislation and the Reserve Bank of Malawi's regulations/directives.

The management of compliance risk has become a distinct discipline within the Group's overall risk management framework. Ultimate responsibility for this risk lies with the Board of Directors. A combination of key activities are undertaken to manage the risk such as identifying the regulatory universe and developing compliance management plans, training staff and other stakeholders on relevant regulatory requirements, and monitoring compliance. Compliance with the Know-Your-Customer and Anti-money Laundering procedures and legislation remains an area of major focus for the Group. The Group has a dedicated Money Laundering Control Officer who consults the country's Financial Intelligence Unit on money laundering and anti-terrorist financing matters.

(1) Statutory requirements

In accordance with the Banking Act, the Reserve Bank of Malawi has established the following requirements as at the reporting date:

i) Liquidity reserve requirement

The Group is required to maintain a liquidity reserve amount with the Reserve Bank of Malawi, in cash and/or with registered discount houses, calculated on a bi weekly basis, of not less than **3.75%** (foreign currency) and **5%** (local currency) (2018:7.5% of local and foreign currency) of the preceding two weeks' average total deposit liabilities. The Group complied with the liquidity reserve requirement in 2019. In the last two weeks of December 2019, the liquidity reserve was **5.7%** (2018: 8.0%) of average customer deposits.

(ii) Capital adequacy requirement

The Group's available capital is required to be a minimum of **15%** (2018: 15%) of risk weighted assets and contingent liabilities. As at 31 December 2019, the Group's available capital was **22.01%** (2018: 21.70%) of its risk weighted assets and contingent liabilities. The Group has complied with this requirement during the year.

4. Risk management (Continued)

(h) Compliance risk (continued)

(1) Statutory requirements (continued)

(iii) Expected credit losses

Expected credit losses in accordance with Reserve Bank of Malawi guidelines amounts to **MK7.5 billion** (2018: MK9.3 billion). The amount of expected credit losses included in the consolidated and separate financial statements in accordance with IFRS 9 is **MK6.9 billion** (2018: MK7.8 billion) and interest in suspense **MK0.6billion** (2018:MK1.5billion). Therefore, total expected credit losses amount to **MK7.5 billion** (2018:MK9.3 billion).

(2) Prudential aspects of the Group's liquidity

The Reserve Bank of Malawi has issued the following guidelines on the management of liquidity:

(i) Liquidity ratio 1

Net liquidity (total liquid assets less suspense account in foreign currency) divided by total deposits must be at least 25%.

(ii) Liquidity ratio 2

The Group complied with the liquidity ratio requirements in 2019. At 31 December 2019, the Group's liquidity ratio 1 was **57.98%** (2018: 60.97%).

Implementing current capital requirements of the Reserve Bank of Malawi requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The Group calculates requirements for market risk in its trading portfolios based upon the Group's VaR models and uses its internal grading as the basis for risk weightings for credit risk.

The Group has access to a diverse funding base. Funds are raised mainly from deposits and shareholders. This enhances funding flexibility, limits dependence on any one source of funds while lowering the cost of funds. The Group strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required for meeting business objectives. In addition, the Group holds a portfolio of liquid assets as part of its liquidity risk management strategy.

(iii) Capital management

Reserve Bank of Malawi sets and monitors the capital requirements for the Group. In implementing current capital requirements, the Reserve Bank of Malawi requires the Group to maintain a minimum ratio of **15%** (2018:15%) of total capital to risk-weighted assets. The Group's regulatory capital is analysed in two parts:

Tier I capital, which includes ordinary share capital, share premium, retained earnings, and other regulatory reserve after taking out 50% of investment in a subsidiary, deferred tax assets, 50% investment in the capital of other banks and financial institutions; and:

Tier II capital, which includes share revaluation reserve investment revaluation reserve, property revaluation reserve and loan loss reserve after taking out 50% of investment in a subsidiary.

	2019 MKm	2018 MKm
Tier 1 capital		
Share capital and share premium	**8,726**	8,726
Retained earnings and other reserves	**65,148**	56,022
Total tier 1 capital	**73,874**	64,748
Tier 2 capital		
Revaluation reserve on property, loan loss reserve less 50% of investment in a subsidiary	**7,282**	7,469
Total tier 2 capital	**7,282**	7,469
Total regulatory capital	**81,156**	72,217
Risk weighted assets	**368,654**	332,731
Capital ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets	**22.01%**	21.70%
Total Tier 1 capital expressed as a percentage of total risk weighted assets	**20.04%**	19.46%

The Group has complied with all capital management requirements during the year ended 31 December 2019.

5. Accounting estimates and judgements

Management discussed with the Board Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

Key sources of estimates and uncertainty

Note 4(b) contains information about the assumptions and their risk factors relating to provision for loan losses. In notes 4(c), 4(d) and 4(e) detailed analysis is given of the exposure to liquidity risk, interest rates and currency risk respectively. Detailed analysis of fair value measurement is disclosed in more detail on note 7.

(i) Expected credit loss (ECL) on financial assets - IFRS 9 drivers

ECL measurement period

For the purpose of determining the ECL:

- The PBB portfolios are based on the product categories or subsets of the product categories, with tailored ECL models per portfolio. The IFRS 9 impairment provision calculation has been amended to exclude post write off recoveries (PWOR) from the loss given default (LGD) in calculating the expected credit loss impairments. This change in the modelling assumption and estimates have been applied prospectively.
- CIB exposures are calculated separately based on rating models for each of the asset classes.

ECL measurement period

- The ECL measurement period for stage 1 exposures is 12-months (or the remaining tenor of the financial asset for CIB exposures if the remaining lifetime is less than 12-months).
- A loss allowance over the full lifetime of the financial asset is required if the credit risk of that financial instrument has increased significantly since initial recognition (stage 2).
- A lifetime measurement period is applied to all credit impaired (stage 3) exposures.
- Lifetimes include consideration for multiple default events, i.e. where defaulted exposures cure and then subsequently re-default. This consideration increases the lifetime periods and the potential ECL.
- The measurement periods for unutilised loan commitments utilise the same approach as on-balance-sheet exposures.

Significant increase in credit risk (SICR) and low credit risk

PBB

In accordance with IFRS 9, all exposures are assessed to determine whether there has been SICR at the reporting date, in which case an impairment provision equivalent to the lifetime expected loss is recognised. SICR thresholds, which are behaviour score based, are derived for each portfolio vintage of exposures with similar credit risk and are calibrated over time to determine which exposures reflect deterioration relative to the originated population and consequently reflect an increase in credit risk.

The group also determines an appropriate transfer rate of exposures from stage 1 to stage 2 by taking into account the expected levels of arrears status for similar exposures. The SICR thresholds are reviewed regularly to ensure that they are appropriately calibrated to identify SICR throughout the life of the exposure and consequently facilitate appropriate impairment coverage.

Where behaviour scores are not available, historical levels of delinquency are applied in determining whether there has been SICR. For all exposures, IFRS 9's rebuttable presumption of 30 days past due as well as exposures classified as either debt review or as 'watch-list' are used to classify exposures within stage 2.

CIB (including certain PBB business banking exposures)
The Group uses a 25-point master rating scale to quantify the credit risk for each exposure. On origination, each client is assigned a credit risk grade within the Group's 25-point master rating scale. Ratings are mapped to PDs by means of calibration formulae that use historical default rates and other data for the applicable portfolio. These credit ratings are evaluated at least annually or more frequently as appropriate.

CIB exposures are evaluated for SICR by comparing the credit risk grade at the reporting date to the origination credit risk grade. Where the relative change in the credit risk grade exceeds certain pre-defined ratings' migration thresholds or, when a contractual payment becomes more than 30 days overdue (IFRS 9's rebuttable presumption), the exposure is classified within stage 2. These pre-defined ratings' migration thresholds have been determined based on historic default experience which indicate that higher rated risk exposures are more sensitive to SICR than lower risk exposures. Based on an analysis of historic default experience, exposures that are classified by the Group's master rating scale as investment grade (SB1 to SB12) are assessed for SICR at each reporting date but are considered to be of a low credit risk for IFRS 9 purposes.

Incorporation of forward looking information in ECL measurement

The Standard Bank Group determines the macroeconomic outlook, over a planning horizon of at least three years, for each country based on the Group's global outlook and its global view of commodities.

For PBB these forward looking economic expectations are included in the ECL where adjustments are made based on the Group's macro-economic outlook, using models that correlate these parameters with macro-economic variables. Where modelled correlations are not viable or predictive, adjustments are based on expert judgement to predict the outcomes based on the Group's macro-economic outlook expectations. In addition to forward-looking macroeconomic information, other types of FLI, such as specific event risk, have been taken into account in ECL estimates when required, through the application of out-of-model adjustment.

The Group's macroeconomic outlooks are incorporated in CIB's client rating and include specific forward-looking economic considerations for the individual client. The client rating thus reflects the expected client risk for the Group's expectation of future economic and business conditions. Further adjustments, based on point-in-time market data, are made to the PDs assigned to each risk grade to produce PDs and ECL representative of existing market conditions.

Default

The definition of default, which triggers the credit impaired classification (stage 3), is based on the Group's internal credit risk management approach and definitions. Whilst the specific determination of default varies according to the nature of the product, it is compliant to the Basel definition of default, and generally determined as occurring at the earlier of:

- where, in the Group's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as the realisation of security; or
- when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit).

The Group has not rebutted IFRS 9's 90 days past due rebuttable presumption.

Write off policy

An impaired loan is written off once all reasonable attempts at collection have been made and there is no material economic benefit expected from attempting to recover the balance outstanding. The following criteria must be met before a financial asset can be written off:

- the financial asset has been in default for the period defined for the specific product (i.e. VAF, homes loans, etc.) which is deemed sufficient to determine whether the entity is able to receive any further economic benefit from the impaired loan; and

5. Accounting estimates and judgements (Continued)

(i) Expected credit loss (ECL) on financial assets - IFRS 9 drivers (continued)

Write off policy (continued)

- at the point of write-off, the financial asset is fully impaired (i.e. 100% allowance) with no reasonable expectations of recovery of the asset, or a portion thereof.

As an exception to the above requirements, where the exposure is secured (or for collateralised structures), the impaired loan can only be written off once the collateral has been realised. Post realisation of the collateral, the shortfall amount can be written off if it meets the second requirement listed above. The shortfall amount does not need to meet the first requirement to be written off.

Curing

Continuous assessment is required to determine whether the conditions that led to a financial asset being considered to be credit impaired (i.e. stage 3) still exist. Distressed restructured financial assets that no longer qualify as credit impaired remain within stage 3 for a minimum period of six months (i.e. six full consecutive monthly payments per the terms and conditions). In the case of financial assets with quarterly or longer dated repayment terms, the classification of a financial asset out of stage 3 may be made subsequent to an evaluation by the Group's CIB or PBB Credit Governance Committee (as appropriate), such evaluation will take into account qualitative factors in addition to compliance with payment terms and conditions of the agreement. Qualitative factors include compliance with covenants and compliance with existing financial asset conditions.

Where it has been determined that a financial asset no longer meets the criteria for significant increase in credit risk, the financial asset will be moved from stage 2 (lifetime expected credit loss model) back to stage 1 (12-month expected credit loss model) prospectively.

Amendments to the estimation technique

Refinements to some of the PBB ECL models have been made during the course of 2019. The amendments include improved SICR classification for the models.

The Group's forward-looking economic expectations were applied in the determination of the ECL at the reporting date:

A range of base, bullish and bearish forward looking economic expectations were determined, as at 31 December 2019, for inclusion in the Group's forward-looking process and ECL calculation.

Expectations about the Malawi economy

Under the base case, the currency is likely to find support outside of the tobacco marketing season. Foreign aid disbursements will continue to play a significant role in the performance of the exchange rate, particularly outside of the tobacco marketing season. Therefore, the volatility of the exchange rate will likely reflect the disbursements. Foreign exchange (FX) reserves will remain low, with a little chance of rising materially over the forecast period. The country's tobacco exports shall remain the predominant source of FX for the foreseeable future. Past and current International Monetary Fund programmes have underlined macroeconomic rebalancing. Therefore, relative to the past 10-years, this base case envisages greater macroeconomic stability. This is predicated on expectations that macroeconomic policy conduct will foster stability. Macroeconomic stability in the agrarian economy is prone to climate related shocks, although some resilience has been demonstrated in the past. Structural changes in the economy would enable a higher level of growth over the long term. Nonetheless, GDP growth will likely gradually approach the 5% over the medium term. The central bank has been a lot more resolute in stabilising inflation toward its targeted level of 5% in the medium term.

For the bull case, it is expected that the Balance of Payments (BOP) would receive plenty of support from the country's tobacco, tea and sugar exports. The currency will likely find support outside of the tobacco marketing season. Thus, the Malawi Kwacha is expected to continue depreciating but at a much slower pace. The trajectory of inflation is lower, and largely a function of the more stable exchange rate and healthier food supplies. Relative to the past 10 years, this scenario also envisages greater macroeconomic stability and economic prosperity. With inflation surprising on the downside, the central bank would be emboldened to ease the policy stance to bolster economic growth. GDP growth would exceed 5% in the medium term, peaking closer to the generally acceptable minimum of 6%. With economic growth stronger than in the base case, the government's revenue collection would also receive a boost, supporting pro-growth spending over the forecast horizon. Any fiscal correction in the medium term is likely to be growth neutral.

In the bear case, the stability of the exchange rate seems highly improbable partly due to trade dynamics not being constructive for the country's BOP. Tobacco, as well as other cash/export crops would likely disappoint. With little to augment FX earnings, FX reserves would remain depressed. GDP growth would likely remain below 5% in the medium term. Compared with the past 10 years, this scenario also envisages some macroeconomic stability, given that the past and current IMF programmes have underpinned wider macroeconomic rebalancing. Scope for countercyclical fiscal policy is limited by the lack of fiscal space. Since Malawi in its first 2 reviews under its programme missed the fiscal targets, it would be reasonable to believe that the fiscal correction will be sharper in the medium term. Higher inflation, a function of lower levels of domestic food crop production, limits the central bank's ability to ease rates for economic growth reasons. Thus, the central bank would likely postpone rate cuts in this scenario to allow inflation to abate.

Main macroeconomic factors

The following table shows the main macroeconomic factors used to estimate the allowances for credit losses on loans. For each scenario, namely, the base case, bullish and bearish scenario, the average values of the factors over the next 12 months and over the remaining forecast period are presented below.

	Base scenario		Bearish scenario		Bullish scenario	
Macroeconomic factors	**Next 12 months**	**Remaining forecast period**	**Next 12 months**	**Remaining forecast period**	**Next 12 months**	**Remaining forecast period**
Inflation rate	8.68	8.08	10.18	9.26	8.36	7.75
Policy rate	12.75	11.38	13.50	12.31	12.38	10.38
3 month treasury bill rate	7.90	7.07	9.48	8.19	7.92	6.92
6 month treasury bill rate	8.50	7.64	9.98	8.69	8.47	7.44
Exchange rate	756.17	818.89	793.09	924.73	739.58	796.35
Real GDP	4.50	5.38	3.20	4.08	5	5.99

Sensitivity analysis of PBB allowances for credit losses on non-impaired loans

The following table shows a comparison of the Group's allowances for credit losses on non-impaired exposures under IFRS 9 as at 31 December 2019 based on the probability weightings of three scenarios with allowances for credit losses resulting from simulations of each scenario weighted at 100%.

5. Accounting estimates and judgements (Continued)

(i) Expected credit loss (ECL) on financial assets - IFRS 9 drivers (continued)

Sensitivity Analysis of PBB allowances for credit losses on non-impaired loans (continued)

	Allowances for credit losses (MKm)
Forward looking impact on IFRS 9 provision	
Scenarios	
100% Base	**456**
100% Bear	**585**
100% Bull	**413**

(ii) Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(e) and 3(g). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(iii) Current and deferred tax

The Group is subject to direct and indirect taxation requirements which are determined with reference to transactions and calculations for which the ultimate tax determination has an element of uncertainty in the ordinary course of business. The Group and Company recognise provisions for tax based on objective estimates of the amount of taxes that may be due. Where the final tax determination is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions, disclosed in note 36 and note 18, respectively, in the period in which such determination is made.

Uncertain tax positions, which do not meet the probability criteria defined within IFRS, are not provided for but are rather disclosed as contingent liabilities or assets as appropriate. 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. The most significant management assumption is the forecasts that are used to support the probability assessment that sufficient taxable profits will be generated by the entities in the Group in order to utilise the deferred tax assets.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted. Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. 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.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(iv) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The Group's provisions typically (when applicable) include the following:

Provisions for legal claims

Provisions for legal claims are recognised on a prudent basis for the estimated cost for all legal claims that have not been settled or reached conclusion at the reporting date. In determining the provision, management considers the probability and likely settlement (if any). Reimbursements of expenditure to settle the provision are recognised when and only when it is virtually certain that the reimbursement will be received.

(v) Computer software intangible assets

The Group review assets under construction and assets brought into use for impairment at each reporting date and tests the carrying value for impairment whenever events or changes in circumstances indicate that the carrying amount (or components of the carrying amount) may not be recoverable. These circumstances include, but are not limited to, new technological developments, obsolescence, changes in the manner in which the software is used or is expected to be used, changes in discount rates or changes in estimates of related future cash benefits. The impairment tests are performed by comparing an asset's recoverable amount to its carrying amounts. The review and testing of assets for impairment inherently requires significant management judgement as it requires management to derive the estimates of the identified assets' future cash flows in order to derive the asset's recoverable amount.

The recoverable amount is determined as the higher of an assets' fair value less costs to sell and its value in use. The value in use is calculated by estimating future cash benefits that will result from each asset and discounting those cash benefits at an appropriate discount rate.

During the 2019 financial year, the Group conducted an impairment test in line with IAS 36 Impairment of Assets. The intangible assets were tested for impairment and there were no indications of impairment. Therefore, the computer software assets' recoverable values were determined to be equal to their carrying values.

6. Segment reporting

Segment information is presented in respect of the Group's operating segments. The format, operating segments, is based on the Group's management and internal reporting structure.

The segment report includes only those business unit activities conducted within the Group. No geographical segment information is disclosed due to the fact that business activities relate to Malawi.

6. Segment reporting (Continued)

Operating segments pay and receive interest to and from the Central Treasury to reflect the allocation of capital and funding costs.

The Group comprises the following main operating segments:

(i) Corporate and Investment Banking (CIB)

Includes the Group's:

- Trading and corporate finance activities, central treasury, loans, deposits and other transactions and balances with corporate customers.
- Commercial and investment banking services to larger corporate companies, financial institutions and international counterparties.
- Global markets - includes foreign exchange, commodities, debt securities and equities trading.
- Transactional products and services - includes transactional banking, trade finance and investor services.
- Investment banking - includes equity investment, advisory, project finance, structured finance, structured trade finance, corporate lending, primary markets, acquisition and finance, property finance and the asset and wealth management units.

(ii) Personal and Business Banking (PBB)

- Retail banking – incorporating private banking services, private customer current accounts, savings, deposits, investment savings products, custody, debit cards, consumer loans and mortgages.
- Transactional and lending products - transactions in products associated with the various points of contact channels such as ATMs, Internet, telephone banking and branches. This includes deposit taking activities, electronic banking, cheque accounts and other lending products.
- Installment sale and finance leases - comprises two main areas, installment finance in the consumer market, mainly vehicles, and secondly, finance of vehicles and equipment in the business market.

(iii) Treasury and Capital Management (TCM)

Capital and liquidity are managed within Group treasury and capital management (TCM). TCM maintains a framework of governance standards and policies which enable it to effectively manage capital, liquidity, prudential limits and ratings. The objective of TCM is to contribute to shareholder value through managing the statement of financial position and financial resources in a way that is optimised, comprehensive and integrated across all banking operations.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the operating segments.

Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

Operating segments

	CIB		PBB		TCM		Total	
Consolidated	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
	MKm	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**
Interest income	**30,522**	27,290	**12,098**	11,225	**551**	483	**43,171**	38,998
Interest expense	**(2,629)**	(2,678)	**(1,633)**	(1,580)	**(15)**	-	**(4,277)**	(4,258)
Net interest income	**27,893**	24,612	**10,465**	9,645	**536**	483	**38,894**	34,740
Funding income/ (expense)	**(4,635)**	(6,563)	**4,778**	6,413	**(282)**	233	**(139)**	83
Net fee and commission income	**2,388**	2,755	**10,329**	9,350	**3**	-	**12,720**	12,105
Net trading income	**7,835**	7,365	**1,282**	1,591	**-**	-	**9,117**	8,956
Other operating income	**-**	1	**50**	5	**3**	9	**53**	15
Other gains and losses on financial instruments	**-**	69	**-**	-	**-**	-	**-**	69
Operating income	**33,481**	28,239	**26,904**	27,004	**260**	725	**60,645**	55,968
Direct staff costs before allocation	**(2,674)**	(2,507)	**(5,837)**	(5,198)	**(506)**	(518)	**(9,017)**	(8,223)
Direct operating expenses before allocation	**(5,394)**	(6,308)	**(10,415)**	(12,104)	**2,217**	3,428	**(13,592)**	(14,984)
Other operating expenses from enabling functions	**(3,678)**	(3,155)	**(8,977)**	(8,330)	**1**	(492)	**(12,654)**	(11,977)
Credit impairment charges	**(16)**	170	**(1,834)**	(5,066)	**(5)**	(6)	**(1,855)**	(4,902)
Profit/(loss) before income tax	**21,719**	16,439	**(159)**	(3,694)	**1,967**	3,137	**23,527**	15,882
Income tax expense	**(6,595)**	(4,980)	**(239)**	785	**(642)**	(995)	**(7,476)**	(5,190)
Profit for the year	**15,124**	11,459	**(398)**	(2,909)	**1,325**	2,142	**16,051**	10,692

6. Segment reporting (Continued)

Consolidated	CIB 2019 MKm	CIB 2018 MKm	PBB 2019 MKm	PBB 2018 MKm	TCM 2019 MKm	TCM 2018 MKm	Total 2019 MKm	Total 2018 MKm
Assets								
Cash and balances held with the Central Bank	**7,356**	19,223	**12,130**	7,945	**175**	34	**19,661**	27,202
Derivative assets	**601**	369	**-**	-	**-**	-	**601**	369
Trading assets	**722**	11,993	**-**	-	**-**	-	**722**	11,993
Loans and advances to banks	**59,930**	76,448	**-**	-	**-**	-	**59,930**	76,448
Loans and advances to customers	**80,978**	68,234	**67,504**	44,398	**-**	-	**148,482**	112,632
Financial investments	**95,161**	81,932	**-**	-	**5,470**	3,444	**100,631**	85,376
Other assets	**3,391**	1,038	**1,647**	3,730	**1,261**	669	**6,299**	5,437
Property, equipment and right of use asset	**142**	138	**12,881**	9,040	**446**	285	**13,469**	9,463
Intangible assets	**-**	-	**58**	-	**18,034**	19,487	**18,092**	19,487
Total assets	**248,281**	259,375	**94,220**	65,113	**25,386**	23,919	**367,887**	348,407
Liabilities								
Derivative liabilities	**242**	160	**-**	-	**-**	-	**242**	160
Trading liabilities	**454**	444	**-**	-	**-**	-	**454**	444
Deposits and loans from banks	**22,932**	33,500	**-**	1,079	**-**	-	**22,932**	34,579
Deposits from customers	**116,245**	113,268	**125,837**	116,016	**-**	-	**242,082**	229,284
Other liabilities	**8,739**	1,427	**2,661**	4,312	**354**	317	**11,754**	6,056
Other provisions	**772**	360	**1,896**	2,306	**943**	824	**3,611**	3,490
Current and deferred tax liabilities	**3,987**	1,070	**3,134**	3	**-**	-	**7,121**	1,073
Total liabilities	**153,371**	150,229	**133,528**	123,716	**1,297**	1,141	**288,196**	275,086

Consolidated	CIB 2019 MKm	CIB 2018 MKm	PBB 2019 MKm	PBB 2018 MKm	TCM 2019 MKm	TCM 2018 MKm	Total 2019 MKm	Total 2018 MKm
Shareholders' equity								
Share capital and premium	**-**	-	**-**	-	**8,726**	8,726	**8,726**	8,726
Retained earnings and reserves	**30,952**	30,466	**23,134**	18,474	**15,737**	13,035	**69,823**	61,975
Funding	**63,958**	78,680	**(62,442)**	(77,077)	**(374)**	1,017	**1,142**	2,620
Total shareholders' equity	**94,910**	109,146	**(39,308)**	(58,603)	**24,089**	22,778	**79,691**	73,321
Total equity and liabilities	**248,281**	259,375	**94,220**	65,113	**25,386**	23,919	**367,887**	348,407

Reconciliation of information on reportable segment to IFRS measures

Consolidated	2019 MKm	2018 MKm
(i) Revenues		
Total revenues for reportable segments	**60,645**	55,968
Interest income	**139**	-
Interdepartmental funding expense	**(17)**	(83)
Other income	**89**	101
Consolidated revenue	**60,856**	55,986
(ii) Profit before tax		
Total profit for reportable segments	**23,527**	15,882
Unallocated amounts*	**(155)**	(110)
Consolidated profit before tax	**23,372**	15,772
(iii) Assets		
Total assets for reportable segments	**367,887**	348,407
Unallocated amounts*	**7,229**	8,751
Consolidated total assets	**375,116**	357,158
(iv) Liabilities		
Total liabilities for reportable segments	**288,196**	275,086
Other unallocated amounts*	**(319)**	4,832
Consolidated total liabilities	**287.877**	279,918

*Unallocated amounts comprises of corporate functions (primarily Head Office units).

7. Accounting classifications and fair values of financial instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(a) Valuation models

The Group measures fair values using the following fair value hierarchy, which 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.

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

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

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

If the Group measures portfolios of financial assets and financial liabilities on the basis of net exposures to market risks, then it applies judgement in determining appropriate portfolio-level adjustments such as bid-ask spreads. Such adjustments are derived from observable bid-ask spreads for similar instruments and adjusted for factors specific to the portfolio. Similarly, when the Group measures portfolios of financial assets and financial liabilities on the basis of net exposure to the credit risk of a particular counterparty, then it takes into account any existing arrangements that mitigate the credit risk exposure (e.g. master netting agreements with the counterparty).

(b) Financial instruments measured at fair value – fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated and separate statements of financial position.

Consolidated and Separate At 31 December 2019	Note	Level 1 Mkm	Level 2 Mkm	Level 3 Mkm	Total Mkm
Assets					
Derivative assets	9	-	601	-	601
Trading assets	10	-	722	-	722
Financial investments	13	-	11,507	-	11,507
Total		-	12,830	-	12,830
Liabilities					
Derivative liabilities	9	-	242	-	242
Trading liabilities	19	-	-	454	454
Total		-	242	454	696

Consolidated and Separate At 31 December 2018	Note	Level 1 Mkm	Level 2 Mkm	Level 3 Mkm	Total Mkm
Assets					
Derivative assets	9	-	369	-	369
Trading assets	10	-	11,993	-	11,993
Financial investments	13	-	17,097	-	17,097
Total		-	29,459	-	29,459
Liabilities					
Derivative liabilities	9	-	160	-	160
Trading liabilities	19	-	-	444	444
Total		-	160	444	604

7. Accounting classifications and fair values of financial instruments (Continued)

(b) Financial instruments not measured at fair value - fair value hierarchy

Consolidated 31 December 2019	Note	Level 1 Mkm	Level 2 Mkm	Level 3 Mkm	Total Mkm
Assets					
Cash and balances held with the Central Bank	8	22,870	-	-	22,870
Loans and advances to banks	11	-	59,930	-	59,930
Loans and advances to customers	12	-	-	148,490	148,490
Financial investments	13	-	89,094	30	89,124
Other assets	15	-	-	3,442	3,442
Total		22,870	149,024	151,962	323,856
Liabilities					
Deposits and loans from banks	20	959	21,973	-	22,932
Deposits from customers	21	232,745	9,337	-	242,082
Other liabilities	22	-	-	10,303	10,303
Total		233,704	31,310	10,303	275,317

Consolidated 31 December 2018	Note	Level 1 Mkm	Level 2 Mkm	Level 3 Mkm	Total Mkm
Assets					
Cash and balances held with the Central Bank	8	29,385	-	-	29,385
Loans and advances to banks	11	-	76,448	-	76,448
Loans and advances to customers	12	-	-	112,632	112,632
Financial investments	13	-	68,279	-	68,279
Other assets	15	-	-	1,201	1,201
Total		29,385	144,727	113,833	287,945
Liabilities					
Deposits and loans from banks	20	1,316	33,263	-	34,579
Deposits from customers	21	223,633	5,651	-	229,284
Other liabilities	22	-	-	7,245	7,245
Total		224,949	38,914	7,245	271,108

Separate At 31 December 2019	Note	Level 1 Mkm	Level 2 Mkm	Level 3 Mkm	Total Mkm
Assets					
Cash and balances held with the Central Bank	8	22,603	-	-	22,603
Loans and advances to banks	11	-	59,952	-	59,952
Loans and advances to customers	12	-	-	148,772	148,772
Financial investments	13	-	89,094	30	89,124
Other assets	15	-	-	3,453	3,453
Total		22,603	149,046	152,255	323,904
Liabilities					
Deposits and loans from banks	20	952	21,972	-	22,924
Deposits from customers	21	235,658	9,337	-	244,995
Other liabilities	22	-	-	10,297	10,297
Total		236,610	31,309	10,297	278,216

Separate At 31 December 2018	Note	Level 1	Level 2	Level 3	Total
Assets					
Cash and balances held with the Central Bank	8	29,260	-	-	29,260
Loans and advances to banks	11	-	76,383	-	76,383
Loans and advances to customers	12	-	-	113,255	113,255
Financial investments	13	-	68,279	-	68,279
Other assets	15	-	-	4,454	4 454
Total		29,260	144,662	117,709	291,631
Liabilities					
Deposits and loans from banks	20	1,320	33,263	-	34,583
Deposits from customers	21	226,208	5,651	-	231,859
Other liabilities	22	-	-	7,246	7,246
Total		227,528	38,914	7,246	273,688

7. Accounting classifications and fair values of financial instruments (Continued)

(c) Level 3 fair value measurements - reconciliation

The following tables provide a reconciliation of the opening to closing balance for all financial liabilities that are measured at fair value based on inputs that are not based on observable market data (level 3):

	Consolidated and Separate	
	2019 MKm	2018 MKm
Balance at 1 January	**444**	103
Sales and settlement	**396**	1,566
Total losses/(gains) included in profit or loss - trading revenue	**(386)**	(1,225)
Balance at 31 December	**454**	444

Level 3 fair value measurements

Significant unobservable inputs are developed as follows.

- Expected prepayment rates are derived from historical prepayment trends, adjusted to reflect current conditions.
- The probabilities of defaults and loss severities for commercial assets are derived from the credit default swap (CDS) market. When this information is not available, the inputs are obtained from historical default and recovery information and adjusted for current conditions.
- The probabilities of default and loss severities for retail assets are derived from historical default and recovery information and adjusted for current conditions.
- Correlations between and volatilities of the underlying are derived through extrapolation of observable volatilities, recent transaction prices, quotes from other market participants, data from consensus pricing services and historical data adjusted for current conditions.
- Risk-adjusted spreads are derived from the CDS market (when this information is available) and from historical defaults and prepayment trends adjusted for current conditions.

(d) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table:

Item and description	Valuation technique	Main inputs and assumptions
Derivative financial instruments		
Derivative financial instruments comprise foreign exchange derivatives and are held-for-trading.	Standard derivative contracts are valued using market accepted models and quoted parameter inputs. More complex derivative contracts are modelled using more sophisticated modelling techniques applicable to the instrument. Techniques include: • discounted cash flow model • Black-Scholes model • combination technique models.	For level 2 and 3 fair value hierarchy items discount rate - spot prices of the underlying - correlation factors - volatilities - dividend yields - earnings yield - valuation multiples.
Trading assets and trading liabilities		
Trading assets and liabilities comprise instruments which are part of the Group's underlying trading activities. These instruments primarily include sovereign and corporate debt.	Where there are no recent market transactions in the specific instrument, fair value is derived from the last available market price adjusted for changes in risks and information since that date. Where a proxy instrument is quoted in an active market, the fair value is determined by adjusting the proxy fair value for differences between the proxy instrument and the financial investment being fair valued. Where proxies are not available, the fair value is estimated using more complex modelling techniques. These techniques include discounted cash flow and Black-Scholes models using current market rates for credit, interest, liquidity, volatility and other risks. Combination techniques are used to value unlisted equity securities and include inputs such as earnings and dividend yields of the underlying entity.	

7. Accounting classifications and fair values of financial instruments (Continued)

(d) Estimation of fair values (continued)

Item and description	Valuation technique	Main inputs and assumptions
Loans and advances to banks and Customers		
Loans and advances comprise: • Loans and advances to banks: call loan and balances held with other banks • Loans and advances to customers: mortgage loans (home loans and commercial mortgages), other asset-based loans, including collateralised debt obligations (instalment sale and finance leases), and other secured and unsecured loans (card debtors, overdrafts, other demand lending, term lending and loans granted under resale agreements).	For certain loans fair value may be determined from the market price of a recently occurring transaction adjusted for changes in risks and information between the transaction and valuation dates. Loans and advances are reviewed for observed and verified changes in credit risk and the credit spread is adjusted at subsequent dates if there has been an observable change in credit risk relating to a particular loan or advance. In the absence of an observable market for these instruments, discounted cash flow models are used to determine fair value. Discounted cash flow models incorporate parameter inputs for interest rate risk, foreign exchange risk, liquidity and credit risk, as appropriate. For credit risk, probability of default and loss given default parameters are determined using credit default swaps (CDS) markets, where available and appropriate, as well as the relevant terms of the loan and loan counterparty such as the industry classification and subordination of the loan.	For level 2 and 3 fair value hierarchy items - discount rate
Deposits and debt funding		
Deposits from banks and customers comprise amounts owed to banks and customers, deposits under repurchase agreements, negotiable certificates of deposit, credit-linked deposits and other deposits.	For certain deposits, fair value may be determined from the market price on a recently occurring transaction adjusted for all changes in risks and information between the transaction and valuation dates. In the absence of an observable market for these instruments, discounted cash flow models are used to determine fair value based on the contractual cash flows related to the instrument. The fair value measurement incorporates all market risk factors, including a measure of the Group's credit risk relevant for that financial liability. The market risk parameters are valued consistently to similar instruments held as assets stated in the section above.	For level 2 and 3 fair value hierarchy items - discount rate

Consolidated	Note	Fair value through profit or loss - default	Fair value through OCI	Held for trading	Amortised cost	Carrying Amount	Fair value
		Mkm	Mkm	Mkm	Mkm	Mkm	Mkm
At 31 December 2019							
Assets							
Cash and balances held with the Central Bank	8	22,870	-	-	-	22,870	22,870
Derivative assets	9	-	-	601	-	601	601
Trading assets	10	-	-	722	-	722	722
Loans and advances to banks	11	-	-	-	59,930	59,930	59,930
Loans and advances to customers	12	-	-	-	148,490	148,490	148,490
Financial investments	13	30	11,507	-	89,094	100,631	100,631
Other assets	15	3,442	-	-	-	3,442	3,442
Total		26,342	11,507	1,323	297,514	336,686	336,686
Liabilities							
Derivative liabilities	9	-	-	242	-	242	242
Trading liabilities	19	-	-	454	-	454	454
Deposits and loans from banks	20	-	-	-	22,932	22,932	22,932
Deposits from customers	21	-	-	-	242,082	242,082	242,082
Other liabilities	22	-	-	-	10,303	10,303	10,303
Total		-	-	696	275,317	276,013	276,013

7. Accounting classifications and fair values of financial instruments (Continued)

(d) Estimation of fair values (continued)

Consolidated		Fair value through profit or loss - default	Fair value through OCI	Held for trading	Amortised cost	Carrying Amount	Fair value
At 31 December 2018	**Note**	**Mkm**	**Mkm**	**Mkm**	**Mkm**	**Mkm**	**Mkm**
Assets							
Cash and balances held with the Central Bank	8	25,451	-	-	3,934	29,385	29,385
Derivative assets	9	-	-	369	-	369	369
Trading assets	10	-	-	11,993	-	11,993	11,993
Loans and advances to banks	11	-	-	-	76,448	76,448	76,448
Loans and advances to customers	12	-	-	-	112,632	112,632	112,632
Financial investments	13	30	17,097	-	68,249	85,376	85,376
Other assets	15	1,201	-	-	-	1,201	1,201
Total		26,682	17,097	12,362	261,263	317,404	317,404
Liabilities							
Derivative liabilities	9	-	-	160	-	160	160
Trading liabilities	19	-	-	444	-	444	444
Deposits and loans from banks	20	-	-	-	34,579	34,579	34,579
Deposits from customers	21	-	-	-	229,284	229,284	229,284
Other liabilities	22	-	-	-	7,245	7,245	7,245
Total		-	-	604	271,108	271,712	271,712

Separate		Fair value through profit or loss - default	Fair value through OCI	Held for trading	Amortised cost	Carrying Amount	Fair value
At 31 December 2019	**Note**	**Mkm**	**Mkm**	**Mkm**	**Mkm**	**Mkm**	**Mkm**
Assets							
Cash and balances held with Central Bank	8	22,603	-	-	-	22,603	22,603
Derivative assets	9	-	-	601	-	601	601
Trading assets	10	-	-	722	-	722	722
Loans and advances to banks	11	-	-	-	59,952	59,952	59,952
Loans and advances to customers	12	-	-	-	148,772	148,772	148,772
Financial investments	13	30	11,507	-	89,094	100,631	100,631
Other assets	15	3,453	-	-	-	3,453	3,453
Total		26,086	11,507	1,323	297,818	336,734	336,734
Liabilities							
Derivative liabilities	9	-	-	242	-	242	242
Trading liabilities	19	-	-	454	-	454	454
Deposits and loans from banks	20	-	-	-	22,924	22,924	22,924
Deposits from customers	21	-	-	-	244,995	244,995	244,995
Other liabilities	22	-	-	-	10,297	10,297	10,297
Total		-	-	696	278,216	278,912	278,912

7. Accounting classifications and fair values of financial instruments (Continued)

(d) Estimation of fair values (continued)

Separate		Fair value through profit or loss - default	Fair value through OCI	Held for trading	Amortised cost	Carrying Amount	Fair value
At 31 December 2018	**Note**	**Mkm**	**Mkm**	**Mkm**	**Mkm**	**Mkm**	**Mkm**
Assets							
Cash and balances held with the Central Bank	8	25,326	-	-	3,934	29 260	29 260
Derivative assets	9	-	-	369	-	369	369
Trading assets	10	-	-	11,993	-	11,993	11,993
Loans and advances to banks	11	-	-	-	76,383	76,383	76,383
Loans and advances to customers	12	-	-	-	113,255	113,255	113,255
Financial investments	13	30	17,097	-	68,249	85,376	85,376
Other assets	15	1,232	-	-	-	1,232	1,232
Total		26,588	17,097	12,362	261,821	317,868	317,868
Liabilities							
Derivative liabilities	9	-	-	160	-	160	160
Trading liabilities	19	-	-	444	-	444	444
Deposits and loans from banks	20	-	-	-	34,583	34,583	34,583
Deposits from customers	21	-	-	-	231,859	231,859	231,859
Other liabilities	22	-	-	-	7,246	7,246	7,246
Total		-	-	604	273,688	274,292	274,292

8. Cash and balances held with the Central Bank

See accounting policy in Note 3 (d)

	Consolidated		Separate	
	2019	2018	2019	2018
	MKm	MKm	MKm	MKm
Cash balances	15,514	10,162	15,247	10 037
Balances with the Reserve Bank of Malawi	7,356	19,223	7,356	19,223
Balances eligible for liquidity reserve requirement (Note 41)	22,870	29,385	22,603	29,260

Banks are required to maintain a prescribed minimum balance in cash, with the Reserve Bank of Malawi and licensed discount houses that are not available to finance the Bank's day-to-day activities. The amount is determined as 3.75% of the average outstanding foreign currency customer deposits and 5% of the average outstanding local currency customer deposits (2018:7.5%), over liquidity reserve cycle period of two weeks. Balances with the Reserve Bank of Malawi do not earn interest.

9. Derivative assets and liabilities

See accounting policy in Note 3 (e)

The table below analyses derivatives held for risk management purposes by type of instrument:

	Consolidated and Separate			
	2019		2018	
	MKm	MKm	MKm	MKm
	Asset	Liability	Asset	Liability
Foreign exchange derivatives	601	242	369	160

At 31 December 2019, **MK Nil** (2018:MK Nil) of derivative assets/liabilities are expected to be recovered more than twelve months after the reporting date.

In the normal course of business, the Group enters into a variety of derivative transactions for both trading and hedging purposes. Derivative financial instruments are entered into for trading purposes. Derivative instruments used by the Group and Company in trading activities include swaps, forwards and other similar types of instruments based on foreign exchange rates and interest rates.

The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

The Group transacts in derivative contracts to address client demand, both as a market maker in the wholesale markets and in structuring tailored derivatives for clients. The Group also takes proprietary positions for its own account.

All derivatives are held-for-trading.

10. Trading assets

See accounting policy in Note 3(f)

	Consolidated and Separate			Consolidated and Separate		
	2019	2019	2019	2018	2018	2018
	MKm	MKm	MKm	MKm	MKm	MKm
	Pledged trading assets	Non pledged trading assets	Total trading assets	Pledged trading assets	Non pledged trading assets	Total trading assets
Treasury bills	-	722	722	-	11,993	11,993
	-	722	722	-	11,993	11,993

Trading assets

	Consolidated and Separate	
	2019	2018
	MKm	MKm
Sovereign	722	11,993
	722	11,993
Comprising:		
Treasury bills	722	11,993
	722	11,993

Maturity analysis

The maturities represent periods to contractual redemption of the trading assets recorded.

	Consolidated and Separate	
	2019	2018
	MKm	MKm
Maturing within 1 month	2	4,472
Maturing after 1 month but within 6 months	720	2,627
Maturing after 6 months but within 12 months	-	4,894
	722	11,993

11. Loans and advances to banks

See accounting policy in Note 3 (h)

	Consolidated		Separate	
	2019	2018	2019	2018
	MKm	MKm	MKm	MKm
Loans and advances to other banks	59,884	76,507	59,906	76,442
Loans and advances with related banks (Note 42)	46	74	46	74
Gross loans and advances to banks	59,930	76,581	59,952	76,516
Less: Expected credit losses for loans and advances to banks measured at amortised cost	-	(133)	-	(133)
Balances with banking institutions	59,930	76,448	59,952	76 383

At 31 December 2019 **MK Nil** (2018: MK Nil) loans and advances to banks are expected to be recovered more than twelve months after the reporting date.

11. Loans and advances to banks (Continued)

	Consolidated and Separate
At 31 December 2019	
Stage 1 impairments:	
Balance at 1 January 2019	133
Impairment loss for the year:	
- ECL on new exposure raised	-
- Subsequent changes in ECL	-
- Change in ECL due to derecognition	(133)
Net impairments raised/(released) in P&L	-
Other movements	
Impaired accounts written-off	-
Balance at 31 December 2019	-

12. Loans and advances to customers

See accounting policy in Note 3 (h)

	Consolidated		Separate	
	2019	2018	2019	2018
	MKm	MKm	MKm	MKm
Loans and advances to staff at amortised cost	4,513	2 330	4,513	2 330
Loans and advances to customers at amortised cost	151,022	119,119	151,304	119,741
Gross loans and advances to customers	155,535	121,449	155,817	122,071
Less: impairment losses on loans and advances	(567)	(1,494)	(567)	(1,494)
- Expected credit loss for loans and advances measured at amortised cost	(6,478)	(7,323)	(6,478)	(7,322)
Net loans and advances to customers	148,490	112,632	148,772	113,255

At 31 December 2019, **MK70,982 million** (2018: MK57,819 million) of loans and advances to customers are expected to be recovered more than twelve months after the reporting date.

Gross loans and advances to customers	Consolidated		Separate	
Personal and Business Banking	2019	2018	2019	2018
	MKm	MKm	MKm	MKm
Overdrafts	9,471	10,270	9,471	10,270
Term loans	50,398	34,816	50,398	34,816
Finance leases	10,440	6,259	10,440	6,259
Mortgages	3,892	1,870	3,892	1,870
	74,201	53 215	74,201	53,215
Corporate and Investment Banking				
Overdrafts	22,546	15,635	22,828	16,257
Term loans	58,452	51,876	58,452	51,876
Finance leases	336	723	336	723
	81,334	68,234	81,616	68,856
Total gross loans and advances to customers	155,535	121,449	155,817	122,071

12. Loans and advances to customers (Continued)

Consolidated	Opening ECL 1 January 2019 Mkm	Total transfers between stages Mkm	Income statement movements: ECL on new exposure raised Mkm	Income statement movements: Change in ECL due to modifications Mkm	Income statement movements: Subsequent changes in ECL Mkm	Income statement movements: Change in ECL due to derecognition Mkm	Income statement movements: Net ECL rais Net ECL raised/(released) Mkm	Other movements Mkm	Closing ECL 31 December 2019 Mkm
Stage 1	1,180	(1,343)	1,491	-	634	(184)	598	-	1,778
Stage 2	1,399	(1,092)	3	-	1,072	-	(17)	10	1,392
Stage 3*	6,238	2,435	-	-	(716)	-	1,719	(4,082)	3,875
Total	8,817	-	1,494	-	990	(184)	2,300	(4,072)	7,045

*= includes interest in suspense

12.2 Modifications on loans and advances to customers measured at amortised cost

Consolidated and Separate

Year ended 31 December 2019	MKm
Stage 2	
Gross amortised cost before modification	-
Net modification gain or (loss)	-

Year ended 31 December 2018	MKm
Stage 2	
Gross amortised cost before modification	266
Net modification gain or (loss)	(3)

12. Loans and advances to customers (Continued)

Finance lease receivables

Leases entered into are at market-related terms. Under the terms of the lease agreements, no contingent rentals are receivable. Moveable assets are leased or sold to customers under finance leases and instalment sale agreements. Depending on the terms of the agreement, the lessee may have the option to purchase the asset at the end of the lease term.

The loans and advances to customers include the following finance lease receivables, for leases of certain property and equipment where the Group is the lessor:

	Consolidated and Separate	
	2019	2018
Gross investment in finance leases receivable:	MKm	MKm
Not later than one year	1,237	846
Later than one year but less than five years	11,735	7,785
Later than five years	340	42
	13,312	8,673
Unearned future finance income on finance leases	(2,536)	(1,691)
Net investment in finance leases	10,776	6,982
The net investment in finance leases is analysed as follows:		
Not later than one year	1,178	774
Later than one year but less than five years	9,381	6,181
Later than five years	217	27
	10,776	6,982

13. Financial investments

See accounting policy in Note 3 (g)

	Consolidated and Separate	
	2019	2018
	MKm	MKm
Gross debt financial investments measured at amortised cost	89,279	68,368
Less: Expected credit losses for debt financial investments measured at amortised cost (note 13.1)	(185)	(119)
Net debt financial investments measured at amortised cost	89,094	68,249
Financial investments measured at fair value through profit or loss	30	30
Debt financial investments measured at fair value through OCI	11,507	17,097
	100,631	85,376

At 31 December 2019, **MK44,368 million** (2018: MK47,757 million) of financial investments are expected to be recovered more than twelve months after the reporting date.

	Consolidated and Separate	
Financial investments by category	2019	2018
	MKm	MKm
Net debt financial investments measured at amortised cost		
Treasury bills and bonds	89,094	68,249
Financial investments measured at fair value through profit or loss		
Equity investment in National Switch Limited	30	30
Debt financial investments measured at fair value through OCI		
Treasury bills and bonds	11,507	17,097

13. Financial investments (continued)

13.1 Reconciliation of expected credit losses for debt financial investments measured at amortised cost

Income statement movements

Consolidated and Separate	Opening ECL 1 January 2019 MKm	Total transfers between stages receivables MKm	ECL on new exposure raised MKm	Subsequent changes in ECL maturity MKm	Change in ECL due to derecognition MKm	Net ECL rais Net ECL raised/ (released) MKm	Other movements MKm	Closing ECL 31 December 2019 MKm
Sovereign								
Stage 1	119	-	102	(17)	(18)	67	(1)	185
Total	119	-	102	(17)	(18)	67	(1)	185

13.2 Reconciliation of expected credit losses for debt financial investments measured at measured at fair value through OCI

OCI movements

Consolidated and Separate	Opening ECL 1 January 2019 MKm	Total transfers between stages receivables MKm	ECL on new exposure raised MKm	Change in ECL due to modifications MKm	Subsequent changes in ECL maturity MKm	Change in ECL due to derecognition MKm	Net ECL rais Net ECL raised/ (released) MKm	Closing ECL 31 December 2019 MKm
Sovereign								
Stage 1	31	-	10	-	(12)	(10)	(12)	19
Total	31	-	10	-	(12	(10)	(12)	19

14. Investment in subsidiary

See accounting policy in Note 3 (a)

	Separate	
	2019	2018
	MKm	MKm
Investment in Standard Bank Bureau De Change Limited	100	100

Standard Bank PLC owns 100% of the shares in Standard Bank Bureau De Change Limited and Standard Bank Nominees Limited. Investments in subsidiaries are measured at cost in the separate financial statements.

The principal place of business for Standard Bank Bureau De Change Limited and Standard Bank Nominees Limited is Malawi.

15. Other assets

See accounting policy in Note 3 (c)

	Consolidated		Separate	
	2019	2018	2019	2018
	MKm	MKm	MKm	MKm
Remittances in transit*	2,491	260	2,491	260
Inventory***	134	72	134	72
Sundry receivables**	951	941	962	972
Staff loan employee benefits	2,260	3,222	2,260	3,222
Prepayments: other ***	953	1,128	953	1,127
	6,789	5.623	6,800	5.653

* Included within items in transit are unpaid cheques and in transit remittances.
** Included in sundry receivables are government scheme cheques due for collection, VISA/Mastercard chargeback transactions and sundry receivables.
*** Inventory and prepayments: other are not included in the analysis of credit, liquidity and market risk under the Risk management section and Accounting classifications and fair values of financial instruments section.

At 31 December 2019, **MK Nil.** (2018: MK Nil) other assets are receivable more than twelve months after the reporting date.

16. Property, equipment and right of use asset

See accounting policy in Note 3 (i) and (j)

Consolidated and Separate	Freehold land and buildings	Leasehold land and buildings	Motor vehicles, computers, fixtures and fittings	Work in progress	Right of use asset-buildings	Total
Cost or valuation	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**
Balance at 1 January 2019	**4,856**	**5,900**	**11,826**	**288**	**-**	**22,870**
IFRS 16 transition adjustment	**-**	**-**	**-**	**-**	**594**	**594**
Restated balance at 1 January 2019	**4,856**	**5,900**	**11,826**	**288**	**594**	**23,464**
Additions during the year	**28**	**-**	**1,712**	**1,615**	**294**	**3,649**
Revaluation reversal during the year	**-**	**(266)**	**-**	**-**	**-**	**(266)**
Transfers during the year	**-**	**27**	**241**	**(268)**	**-**	**-**
Disposals/Terminations during the year	**-**	**(23)**	**(1,097)**	**-**	**(1)**	**(1,121)**
Balance at 31 December 2019	**4,884**	**5,638**	**12,682**	**1,635**	**887**	**25,726**
Balance at 1 January 2018	4,806	5,510	9,905	720	-	20,941
Additions during the year	50	114	1,467	1,223	-	2,854
Revaluation during the year	-	-	-	-	-	-
Transfers during the year	-	276	1,370	(1,646)	-	-
Disposals during the year	-	-	(916)	(9)	-	(925)
Balance at 31 December 2018	4,856	5,900	11,826	288	-	22,870
Accumulated depreciation						
Balance at 1 January 2019	**75**	**590**	**6,360**	**-**	**-**	**7,025**
Depreciation charge for the year	**104**	**450**	**1,911**	**-**	**268**	**2,733**
Eliminated on disposal	**-**	**-**	**(1,022)**	**-**	**(1)**	**(1,023)**
Balance at 31 December 2019	**179**	**1,040**	**7,249**	**-**	**267**	**8,735**

Consolidated and Separate	Freehold land and buildings	Leasehold land and buildings	Motor vehicles, computers, fixtures and fittings	Work in progress	Right of use asset-buildings	Total
Accumulated depreciation	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**
Balance at 1 January 2018	-	228	5,505	-	-	5,733
Depreciation charge for the year	75	362	1,747	-	-	2,184
Eliminated on disposal	-	-	(892)	-	-	(892)
Balance at 31 December 2018	75	590	6,360	-	-	7,025
Carrying amount						
At 31 December 2019	**4,705**	**4,598**	**5,433**	**1,635**	**620**	**16,991**
At 31 December 2018	4,781	5,310	5,466	288	-	15,845

Broll Malawi independent valuers, valued land and buildings at 31 December 2017. Land and buildings were revalued by Roger Hunting MRICS Dip T.P.MIV (SA) and Oscar Matope MSc, BSc, Dip, MSIM.Valuations were made on the basis of the open market value. The carrying values of the properties were adjusted to the revaluations and the resultant surplus net of deferred tax was credited to revaluation reserves and this reserve is not distributable until realised.

The carrying amounts at the end of the reporting period did not differ materially from that which would be determined using fair value at the end of the reporting period hence revaluation was not performed.

A register of freehold land and buildings is available for inspection at the registered office of the Company.

At 31 December 2019, **MK16,991 million** (2018: MK15,845 million) property, equipment and right of use asset is expected to be realised more than twelve months after the reporting date.

16. Property, equipment and right of use asset (continued)

The additions in the property and equipment have resulted in the improvement of the operating capacity of the Group.

The following table analyses property and equipment measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised.

Fair value hierarchy	Level 1	Level 2	Level 3	Total
Consolidated and Separate	**MKm**	**MKm**	**MKm**	**MKm**
At 31 December 2019				
Freehold land and buildings	-	-	**4,705**	**4,705**
Leasehold land and buildings	-	-	**4,598**	**4,598**
	-	-	**9,303**	**9,303**
At 31 December 2018				
Freehold land and buildings	-	-	4,781	4,781
Leasehold land and buildings	-	-	5,310	5,310
	-	-	10,091	10,091

If the land and buildings were stated on the historical cost basis, the carrying amounts would be as follows:

	Consolidated and Separate	
	2019	**2018**
	MKm	**MKm**
Cost	**7,238**	6,143
Accumulated depreciation and impairment losses	**(3,080)**	(2,804)
Net carrying amount	**4,158**	3,339

17. Intangible assets – software

See accounting policy in Note 3 (k)

	2019	2018
Cost		
Balance at 1 January	**21,823**	21,823
Additions during the year	**60**	-
Balance at 31 December	**21,883**	21,823
Accumulated amortisation and impairment losses		
Balance at 1 January	**2,336**	881
Amortisation during the year	**1,455**	1,455
Balance at 31 December	**3,791**	2,336
Carrying amount	**18,092**	19,487

At 31 December 2019, **MK18,092 million** (2018: MK19,487 million) intangible assets are expected to be realised more than twelve months after the reporting date.

18. Deferred tax assets and liabilities

See accounting policy in Note 3 (n)

Analysis of deferred tax assets and liabilities in the consolidated and separate statements of financial position is as follows:

	Deferred tax asset		Deferred tax Liability		Net	
Consolidated	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
	MKm	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**
Other provisions	**1,912**	1,641	**-**	-	**1,912**	1,641
Impairment charges on loans and advances, financial investments and off-balance sheet items	**1,143**	1,083	**-**	-	**1,143**	1,083
Property and equipment and intangibles	**-**	-	**(3,931)**	(3,254)	**(3,931)**	(3,254)
Fair value adjustments and receivables	**226**	298	**(3,273)**	(2,370)	**(3,047)**	(2,072)
Revaluation reserve	**-**	-	**(333)**	(413)	**(333)**	(413)
	3,281	3,022	**(7,537)**	(6,037)	**(4,256)**	(3,015)

Separate

Other provisions	**1,912**	1,628	**-**	-	**1,912**	1,628
Impairment charges on loans and advances, financial investments and off-balance sheet items	**1,143**	1,079	**-**	-	**1,143**	1,079
Property and equipment and intangibles	**-**	-	**(3,931)**	(3,254)	**(3,931)**	(3,254)
Fair value adjustments and receivables	**222**	280	**(3,273)**	(2,370)	**(3,050)**	(2,090)
Revaluation reserve	**-**	-	**(333)**	(413)	**(333)**	(413)
	3,277	2,987	**(7,537)**	(6,037)	**(4,259)**	(3,050)

Deferred tax is calculated, in full, on all temporary differences under the liability method using the enacted tax rate of **30%** (2018:30%). The movement on the deferred tax account is as follows:

	Consolidated		Separate	
	2019	**2018**	**2019**	**2018**
	MKm	**MKm**	**MKm**	**MKm**
Balance at 1 January	**(3,015)**	(5,323)	**(3,050)**	(5,333)
Profit or loss (Note 36)	**(1,176)**	1,058	**(1,144)**	1,036
Movement through OCI	**(65)**	1,250	**(65)**	1,247
Balance at 31 December	**(4,256)**	(3,015)	**(4,259)**	(3.050)

At 31 December 2019, **MK4,256 million** (2018: MK3,015 million) deferred tax liabilities are expected to be settled more than twelve months after the reporting date.

	As at 1 January 2019 MKm	**(Charged)/ credited to profit or loss MKm**	**Charged/ (credited) to equity MKm**	**As at 31 December 2019 MKm**
Consolidated				
Other provisions	1,641	**271**	-	**1,912**
Expected credit losses on loans and advances, financial investments and off-balance sheet items	1,083	**60**	-	**1,143**
Property and equipment	(3,254)	**(677)**	-	**(3,931)**
Fair value adjustments and receivables	(2,072)	**(830)**	**(145)**	**(3,047)**
Revaluation reserve	(413)	**-**	**80**	**(333)**
	(3,015)	**(1,176)**	**(65)**	**(4,256)**

18. Deferred tax assets and liabilities (Continued)

	As at 1 January 2019 MKm	(Charged)/ credited to profit or loss MKm	Charged/ (credited) to equity MKm	As at 31 December 2019 MKm
Separate				
Other provisions	1,628	284	-	1,912
Expected credit losses on loans and advances, financial investments and off-balance sheet items	1,079	64	-	1,143
Property and equipment	(3,254)	(677)	-	(3,931)
Fair value adjustments and receivables	(2,090)	(815)	(145)	(3,050)
Revaluation reserve	(413)	-	80	(333)
	(3,050)	(1,144)	(65)	(4,259)

19. Trading liabilities

See accounting policy in Note 3 (f)

	Consolidated		Separate	
	2019	2018	2019	2018
Trading liabilities:	MKm	MKm	MKm	MKm
Day one gain on foreign currency SWAPs	454	444	454	444

The Group enters into derivative transactions with corporate clients. The transaction price in the market in which these transactions are undertaken may be different from the fair value in the Group's principal market for those instruments, which is the wholesale dealer market.

On initial recognition, the Group estimates the fair values of derivatives transacted with corporate clients using valuation techniques. In many cases, all significant inputs into the valuation techniques are wholly observable – e.g. with reference to information from similar transactions in the wholesale dealer market.

If not all of the inputs are observable – e.g. because there are no observable trades in a similar risk at the trade date – then the Group uses valuation techniques that include unobservable inputs.

20. Deposits and loans from banks

See accounting policy in Note 3 (c)

	Consolidated		Separate	
	2019	2018	2019	2018
	MKm	MKm	MKm	MKm
Balances due to related banks (Note 42)	22,231	20,911	22,231	20,911
Balances due to other banks	701	13,668	693	13,672
	22,932	34,579	22,924	34,583

Maturity analysis

The maturities represent periods to contractual redemption of the deposit from banks recorded.

	Consolidated 2019	Consolidated 2018	Separate 2019	Separate 2018
Redeemable on demand	959	1,316	952	1,320
Maturing within 1 month	20,961	31,034	20,960	31,034
Maturing after 1 month but within 6 months	1,012	2,229	1,012	2,229
	22,932	34,579	22,924	34,583

21. Deposits from customers

See accounting policy in Note 3 (c)

	Consolidated 2019	Consolidated 2018	Separate 2019	Separate 2018
Personal and Business Banking				
Current and demand deposits	68,959	59,303	68,959	59,303
Savings accounts	22,261	19,189	22,261	19,189
Fixed deposit accounts	14,356	11,104	14,356	11,104
Foreign currency deposit accounts	20,261	26,420	20,261	26,421
	125,837	116 016	125,837	116 017
Corporate and Investment Banking				
Current and demand deposits	44,815	39,567	47,679	39,567
Savings accounts	2,062	920	2,062	920
Fixed deposit accounts	14,794	18,555	14,794	18,555
Foreign currency deposit accounts	54,574	54,226	54,623	56,800
	116,245	113,268	119,158	115 842
Total deposits from customers	242,082	229,284	244,995	231 859

At 31 December 2019, **MK17 million** (2018: MK18 million) of deposits from customers are expected to be settled more than twelve months after the reporting date.

Included in customer deposits were deposits of **MK516 million** (2018: MK1,357 million) held as collateral for irrevocable commitments under import letters of credit.

Some deposits carry fixed interest rates. Most customer deposits are at variable rate (see note 40).

21. Deposits from customers (continued)

Maturity analysis

The maturities represent periods to contractual redemption of the deposit and current accounts recorded.

	Consolidated		Separate	
	2019 MKm	2018 MKm	2019 MKm	2018 MKm
Redeemable on demand	**232,745**	223,633	**235,658**	226,208
Maturing within 1 month	**5,132**	2,197	**5,132**	2,197
Maturing after 1 month but within 3 months	**2,686**	3,029	**2,686**	3,029
Maturing after 3 months but within 6 months	**1,297**	230	**1,297**	230
Maturing after 6 months but within 12 months	**205**	177	**205**	177
Maturing after 12 months	**17**	18	**17**	18
	242,082	229,284	**244,995**	231,859

22. Other liabilities

See accounting policy in note 3 (c)

Items in transit	**341**	129	**341**	129
Lease liabilities (Note 22.1)	**580**	-	**580**	-
Trade payables	**57**	348	**57**	348
Accruals	**2,980**	2,370	**2,980**	2,370
Due to Standard Bank of South Africa (Note 42)	**2,095**	2,566	**2,095**	2,566
Unclaimed balances	**1,743**	998	**1,743**	998
Other*	**3,843**	1,856	**3,837**	1,857
	11,639	8,267	**11,633**	8,268

Included within items in other are cheques in course of collection, credits outstanding and point of sale transactions.

*= Deferred income of **MK1,336million** (2018 MK1,022million) is not included in the analysis of credit, liquidity and market risk under the Risk management section and Accounting classifications and fair values of financial instruments section.

At 31 December 2019, **MK Nil** (2018: MK Nil) other liabilities are payable more than twelve months after the reporting date.

22.1 Reconciliation of lease liabilities

	Consolidated and Separate					
	Balance at 1 January 2019 MKm	Additions MKm	Early terminations/ Cancellations MKm	Interest expense MKm	Payments MKm	Balance at 31 December MKm
Buildings	594	294	(1)	82	(389)	580
Total	**594**	**294**	**(1)**	**82**	**(389)**	**580**

23. Income tax payable

See accounting policy in Note 3 (n)

	Consolidated		Separate	
	2019 MKm	2018 MKm	2019 MKm	2018 MKm
Balance at 1 January	**408**	65	**264**	-
Provisions raised during the year (Note 36)	**6,317**	6,248	**6,017**	5 882
Income tax payments during the year	**(4,653)**	(2,506)	**(4,296)**	(2,219)
Tax credits (utilised) during the year	**(131)**	(3,399)	**(130)**	(3,399)
Balance at 31 December	**1,941**	408	**1,855**	264

At 31 December 2019, **MK Nil.** (2018: MK Nil) income tax is payable more than twelve months after the reporting date.

24. Provisions

See accounting policy in Note 3 (m)

	Consolidated and Separate			
	Performance and deferred bonus	Sundry	Expected credit loss for off-balance sheet exposures	Total
	MKm	MKm	MKm	MKm
Balance at 1 January 2019	1,871	1,708	182	3,761
Provisions raised during the year	2,998	638	103	3,739
Provisions released during the year	(2,574)	(490)	(105)	(3,169)
Balance at 31 December 2019	2,295	1,856	180	4,331

Performance and deferred bonus

A significant portion of the provisions are staff performance based bonuses which are expected to be settled in full by the first quarter of the year 2020. There are no uncertainties relating to the amount and timing of the cash outflows for sundry provisions.

*=Included within sundry provisions are severance pay provisions for ex-staff and retired employees whose cases are in court, legal provisions for outstanding court cases and sundry provisions.

Reconciliation of expected credit losses for off-balance sheet exposures

	Consolidated and Separate
	MKm
Stage 1 impairments:	
Balance at 1 January 2019	182
Impairment loss for the year:	
ECL on new exposure raised	103
Subsequent change in ECL	(66)
Change in ECL due to derecognition	(27)
Net impairments raised/(released)	10
Other movements	(12)
Balance at 31 December 2019	180

25. (i) Share capital

	Consolidated and Separate	
	2019	2018
	MKm	MKm
Issued and fully paid up as at 31 December	234	234

At 31 December 2019 the total authorised share capital comprised 240 million ordinary shares of MK1 each (31 December 2018: 240 million ordinary shares of MK1 each).

(ii) Share premium

Issue of shares at a premium at 31 December	8,492	8,492

26. Reserves

(i) Revaluation reserve

(i) Revaluation reserve		
Balance at 1 January	7,533	7,533
Revaluation surplus during the year	(266)	-
Deferred tax on revaluation surplus	80	-
Balance at 31 December	7,347	7,533

The revaluation reserve comprises the surplus on revaluation of the Group's land and buildings in accordance with the Group's policy on land and buildings. The carrying values of the properties were adjusted to the revalued amounts and the resultant surplus, net of deferred tax, was credited to revaluation reserves in shareholders' equity and this reserve is not distributable until realised.

26. Reserves (continued)

(ii) Available-for-sale revaluation reserve

	Consolidated and Separate	
	2019 MKm	2018 MKm
Balance at 1 January	-	358
IFRS 9 transition adjustment	-	(358)
Balance at 31 December	-	-

The available-for-sale revaluation reserve comprises the gain / (loss) on the banking investment book which is available-for-sale and is measured at fair value. Any unrealised gains and losses arising from such changes in fair values are recognised in other comprehensive income and accumulated equity.

(iii) Fair value through OCI reserve

	Consolidated and Separate	
	2019 MKm	2018 MKm
Balance at 1 January	**(151)**	-
IFRS 9 transition adjustment	-	370
Expected credit losses on financial instruments at fair value through OCI	**(12)**	19
Net gain/(loss) from changes in fair value	**485**	(770)
Deferred income taxes	**(145)**	230
Balance at 31 December	**177**	(151)

(ii) Share-based payment reserve

	Consolidated and Separate	
	2019 MKm	2018 MKm
Balance at 1 January	-	2
Net current year movement	-	(2)
Balance at 31 December	-	-

The fair value of share options is determined on the grant date and accounted for as staff costs over the vesting period of the share options, with a corresponding increase in the share-based payment reserve.

The Group has two equity compensation plans, namely the Group Share Incentive Scheme (GSIS) and the Equity Growth Scheme (EGS). The Group Share Incentive Scheme, which is equity-settled, confers rights to employees to acquire ordinary shares at the value of the SBG share price at the date the option is granted. The Equity Growth Scheme was implemented in 2005 and represents appreciation rights allocated to employees. The eventual value of the right is effectively settled by the issue of shares equivalent in value to the value of the rights.

26. Reserves (Continued)

The two schemes have five different sub-types of vesting categories as illustrated by the table below:

Vesting categories	Year	% Vesting	Expiry
TYPE A	3,4,5	50,75,100	10 Years
TYPE B	5,6,7	50,75,100	10 Years
TYPE C	2,3,4	50,75,100	10 Years
TYPE D	2,3,4	33,67,100	10 Years
TYPE E	3,4,5	33,67,100	10 Years

On vesting of share options, amounts previously credited to the share-based payment reserve are transferred to retained earnings through an equity transfer.

Group Share Incentive Scheme

Reconciliation of the movement of share options is detailed below:

	Option price range (ZAR)	Number of options	
	2019	2019	2018
Options outstanding at the beginning of the year		-	10,375
Exercised	62.39 - 111.94	-	(10,375)
Options outstanding at 31 December		-	-

Share options were exercised in full throughout the year. The weighted average share price for the year was **ZAR183.51** (December 2018: ZAR192.35).

As at 31 December 2019, (December 2018: Nil), there were no options granted to employees, including executive directors, that had not been exercised.

Equity growth scheme

The share options were valued using a Black-Scholes option pricing model. Each grant was valued separately.

The Group is required to ensure that employees' tax arising from benefits due in terms of the scheme is paid in accordance with the Taxation Act of Malawi. Where employees have elected not to fund the tax from their own resources the tax due is treated as a diminution of the gross benefits due under the scheme.

As at 31 December 2019 (December 2018: Nil), there were no rights granted to employees, including executive directors that had not been exercised.

(v) Loan loss reserve

	Consolidated		Separate	
	2019	2018	2019	2018
	MKm	MKm	MKm	Mkm
Balance at 1 January	-	2,845	-	2,845
Transfer from retained earnings	-	(2,845)	-	(2,845)
Balance at 31 December	-	-	-	-

26. Reserves (Continued)

(vi) Retained earnings

	Consolidated		Separate	
	2019	2018	2019	2018
	MKm	MKm	MKm	Mkm
Balance at 31 December	**61,132**	52,768	**59,224**	51,676
IFRS 9 transition adjustment	**-**	(2,364)	**-**	(2,367)
IFRS 16 transition adjustment	**79**	-	**79**	-
Restated balance at 1 January	**61,211**	50,404	**59,303**	49,309
Dividends paid	**(6,101)**	(2,699)	**(6,101)**	(2,699)
Transfer to loan loss reserve	**-**	2,845	**-**	2,845
Profit for the year	**15,879**	10,582	**15,119**	9,769
Balance at 31 December	**70,989**	61,132	**68,321**	59,224

27. Net interest income

See accounting policy in Note 3(p)

	Consolidated		Separate	
	2019	2018	2019	2018
	MKm	MKm	MKm	Mkm
Interest income				
Loans and advances	**21,131**	18,016	**21,131**	18,066
Investment securities	**17,322**	11,504	**17,322**	11,504
Cash and short term funds	**4,718**	9,478	**4,710**	9,478
	43,171	38,998	**43,163**	39,048
Interest expense				
Customer deposits	**4,027**	3,884	**4,027**	3,884
Deposits by banks	**134**	-	**134**	-
Borrowed funds	**133**	374	**133**	379
	4,294	4,258	**4 294**	4,263
Net interest income	**38,877**	34,740	**38,869**	34,785

Total interest income and expense calculated using the effective interest rate method reported above that relate to financial assets or financial liabilities that are not valued at fair value through profit or loss are **MK43,171 million** (2018: MK39,998 million) and **MK4,294 million** (2018: MK4,258 million) respectively.

28. Net fee and commission income

See accounting policy in Note 3 (s)

	Consolidated and Separate	
	2019	2018
	MKm	MKm
Fee and commission income		
Point of representation fees	**1,315**	1,175
Card based commissions	**2,039**	1,581
Electronic banking fees	**2,015**	1,065
Foreign currency service fees	**1,718**	1,573
Documentation and administration fees	**3,906**	4,256
Knowledge based fees	**288**	789
Insurance commission	**694**	609
Penalty based fees	**156**	192
Guarantee fees	**1,151**	990
ATM fees	**101**	640
Other	**407**	106
	13,790	12,976
Fee and commission expense		
Interbank transactions	**(1,080)**	(871)
Net fee and commission income	**12,710**	12,105

All fee and commission revenue/ (expense) reported above relates to financial assets or liabilities not carried at fair value through profit or loss for the Group and Company.

29. Net trading income

See accounting policy in Note 3 (t)

	Consolidated		Separate	
	2019	2018	2019	2018
	MKm	MKm	MKm	MKm
Foreign exchange	**8,465**	6,395	**7,182**	4,802
Trading income on debt securities	**652**	2,560	**652**	2,560
	9,117	8,955	**7,834**	7,362

30. Other operating income

	Consolidated		Separate	
	2019	2018	2019	2018
	MKm	MKm	MKm	MKm
Sundry income	**152**	117	**216**	187

31. Other gains and losses on financial instruments

See accounting policy in Note 3(g)

	Consolidated and Separate	
	2019	2018
	MKm	MKm
Gains on debt realisation of financial assets measured at fair value through OCI	**-**	69

32. Credit impairment charges

See accounting policy in Note 3 (g)

Net expected credit losses raised and released - IFRS 9:		
- Loans and advances to banks (Note 11)	**(133)**	(286)
- Loans and advances to customers (Note 12)	**2,300**	5,621
- Financial investments (Note 13)	**55**	40
- Letters of credit, bank acceptances and guarantees (Note 24)	**10**	(59)
Recoveries on loans and advances previously written off	**(360)**	(411)
Modification gains and losses on distressed financial assets (Note 12)	**-**	(3)
	1,872	4,902

33. Staff costs

	Consolidated and Separate	
	2019	2018
	MKm	MKm
Salaries and allowances	**13,822**	12,631
Share options scheme	**(3)**	(2)
Retirement benefit costs	**1,215**	1,140
	15,034	13,769

34. Depreciation and amortisation

See accounting policy in Note 3(i) and (k)

Depreciation (Note 16)	**2,733**	2,184
Amortisation of intangible assets (Note 17)	**1,455**	1,455
	4,188	3,639

35. Other operating expenses

	Consolidated		Separate	
	2019	2018	2019	2018
	MKm	MKm	MKm	MKm
Franchise fees	**1,718**	1,647	**1,718**	1,647
Auditor's remuneration and fees for other services	**187**	184	**187**	184
Motor vehicle and fuel costs	**198**	209	**198**	209
Software and IT costs	**4,104**	4,543	**4,104**	4,543
Communication costs	**817**	1,228	**817**	1,228
Travel and entertainment expenses	**906**	968	**906**	968
Recurrent expenditure on property and equipment	**903**	803	**903**	803
Marketing and advertising expenses	**690**	650	**690**	650
Stationery and printing expenses	**153**	226	**153**	226
Training expenses	**349**	252	**349**	252
Insurance and security costs	**2,460**	1,598	**2,460**	1,598
Premises expenses	**267**	632	**267**	632
Professional fees	**437**	438	**437**	438
Indirect taxes	**1,985**	1,940	**1,974**	1,940
Operational risk losses	**162**	428	**151**	428
Administration and membership fees	**115**	121	**115**	121
Exchange differences	**-**	391	**-**	391
Commission paid	**263**	184	**148**	184
Coverage expenses	**(226)**	412	**(226)**	412
Other expenses	**902**	1,050	**904**	729
	16,390	17,904	**16,255**	17,583

36. Income tax expense

See accounting policy in Note 3(n)

	Consolidated		Separate	
	2019	2018	2019	2018
	MKm	MKm	MKm	Mkm
Current tax @ 30% (2018: 30%)				
- Current	**6,317**	6,248	**6,017**	5,882
Deferred tax (Note 18)	**1,176**	(1,058)	**1,144**	(1,036)
	7,493	5,190	**7,161**	4,846

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	Consolidated		Separate	
	2019	2018	2019	2018
	MKm	MKm	MKm	Mkm
Profit before income tax expense	**23,372**	15,772	**22,280**	14,615
Tax calculated at the statutory tax rate of 30%	**7,012**	4,732	**6,684**	4,385
Tax effect of:				
Expenses not deductible for tax purposes	**693**	595	**689**	598
Non-taxable income for tax purposes	**(212)**	(137)	**(212)**	(137)
Total income tax expense in profit or loss	**7,493**	5,190	**7,161**	4,846

37. Earnings per share

See accounting policy in Note 3(u)

Net profit attributable to equity holders (MKm)	**15,879**	10,582	**15,119**	9,769
Weighted average number of ordinary shares in issue (millions)	**234**	234	**234**	234
Basic earnings per share (expressed in MK per share)	**67.86**	45.22	**64.61**	41.75
Diluted earnings per share (expressed in MK per share)	**67.86**	45.22	**64.61**	41.75

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year.

38. Dividends per share

See accounting policy in Note 3(o)

Interim dividends are accounted for as a component of equity until they have been ratified at an annual general meeting. The directors proposed a final dividend in respect of the year ended 31 December 2019 of **MK21.31** (2018: MK17.05) per ordinary share representing **MK5 billion** (2018: MK4 billion).

An interim dividend of **MK8.95** (2018: MK7.24) per ordinary share representing **MK2.1 billion** (2018: MK1.7 billion) was paid in the year and therefore total dividend for the year is **MK30.26** per share (2018: MK24.29), amounting to a total of **MK7.1 billion** (2018: MK5.7billion).

39. Unrecognised financial instruments, contingent liabilities and commitments

a) Legal proceedings

There are a number of legal proceedings outstanding against the Group as at 31 December 2019. The defence against these claims and litigation costs are estimated to cost **MK1,023million** (2018: MK892million). Management is accordingly satisfied that the legal proceedings currently pending against the Group should not have a material adverse effect on the Group's consolidated financial position and the directors are satisfied that the Group has adequate provisions in place to meet claims that may succeed.

b) Malawi Revenue Authority (MRA) tax audit

MRA conducted a transfer pricing audit covering the years 2012 to 2018 and issued a preliminary letter of findings. In its preliminary letter of findings, MRA intended to disallow franchise fees which were deemed not to be at arm's length as per Section 127A of the Taxation Act. MRA believes that an appropriate mark up on the actual cost of services rendered will be the ideal remuneration as opposed to the current franchise arrangement. As at the time of issue of the report, the Group had responded to MRA's preliminary findings and MRA was yet to conclude the audit.

c) Capital commitments and contingent liabilities

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

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

	Consolidated and Separate	
	2019	2018
	MKm	MKm
Contingent liabilities		
Acceptances and letters of credit	**14,263**	15,850
Guarantees and performance bonds	**96,666**	92,266
	110,929	108,116

Commitments		
Undrawn formal stand-by facilities, credit lines and other commitments to lend	**26,678**	16,701
Authorised but not yet contracted capital commitments on property and equipment	**537**	2,099
	27,215	18,800

Included in undrawn formal stand-by facilities, credit lines and other commitments to lend are irrevocable commitments amounting to **MK263 million** (2018: Nil).

d) Operating lease commitments

The future minimum payments under non-cancellable operating leases are as follows:

	Consolidated and Separate	
	2019	2018
	MKm	MKm
Low value assets and short-term leases (IFRS 16)		
Within 1 year	**29**	-
	29	-
Leases IAS 17		
Buildings		
Within 1 year	-	25
After 1 year but within 5 years	-	699
After 5 years	-	460
	-	1,184
Equipment		
Within 1 year	-	28

40. Effective interest rates of financial assets and financial liabilities

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

Consolidated and Separate	2019	
	In MK	In US$
Assets		
Government securities	15.73% - 16.21%	-
Deposits with banking institutions	9.75%-14.42%	1.92% - 2.68%
Loans and advances to customers	14.06% - 20.60%	4.73% - 8.81%
Liabilities		
Customer deposits	0.04%-7.31%	0.06%-0.45%

Consolidated and Separate	2018	
	In MK	In US$
Assets		
Government securities	16.35%-20.39%	-
Deposits with banking institutions	4.65%-15.33%	1.84%-4.45%
Loans and advances to customers	16.21%-27.83%	7.41%-8.71%
Liabilities		
Customer deposits	0.51%-8.39%	0.01%-1.12%

41. Analysis of cash and cash equivalents as shown in the statement of cash flows:

	Consolidated and Separate			
	2019	2018	2019	2018
	MKm	MKm	MKm	MKm
Cash and balances with Reserve Bank of Malawi (note 8)	22,870	29,385	22,603	29,260
Less: Liquidity reserve requirement	(11,763)	(18,913)	(11,763)	(18 913)
	11,107	10,472	10,840	10,347
Treasury bills and bonds with a maturity of over 90 days	2	3	2	3
Deposits and balances due from banking institutions with maturity of less than 90 days	37,264	48,270	37,286	48,206
	48,373	58,745	48,128	58,556

For the purposes of the cash flow statements, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including cash and balances with Reserve Bank of Malawi, treasury bills and other eligible bills and amounts due from other banks. Cash and cash equivalents exclude the liquidity reserve requirement.

42. Related party transactions

The Group is controlled by Stanbic Africa Holdings Ltd, a Bank incorporated in the United Kingdom. The ultimate parent company of the Group is Standard Bank Group Limited, incorporated in the Republic of South Africa. There are other companies which are related to Standard Bank PLC through common shareholdings.

In the normal course of business, a number of banking transactions are entered into with related parties. These include loans, deposits and foreign currency transactions. The parent company also provides professional and technical consultancy services for which it charges agreed rates. The outstanding balances at the year end and related expense and income for the year are as follows:

	Separate	
	2019	2018
	MKm	MKm
Balances due from related parties		
Derivative assets		
Standard Bank of South Africa – Fellow subsidiary	105	39
Loans and advances to banks		
Standard Bank of South Africa – Fellow subsidiary	43	65
Stanbic Kenya – Fellow subsidiary	3	4
Stanbic Botswana – Fellow subsidiary	-	5
Balances due from related banks (Note 11)	46	74
Loans and advances to customers		
Balances due from directors and other key management personnel	790	474
Balances due from other related parties	327	670
	1,117	1,144
Other assets		
Balance due from Standard Bank Bureau De Change Limited - subsidiary	12	30
Balance due from Standard Bank of South Africa – Fellow subsidiary	132	10
	144	40
Interest income earned from related banks	273	455
Trading income/(expense)from/(to)related banks	59	167
Franchise fees earned from Standard Bank Bureau De Change Limited	64	70

The amounts due from related party banks relate to nostro accounts and are not secured.

The amounts due from related party banks are short term in nature.

The loans issued to non-executive directors are repayable over three years and are granted at market related interest rates and are secured by the asset being purchased. The loans issued to key management personnel follow staff loans policy.

No stage 3 expected credit losses have been recorded against balances with related parties outstanding during the year.

	Separate	
	2019	2018
	MKm	MKm
Balances due to related parties		
Deposits from customers		
Balances due to directors and other key management personnel	92	81
Balances due to other related parties	4,047	2,771
Standard Bank Bureau De Change Limited -Subsidiary	2,913	2,575
	7,052	5,427
Deposits and loans from banks		
Standard Bank of South Africa – Fellow subsidiary	3,577	2,433
Stanbic Zimbabwe – Fellow subsidiary	3	6
Stanbic Zambia – Fellow subsidiary	-	20
Standard Bank of South Africa Isle of Man Branch - Fellow subsidiary	18,651	18,452
Balances due to related party banks (Note 20)	22,231	20,911
Other liabilities		
Standard Bank of South Africa - Fellow subsidiary (Note 22)	2,095	2,566
Balances due to related parties	2,095	2,566
Derivative liabilities		
Standard Bank of South Africa – Fellow subsidiary	171	466
Contingencies		
Letter of guarantee – Standard Bank of South Africa – Fellow subsidiary	846	7,830
Letter of guarantee – Stanbic Botswana – Fellow subsidiary	-	1,276
	846	9,106
Key management compensation		
Salaries and other short-term benefits	1,263	1,018
Contributions to defined contribution plans	160	160
Share options	(3)	1
	1,420	1,179

42. Related party transactions (Continued)

	Separate	
	2019	2018
	MKm	MKm
Interest expense to related banks	622	466
Staff costs paid to related banks	14	12
Franchise fees – Standard Bank of South Africa (Note 35)	1,718	1,647
Information technology fees and other services- Standard Bank of South Africa	2,033	2,952
Dividends paid - Stanbic Bank Africa Holdings	3,672	1,624
Directors remuneration		
Non-executive directors – fees	39	39
Non-executive directors – expenses	46	42
Executive directors salaries and other short-term benefits	376	330
	461	411

A listing of members of the Board of Directors is shown on first page of the directors' report.

The fees for the Directors for 2019 are as detailed below:

Dr. R Harawa	MK5.4million
Mr. R K Phiri	MK4.2million
Mr. A A Chioko	MK4.2million
Mr. J Patel	MK4.2million
Mr. A J W Chinula	MK4.2million
Dr. N R Kanyongolo	MK4.2million
Mrs. C Mtonda	MK4.2million
Mr. S Ulemu	MK4.2million
Mr. D Pinto	MK4.2million

43. Inflation and exchange rates

The foreign currencies affecting most the operations of the Group are United States Dollar, British Pound and South African Rand. The average of selling and buying exchange i.e. rate at year end of these currencies and the country's national index price which presents inflation rate were as follows:

	2019	2018	2017
United States Dollar (USD)	738.87	733.69	732.02
Sterling Pound (GBP)	976.05	938.76	989.70
South African Rand (ZAR)	52.75	50.99	59.37
Inflation rates as at 31 December (%)	11.5	9.9	7.1

As at the date of approval of the consolidated and separate financial statements, the exchange rates were as follows:

United States Dollar (USD)	741.75
Sterling Pound (GBP)	955.00
South African Rand (ZAR)	48.03

44. Subsequent events

In 2017, the Bank suffered a credit loss from a customer namely Cotton Ginners Africa Limited (CGAL) who defaulted on a credit facility amounting to US$11.93 million. This loss incident was largely a result of fraud.

The Bank instituted action against CGAL and the Guarantors of the deal in a bid to recover the amounts owed to the Bank and an insurance claim was also pursued by the Bank with Stanbic International Insurance Limited. On 4 February 2020, Stanbic International Insurance Limited accepted the claim and committed to settle US$9.6 million.

Accordingly, a credit recovery of US$9.6 million will be recognised in the year ending 31 December 2020.

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Footprint in Malawi