BOTSWANA

MALAWI

MAURITIUS

MOZAMBIQUE

ZAMBIA

ZIMBABWE

FMBcapital HOLDINGS plc

Annual Report 2019

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FMBcapital HOLDINGS plc

INTRODUCTION

INTRODUCTION

INTRODUCTION

This is the year-end report of FMBcapital Holdings plc (FMBCH or the Group) to its stakeholders. It is intended to give a balanced and accurate assessment of the Group's performance in the financial year under review, namely 1 January 2019 to 31 December 2019.

SCOPE OF THE REPORT

The report covers the performance of FMBCH and all of its operating companies in Botswana, Malawi, Mauritius, Mozambique, Zambia and Zimbabwe for the financial year ending 31 December 2019. Where applicable and relevant, information subsequent to this date has been included.

The report encompasses all of the Group's activities, which comprise retail, commercial, corporate and international banking, as well as the provision of other products and services such as digital payment platforms, money transfer services, bill payments and cash management services.

REPORTING PRINCIPLES

The content of this report has been informed by the International Integrated Reporting Framework (<IR>Framework) developed by the International Integrated Reporting Council (IIRC), a global coalition of regulators, investors, companies, standards bodies, accounting bodies and non-profit organisations. The <IR> Framework was recently adopted and recommended by the World Bank for corporate reporting.

FMBCH is working towards an integrated form of reporting that will be in full compliance with the IIRC.

ASSURANCE

An independent audit of the Group's annual financial statements was performed by Deloitte Mauritius. Information contained in the report, is derived from the Group's own internal resources and from information available in the public domain.

STAKEHOLDERS

FMBCH's stakeholders include Shareholders, customers, employees, governments, regulators, suppliers and the communities in which its subsidiaries operate. The Group is committed to creating long-term value for all stakeholders.

The Annual Report serves to provide a balanced and holistic summary of the Group's performance.

This Annual Report and previous Annual Reports (for FMB Malawi) are available for download from our website at www.fmbcapitalgroup.com.

Feedback on this report

We welcome your feedback on this report.

Please email your comments to communications@fmbcapital.com

FINANCIAL

MANUFACTURED

INTELLECTUAL

SOCIAL

HUMAN

NATURAL

THE SIX CAPITALS

FMBCH aims to create value in all six capitals defined by the IIRC. These include financial capital, manufactured capital, intellectual capital, human capital, natural capital and social capital. This means that, in addition to creating financial value for its shareholders, the Group creates value for a range of different beneficiaries in five other categories.

BOARD APPROVAL

The Board and its subcommittees acknowledge their responsibility for overseeing the integrity and completeness of this report. The Board confirms that it has collectively reviewed the contents of the report and applied its collective mind to the preparation and presentation of this report. Furthermore, it believes that it has appropriately considered the accuracy and completeness of the material matters as well as the reliability of all data and information presented herein.

The Board approved the annual report on 8 June 2020.

Terence Davidson
Chairman

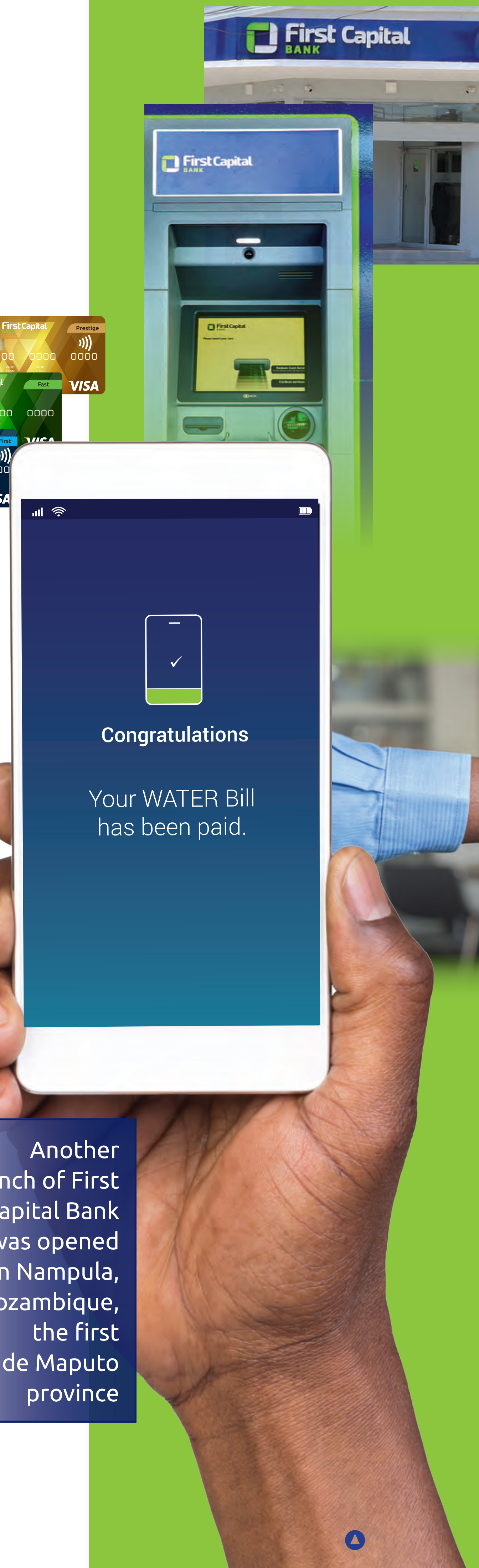
Dheeraj Dikshit
Group Managing Director

Forward-looking statements

All forward-looking statements are based on beliefs and assumptions relative to information currently available to FMBCH's management. There can be no assurance that such statements will be accurate and actual results and future events could differ materially from those anticipated in such statements. For purposes of this report, the words 'believe', 'anticipate', 'estimate', 'expect', 'intend' and similar expressions are intended to identify forward-looking statements. Forward-looking statements are subject to certain risks, uncertainties and assumptions. These risks include, but are not limited to, general market conditions, our ability to manage growth, performance and changes in the regulatory environment, among others. FMBCH undertakes no obligation to update forward-looking statements to reflect subsequently occurring events or circumstances or to reflect unanticipated events or developments.

The Group's corporate restructuring has been completed with all banking entities now directly held by FMBcapital Holdings plc

Rebranding of the Group and all entities completed



Successful acquisition of Bank of India (Botswana) Limited (BOIB) by First Capital Bank Botswana

Seamless transition of IT and services support for Barclays Bank of Zimbabwe from Barclays Bank PLC to FMB Group

Mobile App launched in Malawi, together with significant enhancements to the Group's Internet Banking platform

Six new loan centres operational in Botswana

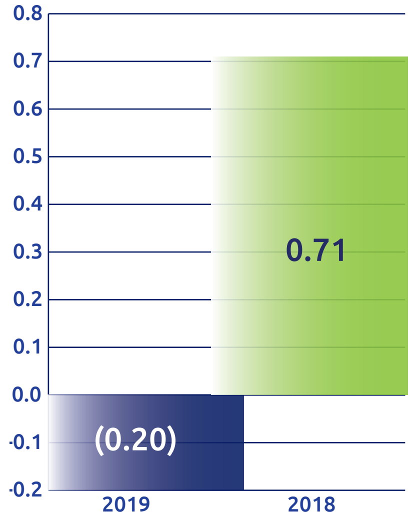
Our operations in Zambia expanded by opening an agency in Chinika in the industrial area of Lusaka

Another branch of First Capital Bank was opened in Nampula, Mozambique, the first outside Maputo province

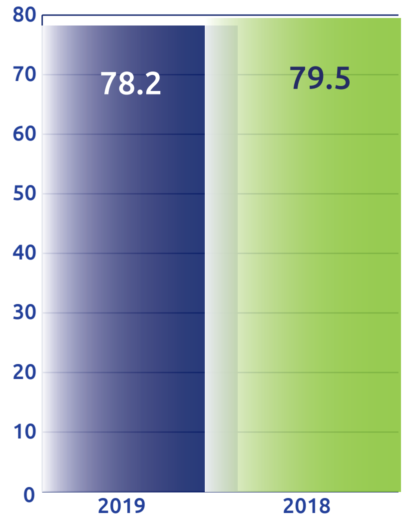
GROUP HIGHLIGHTS

The Group is committed to creating long-term value for all stakeholders

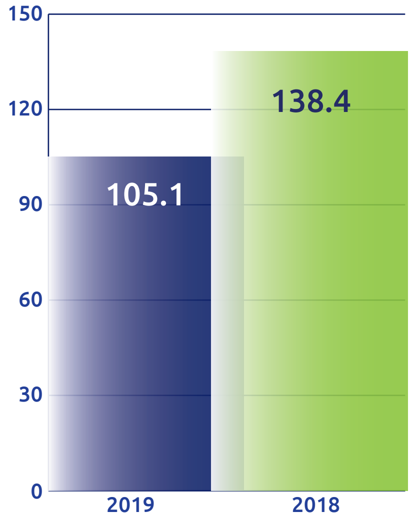
Earnings/(Loss) per Share
(US cents)



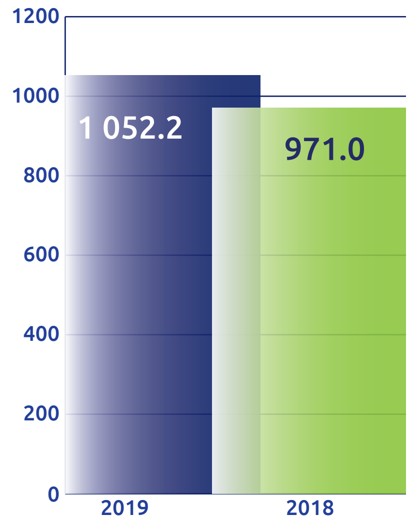
Shareholder Funds
(US$ million)



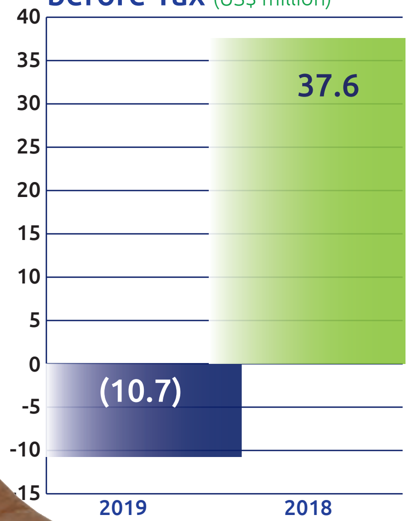
Total Operating Income
(US$ million)



Total Assets
(US$ million)



Operating Profit/(Loss) before Tax (US$ million)



ABOUT FMBCH


Be a
champion of
innovation
Always think
bigger
Be a
better
citizen

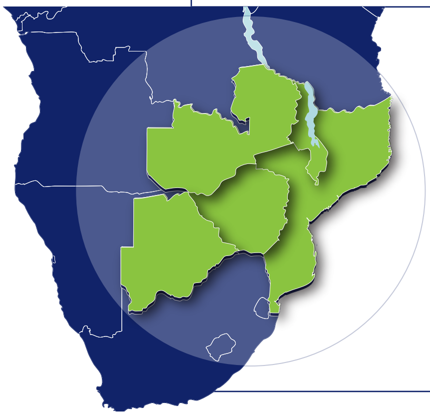
ABOUT FMBCH

OUR VISION, MISSION AND VALUES

OUR VISION

FMBCH aims to be a leading regional bank that partners with our customers to help them achieve their extraordinary.

OUR MISSION



The Group aims to achieve this vision by:

- Expanding and consolidating its regional market share
- Offering comprehensive and innovative products and services
- Deploying advanced Information and Communication Technology (ICT) delivery platforms
- Prioritising customer service levels
- Providing strong leadership and management
- Implementing strong and robust principles of corporate governance

OUR VALUES

Value	Action
INNOVATIVE We are champions of innovation	Embracing and encouraging brave ideas
SERVICE EXCELLENCE We are happy to serve	Good customer service starts with a warm and welcoming attitude
COLLABORATIVE We are collaborative	Teamwork is the best way to create a winning culture and make everyone feel included
INTEGRITY We are people of integrity	Be honest, reliable and show respect for others
CITIZENSHIP We strive to be a better citizen	Taking care of the environment and the people in our community

OUR STRATEGIC OBJECTIVE

The Group's strategic objective is to secure a regional SADC footprint to leverage on increased cross border trade and commerce between these markets.

- Cross border trade between countries in the region, both formal and informal, has traditionally been high and we envisage that this would grow further as communication and transport links between countries improve. Additionally, over the long term, economic growth in the SADC region can also be expected to increase integration of financial markets, particularly banking
- There is an increasing trend of mid/large corporates expanding their operations regionally. A common banking partner across markets would facilitate their financial management

HISTORY

JUNE 1995

First Merchant Bank (FMB) commences operations being the first private sector commercial bank to be granted a banking license in Malawi

JULY 2002

FMB acquires 100% shareholding in Leasing and Finance Company of Malawi Limited (LFC)

JUNE 2006

FMB is listed on Malawi Stock Exchange

JULY 2008

FMB establishes Capital Bank in Botswana

JUNE 2013

FMB simultaneously acquires International Commercial Bank's operations in Malawi, Mozambique and Zambia

JUNE 2017

FMB acquires Opportunity International Bank Malawi

SEPTEMBER 2017

FMBcapital Holdings plc, the Group Holding Company, successfully concludes a one for one share swap with FMB Shareholders and is listed on Malawi Stock Exchange

OCTOBER 2017

FMBcapital Holdings plc acquires 81% shareholding in Afcarme, the holding company of Barclays Bank of Zimbabwe

DECEMBER 2017

Leasing and Finance Company of Malawi merges with FMB Malawi

OCTOBER 2018

Botswana, Malawi, Zambia, Zimbabwe and Mozambique adopt one common name – First Capital Bank and implement a rebrand adopting a common visual identity

DECEMBER 2019

Acquires Bank of India (Botswana) (BOIB) through First Capital Bank Botswana

WHAT WE DO AND WHERE WE DO IT

FMBCH provides banking and finance solutions through its operating subsidiaries in five Southern African Development Community (SADC) markets – Botswana, Malawi, Mozambique, Zambia and Zimbabwe.

The Group has a total asset base of US$ 1 052 million, employs over 1 500+ staff and services the financial needs of over 800 000+ customers.

FMBCAPITAL HOLDINGS PLC

FMBcapital Holdings plc is the Mauritius-based holding company of the FMBcapital Group and is listed on the Malawi Stock Exchange.

FIRST CAPITAL SHARED SERVICES (100%)

Based in Mauritius FCSS provides centralised back office and IT support services for the entire Group.

FIRST CAPITAL BANK BOTSWANA (38.6%)

Branches: 4
Loan Centres: 6
ATMs: 5
Staff: 145
Customers: 24 513

First Capital Bank Botswana offers a comprehensive range of corporate, commercial and personal banking services, and has a traditionally strong focus on servicing small to large-scale independent businesses.

In 2018, the operation expanded into the market for personal loans with the opening of loan centres in Gaborone and Francistown.

First Capital Bank Botswana is headquartered in Gaborone and has branches in Gaborone, Mogoditshane and Francistown.

FIRST CAPITAL BANK MALAWI (100%)

Branches: 30
ATMs: 54
Onsite Banking Solutions: 23
POS Devices: 120
Staff: 691
Customers: 625 421

First Capital Bank Malawi is wholly owned by FMBCH.

It is a full-service commercial bank offering financial products and services to the corporate, retail and personal markets.

With its diverse product offering First Capital Bank caters to the needs of all segments of the Malawi market and has one of the most extensive branch distribution networks in the country.

FIRST CAPITAL BANK MOZAMBIQUE (80%)

Branches: 5
Service Centres: 1
ATMs: 8
POS Devices: 178
Staff: 92
Customers: 18 705

First Capital Bank Mozambique, while providing a full range of banking services across the corporate and retail sectors, has established a strong and loyal customer base in the small to medium business sector.

The bank is headquartered in Maputo and has three branches in the city as well as one in Machava.

FIRST CAPITAL BANK ZAMBIA (49%)

Branches: 8
ATMs: 7
Staff: 128
Customers: 7 682

Servicing the needs of the corporate, commercial and retail markets, First Capital Bank Zambia offers a comprehensive portfolio of lending, transactional banking and investment products.

With a strong corporate customer base, the bank currently has seven branches based in Lusaka, Ndola and Kitwe.

FIRST CAPITAL BANK ZIMBABWE (42.7%) IN ASSOCIATION WITH BARCLAYS

Branches: 25
Service Centres: 2
ATMs: 47
POS Devices: 1 134
Staff: 464
Customers: 233 560

FMBCH acquired a controlling interest in First Capital Bank Limited, Zimbabwe (formerly known as Barclays Bank of Zimbabwe) in 2017. As part of a cobranding agreement, the bank now operates as First Capital Bank in association with Barclays until October 2020.

The bank is one of the largest in the country and offers a full range of financial products and services to the corporate, commercial and personal markets.

First Capital Bank Zimbabwe is listed on the Zimbabwe Stock Exchange.

HOW WE CREATE VALUE

FMBCH serves individual, business, corporate and institutional clients, offering a comprehensive range of financial products and services that are both relevant and of value to the different market segments it serves.

FMBCH aims to be the leading provider of financial services in the SADC region, leveraging on increased cross border trade and commerce among these markets.

The Group has banking and finance operations in Botswana, Malawi, Mozambique, Zambia and Zimbabwe.

OUR PRODUCTS AND SERVICES

Business, corporate and institutional banking

ACCOUNTS
Current account
Savings accounts
Foreign currency accounts

DEBIT CARDS
Visa debit cards
Bank debit cards

TREASURY AND FOREIGN EXCHANGE
Foreign exchange services
Trade finance
Letters of credit
Bank guarantees
Documents under collection
Remittances

PAYMENTS AND CASH MANAGEMENT
Payroll Solutions
Vendor payments
Bank on wheels
Bulk electronic payments
Cashiering services and cash management
Cash in transit services
Tax payment services
RTGS/EFT

PAYMENTS ELECTRONIC BANKING
Internet banking
Mobile banking
ATMs
POS services

LOANS AND OVERDRAFTS
Overdrafts
Term Loans
Foreign currency loans
Working capital finance
Asset finance
Leasing
Receivables

FINANCING INVESTMENTS
Fixed deposits
Call deposits
Treasury bills
Promissory notes

Retail banking

TRANSACTIONAL ACCOUNTS
Current accounts
Savings accounts
Fast accounts

DEBIT CARDS
Visa debit cards
Bank debit cards
Remittances
Traditional and electronic enabling channels for the remittance of funds

INVESTMENTS
Fixed deposits
Call deposits
Treasury bills

LOANS
Personal loans
Overdrafts
Foreign Exchange
Foreign exchange services

ELECTRONIC BANKING
Internet banking
ATMs
POS services
Mobile banking
Bill payments insurance
Life insurance
Non-life insurance

OUR VALUE CREATION PROCESS IS UNDERPINNED BY:

BUSINESS FUNCTIONS	SUPPORT FUNCTIONS	CONTROL FUNCTIONS	SERVICE DELIVERY
Corporate Retail Treasury Channels	Finance Legal Credit Human resources	Audit Compliance Risk	Operations IT Administration
	SHARED SERVICES		
MANAGEMENT (BANK AND GROUP)			
CORPORATE GOVERNANCE (BANK AND GROUP)			

HOW WE SUSTAIN VALUE

CAPITALS	RESOURCES	INPUTS	VALUE CREATED
FINANCIAL	The pool of funds supporting business operations, including equity finance and debt	• Share capital of US$ 117 million • Debt capital of US$ 53 million • Customer deposits of US$ 681 million	• Total operating income US$ 105 million • (Loss) after tax of US$ (18.6) million • Total assets of US$ 1 052 million
MANUFACTURED	The facilities and general infrastructure that enables FMBCH to support business operations (tangible assets)	• 81 branches & agencies • 121 ATMs • 1 432 POS devices • 116 office buildings, branches and training centres (42 owned and 72 leased) • IT infrastructure	• Secure and productive working environments • Strategically located branches offering convenient customer access to products and services • Strategically located electronic banking services • Cutting-edge IT platforms which offer customers convenient and affordable digital banking solutions
HUMAN	The skills and experience invested in our employees that enable us to implement our strategy and deliver our products and services, thereby creating value for FMBCH's stakeholders	• +1 500 permanent staff members • Experienced Board, Executive and general management • Staff and training to the value of US$ 35.1 million • Intellectual property (innovation, knowledge, expertise and experience)	• Qualified, experienced and motivated workforce to deliver our strategy • Providing a secure income for staff • A well-organised performance management and labour relations framework for all employees • Ongoing staff development and training • Skilled, motivated employees that deliver on strategic objectives
SOCIAL	The key and long-term relationships FMBCH has cultivated with stakeholders and service providers	• Sound relationships with both retail and corporate customers • CSR initiatives and programmes • Partnerships with leading financial services brands such as Visa, Master Card, Hello Paisa and Moneygram	• Successfully serviced the diverse needs of 800 000+ customers in both the retail and corporate banking sectors • Facilitated financial inclusion across all market sectors • Provided ongoing support for various initiatives in the areas of health, education and sport within the communities that the Group operates
INTELLECTUAL	The intangibles that sustain the quality of our product and service offering, which provide FMBCH's competitive advantage, such as our innovations, systems and reputation	• The reputation of subsidiary bank brands • Financial Service Provider licenses in each region of operation • Internal systems, processes and procedures • Information technology and cyber security	• Full legal and regulatory compliance across all of the markets in which the Group operates • Efficient, effective delivery of products and services to customers • Strategic marketing strategies designed to build all of the Group's brands and services

* *While FMBCH draws on ecosystem services in the same way that any company would, it does not make use of specific natural resources as inputs into its value creation process. In terms of its management of natural capital, the Group manages its use of natural resources with the same stringency that it manages its use of all other resources.*

STAKEHOLDERS

Proactive and transparent stakeholder engagement is fundamental to FMBCH building its reputation, preserving its social and relationship capital and achieving its goal of sustainable business.

Regular engagement with stakeholders helps us manage the business more effectively and mitigate against potential risks. Stakeholder engagement enables us to identify and act upon the issues that affect our business. It improves our understanding of stakeholder expectations and strengthens transparency and accountability. For accurate planning and forecasting, stakeholder input is an important consideration in Board and management decision-making.

HOW WE ENGAGE WITH STAKEHOLDERS

The Board and management of FMBCH interact with our various stakeholder groups. Their feedback is evaluated and informs our decision-making.

Employees

1 500+ permanent staff members

Our employees' interests	**Our response**	Our engagement strategy
• Job security • Fair remuneration • Skills development • Career opportunities • Health and welfare benefits	• Market-related remuneration • Internal and external training • Pension and medical aid in all countries	• Formal and informal meetings as part of the normal conduct of business at all levels – providing briefings and organisational updates • Online communication • Providing training facilities and sessions

Outcome

- A skilled, competent and stable workforce able to meet our clients' needs
- Staff alignment in terms of culture and values
- Staff retention rate of 93.4%
- Improved skill sets through ongoing training

Customers

We have 800 000+ customers across five countries in Southern Africa.
We service the needs of:

- Retail customers, being individuals of all ages ranging from first-time account holders to high net worth individuals
- Businesses of all kinds, including sole proprietorships, SMEs, large listed corporates as well as institutional clients such as NGOs, embassies and government institutions

Our Customers' interests	Our response	Our engagement strategy
• Efficient, effective delivery of financial products and services from which they can benefit • Convenient and affordable banking solutions for meeting diverse financial needs • Reliability, trustworthiness and integrity from a financial services provider	• We provide a wide range of transactional banking services to business banking, SME, corporate and institutional banking customers • We provide personalised retail banking services for different market segments • Strong liquidity ratios, a conservatively managed balance sheet and strict adherence to the principles of good corporate governance	• Deploying technology to enable efficient product and service delivery • Providing an extensive branch and electronic banking delivery network • Encouraging a culture of 'service excellence' among our staff • Servicing corporate customers through dedicated relationship managers • Deploying customer call centres • Hosting customer events • Delivering information and marketing materials through online and offline communication channels

Outcome

- Successfully servicing various customer needs in both the retail and corporate banking sectors
- Greater financial inclusion across all market sectors
- Self-fulfilment of our client's aspirations – enabling people to do the extraordinary things

Shareholders/investors

1 700+ shareholders made up of individuals, foreign and local companies, trusts, pension funds, banks and other organisations

Our shareholders'/investors' interests	Our response	Our engagement strategy
• Consistent financial performance and dividend payments • Consistent growth in asset value • Long-term stability • Sound governance • Regular reporting and disclosure	• A conservatively managed balance sheet • Sound business strategies aimed at delivering growth and value • Strong liquidity ratios in all our markets • Strong corporate governance structures	• Formal report back at the Annual General Meeting • Publication of Interim and Annual Reports • Publication of corporate announcements and updates

Outcome

- Continuous and sustained growth in headline earnings and asset value
- Optimal capital allocation
- Proactive balance sheet management and capital optimisation

Business partners

Global and regional financial institutions, as well as development financial institutions

Our business partners' interests	Our response	Our engagement strategy
• Secure working environment, delivering mutually beneficial relationships • Long-term stability • Transparency, integrity and reliability	• Appropriate infrastructure and resources with which to do business • Continuity of operations • Sound corporate governance	• Constant interaction in the course of day to day business at all levels of the relationship • Regular high-level operational meetings and reviews

Outcome

- Partnerships with global and regional finance institutions offering international funds transfers (receipts and payments) in major global and regional currencies (US$, EUR, Sterling, Rand, Indian Rupee)
- We also provide LC confirmations and operate several RMA arrangements with a host of other regional banks to support cross border trade
- We work closely with development institutions to build local capacity and infrastructure and to help create a more financially inclusive community in the region

Community

The citizens of the countries in which we operate

Our Communities' interests	Our response	Our engagement strategy
• Community development and social contributions • Job creation • Alignment to country transformation targets	• Funded CSI projects in our communities • CSR focus on health, education and sport – with a broad range of beneficiaries	• Ascertaining and assessing the needs of our communities • Funding and managing CSR initiatives at individual country level

Outcome

- We contribute to the improvement and upliftment of our communities and environment

Government and regulators

- Central banks of the countries in which we operate
- Malawi and Zimbabwe stock exchanges where we are listed
- Tax and revenue authorities

Our government and regulators' interests	Our response	Our engagement strategy
• Compliance • Capital adequacy and liquidity • Risk and cybercrime management	• Compliance with various regulatory and prudential requirements • Good corporate citizenship such as promptly paid taxes • Risk mitigation	• Daily business interactions • Country CEOs are in regular contact with their regulators

Outcome

- Approval by regulators in all markets for rebrand
- Banking licences

HOW WE DETERMINE OUR MATERIAL MATTERS

The executive management team considered all matters that affect the Group or may affect our ability to continue creating value. Having analysed the intricacies of the Group's operating environment and our stakeholders' expectations – within the context of our vision and mission – the executive management team has determined the material matters described below.

These prioritised matters remain top of mind in all management decision making processes.

The IIRC defines material matters as those that have, or may have, an effect on the organisation's ability to create value. This is determined by considering their effects on the organisation's strategy, governance, performance or prospects. We consider a matter to be material to the Group when it has, or could have, notable influence on our financial performance, reputation, impact on our licence to operate, or our overall sustainability.

OUR MATERIAL MATTERS 2019

Regional macro-economic challenges

Why this is important to FMBCH

Our Zimbabwe operation, acquired from Barclays in late 2017, continues to contend with that country's well-publicised economic challenges which have resulted in severe shortages of foreign currency and spiralling inflation. During the reporting period, our Zimbabwean operations were hampered by continuous currency challenges, numerous policy changes, macro-economic uncertainty and a general lack of business confidence across the country.

In addition, we are seeing pressure on the policy rate in Malawi, impacting lending margins there. In May 2019 the monetary policy committee announced its sixth cut to interest rates since 2016, when the interest rate was 27%. The Reserve Bank of Malawi (RBM) has cut rates by 100 basis points, to 13.5%, citing a strong economic outlook and declining inflation.

Both of these events, but principally the impact of the changes in Zimbabwe significantly impacted the Group's profitability during the first half of 2019. The Group as a whole was negatively impacted by the bank in Zimbabwe and its economic difficulties.

Our response

As planned, our strategic positioning across diverse economies provides resilience against these events. We have hedged the Group against potential contagion from regional economic downturns due to fluctuations in market conditions, including political shifts, social unrest or regulatory changes. In addition, counter-cyclic upturns in better performing economies provide opportunities for higher profits.

We accept that each economy has its own business idiosyncrasies and trade patterns. That is why being geographically spread across the SADC region is aimed at providing counter-cyclic mitigation against individual country risk. Additionally, we will continue to manage our business prudently to remain well positioned to optimise on opportunities as they emerge in our markets of operation.

MAURITIUS

Establishing a unified operating platform across the group

Why this is important to FMBCH

Ensuring that our Mauritius-based shared services centre functions efficiently is crucial to the next phase of the Group's development and growth. Centralising the Group's IT and other support functions brings the additional benefits of standardised processes, enhanced operational control and, eventually, economies of scale.

Having acquired Barclays' Zimbabwean interests in 2017, we have spent considerable resources and management time in merging this operation onto the Group's IT infrastructure. This meant realigning IT functions and introducing new processes to improve efficiencies and raise processing volumes.

Our response

Creating a new IT foundation for a regional banking group spread across several countries requires innovative design and expert implementation. During 2019, the Group excelled at working through an intricate IT transition in Zimbabwe and establishing the framework for establishing and developing a Group shared services centre in Mauritius. Although this project was highly demanding, with tight timelines, its successful outcome has enhanced our overall platform and created invaluable IT intellectual capital for use throughout the Group.

The establishment of a unified operating platform across the Group to extract service and cost efficiencies is still continuing. We are starting to see improvements in the Group's reduction in overall year on year costs. The focus remains on completing this process so that long term growth is assured for the shareholders.

We expect this project to be completed by late 2020. Specific functions are being consolidated in Malawi and Zimbabwe to optimise our usage of available resources and expertise in those countries.

Consolidating the First Capital Bank business

Why this is important to FMBCH

The rebranding exercise gave us the opportunity to create a common brand identity, a common set of operating values and a common vision across all our operations. Ultimately, our rebranding has strengthened regional recognition of the First Capital Bank brand. The concurrent structural and operational consolidation serves to bolster our position as a regional Group by creating strong synergies and efficiencies in each market and across the region.

Our response

The Group's corporate restructuring is complete, with all banking entities now directly held by FMBcapital Holdings Plc

In Zimbabwe the business will trade until October 2020, as 'First Capital Bank in association with Barclays' as part of our trademark licensing agreement with Barclays plc.

As part of our regional consolidation strategy, we are also placing greater emphasis on electronic banking platforms. The Group has made significant progress with its platforms being certified for Visa and MasterCard Acquiring. The Group also launched its new Mobile Banking App in 2019, together with significant enhancements to its internet banking platform. The development of state of the art digital banking products and services will continue to be a critical strategic initiative for the Group over the medium term.

Maintaining capital adequacy and liquidity ratios

Why this is important to FMBCH

The capital adequacy ratio (CAR) measures the amount of capital a bank retains compared to its risk. National regulators check that each bank's current CAR is compliant with statutory capital regulations and can sustain reasonable amounts of loss. Shareholders view CAR as an important measure of banking financial soundness.

Because of the nature of risk under which banks operate, capital regulations require banks to maintain a minimum level of equity per loans and other assets. This required minimum is designed for protection, allowing banks to sustain unanticipated losses. The minimum is also designed to offer depositors confidence in the security of their deposits

Our response

The capital adequacy and liquidity ratios of all Group banks comfortably exceed the prescribed prudential minimum ratios in their respective territories. We will, however, continue to exercise prudence in our balance sheet management and do not foresee a major increase in our risk appetite, given the current economic and business environment prevailing in territories where we operate.

In general, business sentiment remains cautious across our territories of operation. This has limited our lending opportunities, given our measured and cautious lending approach across the Group. However, our balance sheet remains resilient with over 40% of total assets in liquid form, thereby giving the Group the capacity to easily take advantage of investment opportunities as they arise. Growth in customer liabilities has been contained accordingly, with our focus on increasing the proportion of transactional balances.

Multijurisdictional compliance

Why this is important to FMBCH

The banking industry is highly regulated. This exposes the Group to an ever-shifting array of regulatory and compliance requirements in our markets. Compliance also features greatly in the numerous covenants between our banks and their counterparts.

Our response

FMBCH utilises a supervisory college comprising representatives from the national central banks in our countries of operation, and Mauritius where the Group is registered. This college gathers periodically to review the Group's compliance with regulations.

Regional oversight via the supervisory college is a positive influence that ensures compliance and consistency across our chosen region. This umbrella body forces us to be far more aware of multijurisdictional expectations.

At group level, The Group Compliance Manager is responsible for technical support, guidance and standardisation to ensure implementation of best practice across the Group.

BOTSWANA

MALAWI

MOZAMBIQUE

ZAMBIA

ZIMBABWE

PERFORMANCE REVIEW

PERFORMANCE REVIEW

In 2019 we continued the journey that we started in 2017 recording further significant progress in building the Group synergies. I am pleased to report that we have now completed the rebranding exercise across all countries together with the migration of our Zimbabwe operations onto the Group's IT systems. We also concluded the acquisition of the Botswana subsidiary of Bank of India giving us access to the niche customer segment which that bank was serving. Excellent progress was recorded across our markets, especially in Botswana and Mozambique but the macro-economic environment in Zimbabwe proved to be a severe drag on our overall Group results.

CONSOLIDATING OUR BUSINESS OPERATIONS

During the year the Group's corporate restructuring was completed with all banking entities now held directly by FMBcapital Holdings Plc and operating under the First Capital Bank name. Additionally, the Group was able to lay a solid foundation to create a more efficient and improved customer experience going forward through the continued build out of our Mauritius shared services operation. In March 2019 we successfully migrated the legacy Barclays Bank systems in Zimbabwe to First Capital Bank applications, a major effort incorporating the migration of over 100 systems. As part of this migration and in separate exercises for our other Group banks the majority of our systems and operational activities have been moved to our state of the art shared service centre in Mauritius. As a result, our businesses now integrate seamlessly with the shared services unit of FMBcapital Holdings Group which enables us to offer a wider range of products and services on a consistent basis across the Group.

OUR PERFORMANCE ACROSS MARKETS

As a Group one of our biggest challenges was the unfolding economic situation in Zimbabwe and the impact it has had on the consolidated Group results. In February 2019 the authorities reintroduced the Zimbabwean dollar which subsequently became the sole domestic currency with the discontinuation in June 2019 of the multi-currency regime, restricting legal tender to electronic real time gross settlement (RTGS) together with bond notes and coins. The local currency has lost value rapidly through the year depreciating from 3.6 to 16.7 against the US dollar and inflation figures have dramatically increased with a 521% increase in the Consumer Price Index over the course of the year. At a Group level we have applied hyperinflation accounting to the Zimbabwe numbers and the impact of this adjustment has been a loss of $(29.5)m in the year for Zimbabwe, compared to a profit of $18.9m in 2018. All the other Group banks have posted profits and excluding Zimbabwe, the Group's operating profit was $10.9m for the year.

Botswana had an excellent year where our bank continued to perform well under an energetic executive team and the civil service payroll lending business launched three years back is performing exceptionally well. The successful acquisition of Bank of India (Botswana) Limited (BOIB) by First Capital Bank Botswana allowed us to gain market share and new customers. Our Botswana banking operation is on a good growth trajectory and continues to make significant strides in the local market. Furthermore, the renewed mandate given to Government in the 2019 general elections should see a continuance of the existing business friendly environment in the country.

Another highlight was the turnaround in our Mozambique operations, which had been a concern in 2018 due to the difficult economic environment in the country. The country's 'hidden debt' situation has been largely resolved, and noticeable progress has been made with projects to explore and exploit Mozambique's extensive reserves of natural gas. These factors bode well for medium to long term economic growth in the country with a resultant positive impact on the banking sector. During the year, we relocated and upgraded our main branch in Maputo and opened up a new branch in Nampulaand where we are optimistic of accelerating the growth in market share that we have recently experienced.

Malawi has recently faced some political turmoil due to its 2019 presidential election result being annulled by the country's Supreme Court. This resulted in a 'wait and see' approach by some economic players leading to slower economic growth. However, as a result of relative macro-economic stability in recent years, with inflation trending down and a stable exchange rate, the Reserve Bank reduced interest rates significantly during the year. This resulted in a reduction in net interest and trading margins for the bank. The bank's profits were also impacted by a sharp drop in the share price of Illovo Sugar (Malawi), a long term equity investment of the bank. The business nevertheless posted an after-tax profit of $8.2m, compared to $9.2m in 2018, including a loss of $(0.8)m on equity investments. The rerun of the presidential elections has now been concluded and we are hopeful of a period of political and economic stability which gives us cause to be optimistic about the prospects for our business in Malawi over the next few years.

A variety of factors including a severe drought that significantly reduced hydro-electric generation capacity in the country, disputes between the mining sector and government, and unsustainable levels of government debt contributed to a worsening economic environment in Zambia in 2019. While our business there continued to attract good customers, our performance was affected by a combination of economic and management challenges and we were unable to build on the promising results achieved in 2018.

GROUP FINANCIAL RESULTS

In 2019 the Group made an operating profit of $10.5m for the year, compared to $37.6m in the prior year, with the reduction being driven primarily by the impact of Zimbabwe.

The Group reported profit for the year excluding Zimbabwe was $10.9m, broadly in line with prior year, with both Botswana and Mozambique showing strong growth, compensating for the relative weakness in Zambia and Malawi.

The Zimbabwe economy was classified as hyperinflationary for IAS 29 *Financial reporting in Hyperinflationary Economies*) with Zimbabwe's inflation adjusted loss being $(29.5)m, meaning a loss for the year of $(18.6)m including Zimbabwe.

GROUP STRATEGY AND CONSOLIDATION

The Group strategy finalised in 2017 and reported on extensively in our 2018 Annual Report remains well on track.

After fulfilling all regulatory conditions in Botswana and Mozambique, the shareholdings of First Capital Bank Plc Malawi in First Capital Bank Ltd (Botswana) and First Capital Bank S.A. (Mozambique) were transferred to FMBcapital Holdings Plc in February and June 2019 respectively. The Group's corporate restructuring has therefore been completed with all banking entities now held directly by FMBcapital Holdings Plc.

A systematic plan that progressively centralises a large part of the Group's processes has also largely been implemented.

In October 2018 all our banks adopted one common name – First Capital Bank. In the same year Botswana, Malawi, Zambia and Zimbabwe adopted a new visual identity. In March 2019 Mozambique also rebranded to the same visual identity, and we now operate across all markets under a common branding.

BUSINESS SUSTAINABILITY

In 2019 the Group launched a branded mobile banking app together with major internet banking enhancements which have improved the customer experience. Our digital strategy, including online, mobile and 'eBanking' service offerings continues to be a critical strategic initiative for the Group in the medium term. The Group has also made significant progress with its platforms being certified for Visa and MasterCard acquiring.

The Group's Multiprotocol Label Switching (MPLS) connectivity was activated in February 2019, with functional specialists in IT Audit, Switch, Applications, Networking, Analytics and PMO recruited during the year. We are particularly proud to have migrated over 100 systems in Zimbabwe from Barclay's legacy system to our Group systems over just one weekend.

While digital technology has radically changed people's lives and brings many benefits, it has unfortunately also brought an increase in cybercrime. We have therefore made cybersecurity one of our most urgent priorities for the year ahead. Accordingly, we are investing heavily to protect our customers, our systems, our bank and society.

Ensuring that our Mauritius-based shared services centre continues to function efficiently is crucial to the next phase of the Group's development and growth. Centralising the Group's IT and other support functions brings the additional benefits of standardised processes, enhanced operational control and eventually economies of scale. In order to contain costs, we have located our Group finance, risk and marketing functions in Zimbabwe, while our human resources, credit and compliance functions operate out of Malawi.

GOVERNANCE

Board role

The majority of the members of the current Board were appointed in late 2017, with two new Directors appointed in 2019. I am happy to say the Board remains focused on ensuring that we are diligently providing oversight in the way the Group is functioning. I am equally satisfied that the Group's Board comprises a good mix of high calibre individuals, with varied experience covering banking, financial, legal, and corporate sectors gained in markets around the world. The Group's main Board is supported by subsidiary Boards and management teams appointed to oversee our business in each country of operations. As the Group's Chairman, I regularly spend time with each CEO to monitor performance and governance, and to keep communication between us open and frank.

Employees

We undertook our first group-wide employee engagement survey using the Gallup Q12 instrument during 2019. This feedback has provided a baseline from where we can improve our human capital performance. All countries in which the Group operates have developed action plans to deal with the issues which have emerged. The survey will be repeated in October 2020 to review progress.

Community and environment

Being a good corporate citizen where we impact communities and the environment is absolutely vital for our ongoing stability and sustainability. To maximise positive impact, we focus on the three key areas of health, education, and sports development. Much of our social investment is decided and directed by our subsidiary banks in each country.

I want to thank Mr. Hitesh Anadkat, Chairman of First Capital Bank, Malawi and his wife for personally donating a 384 bed prison block facility at Chichiri Prison. Although this was a personal donation by the Anadkat's to 'the forgotten of the forgotten' it has generated considerable goodwill towards the bank in the local community due to the close association between the bank and Mr Anadkat in Malawi.

During the year Malawi and Zimbabwe were struck by Cyclone Idai, which displaced over 1 million in both countries. In Malawi we provided funds to enable families in the Luchenza, Mulanje and Chikhwawa districts to start rebuilding their lives. In Zimbabwe we partnered with World Vision and provided stationery for school children, blankets, and grocery items.

We have continued supporting a healthy lifestyle across the communities. In 2019 we supported the Jonmol Cycling challenge where first time riders, veteran riders and the youth participated. We moved forward with our partnership with the Zimbabwe Farmers Union which focused on youths in rural and peri-urban areas from disadvantaged backgrounds that required reintegration into society through upskilling in literacy, numeracy and farming skills themed Fit for Life.

In Mozambique we donated school teaching materials, meals and games during the commemoration of the Day of the African Child.

Looking Forward

While the year 2019 proved exceptionally challenging, I am pleased that we saw some exceptional growth in some of our markets, and excluding Zimbabwe our results for the year were in line with prior year. As a result of the challenges emanating from Zimbabwe together with the global economic impact of the Covid-19 pandemic we are using the year 2020 to consolidate and stabilize our business following three years of rapid growth and acquisition.

Under the brand name of First Capital Bank, the Group has positioned itself as an agile and leading player in banking services in Southern Africa, operating under one name, one brand and one positioning statement and payoff line across the region.

The Board retains confidence in the validity of the Group's overall strategy of consolidating our regional footprint and leveraging on increased cross border trade and commerce across these markets. Our regional diversity should to a large extent enable us to deliver relatively steady consolidated results in the future. It is our expectation that the profit impact of a challenging year in any one country could well be offset by a better than expected result in another country.

My Appreciation

We could not have achieved all of this without the support of our customers, our partners and our shareholders and I would like to thank all of them for their contributions. I would also like to thank the management team and staff for their hard work and commitment during a very challenging year. Finally, I would like to sincerely thank my colleagues on the Board for their wise counsel and support throughout the year.

Terence Davidson
Chairman

BOARD OF DIRECTORS

Non-executive Directors

Mr Terence Michael Davidson
Chairman
Appointed April 2017

Mr Davidson is a veteran banker with over three decades with Citibank, including serving as region head for east and southern Africa. He was also Chief Executive Officer of Kenya Commercial Bank, a regional east African bank. Mr Davidson works as an independent consultant and is on the Board of various companies including Prime Bank Kenya Ltd and Asilia Ltd.

Mr Hitesh Natwarlal Anadkat
Non-Executive Director
Appointed June 1995

MBA, Cornell University and a BSc Economics (Hons), the University of London

Before returning to Malawi to establish First Capital Bank (originally FMB Malawi), Mr Anadkat worked in corporate finance in the USA specialising in mergers, acquisitions and valuations. He holds directorships in five commercial banks (part of FMBcapital Holdings Group) and in other sectors of the Malawi economy. Mr Anadkat is Vice-Chairman of Telekom Networks Ltd, a publicly listed mobile phone operating company.

Board committee memberships: Risk and compliance committee

Mr John Michael O'Neill
Non-Executive Director
Appointed September 1996

Fellow of the Institute of Chartered Accountants, Ireland

Mr O'Neill's professional working experience of over 41 years includes 17 years with Deloitte, where he served for six years as a partner in its Malawi practice. He was appointed to the Board of First Merchant Bank Plc in 1996 and worked as Group Finance Director.

Board Committee memberships: Audit committee

Mr Francesco Ceccato
Non-Executive Director
Appointed February 2018

BA, Oxford University. M.Sc. with distinction, LSE

Mr Ceccato has worked for financial institutions as a corporate finance adviser or principal his entire career, including seven years at GE Capital and eight years at Barclays, London and New York. He has indepth experience of financial services in Africa, having led mergers and disposals in South Africa, Egypt and Zimbabwe. In addition to his role on the board of FMBCH, he serves as a director for several Barclays group companies.

Board committee memberships: Audit committee

Mr Rajkamal Taposeea
Non-Executive Director
Appointed April 2017

LLM – LLB Barrister-at-Law

Mr Taposeea has over 31 years' experience in Law, Financial Services and Regulations, Media, Airlines and Tourism. He was member of the Bank of Mauritius Monetary Policy Committee, Chairman of Air Mauritius, General Manager (Investment Banking Group) of Al Rajhi Bank, Regional Managing Director of Standard Bank Mauritius, Managing Director of Barclays Bank PLC Mauritius, Commercial Director of Cedel Bank, AVP at JP Morgan. Today, he holds Non-executive Directorships in financial services companies, global funds, and the steel/energy sectors.

Board committee memberships: Risk and compliance committee

BOARD OF DIRECTORS *(CONTINUED)*

Non-executive Directors *(CONTINUED)*

Mr Vedanand Singh Mohadeb
Non-Executive Director
Appointed September 2017

Fellow of The Institute of Chartered Accountants, Ireland

Mr Mohadeb was admitted as a member of The Institute of Chartered Accountants in Ireland in 1979 and remained in audit and accounting practice until his retirement on 30 June 2015. He was a Senior Assurance Partner of PWC Mauritius. He is presently Chairman of Baker Tilly Mauritius. He also acts as a consultant and holds a directorship in a property development company.

Board committee memberships: Audit committee

Mr Mahendra Gursahani
Non-Executive Director
Appointed November 2019

Bachelor of Commerce degree from Bombay University, Chartered Accountant

Mahendra Gursahani is the Chief Operating Officer (COO) of Noor Bank. In his role, Mahendra is responsible for the Bank's strategic direction, operations, IT, Finance, transformation and Customer Experience. Prior to Noor Bank, Mahendra was the Chief Executive Officer at Standard Chartered Bank Malaysia where he was responsible for the governance and management of the Bank's franchise in the country. Mahendra also held a number of senior positions in Standard Chartered and has worked at leading international Financial and Accounting services firms including American Express Bank and Arthur Andersen.

Board Committee memberships: Audit committee

Mr Christo Els
Non-Executive Director
Appointed October 2019

BLC and LLB degrees, both with distinction, from the University of Pretoria, as well as an LLM degree, with distinction, from the University of South Africa

Christo Els is the Senior Partner at Webber Wentzel South Africa and specialises in mergers and acquisitions (M&A), corporate finance, equity capital markets and securities regulation law. He has advised on a number of large, transformational and cross-border transactions in Sub-Saharan Africa. Christo's Corporate/M&A and Capital Markets expertise has been recognised by various international research organisations including Chambers Global, Legal 500, IFLR1000, Who's Who Legal and Best Lawyers and Christo was named Dealmaker of the Year by Dealmakers magazine in South Africa (2010) and Lawyer of the Year for Capital Markets by Best Lawyers (2016).

Board committee memberships: N/A

Executive Director

Mr Dheeraj Dikshit
Group Managing Director
Appointed June 2011

MBA and a Bachelor of Commerce Degree

Mr Dikshit holds an MBA and a Bachelor of Commerce Degree and is Group Managing Director for FMBcapital Holdings plc. Prior to joining then First Merchant Bank Plc, he worked for HSBC in different leadership positions. He has more than 26 years' experience in corporate and commercial banking as well as retail banking and consumer assets.

Board Committee memberships: Risk and compliance committee

EXECUTIVE MANAGEMENT

Group executives

Mr Shwetank Singhvi
Group Chief Operating Officer
Appointed June 2013

MBA and a Bachelor of Engineering

Mr Singhvi has previously worked for HDFC Bank, HSBC, Barclays, and Standard Chartered Bank. He has over 18 years' experience in retail banking, retail broking, commercial banking and banking operations.

Mr Ciaran McSharry
Group Chief Financial Officer
Appointed July 2019

Bachelor of Business Studies from Dublin City University; member of the Chartered Association of Certified Accountants (FCCA)

Mr McSharry joined First Capital Bank Zimbabwe Limited in May 2018 as the Chief Finance Officer. He brings a wealth of banking experience to First Capital Bank Limited having worked for 22 years in the banking sector. He previously served as the Finance Director in different functions across the Barclays Group. He also held many high-ranking roles at the Bank of America, Lloyds Banking Group, and Total UK PLC.

Mr Joao Rodrigues
Group Head of Internal Audit
Appointed May 2018

Degree in Business Administration

Mr Rodrigues holds a degree in management and 19 years of experience in external and internal audit across different markets that include Portugal, Angola, South Africa, Mozambique, DRC and Ivory Coast. He joined FMBCH in May 2018 as the Group Head of Internal Audit.

Mr William Masamba
Group Head of Risk and Compliance
Appointed September 2017

Professional Risk Manager (PRM) with Professional Risk Managers International Association in the USA; MSc in Applied Finance; Bachelor of Accountancy degree

Mr Masamba has 17 years of banking sector regulation experience with The Reserve Bank of Malawi.

Mr Samir Khare
Chief Information and Digital Officer
Appointed September 2018

MBA in Finance; Engineering degree, Mumbai University

Mr Khare is an experienced technology, operations and process re-engineering professional in the banking and financial services domain. His experience spans international geographies across the domains of risk solutions and consulting, non-banking finance, corporate and retail banking and microfinance. He has worked in technology and digital business leadership roles at several organisations, including CRISIL (an S&P group entity), Fullerton (a Temasek group entity) and Citibank. Prior to joining FMBCH, he was Chief Information Officer for the State Bank of Mauritius (SBM) Group.

EXECUTIVE MANAGEMENT *(CONTINUED)*

Group executives *(CONTINUED)*

Mr Pawel Miszewski
Group Head of Human Resources and Training
Appointed September 2018

Bachelor of Social Science (UCT); MDP (Unisa); Certificate in Labour Dispute Resolution (Stellenbosch Law School)

Mr Miszewski has over 41 years of HR experience across Africa, which was gained in the mining, retail, FMCG and banking industries. Most recently he worked for Barclays Africa from where he joined FMBCH Group.

Mr. Charles Mukuwe
Group Chief Risk Officer
Appointed July 2019

CFA Charter holder, Certified Professional Risk manager, Bachelor of Commerce Financial Management degree as well as a Master's in Business Administration.

Mr Mukuwe previously held the position of Chief Risk Officer, First Capital Bank Zimbabwe. Charles joined the bank in 1997 and has worked in a number of critical functions coupled with secondments to other markets giving him a wide breadth of experience.

Mr. Dennis Mambure
Group Head of Marketing and Communications
Appointed September 2019

MSc in Marketing, Master in Public Policy and Governance, Bachelor of Commerce (Hons) in Marketing as well as certificates in Digital Marketing and Social Media from University of Stellenbosch in partnership with Red and Yellow SA.

Dennis previously held the position of Head of Marketing, Products and Channels for First Capital Zimbabwe. He joined the bank in 2007 as Product and Marketing Manager.

EXECUTIVE MANAGEMENT *(CONTINUED)*

Regional executives

Mr Jaco Viljoen
Chief Executive Officer, First Capital Bank, Botswana

Appointed November 2013

MBA from Oxford Brookes University in the UK; Degrees from the Universities of Stellenbosch and the Orange Free State

Mr Viljoen's 22 years of experience include working in various African countries for The Standard Bank of South Africa and Barclays.

Mr Thomas J Kadantot
Acting Chief Executive Officer, First Capital Bank, Malawi

Appointed February 2016

MBA in Finance and Accounting; Post-graduate Diploma in Business Administration; Bachelor of Science degree in Physics, Mathematics and Statistics from Bombay University, CAIIB (1) from India Institute of Bankers

Mr Kadantot has over 30 years' work experience in various functions in banking.

Mr Tiago Contente
Chief Executive Officer, First Capital Bank S.A., Mozambique

Appointed 2018

Mr Contente has degree in Economics from ICSTE, Portugal

Mr Contente has 19 years' experience in financial services. Prior to joining First Capital Bank he worked at Standard Bank, Deloitte, Banco Primus and Arthur Andersen.

Mr Jitto Kurian
Chief Executive Officer First Capital Bank, Zambia

Appointed March 2019

Bachelor of Technology degree in Accountancy from the University of Zimbabwe and is an Associate member of the Chartered Institute of Secretaries and Administrators, Zimbabwe.

Mr. Kurian has over 27 years banking experience within east and southern Africa having worked in senior management positions in Botswana, Tanzania, Zimbabwe and now Zambia. Prior to joining the FMBCH group he was the Managing Director of African Banking Corporation of Botswana Ltd t/a BancABC part of Atlas Mara for close to twelve years. He worked for the African Banking Corporation group and its predecessor institutions for over 25 years in Botswana, Tanzania and Zimbabwe. He was the Chairman of the Bankers Association of Botswana from July 2013 to June 2015.

Mr Ciaran McSharry
Acting Chief Executive Officer, First Capital Bank, Zimbabwe

Appointed December 2019

Bachelor of Business Studies from Dublin City University; member of the Chartered Association of Certified Accountants (FCCA)

Mr McSharry joined First Capital Bank Zimbabwe Limited in May 2018 as the Chief Finance Officer. He brings a wealth of banking experience to First Capital Bank Limited having worked for 22 years in the banking sector. He previously served as the Finance Director in different functions across the Barclays Group. He also held many high-ranking roles at the Bank of America, Lloyds Banking Group, and Total UK PLC.

CAPITAL OUTCOMES

CAPITAL OUTCOMES

FMBCH creates and delivers value by providing financial services to meet its customers' needs and to enhance their ability to manage and benefit from the financial products they use.

The capital inputs that the Group relies on to carry out its operations and deliver specific outputs (products and services) are transformed in a way that results in certain outcomes, either positive or negative. A top-line analysis of capital inputs and outcomes, based on Integrated Reporting Framework guidelines, is provided below.

FINANCIAL CAPITAL

The pool of funds supporting business operations, including equity finance and debt.

SALIENT FACTS AND ACHIEVEMENTS

- Share capital of US$117 million
- Debt capital of US$53million
- Customer deposits of US$681 million
- Retained profits of US$ 29 million
- Operating (loss) after tax of US$(18.6) million
- Total assets of US$1 052 million

Management approach

Capital adequacy and liquidity ratios of all banks in the Group comfortably exceed the minimum ratios prescribed by regulatory authorities in their respective territories. As a result, significant capacity exists to grow the Group's assets and increase the proportion of higher yielding risk assets in its asset base. That said, the Board and executive leadership exercise prudence in the management of the Group's balance sheet and ensure that all banks align their activities and decisions with the overarching risk levels and appetite set at Group level. This is particularly relevant during times of uncertainty or volatility within the economic and business environment, whether globally or within the territories in which the respective banks operate.

Two major projects were completed, both of which are unlocking significant long-term growth in FMBCH's financial resources. These are:

- the implementation of an enhanced technology platform in Zimbabwe; and
- the establishment of a Group shared services centre in Mauritius

While these initiatives may initially lead to some upward pressure on costs, the eventual outcome should be major efficiency gains, an enhanced customer experience and a more robust risk and compliance infrastructure for the Group as a whole.

From its current strong base, the Group is confident of its ability to achieve sustained growth and deliver increased future value to all its stakeholders.

2019 PERFORMANCE

The establishment of a unified operating platform across the Group to extract service and cost efficiencies is starting to reduce Group year-on-year costs. Our concurrent migration and realignment of IT infrastructure in Zimbabwe is also bearing fruit and expected to deliver medium and long term savings.

Our significant investments into our Mozambique and Botswana operations has created additional capacity to grow our assets and increase the proportion of higher yielding risk assets in our asset base.

The Group was buffeted by economic challenges in Zimbabwe, manifesting in high inflation and devaluation of the Zimbabwe dollar, combined with ongoing foreign currency challenges. In Malawi, pressure on the policy rate impacted lending margins there. These events, particularly those in Zimbabwe, significantly impacted the Group's profitability during 2019, with profit attributable to shareholders decreasing year on year. When setting Zimbabwe's results aside, the results from other geographies would have grown the Group's year on year revenue and profitability.

In general, business sentiment remains cautious across our territories of operation, which has limited our lending opportunities, given our measured and conservative lending policies. Nevertheless, the Group's balance sheet remains resilient. With over 40% of our total assets being liquid, the Group can easily take advantage of investment opportunities as they arise. Growth in customer liabilities has been contained in line with increasing the proportion of transactional balances.

FINANCIAL CAPITAL OUTCOMES 2019

- Value of total operating income generated US$105 million (2018: US$ 138 million)
- Value of loss after tax incurred/net profit generated generated US$(–18.6) million (2018: US$31 million)
- Value of total compensation paid to employees, including wages and benefits US$35 million (2018: US$49 million)
- Value of earnings retained US$29 million (2018: US$34 million)

MANUFACTURED CAPITAL

The facilities, tangible assets and general infrastructure that enables FMBCH to support its business operations.

SALIENT FACTS AND ACHIEVEMENTS

- 121 ATMs (2018: 130)
- 1 432 POS devices (2018: 1 131)
- 81 branches, agencies and service centres (2018: 79)
- Secure and productive working environments
- Strategically located branches and electronic banking facilities offering convenient access to products and services
- Cutting-edge IT platforms, which offer customers convenient and affordable digital banking solutions

Management approach

The Group's manufactured capital comprises its physical infrastructure of buildings, equipment and the technology it uses to deliver its products and services and add value for its clients and other stakeholders. FMBCH owns or has long-term leases for its head office and administration buildings in Botswana, Malawi, Mauritius, Mozambique, Zambia and Zimbabwe. Combined with the Group's physical branch network, these are significant contributors to our productivity, service delivery and profitability.

Prudent use of manufactured resources enables FMBCH to leverage innovation, digital capabilities, physical infrastructure and core banking systems to deliver relevant and flexible solutions that assure our sustainability and competitiveness in a dynamic banking environment.

All property and equipment is regularly subjected to impairment and obsolescence testing. We continually improve our infrastructure and evolve our technology to enhance the customer experience and keep FMBCH and its Banks at top of mind in our markets.

FMBCH recognises that succeeding as a leading regional banking Group depends significantly on our customers trusting our management of their data. Protecting customer privacy and their data is critical. The Group has invested in a robust technology infrastructure built on a world-class security backbone to deliver customer peace of mind alongside our value-adding solutions and services.

2019 PERFORMANCE

Access to value-adding transactional banking and other financial and investment services remained a top priority throughout 2019. The Group continued to invest in expanding its physical footprint through the addition of branches, loan centres and ATMs, while enhancing its digital channels by further evolving its internet and mobile banking ecosystem. Beyond brick and mortar infrastructure, the Group also leveraged distribution and service channels such as Mobile Vans, Call Center Services, Direct Sales Agents and Agent Banking to expand its footprint in a cost-effective manner.

Another branch of First Capital Bank was opened in Nampula, the first outside Maputo province. The branch is located in one of the busiest areas of the city, between Avenida Paulo Samuel Kankhomba and Rua Monomotapa, close to businesses and shopping areas, to ensure proximity and convenience to our customers.

During December 2019, First Capital Bank Botswana successfully acquired the Bank of India (Botswana) Limited (BOIB). This acquisition and the consequent integration of BOIB's assets complemented our product offering and further strengthens the Group's regional position. In addition, FCB Botswana opened six new loan centres, significantly bolstering our physical presence in the country.

The Group's offices in Mauritius house two FMBCH companies, namely FMBcapital Holdings Plc and First Capital Shared Services Limited. These provide transactional support to all Group banks. Over the past year, the Group has invested significant financial and non-financial resources into developing our Mauritius presence into a valuable central hub that delivers exceptional operational and IT support to all its banking operations.

The outcome of this major investment in capital and management focus is a significantly enhanced overall IT ecosystem, access to valuable additional IT intellectual capital, and even more robust and reliable systems across the Group.

MANUFACTURED CAPITAL OUTCOMES 2019

- Freehold property US$26.2 million (2018: US$29.3 million)
- Leasehold improvements US$9.8 million (2018: US$5.7 million)
- Corporate jet US$1.7 million (2018: US$1.8 million)
- Motor vehicles US$1.4 (2018: US$2.9 million)
- Equipment, fixtures and fittings US$8.1 million (2018: US$8.2 million)
- Capital work in progress US$2.9 million (2018: US$6.6 million)

HUMAN CAPITAL

The skills and experience that enable us to implement our strategy and deliver our products and services, thereby creating value for FMBCH's stakeholders.

SALIENT FACTS AND ACHIEVEMENTS

- 1 500+ staff members
- Ongoing staff training and development
- Qualified, experienced and motivated workforce to deliver our strategy
- A well-organised performance management and labour relations framework for all employees
- Ongoing staff development and training
- Skilled, motivated employees who deliver on strategic objectives
- A group wide employee engagement survey was undertaken during 2019

Management approach

The Group recognises that, while human capital is not a tangible asset, it is arguably its most valuable one. As the global financial service environment undergoes a period of radical and massive change, driven mainly by technological advances and evolving customer needs and demands, the role and importance of a productive, educated, and skilled workforce has come sharply into focus.

For FMBCH, the importance and value of an empowered and educated workforce, operating within a values-driven, high-performance culture, cannot be overstated. As such, the Group's human resources approach focuses on providing its staff members with the knowledge, tools and opportunities to maximise their personal and professional development, while at the same time delivering optimal contributions to the growth and profitability of the organisation as a whole.

All Group companies have talent management, development and optimisation policies and guidelines in place to ensure that employees are motivated and equipped to perform their duties at the highest possible standards. To enable this, these Group companies also have their own Learning and Development Centres under the management of the respective Human Resources Departments. All new staff undergo full induction training to familiarise them with the Group and the bank at which they are employed and enable them to become fully functioning contributors to operational success as quickly as possible.

Employees training and development is prioritised for staff at all levels, and leadership development is a key focus to ensure the Group and its companies have a deep pool of leadership and management talent to access as it grows and expands.

2019 PERFORMANCE

Subsequent to the rebranding exercise of 2018, our focus during 2019 was to standardise people practices throughout the Group. This has brought about improved governance and control, including a consistent approach to performance management and standardising core people policies. We have also taken a more robust approach to succession planning and the talent pipeline, which includes a greater focus on the graduate training program.

The Group undertook the first group-wide employee engagement survey using the Gallup Q12 instrument during 2019. This feedback has provided a baseline from where we can improve our human capital performance. All countries in which the Group operates have developed action plans to deal with the issues which have emerged. The survey will be repeated in October 2020 to establish how progress is being made.

We have commenced with a job grade and job titling rationalisation exercise which underpins our reward and benefit strategy. The survey results also assist with identifying core training programmes to address skills development in a number of functional areas and improving HR reporting in order to deal with people issues more proactively.

The separation from Barclays in Zimbabwe resulted in a significant restructure of the Bank culminating in the removal of 125 roles. This was successfully executed with no disruption to the day to day operations.

In Zambia we converted all permanent employees from a gratuity to defined contribution pension plan, bringing the Bank in line with market practice.

A Group-wide Whistle Blower/Alert line was launched, giving employees confidence that they can raise ethical issues without fear.

SOCIAL AND RELATIONSHIP CAPITAL

The partnerships FMBCH has cultivated with key stakeholders, including customers, employees, service providers, communities, regulators and shareholders.

SALIENT FACTS AND ACHIEVEMENTS

- Committed to sound relationships with both retail and corporate customers
- Effective CSR initiatives and programmes
- Partnerships with leading financial services brands such as Mastercard, Visa, Hello Paisa and MoneyGram
- Committed to facilitating financial inclusion across all market sectors
- Provide ongoing support for various initiatives in the areas of health, education and sport within the communities that the Group operates
- Successfully serviced the diverse needs of nearly 800 000+ customers in both the retail and corporate banking sectors

Management approach

FMBCH is a growing and expanding bank with an exciting future and a well-established reputation for strong values and a sincere commitment to the development and upliftment of the communities in which it operates.

The Board and leadership of the Group recognise that its success is inextricably linked to its ability to build and maintain strong relationships with its stakeholder groups and deliver tangible social and societal benefits that go beyond profitability and shareholder value generation.

In addition to shaping perceptions of the Group amongst its stakeholders, a depth of social and relationship capital allows the organisation to uplift the communities on which it depends, or that are affected by, its operational activities. For this reason, FMBCH is committed to contributing to the social sustainability of the citizens of the countries in which it has a presence, as well as understanding their collective concerns, needs and expectations.

Reputational risk management

FMBCH views its reputation as one of the vital pillars on which it is able to build its operational effectiveness and deliver on its promise to add value to the lives and finances of its customers.

Reputational risk is the potential that negative public perception could damage the Group's strong standing in the community and amongst its stakeholders, resulting in a decline in the strength of its brand and, ultimately, a decline in its customer base, a drop in revenue and profitability.

FMBCH takes a collaborative approach to reputational risk management and includes all its managers and employees in protecting its brand at all times. Our Group values, such as 'Innovative', 'Service Excellence', 'Integrity', 'Collaborative' and 'Citizenship' contribute to a corporate culture of honesty and integrity. This reputational protection is built into the Group's culture across all customer touch points. It ranges from ensuring that there is no potential for new products to put the brand and customers at risk, right through to encouraging staff to report any negative publicity they notice in the media and on social platforms.

EFFECTIVE STAKEHOLDER OUTCOMES

Ongoing, comprehensive engagement with all key stakeholder groups enables FMBCH to use all inputs from stakeholders to inform its strategic decisions and actions.

SHAREHOLDERS

The Group has a number of significant individual and institutional shareholders. There is constant interaction with these shareholders and investors, with the main engagement forum being the Group AGM.

GOVERNMENT AND REGULATORS

FMBCH receives recurrent feedback and input from regulators in all the regions in which it operates.

The Group structure means that engagement is required with many different regulatory bodies, so such engagement is typically decentralised and overseen by the CEOs of the various banks.

CUSTOMERS

The Group is committed to listening to, and understanding the needs, expectations and concerns of its customers. In addition to regular focus groups, FMBCH has an 'open door' policy and welcomes feedback from its customers who are encouraged to use face-to-face, digital and social media channels to provide such feedback.

COMMUNITY

Stakeholder relations with the community naturally flow into customer engagement and the Group's Corporate Social Responsibility (CSR) activities. FMBCH has a very visible presence in the communities in which it operates and prioritises such involvement and investment across the three focus areas of health, sports and education.

The approach deliberately avoids major beneficiaries or large individual projects, instead seeking to spread the social sustainability investment and impact across as broad a range of beneficiaries as possible.

GOOD CORPORATE CITIZENSHIP

Being a good corporate citizen in each of our geographies is absolutely vital for the stability and sustainability of the business. In addition to being a moral obligation, social investment is seen as a business imperative.

To maximise positive impact, the Group's CSR efforts are focused on the three key areas of health, education, and sports development. Much of this social investment takes place through the Group subsidiary banks, which are mandated to deliver social support and investment directly in the countries and communities in which they operate. The CSR philosophy is to consciously support programmes identified to have the maximum potential to deliver sustainable positive social outcomes, and to leverage partnerships to maximise this impact wherever possible.

2019 PERFORMANCE

On the back of the rebranding exercise and the head office move to Mauritius, the Group is currently rebuilding and refining its stakeholder engagement framework.

At present, there are active CSR programmes in place in Botswana, Malawi, Zimbabwe and Mozambique. It is envisaged that these formal CSR initiatives will be extended into Zambia in 2020.

Just some of the highlights from the Group's CSR activities and community sponsorships over the past financial year are as follows:

First Capital Bank Botswana

5th Annual First Capital Bank Cycle Challenge

The Bank has partnered with Jonmol Cycling Club, a local cycling team, to host this challenge annually for the past five years. During 2019, the challenge was held on 29 April and offered three race categories: the 30km, the 60km and the 120km.

The Challenge accommodated first time riders, veteran riders and children. We are proud of the 20 staff members who took part in the 30km challenge. First Capital Bank continues to promote a healthy lifestyle amongst the community, the corporate industry and amongst employees.

Jonmol Cycling Club has national champions amongst their team and are the only cycling team without any corporate sponsors. First Capital Bank sponsored Jonmol Cycling club with a new cycling kit. During 2019, First Capital Bank contributed a total of BWP 147 356 towards the cycle challenge.

First Capital Bank Botswana *(CONTINUED)*

First Capital Bank Easter Showdown

The First Capital Bank Easter Showdown provided sponsorship to the value of BWP 22 000 to the Easter Showdown Chess Tournament. Held between 19 and 21 April 2019, the FIDE (International Chess Federation) rated Chess Tournament is presented in partnership with the Francistown School of Chess. Participants were not only from Botswana, but also Zimbabwe, Lesotho, and Swaziland.

The tournament was the first of its kind in Francistown and aimed to contribute significantly to the development of chess in Francistown, Botswana and the region. The tournament affords young chess prodigies to rub shoulders with local and international chess professionals. 139 participants took part in 2019, and we aim for 350 participants in 2020.

First Capital Bank Malawi

Cyclone Idai Flood Donation

In response to devastating floods caused by Cyclone Idai that left thousands of people homeless, First Capital Bank Plc donated K10 million towards relief initiative in March 2019.

With more than 700 000 people affected, including almost 20 000 households displaced, many victims were unable to access to clean water and food. FCB Malawi partnered with La Caverna's "Blue Buckets of Hope" to facilitate an initiative which assisted families within Luchenza, Mulanje and Chikwawa to start rebuilding their lives in the wake of the floods. Items included in our donation were porridge, nutritional food supplements, rice, blankets, water guard as well building toolkits to assist community members in the rebuilding of their homes.

Malawi Writers Union (MAWU) Awards

First Capital Bank sponsored the MAWU awards ceremony in an annual short story competition, in which monetary prizes are presented to encourage creative writing among budding writers.

U20 youth football league

First Capital Bank continues to support the Under-20 Youth Football League by providing financial assistance to the National Football League Committee (an affiliate of the Football Association of Malawi), to help with the country's football development programme at grassroots level.

Prison Cell Block Donation

Under the auspices of its Chairman Mr Hitesh Anadkat, First Capital Bank, Malawi, donated the funds to build a 384-bed prison block facility at Chichiri Prison, Blantyre. Chronic overcrowding is a serious challenge facing Malawi's prisons and this donation will go a long way to alleviating the problem at Chichiri, where rooms meant for four prisoners accommodate between 20 and 40 people at a time. We would like to salute our Chairman and Mrs Anadkat for their compassion, vision and exemplary citizenship.

First Capital Bank Mozambique

African Children's day

The Day of the African Child was first initiated by the Organisation of African Unity (OAU)

to honor those who participated in the Soweto Uprising in 1976. It also raises awareness of the continuing need to improve the education provided to African children.

On African Children's Day, 16 June 2019, First Capital Bank brought a smile to children, their families and all the technical and support staff at the Mavalane Hospital Maternity.

The bank donated school teaching material, children's games and a meal to over 100 participants.

First Capital Bank Zimbabwe

Our citizenship agenda is designed to create an innovative, sustainable environment that aligns with the holistic needs of the communities that we serve daily. We have merged our ambitions with strategic alliances in the Public Private Partnerships to achieve key results in our focus areas of employment creation , food security , education and enterprise development. Our overall goal is to achieve Financial Inclusion in youth and women. Our flagship initiatives are as below:

Zimbabwe Farmers Union – ZFU

Our partnership with Zimbabwe Farmers Union over many years has impacted over 40 000 young farmers. The partnership focused on youths in rural and peri-urban areas from disadvantaged backgrounds that required reintegration into society through upskilling in literacy, numeracy and farming skills themed Fit for Life. The programme aimed to equip them with skills to bring forth economically viable solutions and modern farming methods for either commercial or subsistence farming.

Phase 4 was implemented in 2019 which introduces farmers to market linkages, export opportunities, farm implements and soft skills. The Fit for Life project was implemented in 10 school sites in five provinces, namely Mashonaland West, Mashonaland East, Mashonaland Central, Midlands and Manicaland. A total of 603 young farmers participated in the 2019 project, in which the bank invested ZWL 50 000.

Hustlepreneurs

The Hustlepreneurs initiative is a digital financial inclusion intervention which aims to address the knowledge and skills gap that exists in business development for women. Its online nature offers a dynamic opportunity for a learning experience to a wider audience on the road to becoming renowned business owners. This August 2019 initiative targets women with the aim to teach them to formalise, grow and sustain their businesses. To date, we have impacted over 20 000 women online. Part of the initiative was an SME Supply Chain Workshop which reached 110 women physically and over 5 000 viewers online. We are excited about this initiative and look forward to even more opportunities for these women.

INTELLECTUAL CAPITAL

The intangibles that sustain the quality of our product and service offering, which provide FMBCH's competitive advantage, such as our innovations, systems and reputation.

SALIENT FACTS AND ACHIEVEMENTS

- Sound reputation of subsidiary bank brands
- Financial Service Provider licences in each country of operation
- Wide range of products and services
- Established internal systems, processes and procedures
- A group wide unified operating platform improves customer service and reduces overall costs
- Efficient, effective delivery of products and services to customers
- Strategic marketing strategies designed to build all of the Group's brands and services
- Full legal and regulatory compliance across all markets in which the Group operates

Management approach

Although intellectual capital cannot yet be adequately quantified in financial terms, for FMBCH it is critical for creating value and retaining a leadership position in Africa's highly competitive banking sector. The Group has extensive experience in providing banking-related services, especially in southern African countries, and has the proven ability to provide value-adding private and public banking solutions on any scale across varied geographies and regulatory environments.

Intellectual capital dovetails with human capital through employee competence, skills, training and development, which includes knowledge of work procedures, work ethics and values, and experience.

The cumulative value of the intellectual capital that FMBCH has refined over two decades informs and drives our evolving business strategy. In tandem with the other five capitals, it enables the Group to remain sustainable and stay ahead of its competitors.

Processes and technology

The Bank's vast inventory of intellectual capital includes its established and proven processes, systems and world-class technology.

The Group is acutely aware of the fact that it could suffer losses or business disruptions should it experience any failure or vulnerability in its technology systems. To manage and mitigate this risk, the Group has extensive policies and procedures in place. It also operates a state-of-the-art data centre supported by a dedicated IT disaster recovery site and backup centre.

The IT systems and infrastructure are operated and managed by highly trained and experienced personnel and detailed maintenance and service level agreements are in place with all system and service providers.

Legal and regulatory compliance

Our Group Head of Compliance has oversight of all compliance related aspects, including adherence to local and international regulations that impact our countries of operation and the Group.

The Risk and Audit Subcommittees for FMBCH receive updates from Group Risk and Compliance and Group Audit, together with inputs from the Chair of Risk and Audit Committees of each regional entity.

INNOVATION AND CUSTOMER SERVICE

The following new products were launched during 2019:

- VISA acquiring on Point of Sale (POS) is now facilitated in Malawi. Our POS machines in both Malawi and Zimbabwe now accept all Visa cards, allowing retail customers to accept Visa cards from other banks, not just FCB cards
- Contactless cards issuance rolled out, offering additional convenience for all FCB cardholders and benefits to our retail/merchant customer base
- A user-friendly mobile banking app is now available to our customers in Malawi
- Ecocash Mobile wallet integration with our mobile banking in Zimbabwe enables customers to move mobile money to and from their bank account
- Enhancements to our mobile app in Zimbabwe created a more user-friendly experience
- We upgraded our internet banking in Zimbabwe
- The launch of Prestige banking in Malawi offers exclusive banking services to high net worth individuals

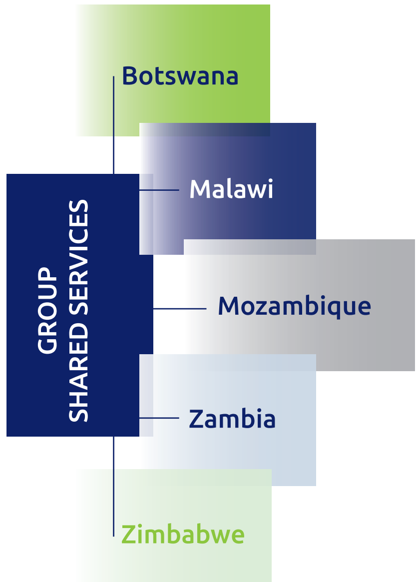
EFFICIENCY THROUGH SHARED SERVICES

Group's Shared Services framework:

By 31 December 2019, we had fully and successfully moved the following units to the shared service centre based in Mauritius:

- IT
- Operations
- Audit

The Group had initially planned to house all support operations in Mauritius, but due to cost considerations currently maintain three centres of excellence. These may all be migrated to Mauritius in a later phase.



GROUP REGIONAL CENTRES OF EXCELLENCE

Mauritius

- Audit
- Service delivery
- Digital and Automation

Malawi

- Compliance
- Credit
- Treasury and International Banking
- Human
- resources

Zimbabwe

- Finance
- Risk
- Marketing
- Corporate communication

OUR 2019 SHARED SERVICES MODEL ACHIEVEMENTS INCLUDE:

- Standardisation and review of credit practices, policies and procedures across the Group, customised according to each country
- Formalisation of group-wide monitoring and review of compliance, provisioning and reporting
- Implementing a common credit workflow system across the Group
- Management of concentration risk
- Group Multiprotocol Label Switching (MPLS) connectivity activated in February 2019
- Recruiting of Functional Specialists in IT Audit, Switch, Applications, Networking, Analytics and Project Management Office (PMO)
- Group IT security and Governance, Risk and Compliance (GRC) framework being concluded
- Group transfer pricing framework approved by all country Boards (excluding Mozambique). Reserve Bank approvals received in Malawi, Zambia and Botswana

NETWORK AND COMMUNICATIONS

During 2019 we undertook continuous improvements in our networking and communication capacity.

Country point-to-point connectivity was replaced by a better designed and highly redundant dedicated MPLS WAN that provides consistent quality uptime. The connection redundancy between the countries is now provided by the IS MPLS cloud.

We are ramping uptimes and quick response times to IT issues, with a particular focus on cyber security.

FMBCH TECHNOLOGY IN NUMBERS:

- 14 of the Global Top 100 technology companies are vendors to the Group
- Over 90 physical servers
- 15 different connectivity providers in-country and across the Group
- 24 critical firewalls
- Over 200TB of memory managed
- 24 applications managed at Group level
- 12 hosting sites/DCs in six countries hosting ICT equipment
- Over 200 CPU Cores of servers across the Group

CYBER SECURITY

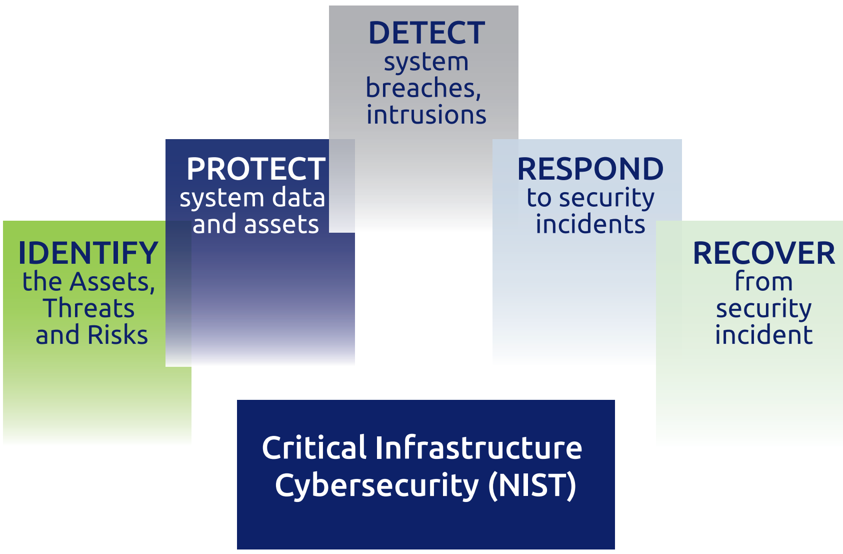
The Group's addresses key cyber security concerns by building:

- a framework against cyber-attacks
- securing protection of electronic payment gateways
- managing shared security services with the aim of protecting all customers
- implementing and complying with international benchmarks and robust policies of the regulators

The implementation of controls and governance mechanisms are based on:

- Defence
- Resilience
- Assurance to stakeholders and customers

Accordingly, in order to implement a comprehensive cyber security strategy, FMBCH has adopted the following cycle in accordance with the Framework for Improving Critical Infrastructure Cybersecurity (NIST):



LEGAL AND REGULATORY COMPLIANCE

Country and Group compliance management was strengthened during the year. Formalisation of monitoring and review of compliance, provisioning and reporting at a Group level is as follows:

Chief Executive Officer – In-country	The Risk and Compliance function administratively reports to the country Chief Executive Officer as the primary owner of Risks within the subsidiary.
Board Risk Committee – In-country	Functional reporting on all Risk and Compliance issues is to the Board Risk Committee. Further to this, the Risk function provides a summarised dashboard for main Board pack. The function is represented by invitation at Credit Committee and Audit Committees of the Board.
Group Chief Risk Officer	The Group Chief Risk Officer is responsible for technical support, guidance and standardization to ensure implementation of best practice across the group for all key risk areas. The Group Risk Officer is primarily a technical reporting line on the delivery of standardised independence monitoring and reviews by the function.
Group Head Compliance	The Group Head Compliance is responsible for technical support, guidance and standardisation to ensure implementation of best practice across the group for all Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) and compliance issues. Group Compliance is primarily a technical reporting line on the delivery of standardised independence monitoring and reviews by the function.
Management Committees	The Country Risk and Compliance function reports directly to the Management Risk Committee (MRC) on all enterprise-wide risk issues. The committee is chaired by the CEO and meets monthly. It also has input into the following management committees: Credit Committee, Asset and Liability Committee and the New Products Committee.

REGIONAL ECONOMIC AND PERFORMANCE REVIEWS

REGIONAL ECONOMIC AND PERFORMANCE REVIEWS

BOTSWANA

Jaco Viljoen
Chief Executive Officer

First Capital Bank Botswana at a glance

	2019	2018
Branches	4	4
Loan Centres	6	5
ATMs	5	4
Debit/credit cards issued	15 113	12 508
Staff	145	109
Customers	24 513	17 114

Key Indicators

(All figures in Botswana Pula)	2019	2018	% Variation
Net interest income	136 049 890	98 282 910	±38
Non-interest income	67 115 844	53 610 384	+25
Operating expenses	124 469 496	98 948 907	+25
Profit after tax	47 973 783	32 944 477	+45
Customer deposits	2 561 974 069	2 482 246 360	+3
Total assets	3 646 324 066	2 880 502 881	+2
Loans and advances	1 960 237 274	1 579 852 694	+23
Shareholder funds	294 032 792	196 059 009	+50

Performance in 2019

First Capital Bank delivered an impressive performance in 2019 as a result of significantly higher interest and non-interest income. This culminated in the growth in net profit after tax (NPAT) from BWP32.9 million in FY2018 to BWP47.9 million in FY2019. The Bank's total assets increased by 27% from BWP2.9 billion in FY2018 to BWP3.6 billion in FY2019. This balance sheet growth can be attributed to substantial growth in the loan book, interbank borrowings and shareholder funds.

The Bank improved efficiencies by reducing its cost-to-income ratio from 65% in FY2018 to 61% in FY2019. Heightened efficiencies were achieved through cost cutting measures and improvement in interest and non-interest income.

Factors contributing to performance

- A large contributing factor to the growth was the payroll loans in the retail segment, which grew by 34%. This increase was attributed to a marketing campaign as well as continued improvements in the acquiring process. The campaign promoted the six loan centres opened across the country and First Capital Bank's unsecured loan product, as well as incentivising Government and Council employees to take out a loan from the Bank
- Loans and advances grew by 23.7%
- The net interest income and non-interest income increased by 38.4% and 25.2% respectively, resulting in a substantial growth in overall revenue. Continued growth in net interest income was largely driven by the surge in payroll loans, while growth in non-interest income was attributed to increased volumes in the Bank's foreign exchange services
- In 2019, total costs went up by 25.8% due to bolstering the high-level staff complement, increasing these costs by 30%; and sales commission paid to sales agents for acquiring new retail loans of 500%.

Operational highlights

Late in 2019, all the regulatory requirements for the acquisition of Bank of India Botswana were approved and concluded successfully. With this acquisition, the Bank onboarded 1 051 customers, which is expected to grow our 2020 revenue.

Liquidity and capital adequacy ratios

The Bank exceeded the regulatory requirements for LAR (liquid asset ratio) and CAR (capital adequacy ratio). The LAR was 19% (regulatory requirement is 10%) and CAR was 17.99% (regulatory requirement is 15%). Tier 1 capital to total risk weighted assets amounted to 9.7% (regulatory requirement is 4.5%).

Outlook

First Capital Bank Botswana is positive about its 2020 growth prospects, by continuing its focus on growing its transactional corporate and commercial customer base.

The bank is improving customer convenience by launching digital solutions, such as mobile apps for retail and corporate customers. This digital platform will complement the bank's existing internet banking service in enabling seamless banking for customers without having to physically go to branches.

First Capital Bank Botswana anticipates continued growth of the loan book, specifically the retail lending book.

MALAWI

Thomas J Kadantot
Acting Chief Executive Officer

First Capital Bank Malawi at a glance

	2019	2018
Branches	6	6
Agencies	24	25
ATM's	54	65
Onsite banking solutions	23	23
POS devices	120	112
Staff	691	694
Customers	625 421	632 900

Key Indicators

(All figures in Malawi Kwacha)	2019	2018	% Variation
Net interest income	17 248 970 000	14 625 028 000	+17
Non-interest income	10 532 859 000	11 370 910 000	(7)
Operating expenses	17 186 140 000	17 330 487 000	(0.8)
Profit after tax	6 039 066 000	6 654 950 000	(9)
Customer deposits	134 871 797 000	139 582 070 000	(3)
Total assets	294 489 883 000	229 396 858 000	+28
Loans and advances	71 592 468 000	62 136 710 000	+15
Shareholder funds	33 093 200 000	36 225 825 000	(8)

Performance in 2019

During the year Malawi's banking regulators changed the way base lending rates are determined. The Reserve Bank of Malawi discontinued the use of Policy Rate as a guiding instrument for determining base lending rates for financial institutions. Instead, a self-adjusting monthly reference rate was introduced. The Reference Rate dropped from a high of 14.9% to about 12% during the year under review.

This regulatory change had a significant impact on the Bank's net interest income, resulting in reduced earnings on the Banks' productive assets. Net interest income in 2019 did however grow by 18% year on year. This welcome improvement resulted from the Bank's efforts to diversify the deposit base to reduce pressure from the regulatory changes on net interest margins.

First Capital Bank Plc Malawi recorded a net profit of MWK6.04 billion in the 2019 financial year, which was down by 9.25% from the MWK6.65 billion profit achieved in 2018. This fall in profits is attributable to several interest rate reductions, which impacted interest income and reduced non-interest income.

Factors contributing to performance

Passive income from our equity investments in listed companies was adversely impacted by revaluation losses due to share price drops for two of our investee companies. The price increases at the beginning of 2019 were more than washed out by the end of the year, with our investee companies registering price losses. These significantly impacted the Bank's non-interest income for the year.

Operating costs for the year stabilised as a result of a restructuring process that the Bank had embarked on some two years back that laid a sustainable and efficient framework for better performance and quality service to our customers. Focusing on efficient operations and change management remain long term priorities for ensuring superior service delivery at reduced operational costs.

Our focus on low cost customer deposits as a funding base continued during the year. Total deposits declined by 3% mainly due to our deliberate strategy of forgoing wholesale deposits in an environment in which margins are on the decline.

Despite a cautious approach to lending, our lending book grew by 15% year on year. This loan book growth and investments of excess liquidity in alternative money market instruments increased our impairment losses, which impacted the operating profits for the period.

Operational highlights

Restructuring process

During the year we continued with the restructuring process where First Capital Bank Malawi ceased to be a Bank holding company by disposal of our investments in First Capital Bank Ltd, in Botswana and First Capital Bank S.A., in Mozambique to our parent company, FMBcapital Holdings plc through dividend in specie. The Bank's total equity therefore reduced by 8.6% year on year, the Company however remains adequately capitalized, with capital ratios well above the minimum regulatory requirement.

Liquidity and capital adequacy ratios

Liquidity ratio consistently remained well above the regulatory minimum of 25 percent. As of 31 December 2019 the liquidity ratio closed at 48.92%.

The Bank's Capital levels adequately supported the Risk Weighted Assets. As of 31 December 2019, Capital Adequacy ratios closed above both the regulatory and internal minimum limits. Tier 1 and Total Capital ratios closed at 15.9% and 23.8% percent respectively.

Outlook

The country's economic growth in 2019 was heavily impacted by the disputes that emanated from the May 2019 tripartite elections. Demonstrations which were organised by the civil society across the country resulted in periodic shutdown of operations by most business entities in productive sectors, which impacted on the country's general economic performance.

Uncertainty still remains in the country following the annulment of the results of the May 2019 Presidential Elections by the Constitutional Court. The court has ordered a fresh presidential poll. The impact of Covid-19 has further dampened business sentiment. It is therefore expected that uncertainty will continue in through the most part of 2020, with general business sentiment at a low ebb.

The Bank has deployed deliberate business strategies to counter the negative side effects of the current economic environment. These are designed to maintain long term stability, improve operational efficiencies and grow the business by offering relevant products and services.

MOZAMBIQUE

Tiago Contente
Chief Executive Officer

First Capital Bank S.A. Mozambique at a glance

	2019	2018
Branches	5	4
Service centres	1	1
ATM's	8	6
Debit cards	2 316	2 143
POS devices	178	72
Staff	92	72
Customers	18 705	16 096

Key Indicators

(Metical)	2019	2018	% Variation
Net interest income	277 051 808	241 263 215	+15
Non-interest income	251 405 078	131 767 522	+91
Operating expenses	414 120 750	335 542 626	+23
Profit after tax	67 720 000	7 776 634	+771
Customer deposits	3 388 647 456	2 294 086 698	+48
Total assets	5 259 126 432	3 036 628 989	+73
Loans and advances	1 515 653 488	728 614 237	+108
Shareholder funds	1 280 326 000	639 136 011	+100

Performance in 2019

First Capital Bank Mozambique posted a profit of MT67 million in FY2019, representing growth of around MT60 million when compared with the previous year.

The Bank has continued to show healthy growth in deposits (48%), mainly due to corporate clients, which represent around 92% of total deposits. The Bank's market presence in the Mozambican financial sector grew as its market share on deposits increased 33% in FY2019, compared with a market growth of 11.5% in 2018. First Capital Bank Mozambique is now listed in the country's top 10 Banks in terms of deposits.

Lending from facilities increased by 99% in 2019, while assets increased 73% compared to the previous year.

Foreign Exchange (FX) trading volumes and commissions grew considerably in 2019. Improved commissions performance were mainly driven by higher activity across off-balance services, namely letters of credit and guarantees. FX activity intensified due to stronger inflows of foreign currency into the country.

Factors contributing to performance

Our results reflect an overall improvement in the Bank's business and operations due to the consolidation of strategic adjustments started the previous year. These underpinned the Bank's profitable year, despite marginal growth of Mozambique's economy in this time period.

The Bank honoured its commitment to maintaining a regulatory minimum of MT1.14 billion through two capital infusions in May and September 2019 of MT271 million and MT375 million, enabling the Bank to set share capital of MT1.515 billion. The Bank will make an additional capital infusion before June 2020 to meet further regulatory requirements.

The Bank ended December 2019 with non-performing loans (NPLs) of around 3.6%, improving from 15.74% at December 2018.

Strategically, the Bank is also reducing its exposure to retail in favour of developing customised offers for our corporate clients.

Operating expenses increased by 16% due to higher employee numbers and investments into improved facilities.

Operational highlights

Rebranding to First Capital Bank and the associated marketing efforts boosted our market recognition by corporate clients.

During 2019, we expanded our headquarters to benefit our growing employee base and refurbished our corporate centre. In addition, new branches opened in Maputo and Nampula to expand our regional footprint.

Staff headcount grew about 27% due to the Bank's commercial expansion. Larger and more skilled back-office teams reduced operational risk and strengthened our internal controls.

Revenues increased at a faster pace than our expenses, which we expect to continue in the coming years. Cost-to-income evolved from 81% in 2018 to 75% in 2019.

Liquidity and capital adequacy ratios

Capital adequacy ratio stood at 37% in 2019, well above the regulatory minimum. At 2019 year-end First Capital Bank's liquidity ratio also registered well above the regulatory minimum levels.

Outlook

First Capital Bank is positive about its growth prospects for 2020, especially by continuing to focus on growing its transactional corporate and commercial customer base, with a focus on medium and large companies.

We will continue our focus on raising more deposits from corporate clients, improving our customer experience, and strengthening our technology infrastructure. In that regard we intend automating our processes further to increase the turnaround time, security and efficiency in our operations. Opening of operations in Ribaue will be an important milestone for the Bank and will enable us to increase our presence around Nampula. We are also growing our commercial presence in the Beira province.

The Bank intends to deploy debit and credit EMV compliant cards and renew its home-Banking platform with additional and improved functionalities.

We continue investing in our people, with a 2020 training calendar already scheduled. Staff training will largely be undertaken at the operational training room established in 2019.

Fitch Solutions (Fitch Ratings Holding) had expected the Mozambique economy to expand 4.3% in 2020 and 4.4% in 2021, with Oil and Gas projects being the main drivers. The current Covid-19 has however brought a high level of uncertainty to the global economy for the near future.

ZAMBIA

Jitto Kurian
Chief Executive Officer

First Capital Bank Zambia at a glance

	2019	2018
Branches	8	7
ATM's	7	7
Staff	128	113
Customers	7 682	8 654

Key Indicators

(Zambian Kwatcha)	2019	2018	% Variation
Net interest income	91 731 561	73 628 367	+25
Non-interest income	41 592 434	61 547 582	(32)
Operating expenses	113 396 820	82 620 714	+37
Profit after tax	8 186 568	28 944 868	(68)
Customer deposits	1 100 069 115	849 681 450	+29
Total assets	1 522 677 539	1 207 751 380	+26
Loans and advances	681 488 296	567 202 507	+20
Shareholder funds	164 430 473	155 734 064	+6

Performance in 2019

The headwinds that the Zambian economy faced in 2018 continued into 2019, which had an adverse impact on the Bank's performance.

While the Bank's net interest income increased by 25%, non-interest income decreased by 32%. With operating expenses increasing by 37% due to certain once-off costs, profit after tax decreased to ZMW9.1 million.

Factors contributing to performance

Despite the continued headwinds faced in 2019, the Bank saw its total assets grow by 26%. The Bank's total loans and advances grew by 20%, while total deposits grew by 29%.

The Bank continued to prudently manage its growth in loans and advances and through proactive engagement with its customers saw an improvement in its non-performing loan ratio to 5.3%, which is well below the industry average.

Further, as a result of its prudent lending approach, the Bank was able to deploy surplus liquidity into low-risk money market instruments. We invested primarily in treasury bills due to their increasing returns.

The Bank entered into an agreement with Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO), whereunder FMO provided the Bank with a 4-year US$10 million line of credit to support the Bank's lending activity. The Bank fully drew this facility in December 2019.

Operational highlights

The Bank undertook several initiatives to improve efficiencies across its operations, including moving a number of operational activities to the Group Shared Services Centre in Mauritius to enhance service delivery and take advantage of economies of scale.

During the year the Bank continued to invest in its footprint and delivery channels. In this regard, the Bank opened an agency in Chinika in the industrial area of Lusaka, increasing its national footprint to eight and its footprint in Lusaka to six. The Bank is also at an advanced stage of rolling out VISA contactless cards and mobile applications for our individual, SME and corporate customers.

Liquidity and capital adequacy ratios

The Bank continued to be prudent in its overall approach, and strives to maintain its key ratios above regulatory requirements. As at the end of 2019, the capital adequacy ratio was 19.6% against a regulatory requirement of 10%. The Bank also maintained the ratio of liquid assets to total assets at a healthy 48.5%.

Outlook

The economic challenges facing Zambia has been further exasperated by the Covid-19 pandemic that will exert further pressure on the economy. The slow-down in global trade, the fall in price of many commodities, including copper, capital flight to safe havens and the weakening of the Kwacha against the major international currencies have seen the Government reduce Zambia's economic growth forecast for 2020 to 2% from 3.2%.

The Bank will continue to entrench stronger internal controls, closely monitor and manage its liquidity and proactively manage credit exposure, while acknowledging that some customers may require support to see them through the prevailing challenging environment.

Despite the difficult environment the Bank will continue to invest in its people, channels, products, and processes to enhance its customer value proposition and consistently provide a best-in-class Banking experience.

ZIMBABWE

Ciaran McSharry
Chief Executive Officer

First Capital Bank Zimbabwe at a glance

	2019	2018
Branches	25	25
Service Centres	2	2
Debit/Credit Cards issued	222 983	338 770
ATMs	47	48
POS devices	1 134	947
Staff	464	606
Customers	233 560	192 431

Key Indicators

	Inflation adjusted			Historical		
(RTGS$)	2019	2018	Variation	2019	2018	Variation
Net interest income	163 837 000	272 046 000	(40)	70 637 000	40 047 000	+76
Non-interest income	386 720 000	282 900 000	+37	227 208 000	41 645 000	+448
Operating expenses	(521 377 000)	(367 414 000)	+42	(226 035 000)	(54 086 000)	+318
Profit after tax	(163 287 000)	82 371 000	(298)	264 190 000	24 322 000	+986
Customer deposits	2 046 816 000	3 438 463 000	(40)	2 046 816 000	553 564 000	+270
Total assets	3 060 409 000	4 354 685 000	(30)	2 945 605 000	698 744 000	+322
Loans & advances	711 222 000	1 209 226 000	(41)	711 222	194 675 000	+265
Shareholder funds	653 407 000	737 971 000	(11)	565 652 000	116 503 000	+386

Environment

Through Q4 2018 and 2019, Zimbabwe has seen major volatility and changes in exchange rates and also macroeconomic policy. As such the trading environment and economic landscape was characterised by the a change of local currency in February this year, the flotation of the exchange rates and the move from a multicurrency to mono currency system, with the consequent currency devaluation and inflationary impact. In addition, the environment continues to struggle with shortages of foreign currency and other commodities impacting GDP growth for 2019 which is forecasted to decline by 6.5% whilst manufacturing capacity utilisation is registered at just 27%.

The depreciation of the Zimbabwe dollar from 2.5 to 16.77 against the US$ by year end resulted in significant cost inflation as the economy adjusted to the new currency, with inflation registering an annualised 521% for the full year 2019.

From a business perspective interest rates remained subdued in the first half and well below inflation with increases starting to come through in the second half of the year.

Resulting from the above, Zimbabwe was classified as a hyperinflationary economy in 2019, resulting in financial reporting in line with IAS29 – *Financial Reporting in Hyperinflationary Economies.*

Summary of performance in 2019

Changes in the economic environment, relating to currency and inflationary impact, make the comparability of current year financial information with prior year difficult given the difference in the basis of measurement.

The Bank registered growth on the statement of financial position mainly driven by deposits both in local and foreign currency. RTGS deposits grew by more than 74% to ZWL879million, which were fully deployed into loans. The RTGS loan book grew by 200% to ZWL622million, with the growth in loans largely in quarter three and quarter four, covering the key productive sectors including agriculture, manufacturing and mining.

From inflation adjusted basis the Bank made a loss of ZWL163 million due to holding of monetary assets which do not revalue with inflation increase. In historic basis the significant movements between 2019 and 2018 is a result of inflation and exchange rate movement.

Historical profit after tax for 2019 is ZWL264million which was largely driven by fair valuation gain on investment property and investment in joint ventures.

The Bank continues to maintain a quality loan book with a loan loss ratio of 2.7% (2018: 1.2%), the increase reflecting the growth in the loan book. At the same time our non-performing loans ratio “NPL ratio” remained below 1% compared to prior year.

Operational highlights

2019 can be characterised as a year of two halfs, with the first half was dominated by the transition of the Bank’s systems from legacy Barclays systems to First Capital Bank systems, while through the second half, we continued to stabilise systems, while at the same time growing our liabilities and loan book, creating momentum into 2020.

Our new core banking system has enabled the Bank to enhance existing products such as the introduction of ZIPIT send, whilst at the same time introducing new products like Ecocash. The transactional volumes were stable during the migration period as well as post migration. The growth in non-funded income has largely been driven by new products and transactional price increases.

On the cost side the costs increased significantly, driven by the migration costs in H1 2019, and also the inflationary impact across all lines, including staff costs.

Liquidity and capital adequacy ratios

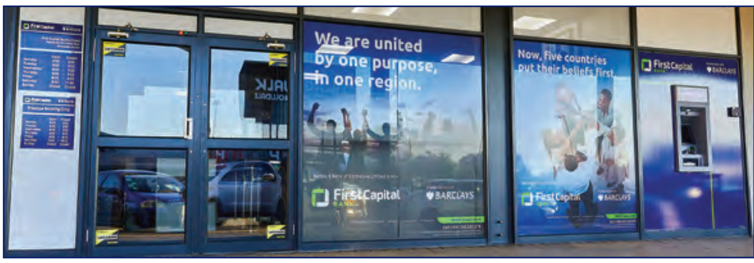
The Bank remains on a strong in terms of liquidity and capital adequacy ratios. The liquidity ratio was 55% compared to the 30% regulatory minimum. Similarly capital adequacy at 26% was well above the minimum threshold of 12% showing the capacity of the Bank to underwrite more loans. In the current environment the inherent credit risk continues to be high and the we continue to be focused on prudential lending practices.

In order to strengthen the Banking sector’s capacity to do more business in the new currency environment and absorb any economic shocks, the Reserve Bank of Zimbabwe increased the minimum capital to US$30 million by December 2020. The Bank is currently developing a plan to ensure that it meets the capital requirements as prescribed.

Outlook

Our long-term view is to focus on sustainable growth, working in partnership with our customers and aligning with their expectations. With the migration and investment in our new systems completed, this provides the foundation to invest in digital systems and solutions. This will provide the platform to build innovative products and solutions and provide more convenience for our customers.

Looking ahead the macro economic environment is expected to continue to be difficult. The Bank will continue to focus on shareholder value and capital preservation strategies to meet the US$30m minimum capital requirement, while maintaining prudential lending practices, and at the same time focusing on increasing our market share across our various business lines.



GOVERNANCE

GOVERNANCE

The Directors are pleased to submit their report together with the audited consolidated and separate financial statements of FMBcapital Holdings Plc (the Company) and its subsidiaries for the year ended 31 December 2019.

NATURE OF BUSINESS

FMBcapital Holdings Plc (the Company) is a public limited liability company incorporated in Mauritius, registered as a Global Business Licence Category 1 company with the Financial Services Commission in Mauritius, and listed on the Malawi Stock Exchange.

The Company owns and manages a portfolio of direct and indirect subsidiary investments which are principally involved in the provision of commercial banking services. Details of group subsidiaries, including their countries of domicile, are set out in Note 15 of the financial statements.

Directors' interests in the company

As at 31 December 2019, the total direct and indirect interests of the directors and parties related thereto in the issued ordinary share capital of the Company were as follows:

		2019		2018	
Name		**Shares**	**%**	Shares	%
Premier Capital (Mauritius) Limited	(i)	**766 266 044**	**31.17**	766 266 044	31.17
Prime Bank Limited	(ii)	**262 500 000**	**10.68**	262 500 000	10.68
NG Anadkat Limited	(i)	**167 067 289**	**6.80**	167 067 289	6.80
Hitesh N. Anadkat	(i)	**106 666 667**	**4.34**	106 666 667	4.34
Livingstone Exports Limited	(i)	**16 446 961**	**0.67**	16 446 961	0.67
Livingstone Holdings Limited	(i)	**13 116 970**	**0.53**	13 116 970	0.53
Dheeraj Dikshit		**–**	**–**	12 000 000	0.49
Nandita Dikshit		**12 000 000**	**0.49**	–	–
Manhill Limited	(iii)	**1 309 391**	**0.05**	1 309 391	0.05
Modecai Msisha	(iv)	**1 050 000**	**0.04**	1 050 000	0.04

(i) Mr H. Anadkat and members of his immediate family have beneficial interest in Premier Capital (Mauritius) Limited, NG Anadkat Limited, Livingstone Exports Limited and Livingstone Holdings Limited.

(ii) Mr H. Anadkat is beneficially interested in 3.06% of the issued share capital of Prime Bank Limited.

(iii) Mr J.M O'Neill has a beneficial interest in Manhill Limited.

(iv) Mr M. Msisha is a director of FCB Malawi, a wholly owned subsidiary of the Company.

Mr Francesco Ceccato is employed by Barclays Bank plc (BBPLC). BBPLC also owns 19% of the issued share capital of Afcarme Zimbabwe Holdings (Private) Limited, a subsidiary of the Company, and in addition, is the sole investor in our redeemable preference shares (see Note 43)

The Board of Directors and Directors' remuneration

The Board is composed of Directors coming from different sectors. Every Director has drawn from their professional background and expertise in positively contributing to the Board's activities. The Board comprises:

Terence Michael Davidson – Chairman

Hitesh Natwarlal Anadkat

Francesco Ceccato

Christo Els

Mahendra Gursahani

Vedanand Singh Mohadeb

John Michael O'Neill

Rajkamal Taposeea

Dheeraj Dikshit – Group Managing Director

The Board is responsible for directing the affairs of the Company in the best interests of its Shareholders, in conformity with legal and regulatory frameworks, and consistent with its constitution and best governance practices.

The Company embraces and abides by the main principles of modern corporate governance and in particular, those principles set out in the guidance for holders of a Category 1 Global Business Licence in the National Code of Corporate Governance for Mauritius and the Malawi Code II (Code of Best Practice for Corporate Governance in Malawi).

Remuneration paid by the Company and its subsidiaries to Directors of the Company has been disclosed in Note 49 of the financial statements.

Related parties

The Company and the Group's dealings with its related parties are disclosed in Note 48 of the financial statements.

Audit fee

Audit fee payable to Deloitte, for the year ended 31 December 2019 amounts to US$75 000 (2018: US$45 000) excluding VAT and disbursements.

Financial risk factors

The financial risk factors have been set out in Note 6 of the financial statements.

Donations

During the year, no donation for political purposes was made by the Company or any of its subsidiaries.

Ethical standards

The Board is fully committed to ensuring the Group's affairs are conducted with integrity and that the highest ethical standards are maintained. All employees of the Group are required to abide by a code of conduct containing detailed guidelines governing ethics and integrity in the workplace.

Auditor's report and financial statements

The Auditor's Report is set out on pages 82 to 85 and the financial statements are set out on pages 88 to 174.

On behalf of the board

D. Dikshit
Director
8 June 2020

M. Gursahani
Director

GOVERNANCE OVERVIEW

The disclosures contained in this report are intended to provide a description of FMBCH's corporate governance policies and practices. The FMBCH Board views adherence to high standards of corporate governance as being essential to its ability to ensure and uphold the long-term sustainability of the business and create value for the Group's stakeholders, including society at large. In this respect, the Board has established governance processes in place, within a framework of effective controls, to support its strategic orientations and meet the reasonable expectations of its stakeholders. The Board provides ethical and effective leadership and sets the example for this in the way it conducts itself and oversees the business and affairs of the Group. It also promotes a culture in which the principles of integrity, accountability and transparency are embraced by all employees. The Board monitors and adapts practices to reflect global developments in corporate governance principles, ensure smooth business operations and drive optimal stakeholder engagements. The Board assumes ultimate responsibility for leading and controlling the organisation and ensuring it meets all legal and regulatory requirements. To this end, governance standards and practices include:

- strict compliance to rules and regulations.
- strong commitment to ethics and values.
- robust risk governance and internal control; and
- continuous multi-stakeholder engagement.

FMBCH has a Constitution that conforms to the provisions of the Mauritius Companies Act 2001. A copy of the Constitution can be obtained by written request to the Company Secretary.

Compliance with the National Code of Corporate Governance for Mauritius (2016)

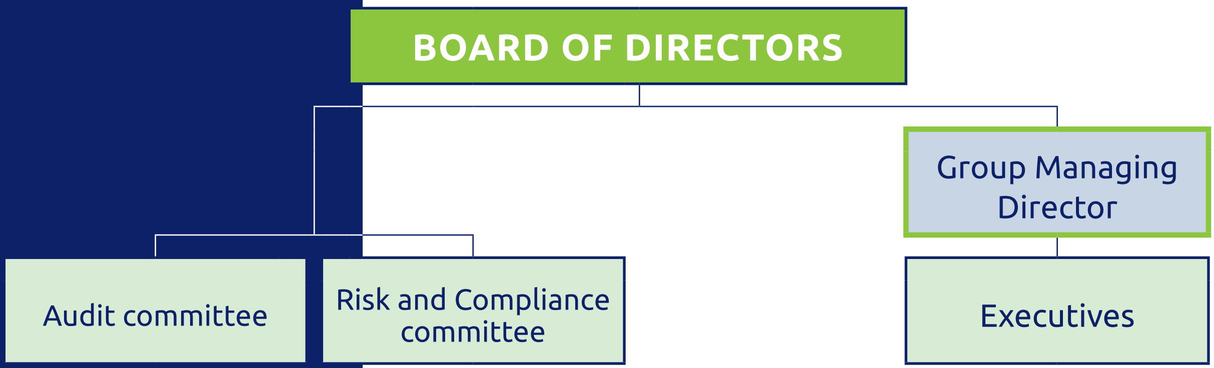
FMBCH embraces and abides by the main principles of modern corporate governance, in particular, those principles set out in the guidance for holders of a Category 1 Global Business Licence in the National Code of Corporate Governance for Mauritius and the Code of Best Practice for Corporate Governance in Malawi (Malawi Code II). Disclosures pertaining to the eight principles of the Code of Corporate Governance for Mauritius are provided in various sections of this 2019 Annual Report, as outlined below:

Principles of the Code	Relevant sections of the Annual Report
Principle 1: Governance Structure	• Corporate Governance Report
Principle 2: The Structure of the Board and its Committees	• Corporate Governance Report
Principle 3: Director Appointment Procedures	• Corporate Governance Report
Principle 4: Director Duties, Remuneration and Performance	• Corporate Governance Report
Principle 5: Risk Governance and Internal Control	• Corporate Governance Report • Financial statements
Principle 6: Reporting with Integrity	• Corporate Governance Report • Group structure
Principle 7: Audit	• Corporate Governance Report • Financial statements
Principle 8: Relations with Shareholders and Other Key Stakeholders	• Stakeholders

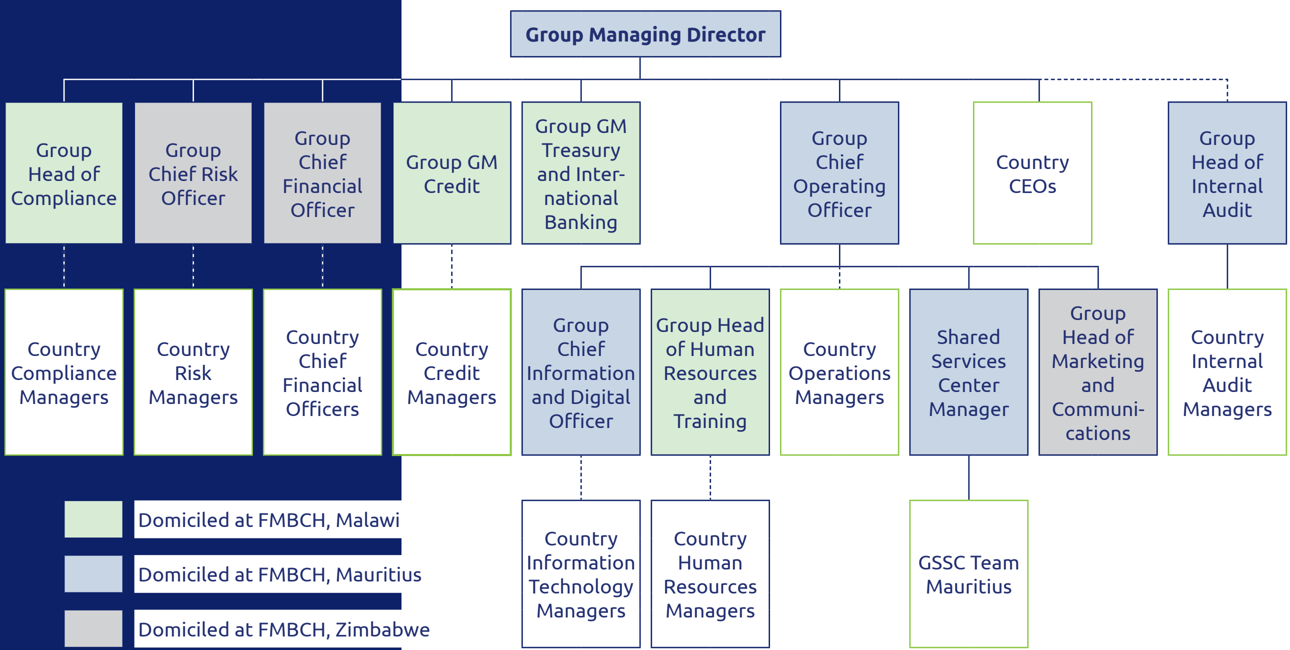
GOVERNANCE STRUCTURE

Governance framework

FMBCH is led by a unitary Board, which has ultimate responsibility for the overall stewardship and oversight of the organisation. The Group operates within a clearly defined governance framework, which provides for delegation of authority and clear lines of responsibility without abdicating the Board's responsibility.



- In order to carry out its duties effectively, the Board has established two committees – the Audit Committee and the Risk and Compliance Committee – which are mandated to provide specific expertise and guidance to the Board on matters affecting the Bank's business and affairs.
- The Board sets out the strategic direction of the Bank and has entrusted the day-to-day running of the Group to the executive team. The performance of this team is closely monitored and assessed.



Key roles and responsibilities

Board of Directors

The Board of Directors is FMBCH's ultimate decision-making entity. The Board is collectively responsible and accountable for the affairs and overall performance of the Group. It ensures that proper systems and controls are in place to protect the Group's assets and uphold its good reputation. The Board also determines FMBCH's strategic direction, identifies key risk areas, monitors and evaluates the implementation of policies, and plans and approves the Group's capital expenditure.

The Board ensures that business activities comply with all legal and regulatory requirements as well as with the Group's Constitution. The detailed responsibilities of the Board are set out in its Charter, which may be reviewed on a yearly basis or as required in the event of the introduction of, or amendment to, laws and regulations.

Chairman

The Chairman provides overall leadership to the Board and ensures its smooth functioning while encouraging the active participation of all members. He ensures that the Board is effective in delivering on its duties of setting and monitoring the Group's policies, objectives and strategies.

Board Committees

The Board of Directors is supported in its functions by two main committees, namely the Audit Committee and the Risk and Compliance Committee. These are led by experienced chairpersons who report on committee activities or decisions and make recommendations on matters delegated to them under their respective charters. In order to fulfil the duties and responsibilities delegated to them, the Committees are authorised to obtain independent professional advice at the Group's expense.

Group Managing Director

The Group Managing Director is responsible for the management and supervision of the Group's operations and its day-to-day administration. He provides leadership and direction to senior management and oversees the implementation of all plans and strategies of the business in line with the policies, guidelines and instructions set by the Board.

Company Secretary

FMBCH has a service agreement with JTC Fiduciary Services (Mauritius) Limited (JTC or the company secretary) for the provision of company secretarial services. JTC provides assistance and information on corporate governance and administration issues. The Company Secretary is responsible for ensuring that Board procedures are followed, and that applicable laws and regulations are complied with. It also has primary responsibility for guiding the Board members regarding their duties and responsibilities.

Oversight of subsidiaries

The Board ensures that the best principles of modern corporate governance, relevant to each country of operation, are applied by the Group's subsidiary operations.

Group and Country Boards have been strengthened during the prior and current reporting periods through appointment of experienced Independent Non-Executive Directors:

- Christo Els, Senior Partner at Webber Wentzel South Africa has joined the Group Board;
- Willem Swart, ex-CEO of TNM and a veteran of the telecom sector has joined the Malawi Board;
- Ronald Mangani, a leading economist, has joined the Malawi Board;
- Richard Wright, ex-Deputy CEO of FNB Botswana, has joined the Botswana Board;
- Mark O'Donnell, a leading entrepreneur of Zambia, has joined the Zambia Board; and
- Carla Marina, ex senior executive of Bank of Mozambique, has joined the Mozambique Board.

Full details regarding the governance practices of FMBCH's subsidiaries can be accessed as follows:

First Capital Bank Malawi	https://firstcapitalbank.co.mw/corporate-governance/
First Capital Bank Botswana	https://firstcapitalbank.co.bw/about/governance/corporate-governance/
First Capital Bank Mozambique	https://firstcapitalbank.co.mz/en/about/governance/corporate-governance/
First Capital Bank Zambia	https://firstcapitalbank.co.zm/corporate-governance/
Afcarme Zimbabwe Holdings (Private) Limited	https://firstcapitalbank.co.zw/resources/annual-reports/

The Board

The Board of Directors

The Board is composed of Directors coming from different sectors. Every Director has drawn from their professional background and expertise in positively contributing to the Board's activities. The Board comprises:

- Terence Michael Davidson – Chairman
- Hitesh Natwarlal Anadkat
- Francesco Ceccato
- Christo Els
- Mahendra Gursahani
- Vedanand Singh Mohadeb
- John Michael O'Neill
- Rajkamal Taposeea
- Dheeraj Dikshit – Group Managing Director

The Board is responsible for directing the affairs of the Company in the best interests of its shareholders, in conformity with legal and regulatory frameworks, and consistent with its constitution and best governance practices. The Board of Directors is appointed to act on behalf of the shareholders as stewards of the Group's affairs. The Board's mandate requires it to define the Group's purpose, strategy and value and determines all matters relating to the directions, policies, practices, management and operations of the Group. The Board is then responsible for ensuring that the Group is managed in accordance with its directions and delegations. The Board is directly accountable to the Shareholders. Each year, FMBCH holds an annual meeting at which the Directors must provide a report to Shareholders on the performance of the Group and detail its future plans and strategies.

Profiles of the Directors are provided on page 29 of the report.

Board responsibilities

The responsibilities of the Board of Directors include:

Establish the Group's values, goals and policies

- Set the Group's pace for its current operations and future development
- Determine the values to be promoted throughout the Group.
- Determine and review Group goals.
- Determine Group policies.

Set group strategy and structure

- Review and evaluate present and future opportunities, threats and risks in the external environment, and identify current and future strengths, weaknesses and risks relating to the Group.
- Determine strategic options, select those to be pursued, and decide the means to implement and support them.
- Determine the business strategies and plans that underpin the corporate strategy.
- Ensure that the Group's organisational structure and capability are appropriate for implementing the chosen strategies.

Delegate to management

- Delegate authority to management, and monitor and evaluate the implementation of policies, strategies and business plans.
- Determine monitoring criteria to be used by the Board.
- Ensure that internal controls are in place and effective.
- Communicate with Senior Management.

Exercise accountability to Shareholders and be responsible to relevant stakeholders

- Ensure that communications, both to and from Shareholders and relevant stakeholders, are effective.
- Understand and consider the interests of Shareholders and relevant stakeholders.
- Monitor relations with Shareholders and relevant stakeholders through the gathering and evaluation of appropriate information.
- Promote the goodwill and support of Shareholders and relevant stakeholders.

Composition and meetings

FMBCH's unitary Board of Directors comprises a Non-Executive Chairman, seven Non-Executive Directors and one Executive Director.

The Board is of the view that its present composition is adequately balanced and that the current Directors have the range of skills, expertise and experience to ensure that the Board carries out its duties properly.

The Board meets four times a year. There are also adequate and efficient communication and monitoring systems in place to ensure that the Directors receive all relevant and accurate information to guide them in making necessary strategic decisions, provide effective leadership, control the strategic direction of the Group's operations, and ensure that the Group fully complies with relevant legal, ethical and regulatory requirements.

Meeting attendance in 2019

BOARD MEMBER	CATEGORY	2019/04/03	2019/05/29	2019/08/06	2019/11/06
Terence Davidson	Chairman	√	√	√	√
Hitesh Anadkat	Non-Executive Director	√	√	√	√
Francesco Ceccato	Non-Executive Director	√	√	√	√
Christo Els	Non-Executive Director	N/A	N/A	N/A	√
Mahendra Gursahani	Non-Executive Director	N/A	N/A	N/A	√
Vedanand Singh Mohadeb	Non-Executive Director	√	√	√	√
John Michael O'Neill	Non-Executive Director	√	√	√	√
Rajkamal Taposeea	Non-Executive Director	√	√	√	√
Dheeraj Dikshit	Executive Director	√	√	√	√

BOARD FOCUS AREAS

During the reporting period, the bulk of the Board's discussion centred on:

- Monitoring and responding to economic challenges in Zimbabwe
- Facilitating the seamless migration to shared services
- Rebranding the Group and its subsidiaries
- Reviewing the capital requirements across the Group to ensure sustainable business growth in all markets
- Ensuring IFRS compliance
- Enhancing the Group's risk and compliance framework

Board Committees

The Board has delegated authority to various Board Committees that provide specialist guidance and make recommendations, through established reporting mechanisms, on areas and matters delegated to them. Each Committee has its own charter, which is approved by the Board and reviewed as required. These charters set out, *inter alia*, the roles, responsibilities, composition and meetings requirements of each Committee.

The structures and roles of the Committees are broadly as follows:

Audit Committee

Key responsibilities

The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities for:

- the integrity of the Group's financial statements
- the Group's compliance with legal and regulatory requirements
- the Group's system of internal control
- the performance of the Group's Internal Audit Function and External Auditors

Composition and meetings

The committee consists of three Directors and meets at least once every quarter in line with its approved terms of reference and good governance practice.

COMMITTEE MEMBER	2019/03/29	2019/05/20	2019/07/16	2019/10/23
Vedanand Singh Mohadeb (Chair)	√	√	√	√
Francesco Ceccato	√	√	√	√
John Michael O'Neill	√	√	√	√

Mahendra Gursahani has subsequently been appointed as the Chair of the Audit Committee.

Focus areas in the 2019 financial year

- FMBCH's interim and audited financial statements, with recommendations made to the Board
- Reports from internal and external auditors and actions taken in response to these
- Audit plans of internal and external auditors
- Compliance work plan/reports and actions taken
- Operational and information risk reports
- Adequacy of allowance for credit impairment
- Monitoring compliance within IFRS frameworks
- Ongoing activities of selected business segments

Risk and Compliance Committee

Key responsibilities

The Risk and Compliance Committee assist the Board in:

- setting up risk mitigation strategies
- assessing and monitoring FMBCH's risk management process
- advising the Board on risk issues
- monitoring the risk of the different portfolios against the set risk appetite
- compliance with relevant regulations and advocated norms

Composition and meetings

The Committee consists of three Directors and meets at least once every quarter in line with its approved terms of reference and good governance practice.

COMMITTEE MEMBER	04/02/2019	22/05/2019	07/06/2019	27/09/2019
Rajkamal Taposeea (Chair)	√	√	√	√
Hitesh Anadkat	√	√	√	√
Dheeraj Dikshit	√	√	√	√

Focus areas in the 2019 financial year

- FMBCH's risk governance structure across the Group and its subsidiaries
- Adherence to the set risk appetite and limits and any breaches thereof
- Capital adequacy (regulatory and internal benchmarks) and capital demand
- Liquidity and funding requirements
- Operational risk matters involving business processes and system infrastructure
- Compliance with regulatory requirements, specifically breaches and remediation plans
- Stress testing results in terms of capital adequacy, as part of ICAAP
- Compliance with IFRS frameworks

Board effectiveness

Nomination process

The Board assumes responsibility for succession planning and for the appointment and induction of new Directors.

It undertakes a review of its structure, size and composition on an annual basis, or whenever appointments are considered. This is done to ensure that the Board has a diverse mix of competencies, knowledge and experience, thereby enriching Board discussions through diverse perspectives, and improving the quality of decision making.

The Board has a formal and transparent process in place for the nomination and appointment of new Directors. Prospective candidates are assessed based on an established set of criteria that assess each candidate's knowledge, competencies, experience, time commitment, independence, ethics and values.

Board induction and training

Board induction is essential in order to ensure that new Board members are able to assume their roles and become productive Board contributors as quickly as possible. New Board members are provided with all the information and support they need to be confident and productive in their role, including:

- introduction to their fellow Board members and other key executives
- overview of the Group's strategic plan and financial position
- review of governance arrangements
- meetings with key stakeholders where relevant

Professional development

The Board's is committed to continuous improvement, and ongoing professional development and training is made available, as necessary.

Performance assessment

The Board did not undertake an independent Board evaluation process during the reporting period. However, internal assessments were conducted based on each Directors' skills and experience against their functional areas.

Directors' duties, remuneration and performance

On joining the Board, all Directors are made aware of their legal duties and are familiarised with FMBCH's operations and business environment. In this way all Directors are enabled and equipped to immediately and to effectively contribute to strategic discussions and the oversight of Group's strategy and operations.

Conflicts of interest

- Conflicts of interest are recognised as a significant reputational and operational risk and the Board makes every effort to identify and address any such conflicts. The Company Secretary maintains a Directors' interests register and will present this to Shareholders on written request
- All potential conflicts of interest are immediately addressed when identified to ensure the good governance of all related transactions and their adherence to the Board's ethical standards

Approach to remuneration

- Remuneration philosophy and policies
- Statement of the rationale for any changes to the remuneration policy
- Affirmation that the Board or a specified committee has reviewed the adequacy of Directors' and Senior Executives' remuneration and the form of that remuneration
- Appropriate details of Directors' remuneration to include: an explanation of the proportions of fixed and variable remuneration; details of any long-term incentive plans and a description of any link between executive remuneration and organisation performance
- Assurance that the Non-Executive Directors have not received remuneration in the form of share options or bonuses associated with organisational performance

Directors' remuneration

Competent Directors are essential for the Group to achieve its strategic objectives. The Board therefore prioritises the appointment of appropriate Directors with the right skills, values and experience to make a significant contribution to the sustainable success of the organisation.

FMBCH's remuneration philosophy is to encourage optimal performance from every employee by means of attractive compensation, fair reward and appropriate incentives where justified. Board remuneration adheres to this philosophy and Executive Directors are entitled to an annual performance bonus based on the Group's financial results as well as on their individual contribution to annual performance. All management and staff are similarly eligible for the payment of an annual bonus in line with overall business and individual performance.

During the financial year ended 31 December 2019, the total remuneration provided to Directors was as follows:

	Consolidated		Separate	
	2019	2018	**2019**	2018
Executive Directors	**690 073**	1 024 517	**690 073**	1 024 517
Key Management Personnel	**1 660 907**	1 671 682	**–**	–
Non-Executive Directors and Independent Directors	**745 340**	670 970	**157 466**	65 487
Total	**3 096 320**	3 367 169	**847 539**	1 090 004

Directors' interests and dealings in securities

The Directors' interests in the Group's capital as at 31 December 2019 were as follows:

Directors	Direct shareholding	Indirect shareholding
Terence Michael Davidson	Nil	Nil
Hitesh Natwarlal Anadkat	4.3%	39.2%
Francesco Ceccato	Nil	Nil
Christo Els	Nil	Nil
Mahendra Gursahani	Nil	Nil
Vedanand Singh Mohadeb	Nil	Nil
John Michael O'Neill	Nil	0.05%
Rajkamal Tapossea	Nil	Nil
Dheeraj Dikshit	Nil	0.49%

RISK GOVERNANCE

Risk management and internal control

Risk philosophy

The FMBCH risk appetite framework is the cornerstone of the Group's risk management architecture. It helps Management to better understand and manage risks by translating risk metrics and methods into strategic decisions, reporting, and day-to-day business decisions.

The Board ensures that Management sets an appropriate balance between promoting short-term profitability and growth and delivering long-term sustainable performance.

Risk management

The Board places an emphasis on the Bank's risk management framework and internal control systems. These are regularly reviewed against the Group's strategy, changes in the operating context, and assessed against best practice trends.

The Board, supported by the Risk and Compliance committee, ensures that the structures, processes and methods for the identification, evaluation and management of the principal risks (including emerging), faced by the Bank are integrated in the overall risk governance framework. Moreover, the Board ensures that the controls put in place deliver an acceptable level of risk. The Audit Committee oversees the effectiveness of the Bank's internal control systems. Based on the work performed by internal and external auditors, reviews by Management and regular reporting from the Chairperson of the Audit Committee, the Board is confident that the internal control systems are adequate and effective.

Significant risks

The risk assessment process has identified the following as the most significant risks that the Group faces:

- Credit risk
- Market risk
  - Foreign exchange rate risk
  - Interest rate risk
  - Equity risk
- Liquidity risk
- Operational risk
- Compliance risk
- Reputational risk
- Strategic risk

More information regarding each significant risk is available elsewhere in this report.

Information governance

One of the most significant risks that the Group faces is the possibility of suffering losses or business disruptions due to technological system failure. To manage and mitigate this risk, the Group has the following in place:

- Rigorous technology policies
- A modern, secure data centre
- An IT disaster recovery site
- An off-site backup centre
- Trained personnel in hardware and software systems
- Comprehensive maintenance agreements with system providers

During the year under review, much emphasis was placed on the development and implementation of risk management measures to mitigate the risk of cyber-attacks and threats, and reinforce access control, information security and business continuity.

AUDIT

The Group's external and internal auditors have unlimited access to the Audit Committee and report to the Committee at its quarterly meeting as well as discussing any identified areas of possible audit risk exposure. Where the Committee identifies any cause for concern, or scope for improvement, it makes recommendations to the Board and recommends remedial actions.

Internal audit

Internal Audit Framework

AUDIT FRAMEWORK

1 Standardised Methodology
Standardised methodology used by the audit teams across the different markets with quality reviews conducted twice a year to monitor compliance with the methodology standards and procedures.

2 Consolidated Risk Assessment
Risk assessment is a combined exercise between Risk and Internal Audit and captured in the audit tool as the basis for audit coverage. Risk assessment is completed in country and discussed at GIA annual offsite.

3 GIA Team
GIA team works as a pool of resources to deliver the six countries audit plans, including cross border audits when necessary. In addition, Heads of Audit conduct and oversee audits on specific areas across the Group: IT, Finance, Treasury and Operations and Enabling functions.

4 Audit Tool
TeamMate adopted as the audit tool from January 2019. The tool is web based and has been configured according to the audit methodology. Tracking and follow up of audit issues is also done through the tool, which can be accessed by business users to upload evidences.

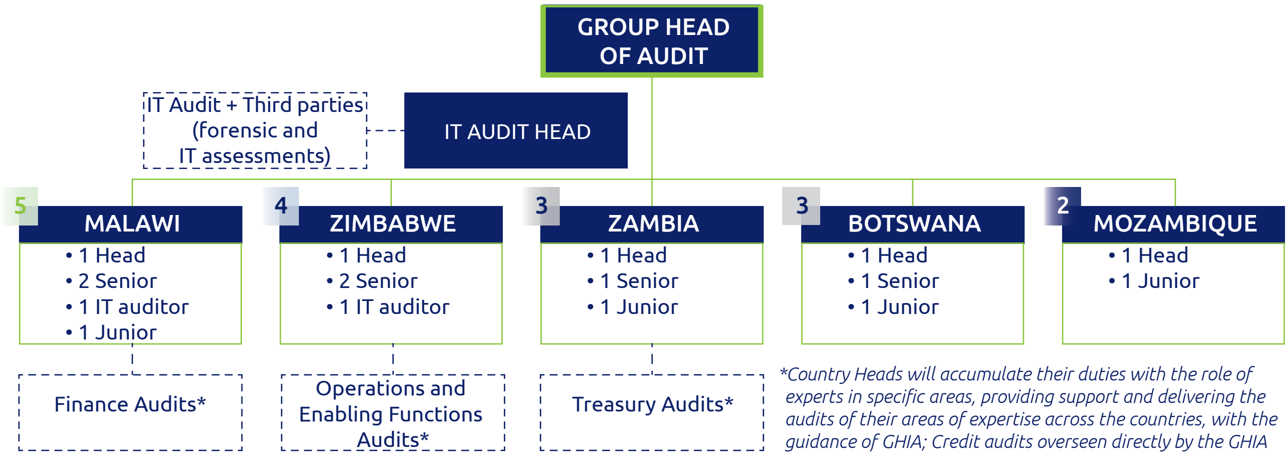
5 Thematic Audits
Thematic audits have been defined for key risk areas to be delivered across the Group, with standardised audit programs to ensure consistency in the way audits are conducted: AML/CFT, Credit, Treasury, IT, IFRS 9 and Internal Financial Controls.

The Group has an internal audit plan in place and internal controls are reviewed at regular intervals in all operating units. Internal audit, under the leadership of the Group Head of Audit, Mr. Joao Rodrigues, provides regular reports to the Audit Committee. It also presents reliable, insightful and timely assurance to the Board and Executive Management on the effectiveness of governance, risk management and controls over current and evolving risks in the context of the current and expected business environment.

The internal audit function conducts periodic audits and constitutes part of the third line of defence to support proper and compliant management of the Group.

Internal auditors inform Management and the Audit Committee of any breaches or violations and the Audit Committee ensures that there is an open line of communication between the head of internal audit, the external auditors and the Board of Directors.

Internal Audit Structure



**Country Heads will accumulate their duties with the role of experts in specific areas, providing support and delivering the audits of their areas of expertise across the countries, with the guidance of GHIA; Credit audits overseen directly by the GHIA*

External auditor

Deloitte has independently audited the 2019 Annual Financial Statements contained in this report. Its unmodified audit opinion appears on pages 82 to 85 of the AFS. The scope of the audit is limited to information on pages 82 and where Deloitte has identified key audit matters, these are addressed in its audit opinion. With a view to ensuring the overall adequacy of the Bank's internal control framework, the Audit Committee evaluates the independence and effectiveness of the external auditor on an ongoing basis before making a recommendation to the Board on its appointment and/or retention. The appointment of the external auditor is approved by Shareholders at the Annual Meeting of Shareholders.

Group policy states that auditing and consulting functions should be allocated to separate auditing firms.

Reviewing FMBCH's audit practices and use of financial consultants was a key part of the Group's restructuring. The Group selected Deloitte as its external audit partner across all six countries of operation, which is being phased in as contracts with other auditing firms complete. During 2019, the Audit Committee met regularly with the external auditor, without management present.

Statement of compliance

We, the Directors of FMBcapital Holdings plc, confirm that, to the best of our knowledge, the Group has complied with all its obligations and requirements under the National Code of Corporate Governance (2016).

D. Dikshit
Group Managing Director
8 June 2020

J.M. O'Neill
Director

Statement of Directors' responsibilities

The Directors are responsible for the preparation and fair presentation of the consolidated and separate annual financial statements of FMBcapital Holdings Plc, comprising the consolidated and separate statements of financial position as at 31 December 2019 and the statements of profit or loss and other comprehensive income, statements of changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards. The consolidated and separate financial statements also comply in the manner required by Mauritius Companies Act, 2001 in so far as applicable to companies holding a Category 1 Global Business Licence. In addition, the Directors are responsible for preparing the Directors' Report.

The Mauritius Companies Act, 2001 requires the Directors to ensure that the Group and Company maintain proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and Company and ensure the financial statements comply with the Companies Act.

In preparing the consolidated and separate financial statements, the Directors accept responsibility for the following:

- Maintenance of proper accounting records.
- Selection of suitable accounting policies and applying them consistently.
- Making judgements and estimates that are reasonable and prudent.
- Compliance with applicable accounting standards, when preparing financial statements, subject to any material departures being disclosed and explained in the financial statements; and
- Preparation of financial statements on a going concern basis unless it is inappropriate to presume the company will continue in business.

The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The Directors have made an assessment of the Company and its subsidiaries respective abilities to continue as going concerns and have no reason to believe that these businesses will not be going concerns in the year ahead.

The external auditor is responsible for reporting on whether the consolidated and separate financial statements are fairly presented in accordance with International Financial Reporting Standards and in a manner required by the Companies Act.

Directors' remuneration and interest

Remuneration and benefits paid by the Company have been disclosed under Note 49.

Auditor

The Constitution of the Company provides for the appointment of auditors to fulfil the role of statutory auditor to audit the financial statements of the Company. The fee payable to the auditor is US$75 000 excluding VAT and disbursements.

Approval of financial statements

The consolidated and separate financial statements of FMBcapital Holdings Plc as identified in the first paragraph, were approved by the Board of Directors on 8 June 2020 and are signed on its behalf by:

D. Dikshit
Director

M. Gursahani
Director

8 June 2020

By order of the Board

Certificate from the Secretary

We certify to the best of our knowledge and belief that we have filed with the Registrar all such returns as are required of FMBcapital Holdings Plc, under the Mauritius Companies Act 2001 during the financial year ended 31 December 2019.

Manogaran Thamothiram

for JTC Fiduciary Services (Mauritius) Limited
Corporate Secretary

Registered Office:

C/o JTC Fiduciary Services (Mauritius) Limited
Suite 2004, Level 2
Alexander House
35 Cybercity
Ebène
Mauritius

8 June 2020

Deloitte.

7th–8th floor, Standard and Chartered Tower
19–21 Bank Street
Cybercity
Ebène 72201
Mauritius

Independent auditor's report to the shareholders of FMBcapital Holdings Plc

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of FMBcapital Holdings Plc (the "Company") and its subsidiaries (the "Group") set out on pages 88 to 174, which comprise the consolidated and separate statement of financial position as at 31 December 2019, and the consolidated and separate statement of profit or loss and other comprehensive income, consolidated and separate statement of changes in equity and consolidated and separate statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the financial position of the Group and Company as at 31 December 2019, and of their consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and comply with the requirements of the Mauritius Companies Act 2001 in so far as applicable to Category 1 Global Business Licence companies.

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 Audit of the Consolidated and Separate Financial Statements section of our report. 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 we have fulfilled our ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

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.

Impairment of loans and advances	How the matter was addressed
Directors and Management apply significant judgement in determining the Expected Credit Losses (ECL). ECL relating to loans to customers represent Management's best estimate of the expected losses within loan portfolios at reporting date. Directors and Management apply significant judgement in the following: • Evaluation of significant increase in credit risk (SICR). • Determination of macroeconomic inputs into the SICR assessment and expected credit loss measurement. • Evaluation of the expected credit losses raised for stage 3 exposures. • The estimation of the probability of default, exposure at default and the loss given default. Due to the significance of the loans to customers and the significant estimates and judgement involved in determining the expected credit losses, this is considered to be a key audit matter.	Our procedures included the following amongst others: • We evaluated the design and implementation, of key controls over the loan impairment process, focusing on the identification of the ECL, the governance processes implemented for credit models and inputs into the ECL models and how the Directors ensure they have appropriate oversight of the ECL. • We evaluated the design and implementation and tested the operating effectiveness of controls relating to the loan origination process and credit reviews. • We evaluated the ECL models and key assumptions applied in the calculation of the ECL. This includes use of Deloitte internal credit risk specialists to evaluate the assumptions and accuracy of the calculations in the models. • We assessed and challenged Directors and Management on the data inputs and key assumptions into the ECL models, which includes the evaluation of SICR, estimated macroeconomic inputs, stage classification of exposures and the estimated probability of default, exposure at default and loss given default. • We assessed the reasonableness of the calculated ECL by comparing it against ECL ratios for other local banking entities. • We evaluated the adequacy of the financial statement disclosures including key assumptions, judgements and sensitivities. In conclusion, we evaluated that the impairment of loans and advances to customers is not materially misstated and related disclosures are appropriate.

Existence and valuation of the financial asset resulting from the foreign liability funding gap	How the matter was addressed
As disclosed in Note 22 of the financial statements, the Group has recognised a receivable of US$12.4million towards foreign currency commitment by the Reserve Bank of Zimbabwe (RBZ) for funding the net foreign liability funding gap which arose after separation of RTGS and foreign currency balances by RBZ effective 1 October 2018. The fair value of the receivable on initial recognition was determined as the present value of expected future cash flows discounted at a rate. Subsequently the receivable was recognised at amortised cost with an expected credit loss being recognised at year end. Given the materiality of the balance and the judgment applied in determining the timing of the cash flows and the discount rate applied in determining the fair value, we have determined this to be a key audit matter. The valuation assumptions are disclosed in Note 22 of the financial statements.	Our procedures included the following amongst others: • We reviewed the foreign liability gap funding confirmations from the RBZ. To test the fair valuation of the receivable on initial recognition, we performed the following procedures: • We tested the mathematical accuracy of the valuation models by performing recalculations; • We assessed the cash flow forecasts used in the valuation for reasonableness. This included assessing cash flows against historical performance and assessing growth rate effected in the forecast cashflows; • Comparing the inputs to the discount rate to independently obtained data; and • With the assistance of our internal valuation specialists, we assessed the reasonableness and appropriateness of the key inputs.

Independent auditor's report to the shareholders of FMBcapital Holdings Plc *(continued)*

Report on other legal and regulatory requirements

Mauritius Companies Act 2001

In accordance with the requirements of the Mauritius Companies Act 2001, we report as follows:

- we have no relationship with, or interest in, the Company and its subsidiaries other than in our capacity as auditor;
- we have obtained all information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by the Company as far as appears from our examination of those records.

Other information

The directors are responsible for the other information. The other information comprises the Corporate Information, Report of the Directors, and Certificate from the Secretary, but 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 any form of assurance or conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, 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 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 in compliance with the requirements of the Mauritius Companies Act 2001 and they are also responsible for such internal control as the directors determine is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and 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.

The directors are responsible for overseeing the Group's and the Company's financial reporting process.

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.

Deloitte.

Independent auditor's report to the shareholders of FMBcapital Holdings Plc *(continued)*

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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 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 the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, 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 those matters in our auditor's report unless laws 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.

This report is made solely to the Company's shareholders, as a body, in accordance with section 205 of the Mauritius Companies Act 2001. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte.

Deloitte
Chartered Accountants

8 June 2020

Agrawal.

Vishal Agrawal, FCA
Licensed by FRC

ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2019

CONTENTS

		Consolidated		Separate	
US$	**Notes**	**2019**	**2018**	**2019**	**2018**
ASSETS					
Cash and cash equivalents	8	**247 157 290**	242 823 101	**1 222 774**	6 773 806
Money market investments	9	**208 260 305**	226 424 936	**–**	626 739
Loans and advances to customers	10	**394 978 354**	359 147 633	**–**	–
Finance lease receivables	11	**2 448 642**	2 228 832	**–**	–
Repurchase agreements	12	**67 071 019**	29 969 134	**–**	–
Deferred tax asset	27	**1 185 179**	499 256	**–**	–
Current tax asset	13(c)	**2 692 689**	3 698 352	**–**	–
Investments at fair value through profit or loss	14	**6 295 311**	7 665 487	**–**	–
Investment in subsidiary companies	15	**–**	–	**134 904 875**	125 941 039
Investment in joint venture	17	**14 456 648**	–	**–**	–
Investment property	16	**5 441 927**	6 545 861	**–**	–
Intangible assets	18	**11 954 100**	6 917 153	**1 776 281**	–
Property and equipment	19	**50 343 097**	54 948 935	**810 683**	190 498
Right of use assets	20	**8 912 787**	–	**241 469**	–
Assets held for sale	21	**3 903 980**	17 531 259	**–**	–
Financial assets at fair value through other comprehensive income	44	**1 664 939**	1 793 644	**–**	–
Other assets	22	**25 485 850**	10 825 578	**7 774 181**	3 821 005
Total assets		**1 052 252 117**	971 019 161	**146 730 263**	137 353 087
LIABILITIES AND EQUITY					
Liabilities					
Balances due to other banks	23	**143 932 626**	47 735 602	**–**	–
Customer deposits	24	**681 390 892**	720 825 817	**–**	–
Other payables	25	**30 250 550**	27 825 897	**4 421 265**	1 020 078
Lease liabilities	20	**6 920 823**	–	**129 835**	–
Subordinated debt	26	**26 599 027**	16 859 518	**–**	–
Deferred Tax Liabilities	27	**6 144 054**	3 243 342	**–**	–
Income tax payable	13(c)	**14 058**	1 306 308	**–**	–
Provisions	41	**2 253 721**	1 698 590	**–**	–
Loans payable	42	**15 950 009**	6 500 000	**15 950 009**	6 500 000
Redeemable preference shares	43	**10 786 747**	10 786 747	**10 786 747**	10 786 747
Total liabilities		**924 242 507**	836 781 821	**31 287 856**	18 306 825
Equity					
Share capital	28	**117 409 081**	117 409 081	**117 409 081**	117 409 081
Restructuring reserve	29	**(54 510 623)**	(54 510 623)	**–**	–
Property revaluation reserve	30	**4 245 921**	3 005 294	**–**	–
Loan loss reserve	31	**4 058 845**	2 903 507	**–**	–
Investment revaluation reserve	32	**574 931**	878 738	**–**	–
Translation reserve	33	**(22 107 529)**	(23 817 452)	**–**	–
Retained earnings		**28 545 590**	33 656 133	**(1 966 674)**	1 637 181
Total equity attributable to equity holders of the company		**78 216 216**	79 524 678	**115 442 407**	119 046 262
Non-controlling Interest	34(b)	**49 793 394**	54 712 662	**–**	–
Total equity		**128 009 610**	134 237 340	**115 442 407**	119 046 262
Total equity and liabilities		**1 052 252 117**	971 019 161	**146 730 263**	137 353 087

The consolidated and separate financial statements were approved for issue by the Company's Board of Directors on 8 June 2020 and were signed on its behalf by:

D. Dikshit
Director

M. Gursahani
Director

US$	Notes	Consolidated 2019	Consolidated 2018	Separate 2019	Separate 2018
Interest income	35	78 913 127	95 069 602	(97 174)	602 274
Interest expense on deposits and other accounts		(23 169 176)	(22 246 619)	(1 466 154)	(1 206 915)
Net interest income/(expense)		55 743 951	72 822 983	(1 563 328)	(604 641)
Fees and commissions		29 350 083	41 333 681	–	(70 200)
Income from investments (including investment properties)	36	(1 628 114)	2 413 333	186 706	6 200 152
Gain/(Loss) on foreign exchange transactions		18 322 488	21 077 712	(451 023)	(292 613)
Other operating income		3 329 072	751 070	3 574 246	3 369 005
Total non-interest income		49 373 529	65 575 796	3 309 929	9 206 344
Total operating income		105 117 480	138 398 779	1 746 601	8 601 703
Staff and training costs	38	35 100 313	48 922 039	2 931 448	2 657 388
Premises and equipment costs		12 568 982	14 131 332	992 887	31 204
Depreciation and amortisation	18, 19	9 487 523	6 602 258	308 744	17 076
Other expenses	39	28 122 490	26 960 645	1 104 075	1 908 898
Impairment loss on financial assets	40	9 547 419	4 166 418	–	–
Total expenses		94 826 727	100 782 692	5 337 154	4 614 566
Operating profit/(loss)		10 290 753	37 616 087	(3 590 553)	3 987 137
Net monetary loss	2 (iii)	(6 056 792)	–	–	–
Impairment loss on owner occupied property	19	(7 823 115)	–	–	–
Impairment loss on investment in joint venture	17	(5 978 437)	–	–	–
Impairment loss on investment property	16	(1 752 143)	–	–	–
Effects of hyperinflation – Zimbabwe		(21 610 487)	–	–	–
Share of profit in joint venture	17	555 811			
Gain on a bargain purchase	37	95 642	–	–	–
Profit/(Loss) before income tax expense		(10 668 281)	37 616 087	(3 590 553)	3 987 137
Income tax expense	13(a)	(7 941 027)	(6 998 336)	(13 302)	(612 217)
Profit/(Loss) for the year		(18 609 308)	30 617 751	(3 603 855)	3 374 920
Other comprehensive income					
Items that will not be classified to profit or loss					
Revaluation surplus on property		–	4 173 295	–	–
Deferred tax on revalued property		1 240 627	(1 033 972)	–	–
Fair value gain/(loss) on investment net of deferred tax		(760 606)	2 723 663	–	–
		480 021	5 862 986	–	–
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translating foreign operations incorporating effect of hyperinflation	2 (iii)	5 978 524	(55 128 886)	–	–
Total other comprehensive income/(loss) for the year		6 458 545	(49 265 900)	–	–
Total comprehensive income/(loss) for the year		(12 150 763)	(18 648 149)	(3 603 855)	3 374 920
Profit or loss attributable to:					
Owners of the parent		(4 974 291)	16 601 206	(3 603 855)	3 374 920
Non-controlling interest	34(b)	(13 635 017)	14 016 545	–	–
Profit/(Loss) for the year		(18 609 308)	30 617 751	(3 603 855)	3 374 920
Total comprehensive income/(loss) attributable to:					
Owners of the parent		(2 348 367)	(3 394 328)	(3 603 855)	3 374 920
Non-controlling interest		(9 802 396)	(15 253 821)	–	–
Total comprehensive income/(loss) for the year		(12 150 763)	(18 648 149)	(3 603 855)	3 374 920
Basic earnings per share (US cents)	45	(0.20)	0.71	(0.15)	0.14

US$	31-Dec-19		31-Dec-19
Operating profit/(loss) attributable to:		**Effects of Zimbabwe's inflation attributable to:**	
Owners of the parent	9 799 386	Owners of the parent	(9 223 356)
Non-controlling interest	491 367	Non-controlling interest	(12 387 131)
Operating profit/(loss) for the year	10 290 753	**Total impact**	(21 610 487)

See note 3 for segment reporting analysis.

Consolidated

2019 US$	Share capital	Restructuring reserve	Property revaluation reserve
Opening Balance 1 January 2019	**117 409 081**	**(54 510 623)**	**3 005 294**
Profit/(Loss) for the year	–	–	–
Other comprehensive income			
Deferred tax on revalued assets	–	–	1 240 627
Fair value gain on investment	–	–	–
Arising on consolidation of foreign subsidiary incorporating effects of hyperinflation	–	–	–
Total other comprehensive income	–	–	**1 240 627**
Total comprehensive income for the year	–	–	**1 240 627**
Transfers within reserves			
Transfer to non-distributable reserve	–	–	–
Transfer to loan loss reserve	–	–	–
	–	–	–
Other movements			
Transfer to collective impairment allowance	–	–	–
Recognition of share-based payments	–	–	–
Impairment of FVOCI financial assets (debt)	–	–	–
	–	–	–
Transactions with owners, recorded directly in equity			
Contribution by and distribution to owners	–	–	–
Transactions with NCI	–	–	–
Total transactions with owners	–	–	–
Balance as at 31 December 2019	**117 409 081**	**(54 510 623)**	**4 245 921**

Consolidated

Loan loss reserve	Investment revaluation reserve	Translation reserve	Retained earnings	Equity attributable to owners	Non-controlling interest	Total equity
2 903 507	**878 738**	**(23 817 452)**	**33 656 133**	**79 524 678**	**54 712 662**	**134 237 340**
–	–	–	(4 974 291)	(4 974 291)	(13 635 017)	(18 609 308)
–	–	–	–	1 240 627	–	1 240 627
–	(324 627)	–	–	(324 627)	(435 979)	(760 606)
–	–	1 709 923	–	1 709 923	4 268 601	5 978 524
–	**(324 627)**	**1 709 923**	**–**	**2 625 923**	**3 832 622**	**6 458 545**
–	**(324 627)**	**1 709 923**	**(4 974 291)**	**(2 348 368)**	**(9 802 395)**	**(12 150 763)**
–	19 014	–	(19 014)	–	–	–
1 231 959	–	–	(1 231 959)	–	–	–
1 231 959	19 014	–	(1 250 973)	–	–	–
(76 621)	–	–	–	(76 621)	(102 902)	(179 523)
–	1 806	–	–	1 806	2 425	4 231
–	–	–	1 114 721	1 114 721	236 758	1 351 479
(76 621)	1 806	–	1 114 721	1 039 906	136 281	1 176 187
–	–	–	–	–	–	–
–	–	–	–	–	4 746 846	4 746 846
–	–	–	–	–	4 746 846	4 746 846
4 058 845	**574 931**	**(22 107 529)**	**28 545 590**	**78 216 216**	**49 793 394**	**128 009 610**

Consolidated (continued)

2018 US$	Share capital	Restructuring reserve	Property revaluation reserve
Balance as at 1 January 2018	105 707 965	(54 510 623)	15 348
Initial application of IFRS 9 (net of deferred tax)	–	–	–
Restated balance as at 1 January 2018	105 707 965	(54 510 623)	15 348
Profit/(loss) for the year	–	–	–
Other comprehensive income			
Property revaluation	–	–	4 021 761
Deferred tax on revalued assets	–	–	(1 031 815)
Fair value gain on investment	–	–	–
Arising on consolidation of subsidiary	–	–	–
Total other comprehensive income	–	–	2 989 946
Total comprehensive income for the year	–	–	2 989 946
Transfers within reserves			
Transfer to loan loss reserve	–	–	–
Other movements			
Gain on disposal of FVOCI equity instrument	–	–	–
Shares issued to non controlling interest through exercise of share options	–	–	–
Recognition of share-based payments	–	–	–
Impairment of FVOCI financial assets(debt)	–	–	–
	–	–	–
Transactions with owners, recorded directly in equity			
Contribution by and distribution to owners			
Issue of ordinary shares during the year	11 701 116	–	–
Total transactions with owners	11 701 116	–	–
Balance as at 31 December 2018	117 409 081	(54 510 623)	3 005 294

Consolidated (continued)

Loan loss reserve	Investment revaluation reserve	Translation reserve	Retained earnings	Equity attributable to owners	Non–controlling interest	Total equity
1 869 083		17 020	19 614 393	72 713 186	70 498 102	143 211 288
–	–	–	(1 785 603)	(1 785 603)	(959 851)	(2 745 454)
1 869 083	–	17 020	17 828 790	70 927 583	69 538 251	140 465 834
–	–	–	16 601 205	16 601 205	14 016 546	30 617 751
–	–	–	–	4 021 761	151 534	4 173 295
–	–	–	–	(1 031 815)	(2 157)	(1 033 972)
–	848 993	–	–	848 993	1 874 670	2 723 663
–	–	(23 834 472)	–	(23 834 472)	(31 294 414)	(55 128 886)
–	848 993	(23 834 472)	–	(19 995 533)	(29 270 367)	(49 265 900)
–	848 993	(23 834 472)	16 601 205	(3 394 328)	(15 253 821)	(18 648 149)
773 862	–	–	(773 862)	–	–	–
773 862			(773 862)	–		–
				–		–
–	3 192	–	–	3 192	4 292	7 484
–	–	–	–	–	42 493	42 493
–	26 553	–	–	26 553	31 261	57 814
260 562	–	–	–	260 562	350 186	610 748
260 562	29 745	–	–	290 307	428 232	718 539
–	–	–	–	11 701 116	–	11 701 116
–	–	–	–	11 701 116	–	11 701 116
2 903 507	878 738	(23 817 452)	33 656 133	79 524 678	54 712 662	134 237 340

2019 US$	Separate Share capital	 Retained earnings	 Total equity
Balance as at 1 January 2019	**117 409 081**	**1 637 181**	**119 046 262**
Loss for the year	–	(3 603 855)	(3 603 855)
Total other comprehensive profit/(loss)	–	(3 603 855)	(3 603 855)
Transactions with owners, recorded directly in equity			
Contribution by and distribution to owners			
Issue of ordinary shares during the year	–	–	–
Balance as at 31 December 2019	**117 409 081**	**(1 966 674)**	**115 442 407**
Balance as at 1 January 2018	105 707 965	(1 737 739)	103 970 226
Profit for the year	–	3 374 920	3 374 920
Total other comprehensive income	–	3 374 920	3 374 920
Transactions with owners, recorded directly in equity			
Contribution by and distribution to owners			
Issue of ordinary shares during the year	11 701 116	–	11 701 116
Balance as at 31 December 2018	**117 409 081**	**1 637 181**	**119 046 262**

		Consolidated		Separate	
US$	Notes	2019	2018	2019	2018
Cash flows from operating activities					
Interest and fees received		**111 470 717**	159 054 073	**1 189 138**	3 608 466
Interest paid		**(22 499 054)**	(22 246 619)	**(856 436)**	(1 206 915)
Cash paid to suppliers and employees		**(87 389 473)**	(100 653 291)	**(1 716 233)**	(5 493 719)
		1 582 190	36 154 163	**(1 383 531)**	(3 092 168)
Decrease in net customer balances		**(67 685 230)**	(169 969 730)	**–**	(3 820 127)
Cash used from operations		**(66 103 040)**	(133 815 567)	**(1 383 531)**	(6 912 295)
Dividend received		**471 332**	1 009 699	**92 075**	6 200 152
Income taxes paid	13(c)	**(7 978 274)**	(7 847 231)	**(13 302)**	(612 217)
Cash used in operating activities		**(73 609 982)**	(140 653 099)	**(1 304 758)**	(1 324 360)
Cash flows from investing activities					
(Purchases)/Maturities of money market investments	9	**17 147 824**	(65 094 765)	**598 693**	(626 739)
(Purchases)/Maturities of currency swaps (net)	12	**(37 905 394)**	4 820 256	**–**	–
Sale of investments at fair value through profit or loss	14	**495 864**	–	**–**	–
Purchases of investment securities	44	**(58 910)**	–	**–**	–
Payment for acquisition of business, net of cash acquired	37(b)	**(631 820)**	–	**–**	–
Subscription of shares in subsidiary company		**–**	–	**(8 963 836)**	(2 812 894)
Proceeds from sale of equipment		**121 565**	108 866	**–**	–
Acquisition of property and equipment and intangibles	18, 19	**(11 527 413)**	(11 650 094)	**(2 652 897)**	(207 574)
Cash outflows applied to investing activities		**(32 358 284)**	(71 815 737)	**(11 018 040)**	(3 647 207)
Cash flows from financing activities					
Capital subscription by non controlling interests		**4 746 846**	–	**–**	–
Proceeds from issue of shares		**–**	11 701 116	**–**	11 701 116
Loan to subsidiary company		**–**	–	**(2 678 243)**	–
Proceeds/(Repayment) of long term borrowings		**115 386 542**	(447 739)	**9 450 009**	–
Cash flows from financing activities		**120 133 388**	11 253 377	**6 771 766**	11 701 116
Net (Decrease)/increase in cash and cash equivalents		**14 165 122**	(201 215 459)	**(5 551 032)**	6 729 549
Cash and cash equivalents at 1 January		**242 832 503**	499 167 446	**6 773 806**	44 257
Effect of changes in exchange rate and hyperinflation		**(9 793 853)**	(55 119 484)	**–**	–
Cash and cash equivalents at 31 December*	8	**247 203 772**	242 832 503	**1 222 774**	6 773 806

* *Cash and cash equivalents at 31 December are gross amounts excluding expected credit losses of US$ 46 482 and US$ 9 402 for 2019 and 2018 respectively.*

1 REPORTING ENTITY

FMBcapital Holdings Plc (the Company or FMBCH) was incorporated in the Republic of Mauritius under the name of FMB Capital Holdings Ltd as a public company limited by shares under the Mauritius Companies Act 2001 and holds a Category 1 Global Business Licence issued by the Financial Services Commission under the Financial Services Act. The principal activity of the Company is to hold investments. The Company is listed on the Malawi Stock Exchange and has a branch office registered as a foreign company in Malawi.

These consolidated and separate financial statements comprise the Company and its subsidiaries (collectively the Group). The Group is primarily involved in corporate, investment and retail banking.

2 BASIS OF PREPARATION

(i) Statement of compliance

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). The consolidated and separate financial statements also comply in the manner required by Mauritius Companies Act, 2001 in so far as applicable to a company holding a Category 1 Global Business Licence.

(ii) Basis of measurement

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

- properties which are revalued to fair value; and
- financial instruments at fair value through profit or loss; and
- subsidiary reporting in the currency of a hyperinflationary economy.

(iii) IAS 29 – Financial reporting in hyperinflationary economies

During the second half of the year, the Group classified Zimbabwe as a hyperinflationary economy. The assessment as to when an economy is hyperinflationary is based on the guidelines of IAS 29: Financial Reporting in Hyperinflationary Economies (IAS 29), which considers qualitative as well as quantitative factors, including whether the accumulated inflation over a three-year period is in excess of 100%. The Group's conclusion is based on Zimbabwe's inflation rate increasing significantly throughout the assessment period as noted below.

This conclusion was confirmed by the Public Accountants and Auditors Board of Zimbabwe, which classified the Zimbabwean economy as hyperinflationary as of 1 July 2019. Consequently, the results of the Group's activities in FCB Zimbabwe have been prepared in accordance with IAS 29 (this is prior to the translation of those results to the Group's presentation currency). The Group has applied IAS 29 from 1 October 2018 as this is the date on which the Reserve Bank of Zimbabwe directed banks in Zimbabwe to create NOSTRO accounts for foreign currency transactions, which are maintained separately from RTGS bank accounts. It is also the date when the Group assessed the change in functional currency for FCB Zimbabwe to be the Zimbabwe dollar.

Inflation-adjusted financial information from FCB Zimbabwe is the primary data source for the Group's financial reporting and the consolidated financial statements have been prepared on this basis.

General price index

IAS 29 requires transactions and balances to be stated in terms of the measuring unit current at the end of the reporting period, using a general price index to account for the effect of loss of purchasing power during the period. The Group has elected to use the Zimbabwe CPI, as the general price index as the most appropriate observable indicator of changes in the purchasing power of the country.

The Group applied a general price escalation factor of 6.212 based on the CPI index for December 2019 of 551.6 and the CPI index for December 2018 of 88.8. The index factor for the period 1 October 2018 to 31 December 2019 is 7.394 based on October 2018 CPI index of 74.6.

2 BASIS OF PREPARATION *(CONTINUED)*

(iii) IAS 29 – Financial reporting in hyperinflationary economies *(continued)*

Impact on the statement of financial position

The Group has not restated the comparative amounts in the consolidated financial statements as the presentation currency of the Group is that of a non-hyperinflationary economy. The impact on the financial statements can be summarized as follows:

1) As this is the first period that IAS29 applies to, net equity has been indexed using the CPI index, for the period 1 October 2018 to the reporting date (31 December 2019). The carrying amount of non-monetary assets and liabilities carried at historic value have also been indexed to reflect their value at the reporting date. The consequent gain or loss from these adjustments can be applied as an adjustment to opening equity or applied through other comprehensive income (foreign translation reserve).
2) The year end historical balance sheet as at 31 December 2019, is also indexed to reflect the value in current measurement units as at the reporting date. The monetary assets and liabilities are not restated as they are already expressed in terms of their current value. Non-monetary assets and liabilities that are carried at historical costs are restated together with components of shareholders equity. The consequent gain or loss resulting from differences between the indexed values of non-monetary balance sheet items, on the other hand, and shareholders' equity, on the other, is reflected in the current year Statement of Profit or Loss as a monetary gain or loss, to ensure the accounting identity between net assets and shareholders' equity.
3) Where non-monetary assets are restated above their net realizable value, the consequent impairment loss is recognized directly in the Statement of Profit or Loss.
4) All items in the Statement of Profit or Loss are restated by applying the relevant monthly conversion factors and are reflected in the current year Statement of Profit or Loss at closing exchange rates.

Exchange rate used at 31 December 2019

The financial statements of FCB Zimbabwe which is accounted for as an entity operating in a hyperinflationary economy and has a functional currency different from the presentation currency of the Group, have been translated into the presentation currency of the Group, at the spot rate of exchange prevailing at the reporting date.

For the 31 December 2018 reporting period, the Group estimated the RTGS dollar to USD exchange rate using a combination of the Old Mutual share price, purchasing power parity and the implied market rate, giving a year end estimated rate of 1:3.62. On 22 February 2019 the Reserve Bank of Zimbabwe announced the Zimbabwe dollar as the official currency in Zimbabwe.

For the 31 December 2019 reporting period, the Group has elected to translate the FCB Zimbabwe results at the interbank exchange rate of 16.7734 as this rate is publicly available.

Impact of hyperinflation on the Group's results

The most material inflation-accounting adjustments that impact the Group results are:

1) Opening Equity

- Opening Equity – US$ 9.3m

On the initial application of IAS 29 an indexation to all items in the opening Statement of Financial Position is recognised directly in equity (foreign currency translation reserve). This is achieved by applying the general CPI escalation factor calculated from 1 October 2018 to 31 December 2019. This results in the starting point of all prior-year balances being reflected as if they had preserved purchasing power.

Any subsequent loss in purchasing power on the opening net monetary items is reflected in the Statement of Profit or Loss as part of the net monetary loss.

2 BASIS OF PREPARATION *(CONTINUED)*

(iii) IAS 29 – Financial reporting in hyperinflationary economies *(continued)*

2) Statement of Financial Position

- Net non-monetary assets – US$ 5.9m

  Non-monetary assets including Property, equipment and intangible assets were restated by applying the change in general price indices from acquisition date to 31 December 2019. Depreciation and amortisation relating to the property, equipment and intangible assets are based on the restated carrying amounts after adjusting for the effects of hyperinflation. The increase reflects purchasing power preservation of non-monetary items during hyperinflationary periods.

3) Statement of Profit or Loss and Other Comprehensive Income

- Net monetary loss – US$ (6.1)m

  The impact of applying IAS 29 in the current year resulted in a net monetary loss in the Statement of Profit or Loss of US$ 6.1m arising from the restatement of the current year balance sheet through indexing the equity and non-monetary balance sheet values to current monetary value.

- Impairment loss on investment in joint venture US$ (6.0)m

  As noted above, under IAS 29, we are required to index the carrying value of the Group's share in the joint venture as at 31 December 2018 to bring the valuation to the current measurement unit at the reporting date (31 December 2019), with the resultant gain being accounted as an adjustment to the opening equity balance through other comprehensive income. However, the underlying dollar value of the asset has not changed materially, and as such the carrying value at the reporting date at 31 December 2019 needs to be impaired to fair value, with the impairment charge accounted for through the current year Statement of Profit or Loss.

  The impact of the above (see note 17), is that a gain of US$ 6.0m is taken through opening equity through the translation reserve, and a loss of US$ (6.0)m through the Statement of Profit or Loss, the net impact being zero to the 31 December 2019 closing equity balance.

- Impairment loss on investment property US$ (1.8)m

  The impairment of the investment properties is similar to the adjustment on the joint venture above, where having indexed the carrying value and taken a gain through opening equity through the translation reserve, the underlying dollar value has not changed materially. Consequently, per note 16, the impact is that a gain of US$ 1.8m is taken through opening equity through the translation reserve, and a loss of US$ (1.8)m through the Statement of Profit or Loss, the net impact being zero to the 31 December 2019 closing equity balance.

- Impairment loss on owner occupied property US$ (7.8)m

  The impairment of the owner occupied property is similar to the adjustment on the joint venture above, where having indexed the carrying value and taken a gain through opening equity through the translation reserve, however, the underlying dollar value has not changed materially. Consequently, per note 19, the impact is that a gain of US$ 7.8m is taken through opening equity through the translation reserve, and a loss of US$ (7.8)m through the Statement of Profit or Loss, the net impact being zero to the 31 December 2019 closing equity balance. Included in deferred tax is a US$ 1.9m adjustment related to the loss, meaning a net US$ (5.9)m impact to the Statement of Profit or Loss.

3 SEGMENT REPORTING

The Group is required to determine and present its operating segments based on the way in which financial information is organised and reported to the chief operating decision-maker (CODM). The CODM has been identified as the Group Managing Director as he makes the key operating decisions of the Group and is responsible for allocating resources and assessing performance.

Key internal reports received by the CODM, primarily the management accounts, focus on the performance of the Group as a whole. The operations of all elements of the business are driven by the corporate and retail banking environment and hence have fundamentally the same economic characteristics. All operational decisions made are focused on the performance and growth of the corporate and retail banking and the ability of the business to meet customers' needs.

3 SEGMENT REPORTING *(CONTINUED)*

Information about the geographical reportable segment and the reconciliation of the reportable segment information to Group total is shown below:

2019 US$	Holding Company Mauritius	Zambia	Malawi	Mozambique	Botswana	Zimbabwe	Adjustment	Total
Interest income	(97 175)	10 704 127	30 936 275	6 837 382	21 482 949	10 419 670	(1 370 100)	78 913 127
Interest expense	(1 496 231)	(3 712 321)	(7 763 961)	(2 360 923)	(8 787 178)	(652 028)	1 603 466	(23 169 176)
Net interest income	**(1 593 406)**	**6 991 806**	**23 172 314**	**4 476 459**	**12 695 771**	**9 767 642**	**233 365**	**55 743 951**
Fees and commissions	–	1 624 412	10 835 653	1 589 270	1 500 663	13 800 085	–	29 350 083
Income from investments	186 706	–	(757 097)	–	–	(880 358)	(177 365)	(1 628 114)
Gain on foreign exchange transactions	(578 775)	1 571 229	4 159 535	2 498 781	3 241 437	7 430 281	–	18 322 488
Other operating income	5 807 012	523 651	–	220 476	1 520 951	143 599	(4 886 617)	3 329 072
Total operating income	**3 821 537**	**10 711 098**	**37 410 405**	**8 784 986**	**18 958 822**	**30 261 249**	**(4 830 617)**	**105 117 480**
Staff and training costs	4 158 956	3 798 453	9 196 184	3 358 901	5 446 051	9 141 768	–	35 100 313
Premises and equipment	1 256 976	–	3 073 235	–	397 381	7 841 390	–	12 568 982
Depreciation expense	613 585	1 105 254	3 200 739	408 739	1 122 397	3 036 809	–	9 487 523
Other expenses	1 227 852	3 860 624	7 616 450	2 921 708	4 649 294	12 677 179	(4 830 617)	28 122 490
Impairment loss on financial assets	–	743 662	2 090 225	676 985	1 436 049	4 600 498	–	9 547 419
Total expenses	**7 257 369**	**9 507 993**	**25 176 833**	**7 366 333**	**13 051 172**	**37 297 644**	**(4 830 617)**	**94 826 727**
Operating profit or loss	**(3 435 832)**	**1 203 105**	**12 233 572**	**1 418 653**	**5 907 650**	**(7 036 395)**	**–**	**10 290 753**
Net monetary loss	–	–	–	–	–	(13 996 206)	7 939 414	(6 056 792)
Impairment of owner occupied property	–	–	–	–	–	(7 823 115)	–	(7 823 115)
Impairment loss on joint venture	–	–	–	–	–	(5 978 437)	–	(5 978 437)
Impairment loss on investment property	–	–	–	–	–	(1 752 143)	–	(1 752 143)
Effects of hyperinflation	**–**	**–**	**–**	**–**	**–**	**(21 610 487)**	**–**	**(21 610 487)**
Share of profit in joint venture	–	–	–	–	–	555 811	–	555 811
Gain on bargain purchase	–	–	–	–	95 642	–	–	95 642
Profit/(loss) before income tax	(3 435 832)	1 203 105	12 233 572	1 418 653	6 003 292	(28 091 071)	–	(10 668 281)
Income tax expense	(13 302)	(572 743)	(4 069 426)	(324 475)	(1 526 522)	(1 434 559)	–	(7 941 027)
Profit for the year	**(3 449 134)**	**630 362**	**8 164 146**	**1 094 178**	**4 476 770**	**(29 525 630)**	**–**	**(18 609 308)**
Segment assets	150 457 787	108 416 695	399 012 376	86 215 187	344 577 969	182 456 075	(218 883 964)	1 052 252 117
Segment liabilities	35 125 806	96 708 078	353 667 890	65 226 242	316 791 842	143 091 928	(86 369 276)	924 242 507

3 SEGMENT REPORTING *(CONTINUED)*

2018 US$	**Holding Company Mauritius**	**Zambia**	**Malawi**	**Mozambique**	**Botswana**	**Zimbabwe**	**Adjustment**	**Total**
Interest income	601 405	9 604 188	30 780 185	6 020 575	15 216 429	33 650 369	(803 549)	95 069 602
Interest expense	(1 206 915)	(2 668 064)	(10 622 579)	(2 027 202)	(5 566 616)	(961 055)	805 812	(22 246 619)
Net interest income	**(605 510)**	**6 936 124**	**20 157 606**	**3 993 373**	**9 649 813**	**32 689 314**	**2 263**	**72 822 983**
Fees and commissions	(70 200)	3 038 518	11 763 580	1 159 568	2 517 188	22 948 385	(23 358)	41 333 681
Income from investments	6 200 152	–	602 696	–	–	1 810 637	(6 200 152)	2 413 333
Gain on foreign exchange transactions	(291 666)	3 199 601	3 300 380	1 161 025	2 746 496	10 963 269	(1 393)	21 077 712
Other operating income	2 960 132	–	–	–	–	734 568	(2 943 630)	751 070
Total operating income	**8 192 908**	**13 174 243**	**35 824 262**	**6 313 966**	**14 913 497**	**69 146 173**	**(9 166 270)**	**138 398 779**
Staff and training costs	(2 759 862)	(4 033 357)	(11 225 807)	(2 738 526)	(4 398 233)	(23 766 254)	–	(48 922 039)
Premises and equipment	(95 198)	(1 095 054)	(3 367 256)	(853 358)	(1 210 140)	(7 510 326)	–	(14 131 332)
Depreciation expense	(42 555)	(660 179)	(2 720 472)	(521 699)	(606 334)	(2 051 019)	–	(6 602 258)
Other expenses	(1 996 463)	(2 440 266)	(6 555 487)	(1 530 170)	(3 603 732)	(14 120 437)	3 285 910	(26 960 645)
Impairment loss on financial assets	–	(713 779)	1 182 824	(492 594)	(1 678 726)	(2 464 143)	–	(4 166 418)
Total expenses	**(4 894 078)**	**(8 942 635)**	**(22 686 198)**	**(6 136 347)**	**(11 497 165)**	**(49 912 179)**	**3 285 910**	**(100 782 692)**
Operating profit or loss	**3 298 830**	**4 231 608**	**13 138 064**	**177 619**	**3 416 332**	**19 233 994**	**(5 880 360)**	**37 616 087**
Effects of hyperinflation	–	–	–	–	–	–	–	–
Share of profit of joint venture	–	–	–	–	–	–	–	–
Gain on bargain purchase	–	–	–	–	–	–	–	–
Profit/(loss) before income tax	**3 298 830**	**4 231 608**	**13 138 064**	**177 619**	**3 416 332**	**19 233 994**	**(5 880 360)**	**37 616 087**
Income tax expense	(612 217)	(1 504 874)	(3 959 480)	(48 896)	(621 161)	(251 708)	–	(6 998 336)
Profit for the year	**2 686 613**	**2 726 734**	**9 178 584**	**128 723**	**2 795 171**	**18 982 286**	**(5 880 360)**	**30 617 751**
Segment assets	138 268 224	102 292 154	316 055 145	48 944 842	267 274 616	259 895 914	(161 711 734)	971 019 161
Segment liabilities	19 499 064	89 176 660	264 992 967	38 526 940	248 933 887	199 378 182	(23 725 879)	836 781 821

4 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

The Group has adopted IFRS16 for Leases and IFRIC23 for uncertainty over income tax treatments. The adoption of these new and revised standards and interpretations has resulted in some changes to the Group's accounting policies. Further details of new and revised accounting policies adopted during the current year can be found in note 5.

a) IFRS 16 – *Leases*

The Group has applied IFRS 16 using the modified retrospective approach with effect from 1 January 2019 and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

IFRS 16 introduces new or amended requirements with respect to lease accounting. These include changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use assets and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in note 5.

The date of initial application of IFRS 16 for the Group is 1 January 2019.

The Group has applied IFRS 16 using the cumulative catch-up approach that does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

i) Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an assessment which has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Group.

4 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(CONTINUED)*

4.1 Standards and Interpretations affecting amounts reported and/or disclosed in the financial statements *(continued)*

a) IFRS 16 – Leases *(continued)*

ii) Impact on Lessee Accounting

Former operating leases

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Group

a) Recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use assets adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii);

b) Recognises depreciation of right-of-use assets and interest on lease liabilities in the Statement of Profit or Loss; and

c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the Statement of Cash Flows.

Lease incentives (e.g. rent free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes office equipment), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

The Group has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17:

- The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics
- The Group has adjusted the right-of-use assets at the date of initial application by the amount of provision for onerous leases recognised under IAS 37 in the statement of financial position.
- The Group has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The Group has excluded initial direct costs from the measurement of the right-of-use assets at the date of initial application.
- The Group has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

Former finance leases

For leases that were classified as finance leases applying IAS 17, the carrying amount of the leased assets and obligations under finance leases measured applying IAS 17 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustments. The right-of-use assets and the lease liabilities are accounted for applying IFRS 16 from 1 January 2019.

4 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(CONTINUED)*

4.1 Standards and Interpretations affecting amounts reported and/or disclosed in the financial statements *(continued)*

a) IFRS 16 – Leases *(continued)*

iii) Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets. Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use assets arising from the head lease. This change did not have a material effect on the Group's financial statements.

b) IFRIC 23 – *Uncertainty over Income Tax Treatments*

The Group adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments.

The Interpretation requires the Group to:

- Determine whether uncertain tax positions are assessed separately or as a group; and
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  i) If yes, the Group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings;
  ii) If no, the Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value.

c) IFRS 5 – *Non-current asset held for sale*

The accounting for the investment in Makasa Sun (Private) Limited Zimbabwe has changed from non-current asset held for sale to investment in joint venture. There was no financial impact at the date of change of this accounting policy.

d) Amendments to IFRS 9 – *Prepayment features with negative compensation*

IFRS 9 clarifies that for the purpose of assessing whether a prepayment feature meets the Solely Payments of Principal and Interest (SPPI) condition where the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

e) Amendments to IAS 28 – *Long-term interests in associates and joint ventures*

The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

4 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(CONTINUED)*

4.2 Standards and interpretations in issue but not yet effective

Effective date	Standard, Amendment or Interpretation
Annual periods beginning on or after 1 January 2020	**Amendments to IAS 1 and IAS 8 *Definition of material***
	The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency. The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.
	Amendments to References to the Conceptual Framework in IFRS Standards
	Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References in the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework. The amendments, where they are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.
Annual periods beginning on or after 1 January 2021	**IFRS 17 *Insurance Contracts***
	IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principal based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 insurance contracts as of 1 January 2021.

4 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(CONTINUED)*

4.2 Standards and interpretations in issue but not yet effective *(continued)*

Effective date	Standard, Amendment or Interpretation
Annual periods deferred indefinitely	**IFRS 10 *Consolidated financial statements* and IAS 28 (amendments) *Sale or contribution of assets between an investor and its associate or joint venture***
	The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the re-measurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The Directors anticipate that these new and amended standards and interpretations will have no significant impact on the financial statements of the Group in future periods.

5 SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company, its subsidiaries, namely First Capital Bank Plc (Malawi), First Capital Bank Zambia Limited, First Capital Bank Ltd (Botswana), First Capital Bank S.A. (Mozambique), First Capital Shared Services Ltd and Afcarme Zimbabwe Holdings (Private) Limited, First Capital Bank Limited (Zimbabwe) (together referred to as the Group).

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

i) Subsidiaries

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

ii) Loss of control

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

iii) Transactions eliminated on consolidation

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

5 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

a) Basis of consolidation *(continued)*

iv) Interest in equity – accounted investees

The Group's interests in equity-accounted investees are interests in associates. Associates are those entities in which the Group has significant influence, but not control over the financial and operating policies.

Interest in associates are accounted for using the equity method. They are recognised initially at fair value. Subsequent to initial recognition, the consolidated financial statements include the Group's share of profits or loss and other comprehensive income of equity investees, until the date on which significant influence ceases.

b) Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities, assumed are recognised at their fair value, except that:

- deferred tax or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 – *Employee Benefits* respectively;
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

c) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

5 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

d) Common control transactions

Common controlled transactions are recorded at book value. Any difference between cost and book value is taken directly to equity.

e) Foreign currency

Foreign currency transactions

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

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

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

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into US$ at exchange rates (middle-rate) ruling at the reporting date. The income and expenses of foreign operations are translated to into US$ at average exchange rates during the year. The assets, liabilities, income and expenses of a subsidiary reporting on the basis of IAS 29 will be translated to into US$ using the closing rate.

Exchange differences arising on the translation of the assets and liabilities of foreign operations are recognised directly in other comprehensive income and accumulated in equity in the translation reserve. When a foreign operation is disposed of in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

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

f) Financial assets and liabilities

i) Recognition and measurement

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

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

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

5 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

f) Financial assets and liabilities *(continued)*

ii) Classification

Financial assets

The Group classifies its financial assets into one of the following categories:

- Amortised cost;
- Fair Value through Other Comprehensive Income (FVOCI) – debt investments;
- Fair Value through Other Comprehensive Income (FVOCI) – equity investments; or
- Fair Value through Profit or Loss (FVTPL).

The following table shows the classification of financial assets, the business model and the subsequent measurement

Financial Instrument	Business model	IFRS 9 classification	IFRS 9 subsequent measurement
Loans and advances to customers	Hold to collect contractual cashflows	Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Placements with other banks	Hold to collect contractual cashflows	Financial assets at amortised cost	
Cash and cash equivalents	Loans and receivables (amortised cost)	Financial assets at amortised cost	
Placements with other banks	Hold to collect contractual cashflows and sell	Financial assets at FVOCI	These assets are subsequently measured at fair value. Interest income impairment is recognised in profit or loss. Other net gains and losses are recognised in Other Comprehensive Income. On derecognition, gains and losses accumulated in Other Comprehensive Income are reclassified to profit or loss.
Investment securities (equity investments)	Held for trading FVTPL	Financial assets at FVTPL	These are measured at fair value with net gains and losses recognised in Statement of Profit or Loss.

IFRS 9 largely retains the existing requirements in IAS 39 for classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale. The adoption of IFRS 9 has had no significant effect of the Group's accounting policies related to financial liabilities and derivatives.

Under IFRS 9, on initial recognition, financial liability is measured at:

i) Amortised cost;

ii) Fair value through other comprehensive income (FVOCI) – debt investments;

iii) Fair value through other comprehensive income (FVOCI) – equity investments; or

iv) Fair value through profit or loss (FVTPL).

5 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

f) Financial assets and liabilities *(continued)*

iii) 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 the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

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

The Group also derecognises certain assets when they are deemed to be uncollectible

iv) Offsetting

Financial assets and liabilities are set off and the net amount presented in the Statement of Financial Position when, and only when, the Group has a legal right to set off the amounts and 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 by accounting standards.

v) Modification of loans and advances

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

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

The Group's policy is that any restructure of an account, even if not yet in Stage 3, where the obligor has not settled all arrears prior to the restructure, shall have the effect that the account shall be/continue to be classified as Stage 3 until a minimum applicable curing period provides confirmation that the account may be reclassified to Stage 2 in which a further minimum curing period shall apply prior to reclassification to Stage 1.

Restructured accounts are flagged and provided for at Stage 3 for at least a minimum period post restructure date subject to local regulations. If there is a restructure, which does not result in a de-recognition (write off of the asset/creation of a new account), then the Group considers whether there is a modification gain or loss. The Group considers the new re-structured cash flow and discounts this back using the original effective interest rate and if that gives a higher carrying value than the Group currently holds, the Group will reflect this as a gain or if it gives a lower carrying value then as a loss.

The Group will write off the difference between the previous and the restructured carrying amount in the event of a lower carrying amount for the restructured credit facility.

5 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

f) Financial assets and liabilities *(continued)*

vi) Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

vii) Impairment of financial assets

The Group assesses on a forward-looking basis the Expected Credit Losses (ECL) associated with its debt instrument assets, loans and advances carried at amortised cost and FVOCI and with the exposure arising from loan commitments, bank balances and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date.

The increase or decrease in impairment at effective date of IFRS 9 adoption will be accounted for in the Statement of Changes in Equity under retained income. Subsequent increases or decreases in impairment will be recorded in the statement of comprehensive income.

IFRS 9 outlines a three-stage model for impairment based on changes in credit quality since initial recognition as summarised below:

Stage 1 – Financial instruments not credit impaired on initial recognition and with no Significant Increase in Credit Risk (SICR) evident

Stage 2 – If SICR is identified the asset is moved to stage 2

Stage 3 – If the asset is credit impaired it is moved to stage 3

viii) Expected Credit Loss measurement

- ECLs are measured on either a 12 month or Lifetime basis depending on whether a SICR has occurred since initial recognition or whether the asset is considered credit impaired. ECLs are a probability-weighted discounted product of Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD).
- Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).
- ECLs are discounted at the effective interest rate of the portfolio.
- The maximum period considered when estimating ECLs is the maximum contractual period (including extensions) over which the Group is exposed to credit risk.
- The Group uses a combination of a portfolio-based approach and individual assessment to the calculation of ECLs.
  - Portfolio assessment is performed by way of the ECL Model to support the modelling of PD, LGD and EAD.
  - Individual assessment is performed on all customer loans and advances after having defined a minimum exposure threshold.

Under IFRS 9, loss allowances are measured on either of the following bases:

i) 12 – month ECLs (Stage 1 – no SICR)

These are a portion of lifetime ECLs that result from possible default events within the 12 months after the reporting date. These ECLs are measured on assets which are performing assets.

- Customer loans and advances which do not reflect any SICR since initial recognition.
- Debt securities, loans to banks and bank balances which are performing assets.

5 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

f) Financial assets and liabilities *(continued)*

viii) Expected Credit Loss measurement *(continued)*

ii) Lifetime ECLs (Stage 2 – SICR)

These are ECLs that result from all possible default events over the expected life of a financial instrument. These ECLs are measured on assets with a SICR since initial recognition.

- Customer loans and advances with regulatory asset classification of Special Mention (Rebuttable presumption basis of 30 to 89 days past due) or with a SICR (as demonstrated in terms of the Group's early warning risk monitoring process).
- Debt securities, loans to banks and bank balances which are past due.

iii) Lifetime ECLs (Stage 3 – default)

These ECLs are measured on all credit impaired/in default credit exposures.

- Customer loans and advances with regulatory asset classification Substandard, Doubtful, Loss (Rebuttable presumption basis of more than 89 days past due) or with a SICR (as demonstrated in terms of the Group's early warning risk monitoring process) justifying credit impairment.
- Debt securities, loans to banks, bank balances in default.

For Stage 3 assets, interest income continues to be recognised at the original effective interest rate on the restated carrying amount, representing the unwind of the discount of the expected cash flows, including the principal due on non-accrual loans.

Uncollectable loans are written off against the related allowance for loan impairment on completion of the Group's internal processes and all recoverable amounts have been collected.

Subsequent recoveries of amounts previously written off are credited to the profit or loss component of the statement of comprehensive income.

ix) Benchmarking ECL

Corporate

Due to lack of sufficient historical information on customer portfolio defaults from which PDs and LGDs are derived, a judgmental benchmarking is used on customer assets exceeding internal size benchmarks in parallel to the customer model output. The higher of benchmarking ECL and the model output is considered as the final ECL.

Low risk Financial Instruments

ECL for low risk financial instruments is based on benchmarked PDs and LGDs due to lack of historical data.

Retail

ECL for retail exposures are totally based on model output with no benchmarking comparative since enough historical default data was available when designing the calculation model.

5 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

f) Financial assets and liabilities *(continued)*

x) De-recognition of financial instruments

Full de-recognition only occurs when the rights to receive cash flows from the asset have been discharged, cancelled or have expired, or the Group transfers both its contractual right to receive cash flows from the financial assets (or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party without material delay or reinvestment) and substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest rate risk. When an asset is transferred, in some circumstances, the Group may retain an interest in it (continuing involvement) requiring the Group to repurchase it in certain circumstances for other than its fair value on that date.

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

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

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified (taking into account both quantitative and qualitative factors), such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss component of the statement of comprehensive income. Where the terms of an existing liability are not substantially modified, the liability is not derecognised. Costs incurred on such transactions are treated as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

g) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents are measured at amortised cost in the Statement of Financial Position.

h) Other assets

Other financial assets are measured at amortised cost using the effective interest method less impairment losses. Other non-financial assets are measured at cost less impairment losses, if any. Other assets comprise prepayments, cheques in the course of collection, dividends receivable, stocks of consumable stationery and computer spares and other receivables.

i) Loans and advances to customers

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

The Group classifies its loans and advances to customers as loans and receivables. When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan to the other party, and the underlying asset is not recognised in the Group's financial statements. Loans and advances are subsequently measured at their amortised cost using the effective interest method.

j) Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs, for investments not at fair value through profit or loss. Subsequent to initial recognition, investment securities are accounted for depending on their classification as either fair value through other comprehensive income or fair value through profit or loss.

5 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

k) Investments in subsidiaries

Investments in subsidiaries are recognised at cost in the separate financial statements less any impairment losses. The investments are fully eliminated on consolidation.

l) Investments in associates

Investments in associates are recognised at fair value in the separate financial statements.

m) Intangible assets

Intangible assets acquired separately are measured at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset it relates to. All other expenditure is expensed as incurred. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives from the date that the asset is available for use. The effects of any changes in estimates are accounted for on a prospective basis. Intangible assets are amortised over periods up to five years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. The effects of any changes in estimates are accounted for on a prospective basis.

n) Property and equipment

i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses except for freehold property and leasehold improvements which are measured at revalued amount less accumulated depreciation and impairment losses as described in accounting policy 5(o).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use and qualifying borrowing costs. Purchased software that is integral to the functionality of related equipment is capitalised as part of that equipment.

Where an item of property and equipment comprises of major components having different useful lives, they are accounted for as separate items of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised net within other operating income in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

ii) Revaluation

Freehold properties and leasehold improvements are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from the fair value. Revaluation surpluses are recognised in other comprehensive income and accumulated in equity in a non-distributable property revaluation reserve. A revaluation surplus will be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

The revaluation surplus included in equity in respect of property, plant and equipment is transferred directly to retained earnings when the asset is sold or disposed.

iii) Subsequent Costs

Subsequent expenditure is capitalised only when it is probable that future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

5 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

n) Property and equipment *(continued)*

iv) Depreciation

Property and equipment are depreciated on a straight-line basis at rates that would reduce carrying amounts to their residual values, estimated at the date of purchase, over the initially anticipated useful lives of the assets. The Group re-assesses the useful lives, the depreciation method and the residual values of the assets at each reporting date. Any changes in the useful lives, depreciation method or estimated residual values are accounted for prospectively as a change in accounting estimate in accordance with IAS 8 *Accounting policies changes in accounting estimates and errors.*

Depreciation is recognised in profit or loss. The depreciation rates for the current and comparative period are:

- Leasehold properties 2.5% (or period of lease if shorter)
- Freehold properties 2.5%
- Motor vehicles 25%
- Equipment, fixture and fittings 20%

v) Capital work in progress

Capital work in progress represent gross amount spent to date in carrying out work of a capital nature. It is measured at cost recognised to date. Capital work in progress is presented as part of property and equipment in the Statement of Financial Position. If the project is completed the expenditure is capitalised to the relevant items of property and equipment. Capital work in progress is not depreciated.

o) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups of assets. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the units on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

An impairment loss is recognised in profit or loss unless it concerns property carried at revalued amount in which case it is treated as a revaluation decrease. If the impairment loss exceeds the revaluation reserve in respect of the impaired asset, the excess is recognised in Statement of Profit or Loss. A reversal of an impairment loss is recognised in profit or loss, unless it relates to property carried at revalued amounts, in which case the excess of the reversal over the amount recognised in profit or loss is treated as a revaluation increase.

5 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

p) Customer deposits and balances due to other banks

When the Group sells a financial asset and simultaneously enters into a "repo" or "stock lending" agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's financial statements.

Deposits are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group chooses to account for the financial liabilities at fair value through profit or loss.

q) Other liabilities and subordinated debt

Other payables and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs and subsequently measured at their amortised cost using the effective interest method, except where the Group designates liabilities at fair value through profit or loss.

r) Share capital

Share issue costs

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

s) Employee benefits

i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

ii) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

t) Net interest income

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability.

The effective interest method requires the Group to estimate future cash flows, in some cases based on its experience of customers' behaviour, considering all contractual terms of the financial instrument, as well as the expected lives of the assets and liabilities. Due to the large number of products and types (both assets and liabilities), there are no individual estimates that are material to the results or financial position.

Income from finance leasing is included in net interest income as further described in accounting policy subsection v).

5 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

u) Leases

All leases entered into by the Group are primarily operating leases. IFRS 16 which is effective from 1 January 2019 prescribes different methodology to account for the leases compared to IAS 17. One of the key requirements being capitalisation of operating leases in the books of the lessor and recognising of a lease liability.

Finance lease – the Group as a lessor

Group enters into lease agreements as a lessor with respect to some of its investment properties. Leases for which the Group is a lessor are classified as operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Operating lease – Group as Lessee

For right-of-use asset the lease liability is initially measured at the present value of future lease payments at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease payments change due to changes in payment terms, in which cases the lease liability is re-measured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. The right-of-use assets are presented as a separate line in the statement of financial position.

5 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

u) Leases *(continued)*

Operating lease – Group as Lessee *(continued)*

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property and Equipment' policy.

Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For all contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

v) Fees and commission income

The Group applies IFRS 15 – *Revenue from Contracts with Customers*, which replaced IAS 18 – *Revenue* and IFRIC 12 – *Customer Loyalty Programs*.

IFRS 15, contains a single model that establishes a five-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contract; and
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is transferred to the customer. The adoption of IFRS 15 did not impact the Group's results. Fees and commissions charged for services provided by the Group are recognised as the services are provided, for example on completion of an underlying transaction.

w) Income from investments

Income from investments includes dividend income and increase in fair value of investments in listed companies.

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for held for trading securities.

Increase in fair value of investments designated at fair value through profit or loss includes all realised and unrealised fair value changes.

5 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

x) Income tax *(continued)*

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

i) Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Group has not rebutted this presumption.

Additional taxes that arise from the distribution of dividends by the Group are recognised at the same time as the liability to pay the related dividend is recognised. These amounts are generally recognised in profit or loss because they generally relate to income arising from transactions that were originally recognised in profit or loss.

y) Earnings per share

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

5 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

z) Provision

A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefit will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability.

aa) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

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

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

The analysis of fair value hierarchy for financial assets and liabilities is disclosed in note 7 to these consolidated and separate financial statements.

5 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

ab) Derivative financial instruments

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

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

Derivative embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not related to those of the host contracts not measured at FVTPL.

Offsetting

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

ac) Financial guarantees, acceptances and letters of credit

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

ad) Amounts due from related parties

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

ae) Assets held for sale

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

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

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

6 RISK MANAGEMENT

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

The Board and senior management actively oversee the risk management process and implement adequate policies, procedures, comprehensive internal controls and limits that are set to mitigate risks. The Group companies have a risk management framework which covers risk identification, risk measurement, risk monitoring and risk control in respect of the significant risks.

The Board of each Group companies has a risk committee which meets regularly and receives reports from the Risk and Compliance function on risk assessment and levels of risks that the Group is facing. Stress testing is done quarterly, and the results are discussed with the Risk Committee.

a) Credit risk

i) Credit risk management

Credit risk is the risk of financial loss should the Group companies' customers, clients or market counterparties fail to fulfil their contractual obligations to the Group companies. The Group companies actively seek to originate and manage credit risk in such a way as to achieve sustainable asset growth and risk adjusted returns in line with board-approved risk parameters. The credit risk that the Group companies face arises mainly from loans and advances and counterparties credit risk arising from derivative contracts entered into with our clients. Other sources of credit risk arise from treasury bills, government bonds, settlement balances with counterparties and bank balances with Central Bank and other related banks.

Credit risk management objectives are:

- Supporting the achievement of sustainable asset and revenue growth in line with our risk parameters;
- Operating sound credit granting processes and monitoring credit risk using appropriate models to assist decision making;
- Ensure credit risk taking is based on sound credit risk management principles and controls; and
- Continually improving collection and recovery.

ii) Risk limit and mitigation policies

The Group companies use a range of policies and practices to mitigate credit risk. These include credit scoring, marking limits against counterparties, monitoring cashflows and utilisation against limits, covenants and collateral.

Principal collateral types used for loans and advances are:

- Mortgages over residential and commercial properties;
- Charges over business assets such as inventory and accounts receivable, moveable assets and guarantees; and
- Cash cover.

The Legal and Credit departments are responsible for conducting sufficient legal review to confirm that the approved collateral is legally effective. The ratio of loan value to security value is assessed on grant date and continuously monitored.

6 RISK MANAGEMENT *(CONTINUED)*

a) Credit risk *(continued)*

iii) Credit risk grading

Corporate Exposures

The Group uses an internal application credit risk scoring tool that reflects its assessment of the probability of default of individual counterparties. The Group companies use internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as level of collateral and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information and external rating where available from ratings agencies, on individual borrowers. In addition, the models enable expert judgement to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

Payment and other behavioural aspects of the borrower are monitored on an ongoing basis in conjunction with collateral values and event driven factors to develop an internal behavioural credit rating. Exposures are monitored by grading customers in an early warning/ongoing monitoring list in order to identify those customers who are believed to be facing a Significant Increase in Credit Risk (SICR), and/or are believed to be facing difficulties. A relationship manager will incorporate any updated or new information/credit assessments into the credit system on an ongoing basis. In addition, the relationship manager will also update information about the creditworthiness of the borrower every year from sources such as public financial statements. This will determine the updated internal credit rating.

Customers are categorised into Risk Categories 0 – 3. Those in 0 and 1 display no or unusual business as usual risk and the risk of default is low. Category 2 implies there are some doubts that the borrower will meet its obligations but the risk of default is medium. Category 3 implies that there are strong doubts that the customer will meet its obligations and the risk of default is either high or has occurred. These ratings are reflected on the following scale using days past due as well as other criteria which are indicative of the severity of a SICR. These categories are in turn further sub-categorised in order to better measure any SICR. The Group companies have mapped these sub-categories to the 22 rating categories employed by S&P with a view to using the Corporate PDs published by S&P as a representation:

Category 0 (sub categories 1 – 3c):	0 to 5 days past due
Category 1 (sub categories 4a – 5c):	6 to 29 days past due, have temporary problems and the risk of default is low
Category 2 (sub categories 6a – 7c):	30 days to 89 days past due, implies there are doubts that the customer will pay but the risk of default is medium
Category 3 (sub categories 8 – 10):	90 days+ past due (Default), there are doubts that the customer will pay and the risk of default is high

Retail exposures

After the date of initial recognition, for retail business, the payment behaviour of the borrower is monitored on a periodic basis to develop a behavioural based internal credit rating. Any other known information about the borrower which impacts their creditworthiness such as unemployment and previous delinquency history is also incorporated into the behavioural internal credit rating. These ratings are reflected on the following delinquency categories: Performing loans, 1day to 30 days past due, 30 days to 89 days past due and 90 days+ past due (default).

6 RISK MANAGEMENT *(CONTINUED)*

a) Credit Risk *(continued)*

iv) Expected Credit Losses measurement (ECLs)

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a Significant Increase in Credit Risk (SICR) has occurred since initial recognition or whether an asset is considered to be credit impaired.

- ECLs are discounted at the effective interest rate of the portfolio
- The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk
- The Group uses a portfolio approach to calculate ECLs. The portfolios are segmented into retail, corporate and treasury and further by product

Expected Credit Losses are the product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

The Probability of Default (PD) is the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" below), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. PDs are modelled using historic data into 12M PD and Lifetime PDs. Where data is not available proxies which resemble the risk of default characteristics of the exposure are used. The PDs are determined individually or below threshold at portfolio level (below internal thresholds for customer exposures) and segmented into various categories using tenure, currency, product or low risk classification.

PDs modelled using historical data may then be adjusted for forward looking factors. PDs are mapped into regulatory grades as follows

i) Corporate exposure

Stage 1	12 Month PD	Central Bank classification Pass/Internal category 0 and 1
Stage 2	Life Time PD	Central Bank classification Standard/internal category 2
Stage 3	Default PD	Central Bank classification, Substandard, Doubtful, Loss/Internal category 3

ii) Retail exposure

Stage 1	12 Month PD	Central Bank classification Pass/<30 days past due
Stage 2	Life Time PD	Central Bank classification Standard/30 to 89 days past due
Stage 3	Default PD	Central Bank classification, Substandard, Doubtful, Loss/90+ days past due

iii) Treasury exposures

For debt securities in the treasury portfolio and interbank exposures, performance of the counterparty is monitored for any indication of default. PDs for such exposures are determined based on benchmarked national ratings mapped to external credit rating agencies grade. For other bank balances where there are external credit ratings PDs are derived using those external credit ratings.

6 RISK MANAGEMENT *(CONTINUED)*

a) Credit Risk *(continued)*

iv) Expected Credit Losses measurement (ECLs) *(continued)*

Exposure at default (EAD) – is the amount the Group company expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For a revolving commitment, the EAD includes the current drawn balance plus any further amount that is expected to be drawn up by the time of default, should it occur. For term loans EAD is the term limit while for short term loans and retail loans EAD is the drawn balance. Debt securities and interbank balances EAD is the current balance sheet exposure.

Loss Given Default (LGD) – represents the Group companies expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

Default

The Group companies consider a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group companies in full, without recourse to actions such as realising security (if any is held); or
- The financial asset is more than 90 days past due.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

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

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

- Corporate exposures with Central Bank classification Pass/Internal category 0 and 1;
- Retail loans less than 30 days past due;
- Debt securities, loans to banks and bank balances which are not past due; and
- These are a product of 12 months PD, 12 months LGD and EAD.

ii) Life time ECLs (Stage 2 – significant increase in credit risk)

ECLs are measured based on expected credit losses on a lifetime basis. It is measured for the following exposures:

- Corporate loans with Central Bank classification Standard/Internal category 2;
- Retail loans in 30 days to 89 days past due;
- Debt securities, loans to banks and bank balances where the credit risk has significantly increased since initial recognition; and
- These are a product of lifetime PD, lifetime LGD and EAD.

6 RISK MANAGEMENT *(CONTINUED)*

a) Credit Risk *(continued)*

iv) Expected Credit Losses measurement (ECLs) *(continued)*

iii) Life time ECLs (Stage 3 – default)

ECLs are measured based on expected credit losses on a lifetime basis. This is measured on the following exposures:

- All credit impaired/in default corporate and retail loans and advances to banks and other debt securities in default;
- These are corporates in Central Bank classification, Substandard, Doubtful, Loss/Internal category 3 and retail loans in default/90+ days past due;
- Exposures which are 90+ days past due; and
- These are a product of default PD, lifetime LGD and EAD.

v) Significant increase in credit risk (SICR)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience, informed credit assessment including forward-looking information.

The assessment of significant increase in credit risk incorporates forward looking information and is performed on a monthly basis at a portfolio level for all retail loans, as well as portfolio level below internal thresholds. The use of the Rebuttable Presumption of significant increase in risk means that an account is categorized as Stage 2 when the DPD is > 30 days and < 90 days. In addition to the Rebuttable Presumption the Group companies will also consider the output of its multi factor early warning/risk monitoring analysis as a qualitative measure for corporate and treasury exposures. Customer loans and advances exceeding internal thresholds and low risk financial instrument exposures are assessed on a monthly and quarterly basis by the Credit department, Group companies management and the Loans Review Committee

Significant increase in credit risk – Quantitative measures

- Corporate loans – if the loan is reclassified from internal category 0 – 1 to category 2
- Retail loans – if the loan is reclassified from <30 days past due to 30 to 89 days past due
- Treasury exposures which are past due

Significant increase in credit risk – Qualitative measures retail

- Extension of credit terms
- Retrenchment/dismissal of employee
- Employer facing financial difficulties
- Salary diversion

Significant increase in credit risk – Qualitative measures Corporate and Treasury

- Borrower is on Central Bank classification Standard/Internal category 2
- Significant adverse changes in business, financial or economic conditions in which the borrower operates in
- Actual or expected forbearance or restructuring of debt
- Early signs of cash flow/liquidity problems such as delay in servicing debt
- Significant decline in account turnover
- Breach of significant debt covenants
- Qualifying modified loans
- Delay in settlement of obligations

6 RISK MANAGEMENT *(CONTINUED)*

a) Credit Risk *(continued)*

vi) Benchmarking Expected Credit Loss

Corporate

Portfolio assessment is performed by way of a collective assessment semi-empirical IFRS 9 model (the ECL Model) developed in consultation with external consultants supported by available historic information to support the modelling of PD, LGD and EAD. Individual assessment is performed on all customer loans and advances after having defined a minimum exposure threshold. The Group companies elected to use a country rating by sovereign debt approach, which forms the basis of calculating the PD's of all financials assets within scope of IFRS 9 guidelines. The sovereign debt PD is adjusted by individual corporate PD rates based on external rating provider S&P's information.

LGD's of individually assessed customer loans and advances have been determined in terms of:

- Stages 1 and 2: An internal benchmark applied to a net exposure after application of future realisable cash flows, predominantly collateral held.
- Stage 3: Net exposure after application of future realisable cashflows, predominantly collateral held.

LGD's on various financial assets/low risk financial instruments, with the exception of customer loans and advances, have been determined in terms of:

- Basel II & III Guidelines: the treatment of sovereign exposures in the banking book.
- Basel II Guidelines: applied under foundation IRB and observed in the Committee's study on Banks.
- Internal benchmark on Securities & Derivatives engaged with corporate counterparties.

EAD is determined as below:

- For customer loans and advances: Outstanding exposures plus undrawn limits.
- For other financial assets/low risk financial instruments: Outstanding exposures.

Treasury

ECL for Treasury exposures is based on benchmarked PDs and LGDs due to lack of historical data.

Retail

ECL for Retail exposures are based on model output with no benchmarking comparative since enough historical default data was available when designing the calculation model.

vii) Forward – looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECLs both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. The key economic variables identified were GDP growth and interest rates.

These economic variables and their associated impact on the ECL vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables (the base economic scenario) are sourced from Central Banks Monetary Policy, Fiscal updates, World Bank/IMF and BMI Research economic forecast and provide the best estimate view of the economy over the next five years.

Post five years, in order to project the economic variables out for the full remaining lifetime of each instrument, a mean reversion approach has been used, meaning that economic variables tend to a long run average growth rate such as GDP over a period of two to five years. The impact of these economic variables on the PD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates.

6 RISK MANAGEMENT *(CONTINUED)*

a) Credit Risk *(continued)*

viii) Write-offs

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

- Unsecured – 6 months after Default
- Secured – 18 months after Default

However, final or earlier write-off shall remain at the discretion of Management and the Board.

ix) ECL model governance

The models used for PD, EAD and LGD calculations are governed day to day through the Impairments Committee. This committee comprises of senior managers in Risk, Finance and the Business. Decisions and key judgements made by the Impairments Committee relating to the impairments and model overrides will be taken to Board Risk, Board Loans and Board Audit Committee. Credit risk processes from origination to monitoring and other operational processes around impairments now take into cognisance IFRS 9 requirements.

Maximum exposure to credit risk by credit quality grade before credit enhancements

The Group Company has an internal rating scale which is mapped into the Basel II grading system. The internal rating is broadly classified into performing loans, standard monitoring and non-performing.

a) Performing loans

Loans and advances not past due and which are not part of renegotiated loans are considered to be performing assets, these are graded as per Central Bank credit rating scale as grade 1 – 3.

b) Standard monitoring grade

These are loans and advances which are less than 90 days past due and in some cases not past due but the business has significant concern on the performance of that exposure, as per Central Bank credit rating scale these are grade 4 – 7.

c) Non-performing grade

These are loans and overdrafts on which interest is no longer accrued or included in income unless the customer pays. These non-performing (past due) assets include balances where the principal amount and/or interest is due and unpaid for 90 days or more, as per Central Bank credit rating scale these are grade 8 – 10.

d) Loans and advances renegotiated

During the year ended 31 December 2019, the Group Company did not have any renegotiated loans and advances to customers and banks.

6 RISK MANAGEMENT *(CONTINUED)*

a) Credit Risk *(continued)*

x) Disclosures on credit risk

The Group's exposure to credit risk principally comprises of loans and advances to customers, finance lease receivables and money market investments. As at 31 December 2019, these were as follows:

2019 US$	ECL Stage	Loans and advances	Investments in finance leases	Money Market investments
Consolidated				
Carrying amount		**394 978 354**	**2 448 642**	**208 260 305**
Standard (fully performing)	1	**375 468 168**	**2 042 628**	**209 277 112**
Past due but not impaired	2	**12 111 876**	**31 638**	**–**
Impaired	3	**16 149 169**	**633 645**	**–**
Gross exposure		**403 729 213**	**2 707 911**	**209 277 112**

2018 US$	ECL Stage	Loans and advances	Investments in finance leases	Money Market investments
Consolidated				
Carrying amount		359 147 633	2 228 832	226 424 936
Standard (fully performing)	1	340 695 671	778 956	226 914 023
Past due but not impaired	2	11 468 123	790 174	–
Impaired	3	16 103 004	1 293 992	–
Gross exposure		368 266 798	2 863 122	226 914 023
Separate				
Carrying amount		–	–	626 739
Standard (fully performing)	1	–	–	626 739
Past due but not impaired	2	–	–	–
Impaired	3	–	–	–
Gross exposure		–	–	626 739

Other collateral held includes moveable assets, receivables and share certificates pledged. The Group's policy is to pursue the timely realisation of the collateral in an orderly manner. The Group does not use any non-cash collateral for its own operations.

Banks in the Group have an internal rating scale which is mapped into Basel II grading system. The internal rating is broadly classified into Standard (Performing), Past due but not impaired, Non performing (impaired).

a) Performing loans

These are loans and securities for which are neither past due nor impaired and which are not part of restructured loans.

b) Past due but not impaired loans

These are loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

6 RISK MANAGEMENT *(CONTINUED)*

a) Credit Risk *(continued)*

x) Disclosures on credit risk *(continued)*

c) Impaired loans and securities

These are loans and securities for which the Group has determined that there is probability that it will be unable to collect all principal and/or interest due according to the contractual terms of the loan/securities agreements.

d) Distribution of Credit Exposure by Sector

The Group monitors concentration of credit risk by sector. Economic sector risk concentrations within the customer loan and finance lease portfolio at 31 December 2019 were as follows:

Credit Risk Exposure by Sector	**Consolidated**	
US$	**2019**	**2018**
Agriculture	**33 242 111**	44 892 572
Mining	**15 983 943**	3 771 448
Financial services	**21 572 298**	91 873 600
Construction	**15 497 066**	21 896 858
Energy/electricity/gas /water	**11 027 434**	3 530 598
Manufacturing	**59 812 839**	40 577 938
Wholesale and retail	**76 761 118**	61 285 427
Individual/households	**78 979 922**	65 538 327
Real estate	**34 051 905**	1 625 642
Tourism and leisure	**6 371 291**	3 257 660
Transport and communication	**17 158 897**	17 688 211
Others	**35 978 300**	15 191 639
	406 437 124	371 129 920
Split into:		
Loans and advances (note 10)	**403 729 213**	368 266 798
Finance Leases (note 11)	**2 707 911**	2 863 122
	406 437 124	371 129 920

6 RISK MANAGEMENT *(CONTINUED)*

a) Credit Risk *(continued)*

x) Disclosures on credit risk *(continued)*

e) Credit quality per class of financial assets

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

		Consolidated		Separate	
US$	**Note**	**2019**	**2018**	**2019**	**2018**
Gross maximum exposure:					
Balances with central banks	8	**55 893 058**	61 321 889	**–**	–
Balances with other banks	8	**159 502 311**	147 085 622	**1 222 774**	6 773 806
Money market investments	9	**209 277 112**	226 914 023	**28 046**	626 739
Cheques in the course of clearing	8	**1 873 082**	1 746 023	**–**	–
Repurchase agreements	12	**67 980 759**	30 217 512	**–**	–
Investment in finance leases	11	**2 707 911**	2 863 122	**–**	–
Loans and advances	10	**403 729 213**	368 266 798	**–**	–
Total recognised financial assets		**900 963 446**	838 414 989	**1 250 820**	7 400 545
Letters of credit	47	**38 721 329**	94 617 788	**–**	–
Financial guarantees	47	**56 779 103**	57 420 571	**–**	–
Total unrecognised financial assets		**95 500 432**	152 038 359	**–**	–
Total credit risk exposure		**996 463 878**	990 453 348	**1 250 820**	7 400 545

6 RISK MANAGEMENT *(CONTINUED)*

b) Interest Rate Risk *(continued)*

Interest rate gap analysis

The tables below summarises the exposure to interest rate risk as at 31 December 2019. Included in the tables are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. The Group does not bear an interest rate risk on unrecognised financial instruments.

2019 US$	Zero rate	Floating rate	Fixed rate 0-3 months	3-6 months	6-9 months	9-12 months	Over 12 months	Total
Total assets	503 940 860	280 496 865	133 786 661	22 862 026	3 414 335	35 189 738	72 561 632	1 052 252 117
Total liabilities and equity	459 346 639	84 205 552	298 845 218	93 442 605	19 188 981	27 775 907	69 447 215	1 052 252 117
Interest sensitivity gap	44 594 221	196 291 313	(165 058 557)	(70 580 579)	(15 774 646)	7 413 831	3 114 417	–

2018 US$	Zero rate	Floating rate	Fixed rate 0-3 months	3-6 months	6-9 months	9-12 months	Over 12 months	Total
Total assets	168 054 174	114 627 365	413 769 188	74 221 610	79 137 024	19 269 762	101 940 038	971 019 161
Total liabilities and equity	164 042 853	271 110 747	345 508 731	131 774 725	8 407 195	8 487 764	41 687 146	971 019 161
Interest sensitivity gap	4 011 321	(156 483 382)	68 260 457	(57 553 115)	70 729 829	10 781 998	60 252 892	–

6 RISK MANAGEMENT *(CONTINUED)*

b) Interest Rate Risk *(continued)*

The effective interest rates for the principal financial assets and liabilities at 31 December 2019 were:

Interest rate percentage (%) range	2019	2018
Assets		
Government securities	**1 – 22**	1 – 19.5
Deposits with banking institutions	**1 – 16**	1.1 – 15
Loans and advances to customers (base rate)	**6.5 – 27**	6.5 – 23
Liabilities		
Customer deposits	**0.15 – 10**	0.15 – 10

Equity Risk

The value of investments at fair value through Profit or loss as at 31 December 2019 and 2018 were as follows:

US$	2019	2018
Fair value of investments at fair value through profit or loss	**6 295 311**	7 665 487
Net increase/(decrease) in fair value during the year	**(783 008)**	1 403 633
Impact on profit of:		
Increase of share price by 10%	**629 531**	766 549
Decrease of share price by 10%	**(629 531)**	(766 549)

6 RISK MANAGEMENT (CONTINUED)

c) Liquidity Risk

The maturity gap analysis as at 31 December 2019 is given below:

2019 Consolidated	Carrying amount	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	Over 12 months
Assets						
Cash and cash equivalents	247 157 290	186 519 772	12 529 117	9 893 431	33 726 694	4 488 276
Money market investments	208 260 305	23 009 909	25 026 501	11 584 551	89 174 497	59 464 847
Loans and advances to customers and finance leases receivables	397 426 996	19 632 929	57 353 364	46 686 962	94 229 103	179 524 637
Investments at fair value through Profit or Loss	6 295 311	–	–	–	6 295 311	–
Other assets	193 112 215	7 346 120	4 797 366	4 876 099	66 483 867	109 608 763
Total assets	1 052 252 117	236 508 730	99 706 348	73 041 043	289 909 472	353 086 523
Liabilities						
Customer deposits	681 390 892	73 117 165	131 986 324	138 367 522	228 458 658	109 461 223
Due to other banks	143 932 626	62 087 743	11 844 907	12 761 869	57 238 108	–
Loans payable	15 950 009	–	–	–	–	15 950 009
Redeemable preference shares	10 786 747	–	–	–	–	10 786 747
Subordinated debt	26 599 027	–	–	–	–	26 599 027
Other payables	45 583 206	38 192 814	2 677 371	128 556	257 112	4 327 353
Equity	128 009 610	–	–	–	–	128 009 610
Total liabilities	1 052 252 117	173 397 722	146 508 602	151 257 947	285 953 878	295 133 969
Net liquidity gap	–	63 111 008	(46 802 254)	(78 216 904)	3 955 594	57 952 554
Cumulative liquidity gap	–	63 111 008	16 308 754	(61 908 150)	(57 952 554)	–

6 RISK MANAGEMENT *(CONTINUED)*

c) Liquidity Risk

The maturity gap analysis as at 31 December 2018 is given below:

2018 Consolidated	**Carrying amount**	**Up to 1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**Over 12 months**
Assets						
Cash and cash equivalents	242 823 101	242 823 101	–	–	–	–
Money market investments	226 424 936	46 652 858	58 294 296	36 457 909	56 322 039	28 697 834
Loans and advances to customers and finance leases receivables	361 376 465	139 786 646	25 622 772	40 671 111	40 098 864	115 197 072
Investments at fair value through Profit and Loss	7 665 487	1 533 098	1 533 098	1 533 098	1 533 098	1 533 095
Other financial assets	132 729 172	32 984 287	44 164 606	2 364 049	53 216 230	–
Total assets	971 019 161	463 779 990	129 614 772	81 026 167	151 170 231	145 428 001
Liabilities						
Liabilities to customers	720 825 817	495 105 468	112 555 361	98 488 703	98 158	14 578 127
Due to other banks	47 735 602	3 066 239	10 981 158	13 685 796	16 796 802	3 205 607
Loans payable	6 500 000	–	–	–	–	6 500 000
Redeemable preference shares	10 786 747	–	–	–	–	10 786 747
Subordinated debt	16 859 518	–	–	–	–	16 859 518
Other payables	34 074 137	23 148 203	2 069 272	1 260 113	1 106 608	6 489 941
Total equity	134 237 340	–	–	–	–	134 237 340
Total liabilities	971 019 161	521 319 910	125 605 791	113 434 612	18 001 568	192 657 280
Net liquidity gap	–	(57 539 920)	4 008 981	(32 408 445)	133 168 663	(47 229 279)
Cumulative liquidity gap	–	(57 539 920)	(53 530 939)	(85 939 384)	47 229 279	–

6 RISK MANAGEMENT *(CONTINUED)*

d) Foreign Exchange Risk *(continued)*

Consolidated (US$)	**2019**				**2018**			
Currency	**Assets**	**Liabilities**	**Net**	**1% Sensitivity**	**Assets**	**Liabilities**	**Net**	**1% Sensitivity**
ZWL	58 008 754	62 170 078	(4 161 324)	(41 613)	2 437 787 271	252 751 387	2 185 035 884	21 850 359
MWK	14 997 691	14 997 549	142	1	38 782 397	35 922 316	2 860 081	28 601
ZAR	11 836 649	9 466 341	2 370 308	23 703	2 759 984	3 084 326	(324 342)	(3 243)
GBP	3 398 267	2 710 753	687 514	6 875	1 139 737	1 436 804	(297 067)	(2 971)
EUR	14 187 031	15 308 435	(1 121 404)	(11 214)	634 116	630 329	3 787	38
BWP	305 282	9 450 009	(9 144 727)	(91 447)	176 600	183 110	(6 510)	(65)
MZN	72 922 124	57 364 350	15 557 774	155 578	858 442	–	858 442	8 584
MUR	120 063	122 564	(2 501)	(25)	111 858	–	111 858	1 119
Other	77 608 672	76 348 393	1 260 279	12 603	2 647 767	1 778 307	868 460	8 685

Separate (US$)	**2019**				**2018**			
Currency	**Assets**	**Liabilities**	**Net**	**1% Sensitivity**	**Assets**	**Liabilities**	**Net**	**1% Sensitivity**
MWK	142	–	142	1	2 072 594	–	2 072 594	20 726
MZN	11 090	–	11 090	111	858 442	–	858 442	8 584
MUR	48 418	38 937	9 481	95	25 158	–	25 158	252
BWP	305 282	9 450 009	(9 144 727)	(91 447)	–	–	–	–

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

A 1% weakening of the United States Dollar against the currencies above at the reporting date would have the equal but opposite effect.

7 FINANCIAL ASSETS AND LIABILITIES

Fair value of financial instruments not held at fair value

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

Consolidated

US$	Note	Financial assets at FVTPL	Financial assets at Amortised cost	Financial assets at FVOCI	Financial liabilities at amortised cost	Total Carrying amount	Fair values
31 December 2019							
Financial assets							
Cash and cash equivalents	8	–	247 157 290	–	–	247 157 290	247 157 290
Money market investments	9	–	208 260 305	–	–	208 260 305	208 260 305
Loans and advances to customers	10	–	394 978 354	–	–	394 978 354	394 978 354
Finance lease receivables	11	–	2 448 642	–	–	2 448 642	2 448 642
Repurchase Agreements	12	–	67 071 019	–	–	67 071 019	67 071 019
Financial asset at FVOCI	44	–	–	1 664 939	–	1 664 939	1 664 939
Other assets	22	–	25 485 850	–	–	25 485 850	25 485 850
Investments at FVTPL	14	6 295 311	–	–	–	6 295 311	6 295 311
		6 295 311	945 401 460	1 664 939	–	953 361 710	953 361 710
Financial liabilities							
Balances due to other banks	23	–	–	–	143 932 626	143 932 626	143 932 626
Customer deposits	24	–	–	–	681 390 892	681 390 892	681 390 892
Other payables	25	–	–	–	30 250 550	30 250 550	30 250 550
Subordinated debt	26	–	–	–	26 599 027	26 599 027	26 599 027
Loans payable	42	–	–	–	15 950 009	15 950 009	15 950 009
Redeemable preference shares	43	–	–	–	10 786 747	10 786 747	10 786 747
		–	–	–	908 909 851	908 909 851	908 909 851
31 December 2018							
Financial assets							
Cash and cash equivalents	8	–	242 823 101	–	–	242 823 101	242 823 101
Money market investments	9	–	226 424 936	–	–	226 424 936	226 424 936
Loans and advances to customers	10	–	359 147 633	–	–	359 147 633	359 147 633
Finance lease receivables	11	–	2 228 832	–	–	2 228 832	2 228 832
Repurchase Agreements	12	–	–	29 969 134	–	29 969 134	29 969 134
Financial asset at FVOCI	44	–	1 793 644	–	–	1 793 644	1 793 644
Other assets	22	–	10 825 578	–	–	10 825 578	10 825 578
Investments at FVTPL	14	7 665 487	–	–	–	7 665 487	7 665 487
		7 665 487	843 243 724	29 969 134	–	880 878 345	880 878 345
Financial liabilities							
Balances due to other banks	23	–	–	–	47 735 602	47 735 602	47 735 602
Customer deposits	24	–	–	–	720 825 817	720 825 817	720 825 817
Other payables	25	–	–	–	27 825 897	27 825 897	27 825 897
Subordinated debt	26	–	–	–	16 859 518	16 859 518	16 859 518
Loans payable	42	–	–	–	6 500 000	6 500 000	6 500 000
Redeemable preference shares	43	–	–	–	10 786 747	10 786 747	10 786 747
		–	–	–	830 533 581	830 533 581	830 533 581

7 FINANCIAL ASSETS AND LIABILITIES *(CONTINUED)*

Fair values of financial instruments

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Consolidated

Fair Value Hierarchy US$	**2019 Level 1**	**2019 Level 2**	**2019 Level 3**	**2018 Level 1**	**2018 Level 2**	**2018 Level 3**
Financial asset						
Investment at fair value through profit or loss	6 295 311	–	–	7 665 487	–	–

Level 1: inputs quoted at market price in active market.

Level 2: inputs that are observable directly (prices) or indirectly (derived from prices) or for similar instruments.

Level 3: unobservable inputs whose valuation, are inputs not based on market information or for which assumptions are made.

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

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

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

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

The Group does not provide fair value disclosure for financial instruments not measured at fair value, when the carrying amount is a reasonable approximation of fair value and for an investment in equity instruments that do not have a quoted price in an active market for an identical instrument.

8 CASH AND CASH EQUIVALENTS

	Consolidated		Separate	
US$	**2019**	**2018**	**2019**	**2018**
Deposits with Central Bank	**55 893 058**	61 321 889	**–**	–
Balances with banks abroad	**127 864 949**	57 976 057	**316 514**	–
Placements with other banks	**31 637 362**	89 109 565	**906 260**	6 773 806
Cheques in course of clearing	**1 873 082**	1 746 023	**–**	–
Clearance balances with other banks	**194 554**	–	**–**	–
Cash balances	**29 740 767**	32 678 969	**–**	–
Cash and bank balances	**247 203 772**	242 832 503	**1 222 774**	6 773 806
Less: Expected credit loss	**(46 482)**	(9 402)	**–**	–
Net cash and bank balances	**247 157 290**	242 823 101	**1 222 774**	6 773 806

Amounts deposited with Central Banks for liquidity reserve requirement are not available for the Group's operating activities and do not attract interest. Other cash and cash equivalents with other banks earn interest between 1 – 20% (2018: 1 – 19.5%).

9 MONEY MARKET INVESTMENTS

	Consolidated		Separate	
US$	**2019**	**2018**	**2019**	**2018**
Treasury Bills	**121 604 937**	89 095 897	**28 046**	626 739
Government Promissory Notes	**52 765 459**	36 960 892	**–**	–
Corporate Bonds	**12 494 745**	18 942 441	**–**	–
Local Registered Government Stocks	**18 002 090**	78 683 820	**–**	–
Placements	**4 409 881**	3 230 973	**–**	–
Total before expected credit losses	**209 277 112**	226 914 023	**28 046**	626 739
Impairment allowance	**(1 016 807)**	(489 087)	**(28 046)**	–
Total carrying amount at year end	**208 260 305**	226 424 936	**–**	626 739
Movement during the year was as follows:				
As at 1 January	**226 424 936**	161 819 258	**626 739**	–
Net purchase and maturities	**(17 147 824)**	65 094 765	**(598 693)**	626 739
As at 31 December	**209 277 112**	226 914 023	**28 046**	626 739
Expected Credit losses				
Balance at 1 January 2018	**(489 087)**	–	**–**	–
IFRS 9 transition adjustment	**–**	(701 564)	**–**	–
Effect of changes in exchange rate and hyperinflation	**227 457**	(154 735)	**(28 046)**	–
(Charge)/Recovery for the year (note 40)	**(755 177)**	367 212	**–**	–
Balance at 31 December	**(1 016 807)**	(489 087)	**(28 046)**	–
Carrying amount	**208 260 305**	226 424 936	**–**	626 739

The interest rate on money market investments approximates the market interest rate and hence the carrying amount reasonably approximates the fair value.

All money market investments mature within 12 months, except for some treasury notes within the Statement of Financial Position, at a carrying amount of US$ 59 464 847 as at 31 December 2019 (2018: US$ 28 697 834). These are primarily money market placements with a tenor of up to 70 months and a coupon rate of 1.5%.

Money market investments are held for investment purpose and are classified as financial assets at amortised cost. These financial assets are held to earn interest income over their tenor and to collect contractual cash flows.

10 LOANS AND ADVANCES TO CUSTOMERS

	Consolidated	
US$	**2019**	**2018**
Loans and advances at amortised cost are receivable as follows:		
Maturing within 3 months	**118 761 939**	172 431 670
Maturing between 3 and 12 months	**80 450 733**	83 389 638
Maturing after 12 months	**204 516 541**	112 445 490
	403 729 213	368 266 798
Specific impairment allowances (Stage 3)		
Balance at 1 January	**(4 862 958)**	(6 219 741)
IFRS 9 transition adjustment	**–**	(2 197 851)
Reclassification of interest in suspense	**–**	(1 900 949)
(Charge)/Recovery for the year (note 40)	**(5 127 618)**	(5 295 169)
Provision increase offset against fees and commission income	**(128 497)**	157 479
On acquisition of subsidiary	**(681 387)**	–
Effect of changes in exchange rate and hyperinflation	**1 696 584**	5 369 379
Write offs	**3 648 215**	5 223 894
Balance at 31 December	**(5 455 661)**	(4 862 958)
Collective impairment allowance (Stage 1 and 2)		
Balance at 1 January	**(4 256 207)**	(4 252 508)
IFRS 9 transition adjustment	**–**	(1 862 548)
On acquisition of subsidiary	**(254 955)**	–
On restructuring of subsidiary	**–**	110 074
Effect of changes in exchange rate and hyperinflation	**3 427 204**	908 095
(Charge)/Recovery for the year (note 40)	**(2 211 240)**	840 680
Balance at 31 December	**(3 295 198)**	(4 256 207)
Net Loans and advances to customers	**394 978 354**	359 147 633

The Directors consider that the carrying amounts of loans and advances are a reasonable approximation of their fair value. The Group manages these loans and advances in accordance with its investment strategy. Internal reporting and performance measurement of these loans and advances are at amortised cost. Impairment of loans and advances has been calculated as disclosed in notes 6(a)(x) and 40. Loans and advances as per industry/sector have been disclosed in note 6(a)(x). Effective base interest rates for loans and advances have been disclosed in note 6(b).

11 FINANCE LEASE RECEIVABLES

	Consolidated	
US$	**2019**	**2018**
Investment in leases at amortised cost are receivable as follows:		
Maturing less than 1 year	**284 037**	1 267 772
Maturing after more than 1 year	**2 423 874**	1 595 350
	2 707 911	2 863 122
Specific impairment allowance (Stage 3)		
Balance at 1 January	**(376 984)**	(199 124)
IFRS 9 transition adjustment	**–**	(161 607)
Reclassification of interest in suspense	**–**	(468 937)
(Charge)/Recovery for the year (note 40)	**(545 264)**	(79 939)
Effect of changes in exchange rate and hyperinflation	**21 161**	471 289
Write offs	**658 631**	61 335
Balance at 31 December	**(242 456)**	(376 983)
Collective impairment allowance (Stage 1 and 2)		
Balance at 1 January	**(257 307)**	(66 781)
IFRS 9 transition adjustment	**–**	(191 770)
Effect of changes in exchange rate and hyperinflation	**156 598**	446
(Charge)/Recovery for the year (note 40)	**83 896**	798
Balance at 31 December	**(16 813)**	(257 307)
Net finance lease receivables	**2 448 642**	2 228 832

The Directors consider that the carrying amounts of finance lease receivables are a reasonable approximation of their fair value.

12 REPURCHASE AGREEMENTS

	Consolidated	
US$	**2019**	**2018**
Repurchase agreements	**67 071 019**	29 969 134
Movement during the year was as follows:		
As at 1 January	**29 969 134**	34 789 390
Additions	**52 660 144**	30 092 963
Maturities	**(14 754 750)**	(34 554 342)
Effect of changes in exchange rate	**(348 639)**	(234 688)
Gross carrying value as at 31 December	**67 525 889**	30 093 323
Expected credit losses	**(454 870)**	(124 189)
Net Carrying Value As at 31 December	**67 071 019**	29 969 134
Funds under currency swap		
31 December 2019		
US$ 15.0 million	**15 000 000**	
US$ 7.5 million	**7 500 000**	
US$ 7.5 million	**7 500 000**	
US$ 5.0 million	**5 000 000**	
GBP 4.85 million	**6 295 873**	
GBP 3.5 million	**4 543 413**	
GBP 1.55 million	**2 012 083**	
EUR 4.0 million	**4 435 872**	
MWK 5.52 billion	**7 398 520**	
MWK 5.51 billion	**7 385 258**	
	67 071 019	
31 December 2018		
US$ 10.0 million		10 000 000
US$ 10.0 million		10 000 000
US$ 5.0 million		5 000 000
EUR 4.0 million		4 969 134
		29 969 134

The Group entered into a currency swap arrangement with the Reserve Bank of Malawi (RBM) in which the Group sold US$ to the RBM. The Group also arranged a GBP/US$ and EUR/US$ swap with Standard Bank South Africa. The deals are listed above. The corresponding liability under the arrangements has been disclosed in note 23 as part of balances due to other banks.

13 CURRENT TAX ASSET

	Consolidated		Separate	
US$	**2019**	2018	**2019**	2018
a) Current tax expense				
Current year tax based on profits	**8 334 172**	8 427 216	**13 302**	612 217
Origination and reversal of temporary differences (note 27)	**(393 145)**	(1 428 880)	**–**	–
	7 941 027	6 998 336	**13 302**	612 217
b) Reconciliation of effective tax rate				
Operating (loss)/profit	**(10 668 282)**	37 616 087	**(3 590 553)**	3 987 137
Tax	**(3 200 485)**	11 284 826	**(1 077 166)**	119 614
Foreign companies tax differential	**1 116 351**	(2 684 390)	**–**	–
Non-deductible expenses	**14 182 654**	320 247	**1 090 468**	492 603
Gain on bargain purchase	**(21 041)**	–	**–**	–
Losses not tax deductible	**1 127 109**	–	**–**	–
Tax exempt income	**(5 263 561)**	(1 922 347)	**–**	–
	7 941 027	6 998 336	**13 302**	612 217
c) Income tax (recoverable)/payable				
As at 1 January	**(2 392 044)**	(4 666 140)	**–**	
Charges for the year	**8 334 172**	8 427 216	**13 302**	612 217
Effect of changes in exchange rate and hyperinflation	**(642 485)**	1 694 111	**–**	
Paid during the year	**(7 978 274)**	(7 847 231)	**(13 302)**	(612 217)
As at 31 December	**(2 678 631)**	(2 392 044)	**–**	–

Income tax recoverable/(payable) is presented as follows in the statements of financial position

Presented as:

US$	**2019**	2018
Current tax asset	**2 692 689**	3 698 352
Income tax payable	**(14 058)**	(1 306 308)
	2 678 631	2 392 044

Statutory Tax Rate

Statutory tax rates for territories in the Group are as follows*

Mauritius (net of foreign tax credit)	3%
Mauritius	15%
Zimbabwe	26%
Malawi	30%
Botswana	22%
Mozambique	32%
Zambia	35%

** The tax rates for the foreign operations range from 15% to 35%. In Mauritius, the Company is subject to income tax at 15%. However, a Category 1 Global Business Licence company is entitled to a foreign tax credit equivalent to 80% on the Mauritius tax liability or the actual foreign tax suffered.*

14 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Consolidated	
US$	**2019**	**2018**
Shares held (numbers)		
Illovo Sugar (Malawi) Plc	**12 915 541**	12 915 541
National Investment Trust Plc	**20 889 343**	25 766 628
Telekom Networks Malawi Plc	**38 338 700**	38 338 700
Share Price		
Illovo Sugar (Malawi) Plc	**0.21**	0.27
National Investment Trust Plc	**0.11**	0.10
Telekom Networks Malawi Plc	**0.04**	0.04
Market Value (US$)		
Illovo Sugar (Malawi) Plc	**2 678 712**	3 542 757
National Investment Trust Plc	**2 265 358**	2 650 437
Telekom Networks Malawi Plc	**1 351 241**	1 472 293
	6 295 311	7 665 487
Change in fair value		
Balance at 1 January	**7 665 487**	7 184 758
Sale of investments at fair value through profit or loss	**(495 864)**	–
Effect of changes in exchange rate and hyperinflation	**(91 304)**	(922 904)
Movement in fair value (note 36)	**(783 008)**	1 403 633
Balance at 31 December	**6 295 311**	7 665 487

All investments in listed companies are listed on the Malawi Stock Exchange and are designated at fair value through profit or loss upon initial recognition. The movement in fair value is taken to profit or loss.

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

15 INVESTMENT IN SUBSIDIARY

	Nature of Business	Type of Investment	Holding % 2019	Holding % 2018	US$ 2019	US$ 2018
First Capital Bank Plc (Malawi)	Banking	Equity Shares	**100.00**	100.00	**88 034 224**	101 073 622
Afcarme Zimbabwe Holdings (Private) Limited, First Capital Bank Limited (Zimbabwe)	Banking	Equity Shares	**81.00**	81.00	**17 420 080**	17 420 080
First Capital Bank Limited Zambia	Banking	Equity Shares	**49.00**	49.00	**4 634 343**	4 634 343
First Capital Shared Services Ltd	Shared Service	Equity Shares	**100.00**	100.00	**105**	105
First Capital Bank Limited (Botswana)	Banking	Equity Shares	**38.60**	–	**3 046 405**	–
First Capital Bank Limited (Botswana)	Banking	Preference Shares	**100.00**	100.00	**2 475 355**	1 995 000
First Capital Bank S.A. (Mozambique)	Banking	Equity Shares	**80.00**	–	**19 294 363**	–
First Capital Bank S.A. (Mozambique)	Banking	Subordinated Debt	**–**	100.00	**–**	817 889
					134 904 875	125 941 039

Movements during the year were as follows	**2019**	2018
Opening balance	**125 941 039**	123 128 045
Subscription of shares	**9 781 725**	1 995 105
Issue/(Settlement) of subordinated debt	**(817 889)**	817 889
Closing balance	**134 904 875**	**125 941 039**

In 2019, FCB Malawi distributed its investment in FCB Botswana and First Capital Bank S.A. as dividend in specie to FMBCH. The investments were 38.6% (US$1 239 912) in FCB Botswana and 80% (US$11 799 486) shareholding in FCB Mozambique. FCB Malawi held these investments at cost and declared the same value as a dividend. FMBCH accounted for the dividend received as an investment in each of the subsidiaries. At consolidation, this restructuring has had no impact on the financial position of the Group.

Additional capital of US$7 501 132 was invested in FCB Mozambique to meet regulatory capital requirements, through a rights issue. Additional capital was also invested in FCB Botswana of US$1 800 129.

The Group company invested in preference shares issued by FCB Botswana to the value of US$480 464. The preference shares currently earn a dividend at the Bank of Botswana rate plus 300 basis points, currently 7.75% per annum.

16 INVESTMENT PROPERTY

Investment property comprises commercial properties that are leased to third parties and land held for capital appreciation. Movement during the year was as follows:

	Consolidated	
US$	**2019**	**2018**
At fair value		
Balance as at 1 January	**6 545 861**	6 343 495
Effect of changes in exchange rate and hyperinflation	**1 542 014**	(195 134)
Transfer from Property and equipment	**422 633**	–
Impairment loss on investment property *	**(1 752 143)**	–
Change in fair value (note 36)	**(1 316 438)**	397 500
Balance as at 31 December	**5 441 927**	6 545 861

The fair value of investment property was determined by external, independent property valuers, having the appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the investment property portfolio annually.

** FCB Zimbabwe carries investment property valued at US$ 4 251 195 as at 31 December 2019. In Zimbabwe the underlying professional valuations are conducted in US$, and converted to Zimbabwe Dollars at year end exchange rate.*

However, under inflation accounting standards, we are required to account for the inflation adjustment as follows:

A) Index the value of the carrying value of the asset as at 31 December 2018 to bring the valuation to the current measurement unit at the reporting date (31 December 2019). This increases the carrying value of the asset, with the resultant gain being accounted as an adjustment to the opening equity balance through other comprehensive income.

B) The underlying US$ valuation of the asset has not changed, and as such the carrying value at the reporting date 31 December 2019 needs to be impaired back to the fair value. Consequently, an impairment charge needs to be taken, and this is accounted for through the current year Statement of Profit or Loss.

The impact of the above (see notes 2 iii), is that a gain of US$ 1 752 143 is taken through the translation reserve (point A above), and a loss of (US$ 1 752 143) through the Statement of Profit or Loss (point B above), the net impact being zero to the 31 December 2019 closing equity balance.

17 INVESTMENT IN JOINT VENTURE

The accounting for the 50% investment in Makasa Sun (Private) Limited by FCB Zimbabwe has changed from non-current asset for sale to investment in joint venture. This was reclassified to investment in joint venture after the Board resolved not to continue with the sale. There was no financial impact at the date of change in accounting policy.

	Consolidated	
US$	**2019**	**2018**
Summarised financial information		
Revenue	1 497 436	–
Profit for the year	1 111 621	–
Total comprehensive income	1 111 621	–
Summary information Makasa Sun (Private) Limited (joint venture)		
Non current assets	30 087 686	–
Current assets	358 048	–
Non-current liabilities	1 414 967	–
Current liabilities	117 472	–
Group's interest in investment		
Group's interest at beginning of year	–	–
Transfer from non-current assets held for sale (note 21)	14 929 959	–
Effect of changes in exchange rate and hyperinflation	4 949 315	–
Current year share of Profit in joint venture	555 811	
Prior years share of Profit adjustment	123 946	–
Dividends received during the year	(123 946)	–
Impairment loss on investment in joint venture*	(5 978 437)	–
Carrying amount of investment at year end	14 456 648	–

The joint venture owns an asset in Victoria Falls, where the underlying property valuations are conducted in US$, and converted to Zimbabwe Dollars at the prevailing exchange rate and the entity accounts for fair value gains on account of exchange rate movements. The gains appear as a share of profit/loss of joint venture.

** Under inflation accounting standards, we are required to account for the inflation adjustment as follows:*

A) Index the value of the carrying value of the asset as at 31 December 2018 to bring the valuation to the current measurement unit at the reporting date (31 December 2019). This increases the carrying value of the asset, with the resultant gain being accounted as an adjustment to the opening equity balance through other comprehensive income.

B) The underlying United States Dollar valuation of the asset has not changed materially, and as such the carrying value at the reporting date 31 December 2019 is impaired to fair value. Consequently, an impairment charge is accounted for through the current year Statement of Profit or Loss.

The impact of the above (see note 2 iii), is that a gain of US$ 5 978 437 is taken through the translation reserve (point A above), and a loss of (US$ 5 978 437) through the statement of profit or loss (point B above), the net impact being zero to the 31 December 2019 closing equity balance.

18 INTANGIBLE ASSETS

	Consolidated		Separate	
US$	**Computer Software**	**Total**	**Computer Software**	**Total**
2019				
Cost				
As at 1 January	13 626 594	13 626 594	–	–
Transfer from property and equipment	3 427 893	3 427 893	–	–
Effect of changes in exchange rate and hyperinflation	(155 302)	(155 302)	–	–
Additions	3 823 505	3 823 505	1 917 395	1 917 395
As at 31 December	20 722 690	20 722 690	1 917 395	1 917 395
Accumulated amortisation				
As at 1 January	(6 709 441)	(6 709 441)	–	–
Effect of changes in exchange rate and hyperinflation	109 544	109 544	–	–
Transfer from property and equipment	(50 801)	(50 801)	–	–
Charge for the year	(2 117 892)	(2 117 892)	(141 114)	(141 114)
As at 31 December	(8 768 590)	(8 768 590)	(141 114)	(141 114)
Carrying Amount	–		–	
As at 31 December 2019	11 954 100	11 954 100	1 776 281	1 776 281
As at 31 December 2018	6 917 153	6 917 153	–	–
2018				
Cost				
As at 1 January	14 036 069	14 036 069	–	–
Disposals	(193 930)	(193 930)	–	–
Effect of changes in exchange rate and hyperinflation	(1 577 448)	(1 577 448)	–	–
Additions	1 361 903	1 361 903	–	–
As at 31 December	13 626 594	13 626 594	–	–
Accumulated amortisation				
As at 1 January	5 546 009	5 546 009	–	–
Effect of changes in exchange rate and hyperinflation	(552 900)	(552 900)	–	–
Charge for the year	1 716 332	1 716 332	–	–
As at 31 December	6 709 441	6 709 441	–	–
Carrying Amount				
As at 31 December 2018	6 917 153	6 917 153	–	–
As at 31 December 2017	8 490 060	8 490 060	–	–

Intangible assets include computer software, website development, core banking, switch software and licences which are accounted for at cost incurred on acquisition or development. These assets are controlled by the entity and are separately identifiable. Transfers of US$ 3 427 893 were from Capital Work in Progress for software developments in Zimbabwe.

19 PROPERTY AND EQUIPMENT

Consolidated

2019 US$	**Freehold property**	**Leasehold improvements**	**Motor vehicles**	**Corporate jet**	**Motor vehicles – operating lease**	**Equipment, fixtures and fittings**	**Capital work in progress**	**Total**
Cost or valuation								
Balance at 1 January 2019	32 635 403	7 846 652	6 325 639	1 918 552	579 970	23 748 233	6 619 199	79 673 648
Additions	–	1 387 509	452 540	–	–	3 242 889	2 620 970	7 703 908
On acquisition of subsidiary	–	–	–	–	–	59 525	–	59 525
Reclassification	933 209	(933 209)	(96 752)	–	14 420	96 752	(14 420)	–
Effect of changes in exchange rate and hyperinflation	188 699	2 081 382	(998 881)	(20 644)	12 622	(3 125 453)	1 203 365	(658 910)
Impairment	(7 823 115)	–	–	–	–	–	–	(7 823 115)
Disposals	–	–	(109 832)	–	(31 788)	(240 887)	–	(382 507)
Transfers	884 432	2 490 344	–	–	–	303 993	(7 529 296)	(3 850 527)
Balance at 31 December 2019	26 818 628	12 872 678	5 572 714	1 897 908	575 224	24 085 052	2 899 818	74 722 022
Accumulated depreciation								
Balance at 1 January 2019	3 268 929	2 108 199	3 373 978	114 587	347 166	15 511 854	–	24 724 713
Charge for the year	7 605	1 199 734	868 768	113 442	–	3 049 657	–	5 239 206
Released on disposal	–	–	(45 525)	–	(23 773)	(233 801)	–	(303 099)
Effect of changes in exchange rate and hyperinflation	(2 667 251)	(250 890)	(82 950)	642	(27 267)	(2 377 414)	–	(5 405 130)
Charge on operating lease	–	–	–	–	123 235	–	–	123 235
Balance at 31 December 2019	609 283	3 057 043	4 114 271	228 671	419 361	15 950 296	–	24 378 925
Carrying amount								
At 31 December 2019	26 209 345	9 815 635	1 458 443	1 669 237	155 863	8 134 756	2 899 818	50 343 097
At 31 December 2018	29 366 474	5 738 453	2 951 661	1 803 965	232 804	8 236 379	6 619 199	54 948 935

19 PROPERTY AND EQUIPMENT *(CONTINUED)*

Consolidated

2018 US$	Freehold property	Leasehold improvements	Motor vehicles	Corporate jet	Motor vehicles – operating lease	Equipment, fixtures and fittings	Capital work in progress	Total
Cost or valuation								
Balance at 1 January 2018	26 439 496	6 438 258	7 392 911	–	966 692	21 682 648	4 542 256	67 462 261
Additions	1 998 302	194 238	3 752	3 692	8 435	3 037 111	5 042 661	10 288 191
Impairment loss on revalued assets	(184 247)	–	–	–	–	–	–	(184 247)
Effect of changes in exchange rate	1 212 237	(281 595)	(967 196)	–	(16 749)	(1 257 861)	–	(1 311 164)
Revaluation surplus	3 169 615	492 404	–	–	–	–	–	3 662 019
Disposals	–	(20 325)	(201 995)	–	(378 408)	(40 064)	–	(640 792)
Transfers	–	1 023 672	98 167	1 914 860	–	326 399	(2 965 718)	397 380
Balance at 31 December 2018	32 635 403	7 846 652	6 325 639	1 918 552	579 970	23 748 233	6 619 199	79 673 648
Accumulated depreciation								
Balance at 1 January 2018	3 175 337	1 425 927	3 517 316	–	429 006	14 557 412	–	23 104 998
Charge for the year	531 106	751 642	1 004 237	114 587	22 895	2 461 459	–	4 885 926
Released on disposal	–	(3 851)	174 840	–	(259 670)	5 786	–	(82 895)
Eliminated on revaluation	(367 852)	(143 424)	–	–	–	–	–	(511 276)
Effect of changes in exchange rate	(69 662)	77 905	(1 322 415)	–	–	(1 512 803)	–	(2 826 975)
Charge on operating lease	–	–	–	–	154 935	–	–	154 935
Balance at 31 December 2018	3 268 929	2 108 199	3 373 978	114 587	347 166	15 511 854	–	24 724 713
Carrying amount								
At 31 December 2018	29 366 474	5 738 453	2 951 661	1 803 965	232 804	8 236 379	6 619 199	54 948 935
At 31 December 2017	23 264 159	5 012 331	3 775 595	537 686	537 686	7 125 236	4 642 256	44 357 263

19 PROPERTY AND EQUIPMENT *(CONTINUED)*

	Separate		
2019 **US$**	**Motor vehicles**	**Equipment, fixtures and fittings**	**Total**
Balance at 1 January 2019	–	207 574	207 574
Additions	124 299	611 203	735 502
Balance at 31 December 2019	124 299	818 777	943 076
Accumulated depreciation			
Balance at 1 January 2019	–	17 076	17 076
Charge for the year	18 730	96 587	115 317
Balance at 31 December 2019	105 569	705 114	810 683
31 December 2018			
Balance at 1 January 2018	–	–	–
Additions	–	207 574	207 574
Balance at 31 December 2018		207 574	207 574
Accumulated depreciation			
Balance at 1 January 2018	–	–	–
Charge for the year	–	17 076	17 076
Balance at 31 December 2018		190 498	190 498

Property and equipment were subjected to impairment testing by way of internal evaluation of obsolescence of equipment. No items of property and equipment were pledged as collateral as at 31 December 2019.

Capital work in progress represents development costs on the various branches of the Group's banking interests.

The freehold properties and leasehold improvements of the Group companies were last revalued on 31 December 2018 by independent valuers on an open market value basis except for FCB Zimbabwe where a revaluation was performed for land and buildings in 2019. The policy for revaluation allows revaluation to be performed with sufficient regularity to ensure that the carrying amount does not differ materially from the fair value with the resultant losses debited to revaluation reserve.

The fair value measurement for properties has been categorised as Level 3 fair value based on inputs to the valuation techniques used. The following table shows the valuation technique used in measuring the fair values of freehold properties and leasehold improvements, as well as the significant unobservable inputs used.

19 PROPERTY AND EQUIPMENT *(CONTINUED)*

Valuation technique	Significant unobservable inputs
Open Market Value Basis Open market value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. The valuation process makes comparisons between the subject property and comparable property in order to formulate an opinion as to a fair market value using an estimate of the future potential net income generated by the use of the property.	The valuation approach adopted takes cognisance of the performance of the property market at the time of valuation. The approach relies on sales data and all relevant factors pertaining to the property market. The method recognises that property can be assembled, not only for occupation and use of the owner, but also to let to one or more tenants who will pay the owner rent for the right to the use and occupation of the property.

20 LEASES

2019 (US$)	Consolidated	Separate
Right of use assets		
Balance at the beginning of the year	–	–
Additions	11 011 487	293 782
Depreciation charge	(2 130 427)	(52 313)
Effect of changes in exchange rate and hyperinflation	31 727	–
Balance at 31 December	8 912 787	241 469
Lease Liabilities		
Maturity analysis – contractual undiscounted cash flows		
Less than one year	1 158 034	–
One to five years	6 534 823	149 932
More than five years	1 059 579	–
Total undiscounted contractual cash flows at 31 December	8 752 436	149 932
Lease liabilities included in statement of financial position		
Current	852 658	–
Non-current	6 068 165	129 835
Balance at 31 December	6 920 823	129 835
Amounts recognised in Statement of Profit or Loss		
Interest on lease liability	625 309	21 956
Expenses-short term low value leases	323 112	–
Depreciation charge	2 130 427	52 313
	3 078 848	74 269

2019 US$	Freehold property	Leasehold improvement	Operating lease	Total
Balance as at 1 January	–	–	–	–
Additions	10 717 705	144 468	149 314	11 011 487
Depreciation	(2 078 114)	(23 866)	(28 447)	(2 130 427)
Effects of changes in exchange rate	31 727	–	–	31 727
Carrying amount	8 671 318	120 602	120 867	8 912 787

21 ASSETS HELD FOR SALE

	Consolidated	
US$	**2019**	**2018**
As at 1 January	**17 531 259**	15 129 612
Property repossessed during the year	**1 748 079**	2 198 231
Transfer to property and equipment	**(7 559)**	–
Transfer to investment in joint venture	**(14 929 959)**	–
Income from non-current asset held for sale	**–**	205 595
Effect of changes in exchange rate and hyperinflation	**(437 840)**	(2 179)
	3 903 980	17 531 259

During the year US$ 14 929 959 non-current asset held for sale was reclassified to investment in joint venture after the Board and Management of FCB Zimbabwe resolved not to continue with the sale.

Assets held for sale include

- In 2019, FCB Zambia repossessed property valued at US$ 1 270 023 from a borrower following its failure to repay an advanced loan. The Bank is in the process of looking for a buyer for the repossessed properties. FCB Mozambique also received real estates valued at US$ 483 021 as part of recovery processes and are actively searching for a buyer.
- Property acquired by FCB Malawi on its acquisition of Opportunity International Bank of Malawi Ltd (OIBM), some of which is earmarked for disposal.

The Group has assessed the carrying value of the above assets and has concluded that there is no diminution in the value. The Group has assessed that the sale of these assets is highly probable.

22 OTHER ASSETS

	Consolidated		Separate	
US$	**2019**	**2018**	**2019**	**2018**
Prepayments	**5 633 074**	2 355 684	**362 205**	–
Dividend receivable	**94 631**	11 831	**94 631**	–
Stock of stationery	**483 697**	361 241	**–**	–
Stock of computer spares and other items	**65 889**	304 865	**–**	–
Non-customer treasury account	**–**	2 107 941	**–**	–
Other receivables	**7 443 018**	5 684 016	**7 317 345**	3 821 005
RBZ receivable – NOP support	**12 389 796**	–	**–**	–
Less: Expected credit losses	**(624 255)**	–	**–**	–
	25 485 850	10 825 578	**7 774 181**	3 821 005
Current	**16 322 618**	10 314 174	**7 774 181**	3 821 005
Non-current	**9 163 232**	511 404	**–**	–
	25 485 850	10 825 578	**7 774 181**	3 821 005

The Reserve Bank of Zimbabwe (RBZ) receivable balance relates to the foreign currency commitment by the RBZ to provide cash flows to cover US$ 15.7 million net open position which arose after separation of RTGS and foreign currency balances, with the corresponding liability carried within customer deposits and other payables. The carrying amount of the receivable was determined by discounting future cashflows over a period of 5.5 years using a discount rate of 9.75%. An impairment provision of US$ 0.58 million has been provided.

Prepayments consists of expenses paid in advance including rentals paid for retail outlets, annual maintenance contracts and software licence fees for several items of software and hardware used in the day to day operations of companies in the Group.

All other current assets are recoverable/realisable within 12 months and no interest is charged on overdue balances.

23 BALANCES DUE TO OTHER BANKS

	Consolidated	
US$	**2019**	**2018**
European Investment Bank	**3 269 579**	5 352 622
Other banks	**130 663 047**	42 382 980
FMO Line of Credit	**10 000 000**	–
	143 932 626	47 735 602
Payable as follows:		
Due within 1 year	**47 158 602**	44 529 996
Due between 2 and 5 years	**96 774 024**	3 205 606
	143 932 626	47 735 602

All balances due to other banks are stated at amortised cost. Balances due to other banks represent short term borrowings by the Group and Currency Swap liabilities which FCB Malawi entered into with the RBM and Standard Bank (South Africa) (SBSA) in which FCB Malawi received Malawi Kwacha from the RBM and US$ from SBSA. The liability outstanding as at end of the reporting period was US$ 67 071 019 (2018: US$ 29 969 134). The corresponding asset under the arrangement has been disclosed under note 12.

A facility with European Investment Bank (EIB) was made available to FCB Malawi for on lending to customers in specified economic sectors. The EIB line of credit which is denominated in US$, carries interest between 3.9% and 5.8% per annum and is repayable in equal bi-annual installments ending on 16 June 2022.

In December 2019, the Group's subsidiaries entered into loan facility agreements of US$ 10 million from lender Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V (FMO). This loan facility is for on-lending to each banks customers. The interest on the loan is LIBOR rate plus a margin of 3.5% and is repayable in equal quarterly installments ending on 10 December 2023. The first installment is payable on 10 March 2021

24 CUSTOMER DEPOSITS

	Consolidated	
US$	**2019**	2018
Current accounts	**270 738 595**	333 748 821
Savings accounts	**53 615 831**	84 549 535
Foreign currency accounts	**140 247 372**	61 114 224
Term deposit accounts	**205 804 922**	240 083 187
Interest payable on deposits	**3 562 439**	1 330 050
Other deposits – cash security	**7 421 733**	–
	681 390 892	720 825 817
Payable as follows:		
Maturing within 3 months	**536 528 985**	607 660 830
Maturing after 3 months	**144 861 907**	113 164 987
	681 390 892	720 825 817

Deposits from customers only include financial instruments classified as liabilities at amortised cost. Fair value of deposits from customers approximates carrying amount due to their short term tenure.

25 OTHER PAYABLES

	Consolidated		Separate	
US$	**2019**	**2018**	**2019**	**2018**
Accrued expenses	**6 488 672**	13 114 899	**1 220 347**	862 406
Bankers cheques issued and uncleared	**1 561 812**	2 413 672	**–**	–
Bills payable	**9 377 738**	1 243 482	**–**	–
Interest payable	**2 180 935**	1 510 813	**705 326**	95 608
Margins on LCs and other instruments	**1 851 673**	744 909	**–**	–
Trade payables	**8 789 720**	8 798 122	**1 223 084**	62 064
Due to group company	**–**	–	**1 272 508**	–
Lease Liabilities (note 20)	**–**	–	**–**	–
	30 250 550	27 825 897	**4 421 265**	1 020 078

Margins on letters of credit are fully cash collateralised. All amounts included in other payables are non-interest bearing. Directors consider that the carrying amounts of other payables approximate their fair values.

26 SUBORDINATED DEBT

	Consolidated		Separate	
US$	**2019**	**2018**	**2019**	**2018**
Carrying amount	**26 599 027**	16 859 518	**–**	–
Movement during the year:				
As at 1 January	**16 859 518**	14 224 307	**–**	–
Additions	**9 828 010**	3 085 497	**–**	–
Repayment	**(893 585)**	–	**–**	–
Unamortised issue cost	**(88 983)**	(34 038)	**–**	–
Effect of changes in exchange rate and hyperinflation	**894 067**	(416 248)	**–**	–
As at 31 December	**26 599 027**	16 859 518	**–**	–

a) In 2019, FCB Botswana received additional capital in the form of subordinated debt of P104 million (US$ 9.8 million) at an average rate of 7.1% (2018:6.8%) which qualified as Tier II capital maturing on 31 May 2029. The bank has an early optional redemption date of 30 April 2024 subject to prior consent from the Bank of Botswana

b) On 1 July 2018, FCB Botswana issued P33 million (US$ 3 085 496) floating rate notes maturing on 25 January 2028 and earning interest at 290 basis points above the bank rate. The bank has an early optional redemption date of 25 January 2023 subject to prior written consent from Bank of Botswana.

c) During the same year 2017, FCB Botswana also issued P15 million (US$ 1 519 479) floating rate notes maturing on 1 July 2027 and earning interest at 270 basis points above the bank rate. FCB Botswana has an early optional redemption date of 18 January 2022 subject to prior written consent from the Bank of Botswana.

d) In 2017, FCB Botswana, issued P30 million (US$ 3 038 958), floating rates notes maturing on 18 January 2022 which earn interest at 70 basis points below the bank rate for the first 5 years, and thereafter at 20 basis points below the bank rate.

e) On 3 June 2016, FCB Malawi issued through private placement K7 billion (US$ 9 665 870), fixed term unsecured floating rate subordinated note which will mature in its entirety on 3 June 2023. Interest is referenced against the published average yield for 91 day Malawi Government Treasury Bills for auctions preceding repricing dates and is payable quarterly in arrears.

The subordinated debt notes constitute direct, subordinated and unsecured obligations of FCB Malawi, FCB Mozambique and FCB Botswana. The notes rank *pari passu* among themselves and are subordinated to general creditors and claims of depositors.

27 DEFERRED TAX

	Consolidated					
US$	**Opening balance**	**Recognised directly in retained earnings**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Effect of changes in exchange rate**	**Closing balance**
2019						
Property and equipment	**5 528 772**	**–**	**(496 604)**	**–**	**2 910 934**	**7 943 102**
Accrued income	**1 682 305**	**–**	**34 024**	**–**	**–**	**1 716 329**
Revaluation of property	**1 445 674**	**–**	**–**	**(1 240 628)**	**–**	**205 046**
Tax losses	**–**	**–**	**(317 810)**	**–**	**(555 301)**	**(873 111)**
Gratuity and severance pay liabilities	**(854 041)**	**–**	**2 105**	**–**	**–**	**(851 937)**
ECL Provisions	**(2 316 782)**	**–**	**185 872**	**–**	**750 622**	**(1 380 287)**
Other temporary differences	**(2 741 842)**	**–**	**199 268**	**(362 372)**	**1 104 679**	**(1 800 267)**
	2 744 086	**–**	**(393 145)**	**(1 603 000)**	**4 210 934**	**4 958 875**
2018						
Property and equipment	5 009 509	–	272 691	–	246 572	5 528 772
Accrued income	1 562 818	–	119 487	–	–	1 682 305
Revaluation of property	411 701	–	–	1 033 972	–	1 445 673
Tax losses	–	–	–	–	–	–
Gratuity and severance pay liabilities	(1 146 495)	–	292 454	–	–	(854 041)
ECL Provisions	–	(1 256 641)	(1 140 119)	–	79 980	(2 316 780)
Other temporary differences	(1 004 428)	–	(973 393)	–	(764 022)	(2 741 843)
	4 833 105	(1 256 641)	(1 428 880)	1 033 972	(437 470)	2 744 086

	Consolidated	
US$	**2019**	2018
Disclosed as under:		
Deferred tax assets	**(1 185 179)**	(499 256)
Deferred tax liabilities	**6 144 054**	3 243 342
	4 958 875	2 744 086

28 SHARE CAPITAL

	Consolidated		Separate	
US$	**2019**	2018	**2019**	2018
Issued and fully paid up				
2 458 250 000 Ordinary shares of no par value	**117 409 081**	105 707 965	**117 409 081**	105 707 965
Issue of Shares – 122 000 000 shares of no par value	**–**	11 701 116	**–**	11 701 116
2 458 250 000 (2018: 2 458 250 000) Ordinary shares of no par value	**117 409 081**	117 409 081	**117 409 081**	117 409 081

The terms and conditions of the ordinary shares are as follows:

i. Each holder has a right to one vote on a poll at a meeting of the Company on any resolution;

ii Each holder has an equal share in dividends authorised by the Board; and

iii. Each holder has a right to an equal share in the distribution of the surplus assets of the Company.

29 RESTRUCTURING RESERVE

In 2017, the takeover of FCB Malawi was a business combination of entities under common control. Shares issued by the Company as a consequence of the offer were recorded at fair value on the date of issue determined by reference to their stock exchange quoted price. In the consolidated financial statements, a Restructuring reserve has been debited with the difference between the fair value of FMBCH shares issued and the historic carrying amount of FCB Malawi issued shares, share premium, and accumulated non-statutory reserves at date of share exchange. Restructuring reserve includes net translation reserve of US$ 3 467 428 and property revaluation reserve of US$ 4 766 722 which shall be reclassified to the Statement of Profit or Loss upon disposal of the related asset.

Restructuring reserve movements comprise:

	Consolidated	
US$	**2019**	**2018**
Historical cost of 2 336 250 000 shares	**161 497**	161 497
Share premium	**2 164 142**	2 164 142
Fair value of 2 336 250 000 shares at the completion of share exchange	**(105 707 965)**	(105 707 965)
Net increase	**(103 382 326)**	(103 382 326)
Adjustment for reserves prior to restructuring		
Property revaluation reserve	**4 766 722**	4 766 722
Loan loss reserve	**–**	–
Translation reserve	**3 467 428**	3 467 428
Retained earnings	**40 637 553**	40 637 553
	(54 510 623)	(54 510 623)

30 PROPERTY REVALUATION RESERVE

	Consolidated	
US$	**2019**	2018
Balance as at 1 January	**3 005 294**	15 348
Property revaluation	**–**	4 021 761
Deferred tax on revalued assets	**1 240 627**	(1 031 815)
Balance as at 31 December	**4 245 921**	3 005 294

Deferred tax on revalued assets arose from the reassessment of the tax values on previously revalued assets in First Capital Bank Plc (Malawi).

31 LOAN LOSS RESERVE

In order to comply with asset classification directives by central banks, the Directors have made a transfer to the loan loss reserve in addition to provisions charged to profit or loss in accordance with IFRS 9 – *Financial Instruments*.

32 INVESTMENT REVALUATION RESERVE

The Group's investments in corporate bonds and debentures held as available for sale financial assets under IFRS 9 have been classified as financial assets at FVTOCI because they are held with an objective both to collect contractual cash flows and to sell the bonds. The change in the fair value on these redeemable notes continues to accumulate in the investment revaluation reserve until they are derecognised or reclassified.

The Group's investments in equity instruments (neither held for trading nor a contingent consideration arising from a business combination) that were previously classified as available for sale financial assets and were measured at fair value at each reporting date under IFRS 9 have been designated as at FVTOCI. The change in fair value on these equity instruments continues to be accumulated in the investment revaluation reserve.

There is no change in the measurement of the Group's investments in equity instruments that are held for trading. Those instruments were and continue to be measured at FVTPL.

33 TRANSLATION RESERVE

This represents translation differences arising on translation of foreign investments at the end of the reporting period.

34 GROUP SUBSIDIARIES

As at 31 December 2019, the Company had the following subsidiaries:

		Shares held by FMBCH				Shares held by subsidiary	
Subsidiary	**Domicile**	**2019**	**2018**	**Sub Subsidiary**	**Domicile**	**2019**	**2018**
First Capital Bank Plc	Malawi	**100.00%**	100.00%	FirstCapital Bank S.A. (Mozambique)	Mozambique	**–**	80%
				First Capital Bank Limited (Botswana)	Botswana	**–**	38.60%
				FMB Forex Bureau Limited(dormant)	Malawi	**100.00%**	100.00%
				FMB Pensions Limited (dormant)	Malawi	**100.00%**	100.00%
				FMB Capital Markets Limited (dormant)	Malawi	**100.00%**	100.00%
				International Commercial Bank Limited (dormant)	Malawi	**100.00%**	100.00%
First Capital Bank Zambia Limited	Zambia	**49.00%**	49.00%				
First Capital Bank S.A.	Mozambique	**80.00%**	–				
First Capital Bank Limited	Botswana	**38.60%**	–				
Afcarme Zimbabwe Holdings (Private) Limited, First Capital Bank Limited (Zimbabwe)	Zimbabwe	**81.00%**	81.00%	Afcarme Zimbabwe Holdings (Private) Limited	Zimbabwe	**52.68%**	52.68%
First Capital Shared Services Limited	Mauritius	**100.00%**	100.00%				

a) Restructuring of FCB Malawi shareholding in FCB Botswana and FCB Mozambique

On 28 February 2019, FCB Malawi distributed its investment in FCB Botswana as dividend *in specie* to FMBCH, thereby making FCB Botswana its direct subsidiary. In addition on 30 June 2019 FCB Malawi similarly distributed its investment in FCB Mozambique as dividend *in specie* to FMBCH, thereby incorporating FCB Mozambique as a direct subsidiary.

34 GROUP SUBSIDIARIES *(CONTINUED)*

b) Non-controlling interest in subsidiaries

2019 US$	First Capital Bank Ltd (Botswana)	First Capital Bank S.A. (Mozambique)	First Capital Bank Zambia Limited	Afcarme Zimbabwe Holdings (Private) Limited	Total
NCI percentage and voting rights	61.40%	20.00%	51.00%	57.32%	
Assets					
Cash and cash equivalents	88 522 671	38 962 566	28 279 826	67 499 721	223 264 784
Money market investments	41 572 660	15 720 435	20 754 838	12 258 262	90 306 195
Loans and advances to customers	185 242 608	24 846 778	48 602 793	42 401 773	301 093 952
Finance lease receivables	–	1 738 509	–	–	1 738 509
Repurchase agreements	15 015 905	–	–	–	15 015 905
Deferred tax asset	–	877 753	307 426	–	1 185 179
Current tax asset	440 709	452 686	1 049 939	335 973	2 279 307
Investment in subsidiary companies	19	–	–	–	19
Investment in joint venture	–	–	–	14 456 649	14 456 649
Investment property	–	–	1 190 732	4 251 195	5 441 927
Intangible assets	1 034 043	255 042	542 903	3 204 037	5 036 025
Property and equipment	6 787 210	803 346	1 197 309	14 991 337	23 779 202
Right of use assets	502 406	1 738 509	1 817 606	3 238 601	7 297 122
Assets held for sale	–	479 402	3 137 173	–	3 616 575
Financial assets at fair value through other comprehensive income	–	103 730	–	1 561 210	1 664 940
Other assets	5 459 738	236 430	1 536 149	18 257 316	25 489 633
Total assets	344 577 969	86 215 186	108 416 694	182 456 074	721 665 923
Liabilities					–
Balances due to other banks	49 366 325	3 035 291	12 936 477	2 347 679	67 685 772
Customer deposits	242 106 792	55 551 598	79 307 616	122 027 500	498 993 506
Other payables	4 167 861	4 586 200	2 295 171	13 091 024	24 140 256
Lease liabilities	507 282	1 972 983	1 863 460	961 885	5 305 610
Subordinated debt	17 110 034	–	–	–	17 110 034
Deferred Tax Liabilities	203 024	–	–	4 240 411	4 443 435
Provisions	861 047	80 170	305 354	423 429	1 670 000
Redeemable preference shares	2 469 476	–	–	–	2 469 476
Total liabilities	316 791 841	65 226 242	96 708 078	143 091 928	621 818 089
Net assets	27 786 128	20 988 944	11 708 616	39 364 146	99 847 834
Net assets attributable to NCI	17 060 682	4 197 789	5 971 394	22 563 529	49 793 394
Carrying amount of NCI	17 060 682	4 197 789	5 971 394	22 563 529	49 793 394
Dividend paid to NCI	–	–	–	–	–

34 GROUP SUBSIDIARIES *(CONTINUED)*

b) Non-controlling interest in subsidiaries *(continued)*

2019 US$	First Capital Bank Ltd (Botswana)	First Capital Bank S.A. (Mozambique)	First Capital Bank Zambia Limited	Afcarme Zimbabwe Holdings (Private) Limited	Total
NCI percentage and voting rights	61.40%	20.00%	51.00%	57.32%	
Interest income	21 482 949	6 837 382	10 704 127	10 419 670	49 444 128
Interest expense on deposits and other accounts	(8 787 178)	(2 360 923)	(3 712 321)	(652 028)	(15 512 450)
Net interest income/(expense)	12 695 771	4 476 459	6 991 806	9 767 642	33 931 678
Fees and commissions	1 500 663	1 589 270	1 624 412	13 800 085	18 514 430
Income from investments	–	–	–	(880 358)	(880 358)
Gain/(Loss) on foreign exchange transactions	3 241 437	2 498 781	1 571 229	7 430 281	14 741 728
Other operating income	1 520 951	220 476	523 651	143 599	2 408 677
Total non-interest income	6 263 051	4 308 527	3 719 292	20 493 607	34 784 477
Total operating income	18 958 822	8 784 986	10 711 098	30 261 249	68 716 155
Staff and training costs	5 446 051	3 358 901	3 798 453	9 141 768	21 745 173
Premises and equipment costs	397 381	–	–	7 841 390	8 238 771
Depreciation and amortisation	1 122 397	408 739	1 105 254	3 036 809	5 673 199
Other expenses	4 649 294	2 921 708	3 860 624	12 677 179	24 108 805
Impairment loss on financial assets	1 436 049	676 985	743 662	4 600 498	7 457 194
Total expenses	13 051 172	7 366 333	9 507 993	37 297 644	67 223 142
Operating profit/(loss)	5 907 650	1 418 653	1 203 105	(7 036 395)	1 493 013
Net monetary loss	–	–	–	(6 056 792)	(6 056 792)
Impairment loss on owner occupied property	–	–	–	(7 823 115)	(7 823 115)
Impairment loss on investment in joint venture	–	–	–	(5 978 437)	(5 978 437)
Impairment loss on investment property	–	–	–	(1 752 143)	(1 752 143)
Effects of hyperinflation – Zimbabwe	–	–	–	(21 610 487)	(21 610 487)
Gain on a bargain purchase	95 642	–	–	–	95 642
Share of profit of joint venture	–	–	–	555 811	555 811
Profit before income tax expense	6 003 292	1 418 653	1 203 105	(28 091 071)	(19 466 021)
Income tax expense	(1 526 522)	(324 475)	(572 743)	(1 434 559)	(3 858 299)
Profit/(Loss) for the year	4 476 770	1 094 178	630 362	(29 525 630)	(23 324 220)
Profit/(Loss) allocated to NCI	2 748 737	218 836	321 485	(16 924 075)	(13 635 017)

34 GROUP SUBSIDIARIES *(CONTINUED)*

b) Non-controlling interest in subsidiaries *(continued)*

2018 US$	First Capital Bank Ltd (Botswana)	First Capital Bank S.A. (Mozambique)	First Capital Bank Zambia Limited	Afcarme Zimbabwe Holdings (Private) Limited	Total
NCI percentage and voting rights	61.40%	20.00%	51.00%	57.32%	
Assets					
Cash and cash equivalents	84 272 055	26 630 420	23 263 571	69 113 122	203 279 168
Money market investments	25 303 906	8 273 194	21 465 434	78 084 715	133 127 249
Loans and advances to customers	148 030 206	11 876 395	47 664 076	66 081 586	273 652 263
Repurchase agreements	–	–	–	361	361
Current tax asset	351 075	450 105	–	332 002	1 133 182
Investments at fair value through profit or loss	–	–	–	–	–
Investment in subsidiary companies	–	–	–	–	–
Investment in joint venture	–	–	–	–	–
Investment property	–	–	1 400 861	5 145 000	6 545 861
Intangible assets	890 255	68 329	583 337	–	1 541 921
Property and equipment	6 887 036	1 361 963	1 243 646	20 551 444	30 044 089
Assets held for sale	–	–	2 198 231	15 034 595	17 232 826
Financial assets at fair value through other comprehensive income	–	–	–	1 749 922	1 749 922
Other assets	3 346 576	284 436	3 173 301	3 803 168	10 607 481
Total assets	269 081 109	48 944 842	100 992 457	259 895 915	678 913 962
Liabilities					
Balances due to other banks	–	–	14 126 155	802 528	14 928 683
Customer deposits	232 089 778	37 393 557	71 401 803	188 933 838	529 818 976
Other payables	9 610 749	797 029	2 590 896	8 008 765	21 007 439
Subordinated debt	7 258 954	888 490	–	–	8 147 444
Deferred Tax Liabilities	(173 352)	(552 137)	(499 256)	759 182	(465 563)
Income tax payable	–	–	285 963	–	285 963
Provisions	–	–	–	873 869	873 869
Redeemable preference shares	1 963 498	–	–	–	1 963 498
Total liabilities	250 749 627	38 526 939	87 905 561	199 378 182	576 560 309
Net assets	18 331 482	10 417 903	13 086 896	60 517 733	102 353 653
Net assets attributable to NCI	11 255 530	2 083 581	6 674 317	34 699 235	54 712 662
Carrying amount of NCI	11 255 530	2 083 581	6 674 317	34 699 235	54 712 662
Dividend paid to NCI	–	–	–	–	–

34 GROUP SUBSIDIARIES *(CONTINUED)*

b) Non-controlling interest in subsidiaries *(continued)*

2018 US$	First Capital Bank Ltd (Botswana)	First Capital Bank S.A. (Mozambique)	First Capital Bank Zambia Limited	Afcarme Zimbabwe Holdings (Private) Limited	Total
NCI percentage and voting rights	61.40%	20.00%	51.00%	57.32%	
Interest income	15 216 429	6 020 575	9 604 188	33 650 369	64 491 561
Interest expense on deposits and other accounts	(5 566 616)	(2 027 202)	(2 668 064)	(961 055)	(11 222 937)
Net interest income/(expense)	9 649 813	3 993 373	6 936 124	32 689 314	53 268 624
Fees and commissions	2 517 188	1 159 567	3 038 518	22 948 385	29 663 658
Income from investments	–	–	–	1 810 638	1 810 638
Gain/(loss) on foreign exchange transactions	2 746 496	1 161 025	3 199 601	10 963 269	18 070 391
Other operating income	–	–	–	734 568	734 568
Total non-interest income	5 263 684	2 320 592	6 238 119	36 456 860	50 279 255
Total operating income	14 913 497	6 313 965	13 174 243	69 146 174	103 547 879
Staff and training costs	4 398 232	2 738 527	4 033 357	23 766 255	34 936 371
Premises and equipment costs	1 210 140	853 358	1 095 054	7 510 326	10 668 878
Depreciation and amortisation	606 333	521 699	660 179	2 051 019	3 839 230
Other expenses	3 603 734	1 530 165	2 440 266	14 120 437	21 694 602
Impairment loss on financial assets	1 678 726	492 594	713 779	2 464 143	5 349 242
Total expenses	11 497 165	6 136 343	8 942 635	49 912 180	76 488 323
Operating profit/(loss)	3 416 332	177 622	4 231 608	19 233 994	27 059 556
Gain on a bargain purchase	–	–	–	–	–
Net monetary loss	–	–	–	–	–
Share of profit of joint venture	–	–	–	–	–
Profit before income tax expense	3 416 332	177 622	4 231 608	19 233 994	27 059 556
Income tax expense	(621 161)	(48 896)	(1 504 874)	(251 708)	(2 426 639)
Profit/(Loss) for the year	2 795 171	128 726	2 726 734	18 982 286	24 632 917
Profit/(Loss) allocated to NCI	1 716 235	25 745	1 390 634	10 883 930	**14 016 545**

35 INTEREST INCOME

	Consolidated		Separate	
US$	**2019**	2018	**2019**	2018
Loans and advances	**49 207 089**	46 597 931	**–**	–
Lease finance	**890 865**	961 386	**–**	–
Treasury Bills	**17 041 258**	15 510 201	**–**	–
Placement with other banks	**2 720 628**	23 409 515	**2 703**	–
Treasury Notes	**8 742 458**	71 945	**–**	–
Corporate bonds	**252 156**	6 468 725	**(99 877)**	602 274
Promissory Notes	**58 673**	2 049 899	**–**	–
	78 913 127	95 069 602	**(97 174)**	602 274

36 INCOME FROM INVESTMENTS

	Consolidated		Separate	
US$	**2019**	2018	**2019**	2018
Dividend income	**471 332**	1 009 700	**186 706**	6 200 152
Movement in fair value of investments at FVTPL (note 14)	**(783 008)**	1 403 633	**–**	–
Movement in fair value of investment property (note 16)	**(1 316 438)**	–	**–**	–
	(1 628 114)	2 413 333	**186 706**	6 200 152

37 GAINS ON BARGAIN PURCHASE

On 22 November 2019, the Group acquired 100% of issued capital of Bank of India (Botswana) Limited (BIOB), obtaining control of BIOB. BIOB was a commercial bank and therefore qualifies as a business as defined by IFRS 3 *Business Combinations*. The acquisition is a good strategic fit for our business in Botswana.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out below:

US$	**2019**	2018
Fair value of net assets acquired	**2 436 573**	–
Consideration transferred	**(2 340 931)**	–
Gain on bargain purchase	**95 642**	–

37 GAINS ON BARGAIN PURCHASE *(CONTINUED)*

a) Fair value of net assets acquired

US$	2019	2018
Cash and cash equivalents	1 595 431	–
Loans and advances	8 220 893	–
Other receivables	47 804	–
Property and equipment	59 524	–
Total liabilities	(7 485 866)	–
Effects of changes in exchange rate	(1 213)	
Net assets acquired	2 436 573	–
Gain on bargain purchase	(95 642)	–
Consideration transferred	2 340 931	
Consideration discharged by:		
Cash	2 227 251	–
Contingent Consideration	113 680	–
	2 340 931	–

The acquisition of Bank of India Botswana by subsidiary FCB Botswana resulted in a gain on bargain purchase as the fair value of net assets acquired exceeded the fair value of the consideration for the acquisition. A gain on bargain purchase has been recognised in the income statement in accordance with IFRS 3 – *Business Combinations*.

The fair value of the contingent consideration arrangement of US$ 113 680 was estimated by applying the probability of default method for estimating the fair value of specified advances.

b) Cash flow for acquisition of business, net of cash acquired

US$	2019	2018
Total cash consideration	2 227 251	–
Less: Cash and cash equivalents acquired	(1 595 431)	–
Net cash in-flow	(631 820)	–

38 STAFF AND TRAINING EXPENSES

	Consolidated		Separate	
US$	2019	2018	2019	2018
Salaries and wages	26 707 578	38 833 872	2 496 712	2 510 640
Training and other staff costs	6 732 697	7 293 620	434 736	146 748
Contributions to defined contribution plans	1 660 038	2 794 547	–	–
	35 100 313	48 922 039	2 931 448	2 657 388

39 OTHER EXPENSES

	Consolidated		Separate	
US$	**2019**	**2018**	**2019**	**2018**
Auditor's remuneration	**808 270**	888 033	**75 056**	72 014
Bank charges	**1 084 586**	1 603 084	**11 833**	7 132
Directors' expenses and remuneration	**745 340**	670 970	**157 466**	65 487
Donations	**17 604**	31 643	**–**	–
Electricity	**622 986**	595 668	**–**	4 455
Fines and penalties	**101 863**	53 663	**3 697**	–
Fuel	**44 511**	19 769	**–**	–
Insurance	**870 419**	2 100 217	**–**	13 468
Legal and consultancy fees	**2 134 786**	2 202 071	**428 262**	601 036
Marketing costs	**1 700 384**	2 403 145	**25 266**	186 978
Motor vehicle running costs	**350 973**	556 791	**8 183**	15 490
Operational losses	**1 227 821**	1 166 125	**–**	–
Other administration costs	**13 402 677**	4 243 121	**134 817**	326 240
Postage	**152 065**	173 668	**632**	71
Printing and stationery	**1 128 766**	1 771 228	**2 409**	10 181
Professional subscriptions	**265 633**	109 244	**324**	–
Repairs and maintenance	**407 886**	328 938	**2 265**	3 391
Restructuring and acquisition expenses	**–**	2 902 347	**–**	–
Telephone expenses	**596 441**	2 774 176	**9 119**	4 005
Travel expenses	**2 448 692**	2 280 239	**244 746**	598 950
Water	**10 787**	86 505	**–**	–
	28 122 490	26 960 645	**1 104 075**	1 908 898

40 IMPAIRMENT LOSS ON LOANS AND ADVANCES

	Consolidated	
US$	**2019**	**2018**
Impairment allowance on loans		
Impairment charge	**8 983 284**	7 134 093
Recoveries	**(1 644 426)**	(2 679 604)
	7 338 858	4 454 489
Impairment allowance on finance leases		
Impairment charge	**846 981**	731 604
Recoveries	**(385 612)**	(652 463)
	461 369	79 141
Impairment allowance on other financial assets		
Impairment charge	**1 767 505**	119 686
Recoveries	**(20 313)**	(486 898)
	1 747 192	(367 212)
Total impairment loss on financial assets	**9 547 419**	4 166 418
Comprising:		
Impairment allowance on loans		
Specific impairment charges	**5 127 618**	5 295 169
Collective impairment charges	**2 211 240**	(840 680)
	7 338 858	4 454 489
Impairment allowance on finance leases		
Specific impairment charges	**545 264**	79 939
Collective impairment charges	**(83 895)**	(798)
	461 369	79 141
Impairment allowance on other financial assets		
Collective impairment charges	**1 747 192**	(367 212)
Total impairment loss on financial assets	**9 547 419**	4 166 418

Included in the other financial assets is impairment of US$ 755 177 for money market investments (note 9), impairment of the RBZ receivable and other assets of US$ 624 255 (note 22), US$ 330 681 for repurchase agreements (note 12) and US$ 37 080 for cash equivalents (note 8).

41 PROVISIONS

	Staff retention incentive	Outstanding employee leave	Others	Total
Balance as at 1 January 2019	**2 110 112**	**483 035**	**(894 557)**	**1 698 590**
Net movement during the period	**(660 895)**	**(263 696)**	**1 479 722**	**555 131**
Balance as at 31 December 2019	**1 449 217**	**219 339**	**585 165**	**2 253 721**
Balance as at 1 January 2018	2 035 445	340 274	–	2 375 719
Net movement during the period	74 667	142 761	(894 557)	(677 129)
Balance at at 31 December 2018	2 110 112	483 035	(894 557)	1 698 590

The staff retention incentive represents a provision for performance based staff incentive and is included in staff costs. Employee entitlements to annual leave are recognised when they accrue to employees. The provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date and the charge is recognised in profit or loss within "staff costs".

42 LOANS PAYABLE

During the year 2017, FMBCH, obtained loan facilities of US$ 6.5 million from related parties for the purpose of discharging the purchase consideration for acquisition of shares in FCB Zimbabwe. These loans are unsecured and bear an interest of 9% pa, with the first interest payment due one year after drawdown and thereafter every quarter. The principal amount including any interest outstanding is repayable after six years.

A further loan of US$ 9 450 009 was obtained in 2019. This is payable over four years with an interest rate of 8%, the interest is payable on a yearly basis with the principal due at the maturity of the loan.

The principal is payable as follows:

	Consolidated and separate		
US$	**2019**	2018	Due date
Premier Capital (Mauritius) Limited	**1 250 000**	1 250 000	**3 August 2023**
Prime Bank Limited	**3 250 000**	3 250 000	**3 August 2023**
Mrs Meeta Anadkat	**1 000 000**	1 000 000	**31 July 2023**
Pipal Limited	**1 000 000**	1 000 000	**1 August 2023**
Farouk Ismail	**9 450 009**	–	**3 September 2023**
	15 950 009	6 500 000	

43 REDEEMABLE PREFERENCE SHARES

During the year 2017, FMBCH concluded an agreement with Barclays Bank PLC (BBPLC), for the acquisition of the 81% of the issued share capital in FCB Zimbabwe (holding company of First Capital Bank Limited (Zimbabwe) – ex-Barclays Bank of Zimbabwe Limited). Payment for the acquisition was made partly through cash consideration of US$ 6.6 million and partly by issue to BBPLC of 10 786 747 redeemable preference shares of US$1.00 each in the capital of the Company.

Preferred dividend

The Preference shareholders shall be entitled to be paid out of profits or other reserves available for distribution a fixed cumulative preferential dividend of 5% per annum thereon in priority to any payment of any distribution to the holders of any other class of shares. The holder has no voting right at any General Meeting.

Redemption

The Company may, at its absolute discretion, subject to law, redeem or buy back the Preference Shares (in whole or in part) together with a sum equal to the prorated Preferred Dividend payable in respect of the relevant financial year, plus any Preferred Dividend accrued but not paid from previous financial years.

The holders of the preference shares shall have the right to require the Company to redeem the whole of the preference shares when there is a change of control of the company.

Convertibility into ordinary shares

In the event that the preference shares are not redeemed as provided, the holder shall be entitled to convert all its shares into full ordinary shares by providing a conversion notice to the Company. Each preference share shall be converted into ordinary shares at a predetermined conversion price of US$ 0.0472.

Status and ranking of the redeemable preference shares

The preference shares constitute unsecured and subordinated obligations of the Company and accordingly rank junior to all secured and unsubordinated creditors of the Company but ahead of ordinary shareholders. The preference shares have been classified as a financial liability in the balance sheet.

44 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

	Consolidated	
US$	**2019**	**2018**
Equity instruments	**1 664 939**	1 793 644
Represented by		
Investment in Zimswitch Ltd	**1 561 209**	1 749 922
Investment in Sociedade Interbancária de Moçambique (SIMO)	**103 730**	44 820
Effect of changes in exchange rate	**–**	(1 098)
	1 664 939	1 793 644

Savings bonds and treasury bills are measured at fair value and held to collect contractual cash flows and to sell if the need arises.

Financial assets at FVOCI represent shares held by banks in the Group in local switch companies. FCB Zimbabwe holds 11.98% of the issued share capital of Zimswitch Limited and First Capital Bank S.A. (Mozambique) (FCB Mozambique) holds 0.5% of SIMO's issued share capital. Additional investment of US$ 59 758 was made in SIMO by FCB Mozambique during a rights offer with the 0.5% shareholding remaining unchanged. Directors have used the dividend growth model to value FCB Zimbabwe's stake in Zimswitch Limited. In Mozambique, there is no active market for this financial instrument. The switch is not fully operational and fair value cannot be reliably determined. The investment has therefore been measured at cost.

The Group has no intention to dispose of the investments. Furthermore, all relevant information available at the reporting date indicates that there is no objective evidence that could indicate that these financial assets would be impaired and, as such, no impairment was raised.

45 BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic and diluted earnings per share at 31 December 2019 was based on profit attributable to ordinary shareholders of (US$ 4 974 291) (2018: US$ 16 601 206) and a weighted average number of ordinary shares outstanding of 2 458 250 000 (2018: 2 340 260 959) calculated as follows:

	Consolidated		Separate	
	2019	2018	**2019**	2018
Basic earnings per share				
Profit attributable to ordinary shareholders (US$)	**(4 974 291)**	16 601 206	**(3 603 856)**	3 374 920
Weighted average number of ordinary shares in issue	**2 458 250 000**	2 340 260 959	**2 458 250 000**	2 340 260 959
Basic earnings per share (US cents)	**(0.20)**	0.71	**(0.15)**	0.14

46 DIVIDENDS

No dividend has been declared by the Company for the year ended 31 December 2019 (2018: Nil).

47 CONTINGENT LIABILITIES

In common with other banks, the Group companies business involves acceptances, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

The contractual amount of the Group companies' off balance sheet financial instruments that commit it to extend credit to customers are as follows:

	Consolidated		Separate	
US$	**2019**	2018	**2019**	2018
Acceptances and letters of credit	**38 721 329**	94 617 788	**–**	–
Financial guarantees	**56 779 103**	57 420 571	**–**	–
	95 500 432	152 038 359	**–**	–
Other contingent liabilities				
Legal claims	**990 828**	495 526	**10 000 000**	–

Contingencies in respect of letters of credit will only crystallise into an asset or a liability when bills are presented in accordance with the terms and conditions of payment of the individual letters of credit. Contingencies in respect of guarantees and performance bonds issued will only crystallise into an asset and a liability in the event of default by the relevant counterparty.

Other contingent liabilities represent civil litigation matters that will crystallise into a liability only in the unlikely event of an unfavourable judgement.

FMBCH entered into an agreement to act as a guarantor of two US$ 10 000 000 loan facilities to its subsidiaries First Capital Bank Plc (Malawi) and FCB Botswana separately from lender FMO on 6 December 2019. This loan facility is for on-lending to each banks customers.

48 RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties during the year:

Name of related parties	Relationship	Nature of transactions	2019 US$	2018 US$
First Capital Bank Plc (Malawi)	Subsidiary	Other payables	**(2 438 701)**	(1 484 233)
First Capital Bank Plc (Malawi)	Subsidiary	Group shared services	**1 331 835**	809 082
First Capital Bank Plc (Malawi)	Subsidiary	Other receivables	**116 545**	–
First Capital Bank Plc (Malawi)	Subsidiary	Other assets	**–**	6 200 152
First Capital Shared Services Ltd	Subsidiary	Loan receivable	**(282 187)**	–
First Capital Bank Zambia Limited	Subsidiary	Loan receivable	**1 824 176**	1 161 939
First Capital Bank Zambia Limited	Subsidiary	Group shared services	**461 386**	378 042
First Capital Bank Zambia Limited	Subsidiary	Other receivables	**40 110**	–
Afcarme Zimbabwe Holdings (Private) Limited, First Capital Bank Limited (Zimbabwe)	Subsidiary	Interest on loan payable	**(56 000)**	(3 123)
Afcarme Zimbabwe Holdings (Private) Limited, First Capital Bank Limited (Zimbabwe)	Subsidiary	Group shared services	**1 715 941**	1 763 043
Afcarme Zimbabwe Holdings (Private) Limited, First Capital Bank Limited (Zimbabwe)	Subsidiary	Other payables	**(228 436)**	–
First Capital Bank S.A. (Mozambique)	Subsidiary	Other receivables	**165 697**	–
First Capital Bank S.A. (Mozambique)	Subsidiary	Subordinated debt	**(817 889)**	–
First Capital Bank S.A. (Mozambique)	Subsidiary	Interest on subordinated debt	**(142 470)**	–
First Capital Bank S.A. (Mozambique)	Subsidiary	Commitment fees receivable	**–**	1 333
First Capital Bank S.A. (Mozambique)	Subsidiary	Group shared services	**115 790**	–
First Capital Bank Limited (Botswana)	Subsidiary	Other receivables	**28 769**	–
First Capital Bank Limited (Botswana)	Subsidiary	Preference shares	**480 355**	1 995 000
First Capital Bank Limited (Botswana)	Subsidiary	Group shared services	**455 119**	–
First Capital Bank Limited (Botswana)	Subsidiary	Dividend income on preference shares	**186 706**	–
JTC Fiduciary Services (Mauritius) Limited	Administrator and secretary	Administrative and secretary fees	**–**	(62 584)
Premier Capital (Mauritius) Limited	Shareholder	Loans payable	**–**	–
Mrs Meeta Anadkat	Immediate family member of a shareholder	Loans payable	**–**	–
Prime Bank Limited	Shareholder	Loans payable	**–**	–
Premier Capital (Mauritius) Limited	Shareholder	Interest on loans payable	**(115 392)**	(112 500)
Mrs Meeta Anadkat	Immediate family member of a shareholder	Interest on loans payable	**(92 568)**	(90 000)
Prime Bank Limited	Shareholder	Interest on loans payable	**(300 836)**	(292 500)

48 RELATED PARTY TRANSACTIONS (CONTINUED)

Outstanding balances with related parties as at 31 December 2019 as follows:

			US$	
Name of related parties	**Relationship**	**Nature of balances**	**2019**	**2018**
First Capital Bank Plc (Malawi)	Subsidiary	Other payables	**(2 438 701)**	–
First Capital Bank Plc (Malawi)	Subsidiary	Other receivables	**116 545**	–
First Capital Bank Plc (Malawi)	Subsidiary	Group shared services	**1 331 835**	–
First Capital Shared Services Ltd	Subsidiary	Other receivables	**3 209 752**	1 161 939
First Capital Bank Zambia Limited	Subsidiary	Group shared services	**226 745**	378 042
First Capital Bank Zambia Limited	Subsidiary	Other receivables	**40 110**	–
Afcarme Zimbabwe Holdings (Private) Limited, First Capital Bank Limited (Zimbabwe)	Subsidiary	Group shared services	**3 542 515**	1 763 043
Afcarme Zimbabwe Holdings (Private) Limited, First Capital Bank Limited (Zimbabwe)	Subsidiary	Other payables	**1 715 941**	–
Afcarme Zimbabwe Holdings (Private) Limited, First Capital Bank Limited (Zimbabwe)	Subsidiary	Other receivables	**(228 436)**	–
First Capital Bank S.A. (Mozambique)	Subsidiary	Subordinated debt	**–**	817 889
First Capital Bank S.A. (Mozambique)	Subsidiary	Commitment fees receivable	**–**	1 333
First Capital Bank S.A. (Mozambique)	Subsidiary	Group shared services	**–**	378 042
First Capital Bank S.A. (Mozambique)	Subsidiary	Other receivables	**28 769**	–
First Capital Bank Limited (Botswana)	Subsidiary	Preference shares	**2 475 355**	1 995 000
First Capital Bank Limited (Botswana)	Subsidiary	Group shared services	**145 262**	402 337
First Capital Bank Limited (Botswana)	Subsidiary	Other receivables	**43 248**	–
First Capital Bank Limited (Botswana)	Subsidiary	Dividend income on preference shares	**94 631**	–
JTC Fiduciary Services (Mauritius) Limited	Administrator and secretary	Administrative and secretary fees	**(4 500)**	–
Premier Capital (Mauritius) Limited	Shareholder	Loans payable	**(1 250 000)**	(1 250 000)
Mrs Meeta Anadkat	Immediate family member of a shareholder	Loans payable	**(1 000 000)**	(1 000 000)
Prime Bank Limited	Shareholder	Loans payable	**(3 250 000)**	(3 250 000)
Premier Capital (Mauritius) Limited	Shareholder	Interest on loans payable	**(19 062)**	(18 183)
Mrs Meeta Anadkat	Immediate family member of a shareholder	Interest on loans payable	**(15 250)**	(14 795)
Prime Bank Limited	Shareholder	Interest on loans payable	**(49 562)**	(48 082)

49 DIRECTORS' FEES AND EXPENSES

	Consolidated		Separate	
US$	**2019**	2018	**2019**	2018
Executive Directors	**690 073**	1 024 517	**690 073**	1 024 517
Key Management Personnel	**1 660 907**	1 671 682	**–**	–
Non-Executive Directors	**745 340**	670 970	**157 466**	65 487
	3 096 320	3 367 169	**847 539**	1 090 004

50 EVENTS AFTER THE REPORTING DATE

COVID-19

Novel Coronavirus (COVID-19) was declared as a global pandemic by the World Health Organisation in March 2020, which has affected the world economy, including countries where the Group has operations, leading to volatility in financial markets. The associated economic impact of the pandemic is highly dependent on variables that are difficult to predict.

The Group evaluated early the likely impact of COVID-19 and put plans in place in advance of any lockdown to ensure that we would continue to operate effectively and efficiently while working remotely. The planning commenced at Group level in Mauritius, and this was subsequently leveraged across the Group's operating subsidiaries.

While in two of the five operating countries there have been lockdowns, through careful planning we were able to run operations successfully while people worked remotely with little impact in service and controls. As we manage through this crises, the executive management team meet regularly to review operations, anticipate and manage any issues, with both Group and country boards being updated on a regular basis.

We have in addition conducted an extensive review of our operations to assess any potential impact across our credit book, liquidity and also our projected operating results for the year. While we expect some likely impact, we do not expect this to be material, as we closely monitor operations and take proactive steps to manage the risks. As such, we do not expect any material issues to affect the Group as a result of COVID-19. However, the actual impact of COVID-19 may differ.

The Group company is encouraging its customers through various communication channels to transact using electronic channels and cards and this will minimize the decline in transactions volumes. The Group has also put in some measures to manage credit risk at sector and customer level to minimize the credit risk impact.

No other events have occurred between the date of the Statement of Financial Position and the date of approval of the financial statements, which require adjustment or disclosure in the financial statements.

Zimbabwe's exchange rate

In March 2020, the Government of Zimbabwe pegged the exchange rate of the Zimbabwe Dollar against the United States Dollar at 1:25.

51 CHANGE IN FUNCTIONAL CURRENCY

2018 functional currency assessment for FCB Zimbabwe

The Group's subsidiary, FCB Zimbabwe, assessed its functional currency for the year ended 31 December 2018 using same IAS 21 primary and secondary indicators. Based on the IAS 21 considerations FCB Zimbabwe concluded that its functional currency had changed from US$ to RTGS dollars from 1 October 2018. However, as at 31 December 2018 the RTGS dollar had not been promulgated legally as a currency. Statutory Instrument (S.I) 33 commissioned the RTGS dollar as a currency from 22 February 2019 and prescribed that all United States Dollar ($) assets and liabilities before 22 February 2019 must be valued at 1:1 to the RTGS dollar.

For Group reporting purposes in accordance to International Financial Reporting Standards, the financial statements of FCB Zimbabwe were translated to US$ using a closing rate of US$ 1:3.62 for the Statement of Financial Position and an average rate of US$ 1:3.27 for the Income Statement. The exchange rates are best estimate at the date of reporting.

2019 functional currency assessment for FCB Zimbabwe

Statutory instrument (S.I) 33 of 2019 introduced RTGS dollar (ZWL) as a currency effective 22 February 2019 and subsequently. Statutory instrument (S.I) 142 of 2019 promulgated Zimbabwe dollar (ZWL) as a currency replacing the RTGS dollar therefore the Bank adopted the ZWL as the functional and presentation currency effective this date. Assets and liabilities as at 20 February 2019 denominated in US$ were converted to ZWL at a rate of 1:1, the rate that was existing at the day of change in currency. The impact of the change in currency was accounted for in the statement of comprehensive income.

From January 2019 to 22 February 2019 the United States Dollar ($) was the functional currency.

As at the reporting date the currency has depreciated to a rate of 16.7734:1, the rate at which the balance sheet has been converted.

52 EXCHANGE RATES USED FOR TRANSLATION

	Closing rate	Average rate	Closing rate	Average rate
Entity	**2019**	**2019**	**2018**	**2018**
Afcarme Zimbabwe Holdings (Private) Limited	**16.77**	**16.77**	3.62	3.27
First Capital Bank Limited (Botswana)	**10.58**	**10.72**	10.70	10.18
First Capital Bank Plc (Malawi)	**737.70**	**739.79**	729.12	726.09
First Capital Bank S.A. (Mozambique)	**61.00**	**61.89**	61.35	60.42
First Capital Bank Zambia Limited	**14.00**	**12.99**	11.90	10.62
First Capital Shared Services Limited	**36.35**	**35.66**	34.39	34.23

ABBREVIATIONS

FMBCH or the Company	FMBcapital Holdings Plc
the Group	First Capital Bank Plc (Malawi), First Capital Bank Zambia Limited, First Capital Bank Limited (Botswana), First Capital Bank S.A. (Mozambique), First Capital Shared Services Ltd and Afcarme Zimbabwe Holdings (Private) Limited, First Capital Bank Limited (Zimbabwe)
FCB Botswana	First Capital Bank Limited (Botswana)
FCB Malawi	First Capital Bank Plc (Malawi)
FCB Mozambique	First Capital Bank S.A. (Mozambique)
FCB Zambia	First Capital Bank Zambia Limited
FCB Zimbabwe	Afcarme Zimbabwe Holdings (Private) Limited, First Capital Bank Limited (Zimbabwe)
FCB Shared Services	First Capital Shared Services Ltd
ECL	Expected Credit Losses
FVTPL	Fair Value through Profit or Loss
FVOCI	Fair Value through Other Comprehensive Income
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
RBM	Reserve Bank of Malawi
US$	United States Dollars

CORPORATE INFORMATION

DIRECTORS	Date of appointment	Date of resignation
Terence Michael Davidson	18-Apr-17	N/A
Hitesh Natwarlal Anadkat	18-Apr-17	N/A
Francesco Ceccato	10-Feb-17	N/A
Christo Els	07-Oct-19	N/A
Mahendra Gursahani	05-Nov-19	N/A
Vedanand Singh Mohadeb	29-Sep-17	N/A
John Michael O'Neill	18-Apr-17	N/A
Rajkamal Taposeea	18-Apr-17	N/A
Dheeraj Dikshit	18-Apr-17	N/A

SECRETARY/ ADMINISTRATOR:
JTC Fiduciary Services (Mauritius) Limited
Suite 2004, Level 2
Alexander House
35 Cybercity
Ebène
Mauritius

REGISTERED OFFICE:
C/o JTC Fiduciary Services (Mauritius) Limited
Suite 2004, Level 2
Alexander House
35 Cybercity
Ebène
Mauritius

BRANCH OFFICE (MALAWI):
Livingstone Towers
Private Bag 122
Glyn Jones Road
Blantyre
Malawi

BANKER:
The Mauritius Commercial Bank Ltd
P.O. Box 52
Sir William Newton St.
Port Louis
Mauritius

SBM Bank (Mauritius) Ltd
Corporate Office, SBM Tower,
1 Queen Elizabeth II Avenue
Port Louis
Mauritius

AUDITOR:
Deloitte
7th Floor, Standard Chartered Tower
19 – 21 Bank Street
Cybercity
Ebène,72201
Mauritius

FMBcapital
HOLDINGS plc