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Annual Report 2018

STANDARD BANK PLC

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Standard Bank Moving Forward™

AFRICA IS OUR HOME – WE DRIVE HER GROWTH

OUR REPORTS

Standard Bank PLC is a subsidiary of the Standard Bank Group, Africa's largest Bank by assets. The Standard Bank Group with strong African roots and leader in emerging markets has on the ground representation in 20 African countries.

With our 49 years of local market knowledge, we offer the best banking solutions to grow your business effectively. We will continue to move Malawi forward.

AIR | These icons refer readers to information elsewhere in this report.

www | Indicates that additional information is available online.

Contents

Chairman's and Chief Executive's Report

"Standard Bank PLC's enduring commitment remains that of providing our customers with superior services that are fit-for-purpose, based on in-depth knowledge of their business and delivered by knowledgeable people who are passionate about our customers."

↓13%
MK10.6 billion
PROFIT AFTER TAX
2017:MK12.2 billion

ECONOMIC OVERVIEW

Headline inflation averaged 9.2% in 2018 supported by moderate increase in food prices and to an extent a stable exchange rate. The Kwacha lost some ground against the United States dollar in the second half of the year driven by strong demand for foreign exchange against a slowdown in supply as the tobacco auction drew to an end. Interest rates remained stable for the greater part, supported by a single digit inflation rate environment.

PERFORMANCE

The Group's 2018 performance was negatively impacted by contraction of the revenue base. The revenue contracted as a result of drop in interest rates as well as drop in investments in financial assets. This was due to a drop in excess funding arising from a decline in customer deposits which were down by 12% year on year. Despite the decline in interest income, loans and advances to customers grew by 20% year on year.

The Group's profit after tax of MK10.6billion was 13% below prior year due to drop in net interest income which was down 13% year on year. However, non interest revenue was 22% above the same period last year due to growth in transaction volumes in the transactional business. This increase cushioned the impact of the drop in interest income.

Credit impairments were 21% below prior year due to decline of the non-performing loan book especially in the agriculture sector. The decline in credit impairments was due to the Group's focus on robust credit risk management. The Group continues to place emphasis on recoveries of previously written off loans.

Operating costs grew by 5% year on year below average inflation for the year of 9.2% due to the Group's focus on cost management. However, cost to income ratio was 63% compared to 59% in prior year due to a drop in revenues. Going into 2019, the Group will focus on diversifying its revenue base and will continue to focus on cost management.

Earnings per share for the year decreased from MK52 in 2017 to MK45 in 2018.

STRATEGY

We aspire to be the "undisputed number one financial services organisation in Malawi, delivering superior value to all stakeholders. We believe that we are more than a Bank and we have set to achieve high ambitions to reflect a GREAT company that we are.

In order to achieve this, we will concentrate on Client Centricity where we promise to deliver value to our clients while embracing Digitisation with full recognition that the digital revolution is having a massive impact on how business is done in the financial services industry in order to truly offer Universal Financial Services (UFS). This means our business units, legal entities and corporate functions will work as an integrated whole to service our client's financial needs in a seamless way. We understand as a Bank that we need to adapt quickly or risk losing relevance and client appeal, therefore we have welcomed digital revolution as one of our biggest opportunities.

LEADERSHIP

Leadership skills development continued and will continue to be a major focus area for development. With the myriad of complexities and changes that exist in the banking industry today, the requirement for authentic, agile and visionary leaders is greater than ever before. Not only are leaders expected to perform and transform, but they are also required to empower, create meaning and direction, inspire and influence others. Our leadership programmes offered with support from the Global Leadership Centre (GLC) will endeavour to develop necessary skills and capabilities to drive innovations and efficiencies in order to embrace the changes today and for the future bank.

To create the required shift and to have a competitive edge in business performance, robust development and training solutions and interventions will be put in place to equip, assess and support our leaders to lead and thrive today and remain relevant in future. This shift in leadership capability will be 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 could continue in 2019 supported by stable food prices and lower than prior year projected global oil prices.

As a Group, we remain committed to ensuring customer satisfaction. In order to improve customer satisfaction and improve efficiencies, the Group implemented a new core banking system in 2017. With the new system in place, we will drive digitisation in order to improve customer experience. We will also focus on cost rationalisation, prudent management of risk and liquidity, diversify balance sheet and maintain a healthy capital position.

APPRECIATION

We would like to thank the executive team and the staff for the results delivered in 2018. We thank our customers for their continued support. We also thank our colleagues on the Board for their sound guidance and support during the year.

Dr. R Harawa	Mr. W le Roux
Chairman	**Chief Executive**

28 February 2019

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.

Serving our customers

Growing our people

Delivering to our shareholders

Being proactive

Working in teams

Constantly Raising the Bar

Respecting each other

Upholding the highest levels of integrity

Review of Performance

MK10.6 billion
PROFIT AFTER TAX
2017: MK12.2 billion

14%
RETURN ON EQUITY
2017: 17%

747
EMPLOYEES
2017:772

63%
COST-TO-INCOME RATIO
2017: 59%

MK112.6 billion
LOANS AND ADVANCES TO CUSTOMERS
2017: MK94.2 billion

MK229.3 billion
DEPOSITS FROM CUSTOMERS
2017: MK259.5 billion

LEAD TRANSACTION ADVISOR TO THE
MK15 billion
ICON PROPERTIES PLC INITIAL PUBLIC OFFERING (IPO) – THE LARGEST IPO ON THE MALAWI STOCK EXCHANGE AND THE FIRST IN THE LAST DECADE

SOLE FINANCIER OF THE COUNTRY'S LARGEST DUAL CURRENCY REVOLVING CREDIT FACILITY AMOUNTING TO
US$20 million

ARRANGED AND FINANCED PRE-EXPORT AND TRADE FACILITIES TOTALLING
US$50 million
FOR THE TOBACCO AND PETROLEUM SECTORS

AWARDS

Best Investment Bank – EMEA Finance

Best Investment Bank – Euromoney Awards

Best Sub Custodian Bank –Global Investor/ISF Sub Custody Survey

CIM Excellence Awards for Public Relations Project of the Year (247 Moments Campaign) – CIM Malawi

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.

MK74.9 million

CONTRIBUTED TO CORPORATE SOCIAL INVESTMENT

Spent MK40 million for a bursary program in 5 universities covering 30 students.

Donated MK4 million on National Reading Program in partnership with RTI International MERIT.

Sponsored MK2.2 million for Standard Bank and UNICEF Girls Mentorship program for girls in Dedza and Salima.

Sponsored MK11.6 million on Global Fund partners in Financial Management and Capacity building trainings for its principal Recipients and Sub-recipients.

Donated various hospital equipment worth MK5 million to Ntchisi district Hospital through the Nation Publications Ltd Mother's Day fun.

Sponsored MK4 million to a group of surgeons to conduct free cleft lip surgeries under Operation Smile initiative.

Donated MK5 million to UNDP towards the 2018 Population Census.

Sponsored MK3.1 million on Regional Electricity Regulators Association Conference.

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/ 10/

DR. REX HARAWA 61
Chairman
PhD. (Finance & Economics)
Appointed: August 2007

WILLIAM LE ROUX 57
Executive Director
Bachelor of Commerce
Appointed: December 2017

TEMWANI SIMWAKA 48
Executive Director
Fellow of the Association of Chartered Certified Accountants
Appointed: May 2010

ETNESS CHANZA 48
Company Secretary
MSc. Finance & Financial Law
Appointed: June 2006

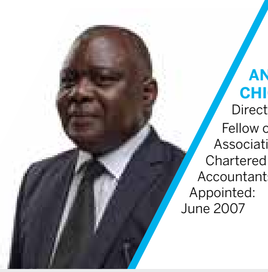
RODERICK PHIRI 68
Director
Bachelor of Social Science (Economics & Statistics)
Appointed: October 2006

CATHERINE MTONDA 57
Director
Master of Business Administration
Appointed: June 2012

SHADRECK ULEMU 59
Director
MSc Electronic Engineering
Appointed: May 2016

GREG BRACKENRIDGE 61
Director up to 19th November, 2018
Associate Institute of Bankers – South Africa
Appointed: August 2014

DAVID PINTO 45
Director
Bcom Management Finance
Appointed: May 2016



ANDREW CHIOKO 65
Director
Fellow of the Association of Chartered Certified Accountants
Appointed: June 2007

ALAN CHINULA SC 61
Director
LL.B Honours
Appointed: June 2012

DR. NGEYI KANYONGOLO 50
Director
PhD in Law (Warwick)
Appointed: June 2012

ANTONIO COUTINHO 51
Director
Baccalaures in Handel (Bachelor of Science in Business)
Appointed: July 2018 (Appointment became effective in December 2018 following Reserve Bank of Malawi's approval)

JAYESH PATEL 49
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 22.

Executive Committee

GENDER 6/ 6/

WILLIAM LE ROUX 57
Chief Executive
Bachelor of Commerce
Joined: December 2017

TEMWANI SIMWAKA 48
Chief Financial Officer
Fellow of the Association of Chartered Certified Accountants. Joined: September 2006

WILLIAM NUKA 54
Head, Information Technology
Bachelor of Science in Electrical Engineering
Joined: January 2000

ETNESS CHANZA 48
Head, Legal and Company Secretary
MSc. Finance & Financial Law
Joined: June 1996

DANIEL MBOZI 48
Head, Operations
Chartered Management Accountant
Joined: May 2004

FRANK CHANTAYA 43
Head, Corporate and Investment Banking,
Bachelor of Business Administration
Joined: April 2008

MARGARET KUBWALO-CHAIKA (PhD) 45
Head, Personal and Business Banking
PhD Customer Relationship and Knowledge Management
Joined: December 1998.

LINDA MANDA 43
Deputy Head Corporate and Investment Banking and Head Client Coverage
Fellow of the Association of Chartered Certified Accountants
Joined: January 2016

THOKO UNYOLO 38
Head, Marketing and Communication
Master of Business Administration
Joined: January 2015

KONDWANI MLILIMA 45
Chief Risk Officer
Master of Arts Economics
Joined: October 2002

MC LEWEN SIKWESE 33
Head, Global Markets
MSc. Finance, Economic Policy
Joined: September 2016

ZANDILE PHANGAPHANGA 36
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 22.

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 ensure 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 the 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 Standard Bank Africa ("SBAF");
- 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.

Member	28–Feb-18	23-May-18	26-July 18	15–Nov-18
Dr. R Harawa (Chairman)**	√	√	√	√
Mr. J P Patel**	√	√	√	√
Mr. R K Phiri**	√	A	√	√
Mr. A A Chioko**	√	A	√	√
Dr. N R Kanyongolo**	√	√	√	√
Mr. A J W Chinula**	√	√	√	√
Mrs. C Mtonda**	A	√	√	√
Mr. G Brackenridge*	√	√	√	A
Mr. W le Roux*	√	√	√	√
Mrs. T Simwaka *	√	√	√	√
Mr. S Ulemu**	√	√	√	√
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 comprises 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. 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 and any recommendations and confirmation that appropriate action has been taken;
- Monitor compliance with the Financial Services Act, Companies Act, Banking Act, the Stock Exchange

Board Audit Committee (continued)

Listings Requirements and all other applicable legislation in as far as they impact financial reporting.

- Monitor ethical conduct of the 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
Mrs. C Mtonda	-	Member
Mr. S Ulemu	-	Member

The committee met four times during the year.

Board Audit Committee – Meeting attendance

Member	27-Feb-18	22-May - 18	25-Jul - 18	14-Nov - 18
Mr. A A Chioko	√	A	√	√
Mr. S Ulemu	√	√	√	√
Mrs. C Mtonda	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 review 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
Dr. N R Kanyongolo	-	Member
Mr. R Phiri	-	Member

The committee met four times during the year.

Board Credit Committee – Meeting attendance

Member	26-Feb-18	21-May - 18	24 – Jul 18	13 – Nov - 18
Mr. Mr. J P Patel	√	√	√	√
Dr. N R Kanyongolo	A	√	√	√
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	-	Chairman
Mr. J P Patel	-	Member
Mr. D Pinto	-	Member

The committee met four times during the year.

Board Risk Committee - Meeting attendance

Member	26-Feb-18	21-May - 18	24–Jul - 18	13 – Nov - 18
Mr. A Chinula	√	√	√	√
Mr. J P Patel	√	√	√	√
Mr. D Pinto	√	A	√	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 also 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:

Mr. R K Phiri	-	Chairman
Dr. N R Kanyongolo	-	Member
Mr. A Chinula	-	Member
Mr. D Pinto	-	Member

The committee met four times during the year.

Board Human Capital Committee - Meeting attendance

Member	26-Feb-18	21-May - 18	24–Jul - 18	13 – Nov - 18
Mr. R K Phiri	√	√	√	√
Dr. N R Kanyongolo	√	√	√	√
Mr. A Chinula	√	√	√	√
Mr. D Pinto	√	A	√	A

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 support 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 long 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 is the fund manager.

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 2018.
- The Group was appointed as Lead Advisor to a transaction that involved the issuance of shares for ICON Properties Limited, a company that was listed on the Malawi Stock Exchange in the first quarter of 2019.
- The Group issued a performance guarantee for US$81.5 million for the rehabilitation of the entire railway line connecting Mkaya junction to Mchinji through Salima and Lilongwe.
- The Group granted a loan amounting to US$20 million in the Telecommunications sector which assisted clients funding of new capital expenditure.
- The Group granted an MK4.5 billion medium-term loan facility in the Real Estate sector to assist clients to refinance their debt.
- A more modern and customer-centric Private Banking suite was launched in Blantyre during the year.
- The Bank rolled out and enhanced its Digital Banking offering by extending functionality on the Mobile App, Mobile Banking and Internet Banking platforms.

GROUP SNAPSHOT

	2018	2017
Points of representation	**27**	27
ATMs	**84**	80
POS devices	**428**	260
Headcount	**747**	772

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 28.

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 newspapers, 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 economic 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 Energy, Telecommunications, 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 have 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 banking services are offered. We have also taken a 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 are 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 to 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 the 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.

The group's highlights for the year (continued)

Suppliers

The Group is committed to procuring 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, Education and Youth and Sustainable Development remain the key areas that we continue to support in Malawi. We are aware that a healthy, educated and growing economy will provide the much-needed resources for sustainable development; therefore we will continue to invest in these areas. To invest in an economy means to believe in that economy and drive it closer to achieving its goals. Our philosophy for Corporate Social Investment still remains that when we invest in our people and economy, we invest in our sustainability.

As a socially responsible corporate organisation, we support communities through meaningful corporate social investment initiatives that make a difference. We also encourage our staff members to be at the forefront when we drive sustainable growth and development in Malawi. We support this through staff volunteerism; and as a Bank, we match whatever our staff members are able to contribute to their communities financially.

Health

We continued with our partnership with The Global Fund's Principal recipients and Sub-recipients. We facilitated their Financial Management capacity building training in March and August 2018 to help Principal Recipients and Sub-Recipients of Global Fund money to administer and account for funds disbursed for the fight against AIDS, Malaria and Tuberculosis in Malawi.

For the past four years, the Group has partnered with Operation Smile is the 9th Mission in Malawi that conducts a nation-wide campaign of identifying people with cleft lip, preparing them for surgery, giving them a free surgery and provide them with post-surgery support bi-annually. Every year, the Group sponsors at least one mission. On 26th July and 25th October 2018, members of staff went to volunteer at the Queen Elizabeth Mission and Central Hospital Mission respectively.

The Group also partnered with Nation Publications Limited (NPL) 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 also participated in the Ntchisi District Hospital Sleepover challenge which our staff participated in to raise funds and purchased a generator. In the health sector, we invested over **MK 20.6 million** for 2018.

Education

In the Education sector, we continued with our 4-year Bursary Program covering 30 students of 5 universities in Malawi namely; Polytechnic, Chancellor College, Mzuzu University, Malawi University of Science and Technology and Lilongwe University of Agriculture and Natural Resources. The total Bursary Program scholarships are valued at MK120 million spread over the 4 academic years and will cover tuition accommodation food, book allowance and a stipend for the needy but hardworking students.

Female employees of the Group continued their monthly visits to Dedza and Salima to mentor girls under the partnership with UNICEF. The Group also donated to Care Malawi to construct a water tank and provide water pumping equipment to Linyangwa Girls Day Secondary school. Other activities done under the Group's Matching Policy were: donation iron sheets to Vibangalala Primary school, employees initiative to make sure that a final year Health Sciences student finishes his school and a donation to Funo Langa Girls Education Trust. We bought academic books for the 3 schools where we conduct our mentorship program in Salima from the proceeds of 2018 Be More Race. In the education sector **MK 46.2 million** was invested.

Youth and Sustainable Development

Our passion for Youth and Sustainable Development in Malawi is backed by our contribution to the progress of youth and economic matters. We continued to support sports events for the Rotary Club. We supported the Ndi Moyo Palliative Care golf tournament; their proceeds went toward the provision of palliative care in Salima district.

We also Supported one of Macoha Rehabilitation resettlement scheme located at Ndakwera in Chikhwawa. Ndakwera has a total of 55 visually impaired farmers. The idea of having these schemes is to make the visually impaired farmers self-reliant. MACOHA drilled a borehole and they required solar panels, pump, farm inputs and tank in order to complete the project. We invested **MK8,1 million** in Youth and Sustainable Development in 2018.

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 reside 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, 2009. It is in the business of banking and the provision of other related services. Its subsidiary Standard Bank Bureau De Change Limited is involved in foreign exchange trading.

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, profit or loss, other comprehensive income, changes in equity, cash flows, and notes to the financial statements.

Dividend
The net profit for the year of **MK10.6 billion** (2017: MK12.2 billion) has been added to retained earnings. An interim dividend of **MK1.7 billion** (2017: MK1.5 billion) was paid in September 2018 representing **MK7.24** (2017: MK6.39) per ordinary share. The directors recommend a final dividend of **MK4 billion** (2017: MK1billion) representing **MK17.05** (2017: MK4.26) 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*	-	All year
Dr. N R Kanyongolo*	-	All year
Mrs. C Mtonda*	-	All year
Mr. G. Brackenridge**	-	Up to 19th November 2018
Mr. S Ulemu*	-	All year
Mr. D Pinto***	-	All year
Mr. W le Roux**	-	All year
Mr. A Coutinho**	-	(Appointment became effective in December 2018 following Reserve Bank of Malawi's approval)
Mrs. E Chanza*	-	Company Secretary and all year

* Malawian

** South African

*** Portuguese

Directors interest
The following directors held shares in the Bank as at 31 December 2018.

Mr. J Patel	-	**146,668** (2017: 146,668) Ordinary shares
Mrs. T Simwaka	-	**102,809** (2017: 102,809) Ordinary shares
Mr. A A Chioko	-	**25,668** (2017: 25,668) Ordinary shares

Shareholding analysis
The shareholders of the Group as at 31 December 2018 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 auditor, 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 auditor for the year ending 31 December 2019.

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 2018, and the statements of profit or loss, 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 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 Companies Act, 2013, of Malawi.

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.

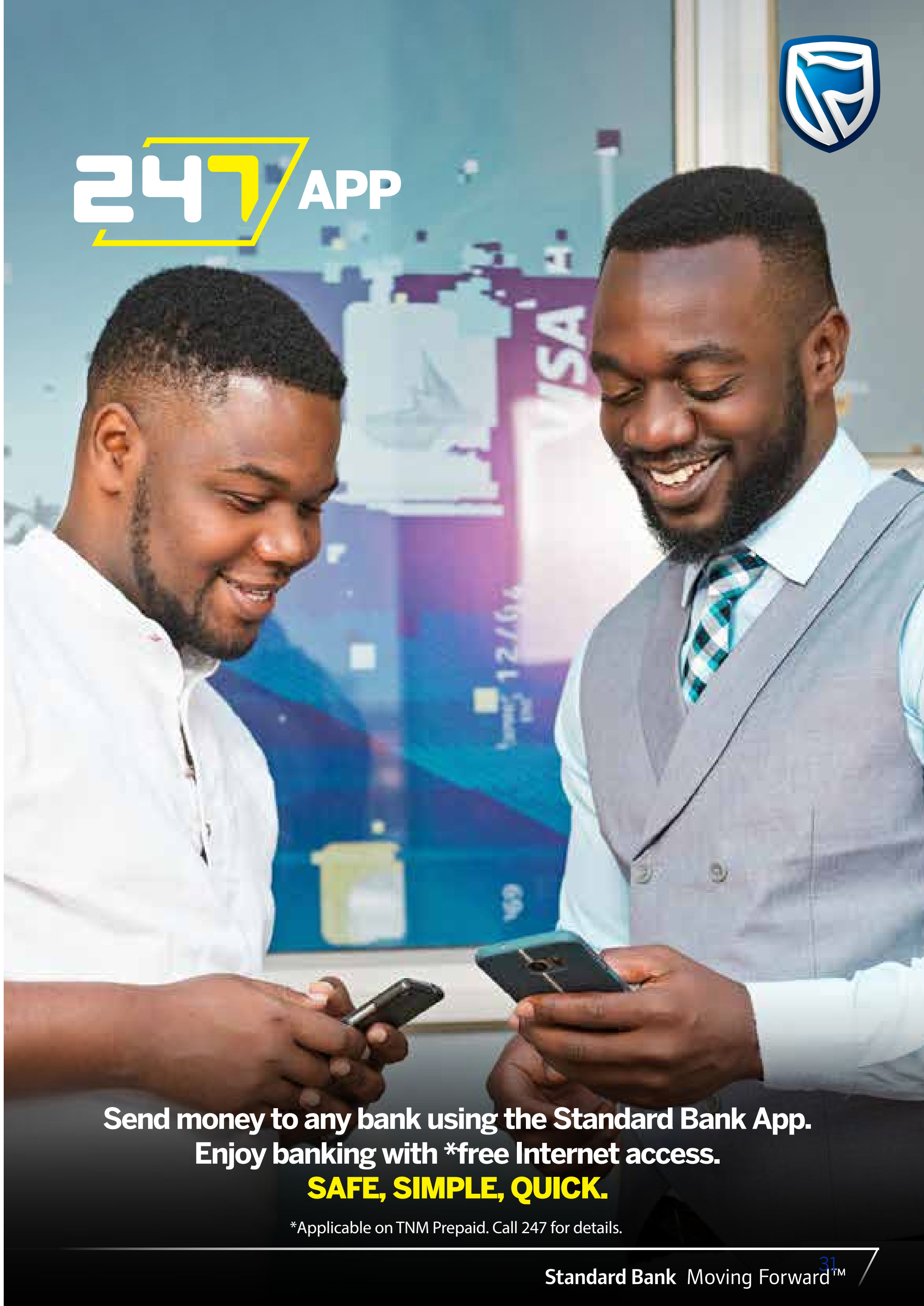
The external auditor is responsible for reporting on whether the consolidated and separate financial statements are fairly presented in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, 2013 of Malawi.

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 28 February 2019 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

DEDZA BOOK DONATION

We donated books worth MK4.6 million to three schools under the Girls Mentorship program that we support in partnership with UNICEF.

GLOBAL FUND FINANCIAL MANAGEMENT PROGRAMME

We are passionate about the health and well-being of Malawians in our quest to contribute to nation building and to move business and personal lives forward. Our partnership with the Global Fund underscores our commitment in fighting AIDS, TB and Malaria.

NATION PUBLICATIONS LIMITED NTCHISI DISTRICT HOSPITAL SLEEP OVER CHALLENGE

In solidarity with Nation Publications Limited to curb and reduce maternal deaths in the country, Standard Bank employees spent a night at Ntchisi District Hospital. This was part of a fundraising campaign for a Safe Motherhood cause. The Mother's Day Fun Race was organized by Nation Publication Limited's (NPL).

Our People

CHRIS CLARKSON VISIT

Chris Clarkson, Executive Head, Corporate and Investment Banking , South and Central Africa and Indian Ocean Region, visited Malawi and hosted a client dinner with Corporate and Investment Banking customers to deepen the client relationship as well as provide a meaningful platform to interact with our clients.

HEALTH WEEK

To promote good health amongst members of staff, the Bank organized a Health Week, a period in which members of staff were engaged by health experts on how to stay in good physical and mental shape. Main activities included health screening, stress management, financial management, and aerobics.

SOLA DAVID-BORHA VISIT

Standard Bank Group Chief Executive, Africa Regions– Sola David-Borha visited Malawi and engaged with the Bank's customers at a breakfast event to share insights on doing business in Africa.

Our Sponsorships

BE MORE RACE

The Be More Race is a signature event under our " Be More" proposition it provides a unique platform where we engage staff, clients, and the community and promote health, partnerships , product awareness and giving back to the community .

The race brings together people from diverse backgrounds with one purpose to achieve their respective goals through one race.

Our Events

BE MORE GOLF

We place premium value on the relationships with our customers and Golf provides us the platform to appreciate and have meaningful interactions. Standard Bank organized Be More Race golf tournament at Nchalo Sports Club (NSC) in Chikwawa.

CULTURAL DIVERSITY NIGHT

The Cultural Diversity night provides a rare opportunity for the Bank and its customers to celebrate together their diversity through food and entertainment.

E-TAX COCKTAIL

Standard Bank partnered with Malawi Revenue Authority (MRA) on digital tax payment via Business Online (BOL) and Enterprise Online (EOL). The Bank held a cocktail in Blantyre and Lilongwe to sensitize customers on the new method of payment.

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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 subsidiary (together the "Group") as at 31 December 2018, 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 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 46 to 217 comprise:

- the consolidated and separate statements of financial position as at 31 December 2018;
- the consolidated and separate statements of profit or loss 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 consolidated and separate 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.

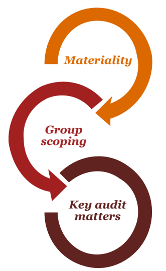
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* 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 in Malawi.

OUR AUDIT APPROACH

Overview



Overall Group materiality

- MK788 450 000, which represents 5% of consolidated profit before income tax expense.

Group audit scope

- The Group consists of two entities. Full scope audits were performed on both entities.

Key audit matters

- Expected credit losses on financial assets.

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
A list of partners names is available for inspection at the partnership principal business address above.
VAT reg.no. 30843660

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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	MK788 450 000
How we determined it	5% of consolidated profit before income tax expense.
Rationale for the materiality benchmark applied	We chose profit before tax 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 comprises two companies, Standard Bank PLC (the 'Bank') and its subsidiary Standard Bank Bureau De Change Limited, both operating in Malawi. The Bank represents 93% of the consolidated profit for the year ended 31 December 2018 and is thus considered to be a financially significant component. We performed full scope audits on the two companies within the Group due to financial significance and statutory reporting requirements.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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 financial assets *(Refer to accounting policies: Notes 2(e) - Changes in accounting policies, 3(g) - Financial assets and financial liabilities,note 3(g), credit risk note 4(b), 5 - Accounting estimates and judgements , loans and advances notes 11 and 12 and financial investments note 13)* *This Key audit matter relates to both the consolidated and separate financial statements.* The Group adopted IFRS 9 - *Financial Instruments* (IFRS 9) for the first time in the 2018 reporting period (Previously IAS 39 - *Financial Instruments: Recognition and Measurement* was applied). As a result, the accounting policies applicable to financial instruments have been amended accordingly.	Our audit addressed the expected credit losses on financial assets by performing the following procedures: We considered the appropriateness of accounting policies and evaluated the impairment methodologies applied by the Group in accordance with the requirements of IFRS 9.

Key audit matter	How our audit addressed the key audit matter
IFRS 9 requires the recognition of expected credit losses (ECLs) on all financial assets within the scope of its impairment model. At reporting date the Group has assessed the ECLs for the following financial assets: • Loans and advances to banks and other financial institutions, • Loans and advances to customers, • Financial investments and • Off-balance sheet exposures. Input assumptions that include probability of default, exposure at default and loss given default are used in determining the ECLs on the above financial assets and off balance sheet exposures. The following has been considered in calculating ECL: ECL measurement period The measurement period is at a minimum equal to the 12 month ECL of the financial asset. A loss allowance for the full lifetime of the financial asset is required where there has been a significant increase in credit risk ("SICR") since initial recognition. ECL is also determined for unutilised loan commitments, that pertain to Personal and Business Banking (PBB) exposures and certain Corporate and Investment Banking (CIB) exposures. SICR For exposures where there is a SICR, ECL is measured over the full lifetime of the financial asset. There are different indicators of SICR which are considered separately for Corporate & Investment Banking (CIB) and Personal & Business Banking (PBB) as described further below. CIB Based on known environmental factors, publicly available information and account performance, all CIB exposures are assessed for SICR by comparing the credit risk grade at the reporting date to the origination credit risk grade. PBB At reporting date, all PBB exposures are assessed to determine whether there has been a SICR. The SICR thresholds, which are behaviour score based, are derived for each portfolio vintage of	We obtained an understanding of and tested the relevant controls relating to loans and advances to banks, other financial institutions and customers; financial investments; and off-balance sheet exposures that included: • the processes over credit approval for loans and advances; • the monitoring of credit including the internal rating tool and the watch list; • the global markets process of buying, holding and or trading of treasury bills and government bonds (financial investments); and • the calculation of the ECLs. For loans and advances to banks and customers, off-balance sheet exposures and financial investments, we performed the following procedures (the ECL for off-balance sheet exposures and financial investments is included in the CIB model): For loans and advances to banks and customers, off-balance sheet exposures and financial investments, we performed the following procedures (the ECL for off-balance sheet exposures and financial investments is included in the CIB model): Stage 1 and Stage 2 financial assets For both CIB and PBB exposures, we utilised our experts to assess the appropriateness of the models, used by the Bank, including IFRS 9 compliance. We considered the models used to be reasonable. We tested the inputs into the model by performing the following procedures: • For PBB exposures, we assessed whether the system is calculating the number of days in arrears correctly, as this is the key driver in identifying the stage of credit, noting no exceptions; • For CIB exposures, on a sample basis, we assessed the reasonableness of the judgement applied by management in determining the risk rating attribution by discussing the credit rating report with management to obtain an understanding of the assumptions used, and by comparing these assumptions used with the financial information available and other publicly available information;

Key audit matter	How our audit addressed the key audit matter
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. Forward looking expectations Forward looking expectations applied in determining the ECLs include the macroeconomic outlooks of the country in which the Bank operates and take into account variables such as gross domestic product, central bank policy interest rates, inflation, exchange rates and treasury bill rates. For financial investments the impairment provision has been calculated per exposure for the shorter of 12 months or the remaining lifetime of the exposure. The ECL is measured using a 3 stage model which determines how the loss allowance for ECLs is measured and how the effective interest income on the financial asset is calculated. The detail is set out as follows: • Stage 1 relates to financial assets that are neither credit impaired on origination nor for which there has been a SICR. • Stage 2 relates to a lifetime ECL allowance and is calculated for financial assets that are assessed to display a SICR since origination, past due for less than 90 days and not considered low credit risk. • Stage 3 relates to a lifetime ECL for financial assets that are assessed to be credit impaired and are past due for more than 90 days. The impairment of financial assets was considered to be of most significance to the current year audit due to the following: • The first time adoption of IFRS 9 by the Bank, • The degree of judgement applied by management in determining the behaviour scores and when establishing the SICR thresholds for all financial assets, • The degree of judgement applied in the classification of exposures between Stage 1 and Stage 2, and • The degree of judgement applied by management in determining the ECL.	• For CIB exposures, we compared the input listings used in the model to the detailed general ledger listings, which we audited, and noted no differences.; • For PBB exposures, we tested the transfers between Stage 1 and Stage 2 based on the set SICR thresholds rule. We found that transfers were consistent with the rule and clients on the watch list; • For both CIB and PBB exposures, we agreed the inputs used in the model, such as the exposures at default, the type of product (mortgage, overdraft, term loans etc.) and the effective interest rate with the information in the credit portfolio. We found that the information used in the model is consistent with the credit portfolio; • For PBB exposures, we assessed the judgement applied by management in determining the loss given default (LGD), the percentage of the balance in default that is not expected to be recovered and found these to be reasonable and supported by approval from the Credit Management Committee; • For PBB exposures, we evaluated the reasonableness of key judgemental inputs used in the models, including inspecting the applied economic scenarios and forward looking information. We are satisfied that the applied economic scenarios and the forward looking information is in line with our understanding of the macro-economic environment in Malawi; • For both CIB and PBB, we assessed the parameters used in the sensitivity analysis, comparing these with the sensitivities calculated by our experts. We found the parameters to be consistent and noted no significant differences. Stage 3 financial assets 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 review of credit monitoring records. No CIB exposures were classified as stage 3 financial assets.

Key audit matter	How our audit addressed the key audit matter
	The following additional procedures were performed for PBB exposures: • For a sample of non-performing loans, we traced expected cash flows used in the model to signed payment plans from clients or forced sale values of pledged collateral. • For collateral held, we also inspected legal agreements and supporting documentation to test the existence and legal right to collateral. • We tested the mathematical accuracy of the expected credit losses for a sample of loans and noted no significant differences. We agreed a sample of inputs to supporting documentation and noted no inconsistencies.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the *Standard Bank PLC Annual Report 2018* which was obtained prior to the date of the auditor's report. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the 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, 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 and fair presentation of the consolidated and separate financial statements 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 a 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

7 March 2019

Statements of Financial Position

As at 31 December 2018

		Consolidated			Separate		
			Restated			Restated	
	Note	2018 MKm	2017 MKm	2016 MKm	2018 MKm	2017 MKm	2016 MKm
Assets							
Cash and balances held with Central Bank	8	**29,385**	35,234	36,866	**29,260**	34,962	36,715
Derivative assets	9	**369**	541	726	**369**	541	726
Trading assets	10	**11,993**	23,522	18,008	**11,993**	23,522	18,008
Current tax asset		**-**	3,362	408	**-**	3,361	408
Loans and advances to banks and other financial institutions	11	**76,448**	174,788	107,530	**76,383**	173,730	107,530
Loans and advances to customers	12	**112,632**	94,219	91,008	**113,255**	94,604	91,008
Financial investments	13	**85,376**	46,893	37,623	**85,376**	46,893	37,623
Investment in subsidiary	14	**-**	-	-	**100**	100	100
Other assets	15	**5,623**	9,429	6,314	**5,653**	9,445	6,333
Property and equipment	16	**15,845**	15,208	12,613	**15,845**	15,208	12,613
Intangible assets	17	**19,487**	20,942	591	**19,487**	20,942	591
Total assets		**357,158**	424,138	311 687	**357 721**	423 308	311 655
Liabilities							
Derivative liabilities	9	**160**	188	195	**160**	188	195
Trading liabilities	19	**444**	135	322	**444**	103	322
Deposits and loans from banks	20	**34,579**	60,659	19,234	**34,583**	60,681	19,234
Deposits from customers	21	**229,284**	259,488	204,410	**231,859**	259,820	205,138
Other liabilities	22	**8,267**	23,107	16,873	**8,268**	23,102	16,865
Income tax payable	23	**408**	65	3,217	**264**	-	3,132
Provisions	24	**3,761**	2,941	3,167	**3,761**	2,941	3,167
Deferred tax liabilities	18	**3,015**	5,323	1,469	**3,050**	5 333	1,475
Total liabilities		**279,918**	351,906	248,887	**282,389**	352,168	249,528
Equity							
Share capital	25	**234**	234	234	**234**	234	234
Share premium	25	**8,492**	8,492	8,492	**8,492**	8,492	8,492
Revaluation reserve	26	**7,533**	7,533	4,211	**7,533**	7,533	4,211
Available for sale reserve	26	**-**	358	(84)	**-**	358	(84)
Fair value through OCI reserve	26	**(151)**	-	-	**(151)**	-	-
Share-based payment reserve	26	**-**	2	4	**-**	2	4
Loan loss reserve	26	**-**	2,845	-	**-**	2,845	-
Retained earnings	26	**61,132**	52,768	49,943	**59,224**	51,676	49,270
Total equity		**77,240**	72,232	62 800	**75,332**	71,140	62 127
Total liabilities and equity		**357,158**	424,138	311 687	**357 721**	423 308	311 655

These financial statements were approved for issue by the Board of Directors on 28 February 2019 and were signed on its behalf by:

Dr. R Harawa
Chairman

Mr. A A Chioko
Director

Statements of Profit or Loss

For the year ended 31 December 2018

		Consolidated		Separate	
			Restated		Restated
	Note	2018 MKm	2017 MKm	2018 MKm	2017 MKm
Interest income	27	**38,998**	43,787	**39,048**	43,829
Interest expense	27	**(4,258)**	(3,938)	**(4,263)**	(3,939)
Net interest income	27	**34,740**	39,849	**34,785**	39,890
Fee and commission income	28	**12,976**	10,010	**12,976**	10,010
Fee and commission expense	28	**(871)**	(639)	**(871)**	(639)
Net fee and commission income	28	**12,105**	9,371	**12,105**	9,371
Net trading income	29	**8,955**	7,960	**7,362**	7,012
Other operating income	30	**117**	74	**187**	119
Other gains and losses on financial instruments[1]	31	**69**	-	**69**	-
Total operating income		**55,986**	57,254	**54 508**	56,392
Credit impairment charges	32	**(4,902)**	(6,224)	**(4,902)**	(6,224)
Income after credit impairment charges		**51,084**	51,030	**49,606**	50,168
Staff costs	33	**(13,769)**	(14,306)	**(13,769)**	(14,306)
Depreciation and amortisation	34	**(3,639)**	(2,599)	**(3,639)**	(2,599)
Other operating expenses	35	**(17,904)**	(16,664)	**(17,583)**	(16,400)
Total expenditure		**(35,312)**	(33,569)	**(34,991)**	(33,305)
Profit before income tax expense		**15,772**	17,461	**14,615**	16,863
Income tax expense	36	**(5,190)**	(5,299)	**(4,846)**	(5,120)
Profit for the year attributable to ordinary shareholders		**10,582**	12,162	**9,769**	11,743
Earnings per share					
Basic and diluted (MK per share)	37	**45.22**	51.97	**41.75**	50.19

1. The Group and Company have as permitted by IFRS 9, elected not to restate their comparative annual financial statements. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 39 basis. Refer to the accounting policies for more detail on the change in presentation.

Statements of Other Comprehensive Income

For the year ended 31 December 2018

	Consolidated		Separate	
	2018 MKm	2017 MKm	2018 MKm	2017 MKm
Profit for the year	**10,582**	12,162	**9,769**	11,743
Items that will not be reclassified to profit or loss				
Net revaluation gain on property and equipment	**-**	3,322	**-**	3,322
Items that may be reclassified subsequently to profit or loss				
Net change in fair value on available for sale financial assets - (IAS 39)	**-**	442	**-**	442
Net change in expected credit losses -IFRS 9	**19**	-	**19**	
Net change in debt financial assets measured at fair value through other comprehensive income (OCI) – IFRS 9	**(540)**	-	**(540)**	-
Total other comprehensive income for the year, net of tax	**(521)**	3,764	**(521)**	3,764
Total comprehensive income for the year attributable to ordinary shareholders	**10,061**	15,926	**9,248**	15,507

Statements of Changes in Equity

For the year ended 31 December 2018

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**

Statements of Changes in Equity

For the year ended 31 December 2018

Consolidated	Share capital MKm	Share premium MKm	Available for sale reserve MKm	Share based payment reserve MKm	Revaluation reserve MKm	Loan loss reserve MKm	Retained earnings MKm	Total MKm
2017								
Balance at 1 January 2017	234	8,492	(84)	4	4,211	-	49,943	62,800
Profit for the year	-	-	-	-	-	-	12,162	12,162
Other comprehensive income								
Revaluation surplus, net of tax	-	-	-	-	3,322	-	-	3,322
Change in fair value of available-for-sale financial assets, net of tax	-	-	442	-	-	-	-	442
Total comprehensive income for the year	-	-	442	-	3,322	-	12,162	15,926
Transactions with owners of the company								
Dividends paid	-	-	-	-	-	-	(6,500)	(6,500)
Transfer to loan loss reserve	-	-	-	-	-	2,845	(2,845)	-
Transfer (from)/ to share ownership scheme reserve	-	-	-	(2)	-	-	8	6
Total transactions with owners of the company	-	-	-	(2)	-	2,845	(9,337)	(6,494)
Balance at 31 December 2017	234	8,492	358	2	7,533	2,845	52,768	72,232

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	**234**	**8,492**	**-**	**(151)**	**-**	**7,533**	**-**	**59,224**	**75,332**

Statements of Changes in Equity

For the year ended 31 December 2018

Separate	Share capital MKm	Share premium MKm	Available for sale reserve MKm	Share based payment reserve MKm	Revaluation reserve MKm	Loan loss reserve MKm	Retained earnings MKm	Total MKm
2017								
Balance at 1 January 2017	234	8,492	(84)	4	4,211	-	49,270	62,127
Profit for the year	-	-	-	-	-	-	11,743	11,743
Other comprehensive income								
Revaluation surplus, net of tax	-	-	-	-	3,322	-	-	3,322
Change in fair value of available-for-sale financial assets, net of tax	-	-	442	-	-	-	-	442
Total comprehensive income for the year	-	-	442	-	3,322	-	11,743	15,507
Transactions with owners of the company								
Dividends paid	-	-	-	-	-	-	(6,500)	(6,500)
Transfer to loan loss reserve	-	-	-	-	-	2,845	(2,845)	-
Transfer (from)/ to share ownership scheme reserve	-	-	-	(2)	-	-	8	6
Total transactions with owners of the company	-	-	-	(2)	-	2,845	(9,337)	(6,494)
Balance at 31 December 2017	234	8,492	358	2	7,533	2,845	51,676	71,140

Statements of Cash Flows

For the year ended 31 December 2018

	Note	Consolidated 2018 MKm	Consolidated Restated 2017 MKm	Separate 2018 MKm	Separate Restated 2017 MKm
Cash flows from operating activities:					
Interest received	27	**38,998**	43,787	**39 048**	43,829
Interest paid	27	**(4,258)**	(3,938)	**(4,263)**	(3,939)
Fee and commission income	28	**12,976**	10,010	**12,976**	10,010
Fee and commission expenses	28	**(871)**	(639)	**(871)**	(639)
Trading and other income receipts		**9,499**	8,012	**8,008**	7,077
Recoveries from impairment losses		**411**	547	**411**	547
Payments to employees and suppliers		**(32,478)**	(33,717)	**(32,155)**	(33,450)
Cash flows from operating activities before changes in operating assets and liabilities		**24,277**	24,062	**23,154**	23,435
Changes in operating assets and liabilities:					
Loans and advances		**(26,620)**	(3,049)	**(26,858)**	(3,434)
Liquidity reserve requirements	41	**1 310**	(3,621)	**1,310**	(3,621)
Trading assets maturing over 90 days		**7 872**	(8,463)	**7,872**	(8,463)
Financial investments over 90 days		**(38,892)**	(24,458)	**(38,892)**	(24,458)
Derivative assets		**38,082**	(64,486)	**38,082**	(64,486)
Other assets		**3,867**	(6,199)	**3,851**	(6,195)
Deposits from customers		**(29,999)**	53,491	**(27,757)**	53,097
Deposits and loans from other banks		**(24,789)**	39,657	**(24,807)**	39,679
Other liabilities		**(13,289)**	5,746	**(13,284)**	5,746
Net cash (used in)/generated from operating activities before income tax		**(58,181)**	12,680	**(57,329)**	11,300
Income tax paid		**(2,506)**	(6,347)	**(2,219)**	(6,143)
Net cash (used in)/generated from operating activities		**(60,687)**	6,333	**(59,548)**	5,157
Cash flows from investing activities					
Purchase of property and equipment	16,17	**(2,854)**	(23,643)	**(2,854)**	(23,643)
Proceeds from sale of property and equipment		**25**	-	**25**	-
Net cash used in investing activities		**(2,829)**	(23,643)	**(2,829)**	(23,643)
Cash flows from financing activities					
Dividends paid		**(2,699)**	(6,500)	**(2,699)**	(6,500)
Net cash used in financing activities		**(2,699)**	(6,500)	**(2,699)**	(6,500)
Net decrease in cash and cash equivalents		**(66,215)**	(23,810)	**(65,076)**	(24,986)
Cash and cash equivalents at 1 January		**127,096**	147,718	**125,768**	147,566
Effect of exchange rate fluctuations on cash and cash equivalents held		**(2,136)**	3,188	**(2,136)**	3,188
Cash and cash equivalents at 31 December	41	**58 745**	127,096	**58 556**	125,768

Notes to the Consolidated and Separate Financial Statements

For the year ended 31 December 2018

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 subsidiary Standard Bank Bureau De Change 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** (2017: 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.

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 Malawi Companies Act,2013.

(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 15 Revenue from Contracts with Customers (IFRS 15) with effect from 1 January 2018, replaces the existing revenue standards and the related interpretations. The standard sets out the requirements for recognising revenue that applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts or financial instruments). The core principle of the standard is that revenue recognised reflects the consideration to which the Company expects to be entitled in exchange for the transfer of promised goods or services to the customer. The standard incorporates a five-step analysis to determine the amount and timing of revenue recognition. The Group adopted IFRS 15 on 1 January 2018 and, as permitted by IFRS 15, did not restate its comparative financial results. The standard does not apply to revenue associated with financial instruments, and therefore does not impact the majority of the Group and Company's revenue.

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (IFRIC 22) provides guidance on how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

  The above mentioned standards and interpretation to the IFRS standards, adopted on 1 January 2018, did not affect the Group and Company's previously reported financial results, disclosures or accounting policies and did not impact the Group and Company's results upon transition.

- IFRS 9 with effect from 1 January 2018 replaced IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 introduced new requirements which included an expected credit loss (ECL) impairment model and new requirements for the classification and measurement of financial assets. IFRS 9, adopted on 1 January 2018, impacted the Group and Company's results upon transition. The impact to the Group and Company's reserves on transition to IFRS 9 materially relates to IFRS 9's ECL impairment requirements. IFRS 9's classification and measurement requirements resulted in an immaterial impact to the Group and Company on transition. Refer to the IFRS 9 transition disclosure for more detail.

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)

IFRS 9 - transition

Background

With effect from 1 January 2018, IFRS 9 replaced IAS 39. IFRS 9 introduced new requirements which included an ECL impairment model and new requirements for the classification and measurement of financial assets as follows:

ECL impairment requirements	IFRS 9's ECL impairment model's requirements represented the most material IFRS 9 transition impact for the Group. The ECL model applies to financial assets measured at either amortised cost or at fair value through other comprehensive income (FVOCI), loan commitments when there is a present commitment to extend credit (unless these are measured at fair value through profit or loss (FVTPL)) and guarantees. ECL is, at a minimum, required to be measured through a loss allowance at an amount equal to the 12-month ECL. However, where the lifetime is less than 12 months, lifetime ECL will be measured for the financial asset. A loss allowance for full lifetime ECL is required for a financial asset if the credit risk of that financial instrument has increased significantly since initial recognition.
Classification and measurement	IFRS 9 requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The accounting for financial assets differs in various other areas to the IAS 39 requirements such as embedded derivatives and the recognition of fair value adjustments in OCI. All changes in the fair value of financial liabilities that are designated at FVTPL due to changes in own credit risk are required to be recognised within OCI.

Adoption of IFRS 9

The Group and Company retrospectively adopted IFRS 9 on 1 January 2018 with an adjustment to the Group and Company's opening 1 January 2018 reserves and, as permitted by IFRS 9, did not restate their comparative financial results. Accordingly, the Group and Company's previously reported financial results up to 31 December 2017 are presented in accordance with the requirements of IAS 39 and for 2018, and future reporting periods, are presented in terms of IFRS 9. However, the Group and Company have elected to continue to apply the hedge accounting requirements of IAS 39 once IFRS 7 disclosures are implemented.

IFRS 9's ECL requirements

The most material IFRS 9 transition impact for the Group and Company is that of IFRS 9's new ECL requirements which results in the earlier recognition of credit impairment provisions primarily as a result of the drivers outlined in the table below. This impact was solely as a result of the adoption of IFRS 9 and is not as a result of changes in the credit quality of the Group and Company's loan exposures.

12-month ECL for performing loans (stage 1)	IFRS 9 contains a minimum 12-month ECL for exposures for which there has not been a significant increase in credit risk (SICR), whereas IAS 39 required credit impairments to be recognised only following the identification of objective evidence of impairment.
Significant increase in credit risk (SICR) (stage 2)	A lifetime ECL is recognised for all exposures for which there has been a SICR, being a material change in the probability of default, since origination.
Off-balance sheet exposures	IFRS 9's scope includes off-balance sheet exposures, such as unutilised loan commitments (except those loan commitments at fair value through profit and loss), bankers acceptances, guarantees and letters of credit.
Lifetime model work out requirement	In terms of determining ECL for stage 1 and 2 exposures where there is a probability of default, the potential loss from a lifetime perspective is considered, which would include the probability of recovery post default and subsequent re-default. For stage 3 exposures, being exposures that are either in default or where default is imminent, this would include consideration of cures and subsequent re-default.
Forward looking economic expectations	IFRS 9 requires an adjustment for forward looking economic expectations in the determination of SICR and in the measurement of the ECL

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 2018

Consolidated	IAS 39 at 31 December 2017 MKm	IFRS 9 ECL MKm	IFRS 9 at 1 January 2018 MKm
Assets			
Cash and balances with Central Bank	35,234	-	**35,234**
Derivative assets	541	-	**541**
Trading assets	23,522	-	**23,522**
Loans and advances to banks other financial institutions	174,788	**(386)**	**174,402**
Loans and advances to customers	94,219	**(2,641)**	**91,578**
Financial investments	46,893	**(98)**	**46,795**
Other financial and non-financial assets	48,941	-	**48,941**
Total financial assets	424,138	**(3,125)**	**421,013**
Equity and liabilities			
Equity attributable to the ordinary shareholder	72,232	**(2,352)**	**69,880**
Liabilities[1]	351,906	**(773)**	**351,133**
Total equity and financial liabilities	424,138	**(3,125)**	**421,013**

Separate	IAS 39 at 31 December 2017 MKm	IFRS 9 ECL MKm	IFRS 9 at 1 January 2018 MKm
Assets			
Cash and balances with Central Bank	34 962	-	**34,962**
Derivative assets	541	-	**541**
Trading assets	23,522	-	**23,522**
Loans and advances to banks other financial institutions	173,730	**(389)**	**173,341**
Loans and advances to customers	94,604	**(2,641)**	**91,963**
Financial investments	46,893	**(98)**	**46,795**
Other financial and non-financial assets	49,056	-	**49,056**
Total financial assets	423,308	**(3,128)**	**420,180**
Equity and liabilities			
Equity attributable to the ordinary shareholder	71,140	**(2,355)**	**68,785**
Liabilities[1]	352,168	**(773)**	**351,395**
Total equity and financial liabilities	423,308	**(3,128)**	**420,180**

1 Amount of MK773million comprises of deferred tax asset of MK1,014million and ECL on off-balance items amounting to MK241million.

Table 2: Impact on the Group's statement of changes in equity on 1 January 2018

Consolidated	IAS 39 at 31 December 2017 MKm	IFRS 9 transition adjustment at 1 January 2018 MKm	IFRS 9 at 1 January 2018 MKm
Ordinary share capital and share premium	8,726	-	**8,726**
Retained earnings	52,768	**(2,364)**	**50,404**
Other reserves	10 738	**12**	**10,750**
Total ordinary shareholder's equity	72,232	**(2,352)**	**69,880**

Separate	IAS 39 at 31 December 2017 MKm	IFRS 9 transition adjustment at 1 January 2018 MKm	IFRS 9 at 1 January 2018 MKm
Ordinary share capital and share premium	8,726	-	**8,726**
Retained earnings	51,676	**(2,367)**	**49,309**
Other reserves	10,738	**12**	**10,750**
Total ordinary shareholder's equity	71,140	**(2,355)**	**68,785**

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 3: Impact on financial instrument classification (excluding impact of IFRS 9 ECL)

		IFRS 9 transition adjustment at 1 January 2018				
	IAS 39 at 31 December 2017	Held-for-trading	Fair value through profit or loss - default	Amortised cost	Fair value through OCI	IFRS 9 at 1 January 2018
Consolidated	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**
Financial assets						
Held-for-trading	24,063	**24,063**	-	-	-	**24,063**
Held to maturity	18,402	-	-	**18,402**	-	**18,402**
Loans and receivables	313,292	-	**42,246**	**271,046**	-	**313,292**
Available-for-sale	28,491	-	**15**	-	**28,476**	**28,491**
Total financial assets	384,248	-	**42,261**	**289,448**	**28,476**	**384,248**
Financial liabilities						
Held-for-trading	323	**323**	-	-	-	**323**
Other amortised cost	343,254	-	-	**343,254**	-	**343,254**
Total financial liabilities	343,577	**323**	-	**343,254**	-	**343,577**

Separate						
Financial assets						
Held-for-trading	24,063	**24,063**	-	-	-	**24,063**
Held to maturity	18,402	-	-	**18,402**	-	**18,402**
Loans and receivables	312,363	-	**42,231**	**270,132**	-	**312,363**
Available-for-sale	28,491	-	**15**	-	**28,476**	**28,491**
Total financial assets	383,319	**24 063**	**42,246**	**288,534**	**28,476**	**383,319**
Financial liabilities						
Held-for-trading	291	**291**	-	-	-	**291**
Other amortised cost	343,603	-	-	**343,603**	-	**343,603**
Total financial liabilities	343,894	**291**	-	**343,603**	-	**343,894**

The fair value gain that would have been recognised in other comprehensive income during the reporting period if the financial assets had not been reclassified was nil as there were no instruments reclassified out of fair value through profit or loss and fair value through OCI to amortised cost.

The Group applied IFRS 9's classification and measurement requirements based on the facts and circumstances at 1 January 2018 in determining the transition adjustment. As at 1 January 2018 the Group determined the classification of financial assets on the basis of the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. An assessment of the instrument's contractual terms was performed to determine whether the terms give rise on specified dates to cash flows that are solely payments of principal and interest of the principal amount outstanding (referred to as SPPI) and whether there is an accounting mismatch.

For debt financial assets that meet IFRS 9's business model (hold to collect and hold to collect and sell) and the SPPI test are to be classified as amortised cost or at fair value through OCI, the Group assessed whether there is an accounting mismatch based on the facts and circumstances as at 1 January 2018. Where an accounting mismatch exists, these financial assets were designation as at FVTPL.Based on the facts and circumstances as at 1 January 2018, there was no accounting mismatch.

Equity financial assets that are elected as at fair value through profit or loss based on the facts and circumstances as at 1 January 2018.

From a classification perspective, both IAS 39 and IFRS 9 have the same requirements for the classification of financial liabilities. From a recognition of gains and losses perspective, the amount of the change in fair value that is attributable to changes in the credit risk of financial liabilities that have been designated at fair value through profit and loss shall, in terms of IFRS 9, be recognised in OCI with the remaining amount of the change in the fair value of the financial liability being presented in profit or loss. The gains and losses presented in OCI are not subsequently recognised in profit or loss. Where, however, presenting the changes in the fair value of the liability due to changes in credit risk in OCI would create or enlarge an accounting mismatch in profit or loss, IFRS 9 permits the gains and losses due to changes in the credit risk of that liability to be recognised in profit or loss.

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 4: The transition from IAS 39 to IFRS 9's impairment requirements by segment and asset class

	IAS 39 – 31 December 2017					IFRS 9 – 1 January 2018				IFRS 9 – transition adjustment – 1 January 2018		
Consolidated	Performing portfolio provision MKm	Specific debt provision MKm	Total IAS 39 provision (excluding IIS) MKm	IIS MKm	Total IAS 39 provision (including IIS) MKm	Stage 1 MKm	Stage 2 MKm	Stage 3 MKm	Total IFRS 9 provision (including IIS) MKm	Gross MKm	Tax MKm	Net MKm
Personal and Business Banking (PBB)												
Loans and advances measured at amortised cost												
Mortgage loans	11	28	39	-	39	8	26	28	62	23	(7)	16
Instalment sales and finance leases	32	36	68	-	68	111	693	36	840	772	(232)	540
Other loans and advances	616	7,273	7,889	2,295	10,184	1,255	1,548	9,568	12,371	2,187	(656)	1,531
Off-balance sheet exposures												
Letters of credit	-	-	-	-	-	6	-	-	6	6	(2)	4
Guarantees	-	-	-	-	-	161	-	-	161	161	(48)	113
Irrevocable unutilised facilities	-	-	-	-	-	-	-	-	-	-	-	-
Corporate and Investment Banking (CIB)												
Loans and advances measured at amortised cost												
Corporate lending	776	-	776	-	776	428	3	-	431	(345)	104	(241)
Sovereign lending	-	-	-	-	-	389	-	-	389	389	(117)	272
Debt financial investments measured at fair value through OCI												
Sovereign	-	-	-	-	-	12	-	-	12	12	(4)	8
Debt financial investments measured at amortised cost												
Sovereign	-	-	-	-	-	98	-	-	98	98	(29)	69
Off-balance sheet exposures												
Letters of credit	-	-	-	-	-	6	-	-	6	6	(2)	4
Guarantees						57	-	-	57	57	(17)	40
Irrevocable unutilised facilities	-	-	-	-	-	11	-	-	11	11	(3)	8
Total impairment	1,435	7,337	8,772	2,295	11,067	2,542	2,270	9 632	14,444	3,377	(1,013)	2,364

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 4: The transition from IAS 39 to IFRS 9's impairment requirements by segment and asset class (continued)

	IAS 39 – 31 December 2017					IFRS 9 – 1 January 2018				IFRS 9 – transition adjustment – 1 January 2018		
Separate	Performing portfolio provision MKm	Specific debt provision MKm	Total IAS 39 provision (excluding IIS) MKm	IIS MKm	Total IAS 39 provision (including IIS) MKm	Stage 1 MKm	Stage 2 MKm	Stage 3 MKm	Total IFRS 9 provision (including IIS) MKm	Gross MKm	Tax MKm	Net MKm
Personal and Business Banking (PBB)												
Loans and advances measured at amortised cost												
Mortgage loans	11	28	39	-	39	**8**	**26**	**28**	**62**	**23**	**(7)**	**16**
Instalment sales and finance leases	32	36	68	-	68	**111**	**693**	**36**	**840**	**772**	**(232)**	**540**
Other loans and advances	616	7,273	7,889	2,295	10,184	**1,254**	**1,548**	**9,568**	**12,370**	**2,186**	**(656)**	**1,530**
Off-balance sheet exposures												
Letters of credit	-	-	-	-	-	**6**	**-**	**-**	**6**	**6**	**(2)**	**4**
Guarantees	-	-	-	-	-	**161**	**-**	**-**	**161**	**161**	**(48)**	**113**
Irrevocable unutilised facilities	-	-	-	-	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Corporate and Investment Banking (CIB)												
Loans and advances measured at amortised cost												
Corporate lending	776	-	776	-	776	**433**	**3**	**-**	**436**	**(340)**	**102**	**(238)**
Sovereign lending	-	-	-	-	-	**389**	**-**	**-**	**389**	**389**	**(116)**	**273**
Debt financial investments measured at fair value through OCI												
Sovereign	-	-	-	-	-	**12**	**-**	**-**	**12**	**12**	**(4)**	**8**
Debt financial investments measured at amortised cost												
Sovereign	-	-	-	-	-	**98**	**-**	**-**	**98**	**98**	**(29)**	**69**
Off-balance sheet exposures												
Letters of credit	-	-	-	-	-	**6**	**-**	**-**	**6**	**6**	**(2)**	**4**
Guarantees						**57**	**-**	**-**	**57**	**57**	**(17)**	**40**
Irrevocable unutilised facilities	-	-	-	-	-	**11**	**-**	**-**	**11**	**11**	**(3)**	**8**
Total impairment	1,435	7,337	8,772	2,295	11,067	**2,546**	**2,270**	**9 632**	**14,448**	**3,381**	**(1,014)**	**2,367**

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)

From 1 January 2018, the Group has applied IFRS 9 and classified its financial assets in the following measurement categories:

- Fair value through profit or loss (default)
- Fair value through other comprehensive income (OCI)
- Amortised cost

Expected credit loss (ECL) was raised on instruments classified as fair value OCI and amortised cost, There was no ECL recognised on financial assets classified as fair value through P&L(refer to table 3).

The Group also recognised ECL on transition on loan commitments and financial guarantee contracts in accordance with IFRS 9. The loan allowance was recognised as a provision.

The Group also assessed on a forward looking basis ECL associated with its debt instruments carried at armotised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts.The Group recognised a loss allowance for such losses at transition.

(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 subsidiary, Standard Bank Bureau de Change Limited, which is 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 however 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

3. Significant accounting policies (Continued)

(c) Financial assets and financial liabilities (continued)

(ii) Derecognition (continued)

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.

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 (IFRS 9 and IAS 39)

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. In terms of IAS 39 Embedded derivatives included in hybrid instruments 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.

In terms of IAS 39, embedded derivatives included in hybrid instruments 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 financial host contracts are accounted for and measured applying the rules of the relevant financial instrument category.

The method of recognising fair value gains and losses on derivatives designated as a hedging instrument depends on the nature of the hedge relationship.

3. Significant accounting policies (Continued)

(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 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 instruments (IFRS 9)

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 through profit or loss to fair value through OCI

3. Significant accounting policies (Continued)

(g) Financial assets and financial liabilities (continued)

(iv) Reclassification (continued)

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 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.

IAS 39 - Accounting Policies for financial instruments

Financial assets

The Group classifies its treasury bills; bonds and investment securities into the following three categories: held for trading, held-to-maturity and available-for-sale assets. Financial assets that the Group holds for short-term profit taking are classified as assets held for trading. Financial assets with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Subsequent to initial recognition held-for-trading assets are measured at fair value. All related realised and unrealised gains and losses arising from the change in fair value are included in the profit or loss.

Financial assets classified as held-to-maturity are carried at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. Any unrealised gains and losses arising from changes in the fair values are recognised in OCI. Foreign exchange gains and losses on available-for-sale monetary items are recognised in profit or loss. Interest income is recognised in profit or loss using the effective interest method.

When assets classified as available-for-sale are disposed of or impaired, the related accumulated fair value adjustments previously recognised in consolidated and separate statements of other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

The fair values of held-for-trading and available-for-sale financial assets are based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price. Earnings or price/ cash flow ratios refined to reflect the specific circumstances of the issuer.

Unquoted equity securities for which fair values cannot be measured reliably are measured at cost less any impairment losses.

Impairment of financial assets

At each reporting date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a Group of assets such as adverse changes in the payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group.

If impairment indicators are present; an impairment test is carried out. If a decline in the fair value of an available-for-sale financial asset has previously been recognised in consolidated and separate statements of other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in equity is transferred to profit or loss as reclassification adjustment.

Impairment losses in respect of financial assets that are measured at amortised cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. Impairment losses are recognised in profit or loss. Impairment losses are reversed through profit or loss if the subsequent increase in the financial asset can be related objectively to an event occurring after the impairment loss was recognised.

Impairment losses in respect of an investment in an equity instrument classified as available-for-sale are not reversed through the profit or loss but recognised in OCI. If the fair value of a debt instrument classified as available-for- sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to group assets such as adverse changes in the payment status of borrowers or issuers in the group or economic conditions that correlate with defaults in the Group.

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on fair value through OCI investment securities are recognised by transferring the difference between the acquisition cost and current fair value out of equity to profit or loss less any previously recognised impairment losses. When a subsequent event causes the amount of impairment loss on an fair value through OCI debt security to decrease, the impairment loss is reversed through profit or loss.

Allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of the loans. The amount of the allowance is the difference between the carrying amount and the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

3. Significant accounting policies (Continued)

(g) Financial assets and financial liabilities (continued)

IAS 39 - Accounting Policies for financial instruments (continued)
Impairment of financial assets (continued)

A general allowance for loan impairment is established to cover losses that are judged to be present in the lending portfolio at the reporting date, but which have not been specifically identified as such. This allowance is based on the directors' assessment of the latent risk of default known to be present in the portfolio of the Group's advances.

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred, but not yet identified. Financial assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

When a loan is deemed uncollectible, it is written off against the allowance account. Subsequent recoveries are recognised in profit or loss. If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the allowance is recognised in profit or loss.

Financial guarantees

Financial guarantee contracts are contracts that require the issuer (i.e. the Group) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the original or modified terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities. Financial guarantees are included within other liabilities.

Financial guarantees are initially recognised at fair value on the date the guarantee is given and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management.
Any increase in the liability relating to guarantees is included in the profit or loss under other operating expenses.

(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

3. Significant accounting policies (Continued)

(k) Intangible assets (Continued)

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 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

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

3. Significant accounting policies (Continued)

(n) Income tax expense (Continued)

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.

Interest income and expense presented in the profit or loss 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 statements of profit or loss.

(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

3. Significant accounting policies (Continued)

(s) Fees and commissions (Continued)

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.

Equities trading income includes the results of making markets globally in equity securities and equity derivatives such as swaps, options, futures and forward contracts.

(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 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 2018 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 9 Financial Instruments (amendment)

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. The amendment is not expected to have a material impact on the group.

IFRS 9 is effective for reporting periods beginning on or after 1 January 2019 with earlier application permitted.

(iii) IFRS 16 Leases

This standard will replace the IAS 17 Leases as well as the related interpretations and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, being the lessee (customer) and the lessor (supplier).

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 as either operating or finance leases as is required by IAS 17 and introduces a single lessee accounting model, where a right of use (ROU) asset together with a liability for the future payments is to be recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The lessor accounting requirements in IAS 17 have not changed substantially in terms of this standard. A lessor hence continues to classify its leases as operating leases or finance leases and accounts for these as it currently done in terms of IAS 17. In addition, the standard requires lessors to provide enhanced disclosures about its leasing activities and, in particular, about its exposure to residual value risk and how it is managed.

The Group has established an IFRS 16 working group and detailed project plan, identifying key responsibilities and milestones of the project. The Group's estimated gross up is expected to be approximately MK400-MK600 million, with the estimated reserves impact expected to be approximately MK82million. The standard will be applied retrospectively, through opening reserves.

IFRS 16 is effective for reporting periods beginning on or after 1 January 2019 with earlier application permitted.

(iv) IAS 1 *Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors (amendments)*

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 amendment is not expected to have a significant impact on the annual financial statements

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

(v) IFRIC 23 *Uncertainty over Income Tax Treatments*

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 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 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. The impact on the annual financial statements has not yet been fully determined.

IFRIC 23 is effective for reporting periods beginning on or after 1 January 2019 with early adoption permitted.

3. Significant accounting policies (Continued)

(w) New standards and interpretations not yet adopted (continued)

(vi) IAS 19 *Employee Benefits (amendments)*

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. The impact on the annual financial statements has not yet been fully determined.

IAS 19 is effective for reporting periods beginning on or after 1 January 2019 with early adoption permitted.

(vii) 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 entities' 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

(viii) Annual improvements 2015-2017 cycle

The IASB has issued various amendments and clarifications to existing IFRS, none of which is expected to have a significant impact on the Group's annual financial statements.

The annual improvement is effective from 1 January 2019 with earlier application permitted.

(x) Comparative figures

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

(y) Restatement of prior period consolidated and separate financial statements

Deferred tax and interbook funding

During the financial year, the Group and Company corrected presentation of deferred tax and interbook funding. The restatement relating to presentation of interbook funding has no impact on net interest income and the profit before income tax expense reported in previous years.

In previous years deferred tax assets and liabilities were disclosed as gross numbers without being offset even though they relate to tax levied by the same tax authority. Deferred tax assets and liabilities have been offset and disclosed as a net amount to comply with IAS 12 *Income Taxes* in the current year.

In previous years the Group used to disclose gross numbers on interest income and interest expense earned between the Group's banking and trading book. This presentation showed the impact of raising funds or placing funds between the two books. The interest income and interest expense has been eliminated in the current year to reflect the income or expense earned or paid respectively to external customers of the Bank.

The matters summarised above have been corrected by way of restatement of the comparatives included in these consolidated and separate financial statements in accordance with IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors.*

Interbook funding

	As previously presented		Restatement		Restated	
	Consolidated 2017 MKm	Separate 2017 MKm	Consolidated 2017 MKm	Separate 2017 MKm	Consolidated 2017 MKm	Separate 2017 MKm
Interest income	46,729	46,771	(2,942)	(2,942)	43,787	43,829
Interest expense	(8,806)	(8,807)	4,868	4,868	(3,938)	(3,939)
Net interest income	**37,923**	**37,964**	**1,926**	**1,926**	**39,849**	**39,890**
Net trading income	9,886	8,938	(1,926)	(1,926)	7,960	7,012
Impact on profit or loss						
Profit attributable to ordinary shareholders	12,162	11,743	-	-	12,162	11,743
Impact on earnings per share						
Basic and diluted (MK per share)	51.97	50.19	-	-	51.97	50.19

3. Significant accounting policies (Continued)

(y) Restatement of prior period consolidated and separate financial statements (continued)

Deferred tax

	As previously presented				Restatement				Restated			
	Consolidated		Separate		Consolidated		Separate		Consolidated		Separate	
	2017 MKm	2016 MKm	2017 MKm	2016 MKm	2017 MKm	2016 MKm	2017 MKm	2016 MKm	2017 MKm	2016 MKm	2017 MKm	2016 MKm
Assets												
Deferred tax assets	3,860	1,828	3,850	1,822	(3,860)	(1,828)	(3,850)	(1,822)	-	-	-	-
Liabilities												
Deferred tax liabilities	(9,183)	(3,297)	(9,183)	(3,297)	3,860	1,828	3,850	1,822	(5,323)	(1,469)	(5,333)	(1,475)
Impact on statement of financial position												
Total assets	427,998	313,515	427,158	313,477	(3,860)	(1,828)	(3,850)	(1,822)	424,138	311,687	423,308	311,655
Total liabilities and equity	(427,998)	(313,515)	(427,158)	(313,477)	3,860	1,828	3,850	1,822	(424,138)	(311,687)	(423,308)	(311,655)

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 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	13	**17,278**	-	-	17,278	-	-	-	-						
Gross carrying amount		**17,278**	**-**	**-**	**17,278**	**-**	**-**	**-**	**-**						
Less: Fair value reserve relating to fair value adjustments (before the ECL balance)	13	**(181)**													
Total financial investment at fair value through OCI		**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 with the central bank	8	**29,385**
Derivative assets	9	**369**
Trading assets	10	**11,993**
Other financial assets	15	**4,423**
Total		**428,530**

At 31 December 2017 Consolidated	Note	Performing		Non - Performing					
		Standard	Past due but not Impaired	Sub-standard	Doubtful	Loss	Total	Security against impaired amount	Net impaired amount
		MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm
Cash and balances held with Central Bank	8	35,234	-	-	-	-	35,234	-	-
Derivative assets	9	541	-	-	-	-	541	-	-
Trading assets	10	23,522	-	-	-	-	23,522	-	-
Loans and advances to banks and other financial institutions	11	174,788	-	-	-	-	174,788	-	-
Loans and advances to customers									
Personal and Business Banking:									
- Mortgage lending	12	2,019	110	41	32	-	2,202	34	27
- Installment sales and finance leases	12	3,136	1,355	38	11	10	4,550	22	37
- Other loans and advances	12	27,808	5,724	310	12,784	595	47,221	4,133	7,273
Corporate and Investment Banking:									
- Corporate lending	12	49,018	-	-	-	-	49,018	-	-
Financial investments	13	46 878	-	-	-	-	46 878	-	-
Other assets	15	9,051	-	-	-	-	9,051	-	-
Total recognised financial instruments		371,995	7,189	389	12,827	605	393,005	4,189	7,337
Off balance sheet exposures									
Letters of credit and guarantees	39	39,794	-	-	-	-	39,794	-	-
Unutilised loan commitments	39	7,508	-	-	-	-	7,508	-	-
Total unrecognised financial instruments		47,302	-	-	-	-	47,302	-	

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	13	**17,278**	-	-	17,278	-	-	-	-						
Gross carrying amount		**17,278**	-	-	17,278	-	-	-	-						
Less: Fair value reserve relating to fair value adjustments (before the ECL balance)	13	**(181)**													
Total financial investment at fair value through OCI		**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 with the central bank	8	**29,260**
Derivative assets	9	**369**
Trading assets	10	**11,993**
Other financial assets	15	**4,454**
Total exposure to credit risk		**428,994**

		Performing		Non - Performing					
At 31 December 2017 Separate	**Note**	**Standard**	**Past due but not Impaired**	**Sub-standard**	**Doubtful**	**Loss**	**Total**	**Security against impaired amount**	**Net impaired amount**
		MKm	MKm	MKm	MKm	MKm	MKm	MKm	MKm
Cash and balances held with Central Bank	8	34,962	-	-	-	-	34,962	-	-
Derivative assets	9	541	-	-	-	-	541	-	-
Trading assets	10	23,522	-	-	-	-	23,522	-	-
Loans and advances to banks and other financial institutions	11	173,730	-	-	-	-	173,730	-	-
Loans and advances to customers									
Personal and Business Banking:									
- Mortgage lending	12	2,019	110	41	32	-	2,202	34	27
- Installment sales and finance leases	12	3,136	1,355	38	11	10	4,550	22	37
- Other loans and advances	12	28,193	5,724	310	12,784	595	47,606	4,133	7,273
Corporate and Investment Banking:									
- Corporate lending	12	49,018	-	-	-	-	49,018	-	-
Financial investments	13	46 878	-	-	-	-	46,878	-	-
Other assets	15	9,067	-	-	-	-	9,067	-	-
Total recognised financial instruments		371,066	7,189	389	12,827	605	392,076	4,189	7,337
Off balance sheet exposures									
Letters of credit and guarantees	39	39,794	-	-	-	-	39,794	-	-
Unutilised loan commitments	39	7,508	-	-	-	-	7,508	-	-
Total unrecognised financial instruments		47,302	-	-	-	-	47,302	-	

The fair value of collateral that the Group holds relating to loans individually determined to be impaired at 31 December 2018 amounts to **MK1,917 million** (2017: MK4,189 million). The collateral consists of securities, mortgages over property and guarantees. The amount of renegotiated loans as at 31 December 2018 was **MK4,713 million** (2017: MK4,959 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 2018 MKm	2017 MKm
Personal and Business Banking		
- Mortgage lending	**6,395**	10,703
- Installment sales and finance leases	**6,409**	6,487
- Other loans and advances and off-balance sheet items	**122,311**	104,193
Corporate and Investment Banking		
- Corporate lending and off-balance sheet items	**124,863**	93,669
	259 978	215,052
Collateral repossessed		
Residential property	**1,383**	327
Commercial property	**14,381**	8,479
Other (Vehicle and asset finance)	**23**	50
	15,787	8,856

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 2018, 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 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 2018 Carrying amount MKm	Offset MKm	Net exposure to credit risk MKm
Cash and balances held with Central Bank	8	**29,385**	**-**	**29,385**
Derivative assets	9	**369**	**-**	**369**
Trading assets	10	**11,993**	**-**	**11,993**
Loans and advances to banks and other financial institutions	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	**4,423**	**-**	**4,423**
		320,596	**(176)**	**320,420**

4. Risk management (Continued)

(b) Credit risk (continued)

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

At 31 December 2017

Consolidated	Note	Carrying amount MKm	Offset MKm	Net exposure to credit risk MKm
Cash balances held with Central Bank	8	35,234	-	35,234
Derivative assets	9	541	-	541
Trading assets	10	23,522	-	23,522
Loans and advances to banks and other financial institutions	11	174,788	-	174,788
Loans and advances to customers	12	94,219	(448)	93,771
Financial investments	13	46,878	-	46,878
Other assets	15	9,051	-	9,051
		384,233	(448)	383,785

At 31 December 2018

Separate	Note	Carrying amount MKm	Offset MKm	Net exposure to credit risk MKm
Cash and balances held with Central Bank	8	**29,260**	**-**	**29,260**
Derivative assets	9	**369**	**-**	**369**
Trading assets	10	**11,993**	**-**	**11,993**
Loans and advances to banks and other financial institutions	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	**4,454**	**-**	**4,454**
		321,060	**(176)**	**320,884**

At 31 December 2017

Separate	Note	Carrying amount MKm	Offset MKm	Net exposure to credit risk MKm
Cash and balances held with Central Bank	8	34,962	-	34,962
Derivative assets	9	541	-	541
Trading assets	10	23,522	-	23,522
Loans and advances to banks and other financial institutions	11	173,730	-	173,730
Loans and advances to customers	12	94,604	(448)	94,156
Financial investments	13	46 878	-	46,878
Other assets	15	9,067	-	9,067
		383,304	(448)	382,856

4. Risk management (Continued)

(b) Credit risk (continued)

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	
	2018	2017
	MKm	MKm
Impaired loans and advances to customers at 1 January	**13,821**	1,763
Classified as impaired during the year	**4,257**	13,133
Transferred to not impaired during the year	**(242)**	(505)
Amount written off	**(9,681)**	(570)
Impaired loans and advances to customers at 31 December	**8,155**	13,821

Age analysis of loans and advances to customers past due but not impaired:

Consolidated and Separate

At 31 December 2018	Less than 30 days	31 to 60days	61 to 90 days	Total
Credit quality	**MKm**	**MKm**	**MKm**	**MKm**
Personal and Business Banking:				
- Mortgage lending	**184**	**58**	**20**	**262**
- Installment sales and finance leases	**1,454**	**161**	**41**	**1,656**
- Other loans and advances	**3,958**	**3,664**	**455**	**8,077**
Corporate and Investment Banking:				
- Corporate lending	**132**	**-**	**-**	**132**
Total	**5,728**	**3,883**	**516**	**10,127**

Age analysis of loans and advances to customers past due but not impaired:

Consolidated and Separate

At 31 December 2017	Less than 30 days	31 to 60days	61 to 90 days	Total
Credit quality	**MKm**	**MKm**	**MKm**	**MKm**
Personal and Business Banking:				
- Mortgage lending	56	38	16	110
- Installment sales and finance leases	962	152	241	1,355
- Other loans and advances	3,617	1,166	941	5,724
Corporate and Investment Banking:				
- Corporate lending	-	-	-	-
Total	4,635	1,356	1,198	7,189

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)

4. Risk management (Continued)

(b) Credit risk (continued)

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 MK9,681billion (2017:MK570million) 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.

Credit portfolio characteristics and metrics in terms of IAS 39

Impaired loans and advances

Impaired loans and advances are loans and advances for which the Group and Company have identified objective evidence of default, such as a breach of a material loan covenant or condition as well as those loans for which instalments are due and unpaid for 90 days or more.

Past due but not impaired loans

Loans and advances where the counterparty has failed to make contractual payments and payments are less than 90 days past due, but it is expected that the full carrying value will be recovered when considering future cash flows, including collateral. Ultimate loss is unlikely but could occur if the adverse conditions persist.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category regardless of satisfactory performance after restructuring.

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for Groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write off policy

The Group writes off a loan/security balance (and any related allowances for impairment losses) when Group Credit determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

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		**2018**	2017	**2018**	2017
	Note	**MKm**	MKm	**MKm**	MKm
Segmental analysis – industry					
Agriculture		**49,801**	48,531	**49,801**	48,531
Construction		**1,291**	549	**1,291**	549
Energy		**650**	234	**650**	234
Finance, real estate and other business services		**5,275**	347	**5,897**	732
Individuals, community, social and personal services		**29,841**	25,617	**29,841**	25,617
Manufacturing		**6,526**	13,642	**6,526**	13,642
Mining		**1**	699	**1**	699
Transport, storage and communication		**12,170**	1,242	**12,170**	1,242
Wholesale		**15,894**	12,130	**15,894**	12,130
	12	**121,449**	102,991	**122,071**	103,376

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

	Consolidated		Separate	
	2018	2017	**2018**	2017
	MKm	MKm	**MKm**	MKm
Agriculture	**41%**	47%	**41%**	47%
Construction	**1%**	1%	**1%**	0%
Energy	**1%**	0%	**1%**	0%
Finance, real estate and other business services	**4%**	0%	**5%**	1%
Individuals	**25%**	25%	**24%**	25%
Manufacturing	**5%**	13%	**5%**	13%
Mining	**-**	1%	**-**	1%
Transport	**10%**	1%	**10%**	1%
Wholesale	**13%**	12%	**13%**	12%
	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	
	2018	2017
	MKm	MKm
Agriculture	**1,443**	10,491
Construction	**53**	10
Energy	**-**	-
Finance, real estate and other business services	**-**	-
Individuals and community	**705**	603
Manufacturing	**2,058**	1,518
Mining	**-**	-
Transport, storage and communication	**-**	75
Wholesale	**3,896**	1,124
	8,155	13,821

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 2018 to the contractual maturity date on a discounted basis. All figures are in millions of Malawi Kwacha.

At 31 December 2018		Up to 1month	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 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	**4 423**	**-**	**-**	**-**	**-**	**4 423**
Total assets		**106,019**	**61,417**	**56,653**	**105,576**	**30**	**329,695**

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
Consolidated	**Note**	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**
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		**(159,658)**	**57,955**	**54,098**	**105,558**	**30**	**57,983**
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)		**(164,533)**	**42,942**	**36,436**	**34,992**	**30**	**(50,133)**

At 31 December 2017		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 Central Bank	8	35,234	-	-	-	-	35,234
Derivative assets	9	191	350	-	-	-	541
Trading assets	10	7,501	3,655	9,766	2,600	-	23,522
Loans and advances to banks	11	93,969	61,579	19,240	-	-	174,788
Loans and advances to customers	12	19,160	30,615	20,183	33,033	-	102,991
Financial Investments	13	2,493	7,965	18,739	17,681	15	46,893
Other assets	15	9,051	-	-	-	-	9,051
Total assets		167,599	104,164	67,928	53,314	15	393,020
Liabilities							
Derivative liabilities	9	58	130	-	-	-	188
Trading liabilities	19	135	-	-	-	-	135
Deposits and loans from banks	20	59,140	1,519		-	-	60,659
Deposits from customers	21	257,844	1,131	440	73	-	259,488
Other liabilities	22	23,107	-	-	-	-	23,107
Total liabilities		340,284	2,780	440	73		343,577
On balance sheet liquidity gap		(172,685)	101,384	67,488	53,241	15	49,443
Off balance sheet exposures							
Letters of credit and guarantees	39	(5,933)	(6,393)	(16,147)	(11,321)	-	(39,794)
Unutilised loan commitments	39	(115)	(7,393)	-	-	-	(7,508)
Total off balance sheet exposures		(6,048)	(13,786)	(16,147)	(11,321)	-	(47,302)
Total liquidity gap (on and off balance sheet)		(178,733)	87,598	51,341	41,920	15	2,141

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 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	4,454	-	-	-	-	4,454
Total assets		106,482	61,417	56,653	105 576	30	330 158
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		(161,775)	57,955	54,098	105,558	30	55,866
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)		(166 650)	42,942	36,436	34,992	30	(52,250)

4. Risk management (Continued)

(c) Liquidity risk (continued)

At 31 December 2017		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 Central Bank	8	34,962	-	-	-	-	34,962
Net derivative assets	9	191	350	-	-	-	541
Trading assets	10	7,501	3,655	9,766	2,600	-	23,522
Gross loans and advances to banks	11	92,911	61,579	19,240	-	-	173,730
Gross loans and advances to customers	12	19,545	30,615	20,183	33,033	-	103 376
Financial investments	13	2,493	7,965	18,739	17,681	15	46,893
Other assets	15	9,067	-	-	-	-	9,067
Total assets		166,670	104,164	67,928	53,314	15	392,091
Liabilities							
Derivative liabilities	9	58	130	-	-	-	188
Trading liabilities	19	103	-	-	-	-	103
Deposits and loans from banks	20	59,162	1,519	-	-	-	60,681
Deposits from customers	21	258,176	1,131	440	73	-	259,820
Other liabilities	22	23,102	-	-	-	-	23,102
Total liabilities		340,601	2,780	440	73	-	343,894
Liquidity gap		(173,931)	101,384	67,488	53,241	15	48,197
Off balance sheet exposures							
Letters of credit and guarantees	39	(5,933)	(6,393)	(16,147)	(11,321)	-	(39,794)
Unutilised loan commitments	39	(115)	(7,393)	-	-	-	(7,508)
Total off balance sheet exposures		(6,048)	(13,786)	(16,147)	(11,321)	-	(47,302)
Total liquidity gap (on and off balance sheet)		(179,979)	87,598	51,341	41,920	15	895

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 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 Central Bank	8	29,385	-	-	-	-	-	29,385	29,385
Trading assets	10	-	5,070	3,054	5,499	-	-	13,623	11,993
Loans and advances to banks	11	33,674	20,414	23,420	-	-	-	77,508	76,448
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	1,202	-	-	-	-	-	1,202	4,423
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		(161,685)	(3,924)	56,445	37,842	75,803	30	4,511	(58,967)

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 2017		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 with banks	8	35,234	-	-	-	-	-	35,234	35,234
Trading assets	10	-	7,528	14,234	3,017	-	-	24,779	23,522
Loans and advances to banks	11	39,460	53,488	81,664	2,319	-	-	176,931	174,788
Loans and advances to customers	12	14,667	4,495	41,206	9,639	35,129	-	105,136	94,219
Financial investments	13	-	2,500	14,699	12,358	21,031	15	50,603	46,893
Other assets	15	6,916	-	-	-	-	-	6,916	9,051
Non-derivative financial liabilities									
Deposits and loans from banks	20	(19,441)	(39,728)	(1,519)	-	-	-	(60,688)	(60,659)
Deposits from customers	21	(252,173)	(5,671)	(1,344)	(227)	(73)	-	(259,488)	(259,488)
Other liabilities	22	(23,107)	-	-	-	-	-	(23,107)	(23,107)
Off balance sheet exposures									
Letters of credit and guarantees	39	(61)	(5,872)	(11,415)	(11,125)	(11,321)	-	(39,794)	(39,794)
Unutilised loan commitments	39	-	(115)	(7,393)	-	-	-	(7,508)	(7,508)
Total non-derivative financial instruments		(198,505)	16,625	130,132	15,981	44,766	15	9,014	(6,849)

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 2017		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		-	-	-	-	541
Trading:	9	-	16,868	24,237	41,105	-
Inflow		-	(17,179)	(24,759)	(41,938)	-
Outflow		-				
Derivatives and trading liabilities						
Trading:	9,19	-	-	-	-	(323)
Inflow		-	1,943	2,356	4,299	-
Outflow		-	(2,466)	(2,493)	(4,959)	-
Total derivative financial instruments		-	(834)	(659)	(1,493)	218

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 with banks	8	29,260						29,260	29,260
Trading assets	10	-	5,070	3,054	5,499	-	-	13,623	11,993
Loans and advances to banks	11	33,624	20,414	23,420	-	-	-	77,458	76,383
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	1,233	-	-	-	-	-	1,233	4,454
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		(163,787)	(3,925)	56,445	37,842	75,803	30	2,408	(61,083)

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		-	-	-	-	**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 2017		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 with banks	8	34,962	-	-	-	-	-	34,962	34,962
Trading assets	10	-	7,528	14,234	3,017	-	-	24,779	23,522
Loans and advances to banks	11	39,449	53,488	81,664	2,319	-	-	176,920	173,730
Loans and advances to customers	12	15,052	4,495	41,206	9,639	35,129	-	105,521	94,604
Financial investments	13	-	2,500	14,699	12,358	21,031	15	50,603	46,893
Other assets	15	6,932	-	-	-	-	-	6,932	9,067
Non-derivative financial liabilities									
Deposits and loans from banks	20	(19,463)	(39,728)	(1,519)	-	-	-	(60,710)	(60,681)
Deposits from customers	21	(252,505)	(5,671)	(1,344)	(227)	(73)	-	(259,820)	(259,820)
Other liabilities	22	(23,107)	-	-	-	-	-	(23,107)	(23,102)
Off balance sheet exposures									
Letters of credit and guarantees	39	(61)	(5,872)	(11,415)	(11,125)	(11,321)	-	(39,794)	(39,794)
Unutilised loan commitments	39	-	(115)	(7,393)	-	-	-	(7,508)	(7,508)
Total non-derivative financial instruments		(198,741)	16,625	130,132	15,981	44,766	15	8,778	(8,127)

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 2017		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		-	-	-	-	541
Trading:	9	-	16,868	24,237	41,105	-
Inflow		-	(17,179)	(24,759)	(41,938)	-
Outflow		-				
Derivatives and trading liabilities						
Trading:	9,19	-	-	-	-	(291)
Inflow		-	1,943	2,356	4,299	-
Outflow		-	(2,466)	(2,493)	(4,959)	-
Total derivative financial instruments		-	(834)	(659)	(1,493)	250

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 2018 Consolidated	Note	Trading portfolio MKm	Non-trading portfolio MKm	Total MKm
Assets subject to market risk				
Cash and balances held with 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	-	4,423	4,423
Total assets		**12,362**	**317,333**	**329,695**
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**

4. Risk management (Continued)
(d) Market risk (continued)

At 31 December 2017 Consolidated	Note	Trading portfolio MKm	Non-trading portfolio MKm	Total MKm
Assets subject to market risk				
Cash and balances held with Central Bank	8	-	35,234	35,234
Derivative assets	9	541	-	541
Trading assets	10	23,522	-	23,522
Gross loans and advances to banks	11	-	174,788	174,788
Gross loans and advances to customers	12	-	102,991	102,991
Gross financial investments	13	-	46,893	46,893
Other assets	15	-	9,051	9,051
Total assets		24,063	368,957	393,020
Liabilities subject to market risk				
Derivative liabilities	9	188	-	188
Trading liabilities	19	135	-	135
Deposits and loans from banks	20	-	60,659	60,659
Deposits from customers	21	-	259,488	259,488
Other liabilities	22	-	23,107	23,107
Total liabilities		323	343,254	343,577

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 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	**-**	**4,454**	**4,454**
Total assets		**12 362**	**317,796**	**330,158**
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**

4. Risk management (Continued)

(d) Market risk (continued)

At 31 December 2017 Separate	Note	Trading portfolio MKm	Non-trading portfolio MKm	Total MKm
Assets subject to market risk				
Cash and balances held with Central Bank	8	-	34,962	34,962
Derivative assets	9	541	-	541
Trading assets	10	23,522	-	23,522
Gross loans and advances to banks	11	-	173,730	173,730
Gross loans and advances to customers	12	-	103,376	103,376
Gross financial investments	13	-	46,893	46,893
Other assets	15	-	9,067	9,067
Total assets		24,063	368,028	392,091
Liabilities subject to market risk				
Derivative liabilities	9	188	-	188
Trading liabilities	19	103	-	103
Deposits and loans from banks	20	-	60,681	60,681
Deposits from customers	21	-	259,820	259,820
Other liabilities	22	-	23,102	23,102
Total liabilities		291	343,603	343,894

(ii) 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-18	Limit
Bank wide	**45**	**9**	**25**	**32**	**245**
Forex trading	**33**	**1**	**13**	**19**	**121**
Money markets trading	**29**	**6**	**16**	**16**	**184**

Desk name	High	Min	Average	31-Dec-17	Limit
Bank wide	167	7	21	18	246
Forex trading	35	1	9	13	93
Money markets trading	150	3	15	7	227

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-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**

Desk name	High	Min	Average	31-Dec-17	Limit
Bank wide	3,809	530	1,060	899	3,205
Forex trading	2,484	9	392	329	2,979
Money markets trading	3,368	547	926	848	1,180

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
2018		
	350	**(1,060)**
Consolidated and separate		
2017		
	750	(4,648)

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
2018		
	350	**628**
Consolidated and separate		
2017		
	750	1,185

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 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 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	-	-	-	-	4,423	4,423
Total assets		**150,809**	**41,675**	**32,048**	**44,304**	**60,859**	**329,695**
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**	**22,951**	**57,983**

4. Risk management (Continued)

(d) Market risk (continued)

At 31 December 2017 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 Central Bank	8	-	-	-	-	35,234	35,234
Derivative assets	9	-	-	-	-	541	541
Trading assets	10	-	-	-	-	23,522	23,522
Gross loans and advances to banks	11	93,641	61,835	19,312	-	-	174,788
Gross loans and advances to customers	12	98,591	4,400	-	-	-	102,991
Gross financial investments	13	2,044	11,682	6,006	27,146	15	46,893
Other assets	15	-	-	-	-	9,051	9,051
Total assets		194,276	77,917	25,318	27,146	68,363	393,020
Liabilities							
Derivative liabilities	9	-	-	-	-	188	188
Trading liabilities	19	-	-	-	-	135	135
Deposits and loans from banks	20	46,701	13,958	-	-	-	60,659
Deposits from customers	21	254,275	4,473	205	535	-	259,488
Other liabilities	22	-	-	-	-	23,107	23,107
Total liabilities		300,976	18,431	205	535	23,430	343,577
Interest sensitivity gap		(106,700)	59,486	25,113	26,611	44,933	49,443

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 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	**-**	**-**	**-**	**-**	**4,454**	**4,454**
Total assets		**151,366**	**41,675**	**32,048**	**44,304**	**60,765**	**330,158**
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**	**22,856**	**55,866**

4. Risk management (Continued)

(d) Market risk (continued)

At 31 December 2017 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 Central Bank	8	-	-	-	-	34,962	34,962
Derivative assets	9	-	-	-	-	541	541
Trading assets	10	-	-	-	-	23,522	23,522
Gross loans and advances to banks	11	92,583	61,835	19,312	-	-	173,730
Gross loans and advances to customers	12	98,976	4,400	-	-	-	103,376
Gross financial investments	13	2,044	11,682	6,006	27,146	15	46,893
Other assets	15	-	-	-	-	9,067	9,067
Total assets		193,603	77,917	25,318	27,146	68,107	392,091
Liabilities							
Derivative liabilities	9	-	-	-	-	188	188
Trading liabilities	19	-	-	-	-	103	103
Deposits and loans from banks	20	46,723	13,958	-	-	-	60,681
Deposits from customers	21	254,607	4,473	205	535	-	259,820
Other liabilities	22	-	-	-	-	23,102	23,102
Total liabilities		301,330	18,431	205	535	23,393	343,894
Interest sensitivity gap		(107,727)	59,486	25,113	26,611	44,714	48,197

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 2018	USD	GBP	Euro	ZAR	Total
Assets					
Cash and balances held with 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	**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**
Derivatives	**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**

4. Risk management (Continued)

(e) Currency risk (continued)

Consolidated

At 31 December 2017	USD	GBP	Euro	ZAR	Total
Assets					
Cash and balances held with Central Bank	3,000	69	172	1,105	4,346
Trading assets	3,665	-	-	-	3,665
Loans and advances to banks	66,739	1,380	2,856	21,873	92,848
Loans and advances to customers	32,469	-	-	-	32,469
Other assets	572	47	88	82	789
Derivatives	40,032	11	3,457	616	44,116
Total assets	146,477	1,507	6,573	23,676	178,233
Liabilities					
Deposits and loans from banks	11,046	-	-	18,886	29,932
Deposits from customers	122,191	1,230	6,605	832	130,858
Other liabilities	1,041	55	4	15,206	16,306
Derivatives	8,236	166	129	3,250	11,781
Total liabilities	142,514	1,451	6,738	38,174	188,877
Net position	3,963	56	(165)	(14,498)	(10,644)

Separate

At 31 December 2018	USD	GBP	Euro	ZAR	Total
Assets					
Cash and balances held with 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	**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**
Derivatives	**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**

4. Risk management (Continued)

(e) Currency risk (continued)

Separate

At 31 December 2017	USD	GBP	Euro	ZAR	Total
Assets					
Cash and balances held with Central Bank	2,907	50	137	1,037	4,131
Trading assets	3,665	-	-	-	3,665
Loans and advances to banks	66,739	1,250	2,696	21,873	92,558
Loans and advances to customers	31,370	-	-	-	31,370
Other assets	572	47	88	82	789
Derivatives	40,032	11	3,457	616	44,116
Total assets	145,285	1,358	6,378	23,608	176,629
Liabilities					
Deposits and loans from banks	11,046	-	-	18,886	29,932
Deposits from customers	122,191	1,230	6,605	832	130,858
Other liabilities	1,041	55	4	15,206	16,306
Derivatives	8,236	166	129	3,250	11,781
Total liabilities	142,514	1,451	6,738	38,174	188,877
Net position	2,771	(93)	(360)	(14,566)	(12,248)

Foreign currency sensitivity analysis

The foreign currency risk sensitivity analysis below reflects the expected financial impact in Kwacha equivalent resulting from a **10%** (2017:10%) 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 2018	USD	GBP	Euro	ZAR	Total
Sensitivity					
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)**

At 31 December 2017	USD	GBP	Euro	ZAR	Total
Sensitivity					
Total net long/(short) position	3,963	56	(165)	(14,498)	(10,644)
Impact of 10% weakening of the Kwacha on profit or loss	396	6	(16)	(1,450)	(1,064)
Impact of 10% strengthening of the Kwacha on profit or loss	(396)	(6)	16	1,450	1,064

4. Risk management (Continued)

(e) Currency risk (continued)

Separate

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)**
At 31 December 2017					
Sensitivity					
Total net long/(short) position	2,771	(93)	(360)	(14,566)	(12,248)
Impact of 10% weakening of the Kwacha on profit or loss	277	(9)	(36)	(1,457)	(1,225)
Impact of 10% strengthening of the Kwacha on profit or loss	(277)	9	36	1,457	1,225

(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 **7.5%** (2017: 7.5%) of the preceding two weeks' average total deposit liabilities. The Group complied with the liquidity reserve requirement in 2018. In the last two weeks of December 2018, the liquidity reserve was **8.0%** (2017: 8.0%) of average customer deposits.

(ii) Capital adequacy requirement

The Group's available capital is required to be a minimum of **15%** (2017: 15%) of risk weighted assets and contingent liabilities. As at 31 December 2017, the Group's available capital was **21.70%** (2017: 20.31%) 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 **MK9.3 billion** (2017: MK11.1 billion). The amount of expected credit losses included in the consolidated and separate financial statements in accordance with IFRS 9 is **MK7.8 billion** (2017: MK8.8 billion) and interest in suspense **MK1.5billion**.

(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 30%.

(ii) Liquidity ratio 2

Net liquidity (total liquid assets less suspense account in foreign currency and cheques in the course of collection) divided by total deposits must be at least 20%.

The Group complied with the liquidity ratio requirements in 2018. At 31 December 2018, the Group's liquidity ratio 1 was **60.97%** (2017: 80.50%) and liquidity ratio 2 was **60.93%** (2017: 79.35%).

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 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 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%** (2017:15%) 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.

	2018 MKm	2017 MKm
Tier 1 capital		
Share capital and share premium	**8,726**	8,726
Retained earnings and other reserves	**56,022**	48,127
Total tier 1 capital	**64,748**	56,853
Tier 2 capital		
General debt provision	**-**	1,435
Revaluation reserve on property less investment in subsidiary	**7,469**	10,322
Total tier 2 capital	**7,469**	11,757
Total regulatory capital	**72,217**	68,610
Risk weighted assets	**332,731**	337,851
Capital ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets	**21.70%**	20.31%
Total Tier 1 capital expressed as a percentage of total risk weighted assets	**19.46%**	16.83%

The Group has complied with all capital management requirements during the year ended 31 December 2018.

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. To ensure consistency with market practice in Malawi, 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 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.

5. Accounting estimates and judgements (Continued)

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

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
- 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 2018. 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 2018, for inclusion in the Group's forward-looking process and ECL calculation.

Malawian economic expectation

- In the base case GDP growth will likely gradually approach the 5.5% a year level over the medium term, predicated on stable weather conditions. The Malawi Kwacha could find some support outside of the tobacco season, but it seems reasonable to expect that the Malawi Kwacha will resume the depreciating trend. In the base case the forecast is for an annualised pace of depreciation under 3% per annum (p.a). Towards the end of the forecast period the pace of depreciation declines to around 1.3%. The elections will be held in 2019, something that could exert some upward pressure on fiscal policy. However, IMF involvement tends to mitigate fiscal risks going into an election year.
- For the bullish case, Gross domestic product (GDP) growth would likely exceed 5% a year over the medium term, peaking closer to 6%. The stability of the exchange rate on a multi-month basis, seems highly probable. In this scenario the Malawi Kwacha would resume the depreciating trend but at a much lower rate (not exceeding 1.5% pa). The general elections will be held in 2019, something that would have minimal impact on fiscal policy
- Despite the contestability of the political environment, we do not expect major fiscal overruns given the resumption of the IMF programme.
- The bearish case carries the lowest probability of 20% and assumes that GDP growth would likely peak at 5% over the medium term. The stability of the exchange rate seems highly improbable to be sustained on a multi-month basis. While the exchange rate should remain somewhat stable over 2018, in 2019 following the elections, the Malawi Kwacha would resume the depreciating trend (at an annualised rate of 6% in 2019, 5% in 2020 and tapering off to around 3% for the rest of the forecast period). The general elections will be held in 2019 something that could exert material upward pressure on fiscal policy. In this scenario, spending overruns pressure sovereign yields, inflation and the exchange rate in 2019 and first half of 2020.

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	10.65	9.86	12.17	10.59	10.27	9.31
Policy rate	16.00	16.00	17.5	17.13	16.00	14.63
3 month treasury bill rate	14.24	14.12	16.8	15.63	12.74	11.99
6 month treasury bill rate	14.74	14.62	17.3	16.13	13.24	12.49
Exchange rate	747.63	775.95	767.57	881.63	742.19	769.09
Real GDP	4.50	5.01	3.5	4.18	4.58	5.53

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 2018 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	**121**
100% Bear	**243**
100% Bull	**22**

(ii) Allowances for credit losses – IAS 39

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(v).

Portfolio loan impairments

The Group assesses loan portfolios for impairment at each reporting date. In determining whether an impairment loss should be recorded in profit or loss, the Group make judgments as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be allocated to an individual loan in that portfolio. Estimates are made of the duration between the occurrence of a loss event and the identification of a loss on an individual basis. The impairment for performing and non-performing, but not specifically impaired loans is calculated on a portfolio basis, based on historical loss patterns, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio.
These include early arrears and other indicators of potential default, such as changes in macroeconomic conditions and legislation affecting credit recovery. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period. At year end, the Group applied an average loss emergence period of 3 months for PBB and 12 months for CIB loans and advances.

Specific loan impairments

Non-performing loans include those loans for which the Group and Company have identified objective evidence of default, such as a breach of a material loan covenant or condition as well as those loans for which instalments are due and unpaid for 90 days or more. The methodology used in determining the specific loan impairment includes modelling with various inputs such as segmentation, levels of loss expectation and probability of default. Management's estimates of future cash flows on individually impaired loans are based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Expected time to recover securities and recoveries of individual loans as a percentage of the outstanding balances are estimated as follows:

	2017 Months	2017 %
Personal and Business Banking		
Mortgage lending	12	80
Vehicle and asset finance	9	50
Other lending	6	20
Corporate and Investment Banking	12	41

(iii) 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.

(iv) 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.

5. Accounting estimates and judgements (Continued)

(v) 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.

(vi) 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 2018 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.

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.

6. Segment reporting (Continued)

Operating segments

Consolidated	CIB 2018 MKm	CIB 2017 MKm	PBB 2018 MKm	PBB 2017 MKm	TCM 2018 MKm	TCM 2017 MKm	Total 2018 MKm	Total 2017 MKm
Interest income	**27,290**	31,446	**11,225**	12,170	**483**	171	**38,998**	43,787
Interest expense	**(2,678)**	(1,896)	**(1,580)**	(2,042)	**-**	-	**(4,258)**	(3,938)
Net interest income	**24,612**	29,550	**9,645**	10,128	**483**	171	**34,740**	39,849
Funding income/ (expense)	**(6,563)**	(9,221)	**6,413**	6,335	**233**	4,144	**83**	1,258
Net fee and commission income	**2,755**	1,555	**9,350**	7,795	**-**	22	**12,105**	9,372
Net trading income	**7,365**	7,010	**1,591**	950	**-**	-	**8,956**	7,960
Other operating income	**1**	(2)	**5**	76	**9**	-	**15**	74
Other gains and losses on financial instruments	**69**	-	**-**	-	**-**	-	**69**	-
Operating income	**28,239**	28,892	**27,004**	25,284	**725**	4,337	**55,968**	58,513
Direct staff costs before allocation	**(2,507)**	(2,228)	**(5,198)**	(5,687)	**(518)**	(900)	**(8,223)**	(8,815)
Direct operating expenses before allocation	**(6,308)**	(5,878)	**(12,104)**	(9,227)	**3,428**	1,289	**(14,984)**	(13,816)
Other operating expenses from enabling functions	**(3,155)**	(3,706)	**(8,330)**	(8,368)	**492**	-	**(10,993)**	(12,074)
Credit impairment charges	**170**	(142)	**(5,066)**	(6,082)	**6**	-	**(4,890)**	(6,224)
Profit/(loss) before income tax	**16,439**	16,938	**(3,694)**	(4,080)	**4,133**	4,726	**16,878**	17,584
Income tax expense	**(4,980)**	(4,806)	**785**	1,018	**(995)**	(1,512)	**(5,190)**	(5,300)
Profit for the year	**11,459**	12,132	**(2,909)**	(3,062)	**3,138**	3,214	**11,688**	12,284

Consolidated	CIB 2018 MKm	CIB 2017 MKm	PBB 2018 MKm	PBB 2017 MKm	TCM 2018 MKm	TCM 2017 MKm	Total 2018 MKm	Total 2017 MKm
Assets								
Cash and balances held with Central Bank	**19,223**	22,279	**7,945**	11,173	**34**	193	**27,202**	33,645
Derivative assets	**369**	541	**-**	-	**-**	-	**369**	541
Trading assets	**11,993**	23,522	**-**	-	**-**	-	**11,993**	23,522
Loans and advances to banks	**76,448**	173,730	**-**	1,057	**-**	-	**76,448**	174,787
Loans and advances to customers	**68,234**	48,242	**44,398**	45,965	**-**		**112,632**	94,207
Financial investments	**81,932**	43,632	**-**	-	**3,444**	3,261	**85,376**	46,893
Other assets	**1,038**	1,784	**3,730**	4,390	**669**	-	**5,437**	6,174
Property and equipment	**138**	99	**9,040**	4,401	**285**	364	**9,463**	4,864
Intangible assets	**-**	-	**-**	1	**19,487**	20,939	**19,487**	20,940
Total assets	**259,375**	313,829	**65,113**	66,987	**23,919**	24,757	**348,407**	405,573
Liabilities								
Derivative liabilities	**160**	188	**-**	-	**-**	-	**160**	188
Trading liabilities	**444**	435	**-**	-	**-**	-	**444**	435
Deposits and loans from banks	**33,500**	59,827	**1,079**	832	**-**		**34,579**	60,659
Deposits from customers	**113,268**	149,893	**116,016**	109,595	**-**	-	**229,284**	259,488
Other liabilities	**1,427**	6,379	**4,312**	1,561	**317**	10,906	**6,056**	18,846
Other provisions	**360**	1,021	**2,306**	2,575	**824**	40	**3,490**	3,636
Current and deferred tax liabilities	**1,070**	1,320	**3**	1,116	**-**	-	**1,073**	2,436
Total liabilities	**150,229**	219,063	**123,716**	115,679	**1,141**	10,946	**275,086**	345,688

6. Segment reporting (Continued)

	CIB		PBB		TCM		Total	
Consolidated	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	MKm	MKm	**MKm**	MKm	**MKm**	MKm	**MKm**	MKm
Shareholders' equity								
Share capital and premium	**-**	-	**-**	-	**8,726**	8,726	**8,726**	8,726
Retained earnings and reserves	**30,466**	22,636	**18,474**	15,924	**13,035**	17,424	**61,975**	55,984
Funding	**78,680**	72,130	**(77,077)**	(64,616)	**1,017**	(12,339)	**2,620**	(4,825)
Total shareholders' equity	**109,146**	94,766	**(58,603)**	(48,692)	**22,778**	13,811	**73,321**	59,885
Total equity and liabilities	**259,375**	313,829	**65,113**	66,987	**23,919**	24,757	**348,407**	405,573

Reconciliation of information on reportable segment to IFRS measures

Consolidated	**2018 MKm**	**2017 MKm**
(i) Revenues		
Total revenues for reportable segments	**55,968**	58,513
Interest income	**-**	-
Interdepartmental funding expense	**(83)**	(1,259)
Other income	**101**	-
Consolidated revenue	**55,986**	57,254
(ii) Profit before tax		
Total profit for reportable segments	**16,878**	17,584
Unallocated amounts*	**(1,106)**	(123)
Consolidated profit before tax	**15,772**	17,461
(iii) Assets		
Total assets for reportable segments	**348,407**	405,573
Unallocated amounts*	**8,751**	18,565
Consolidated total assets	**357,158**	424,138
(iv) Liabilities		
Total liabilities for reportable segments	**275,086**	345,688
Other unallocated amounts*	**4,832**	6,218
Consolidated total liabilities	**279,918**	351,906

*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

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

(a) Valuation models (continued)

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		Level 1	Level 2	Level 3	Total
At 31 December 2018	Note	Mkm	Mkm	Mkm	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**

Consolidated		Level 1	Level 2	Level 3	Total
31 December 2017	Note	Mkm	Mkm	Mkm	Mkm
Assets					
Derivative assets	9	-	541	-	541
Trading assets	10	-	23,522	-	23,522
Financial investments	13	-	28,491	-	28,491
Total		-	52,554	-	52,554
Liabilities					
Derivative liabilities	9	-	188	-	188
Trading liabilities	19	-	32	103	135
Total		-	220	103	323

Separate		Level 1	Level 2	Level 3	Total
31 December 2017	Note	Mkm	Mkm	Mkm	Mkm
Assets					
Derivative assets	9	-	541	-	541
Trading assets	10	-	23,522	-	23,522
Financial investments	13	-	28,491	-	28,491
Total		-	52,554	-	52,554
Liabilities					
Derivative liabilities	9	-	188	-	188
Trading liabilities	19	-	-	103	103
Total		-	188	103	291

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

(b) Financial instruments not measured at fair value – fair value hierarchy (continued)

Consolidated At 31 December 2018	Note	Level 1 Mkm	Level 2 Mkm	Level 3 Mkm	Total Mkm
Assets					
Cash and balances held with Central Bank	8	**29,385**	**-**	**-**	**29,385**
Loans and advances to banks and other financial institutions	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	**-**	**-**	**4,423**	**4 423**
Total		**29,385**	**144,727**	**117,055**	**291,167**
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**

At 31 December 2017	Note	Level 1 Mkm	Level 2 Mkm	Level 3 Mkm	Total Mkm
Assets					
Cash and balances held with Central Bank	8	35,234	-	-	35,234
Loans and advances to banks and other financial institutions	11	-	174,788	-	174,788
Loans and advances to customers	12	-	-	94,219	94,219
Financial investments	13	-	18,402	-	18,402
Other assets	15	-	-	9,051	9,051
Total		35,234	193,190	103,270	331,694
Liabilities					
Deposits and loans from banks	20	19,441	41,218	-	60,659
Deposits from customers	21	252,173	7,315	-	259,488
Other liabilities	22	-	-	23,107	23,107
Total		271,614	48,533	23,107	343,254

Separate At 31 December 2018	Note	Level 1 Mkm	Level 2 Mkm	Level 3 Mkm	Total Mkm
Assets					
Cash and balances held with Central Bank	8	**29,260**	**-**	**-**	**29,260**
Loans and advances to banks and other financial institutions	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**

At 31 December 2017	Note	Level 1 Mkm	Level 2 Mkm	Level 3 Mkm	Total Mkm
Assets					
Cash and balances held with Central Bank	8	34,962	-	-	34,962
Loans and advances to banks and other financial institutions	11	-	173,730	-	173,730
Loans and advances to customers	12	-	-	94,604	94,604
Financial investments	13	-	18,402	-	18,402
Other assets	15	-	-	9,067	9,067
Total		34,962	192,132	103,671	330,765
Liabilities					
Deposits and loans from banks	20	19,463	41,218	-	60,681
Deposits from customers	21	252,505	7,315	-	259,820
Other liabilities	22	-	-	23,102	23,102
Total		271,968	48,533	23,102	343,603

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):

	Separate	
	2018 MKm	2017 MKm
Balance at 1 January 2018	**103**	322
Sales and settlement	**1,566**	1
Total losses/(gains) included in profit or loss - trading revenue	**(1,225)**	(220)
Balance at 31 December 2018	**444**	103

(c) 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 2018							
Assets							
Cash and balances held with 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 and other financial institutions	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	**4,423**	-	-	-	**4,423**	**4,423**
Total		**29,904**	**17 097**	**12 362**	**261,263**	**320,626**	**320,626**
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**

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

(d) Estimation of fair values (continued)

Consolidated At 31 December 2017	Note	Available for sale Mkm	Loans and receivables Mkm	Held for trading Mkm	Amortised cost Mkm	Held to maturity Mkm	Carrying amount Mkm	Fair value Mkm
Assets								
Cash and balances held with Central Bank	8	-	35,234	-			35,234	35,234
Derivative assets	9	-	-	541	-	-	541	541
Trading assets	10	-	-	23,522	-	-	23,522	23,522
Loans and advances to banks and other financial institutions	11	-	174,788	-	-	-	174,788	174,788
Loans and advances to customers	12	-	94,219	-	-	-	94,219	94,219
Financial investments	13	28,491	-	-	-	18,402	46,893	46,893
Other assets	15	-	9,051	-	-	-	9,051	9,051
Total		28,491	313,292	24,063	-	18,402	384,248	384,248
Liabilities								
Derivative	9	-	-	188	-	-	188	188
Trading liabilities	19	-	-	135	-	-	135	135
Deposits and loans from banks	20	-	-	-	60,659	-	60,659	60,659
Deposits from customers	21	-	-	-	259,488	-	259,488	259,488
Other liabilities	22	-	-	-	23,107	-	23,107	23,107
Total		-	-	323	343,254	-	343,577	343,577

Separate At 31 December 2018	Note	Fair value through profit or loss - default Mkm	Fair value through OCI Mkm	Held for trading Mkm	Amortised cost Mkm	Carrying Amount Mkm	Fair value Mkm
Assets							
Cash and balances held with 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 and other financial institutions	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	4,454	-	-	-	4,454	4,454
Total		29,810	17,097	12,362	261,821	321,090	321,090
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

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

(d) Estimation of fair values (continued)

Separate		**Available for sale**	**Loans and receivables**	**Held for trading**	**Amortised cost**	**Held to maturity**	**Carrying amount**	**Fair value**
At 31 December 2017	**Note**	**Mkm**	**Mkm**	**Mkm**	**Mkm**	**Mkm**	**Mkm**	**Mkm**
Assets								
Cash and balances held with Central Bank	8	-	34,962	-	-	-	34,962	34,962
Derivative assets	9	-	-	541	-	-	541	541
Trading assets	10	-	-	23,522	-	-	23,522	23,522
Loans and advances to banks and other financial institutions	11	-	173,730	-	-	-	173,730	173,730
Loans and advances to customers	12	-	94,604	-	-	-	94,604	94,604
Financial investments	13	28,491	-	-	-	18,402	46,893	46,893
Other assets	15	-	9,067	-	-	-	9,067	9,067
Total		28,491	312,363	24,063	-	18,402	383,319	383,319
Liabilities								
Derivative	9	-	-	188	-	-	188	188
Trading liabilities	19	-	-	103	-	-	103	103
Deposits and loans from banks	20	-	-	-	60,681	-	60,681	60,681
Deposits from customers	21	-	-	-	259,820	-	259,820	259,820
Other liabilities	22	-	-	-	23,102	-	23,102	23,102
Total		-	-	291	343,603	-	343,894	343,894

8. Cash and balances held with Central Bank

See accounting policy in Note 3 (d)

	Consolidated		**Separate**	
	2018	**2017**	**2018**	**2017**
	MKm	**MKm**	**MKm**	**MKm**
Cash balances	**10,162**	12,955	**10 037**	12,683
Balances with the Reserve Bank of Malawi	**19,223**	22,279	**19,2233**	22,279
Balances eligible for liquidity reserve requirement (Note 41)	**29,385**	35,234	**29,260**	34,962

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 **7.5%** (2017:7.5%) of the average outstanding local and foreign currency customer deposits, 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			
	2018		**2017**	
	MKm	**MKm**	**MKm**	**MKm**
	Asset	**Liability**	**Asset**	**Liability**
Foreign exchange derivatives	**369**	**(160)**	541	(188)

At 31 December 2018, **MK Nil** (2017: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		
	2018	2018	2018	2017	2017	2017
	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	-	**11,993**	**11,993**	4,000	15,857	19,857
Trading securities						
- Other	-	-	-	-	3,665	3,665
	-	**11,993**	**11,993**	4,000	19,522	23,522

Trading assets

	Consolidated and Separate	
	2018	2017
	MKm	MKm
Sovereign	**11,993**	19,857
Corporate	-	3 665
	11,993	23,522
Comprising:		
Treasury bills	**11,993**	19,857
Trading assets lending	-	3 665
	11,993	23,522

Maturity analysis

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

	Consolidated and Separate	
	2018	2017
	MKm	MKm
Maturing within 1 month	**4,472**	7,501
Maturing after 1 month but within 6 months	**2,627**	13,422
Maturing after 6 months but within 12 months	**4,894**	2,599
	11,993	23,522

11. Loans and advances to banks and other financial institutions

See accounting policy in Note 3 (h)

	Consolidated		Separate	
	2018	2017	2018	2017
	MKm	MKm	MKm	MKm
Loans and advances to other banks	**76,507**	121,312	**76,442**	120,254
Loans and advances with related banks (Note 42)	**74**	53 476	**74**	53 476
Gross loans and advances to banks	**76,581**	174,788	**76,516**	173,730
Less: Impairment losses on loans and advances (IAS 39)	**-**	-	**-**	-
Less: Expected credit losses for loans and advances to banks measured at amortised cost	**(133)**	-	**(133)**	-
Balances with banking institutions	**76 448**	174,788	**76 383**	173,730

At 31 December 2018 **MK Nil** (2017: MK Nil) loans and advances to banks and other financial institutions are expected to be recovered more than twelve months after the reporting date.

11. Loans and advances to banks and other financial institutions (Continued)

	Consolidated and Separate
	2018
At 31 December 2018	MKm
Stage 1 impairments:	
Balance at 1 January 2018	389
Impairment loss for the year:	
- ECL on new exposure raised	133
- Subsequent changes in ECL	(27)
- Change in ECL due to derecognition	(392)
Net impairments raised/(released) in P&L	(286)
Other movements	30
Impaired accounts written-off	-
Balance at 31 December 2018	133

12. Loans and advances to customers

See accounting policy in Note 3 (h)

	Consolidated		Separate	
	2018	2017	2018	2017
	MKm	MKm	MKm	MKm
Loans and advances to staff at armotised cost	2,330	2,634	2,330	2,634
Loans and advances to customers at amortised cost	119,119	100,357	119,741	100,742
Gross loans and advances to customers	121,449	102,991	122,071	103,376
Less: impairment losses on loans and advances	(1,494)	-	(1,494)	-
- Impairment losses on loans and advances (IAS 39)	-	(8,772)	-	(8,772)
- Expected credit loss for loans and advances measured at amortised cost (IFRS 9)	(7,323)	-	(7,322)	-
Net loans and advances to customers	112,632	94,219	113,255	94,604

At 31 December 2018, **MK57,819 million** (2017: MK33,033 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	2018	2017	2018	2017
	MKm	MKm	MKm	MKm
Overdrafts	10,270	11,741	10,270	12,126
Term loans	34,816	35,480	34,816	35,480
Finance leases	6,259	4,550	6,259	4,550
Mortgages	1,870	2,202	1,870	2,202
	53,215	53,973	53,215	54,358
Corporate and Investment Banking				
Overdrafts	15,635	12,983	16,257	12,983
Term loans	51,876	35,737	51,876	35,737
Finance leases	723	298	723	298
	68,234	49,018	68,856	49,018
Total gross loans and advances to customers	121,449	102,991	122,071	103 376

12. Loans and advances to customers (Continued)

			Income statement movements			Income statement movements			
	Opening ECL 1 January 2018	Total transfers between stages	ECL on new exposure raised	Change in ECL due to modifi-cations	Subsequent changes in ECL	Change in ECL due to derecognition	Net ECL rais Net ECL raised/(released)*	Other movements	Closing ECL 31 December 2018
Consolidated	Mkm	Mkm	Mkm	Mkm	Mkm	Mkm	Mkm	Mkm	Mkm
Stage 1	1,806	(814)	1,491	-	(856)	(417)	(596)	(30)	1,180
Stage 2	2,270	25	2,404	-	(3,297)	(3)	(871)	-	1,399
Stage 3**	9,632	789	-	-	6,299	-	7,088	(10,482)	6,238
Total	13,708	-	3,895	-	2,146	(420)	5,621	(10,512)	8,817
Separate									
Stage 1	1,806	(814)	1,491	-	(856)	(417)	(596)	(31)	1,179
Stage 2	2,270	25	2,404	-	(3,297)	(3)	(871)	-	1,399
Stage 3**	9,632	789	-	-	6,299	-	7,088	(10,482)	6,238
Total	13,708	-	3,895	-	2,146	(420)	5,621	(10,513)	8,816

*=curing of interest in suspense was recognised in interest income in 2017 compared to impairments in 2018

**= includes interest in suspense

12. Loans and advances to customers (Continued)

Year ended 31 December 2017	Consolidated and Separate
	MKm
Individual allowances for impairment:	
Balance at 1 January 2017	1,038
Impairment loss for the year:	
- Charge for the year	9,196
- Write-offs	(570)
- Reversals of allowance on impairments	(2,327)
Balance at 31 December 2017	7,337
Collective allowances for impairment:	
Balance at 1 January 2017	1,534
Impairment raised for the year	(99)
Balance at 31 December 2017	1,435
Total allowances for impairment	8,772

12.2 Reconciliation of IAS 39 impairment losses on loans and advances to customers to IFRS 9 opening balance

	MKm
Total allowances for impairment as per IAS 39 at 1 January 2018	**8,772**
IFRS 9 transition adjustment on loans and advances to customers	**2,641**
Interest in suspense	**2,295**
Restated opening ECL at 1 January 2018	**13,708**

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

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

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	
	2018	**2017**
Gross investment in finance leases receivable:	**MKm**	**MKm**
Not later than one year	**846**	286
Later than one year but less than five years	**7,785**	5,886
Later than five years	**42**	64
	8,673	6,236
Unearned future finance income on finance leases	**(1,691)**	(1,388)
Net investment in finance leases	**6,982**	4,848
The net investment in finance leases is analysed as follows:		
Not later than one year	**774**	266
Later than one year but less than five years	**6,181**	4,545
Later than five years	**27**	37
	6,982	4,848

13. Financial investments

See accounting policy in Note 3 (g)

	Consolidated and Separate	
	2018	2017
	MKm	MKm
Financial investment securities at fair value	-	28,491
Financial investment securities held to maturity	-	18,402
Gross debt financial investments measured at amortised cost	**68,368**	-
Less: Expected credit losses for debt financial investments measured at amortised cost (note 13.1)	**(119)**	-
Net debt financial investments measured at amortised cost	**68,249**	-
Financial investments measured at fair value through profit or loss	**30**	-
Debt financial investments measured at fair value through OCI	**17,278**	-
Less: Fair value reserve relating to fair value adjustments (before the ECL balance)	**(181)**	-
	85,376	46,893

At 31 December 2018 **MK47,757million** (2017: MK17,681 million) of financial investments are expected to be recovered more than twelve months after the reporting date.

	Consolidated and Separate	
Financial investments by category	**2018**	**2017**
Financial investment securities available for sale:	**MKm**	**MKm**
Treasury bills and bonds	-	28,476
Equity investment in National Switch Limited	-	15
	-	28,491
Financial investment securities held to maturity:		
Treasury bills and bonds	-	18,402
Net debt financial investments measured at amortised cost		
Treasury bills and bonds	**68,249**	-
Financial investments measured at fair value through profit or loss		
Equity investment in National Switch Limited	**30**	-
Debt financial investments measured at fair value through OCI		
Treasury bills and bonds	**17,097**	-

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 2018 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 2018 MKm
Sovereign								
Stage 1	98	-	82	(15)	(46)	21	-	119
Total	98	-	82	(15)	(46)	21	-	119

OCI movements

Consolidated and Separate	Opening ECL 1 January 2018 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 2018 MKm
Sovereign								
Stage 1	12	-	23	-	(4)	-	19	31
Total	12	-	23	-	(4)	-	19	31

14. Investment in subsidiary

See accounting policy in Note 3 (a)

	Separate	
	2018	2017
	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. Investments in subsidiaries are measured at cost in the separate financial statements.

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

15. Other assets

See accounting policy in Note 3 (c) and 7 (d)

	Consolidated		Separate	
	2018	2017	2018	2017
	MKm	MKm	MKm	MKm
Remittances in transit*	**260**	3,631	**260**	3,631
Staff receivables	**-**	36	**-**	36
Inventory***	**72**	61	**72**	61
Sundry receivables**	**941**	3,249	**972**	3,265
Staff loan employee benefits	**3,222**	2,135	**3,222**	2,135
Prepayments: other ***	**1,128**	317	**1,127**	317
	5,623	9,429	**5,653**	9,445

* 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 2018 **MK Nil** (2017: MK Nil) other assets are receivable more than twelve months after the reporting date.

16. Property and equipment

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	Total
Cost or valuation	MKm	MKm	MKm	MKm	MKm
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**
Balance at 1 January 2017	4,329	5,020	8,345	613	18,307
Additions during the year	51	1	695	1,695	2,442
Revaluation during the year	115	378	-	-	493
Transfers during the year	311	111	1,154	(1,576)	-
Disposals during the year	-	-	(289)	(12)	(301)
Balance at 31 December 2017	4,806	5,510	9,905	720	20,941
Accumulated depreciation					
Balance at 1 January 2018	**-**	**228**	**5,505**	**-**	**5,733**
Depreciation charge for the year	**75**	**362**	**1,747**	**-**	**2,184**
Disposals	**-**	**-**	**(892)**	**-**	**(892)**
Write back of depreciation on revaluation	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2018	**75**	**590**	**6,360**	**-**	**7,025**

16. Property and equipment (Continued)

Consolidated and Separate	Freehold land and buildings	Leasehold land and buildings	Motor vehicles, computers, fixtures and fittings	Work in progress	Total
Accumulated depreciation	**MKm**	**MKm**	**MKm**	**MKm**	**MKm**
Balance at 1 January 2017	288	994	4,412	-	5,694
Depreciation charge for the year	83	292	1,374	-	1,749
Eliminated on disposal	-	-	(281)	-	(281)
Write back of depreciation on revaluation	(371)	(1,058)	-	-	(1,429)
Balance at 31 December 2017	-	228	5,505	-	5,733
Carrying amount					
At 31 December 2018	**4,781**	**5,310**	**5,466**	**288**	**15,845**
At 31 December 2017	4,806	5,282	4,400	720	15,208

Broll Malawi independent valuers, valued land and buildings as 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 2018 **MK15,845million** (2017: MK15,208million) property and equipment is expected to be realised more than twelve months after the reporting date.

Fair value hierarchy	Level 1	Level 2	Level 3	Total
Consolidated and Separate	**MKm**	MKm	**MKm**	MKm
At 31 December 2018				
Freehold land and buildings	-	-	**4,781**	**4,781**
Leasehold land and buildings	-	-	**5,310**	**5,310**
	-	-	**10,091**	**10,091**
At 31 December 2017				
Freehold land and buildings	-	-	4,806	4,806
Leasehold land and buildings	-	-	5,510	5,510
	-	-	10,316	10,316

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.

16. Property and equipment (Continued)

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

	Consolidated and Separate	
	2018	2017
	MKm	MKm
Cost	6,143	5,750
Accumulated depreciation and impairment losses	(2,804)	(2,535)
Net carrying amount	3,339	3,215

A register of land and buildings as required by Section 16 of the Malawi Companies Act 1984 is maintained by the Group's registered office and is available for inspection.

17. Intangible assets – software

See accounting policy in Note 3 (k)

	Consolidated and Separate	
	2018	2017
	MKm	MKm
Cost		
Balance at 1 January	21,823	819
Additions during the year	-	21,201
Disposals during the year	-	(197)
Balance at 31 December	21,823	21,823
Accumulated amortisation and impairment losses		
Balance at 1 January	881	228
Amortisation during the year	1,455	850
Eliminated on disposal	-	(197)
Balance at 31 December	2,336	881
Carrying amount	19,487	20,942

At 31 December 2018 **MK19,487million** (2017: MK20,942million) 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	2018	2017	2018	2017	2018	2017
	MKm	MKm	MKm	MKm	MKm	MKm
Other provisions	1,641	2,072	-	-	1,641	2,072
Impairment charges on loans and advances, financial investments and off-balance sheet items	1,083	1,263	-	(188)	1,083	1,075
Property and equipment and intangibles	-	-	(3,254)	(3,754)	(3,254)	(3,754)
Fair value adjustments and receivables	298	525	(2,370)	(4,828)	(2,072)	(4,303)
Revaluation reserve	-	-	(413)	(413)	(413)	(413)
	3,022	3,860	(6,037)	(9,183)	(3,015)	(5,323)
Separate						
Other provisions	1,628	2,072	-	-	1,628	2,072
Impairment charges on loans and advances, financial investments and off-balance sheet items	1,079	1,263	-	(188)	1,079	1,075
Property and equipment and intangibles	-	-	(3,254)	(3,754)	(3,254)	(3,754)
Fair value adjustments and receivables	280	515	(2,370)	(4,828)	(2,090)	(4,313)
Revaluation reserve	-	-	(413)	(413)	(413)	(413)
	2,987	3,850	(6,037)	(9,183)	(3,050)	(5,333)

18. Deferred tax assets and liabilities (Continued)

Deferred tax is calculated, in full, on all temporary differences under the liability method using the enacted tax rate of **30%** (2017:30%). The movement on the deferred tax account is as follows:

	Consolidated		Separate	
	2018 MKm	2017 MKm	2018 MKm	2017 MKm
Balance at 1 January 2017	**(5,323)**	(1,469)	**(5,333)**	(1,475)
Profit or loss (Note 36)	**1,058**	(5,044)	**1,036**	(5,048)
Movement through OCI	**1,250**	1,190	**1,247**	1,190
Balance at 31 December 2018	**(3,015)**	(5,323)	**(3.050)**	(5,333)

Deferred tax assets and liabilities, deferred tax credit/ (charge) in the profit or loss, and deferred tax (charge)/ credit on revaluation reserve in equity are attributable to the following items:

	As at 1 January 2018 MKm	(Charged)/ credited to profit or loss MKm	Charged/ (credited) to equity MKm	As at 31 December 2018 MKm
Consolidated				
Other provisions	2,072	**(431)**	-	**1,641**
Expected credit losses on loans and advances, financial investments and off-balance sheet items	1,075	**(1,010)**	**1,018**	**1,083**
Property and equipment	(3,754	**500**	-	**(3,254)**
Fair value adjustments and receivables	(4,303)	**1,999**	**232**	**(2,072)**
Revaluation reserve	(413)	-	-	**(413)**
	(5,323)	**1,058**	**1,250**	**(3,015)**

	As at 1 January 2018 MKm	(Charged)/ credited to profit or loss MKm	Charged/ (credited) to equity MKm	As at 31 December 2018 MKm
Separate				
Other provisions	2,072	**(444)**	-	**1,628**
Expected credit losses on loans and advances, financial investments and off-balance sheet items	1,075	**(1,011)**	**1,015**	**1,079**
Property and equipment	(3,754)	**500**	-	**(3,254)**
Fair value adjustments and receivables	(4,313)	**1,991**	**232**	**(2,090)**
Revaluation reserve	(413)	-	-	**(413)**
	(5,333)	**1,036**	**1,247**	**(3,050)**

19. Trading liabilities

See accounting policy in Note 3 (f)

	Consolidated		Separate	
	2018 MKm	2017 MKm	2018 MKm	2017 MKm
Trading liabilities:				
Day one gain on foreign currency SWAPs	**444**	135	**444**	103

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	
	2018	2017	2018	2017
	MKm	MKm	MKm	MKm
Balances due to related banks (Note 42)	**20,911**	13,408	**20,911**	13,408
Balances due to other banks	**13,668**	47,251	**13,672**	47,273
	34,579	60,659	**34,583**	60,681

Maturity analysis

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

	Consolidated 2018 MKm	Consolidated 2017 MKm	Separate 2018 MKm	Separate 2017 MKm
Redeemable on demand	**1,316**	19,441	**1,320**	19,463
Maturing within 1 month	**31,034**	39,699	**31,034**	39,699
Maturing after 1 month but within 6 months	**2,229**	1,519	**2,229**	1,519
	34,579	60,659	**34,583**	60,681

21. Deposits from customers

See accounting policy in Note 3 (c)

	Consolidated		Separate	
	2018	2017	2018	2017
Personal and Business Banking	MKm	MKm	MKm	MKm
Current and demand deposits	**59,303**	56,727	**59,303**	57,059
Savings accounts	**19,189**	17,556	**19,189**	17,556
Fixed deposit accounts	**11,104**	5,809	**11,104**	5,809
Foreign currency deposit accounts	**26,420**	29,504	**26,421**	29,504
	116,016	109,596	**116,017**	109,928
Corporate and Investment Banking				
Current and demand deposits	**39,567**	43,765	**39,567**	43,765
Savings	**920**	673	**920**	673
Fixed deposit accounts	**18,555**	280	**18,555**	280
Foreign currency deposit accounts	**54,226**	105,174	**56,800**	105,174
	113,268	149,892	**115,842**	149,892
Total deposits from customers	**229,284**	259,488	**231,859**	259,820

At 31 December 2018, **MK18million** (2017: MK73million) of deposits from customers are expected to be settled more than twelve months after the reporting date.

Included in customer deposits were deposits of **MK1,357million** (2017: MK7,951 million) held as collateral for irrevocable commitments under import letters of credit.

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

Maturity analysis

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

	Consolidated		Separate	
	2018	2017	2018	2017
	MKm	MKm	MKm	MKm
Redeemable on demand	**223,633**	252,173	**226,208**	252,505
Maturing within 1 month	**2,197**	5,671	**2,197**	5,671
Maturing after 1 month but within 3 months	**3,029**	1,131	**3,029**	1,131
Maturing after 3 months but within 6 months	**230**	213	**230**	213
Maturing after 6 months but within 12 months	**177**	227	**177**	227
Maturing after 12 months	**18**	73	**18**	73
	229,284	259,488	**231,859**	259,820

22. Other liabilities

See accounting policy in note 3 (c)

	Consolidated		Separate	
	2018	2017	2018	2017
	MKm	MKm	MKm	MKm
Items in transit	**129**	705	**129**	705
Trade payables	**348**	459	**348**	459
Accruals	**2,370**	2,190	**2,370**	2,190
Due to Standard Bank of South Africa (Note 42)	**2,566**	14,087	**2,566**	14,087
Unclaimed balances	**998**	2,959	**998**	2,959
Other	**1,856**	2,707	**1,857**	2,702
	8,267	23,107	**8,268**	23,102

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

*= Deferred income of **MK1,022million** (2017 MK Nil) 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 2018, **MK Nil** (2017: MK Nil) other liabilities are payable more than twelve months after the reporting date.

23. Income tax payable

See accounting policy in Note 3 (n)

	Consolidated		Separate	
	2018	2017	2018	2017
	MKm	MKm	MKm	MKm
Balance at 1 January	**65**	3,217	**-**	3,132
Provisions raised during the year (note 36)	**6,248**	255	**5,882**	72
Income tax payments during the year	**(2,506)**	(6,347)	**(2,219)**	(6,143)
Tax credits (utilised)/ receivable during the year	**(3,399)**	2,940	**(3,399)**	2,939
Balance at 31 December 2018	**408**	65	**264**	-

At 31 December 2018, **MK Nil** (2017: 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 2018	**2,332**	**609**	**-**	**2,941**
IFRS 9 transition adjustment	**-**	**-**	**241**	**241**
Restated balance at 1 January 2018	**2,332**	**609**	**241**	**3,182**
Provisions raised during the year	**5,184**	**2,194**	**99**	**7,477**
Provisions released during the year	**(5,645)**	**(1,095)**	**(158)**	**(6,898)**
Balance at 31 December 2018	**1,871**	**1,708**	**182**	**3,761**

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 second quarter of the year 2019. 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
	2018
	MKm
Stage 1 impairments:	
Balance at 1 January 2018	**241**
Impairment loss for the year:	
ECL on new exposure raised	**99**
Subsequent change in ECL	**(105)**
Change in ECL due to derecognition	**(53)**
Net impairments raised/(released)	**(59)**
Balance at 31 December 2018	**182**

25. (i) Share capital

	Consolidated and Separate	
	2018	2017
	MKm	MKm
Issued and fully paid up as at 31 December	**234**	234

At 31 December 2018 the total authorised share capital comprised **240 million** ordinary shares of **MK1 each** (31 December 2017: 240 million ordinary shares of MK1 each).

25. (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**	4,211
Revaluation surplus during the year	**-**	1,923
Deferred tax on revaluation surplus	**-**	1,399
Balance at 31 December	**7,533**	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.

(ii) Available-for-sale revaluation reserve

	Consolidated and Separate	
	2018	2017
	MKm	MKm
Balance at 1 January	**358**	(84)
IFRS 9 transition adjustment	**(358)**	-
Net gain from changes in fair value	**-**	651
Deferred income taxes	**-**	(209)
Balance at 31 December	**-**	358

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	
	2018	2017
	MKm	MKm
Balance at 1 January	**-**	-
IFRS 9 transition adjustment	**370**	-
Expected credit losses on financial instruments at fair value through OCI	**19**	-
Net loss from changes in fair value	**(770)**	-
Deferred income taxes	**230**	-
Balance at 31 December	**(151)**	-

The fair value through other comprehensive income revaluation reserve comprises the gain / (loss) on the banking investment book which is 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 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.

As at the reporting date, there was no objective evidence to suggest that the fair value through OCI reserve instruments are impaired.

26. Reserves (Continued)

(ii) Share-based payment reserve

	Consolidated and Separate	
	2018	2017
	MKm	MKm
Balance at 1 January	**2**	4
Net current year movement	**(2)**	(2)
Balance at 31 December	**-**	2

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.

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	
	2018	**2018**	2017
Options outstanding at the beginning of the year		**10,375**	20,450
Exercised	**62.39 - 111.94**	**(10,375)**	(19,125)
Transfers from group companies		-	9,050
Options outstanding at 31 December		-	10,375

Share options were exercised in full throughout the year. The weighted average share price for the year was **ZAR192.35** (December 2017: ZAR157.29).

As at 31 December 2018,there were no options granted to employees, including executive directors, that had not been exercised.

26. Reserves (Continued)

The following options granted to employees, including executive directors, had not been exercised 31 December 2017:

Number of shares	Option price ZAR	Weighted average price ZAR	Option expiry period
2,000	62.39	62.39	Year to 31 December 2019
3,750	111.94	111.94	Year to 31 December 2020
4,625	98.80	98.80	Year to 31 December 2021
10 375			

Equity growth scheme

The share options were valued using a Black-Scholes option pricing model. Each grant was valued separately. The weighted fair value of the options granted per vesting type and the assumptions utilised are illustrated below:

A reconciliation of the movement of appreciation rights is detailed below:

	Option price range (ZAR)	Number of options	
	2018	2018	2017
Rights outstanding at 1 January		-	74,500
Exercised	**82.00**	-	-
Transfers to Group companies	**62.39 –98.00**	-	(74,500)
Rights outstanding at 31 December		-	-

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 2018, there were no rights granted to employees, including executive directors that had not been exercised.

The following rights granted to employees, including executive directors, had not been exercised at 31 December 2017:

Number of shares	Option price ZAR	Weighted average price ZAR	Option expiry period
5,500	98.00	98.00	Year to 31 December 2018
52,000	92.00	92.00	Year to 31 December 2018
17,000	62.39	62.39	Year to 31 December 2019
74,500			

(v) Loan loss reserve

	Consolidated		Separate	
	2018	2017	**2018**	2017
	MKm	MKm	**MKm**	Mkm
Balance at 1 January	**2,845**	-	**2,845**	-
Transfer from retained earnings	**(2,845)**	2,845	**(2,845)**	2,845
Balance as at 31December	**-**	2,845	**-**	2,845

The loan loss reserve comprises of the shortfall in provisions in accordance to IAS 39 Financial Instruments: Recognition and Measurement when compared with Reserve Bank of Malawi guidelines. The shortfall in provisions has been treated as an appropriation of retained earnings to loan loss reserve.

26. Reserves (Continued)

(vi) Retained earnings

	Consolidated		Separate	
	2018	2017	2018	2017
	MKm	MKm	MKm	Mkm
Balance at 31 December	**52,768**	49,943	**51,676**	49,270
IFRS 9 transition adjustment	**(2,364)**	-	**(2,367)**	-
Restated balance at 1 January	**50,404**	49,943	**49,309**	49,270
Dividends paid	**(2,699)**	(6,500)	**(2,699)**	(6,500)
Transfer from share ownership scheme reserve	**-**	8	**-**	8
Transfer to loan loss reserve	**2,845**	(2,845)	**2,845**	(2,845)
Profit for the year	**10,582**	12,162	**9,769**	11,743
Balance at 31 December	**61,132**	52,768	**59,224**	51,676

27. Net interest income

See accounting policy in Note 3(p)

	Consolidated		Separate	
	2018	2017	2018	2017
	MKm	MKm	MKm	Mkm
Interest income				
Loans and advances	**18,016**	20,135	**18,066**	20,177
Investment securities	**11,504**	10,097	**11,504**	10,097
Cash and short term funds	**9,478**	13,555	**9,478**	13,555
	38,998	43,787	**39,048**	43,829
Interest expense				
Customer deposits	**3,884**	3,254	**3,884**	3,255
Borrowed funds	**374**	684	**379**	684
	4,258	3,938	**4,263**	3,939
Net interest income	**34,740**	39,849	**34,785**	39,890

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 **MK39,998million** (2017: MK43,787million) and **MK4,258million** (2017: MK3,938million) respectively.

28. Net fee and commission income

See accounting policy in Note 3 (s)

	Consolidated and Separate	
	2018	2017
	MKm	MKm
Fee and commission income		
Point of representation fees	**1,175**	2,332
Card based commissions	**1,581**	1,353
Electronic banking fees	**1,065**	691
Foreign currency service fees	**1,573**	1,333
Documentation and administration fees	**4,256**	2,226
Knowledge based fees	**789**	222
Insurance commission	**609**	432
Penalty based fees	**192**	140
Guarantee fees	**990**	500
ATM fees	**640**	193
Other	**106**	588
	12,976	10,010
Fee and commission expense		
Interbank transactions	**(871)**	(639)
Net fee and commission income	**12,105**	9,371

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	
	2018	2017	2018	2017
	MKm	MKm	MKm	MKm
Foreign exchange	**4,802**	3,582	**4 802**	2,634
Trading income debt securities	**4,153**	4,378	**2 560**	4 378
	8,955	7,960	**7,362**	7,012

30. Other operating income

	Consolidated		Separate	
	2018	2017	2018	2017
	MKm	MKm	MKm	MKm
Sundry income	**117**	74	**187**	119
	117	74	**187**	119

31. Other gains and losses on financial instruments

See accounting policy in Note 3(g)

	Consolidated and Separate	
	2018	2017
	MKm	MKm
Gains on debt realisation of financial assets measured at fair value through OCI	**69**	-
	69	-

32. Credit impairment charges

See accounting policy in Note 3 (g)

	Consolidated and Separate	
	2018	2017
	MKm	MKm
Net credit impairments raised and released for loans and advances (Note 12) - IAS 39	**-**	6,771
Net expected credit losses raised and released - IFRS 9:		
- Loans and advances to banks (Note 11)	**(286)**	-
- Loans and advances to customers (Note 12)	**5,621**	-
- Financial investments (Note 13)	**40**	-
- Letters of credit, bank acceptances and guarantees (Note 24)	**(59)**	-
Recoveries on loans and advances previously written off	**(411)**	(547)
Modification gains and losses on distressed financial assets (Note 12)	**(3)**	-
	4,902	6,224

33. Staff costs

	Consolidated and Separate	
	2018	2017
	MKm	MKm
Salaries and allowances	**12,631**	13,299
Share options scheme	**(2)**	6
Retirement benefit costs	**1,140**	1,001
	13,769	14,306

34. Depreciation and amortisation

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

	Consolidated and Separate	
	2018	2017
	MKm	MKm
Depreciation (Note 16)	**2,184**	1,749
Amortisation of intangible assets (Note 17)	**1,455**	850
	3,639	2 599

35. Other operating expenses

	Consolidated		Separate	
	2018	2017	**2018**	2017
	MKm	MKm	**MKm**	MKm
Franchise fees	**1,647**	1,689	**1,647**	1,689
Auditor's remuneration and fees for other services	**184**	116	**184**	116
Motor vehicle and fuel costs	**209**	297	**209**	297
Software and IT costs	**4,543**	3,120	**4,543**	3,120
Communication costs	**1,228**	835	**1,228**	835
Travel and entertainment expenses	**968**	1,170	**968**	1,170
Recurrent expenditure on property and equipment	**803**	1,090	**803**	1,090
Marketing and advertising expenses	**650**	609	**650**	609
Stationery and printing expenses	**226**	537	**226**	537
Training expenses	**252**	229	**252**	229
Insurance and security costs	**1,598**	1,275	**1,598**	1,275
Premises expenses	**632**	597	**632**	597
Professional fees	**438**	390	**438**	390
Indirect taxes	**1,940**	1,475	**1,940**	1,475
Operational risk losses	**428**	613	**428**	613
Administration and membership fees	**121**	68	**121**	68
Exchange differences	**391**	1,310	**391**	1,310
Commission paid	**184**	148	**184**	148
Coverage expenses	**412**	320	**412**	320
Other expenses	**1,050**	776	**729**	512
	17,904	16,664	**17,583**	16,400

36. Income tax expense

See accounting policy in Note 3(n)

	Consolidated		Separate	
	2018	2017	**2018**	2017
	MKm	MKm	**MKm**	Mkm
Current tax @ 30% (2017: 30%)				
- Current	**6,248**	184	**5,882**	-
- Prior year under provision	**-**	71	**-**	72
Deferred tax (Note 18)	**(1,058)**	5,044	**(1,036)**	5,048
	5,190	5,299	**4,846**	5,120

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	
	2018	2017	**2018**	2017
	MKm	MKm	**MKm**	Mkm
Profit before income tax expense	**15,772**	17,461	**14,615**	16,863
Tax calculated at the statutory tax rate of 30%	**4,732**	5,238	**4,385**	5,059
Tax effect of:				
Expenses not deductible for tax purposes	**595**	215	**598**	215
Non-taxable income for tax purposes	**(137)**	(146)	**(137)**	(146)
Excess capital allowances	**-**	(8)	**-**	(8)
Total income tax expense in profit or loss	**5,190**	5,299	**4,846**	5,120

37. Earnings per share

See accounting policy in Note 3(u)

Net profit attributable to equity holders (MKm)	**10,582**	12,162	**9,769**	11,743
Weighted average number of ordinary shares in issue (millions)	**234**	234	**234**	234
Basic earnings per share (expressed in MK per share)	**45.22**	51.97	**41.75**	50.19
Diluted earnings per share (expressed in MK per share)	**45.22**	51.97	**41.75**	50.19

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 separate 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 2018 of **MK17.05** (2017: MK4.26) per ordinary share representing **MK4billion** (2017: MK1billion).

An interim dividend of **MK7.24** (2017: MK6.39) per ordinary share representing **MK1.7 billion** (2017: MK1.5 billion) was paid in the year and therefore total dividend for the year is **MK24.29** per share (2017: MK10.65), amounting to a total of **MK5.7billion** (2017: MK2.5billion).

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 2018. The defence against these claims and litigation costs are estimated to cost **MK892million** (2017: MK810 million). 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) 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	
	2018	**2017**
	MKm	**MKm**
Contingent liabilities		
Acceptances and letters of credit	**15,850**	14,219
Guarantees and performance bonds	**92,266**	25,575
	108,116	39,794

	Consolidated and Separate	
	2018	**2017**
	MKm	**MKm**
Commitments		
Undrawn formal stand-by facilities, credit lines and other commitments to lend	**16,701**	33,213
Authorised but not yet contracted capital commitments on property and equipment	**2,099**	3,862
	18,800	37,075

Included in undrawn formal stand-by facilities, credit lines and other commitments to lend are irrevocable commitments amounting to **MK Nil** (2017: MK7,508 million).

a) Operating lease commitments

The future minimum payments under non-cancellable operating leases are as follows:

	Consolidated and Separate	
	2018	**2017**
	MKm	**MKm**
Buildings		
Within 1 year	**25**	104
After 1 year but within 5 years	**699**	353
After 5 years	**460**	182
	1,184	639
Equipment		
Within 1 year	**28**	17
After 1 year but within 5 years	**-**	-
After 5 years	**-**	-
	28	17

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	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%**

Consolidated and Separate	2017	
	In MK	In US$
Assets		
Government securities	14.93% - 29.00%	-
Deposits with banking institutions	14.4% - 26.00%	2.41% - 3.65%
Loans and advances to customers	16.00% - 39.98%	4.70% - 10.70%
Liabilities		
Customer deposits	0.10% - 14.00%	0.24% - 1.10%

41. Analysis of cash and cash equivalents as shown in the statement of cash flows:

	Consolidated and Separate			
	2018	2017	2018	2017
	MKm	MKm	MKm	MKm
Cash and balances with Reserve Bank of Malawi (note 8)	**29,385**	35,234	**29,260**	34,962
Less: Liquidity reserve requirement	**(18,913)**	(20,223)	**(18 913)**	(20,223)
	10,472	15,011	**10,347**	14,739
Treasury bills and bonds with a maturity of over 90 days	**3**	3,660	**3**	3,660
Deposits and balances due from banking institutions with maturity of less than 90 days	**48,270**	108,425	**48,206**	107,369
	58,745	127,096	**58,556**	125,768

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 market rates. The outstanding balances at the year end and related expense and income for the year are as follows:

	Consolidated		Separate	
	2018	2017	2018	2017
	MKm	MKm	MKm	MKm
Balances due from related parties				
Derivative assets				
Standard Bank of South Africa – Fellow subsidiary	**39**	14	**39**	14
Trading securities other				
Standard Bank of Mauritius – Fellow subsidiary	**-**	3,665	**-**	3,665
Loans and advances to banks and other financial institutions				
Standard Bank of South Africa – Fellow subsidiary	**65**	-	**65**	-
Stanbic Kenya – Fellow subsidiary	**4**	-	**4**	-
Stanbic Botswana – Fellow subsidiary	**5**	-	**5**	-
Standard Bank Isle of Man – Fellow subsidiary	**-**	30,770	**-**	30,770
Standard Bank of Mauritius – Fellow subsidiary	**-**	22,706	**-**	22,706
Balances due from related banks (Note 11)	**74**	53,476	**74**	53,476
Loans and advances to customers				
Balances due from directors and other key management personnel	**474**	369	**474**	369
Balances due from other related parties	**48**	92	**670**	425
	522	461	**1,144**	794
Other assets				
Balance due from Standard Bank Bureau De Change Limited - subsidiary	**-**	-	**30**	15
Balance due from CFC Stanbic Kenya –Fellow subsidiary	**-**	27	**-**	27
Balance due from Standard Bank of South Africa – Fellow subsidiary	**10**	5	**10**	5
	10	32	**40**	47
Interest income earned from related banks	**455**	479	**455**	479
Trading income/(expense)from/(to)related banks	**167**	350	**167**	350
Franchise fees earned from Standard Bank Bureau De Change Limited	**-**	-	**70**	45

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.

	Consolidated		Separate	
	2018	2017	2018	2017
	MKm	MKm	MKm	MKm
Balances due to related parties				
Deposits from customers				
Balances due to directors and other key management personnel	**81**	133	**81**	133
Balances due to other related parties	**1,661**	309	**1,661**	309
Standard Bank Bureau De Change Limited -Subsidiary	**-**	-	**2,575**	333
	1,742	442	**4,317**	775
Deposits and loans from banks				
Standard Bank of South Africa – Fellow subsidiary	**2,433**	2,374	**2,433**	2,374
Stanbic Zimbabwe – Fellow subsidiary	**6**	-	**6**	-
Stanbic Zambia – Fellow subsidiary	**20**	-	**20**	-
Standard Bank of South Africa Isle of Man Branch - Fellow subsidiary	**18,452**	11,034	**18,452**	11,034
Balances due to related party banks (Note 20)	**20,911**	13,408	**20,911**	13,408
Other liabilities				
Standard Bank of South Africa - Fellow subsidiary (Note 22)	**2,566**	14,087	**2,566**	14,087
CFC Stanbic Kenya – Fellow subsidiary	**-**	7	**-**	7
Balances due to related parties	**2,566**	14,094	**2,566**	14,094
Derivative liabilities				
Standard Bank of South Africa – Fellow subsidiary	**46**	188	**46**	188
Contingencies				
Letter of guarantee – Standard Bank of South Africa – Fellow subsidiary	**7,830**	10,446	**7,830**	10,446
Letter of guarantee – Stanbic Botswana – Fellow subsidiary	**1,276**	-	**1,276**	-
	9,106	10,446	**9,106**	10,446
Key management compensation				
Salaries and other short-term benefits	**1,018**	1 326	**1,018**	1 326
Contributions to defined contribution plans	**160**	129	**160**	129
Share options	**1**	6	**1**	6
	1,179	1,461	**1,179**	1,461

42. Related party transactions (Continued)

	Consolidated and Separate	
	2018	**2017**
	MKm	**MKm**
Interest expense to related banks	**466**	204
Fee and commission expense to related banks	-	9
Staff costs paid to related banks	**12**	46
Franchise fees – Standard Bank of South Africa (Note 35)	**1,647**	1,689
Information technology fees and other services- Standard Bank of South Africa	**2,952**	1,573
Dividends paid - Stanbic Bank Africa Holdings	**1,624**	3,912
Directors remuneration		
Non-executive directors – fees	**39**	35
Non-executive directors – expenses	**42**	36
Executive directors salaries and other short-term benefits	**330**	406
	411	477

A listing of members of the Board of Directors is shown on first page of the directors' report.

The fees for the Directors for 2018 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:

	2018	2017	2016
United States Dollar (USD)	**733.69**	732.02	728.62
Sterling Pound (GBP)	**938.76**	989.70	899.92
South African Rand (ZAR)	**50.99**	59.37	54.26
Inflation rates as at 31 December (%)	**9.9**	7.1	20.0

As at the date of approval of the consolidated and separate financial statements, the exchange rates were as follows:

United States Dollar (USD)	**737.87**
Sterling Pound (GBP)	**979.70**
South African Rand (ZAR)	**52.81**

44. Subsequent events

Subsequent to the reporting date, nothing has occurred requiring adjustments to and/or disclosure in the consolidated and separate financial statements.

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Footprint in Malawi