FMBcapital HOLDINGS plc

Annual Report 2018

Belief comes first

BOTSWANA MALAWI MAURITIUS MOZAMBIQUE ZAMBIA ZIMBABWE

TABLE OF CONTENTS

TABLE OF CONTENTS

Our Annual Financial Statements

Shareholder information


First Capital
BANK

Introduction

ABOUT THIS REPORT

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 2018 to 31 December 2018.

FMBCH assumed control of the entire issued share capital of FMB (Malawi) following a corporate restructuring process in September 2017 and is currently the holding company for the Group.

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.

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 2018. 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

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

Assurance

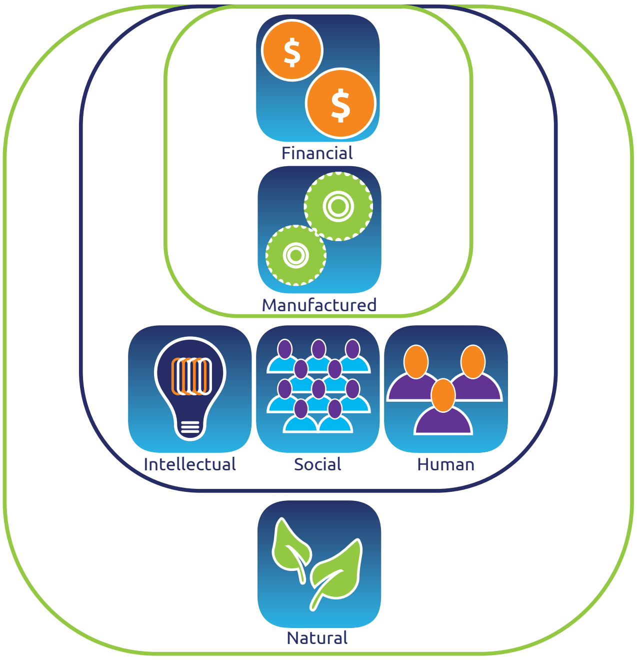
An independent audit of the Group's annual financial statements was performed by Deloitte Mauritius. Information contained in the report, is derived from the Group's own internal resources and from information available in the public domain.

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.

Feedback on report

We welcome your feedback on this report.
Please email your comments to
visha.baloomoody@fcssl.com



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 integrated report on 31 May 2019.

Terence Davidson
Chairman

Dheeraj Dikshit
Group Managing Director

Forward-looking statements

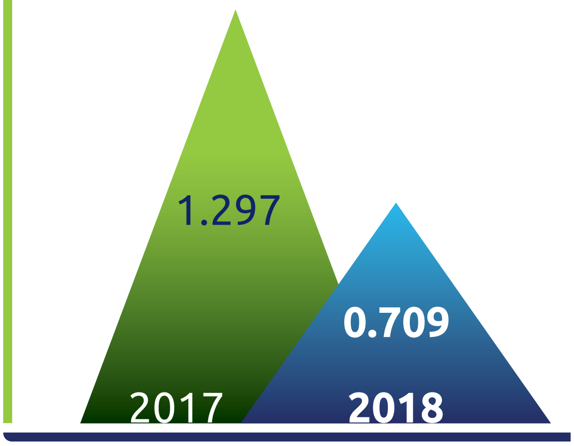
All forward-looking statements are based on beliefs and assumptions relative to information currently available to FMBCH's management. There can be no assurance that such statements will be accurate and actual results and future events could differ materially from those anticipated in such statements. 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.

Operational highlights

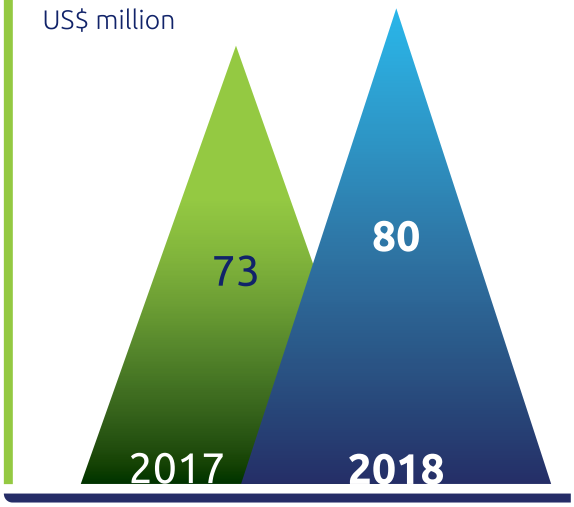
- Change of legal name to First Capital Bank in all markets
- Launch of First Capital Bank brand in Botswana, Malawi, Zambia, Zimbabwe
- Centralising shared services to Mauritius
- Migrating Information Technology (IT) services to Mauritius
- Integrating our Zimbabwe acquisition
- Key executive appointments
- Adoption of IFRS 9 and 15
- Broadening our shareholder base: Old Mutual investment

Financial highlights

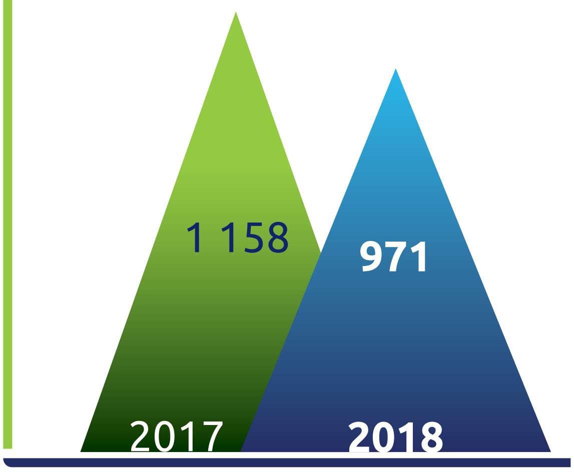
Earnings per share
US cents



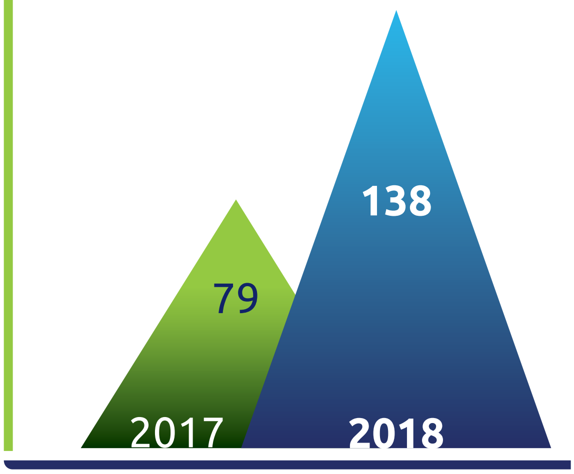
Shareholders' funds
US$ million



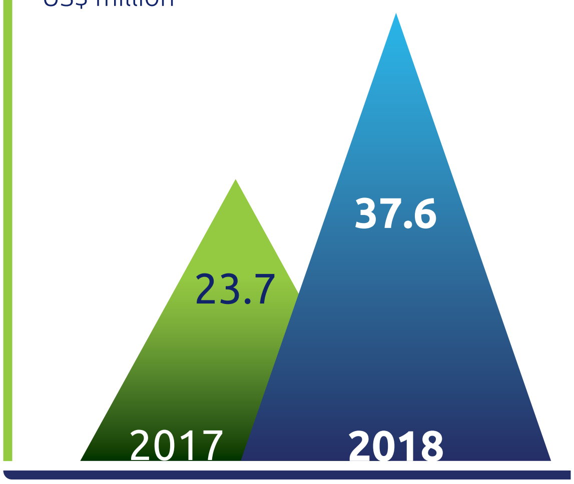
Total assets
US$ million



Total income
US$ million



Operating profit
US$ million

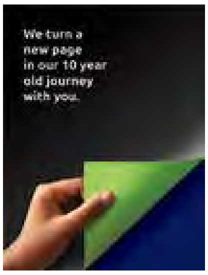


In 2018 our rebranding created a single brand and brand identity across four of our markets.

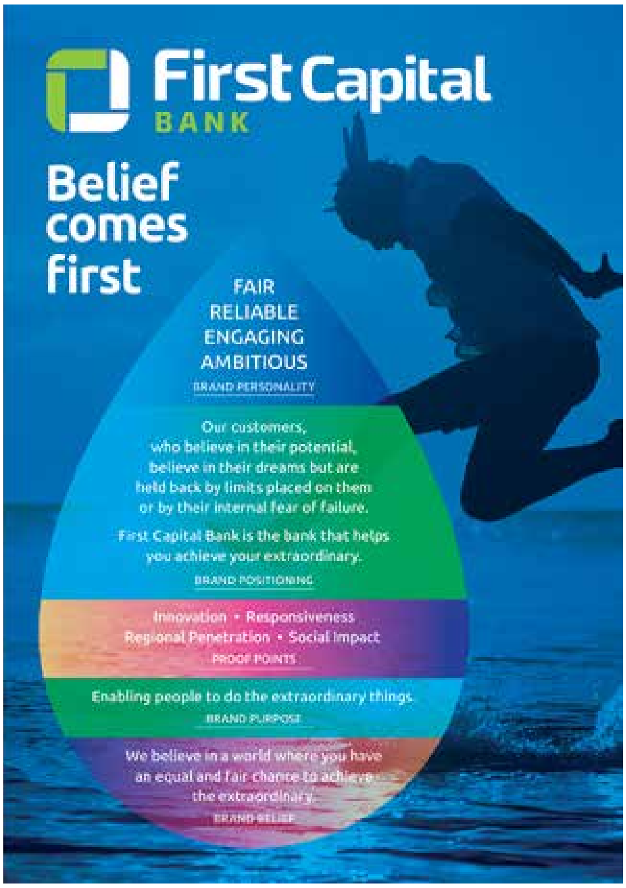
New visual identity

First Capital BANK

In October we simultaneously launched First Capital Bank – strengthening our synergy in the region and introducing a unified set of values and a cohesive visual identity.



This exercise will be completed in 2019 when Mozambique rebrands.



OUR VALUES

Internal launch

Botswana

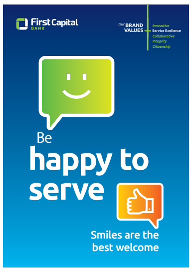
Malawi

Zimbabwe

Zambia

GROUP REBRANDING

OUR VALUES



Communications

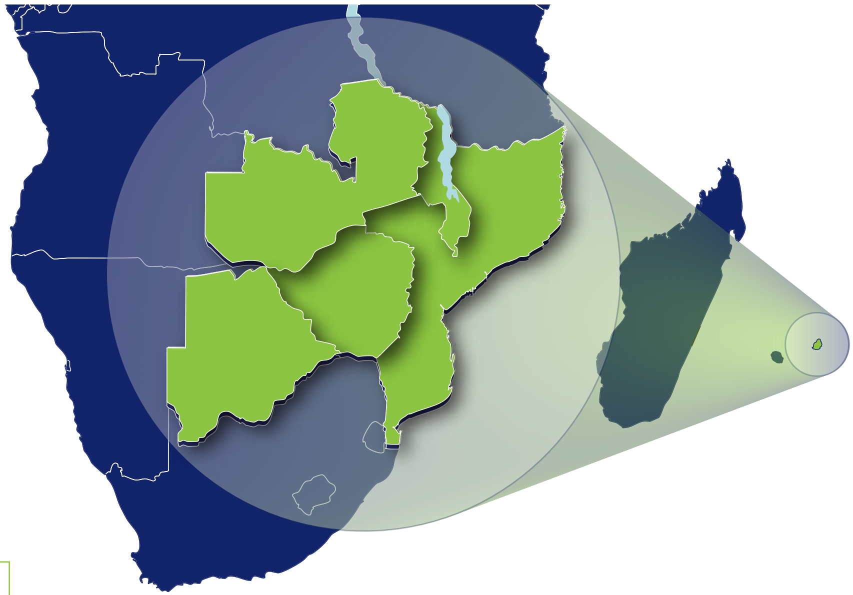
Customer launch

Branches and offices


First Capital House
First Capital
BANK

About FMBCH

OUR VISION, MISSION AND VALUES



VISION

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

MISSION

The Group aims to achieve this vision by:

- Expanding and consolidating its regional footprint
- 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.

VALUES

WE ARE CHAMPIONS OF INNOVATION

Embracing and encouraging brave ideas

WE ARE HAPPY TO SERVE

Good customer service starts with a warm and welcoming attitude

WE ARE COLLABORATIVE

Teamwork is the best way to create a winning culture and make everyone feel included

WE ARE PEOPLE OF INTEGRITY

Be honest, reliable and show respect for others

WE STRIVE TO BE A BETTER CITIZEN

Taking care of the environment and the people in our community

HISTORY

JUNE 1995

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

JULY 2002

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

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

2018

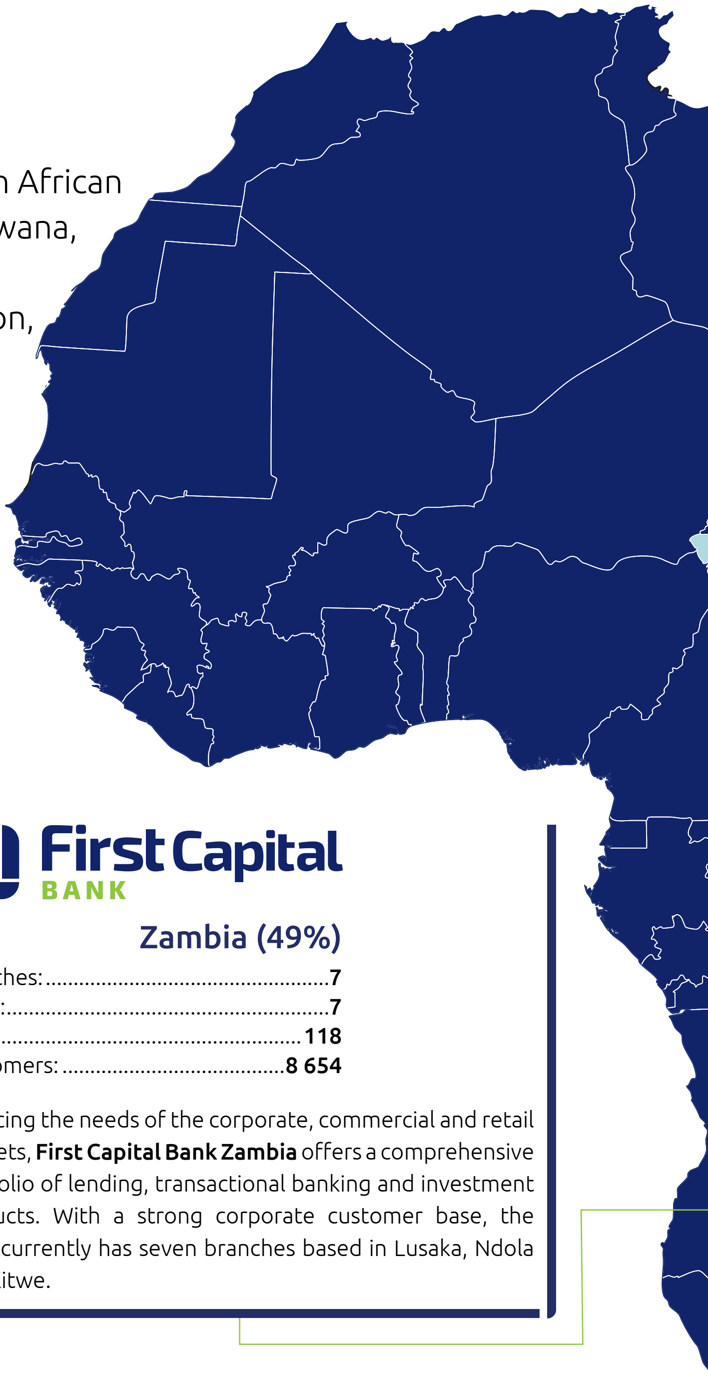
Botswana, Malawi, Zambia, Zimbabwe and Mozambique adopt one common name – First Capital Bank.

Botswana, Malawi, Zambia and Zimbabwe implement a rebrand adopting a common visual identity.

First Capital BANK

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$ 971 million, employs over 1 600+ staff and services the financial needs of over 850 000+ customers.



First Capital BANK

Botswana (38.6%)

Branches: 4
Loan Centres: 5
ATMs: 4
Staff: 166
Customers: 17 114

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

Zambia (49%)

Branches: 7
ATMs: 7
Staff: 118
Customers: 8 654

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

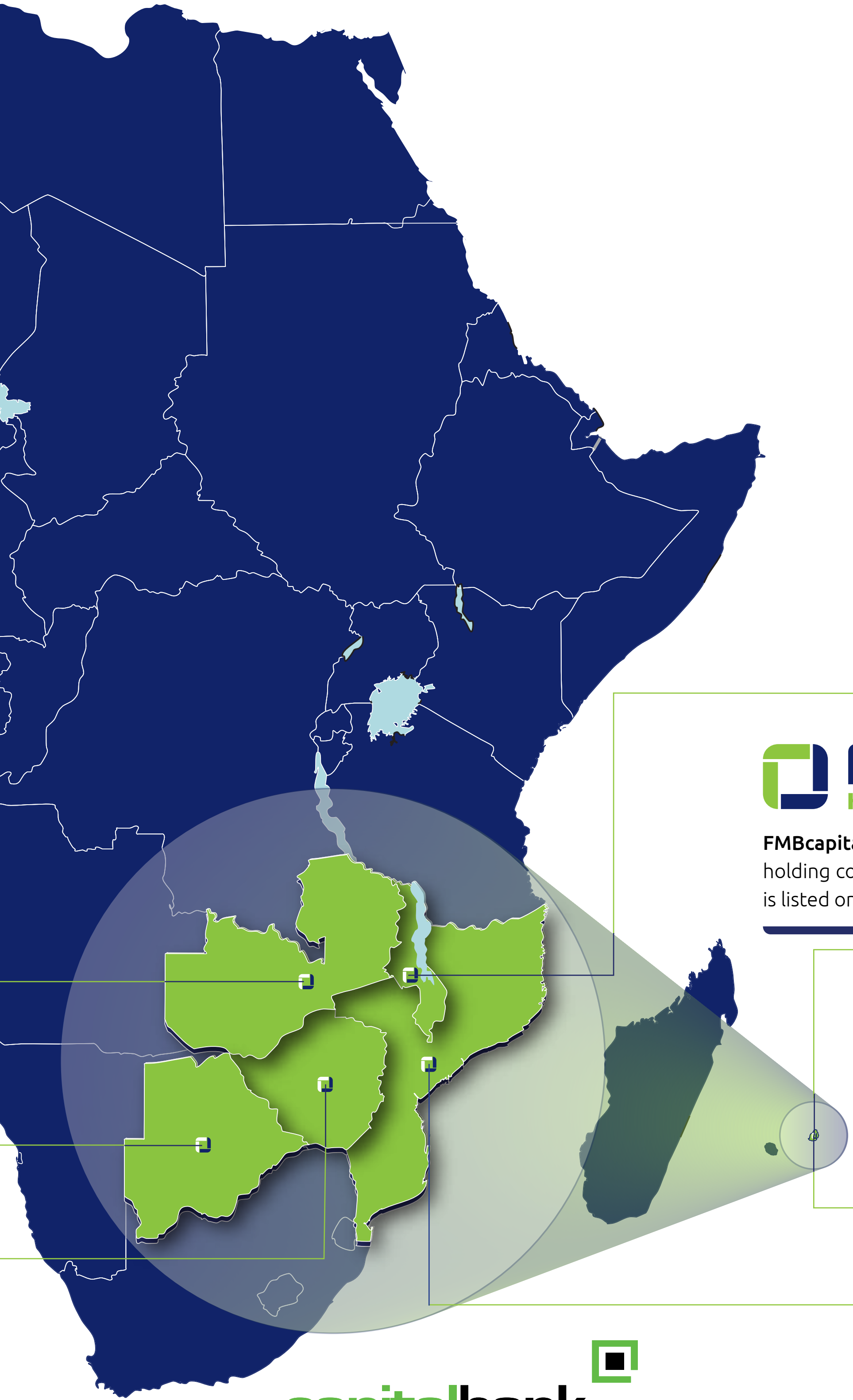
In association with BARCLAYS

Zimbabwe (42.7%)

Branches: 25
Service Centres: 2
ATMs: 48
POS Devices: 947
Staff: 718
Customers: 192 431

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.

WHAT WE DO AND WHERE WE DO IT



First Capital BANK

Malawi (100%)

Branches:	**31**
ATMs:	**65**
Onsite Banking Solutions:	**23**
POS Devices:	**112**
Staff:	**716**
Customers:	**632 900**

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.

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 ltd

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

capitalbank

Mozambique (80%)

Branches:	**4**
Service Centres:	**1**
ATMs:	**6**
POS Devices:	**72**
Staff:	**94**
Customers:	**16 096**

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.

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 markets in which we operate

First Capital BANK
Malawi
(100%)

First Capital BANK
Zambia
(49%)

First Capital BANK
Botswana
(38.6%)

capitalbank
Mozambique
(80%)

First Capital BANK
In association with BARCLAYS
Zimbabwe
(42.7%)

Resources and inputs

FINANCIAL

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

INPUTS
- Debt capital of US$ 34 million
- Customer deposits of US$ 721 million
- Shareholders' equity of US$ 79 million

MANUFACTURED

The facilities and general infrastructure that enables FMBCH to support business operations (tangible assets).

INPUTS
- 116 office buildings, branches and training centres (42 owned and 74 leased)
- 129 ATMs
- 1 131 POS devices
- IT infrastructure – two fully operational data centres in Malawi and Mauritius

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.

INPUTS
- 1 600+ permanent staff members
- Total staff cost US$ 48 922 039
- Experienced board, executive and general management
- Intellectual property (innovation, knowledge, expertise and experience)

SOCIAL AND RELATIONSHIP

The long-term relationships FMBCH has cultivated with key stakeholders and service providers.

INPUTS
- Sound relationships with both retail and corporate customers
- Partnerships with correspondent banks and leading financial services brands such as Visa, MasterCard, Hello Paisa and Moneygram
- CSR initiatives and programmes

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.

INPUTS
- The reputation of subsidiary bank brands
- Internal systems, processes and procedures
- Financial Service Provider licences in each country of operation
- Information technology

Value created

- Total income US$ 138 million
- Profit after tax of US$ 31 million
- Total assets of US$ 971 million

- 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

- 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

- Successfully serviced the diverse needs of 850 000+ 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

- 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

Our value creation process is underpinned by:

- Offering comprehensive and innovative products and services
- Deploying advanced IT delivery platforms
- Prioritising customer service levels
- Providing strong leadership and management
- Implementing strong and robust principles of corporate governance

Our products and services

Business, corporate and institutional banking

Transactional accounts
- Current accounts
- 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

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.

Employees

1 600+ permanent staff members

Our employees' interests

- Job security
- Fair remuneration
- Skills development
- Career opportunities
- Health and welfare benefits

Our engagement strategy

- Formal and informal meetings as part of the normal conduct of business at all levels – providing briefings and organisational updates
- Hosting employee events such as the rebranding orientation led by the CEO, Board members and Executive in 2018
- Online communication
- Providing training facilities and sessions

Our response

- Fair, market-related remuneration
- Internal and external training
- Pension and medical aid in all countries

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 850 000+ 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

- 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

Our engagement strategy

- 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

Our response

- 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

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

1 736 shareholders made up of individuals, foreign and local companies, trusts, pension funds, banks and other organisations

Our shareholders'/investors' interests

- Consistent financial performance and dividend payments
- Consistent growth in asset value
- Long-term stability
- Sound governance
- Regular reporting and disclosure

Our engagement strategy

- Formal report back at the Annual General Meeting
- Publication of Interim and Annual Reports
- Publication of corporate announcements and updates

Our response

- 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

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

- Secure working environment, delivering mutually beneficial relationships
- Long-term stability
- Transparency, integrity and reliability

Our engagement strategy

- Constant interaction in the course of day to day business at all levels of the relationship
- Regular high-level operational meetings and reviews

Our response

- Appropriate infrastructure and resources with which to do business
- Continuity of operations
- Sound corporate governance

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

- Community development and social contributions
- Job creation
- Alignment to country transformation targets

Our engagement strategy

- Ascertaining and assessing the needs of our communities
- Funding and managing CSR initiatives at individual country level

Our response

- Funded CSI projects in our communities
- CSR focus on health, education and sport – with a broad range of beneficiaries

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

- Compliance
- Capital adequacy and liquidity
- Risk and cybercrime management

Our engagement strategy

- Daily business interactions
- Country CEOs are in regular contact with their regulators

Our response

- Compliance with various regulatory and prudential requirements
- Good corporate citizenship such as promptly paid taxes
- Risk mitigation

Outcome

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

How we determine our material matters

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.

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 are matters on which we do not compromise and keep top of mind at every turn.

OUR MATERIAL MATTERS 2018

1. Maintain consistent, steady growth

Why this is important to FMBCH

With a solid track record of financial strength and stability, FMBCH intends to continue growing in a conservative and sustainable manner.

2017 was a landmark year due to the significant upscaling of our operations. We acquired a controlling interest in Barclays Bank of Zimbabwe Limited (now called First Capital Bank Zimbabwe), while our group corporate restructuring laid the foundation for future growth. Our focus for 2018/19 is on organic growth across existing Group operations and consolidating FMBCH's position as a leading regional financial services provider.

Our current strategic priorities are to grow our brand and services, drive efficiencies through a shared services platform in Mauritius and create economies of scale across our existing operations.

Our response

We will 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.

The Group continues to invest in information technology and human resources with a view to continually improving operational efficiency, service delivery and resilience. In this regard, the recently completed corporate restructuring allows FMBCH to develop a shared services framework that would contribute to achieving economies of scale via the holding company in Mauritius.

We have made good progress on integrating our Zimbabwe operation during 2018 and aim to conclude this exercise in 2019. The bank's 100+ years' history in Zimbabwe coupled with a robust distribution network provides a strong foundation for sustainable growth once we complete the integration.

2. Grow our brand

Why this is important to FMBCH

The Group's recently concluded corporate restructuring was a significant milestone that resulted in all banking operations being directly held by FMBCH. This dovetails into our vision of becoming a leading financial services provider in the southern African region and a bank of choice for regional businesses. The Group's geographic footprint not only means that clients can avail themselves of banking services and solutions across markets seamlessly, but also that their relationship with us extends into new markets.

Our response

The Group's rebranding of its banking operations to 'First Capital Bank' was a defining moment as it enabled us to present a unified brand across the region. It also gave us an opportunity to refine our values and create an enabling culture across the Group based on ethics, values and sound governance. As per the transition arrangement agreed with Barclays Bank Plc, our Zimbabwe operation was cobranded as 'First Capital Bank in association with Barclays' for a period of two years.

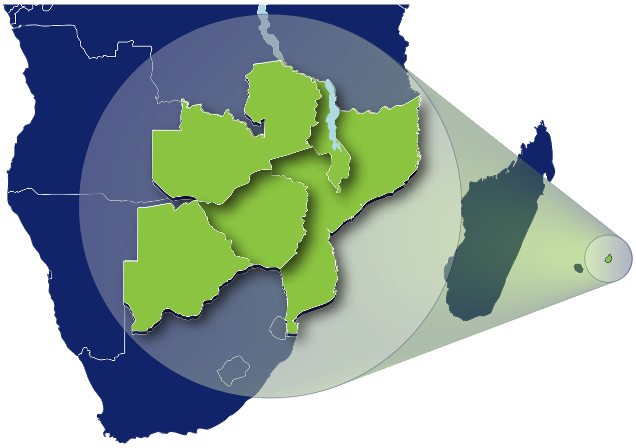
3. Successful migration of shared services to Mauritius

Why this is important to FMBCH

The centralisation of support functions proffers many benefits, notably standardisation of processes, enhanced compliance with regulations, improved controls and cost rationalisation arising from economies of scale and optimisation of IT infrastructure. A shared services framework also contributes to enhancement in service as local management can devote more time to customers. Making Mauritius our shared services centre for select banking services and IT operations is strategically important as it would enable the Group to not only offer a consistent customer experience across all markets but also build capacity and resilience for sustainable long-term growth.

Our response

We plan to progressively migrate select support functions to Mauritius over an 18 to 24 month period. During this period, the Group will also develop the secondary IT infrastructure in Mauritius so as to achieve the strategic objective of having an alternate IT site to the existing centre in Malawi. Dedicated resources, including senior leadership of the Group, are managing the implementation of this initiative with oversight of the Group's Board of Directors.



4. Weathering current regional political issues

Why this is important to FMBCH

Although economic growth is gaining momentum, its intensity and impact varies widely from one market to another. This exposes the Group to unpredictable economic downturns caused by fluctuations in market conditions, including political shifts, social unrest or regulatory changes. The consequent upturn periods tend to provide counter-cyclic opportunities for higher profits.

Our response

We accept that each economy has its own business idiosyncrasies and trade patterns but the Group's strategic intent of geographical diversification in the SADC region aims to provide counter-cyclic mitigation against individual country risk. Additionally, we will continue to manage our business prudently so that we remain well positioned to optimise on opportunities as they emerge in our markets of operation.

Performance review 2018

I am pleased to report that in 2018 our Group made good progress building on the acquisitions of 2017 as well as the restructuring undertaken in the same year. This included a successful rebranding in four countries, establishing a centralised shared services platform in Mauritius and managing a smooth transition in Zimbabwe as we successfully integrated that acquisition into our operations.

Terence Davidson
Chairman of FMBcapital Holdings plc

OVERVIEW

Our regional diversification strategy is bearing fruit with Zambia, Mozambique and Botswana all having made good progress both in terms of growth in balance sheet and profit. In Zimbabwe, we successfully completed a complex and challenging migration from Barclays Plc IT systems to those of the Group. However, we faced continuous challenges there with numerous policy changes, macro-economic uncertainty and lack of business confidence in the economy.

As planned, our strategic positioning with a large geographic footprint provides resilience against these events. In Malawi and Zimbabwe, we continue to provide comprehensive banking and financial services solutions to all segments of the market whereas in Botswana, Mozambique and Zambia, our focus remains on servicing mid-to-large-scale businesses.

For the period under review, our Malawi bank's profits fell marginally. A continued reduction in interest rates impacted interest income and higher-than-normal operating costs were incurred because of the extensive once-off rebranding and corporate restructuring exercise. We completed the integration of Opportunity International Bank that we acquired in 2017 and made positive strides towards cost reductions.

In Botswana, business sentiment remained positive with strong GDP growth on the back of a recovery in the mining sector and a general increase in non-mining activity. Our business in Botswana maintained a trajectory of solid profit growth in 2018 bolstered by the deepening of customer wallet share, an increase in customer acquisitions and the launch of payroll lending solutions for the retail segment. The bank relocated its head office to newly acquired premises in Gaborone's business district while expanding the sales force and opening five new loan centres across the country.

Mozambique continues to suffer from decreased public and foreign investment as a result of its hidden debt crisis leading to a decline in real GDP growth. Despite this, it is pleasing to report that profitability was restored in our business there through significant operating changes, which resulted in steady balance sheet growth, both in deposits and lending, as well as containment of operating expenses. We made a number of management changes, including a change in the leadership, which have brought renewed energy into the business resulting in the bank acquiring a number of large and prestigious clients. On the ground, we will be shortly relocating our primary Maputo branch to the city's fast-growing new business district and making a foray into the provinces by opening a branch in Nampula.

In Zambia, economic growth continued mainly as a result of increased copper production as well as some significant investment in public infrastructure projects. The relative price stability in the country led the Central Bank to reduce the policy rate in February 2018. Our banking operations grew remarkably on the back of a robust upswing in the lending and deposit book coupled with a healthy increase in transactional income, notably from increased foreign exchange trading volumes. Our results were further boosted by the successful settlement of several large non-performing loans. The bank strengthened its presence in the Copper Belt by opening a branch in Kitwe in August 2018, taking its total branch network in the country to seven.

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 spiraling inflation. The introduction by the Central Bank of a new functional currency in February 2019, though a welcome development, has created fresh uncertainty and also retrospectively impacted our results for 2018. Nevertheless, the bank experienced strong revenue growth in 2018 together with a 27% increase in profits after tax. Notable achievements were the successful introduction of the co-brand in October 2018 in accordance with our transition agreement with Barclays, followed by a successful migration of IT systems from Barclays platforms to those of the Group within targeted deadlines.

STRATEGIC GROUP ACTIONS

Implementing a successful multi-faceted growth strategy across several geographies requires experienced and astute executive management. After a rigorous selection process, we appointed several qualified executives to the new positions of Group Heads for Digital and Information Technology, Human Resources and Audit. All have considerable multinational and Africa banking experience.

In October 2018, we rebranded our operations in four markets. In Botswana, Malawi and Zambia we now trade as 'First Capital Bank'. In Zimbabwe the business trades, and will until October 2020, as 'First Capital Bank in association with Barclays' as part of our trademark licensing agreement with Barclays plc. We anticipate rebranding Mozambique in late 2019 once all regulatory approvals have been received. The rebranding exercise gives us the opportunity to create a common brand identity, a common set of operating values and a common vision across all our operations. Ultimately, the rebranding will serve to strengthen our position as a regional group creating strong synergies in each market and across the region.

In December 2018 we raised additional share capital of approximately US$ 11.5 million through the issue for cash of 122 million ordinary shares to Old Mutual Investment Group. This financial injection will be used to fund short- to medium-term growth initiatives across the Group and enhance our position as a leading southern African banking group.

The year also witnessed significant milestones in the Group's corporate restructuring with the transfer of First Capital Bank Malawi's shareholding in First Capital Bank Zambia and First Capital Bank Botswana to FMBCH in December 2018 and February 2019 respectively. The transfer of the shareholding in First Capital Bank Mozambique to FMBCH is also expected to be concluded within the first half of 2019.

FINANCIAL RESULTS

For the purposes of the 2018 Group accounts we have determined that, although not officially recognised as such until 22 February 2019, the RTGS dollar became the *de facto* functional currency of our Zimbabwe operation with effect from 1 October 2018. In the absence of a quoted exchange rate, our best estimate, based on various sources of market information, was that by year end the RTGS dollar had depreciated to a value of 28 US cents from its previous parity with the US dollar. A significant proportion of our Zimbabwe assets are denominated in RTGS dollars which, at year end, translated to a much reduced US dollar equivalent causing a noticeable contraction in the 2018 group balance sheet. Furthermore, a charge to translation reserve of more than US$ 50 million has been recorded in other comprehensive loss.

The Group acquired its interest in Afcarme with effect from 11 October 2017 and, accordingly, consolidated operating profit for 2017 included US$ 5.5 million profit of our Zimbabwe operation for the period 11 October to 31 December 2017. Group operating profits of 2018 include a full year's operating results for Zimbabwe of US$ 19.2 million. However, in 2017, we recorded non-recurring gains on bargain purchases of US$ 18.7 million. Overall, the impact year on year was a decline of 11.5% in group profit before tax from US$ 42.5 million to US$ 37.6 million. Earnings per share attributable to members, which is calculated after deduction of significant interests attributed to minorities, particularly in Zimbabwe, decreased by some 44% from the prior year.

GROUP OPERATIONS

Creating a new IT foundation for a regional banking group spread across several countries requires innovative design and expert implementation. During 2018, the Group excelled at working through an intricate IT transition in Zimbabwe and establishing the framework for establishing and developing the Group shared services centre in Mauritius.

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, which meant realignment of several IT functions and processes as well as the introduction and enhancement of systems with a view to taking on increased processing volumes. 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.

Group and country Board meetings held in June 2018 at Club Makokola, Malawi

GOVERNANCE

In response to an increasingly complex governance landscape the Group has significantly bolstered its risk and compliance resources to manage and continually update our risk framework. A primary focus area for the current financial year is to ensure that our risk and compliance function is comprehensively understood and implemented from Board level down to all organisational layers.

Instilling effective governance structures at the Group level is essential and requires establishing a Board containing the right balance of skills. I am pleased to report that the Group Board comprises a mix of highly experienced independent non-executive and executive directors. Audit and risk committees are in place to provide the requisite governance oversight throughout the Group.

Our businesses in each country continue to operate with robust and effective governance structures. Each bank has its own Board, on which independent non-executive directors are well represented. Separate Board committees meet regularly to review key areas of risk, compliance, audit, credit and human resources.

Our executive team, working under the leadership of the Group Managing Director, provides the level of skills and experience necessary to ensure effective management of the Group's operations and its subsidiaries at every level. As outlined earlier, we have significantly enhanced our executive resources in 2018, with key appointments that complement the existing Group head office team.

In addition to our standard governance structures in 2018 the board prioritized:

Seamless migration to shared services

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. A systematic plan that progressively centralises these processes is under implementation and expected to be completed by late 2020.

Sam Matsekete, CEO First Capital Bank Zimbabwe, introducing the rebrand to the Zimbabwe Stock Exchange.

Driving ethics and good governance across the Group

Ethics, values and governance are all very important to Group culture and were further instilled throughout the Group through the rebranding exercise. This initiative was spearheaded by our senior executive team, which traveled from country to country presenting our collective vision to employees. Ethics and integrity truly form part of the Group's value system. The successful rebranding campaign was a defining moment for the Group that enabled us to create a common brand and culture across different countries.

Shareholder diversification

The cash subscription of approximately US$ 11.5 million by Old Mutual Investment Group to acquire 4.96% of our enhanced issued ordinary share capital was an important step in attracting new equity and diversifying our shareholder base and we will continue to ensure that the group is adequately capitalised to position us for future growth.

Compliance with IFRS 9

International Financial Reporting Standard 9 (IFRS 9), which the Group adopted effective 1 January 2018, addresses the accounting for financial instruments in terms of recognition, classification and measurement and accounting for impairment of financial assets. Adoption of this standard necessitated the development of new impairment models based on Expected Credit Losses to replace the Incurred Loss Models of the previous accounting standard, IAS 39. The Group is now fully compliant, with appropriate IFRS 9 models and processes implemented across all our countries of operation.

Adjustments to the carrying amounts of financial instruments on first adoption of IFRS 9 are recognised in the opening retained earnings figures for 2018 and comparative figures are not restated.

Regulatory compliance

FMBCH complies with The National Code of Corporate Governance for Mauritius (2016). The code contains guidance and a set of principles that regulate organisational practices. In addition, our operating businesses ensure compliance with corporate governance requirements in individual countries of operation and requirements of local regulators – primarily the central banks of each country, and additionally in the case of Malawi and Zimbabwe, the local stock exchanges.

FMBCH has access to a supervisory 'college' comprising representatives from the various central banks in jurisdictions where the Group is present. This college gathers periodically to review the Group's performance. Oversight by this college proactively drives compliance and consistency, keeping us consistently aware of multi-jurisdictional expectations, with each regulator offering specific perspectives.

BUSINESS SUSTAINABILITY

With critical technical and functional positions filled, we are now focusing on establishing a unified operating platform across the Group to extract various service and cost efficiencies. The world-class banking platform being developed for FMBCH will underpin the Group's long-term growth with specific emphasis on leveraging digital platforms for enhancing customer experience as well as streamlining operational processes.

Our present focus is to complete and consolidate all recently launched initiatives, with Zimbabwe receiving considerable management focus. Despite Zimbabwe's ongoing economic challenges, we have adopted a pragmatic approach to the future of the business, given the inherent strengths of the country. On the back of robust IT platforms, we expect to progressively expand the product and service offering in the country with a view to deepening wallet share and acquiring new customers. Having operated within Barclays' multinational culture for over 100 years, this business also has the potential to become a centre of excellence for enhancing various components of our group portfolio.

Continued downward pressure on policy rates is likely to impact lending margins and profitability in Malawi. In light of this the bank will maintain a conservative policy concentrated on growing its transactional banking business supported by various digital solutions coupled with selective lending. We will also continue to focus on operational efficiencies aimed at enhancing customer service experience and avoiding the waste of resources.

In recent years Mozambique's economic prospects were dimmed by economic scandal and currency volatility, but this economy is emerging from the doldrums as its energy sector progressively moves towards production of its extensive gas resources by 2022. Previous issues that we faced with system, language and cultural alignment have been resolved under new leadership and we aim to grow our Mozambique operation into a strong regional choice, albeit at a sustainable pace.

With favourable growth prospects in both Botswana and Zambia driven largely by continued global demand for diamonds and copper, we anticipate that these markets will respond well to the suite of banking services that the Group can introduce as our physical and online network rolls out.

COMMUNITY

Stakeholder relations with the community flow naturally into customer engagement and our corporate social responsibility (CSR) activities. Community projects have been focused on health, sports and education, with our biggest spend and most visible outreach programmes currently in Zimbabwe and Malawi. We will continue to focus on these three pillars by enhancing our contributions in Malawi and Zimbabwe and identifying suitable impact opportunities in our other territories.

CONCLUSION

In 2018, we set the stage for the FMBCH Group of the future, taking major strides towards the innovative and resilient banking group that we envisage for our customers.

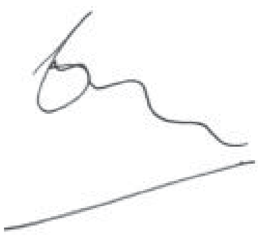
The foundation to enable us to put this strategy into motion was the establishment of our IT platform in Mauritius and the in-depth rebranding exercise performed throughout the Group. Both were successfully completed in 2018.

The roll-out of the new 'First Capital Bank' (FCB) brand, ethos and logo has enabled the bank's leadership to instil our values and a winning culture into the Group. It is now essential that we align our internal culture with the service and product promises that we offer.

THANKS

An enormous amount of work was undertaken in 2018 which has placed FMBCH into its current healthy and promising position of today. For this I want to thank the leadership and the entire workforce across the Group for their tireless contributions to the success of our business as we continue to pursue our vision to be a leading southern African banking group.

To all our stakeholders, we invite you to join us in conquering our present challenges and making 2019 another remarkable year for our clients and the Group.



Terence Davidson
Chairman of FMBcapital Group

OUR LEADERSHIP

BOARD OF DIRECTORS

Non-executive Directors

Mr Terence Davidson
Chairman

Appointed April 2017

Mr Davidson is a veteran banker having spent 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 bank operating in east Africa for five years. Mr Davidson works as an independent consultant and is on the Board of various companies including Prime Bank Kenya Ltd and Asilia Ltd.

Mr Kamal Taposeea
Non-executive Director

Appointed April 2017

LLM – LLB Barrister-at-Law

Mr Taposeea has over 30 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

Mr Hitesh 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 Shyam 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 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 Manon Thamothiram
(resigned March 2018)

Non-executive Director

Appointed September 2017

Fellow of the Institute of Chartered Secretaries Administrators (ICSA UK)

Mr Thamothiram is the Managing Director of Minerva Fiduciary Services (Mauritius) Limited. He has more than 25 years of experience, 15 of which in the financial services industry. He has wide experience in the establishment and administration of global businesses and collective investment schemes. He has held various positions with leading management companies in Mauritius.

Executive Directors

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 25 years' experience in corporate and commercial banking as well as retail banking and consumer assets.

Board Committee memberships:
Risk and compliance committee

Mr Sean O'Neill
Group Strategy and Corporate Finance

Appointed September 1996

Fellow of the Institute of Chartered Accountants, Ireland

Mr O' Neill's professional working experience of over 40 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

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 17 years' experience in retail banking, retail broking, commercial banking and banking operations.

Mr Kobus Louw

Group General Manager, Credit

Appointed April 2015

MBA; Bachelor of Economics degree; MPhil in Futures Studies

Mr Louw has over 30 years' experience, having worked for two of the largest banks in South Africa in a range of capacities. His last assignment before he joined First Capital Bank was Head of Business Banking for First National Bank, Namibia.

Mr Joao Rodrigues

Group Head of Internal Audit

Appointed May 2018

Degree in Business Administration

Mr Rodrigues holds a degree in management and 18 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 16 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.

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 40 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.

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 21 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 29 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 18 years' experience in financial services. Prior to joining First Capital Bank he worked at Standard Bank, Deloitte, Banco Primus and Arthur Andersen.

Mr Sachin Nigam
Chief Executive Officer, First Capital Bank, Zambia

Appointed January 2015

Masters of Business Management degree; Bachelor of Economics degree

Mr Nigam has more than 20 years' experience in the Banking and Financial Services sectors which include years served in CRISIL (A Standard & Poor Company), HSBC and ICICI Banks in India. He serves on the Board of Directors of Zambia Electronic Clearing House Limited.

Resigned May 2019

Mr Sam Matsekete
Chief Executive Officer, First Capital Bank, Zimbabwe

Appointed December 2017

Master of Business Leadership degree from UNISA; Bachelor of Accountancy degree from the University of Zimbabwe; Associate of the Institute of Bankers Zimbabwe; Qualified Chartered Accountant

Mr Samuel Matsekete joined First Capital Bank Limited (then Barclays) as Financial Controller in 2007. A year later, he was appointed to the Board as Chief Finance Officer until his appointment as Managing Director in December 2017. During his time at Barclays, Mr Matsekete has held extended responsibilities covering Risk, Compliance and Legal. Mr Matsekete's experience prior to joining Barclays involved executive roles in advisory services, investment management, insurance, manufacturing and mining.

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$ **34** million
- Customer deposits of US$ **721** million
- Retained profits of US$ **34** million
- Profit after tax of US$ **31** million
- Total assets of US$ **971** 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 are underway, both of which are aimed at unlocking significant growth in financial resources in the long term. 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.

2018 PERFORMANCE

Against the background of a 16% decline in total Group assets over the period, we have taken steps to deploy a greater proportion of Group funds in higher yielding assets. In Zimbabwe, for instance, we significantly increased the investment in treasury bills for investment purposes and also grew our loans and advances portfolio. Even so, group banks continue to maintain highly liquid balance sheets with almost 50% of Group assets in liquid or near liquid form. In general, business sentiment remains cautious across our territories of operation and this has limited the quantum of lending opportunities that meet our underwriting criteria. Growth in customer liabilities has been contained accordingly with the focus on increasing the proportion of transactional accounts.

Non-interest income met targets due to income from foreign exchange transactions exceeding forecasts and compensating for lower-than-expected levels of fee and commission income. Higher rates from Zimbabwe interest earning assets translated into significantly increased net interest income. Despite a lower interest rate regime in all territories, interest margins were maintained across the Group.

Operating expenditure has been contained with a downward trend in the cost to income ratio which, at 70% (excluding impairments), remains nevertheless some way to our medium-term target of 50%.

FINANCIAL CAPITAL OUTCOMES 2018

	US$
Δ Value of total revenue generated	**138 million**
Δ Value of net profit generated	**31 million**
Δ Value of total compensation paid to employees, including wages and benefits	**49 million**
Δ Value of earnings retained	**34 million**

MANUFACTURED CAPITAL

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

SALIENT FACTS AND ACHIEVEMENTS

- **131** ATMs
- **1 019** POS devices
- **74** branches, agencies and service centres
- 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 the physical infrastructure of buildings, equipment and technology it uses to deliver its products and services and add value to its clients and other stakeholders. FMBCH owns or has long-term leases for its head office and administration buildings in Mauritius, Malawi, Botswana, Zambia, Mozambique and Zimbabwe and these, combined with the Group's physical branch network, are significant contributors to its, productivity, service delivery and profitability.

Prudent use of manufactured resources enables FMBCH to leverage innovation, digital capabilities, physical infra-structure and core banking systems for delivering relevant and flexible solutions that assure its sustainability and competitiveness in a dynamic banking environment.

All property and equipment is regularly subjected to impairment testing by way of internal evaluation of their obsolescence.

FMBCH continues to focus on continually improving its infrastructure and evolving its technology with a view to enhancing the customer experience and ensuring the Group and its banks are top of mind for clients and prospects. Access to value-adding transactional banking and other financial and investment services remains a top priority, and during 2018, the Group continued to invest in expanding its physical footprint through the addition of branches, loan centres, ATMs and enhancing its digital channels through ongoing development of its internet and mobile banking ecosystem.

FMBCH recognises that its effectiveness and success as a banking group depends significantly on the levels of trust its customers have for it. Data security and the protection of privacy and confidentiality are, therefore, critical. The Group utilises and invests in robust technology infrastructure, built on a world-class security backbone to not only deliver its value-adding solutions and services to customers, but also ensure their peace of mind in all their dealings with the FMBCH banking network.

2018 PERFORMANCE

During 2018 FMBCH established its physical presence in Mauritius, with staff moving into the Group's new head office in November. The new offices house two FMBCH companies, namely FMBcapital Holdings Plc and First Capital Shared Services Limited, which provides transactional support to all Group banks. Over the past year, the Group has invested significant financial and non-financial resources into ensuring that this Mauritius presence is a valuable central hub that delivers exceptional operational and IT support to all its banking operations.

FMBCH has contracted a reputable Mauritian data centre provider to host its servers and other IT equipment. Once this new site is fully operational, the Group will have two functional IT centres, in Mauritius and Malawi, supporting the Group's banking operations across all geographies in which it operates.

Since acquiring the Barclays Zimbabwe interest in 2017, the Group has invested considerable resources, time and expertise into fully integrating this operation into the FMBCH IT infrastructure. In some cases, this required extensive reworking of existing IT functions and systems of both the Barclays operation and existing Group IT architecture. The outcome of this has, however, been 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 2018

	US$
Freehold property	**29 366 474**
Leasehold improvements	**5 738 453**
Corporate jet	**1 803 965**
Motor vehicles	**2 951 661**
Motor vehicles – operating lease	**232 804**
Equipment, fixtures and fittings	**8 236 379**
Capital work in progress	**6 619 199**

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

- 1 600+ 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

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.

2018 PERFORMANCE

When FMBCH first undertook its rebranding exercise, the leadership recognised that the success of the initiative would depend significantly on the buy-in of all FMBCH staff. As such, the entire rebranding exercise was built on a foundation of effective employee engagement. As a direct result of this commitment to keeping staff informed and updated on the reasons, progress and outcomes of the rebranding, the project was very successful and has, in fact, served to underpin employee loyalty and brand pride where it could have created fear and uncertainty if handled incorrectly.

One of the most valuable outcomes of the rebranding has been that all internal stakeholders are now fully aware of, and aligned with, the Group's strategy, brand and vision. The intention now is to continue building on this positive momentum and ensure that high levels of employee engagement are maintained and leveraged to the benefit of the organisation and all its stakeholders.

US$	MALAWI	MOZAM-BIQUE	ZAMBIA	ZIMBABWE	BOTSWANA	MAURITIUS	TOTAL
Head count as at 31 December 2018							
Permanent	694	72	113	605	109	9	**1 602**
Temporary	22	22	5	113	57	–	**219**
Total	**716**	**94**	**118**	**718**	**166**	**9**	**1 821**
Breakdown by gender							
Male	369	44	70	395	48	6	**932**
Female	347	50	48	323	118	3	**889**
Actual number of permanent employees who exited during the year	62	7	20	20	12	–	**121**
Actual number of employees who attended a training intervention	718	80	123	2037	164	–	**3 122**
FMBCH contributions for pension, medical and social security (US$)							
Pensions and social security	843 615	84 951	152 738	2 362 834	196 840	–	**3 640 978**
Gratuity payments	90 848	–	313 127	–	34 989	–	**438 964**
Medical aid	394 832	51 391	131 428	1 839 851	161 588	–	**2 579 090**
Total	**1 329 295**	**136 342**	**597 293**	**4 202 685**	**393 417**	**–**	**6 659 032**

SOCIAL AND RELATIONSHIP CAPITAL

The partnerships FMBCH has cultivated with key stakeholders and service providers

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 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 850 000+ 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 absolutely 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, and even potentially costly litigations.

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 'integrity', 'better citizen', 'collaborative' and 'happy to serve' 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 at risk, right through to encouraging staff to report any negative publicity they notice in the media, on social platforms or even in their personal interactions with friends and family members.

Effective stakeholder engagement

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

Investors	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.
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.
Communities	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.

2018 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 while it is anticipated that this framework and feedback loop will only be finalised in 2019.

At present, there are active CSR programmes in place in Botswana, Malawi and Zimbabwe. It is envisaged that these formal CSR initiatives will be extended into Mozambique and Zambia in 2019. 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 Malawi

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.

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.

COLLEGE OF MEDICINE – DONATION

Improved healthcare is a major focus area of the First Capital Bank's Malawi CSR programme. In recognition of this the Bank committed MK 5 million towards the College of Medicine Research Dissemination Conference.

First Capital Bank Malawi supports sports development at grassroots level through its sponsorship of the Under 20 National Soccer League.

As part of the Botswana Government's Adopt-a-School programme, First Capital Bank donated school uniforms to over 60 primary school children.

First Capital Bank Botswana

CYCLE CHALLENGE

First Capital Bank's sponsorship of the annual Cycle Challenge supports active participation by the community at all levels of the sport – accommodating experienced riders as well as first time riders, veteran riders and children.

SCHOOL UNIFORM DONATION

First Capital Bank Botswana donated school uniforms to more than 60 Bogogobo Primary School students in Bogogobo village. The donation is in-line with the Adopt-A-School Programme championed out by the then Ministry of Education and Skills Development to seek assistance from the community and corporates to lend a helping hand in the development of Education in Botswana.

LAUNCH AFRICA BOOTCAMP

Sponsorship of a two-day programme aimed to empower entrepreneurs with the core skills and knowledge they need to start and grow their business including training, planning tools, mentorship and support.

First Capital Bank Zimbabwe

ZIMBABWE FARMERS UNION (ZFU)

This flagship project for First Capital Bank is designed to give a second chance to school drop-outs from disadvantaged backgrounds by providing them with the necessary technical and financial skills to pursue a career in agriculture and farming. This project is aligned to national policy seeking to enable young farmers to create employment and strengthen the country's food security. A total of 3 891 young farmers graduated to small-scale farmers within their communities. Twenty young farmers' clubs also received agricultural input grants. Mentorship attachments and work placements were also established during the course of the year to facilitate knowledge transfer with strategic partners in the agriculture sector. Since its inception in 2016, this programme has impacted over 33 000 young farmers.

WORLD VISION (CHIHOTA BOSHVELD CHICKEN PROJECT)

First Capital Bank Zimbabwe partnered with World Vision Zimbabwe in a community-based partnership aimed at improving the livelihood of rural households, mainly benefiting youths, in the Chihota district through the Boshveld Chicken Capacity building initiative. The project comprised the set-up of a poultry enterprise with special focus on the Boshveld variety to be nurtured for commercial meat sale and egg production. As a by-product, the chicken manure is used as natural organic fertiliser sold to other members of the community involved with growing special horticultural crops. This project was established as a pilot and will be further replicated in the community – the commercial proceeds from which will benefit vulnerable children. Over 1 300 people benefitted directly through this initiative and more advantages will be realised by the community within the 36-month duration of the project.

Handing over donations to assist Zimbabwe Farmers Union young farmers' clubs.

JUNIOR ACHIEVEMENT ZIMBABWE (JAZ)

First Capital Bank and Junior Achievement Zimbabwe have worked together over time to expose youths to commercial business operations in urban centres. The program incorporates modules on work readiness, financial intelligence and free enterprise through practical learning forums. In 2018, this partnership emphasised three programmes namely the Company Project, Job Shadowing Project and Mentorship Project carried out in 20 schools in the five centres of Harare, Mutare, Kwekwe, Gweru and Bulawayo. The focus of the interventions is to ensure that youths become well-rounded individuals who understand their chosen career path, whether as corporate employees or as entrepreneurs. A total of 600 youths were mentored by 14 First Capital Bank colleagues.

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

- Sound reputation of subsidiary bank brands
- Financial Service Provider licences in each country of operation
- Established internal systems, processes and procedures
- Full legal and regulatory compliance across all 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

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 the 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 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.

2018 PERFORMANCE

Over the financial period under review, the Group's intellectual capital was enhanced and refined through its commitment to following a continual improvement process. This process prioritises the following:

- Constant enhancement of operational efficiencies and cost management
- A focus on brand optimisation and leadership positioning
- Fuelling growth in new and established markets
- Identifying, monitoring, managing and mitigating risks
- Constantly upskilling and motivating the FMBCH workforce.

Building executive capacity

Strong, empowered and respected leadership is considered a key component of FMCBH's competitive position in the markets. Successfully implementing the Group's multi-faceted growth strategy requires experienced and astute executive management with the ability to move the organisation forward towards the realisation of its vision. In 2018, following rigorous selection processes, FMBCH appointed a number of qualified executives with considerable multinational banking experience to the positions of Group heads of IT, HR and Audit. These appointments have significantly bolstered the Group's intellectual capital and positioned it for continued growth going forward.

IT back office and shared services from Mauritius

The Group's plan to establish a shared services centre to further streamline a multitude of back-office processes is a significant endeavor to which adequate resources and talent have been assigned to ensure timely implementation and smooth transition.

As part of this initiative, the Group has invested in strengthening several technology platforms with a view to enhance controls and improve operating efficiency. Following are some of the initiatives that have been successfully deployed:

- automating treasury dealing and settlements
- automating critical reconciliation processes
- automating the credit origination process.

Awards

FMBCH was recognised as an Innovation Award leader at the European Investment Bank (EIB) 2018, southern Africa, SME and Microfinance Academy Awards Gala held in Johannesburg, South Africa on 7th February 2019. The award was given to the Group in recognition of its innovation in e-payments for the delivery of social protection services on behalf of the Malawi Government and its development partners.

First Capital BANK
Belief rises above doubts
It takes belief to move mountains. It is the belief that you can ascend to the greatest heights no matter what. We are committed to helping those, like Geoff, whose belief comes first to write their success story.
MOZAMBIQUE • MALAWI • ZAMBIA • ZIMBABWE • BOTSWANA
Belief comes first
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FIRST CAPITAL BANK BOTSWANA

Key Indicators

(Pula)	2017	2018	% Variation
Net interest income	81 303 427	98 282 910	20.88
Non-interest income	40 706 651	53 610 384	31.70
Operating expenses	75 130 759	53 610 384	28.64
Profit after tax	23 678 494	32 944 477	39.13
Customer deposits	1 693 096 736	2 482 246 360	46.61
Total assets	1 932 790 152	2 880 502 881	49.03
Loans and advances	1 194 813 035	1 583 985 221	32.57
Shareholder funds	175 844 954	196 059 009	11.50

Jaco Viljoen
Chief Executive Officer

FCB Botswana at a glance

	2018	2017
Branches	4	4
Loan Centres	5	0
ATMs	4	4
Debit/credit cards issued	12 508	–
Staff	166	131
Customers	17 114	18 500

Performance in 2018

First Capital Bank's growth in Y2018 continued in an industry that saw relative low growth in operating profit terms. The bank saw good growth in its balance sheet, loan book, customer deposits and shareholders' funds. Profit after tax was negatively influenced by the impact of the implementation of IFRS 9 as well as the costs associated with the rebranding and Group head office.

Net profit after tax (NPAT) improved by 5.8 million from BWP 27.3 million in Y2017 to BWP 33.07 million in Y2018. A restatement of the 2017 statement of profit and loss was done for an amount of BWP 6.6 million being interest suspended on a non-performing account, which was incorrectly presented in the in the prior year. This net amount was credited to specific impairment on loans and advances. Year on year growth of NPAT was 39.7% against the restated figures. Operating profit (before provisions) increased with 12.9% from BWP 46.9 million in 2017 to BWP 52.9 million in 2018. This was driven by a 24.5% increase in total income against a net increase in total costs of 31.7%.

Factors contributing to performance

Growth was primarily due to the introduction of payroll loans in the retail segment and improved non-interest income from foreign exchange services. The strategy implemented in 2015 was enhanced which resulted in better focus, greater efficiencies and improved customer confidence.

The substantial growth in overall revenue came about as a result of balanced growth in both net interest income and non-interest income, which increased by 20.9% and 31.7% respectively. Growth in net interest income was led by the introduction of payroll loans in the retail segment, while growth in non-interest income was largely driven from increased volumes in the bank's foreign exchange services. Interest costs have increased owing to prevailing tight liquidity conditions in the market for most for 2018.

Loans and advances grew at a healthy rate of 32.6%, a reflection of the success of the bank's customer-centric approach. Significantly, a strong emphasis on monitoring the health of its credit portfolio resulted in gross non-performing loans as a percentage of the total loan book remaining below 3.5% (lower than the industry average of ±5%).

Substantial progress was also made in enhancing the risk management and compliance framework of the bank through the implementation of several key risk initiatives. The bank was also successful in expanding its correspondent banking network thereby enhancing its ability to offer competitive international payment solutions to its customers.

Operational highlights

In September 2018, the bank moved to its new head office in the Gaborone CBD. This coincided with the celebration of the 10 year anniversary of its operations in Botswana as well as the rebranding of all branches to First Capital Bank from the previous Capital Bank.

As part of the continued focus on expanding the operational footprint to provide more convenient access to customers, notably in the retail segment, the bank opened five loan centres in various key locations across the country. These are all located in popular shopping malls, which is in line with First Capital Bank Botswana's commitment to enabling inclusive access to convenient banking for all.

Liquidity and capital adequacy ratios

The Bank exceeded the regulatory requirements for LAR (liquid asset ratio) and CAR (capital adequacy ratio). The LAR was 25% (regulatory requirement is 10%) and CAR was 15.2% (regulatory requirement is 15%). Tier 1 capital to total risk weighted assets was 8.72% (regulatory requirement is 4.5%).

Outlook

First Capital Bank is positive about its growth prospects for Y2019, especially as it is continuing to focus on growing its transactional corporate and commercial customer base.

The expected growth of the retail lending book, coupled with improved risk management and compliance, will continue to support the compound annual growth rate (CAGR) of 25% in profits and 16% in assets it has been able to report over the past five years.

An offer to acquire the Bank of India Botswana has been approved by the Board and Botswana Competition Authority. It is expected to conclude all regulatory requirements towards mid-2019. The acquisition will assist to grow the revenue for 2019.

General elections will be held in October 2019 in Botswana. Being an election year many things are uncertain, but First Capital Bank Botswana is confident of the growth potential in this vibrant market.

Jaco Viljoen
Chief Executive Officer

BOARD OF DIRECTORS – FIRST CAPITAL BANK, BOTSWANA

Mr Hitesh Anadkat
Chairman

Mr Anadkat holds an MBA from Cornell University and a BSc Economics (Hons) from the University of London. Before returning to Malawi to establish First Capital Bank (originally FMB Malawi), he 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.

Mr Hemantkumar (Raj) Patel
Non-Executive Director

Mr Patel holds directorships in a number of companies operating principally in the manufacturing sector, in Botswana, Zambia and South Africa.

Mr Stephen Pezarro
Non-Executive Director

Mr Pezarro is a Chartered Accountant, a fellow of the Botswana Institute of Chartered Accountants and member of the Institute of Chartered Accountants of Zimbabwe. He also serves on the boards of other companies in Botswana.

Mr Daniel Swabi
Non-Executive Director

Mr Swabi is a legal practitioner and member of the Law Society of Botswana. He holds a Bachelor of Laws degree (LLB) from the University of Botswana. He is a partner in Osei-Ofei Swabi and Company.

Ms Boitumelo Tibone
Non-Executive Director

Ms Tibone is the managing partner of Four Leaf Pty Ltd, a business consultancy and property development firm.

She holds a BSc (Economics) and an Associate degree in Business Administration (University of Kentucky, USA). She also has qualifications in risk management and leadership programmes, and worked in the financial services sector for 18 years holding various leadership roles.

Ms Judy Tsonope
Non-Executive Director

Mrs Tsonope has an MBA, Masters in Library Science (MLS), BA and an Associate Diploma in Banking.

Her work experience covers venture capital, development funding, commercial banking and a parastatal organisation (utility sector). She also serves on the boards of other companies in Botswana.

FIRST CAPITAL BANK MALAWI

Thomas J Kadantot
Acting Chief Executive Officer

Key Indicators

(Kwacha)	2017	2018	% Variation
Net interest income	14 355 944 000	14 625 028 000	1.87
Non-interest income	10 855 304 000	11 370 910 000	4.75
Operating expenses	14 219 815 000	17 330 487 000	21.88
Profit after tax	7 637 997 000	6 654 950 000	-12.87
Customer deposits	129 712 918 000	139 582 070 000	7.61
Total assets	232 789 737 000	229 396 858 000	-1.46
Loans and advances	43 147 303 000	62 136 710 000	44.01
Shareholder funds	36 584 344 000	36 225 825 000	-0.98

First Capital Bank Malawi at a glance

	2018	2017
Branches	6	6
Agencies	25	30
ATMs	65	65
Onsite banking solutions	23	23
POS devices	112	70
Staff	716	837
Customers	632 900	636 100

Summary of performance in 2018

First Capital Bank Malawi recorded a net profit of MWK 6.7 billion in the 2018 financial year, which is a 13% reduction on the MWK 7.6 billion profit achieved in 2017. The fall in profits is attributable to continued reduction in interest rates, which impacted interest income, and higher than normal operating costs, incurred in part because of the extensive one-off rebranding and corporate restructuring exercise.

Factors contributing to performance

Over the past financial year, the agriculture sector was negatively affected by erratic rainfall whereas performance in the industrial and services sectors also remained weak. Structural challenges, particularly around energy infrastructure and delivery, continued to hamper growth.

On the positive side, inflation continued its downward trajectory, ending 2018 very close to single figures at 10.1%. The currency also remained stable with the Reserve Bank of Malawi maintaining short term interest rates at the same level throughout 2018

From a performance perspective, the 2018 financial year was marked by a sizeable reduction in income from equity investments, with gains and dividends received of just MWK 437 million compared to the MWK 2 322 million achieved in 2017. Fees and other commissions income, however, delivered positive performance, growing by 20%. This was supported by positive developments around income derived from billers, money transfer agencies and transactional deposit accounts. Gains on foreign exchange transactions also increased by a substantial 44% from MWK 1.7 billion in 2017 to MWK 2.4 billion in 2018.

The gross value of loans and advances grew by 44% and impairments reduced by 34%, while interest in suspense reduced by 22%. This highlights the positive performance in terms of recoveries and collections.

In the investment portfolio, money market investments reduced by 17% as a consequence of increased lending activity, while cash and cash equivalents reduced by 8%. The bank recorded a 9% growth in customer deposits from MWK 129.7 billion to MWK 139.5 billion. Transactional accounts, as represented by current account and savings account deposits, continued to represent the majority of total deposits.

Operational highlights

In 2018, the Group undertook an extensive rebranding exercise with the adoption of the new regional brand, “First Capital Bank”. Additionally, the previously initiated corporate restructuring exercise, aimed at simplifying the Group’s structure, made meaningful progress. First Capital Bank Plc (Malawi) transferred its shareholding in First Capital Bank, Zambia, through a dividend in specie to its holding company, FMBcapital Holdings Plc.

Following the acquisition of OIBM in 2017 the bank undertook a further review of its operations and rationalised its distribution network, functions and processes.

In terms of risk management, the bank continued with its conservative lending policy and maintained its high liquidity levels throughout the year.

Liquidity and capital adequacy ratios

First Capital Bank Malawi retained its strong solvency ratios in the 2018 financial year, with a Tier 1 Capital Ratio of 15.7% and Total RWA Capital Ratio at 20.3%. Both of these are above the minimum regulatory benchmark of 10% and 15% respectively.

Outlook

The bank will complete its corporate restructuring exercise in 2019 which will see its remaining subsidiaries transferred to FMBCH in the first half of the year. As a consequence the financial statements in the 2019 annual report will reflect only the financial results of our Malawi operations. We project a marginal increase in the profitability of the Malawi bank in 2019.

The bank will continue to maintain a conservative lending policy and concentrate on growing its transactional banking business. We will also continue to focus on improving operational efficiencies aimed at enhancing customer service experience and reducing costs.

Thomas J Kadantot
Acting Chief Executive Officer
First Capital Bank Malawi

BOARD OF DIRECTORS – FIRST CAPITAL BANK, MALAWI

Mr Hitesh Anadkat
Chairman

Mr Anadkat holds an MBA from Cornell University and a BSc Economics (Hons) from the University of London. Before returning to Malawi to establish First Capital Bank (originally FMB Malawi), he 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.

Mr Dheeraj Dikshit
Non-Executive Director

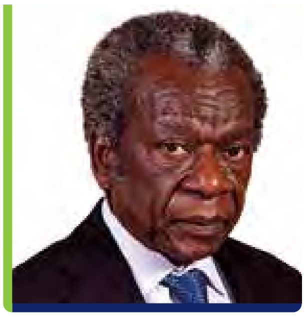
Mr Dikshit holds an MBA and a Bachelor of Commerce Degree and is Group Managing Director for FMBcapital Holdings plc. Prior to joining then First Merchant Bank Plc, he worked for HSBC in different leadership positions. He has more than 25 years' experience in corporate and commercial banking as well as retail banking and consumer assets.

Mr John Michael O'Neill
Non-Executive Director

Mr O' Neill is a fellow and member of the Institutes of Chartered Accountants in Ireland. Mr O' Neill's professional working experience of over 40 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 then First Merchant Bank Plc in 1996 and worked as Group Finance Director.

Mr Bharat Jani
Non-Executive Director

Mr Jani holds both Bachelor and Master of Commerce degrees and diplomas in Financial Management, Banking and Computerised Banking. He is currently the Managing Director of Prime Bank Limited, Kenya. He has over 35 years banking experience, having previously worked for Reserve Bank of India, Union Bank of India and Trust Bank Limited in Kenya. He holds no other directorships in Malawi.



Mr Modecai Msisha SC
Non-Executive Director

Mr Msisha, SC is a legal practitioner since 1975. He has worked as State Prosecutor, Legal Aid Advocate and Lecturer in law. He has been a partner in Nyirenda & Msisha Law Offices since 1990. He was elevated to Senior Counsel in 1997, and has served in prominent roles in a number of special legal assignments and commissions of national importance.

Ms Constance Musopole
Non-Executive Director

Ms Constance Musopole graduated from the University of Malawi, The Polytechnic, in 1996 with a Bachelor of Accountancy degree and is a Chartered Accountant with membership of ACCA and ICAM. She is currently the Chief Finance Officer of Lafarge Cement Malawi. Ms. Musopole has worked within Lafarge Holcim Group in various roles in finance, projects and strategy in Zambia and Malawi since joining the Group in 1997.

Ms Abena Foster
Non-Executive Director

Ms. Abena Foster graduated from King's College London with an LLB Law (Hons) in 2004 and was admitted to membership of the New York Bar in 2009. Prior to returning to Malawi, Ms Foster worked with leading legal firms and financial institutions in London, specialising in the areas of regulatory compliance and corporate governance. She currently works with Foster Lewis Consulting LLP, a financial services and business advisory firm which she co-founded.

Mr Lekani Katandula
Non-Executive Director

Mr Lekani Katandula holds a Bachelor of Accountancy degree (Malawi Polytechnic). He is a qualified accountant holding the FCCA and CA(M) professional designations. He is also a qualified systems auditor (CISA) and a qualified investment manager (CFA). Lekani worked for Deloitte and was an assurance and advisory partner. Lekani serves as a non-executive director in a number of other sectors of the Malawi economy and chairs various committees. He is Board Chair of Phoenix International Primary School.

FIRST CAPITAL BANK S.A. MOZAMBIQUE

Tiago Contente
Chief Executive Officer

Key Indicators

(Metical)	2017	2018	% Variation
Net interest income	165 849 827	241 263 215	45.47
Non-interest income	60 039 353	131 767 522	119.47
Operating expenses	276 621 086	335 542 626	21.30
Profit after tax	(135 603 432)	7 776 634	
Customer deposits	1 586 467 022	2 294 086 698	44.60
Total assets	2 312 804 512	3 036 628 989	31.30
Loans and advances	715 328 903	728 614 237	1.86
Shareholder funds	631 359 377	639 136 011	1.23

First Capital Bank S.A. Mozambique at a glance

	2018	2017
Branches	4	4
Service Centres	1	1
ATMs	6	5
Debit Cards	2 143	2 650
POS devices	72	41
Staff	87	63
Customers	16 096	15 694

Summary of performance in 2018

The 2018 financial year saw First Capital Bank S.A. Mozambique deliver improved year-on-year performance as a result of strategic changes that served to drive the achievement of a profit after tax of MZN 7.78 million. The improvement in performance was primarily the result of enhanced focus on achieving business growth through customer acquisitions and increase in wallet share. As a result, the bank registered a 45% increase in corporate deposits. While interest income rose 17% over 2017 owing to increased lending and deployment in money market instruments, interest expenses decreased appreciably from MZN 145.38 million in 2017 to MZN 122.48 million in 2018 owing to repricing of the deposit book against a backdrop of declining policy rates. Net interest income and non-interest income increased 45% and 120%, respectively, over the same period.

Cost to income showed a year-on-year improvement from 99% to 73%, although operating expenses increased by 21%. This was mainly due to non-recurring events, including tax payments, as well as compensation paid for early termination of service provider contracts.

Factors contributing to performance

During 2018 inflation was consistently below the Government's target of 5% to 6%, which contributed to the decrease in policy rates, followed by bank lending and deposit rates.

The local currency depreciated marginally at the end of the year to MZN61.47 to the US Dollar after maintaining relative stability for most of the year.

Operational highlights

The 2018 financial year was something of a turnaround period for the bank in terms of its strategic and operational performance, especially on the back of a concerted and collaborative effort to increase deposit collections within the corporate client segment.

The bank invested significantly into social events, communications and sponsorships in an effort to build its brand image and grow awareness of its brand and offering in the market.

The Group rebranding exercise has not yet extended to First Capital Bank S.A. Mozambique, but will be undertaken in 2019. This will serve to further raise market awareness of the bank and present it as part of a larger, highly reputable banking group in the minds of clients and prospects.

The bank will remain focused on its commitment to expanding its operational footprint across the country in an effort to ensure that it is available and accessible to its clients. As part of this strategy, a new branch will be opening in Nampula in 2019. The bank would also be relocating its primary branch in Maputo to the fast emerging new business district on 25 September Road.

Staff numbers grew by 38% in 2018 as a result of the pleasing expansion outlook for the bank.

Liquidity and capital adequacy ratios

The bank has a liquidity ratio and capital adequacy that are above regulatory minimums. In December 2018, the liquidity ratio stood at 78%, which is well in excess of the regulatory and internal minimums of 25% and 50% respectively.

In 2018, the capital adequacy ratio was 28.2%, which is also well above the regulatory minimum established by the Bank of Mozambique.

The Bank of Mozambique introduced revised minimum capital requirements which are effective progressively to 2020. The bank is poised to meet revised capital requirements within the stipulated deadlines.

Outlook

Megaprojects being undertaken in the north of the country promise to have a significant positive long-term influence on the country as a whole as they are expected to bring sustainable growth to the economy, which will have a direct positive impact on the banking sector.

Continued single-digit inflation will further boost the prospects and performance of the banking sector in the short- to medium term, although this may be slightly tempered by any continued deprecation in the local currency.

The bank will continue its commitment to steadily enhancing the quality of client service it offers and keep expanding its offering. This will be supported by ongoing efficiency improvements designed to attract and retain a growing customer base, with a particular focus on the corporate segment. Coupled with this, the bank's ongoing geographical expansion promises to reach an increasingly broad cross section of customers going forward.

Tiago Contente
Chief Executive Officer

BOARD OF DIRECTORS – FIRST CAPITAL BANK S.A., MOZAMBIQUE

Mr Hitesh Anadkat
Chairman

Mr Anadkat holds an MBA from Cornell University and a BSc Economics (Hons) from the University of London. Before returning to Malawi to establish First Capital Bank (originally FMB Malawi), he 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.

Ms Carla Timóteo Beck
Non-Executive Director

Ms Beck holds a Masters in International Economics and has 28 years of experience in the banking sector with a focus on the areas of banking supervision, operations and accounting. Ms Beck has also worked at the Central Bank of Cape Verde and at Central Bank of Mozambique as Director of Prudential Supervision.

Dr José Manuel Caldeira
Non-Executive Director

Dr Caldeira is a founding member of the Order of Lawyers of Mozambique, a member of the Scientific Council of the National Association of Mozambican Jurists (ANJUR), Honorary Consul of Iceland in Maputo, and a founding partner of Sal & Caldeira Advogados, Lda. He is responsible for legal consulting services in several areas, including legal advice to the Government of Mozambique, and has extensive experience in institutional reform of the Mozambican public sector, including the legal sector and other institutions.

Mr Dheeraj Dikshit
Non-Executive Director

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 25 years' experience in corporate and commercial banking as well as retail banking and consumer assets.

Mr Carlos Henriques
Non-Executive Director

Mr Carlos Henriques holds a Bachelor's degree in Veterinary Science from Universidade Eduardo Mondlane in Maputo and an Advanced Executive Program of the School of Business Leadership of UNISA. He has served as a board member of various large commercial companies in Mozambique such as Lonrho and Mozfoods where he was also the CEO.

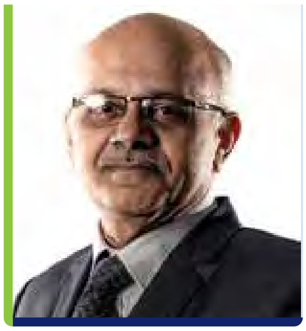
He was also founder and former chairman of the Mozambique Cotton Association, former President of ACIS – the largest business association in the country, and member of the management committee of CTA – the Mozambique Confederation of Chambers of Commerce.

Mr Vijay Kantaria
Non-Executive Director

Mr Kantaria holds a BA Degree from the University of Nottingham, United Kingdom and a Master's Degree in Business Administration from the University of Cape Town in South Africa. He has over 11 years of banking experience. After University, he started his career at Merrill Lynch International, UK. In 2008 he joined Renaissance Capital, in Nairobi Kenya as Senior Associate. In 2010 he joined Old Mutual Kenya as General Manager in charge of Personnel Wealth and Stock Brokerage. He currently holds the position of Director: Business Development at Prime Bank, Kenya where he is responsible for the overall leadership and management of Marketing and Business Development strategy of the bank. He is a member of the Young Presidents Organization – a global network of young chief executives.

Mr Kobus Louw
Non-Executive Director

Mr Louw holds an MBA Bachelor of Economics and an MPhil in Future Studies. He has over 30 years' banking experience, having worked for two of the largest banks in South Africa in a range of capacities. His last assignment before he joined First Capital Bank was Head of Business Banking for First National Bank, Namibia.



Mr Subraya Prabhu
Non-Executive Director

Mr Prabhu holds a BSc (Hons) in Commerce from Mysore University, India and is a Chartered Accountant with more than 30 years' experience in audit and accounting.

FIRST CAPITAL BANK ZAMBIA

Sachin Nigam
Chief Executive Officer

Key Indicators

(Kwacha)	2017	2018	% Variation
Net interest income	50 767 876	73 628 367	45.03
Non-interest income	45 090 179	61 547 582	36.50
Operating expenses	58 794 050	82 620 714	40.53
Profit after tax	21 988 981	28 944 868	31.63
Customer deposits	552 413 160	849 681 450	53.81
Total assets	849 257 508	1 207 751 380	42.21
Loans and advances	425 180 507	567 202 507	33.40
Shareholder funds	126 157 187	155 734 064	23.44

First Capital Bank Zambia at a glance

	2018	2017
Branches	7	6
ATMs	7	6
Staff	118	99
Customers	8 654	7 900

Summary of performance in 2018

Despite significant economic headwinds in 2018, First Capital Bank Zambia accelerated its growth momentum by increasing its net profit after tax by 32% year-on-year to ZMW 28.9 million. This profit growth was fuelled by growth across all key financial matrices, coupled with the unrelenting focus on exceptional customer service and delivery.

Strong performances by most operational areas also contributed to the bank's ability to strengthen its overall market position and entrench its position as one of the fastest-growing financial institutions in Zambia

Factors contributing to performance

The substantial growth in revenue achieved in 2018 was a direct result of balanced growth in both net interest income and non-interest income, which grew by 45% and 36% respectively. Transaction fee income also increased on the back of steady growth in transactional banking business. In addition, foreign exchange income recorded a robust 53% increase over the 2017 figure.

Loans and advances grew by 33% on the back of a sluggish business environment that persisted throughout the year. The continued intensive focus on the transactional banking business resulted in a healthy CASA balance, which led in turn to a pleasing increase of 45% in net interest income from loans and advances.

As a result of its prudent lending approach to loans and advances, the bank was able to deploy surplus liquidity into low-risk money market instruments, principally treasury bills, and grew the income from these investments by 43%.

Significant effort also went into acquiring new customers in the corporate and business banking segment through concerted activity management and a customer-centric approach. This growing customer base, coupled with improvements in the bank's service offering, led to the successful conclusion of a number of significant investments, including the launch of the Kitwe branch in Copperbelt, which has increased the bank's footprint across Zambia and extended its client reach substantially.

Operational highlights

The bank undertook several initiatives to improve efficiencies across its operations, which led to enhanced delivery for clients. These efficiency enhancement initiatives included the implementation of workflow management systems, automation of submissions of regulatory reports, and straight- through processing for inward remittances.

The bank also successfully concluded its integration with the National Financial Switch for ATMs, thereby affording its customers enhanced access to the entire ATM network across the country. The bank's digital platform proposition was also enhanced through the introduction of E-NAPSA, a convenient payment module that allows business clients to make statutory payments that are digitally linked to their employees.

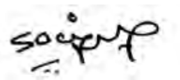
While in Zambia we retained the name First Capital Bank we rolled out a new visual identity in October thereby aligning our brand identity with that adopted by the Group regionally.

Liquidity and capital adequacy ratios

The bank continues to be prudent in its overall approach and strives to maintain its key ratios above regulatory requirements. At the end of 2018, the capital adequacy ratio was 18.36% against a regulatory requirement of 10%. The bank also maintained the ratio of liquid assets to total assets at a very healthy 45%.

Outlook

First Capital Bank Zambia is confident that the significant investments it has made into attracting new customers during the course of 2018, coupled with ongoing efforts to expand the transactional accounts base, entrench stronger internal controls, extend the bank's reach, and improve service levels, have positioned it on a strong footing for continued, sustainable growth in the future. The bank will continue to invest in its people, products, and processes to enhance its client value proposition and consistently provide them with a best-in-class banking experience.



Sachin Nigam
Chief Executive Officer

BOARD OF DIRECTORS – FIRST CAPITAL BANK, ZAMBIA

Mr Andrew M. Musukwa
Chairman

Mr Musukwa has been on the Board of Directors of First Capital Bank Zambia Ltd since 2013. He is an Advocate of the High and Supreme Courts of Zambia and is currently Managing Partner of AMC Legal Practitioners. He is a board member of various other organisations including the Competition and Consumer Protection Commission, Lusaka Zambia Ltd and Unitrans Zambia Ltd. He was with the Development Bank of Zambia as its Bank Secretary and Legal Counsel for seven years. He also worked with KPMG Zambia where he was head of the legal team and was also responsible for Forensic Accounting and Corporate Recovery.

Mr Hitesh Anadkat
Non-Executive Director

Mr Anadkat holds an MBA from Cornell University and a BSc Economics (Hons) from the University of London. Before returning to Malawi to establish First Capital Bank (originally FMB Malawi), he 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.

Mr Ramesh Patel
Non-Executive Director

Mr Patel is a well- known businessman from Zambia with a track record of establishing several successful business entities. Apart from First Capital Bank he is a director in other companies such as Afility Investments Ltd, ACKL Ltd, Polythene Products Zambia Ltd, City TV Hire Ltd, Lusaka Hardware Ltd, Neptune Properties Ltd, R&R Investments Ltd, and Mayfair Insurance Ltd.

Mr Terence M Davidson
Non-Executive Director

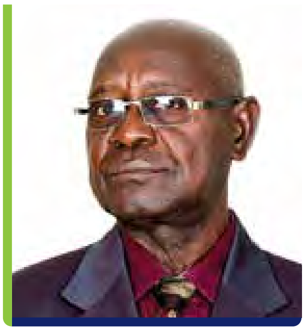
Mr Davidson is a veteran banker having spent over three decades with Citibank including Region Head for East and southern Africa. He was also Chief Executive Officer of Kenya Commercial Bank and a regional bank operating in East Africa for five years. Mr Davidson works as an independent consultant and is on the board of various companies including Prime Bank Kenya Ltd and Asilia Ltd.

Mr Dheeraj Dikshit
Non-Executive Director

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 25 years' experience in corporate and commercial banking as well as retail banking and consumer assets.

Mr Julian H. G. Ghui
Non-Executive Director

Mr Ghui is a Fellow of the Association of Chartered Certified Accountants in the UK and also holds an MSc in Management Science specialising in Project Financing from Imperial College, London University. Prior to setting up the Kwit-Fit Franchises in Zambia and Malawi which collectively has over 20 stores in both countries, he served as the financial controller with one of the Commonwealth Development Corporation's projects. Mr Ghui has lived and worked in Malaysia, UK, Malawi and Zambia. Apart from work, he is actively involved in his community and church.



Mr Osman L. Muzumbwe
Non-Executive Director

Mr Muzumbwe (Jim) holds a Bachelor of Commerce (Hons) from the University of Delhi and an MBA in Finance from the University of Lincolnshire and Humberside, UK. He is also a Fellow of the Association of Certified Chartered Accountants in the UK. He has extensive experience in Accounting, Banking and Financial Service sectors having served in leadership positions in several companies including Deloitte & Touche, Standard Chartered Bank and Stanbic Bank. Mr Muzumbwe has also served as Executive Secretary of Bankers Association of Zambia and has been a board member in several other companies. He is actively involved in the training of accountants and is currently an Associate Consultant with MPH Chartered Accountants.

Mr Mark O'Donnell
Non-Executive Director

Mr O'Donnell has 40 years of experience of business in Zambia. He is a major shareholder and Chairman of Union Gold Zambia Ltd, a company with investments in many sectors of the Zambia economy. Some businesses that fall under the Union Gold Group include Protea Hotels Zambia Ltd, Velos Enterprises Ltd, (construction) and Kazuma Enterprises, (distributors of major beverage brands). Mr O'Donnell is a member of the Institute of Directors and sits on the Board as an Independent Director.

FIRST CAPITAL BANK ZIMBABWE

Mr Sam Matsekete
Chief Executive Officer

Key Indicators

(RTGS$)	2017	2018	% Variation
Net interest income	21 505 000	40 047 000	86.22
Non-interest income	50 001 000	41 645 000	-16.71
Operating expenses	46 416 000	54 086 000	16.52
Profit after tax	19 790 000	24 322 000	22.90
Customer deposits	443 783 000	553 564 000	24.74
Total assets	555 609 000	698 744 000	25.76
Loans & advances	112 038 000	194 675 000	73.76
Shareholder funds	88 315 000	116 503 000	31.92

First Capital Bank Zimbabwe at a glance

	2018	2017
Branches	25	25
Service Centres	2	2
Debit/ Credit Cards issued	338 770	234 308
ATMs	48	47
POS devices	947	566
Staff:	718	690
Customers	192 431	157 800

Environment

Zimbabwe has seen major changes in monetary policy in the final quarter of 2018 and into the first half of 2019.

In October, the government announced the separation of RTGS and Nostro balances. This in effect meant that customers who had RTGS balances would not be able to access foreign currency. Although RTGS was not legally a currency, the economic reality was that this was the principle form of settlement, and consequently our view, following the October monetary policy announcement, was that the functional currency of the bank changed from United States Dollar to RTGS.

Resulting from this, reporting of financials needed to be reviewed. This position has subsequently been confirmed in the February Monetary Policy Statement, establishing a local currency of RTGS$. This now requires an RTGS$: US$ exchange rate, officially established at RTGS$ 2.5: US$ 1 as a starting point, as of 22nd February.

Legally for Zimbabwe in country reporting, we were required to report 2018 Financial Statements at an exchange rate of RTGS$ 1: US$ 1. However, for reporting the Group 2018 Financial Statements, we have deemed the currency exchange rate to have started as of October 1st 2018, in line with the separation of the Nostro/RTGS accounts. This required us to calculate an exchange rate, as there was no official rate for this period.

The performance review that follows is based on the 1:1 exchange rate mentioned earlier, to make the analysis more meaningful. The consolidated reported numbers, are reported at RTGS$ 1: US$ 1 for the first three quarters, and at an average rate of RTGS$ 3.27 : US$ 1 for the final quarter. The balance sheet is consolidated at a year end rate of RTGS$ 3.7: US$ 1.

Summary of performance in 2018

The bank's firm strategic focus resulted in strong revenue growth in Y2018, driven by positive performance in interest income. Interest-earning assets grew by 124% while fees and commissions declined by 17%, largely due to local cash and forex shortages. In Y2018, costs were contained within budgeted levels. A 17% YOY increase being expenditure on transition and other specific projects carried out during the course of the year, together with increasing inflationary pressure particularly in Q4. A cost-to-income ratio of 66% remained broadly flat YOY, with cost and income growing at 14% and 17% respectively. PAT grew by 23% YOY.

Deposits grew by 25% driven by call deposit mobilisation efforts. Impairment was higher in 2018 on the back of growth in interest earning assets as well as the need to align to IFRS 9 requirements. Staff numbers grew by 4% driven by temporary recruitment needs as the bank transitions.

Factors contributing to performance

The 2018 financial year was characterised by significant developments, at both the macroeconomic level and within the banking sector as a whole. Investment in Government instruments grew by US$ 175 million driving the 121% growth in interest earning assets.

Diversification of revenue streams, the increased investment in government securities, together with the growth of a quality loan book, combined with constrained fee and forex income were the main areas of focus during the reporting period. These areas will continue to be a focus, during the current year together with ensuring we derive maximum benefit from the systems and business migration.

Operational highlights

At year end, the migration of systems was nearing completion with several processes being in the testing stage. Rebranding was completed for properties, e-banking, mobile banking platforms and stationery.

Liquidity and capital adequacy ratios

Liquidity and capital adequacy ratios remain above regulatory and internal minimum thresholds as the business closely monitors the bank's ability to cover its liabilities and risk weighted assets. Liquidity ratio at 69% in Y2018 is well above the regulatory minimum of 30% and represents a significant opportunity for future growth.

Capital adequacy ratio was down 330 basis points driven by a US$ 140 million increase in risk weighted assets. First Capital Bank Zimbabwe has met the 2020 minimum core capital level of US$ 100 million from retention of profits.

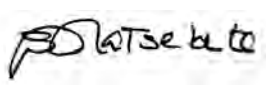
The business's long-term stability and huge scope for growth is evident. This however requires close monitoring given the turbulent economic environment currently prevailing.

Outlook

The performance of the bank continues to be influenced by developments in the economy. It is against this backdrop that our significant investments of both time and resources into the migration process will secure the bank's ability to provide competitive services well into the future. We will continue to prioritise the best possible customer service as a key performance area, and to execute initiatives to enhance the channel and product offering.

Our 2019 outlook is very much dependent on positive reforms in the financial services sector and the economy at large. The recent monetary policy, is a step in to right direction, but growth will continue to be challenging, while the macro and political environment stabilise. However, continuing forex shortages and inflation will be constraining factors in the short to medium term. Customer retention and a broader product offering remain key to growing income while as mentioned, forex supply will drive foreign exchange income. Rising inflation is expected to make cost containment within budget challenging.

However, the business remains focused on growing the customer base, attracting quality customers and diversifying the investment portfolio to maximise profits, while at the same time looking to ensure that we optimise efficiency on the back of the new core banking platform.



Mr Sam Matsekete
Chief Executive Officer

BOARD OF DIRECTORS – FIRST CAPITAL BANK ZIMBABWE

Mr Sydney Dalintyebo Mtsambiwa
Chairman

Mr Sydney Mtsambiwa was appointed to the Board of First Capital Bank Limited on 2 September 2015 and as Chairman on 1 June 2018. Currently he is the Chief Executive Officer of Hippo Valley Estates Limited and Managing Director of Triangle Sugar Corporation Group, since 2001 and 2008 respectively. He is also the interim Chief Executive Officer of the Tongaat Group headquartered in South Africa. He holds a Bachelor of Science (Hons) degree from the University of Sierra Leone, a Masters of Science from Reading University (UK) and an MBA from the University of Zimbabwe.

Mr Samuel Matsekete
Managing Director

Mr. Matsekete joined First Capital Bank Limited (then Barclays Zimbabwe) as Financial Controller in 2007. A year later, he was appointed to the Board as Chief Finance Officer until his appointment as Managing Director in December 2018. Mr Matsekete's experiences prior to Barclays involved executive roles in advisory services, investment management, insurance, manufacturing and mining. He holds a Master of Business Leadership from UNISA, a Bachelor of Accountancy from the University of Zimbabwe, is an associate of the Institute of Bankers Zimbabwe and is a qualified Chartered Accountant.

Mr Ciaran McSharry
Chief Financial Officer

Mr McSharry joined First Capital Bank 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 Hitesh Anadkat
Non-Executive Director

Mr Anadkat holds an MBA from Cornell University and a BSc Economics (Hons) from the University of London. Before returning to Malawi to establish First Capital Bank (originally FMB Malawi), he 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.

Mr Patrick Devenish
Non-Executive Director

Mr Patrick Devenish was appointed to the board of First Capital Bank Limited in April 2018. He has over 20 years' experience in the Tobacco Sales industry having started his career as an auctioneer with Tobacco Sales Floor Limited Harare and rose through the ranks to become the CEO of TSL Limited. Mr Devenish holds an Executive MBA from the Graduate School of Business, University of Cape Town.

Mr Dheeraj Dikshit
Non-Executive Director

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 25 years' experience in corporate and commercial banking as well as retail banking and consumer assets.

Mrs Emma Fundira
Non-Executive Director

Mrs Fundira was appointed to the board of First Capital Bank Limited in February 2009. She is Co-Founder and MD of Finesse Advisory Services, a company specialising in sourcing and execution of corporate finance mandates. Mrs Fundira holds a BSc in Economics from the University of Zimbabwe. She has worked as a Project Manager with Standard Chartered and also previously worked for Barclays Bank of Zimbabwe (1995 to 2003) holding the position of Director: Merchant Banking at the time that she left Barclays.

Mr Busisa Moyo
Non-Executive Director

Mr Moyo was appointed to the board of First Capital Bank Limited in September 2015. He is the Chief Executive Officer of United Refineries, one of the largest cooking oil expressing and soap manufacturing companies in Zimbabwe. Mr Moyo holds a Bachelor of Accounting Science from the University of South Africa. He completed his articles in 1999. He is the current Chairman of the Oil Expressers Association of Zimbabwe and the immediate Past President of the Confederation of Zimbabwe Industries.

BOARD OF DIRECTORS – FIRST CAPITAL BANK ZIMBABWE *(CONTINUED)*

Mrs Sara Nyaradzo Moyo
Non-Executive Director

Mrs Moyo was appointed to the board of First Capital Bank Limited in March 2016. She is an IP Attorney and the Senior Partner at Honey & Blanckenberg. Mrs Moyo is a contributor to the Zimbabwe Chapter of the Kluwer Manual on Intellectual Property and Vice-Chairman of Agriculture Law Committee of the International Bar Association. She is a member of Professional Women Executives and Business Women's Forum, the Zimbabwe Energy Council and the Zimbabwe National Chamber of Commerce Enterprise Development Subcommittee and has also served on the boards of the Zimbabwe Institute of Patent and Trade Mark Agents, Zimbabwe Women Lawyers Association and the Legal Resources Foundation.

Mrs Tembiwe Moyo
Non-Executive Director

Mrs Moyo was appointed to the board of First Capital Bank Limited in March 2016. She is currently the Chief Executive Officer and director at Beitbridge Bulawayo Railway Private limited. She is the Chairperson and Trustee of the Women in Agri-business in Sub-Sahara Africa Alliance (WASAA), the Chairperson of ANSA, a board member of the Southern Africa Railways Association, a shareholder representative of the NLPI Limited Group and a platinum member of PROWEB. Mrs Moyo is an Accountant and Chartered Secretary by profession, holds an MBA (Nottingham Trent University, UK) and is an Associate member of the Chartered Institute of Administrators and Secretaries (ACIS).

Mr Michael Twigger
Non-Executive Director

Mr Twigger was appointed onto the board of First Capital Bank Limited in April 2018. He has over 34 years of banking experience which was gained in Commercial, Retail and Credit Card business across Europe, Africa, Asia and the Middle East. Currently Mr Twigger is the Managing Director of Transition Services, Barclays Services Company Limited.


First
Capital
BANK

FMBcapital HOLDINGS plc

Our Annual Financial Statements

CONTENTS

REPORT OF THE DIRECTORS

for the year ended 31 December 2018

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 2018.

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 31 of the financial statements.

Directors' interests in the company

As at 31 December 2018, 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:

		2018		2017	
Name		**Shares**	**%**	**Shares**	**%**
Premier Capital Limited	(i)	766 266 044	31.17	766 266 044	32.80
Prime Bank Limited	(ii)	262 500 000	10.68	262 500 000	11.24
NG Anadkat Limited	(i)	167 067 289	6.80	167 067 289	7.15
Hitesh N. Anadkat	(i)	106 666 667	4.34	106 666 667	4.57
Livingstone Exports Limited	(i)	16 446 961	0.67	16 446 961	0.70
Livingstone Holdings Limited	(i)	13 116 970	0.53	12 697 250	0.54
Dheeraj Dikshit		12 000 000	0.49	12 000 000	0.51
Manhill Limited	(iii)	1 309 391	0.05	1 309 391	0.06
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 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 FCBM, 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 40).

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

Dheeraj Dikshit – Group Managing Director

Hitesh Natwarlal Anadkat

Francesco Ceccato

Rajkamal Taposeea

Vedanand Singh Mohadeb

John Michael O'Neill

Manogaran Thamothiram (resigned – 14 March 2018)

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 46 of the financial statements.

Related parties

The Company and the Group's dealings with its related parties are disclosed in Note 46 of the financial statements.

Audit fee

Audit fee payable to Deloitte, for the year ended 31 December 2018 amounts to US$ 45 000 (2016: US$ 25 000) excluding VAT and disbursements.

Financial risk factors

The financial risk factors have been set out in Note 5 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 84 and the financial statements are set out on pages 86 to 173.

On behalf of the board

D. Dikshit
Director
31 May 2019

J.M. O'Neill
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 engagement.

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)

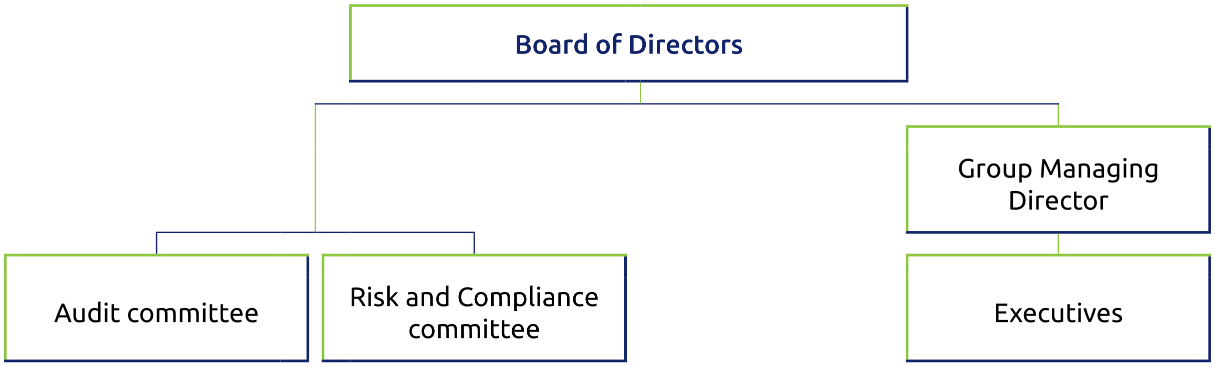
FMBCH embraces and abides by the main principles of modern corporate governance, in particular, those principles set out in the guidance for holders of a Category 1 Global Business Licence in the National Code of Corporate Governance for Mauritius and the Code of Best Practice for Corporate Governance 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 2018 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, page 85
Principle 6: Reporting with Integrity	• Corporate Governance Report • Group structure, page 71
Principle 7: Audit	• Corporate Governance Report • Financial statements, page 85
Principle 8: Relations with Shareholders and Other Key Stakeholders	• Stakeholders, page 18 • Notice of AGM, page 1, Abridged Annual Report and Notice of 3rd General Meeting

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.



Delegation of authority

- 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 with regard to 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. 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 S.A. Mozambique	http://www.capitalbank.co.mz/governance/
First Capital Bank Zambia	https://www.firstcapitalbank.co.zm/corporate-governance/
First Capital Bank Zimbabwe	https://zw.barclays.com/home/annual-reports-financial-statements/

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
- Dheeraj Dikshit – Group Managing Director
- Hitesh Natwarlal Anadkat
- Francesco Ceccato
- Rajkamal Taposeea
- Vedanand Singh Mohadeb
- John Michael O'Neill
- Manogaran Thamothiram (Resigned – 14 March 2018)

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 Directors' Profiles

Mr Terence Michael Davidson is a veteran banker having spent over 3 decades with Citibank in various geographies and capacities including Region Head for East and Southern Africa. He was also Chief Executive Officer of Kenya Commercial Bank, a regional bank operating in East Africa for 5 years. For the past few years, Terence has worked as an independent consultant and is on the board of Prime Bank Kenya Ltd and Asilia Ltd as well as being Chairman of The New Forests Company. He is a Trustee of Gertrudes Children's Hospital and, the Chairman of the Maa Trust. He was a founder member of the Kenya Capital Markets Authority, a member of the Kenya Capital Markets Tribunal, Chairman of the Kenya Bankers Association and former council member of the University of Nairobi.

Mr Dheeraj Dikshit is Group Managing Director of FMBcapital Holdings Plc after working as the Managing Director of FMBB for 6 years. He holds an MBA and a Bachelor of Commerce Degree. Prior to joining FMB, Mr Dikshit worked for HSBC in different senior capacities. He has more than 25 years' working experience in corporate and commercial banking as well as retail banking and consumer assets. Mr Dikshit joined First Capital Bank Plc (Malawi) (Ex-First Merchant Bank PLC (Malawi) in 2011.

Mr Hitesh Natwarlal Anadkat holds an MBA from Cornell University and a B.Sc. Economics (Hons) from the University of London. Prior to returning to Malawi to establish FMB, he worked in a corporate finance house in USA specialising in mergers, acquisitions and valuations. He holds directorates in a number of sectors of the Malawi economy, principally telecommunications, manufacturing and property development. He is also the Non-executive Chairman of FCB Malawi and serves on the board of the other four commercial banks in the group.

The Directors' Profiles *(continued)*

Mr Francesco Ceccato is an Italian national, holds a BA from Oxford University and a M.Sc. with Distinction from London School of Economics. He has worked for financial institutions as a corporate finance adviser or principal his entire career, including 7 years at GE Capital and 8 years at Barclays, in both London and New York. He has had deep experience with Africa, having led mergers and disposals in South Africa, Egypt and Zimbabwe. In addition to FMBCH, he has previously served as a director for several Barclays group companies.

Mr Rajkamal Taposeea is a Barrister-at-law having over 22 years of experience in the financial industry. His work experience was acquired from blue-chip institutions with posting in key financial centres in the world such as New York, Brussels, Luxembourg, Hong-Kong and Singapore, and more recently as General Manager of a leading bank of the Kingdom of Saudi Arabia. In Mauritius, Rajkamal was the first Mauritian Managing Director of Barclays Bank Plc and Regional Managing Director of Standard Bank of Mauritius. He was also the Chairman of Air Mauritius.

Mr Vedanand S Mohadeb is a Fellow of The Institute of Chartered Accountants in Ireland. He was admitted as a member in 1979 and has since been in audit and accounting practice until his retirement on 30 June 2015 when, he was a Senior Assurance Partner of PWC Mauritius. He is presently the Chairman of Baker Tilly Mauritius, a prominent mid-tier audit and accounting firm. He also acts as consultant and holds directorship in a property development company.

Mr John M O'Neill is a fellow and member of the Institutes of Chartered Accountants in Ireland and Malawi respectively. His professional working experience of over 40 years includes 17 years with Deloitte where he served 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.

Mr Manogaran Thamothiram (resigned – 14 March 2018) has been a Director of Minerva Fiduciary Services (Mauritius) Limited since 2007, is also the Managing Director and is resident in Mauritius. He has more than 25 years of work experience, with 15 years in the financial services industry. He is a Fellow of the Institute of Chartered Secretaries and Administrators (ICSA UK).

Board mandate

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 general meeting (AGM) at which the directors must provide a report to shareholders on the performance of the Group and detail its future plans and strategies.

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 take into account the interests of share-holders and relevant stakeholders.
- Monitor relations with shareholders and relevant stake-holders through the gathering and evaluation of appropri-ate 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, four non-executive directors and two executive directors.

Terence Davidson (Chairman), Hitesh Anadkat (Non-Executive Director), Shyam Mohadeb (Non-Executive Director), Kamal Taposeea (Non-Executive Director), Francesco Ceccato (Non-Executive Director), Dheeraj Dikshit (Executive Director), Sean O'Neill (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.

There is a clear separation of the roles of the Chairman and the Group Managing Director.

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 2018

Board member	14 March 2018	07 June 2018	07 August 2018	12 November 2018	Total
Mr. Terence Davidson – Chairman	√	√	√	√	4
Mr. Dheeraj Dikshit – Managing Director	√	√	√	√	4
Mr. Hitesh Anadkat	√	√	√	√	4
Mr. Francesco Ceccato	√	√	√	√	4
Mr. Rajkamal Taposeea[1]	√	√	√	√	4
Mr. Vedanand Singh Mohadeb[1]	√	√	√	√	4
Mr. Sean O'Neill	√	√	√	√	4
Mr. Manon Thamothiran[2]	√	N/A	N/A	N/A	1

1 Mr. Mohadeb and Mr. Taposeea currently reside in Mauritius.
2 Resigned March 14 2018.

Board focus areas

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

- 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
- Completion of agreed upon transitional processes with Barclays PLC following the Zimbabwe acquisition
- 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; and
- 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. During 2018, the schedule of Audit committee meetings was disrupted due to the Group's restructure and move to Mauritius. The Group will ensure that the Audit Committee meets once every quarter during the 2019 financial year.

Committee member	9 May 2018	07 June 2018	06 Dec 2018
Mr. Vedanand Singh Mohadeb	√	N/A	√
Mr. John Michael O'Neill	√	√	√
Mr. Francesco Ceccato	√	√	√

Focus areas in the 2018 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 assists 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; and
- 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. Following the Group's restructure and move to Mauritius, the Risk and Compliance committee met once in June 2018. The full quota of quarterly meetings will be resumed during the 2019 financial year.

Committee member	07 June 2018
Mr. Rajkamal Taposeea	√
Mr. Hitesh Natwarlal Anadkat	√
Mr. Dheeraj Dikshit	√

Focus areas in the 2018 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; and
- 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 so as 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 2018, the total remuneration provided to directors was as follows:

	Consolidated		Separate	
	2018	2017	2018	2017
Executive Directors	1 024 517	853 358	1 024 517	–
Key Management Personnel	2 039 281	–	–	–
Non-Executive Directors and Independent Directors	303 371	666 353	65 487	33 918
Total spend	3 367 169	1 519 711	1 090 004	33 918

Directors' interests and dealings in securities

As at 31 December 2018 the directors' interests in the Group's capital were as follows:

Directors	Direct Shareholding	Indirect Shareholding
Mr. Terence Michael Davidson	Nil	Nil
Mr. Hitesh Natwarlal Anadkat	4.34%	39.17%
Mr. Vedanand Singh Mohadeb	Nil	Nil
Mr. Rajkamal Tapossea	Nil	Nil
Mr. Francesco Ceccato	Nil	Nil
Mr. John Michael O'Neill	Nil	0.05%
Mr. Dheeraj Dikshit	0.49%	Nil

During the year under review, none of the directors dealt in FMBCH shares.

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 on pages 120 to 133 of 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. The Group's IT team was bolstered through the appointment of an experienced new chief information and digital office executive, Mr. Samir Khare.

The board is responsible for data and information governance, but delegates the management of information technology to the Group's IT function under the leadership of the IT Manager.

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

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.

External auditor

Deloitte has independently audited the 2018 Annual Financial Statements contained in this report. Its unmodified audit opinion appears on pages 82 to 84 of the AFS. The scope of the audit is limited to information on pages 86 to 173 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 2018, 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 of its obligations and requirements under the National Code of Corporate Governance (2016).

On behalf of the Board

D. Dikshit
Director
31 May 2019

J.M. O'Neill
Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES

for the year ended 31 December 2018

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 2018 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 36.

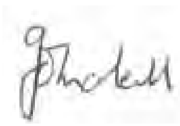
Auditor

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$ 45 000 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 31 May 2019 and are signed on its behalf by:

D. Dikshit
Director
31 May 2019
By order of the Board



J.M. O'Neill
Director

CERTIFICATE FROM THE SECRETARY

under Section 166 (d) Of the Mauritius Companies Act, 2001

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 2018.

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

31 May 2019

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 86 to 173, which comprise the consolidated and separate statement of financial position as at 31 December 2018, 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 2018, 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.

Provision for credit losses	How the matter was addressed
IFRS 9 was implemented by the Group on 1 January 2018. As permitted by the Standard, the requirements have been applied retrospectively without restating comparatives. The key changes arising from adoption of the new standard is that the Group's credit losses are now recognised based on expected credit losses ('ECL') rather than on incurred losses, and the change in the classification and measurement of financial assets and liabilities, which are detailed in note 3.1.3 to the financial statements. The estimation of credit losses based on expected credit losses requires the management to exercise significant judgement and using subjective assumptions in the determination of Probabilities of Default ('PD'), Loss Given Default ('LGD'), and Exposures at Default ('EAD') to determine the amount of impairment provision for loans and advances and hence adoption of IFRS 9 is considered as a key audit matter.	Our procedures included the following amongst others: • Evaluated the appropriateness of the IFRS 9 impairment methodologies applied by the Group against the requirements of IFRS 9; • Evaluated with the involvement of Credit Specialists, the methodology that the Group has used for determination of Expected Credit Losses (ECL) against the requirements of IFRS 9; • Checked the appropriateness of the Group's staging based on a sample of exposures tested; • Checked and understood the key data sources and assumptions for data used in the ECL models (the Models) used by the Group to determine impairment provisions; • Assessed assumptions used in the determination of ECLs for reasonability; • Checked the appropriateness of the system to determine the Probability of Default used in the ECL calculations; • Checked the appropriateness of determining Exposure of default, Probability of Default (PD) and Loss Given Default (LGD) used in the ECL calculation based on a sample of exposures; • On a sample basis, checked the completeness and accuracy of the data that was used in the ECL calculation of loans and advances as of 31 December 2018 and 1 January 2018; and • Checked the appropriateness of the transition adjustments The modelling approach and methods applied in determining ECLs were appropriate and that the amounts recorded were reasonable and complied with IFRS 9. We further concluded that the financial statements disclosures in relation to provision for credit losses are appropriate and that the adoption of IFRS 9 was in line with the requirements.

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 Message from the Chairman, Corporate Information, Report of the Directors, Corporate Governance Report, Statement of directors' responsibilities 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 Company and Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company and/or the Group or to cease operations, or have no realistic alternative but to do so.

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

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 Company's and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Deloitte.

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

Auditor's responsibilities for the audit of the consolidated and separate financial statements *(continued)*

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and /or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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.

Agrawal.

Deloitte
Chartered Accountants

31 May 2019

Vishal Agrawal, FCA
Licensed by FRC

Annual Financial Statements and Notes to the Financial Statements

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2018

US$	Notes	Consolidated 2018	Consolidated 2017	Separate 2018	Separate 2017
ASSETS					
Cash and cash equivalents	7	242 823 101	499 167 446	6 773 806	44 257
Money market investments	8	226 424 936	161 819 258	626 739	–
Loans and advances to customers	9	359 147 633	350 516 403	–	–
Finance lease receivables	10	2 228 832	5 288 322	–	–
Repurchase Agreements	11	29 969 134	34 789 390	–	–
Deferred tax asset	24	499 256	–	–	
Current tax asset	12(c)	3 698 352	5 014 906	–	–
Investments at fair value through profit or loss	13	7 665 487	7 184 758	–	–
Investment in subsidiary companies	14	–	–	125 941 039	123 128 045
Investment property	15	6 545 861	6 343 495	–	–
Intangible assets	16	6 917 153	8 490 060	–	–
Property and equipment	17	54 948 935	44 357 263	190 498	–
Assets held for sale	18	17 531 259	15 129 612	–	–
Financial assets at fair value through other comprehensive income	41	1 793 644	4 254 012	–	–
Other assets	19	10 825 578	16 116 501	3 821 005	976
Total assets		971 019 161	1 158 471 426	137 353 087	123 173 278
LIABILITIES AND EQUITY					
Liabilities					
Balances due to other banks	20	47 735 602	63 787 552	–	–
Customer deposits	21	720 825 817	874 615 899	–	–
Other payables	22	27 825 897	37 788 043	1 020 078	1 916 305
Subordinated debt	23	16 859 518	14 224 307	–	–
Deferred tax liabilities	24	3 243 342	4 833 105	–	–
Income tax payable	12(c)	1 306 308	348 766	–	–
Provisions	38	1 698 590	2 375 719	–	–
Loans payable	39	6 500 000	6 500 000	6 500 000	6 500 000
Redeemable preference shares	40	10 786 747	10 786 747	10 786 747	10 786 747
Total liabilities		836 781 821	1 015 260 138	18 306 825	19 203 052
Equity					
Share capital	25(a)	117 409 081	105 707 965	117 409 081	105 707 965
Share premium	25(b)	–	–	–	–
Restructuring reserve	26	(54 510 623)	(54 510 623)	–	–
Property revaluation reserve	27	3 005 294	15 348	–	–
Loan loss reserve	28	2 903 507	1 869 083	–	–
Investment revaluation reserve	30(b)	878 738	–	–	
Non-distributable reserves	29	–	–	–	–
Translation reserve	30(a)	(23 817 452)	17 020	–	–
Retained earnings		33 656 133	19 614 393	1 637 181	(1 737 739)
Total equity attributable to equity holders of the company		79 524 678	72 713 186	119 046 262	103 970 226
Non-controlling Interest	31(c)	54 712 662	70 498 102	–	–
Total equity		134 237 340	143 211 288	119 046 262	103 970 226
Total equity and liabilities		971 019 161	1 158 471 426	137 353 087	123 173 278

The consolidated and separate financial statements were approved for issue by the Company's Board of Directors on 31 May 2019 and were signed on its behalf by:

D. Dikshit
Director

J.M O'Neill
Director

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018

		Consolidated		Separate	
US$	**Notes**	**2018**	**2017**	**2018**	**2017**
Interest income	32	95 069 602	63 707 350	602 274	1 392
Interest expense on deposits and other accounts		(22 246 619)	(20 281 940)	(1 206 915)	(365 890)
Net interest income/(expense)		72 822 983	43 425 410	(604 641)	(364 498)
Fees and commissions		41 333 681	22 115 286	(70 200)	18 726
Income from investments	33	2 413 333	3 227 697	6 200 152	–
Gains/(loss) on foreign exchange transactions		21 077 712	10 106 665	(292 613)	–
Other operating income		751 070	274 685	3 369 005	–
Total non-interest income		65 575 796	35 724 333	9 206 344	18 726
Total income/(expense)		138 398 779	79 149 743	8 601 703	(345 772)
Staff and training costs	35	48 922 039	26 107 000	2 657 388	–
Premises and equipment costs		14 131 332	7 991 424	31 204	18 062
Depreciation and amortisation	16, 17	6 602 258	4 425 278	17 076	–
Other expenses	36	26 960 645	13 615 555	1 908 898	1 352 491
Impairment loss on financial assets	37	4 166 418	3 313 768	–	–
Total expenses		100 782 692	55 453 025	4 614 566	1 370 553
Operating profit/(loss)		37 616 087	23 696 718	3 987 137	(1 716 325)
Gains on a bargain purchase	34	–	18 655 953	–	–
Share of profit of joint venture		–	199 370	–	–
Profit/(loss) before income tax expense		37 616 087	42 552 041	3 987 137	(1 716 325)
Income tax expense	12(a)	(6 998 336)	(7 693 878)	(612 217)	–
Profit/(loss) for the year		30 617 751	34 858 163	3 374 920	(1 716 325)
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Revaluation surplus on property		4 173 295	–	–	–
Deferred tax on revalued property		(1 033 972)	4 354	–	–
Fair value gain on investment		2 723 663	–	–	–
		5 862 986	4 354	–	–
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translating foreign operations		(55 128 886)	1 915 676	–	–
Total other comprehensive income for the year		(49 265 900)	1 920 030	–	–
Total comprehensive (loss)/income for the year		(18 648 149)	36 788 193	3 374 920	(1 716 325)
Profit or loss attributable to:					
Owners of the company		16 601 205	30 304 809	3 374 920	(1 716 325)
Non-controlling interest	31 (c)	14 016 546	4 553 354	–	–
Profit/(loss) for the year		30 617 751	34 858 163	3 374 920	(1 716 325)
Total comprehensive (loss)/income attributable to:					
Owners of the company		(3 394 328)	31 294 685	3 374 920	(1 716 325)
Non-controlling interest		(15 253 821)	5 483 508	–	–
Total comprehensive (loss)/income for the year		(18 648 149)	36 778 193	3 374 920	(1 716 325)
Basic and diluted earnings per share (US' cents)	42	0.709	1.297	0.144	(0.073)

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2018

	Consolidated			
US$	Share capital	Share premium	Restructuring reserve (Note 26)	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 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 subsidiaries	–	–	–	–
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 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	Non-distributable reserves	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)**	**–**	**(19 995 534)**	**(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

STATEMENTS OF CHANGES IN EQUITY *(CONTINUED)*

for the year ended 31 December 2017

	Consolidated *(CONTINUED)*			
US$	Share capital	Share premium	Restructuring reserve (Note 26)	Property revaluation reserve
Balance as at 1 January 2017	161 497	2 164 142	–	4 766 722
Total comprehensive income for the year				
Profit for the year	–	–	–	–
Other comprehensive income				
Deferred tax on revalued assets	–	–	–	4 354
Arising on consolidation of subsidiary	–	–	–	–
Total other comprehensive income	–	–	–	4 354
Total comprehensive income for the year	–	–	–	4 354
Transfers within reserves				
Transfers to restructuring reserves	–	(2 164 142)	51 035 845	(4 766 722)
Transfer to loan loss reserve	–	–	–	–
	–	(2 164 142)	51 035 845	(4 766 722)
Other transfers				
Transfer to collective impairment allowance	–	–	–	–
Transactions with owners, recorded directly in equity				
Contribution by and distribution to owners				
Issue of ordinary shares during the year	105 546 468	–	(105 546 468)	–
Arising on increase of control in subsidiary	–	–	–	–
Arising on acquisition of subsidiary	–	–	–	–
Arising on merger with subsidiary	–	–	–	10 994
Dividends paid to non-controlling interests	–	–	–	–
Dividends paid	–	–	–	–
Total transactions with owners	105 546 468	–	(105 546 468)	10 994
Balance as at 31 December 2017	105 707 965	–	(54 510 623)	15 348

Consolidated *(CONTINUED)*

Loan loss reserve	Non-distributable reserves	Translation reserve	Retained earnings	Equity attributable to owners	Non-controlling Interest	Total equity
1 742 259	483 886	2 618 072	31 977 172	43 913 750	16 669 235	60 582 985
–	–	–	30 304 809	30 304 809	4 553 354	34 858 163
–	–	–	–	4 354	–	4 354
–	–	985 522	–	985 522	930 154	1 915 676
–	–	985 522	–	989 876	930 154	1 920 030
–	–	985 522	30 304 809	31 294 685	5 483 508	36 778 193
–	–	(3 467 428)	(40 637 553)	–	–	–
213 167	–	–	(213 167)	–	–	–
213 167	–	(3 467 428)	(40 850 720)	–	–	–
(94 458)	–	(119 146)	94 458	(119 146)	(189 524)	(308 670)
–	–	–	–	–	–	–
–	–	–	(764 510)	(764 510)	764 510	–
–	–	–	–	–	48 354 124	48 354 124
8 115	(483 886)	–	464 777	–	–	–
–	–	–	–	–	(583 752)	(583 752)
–	–	–	(1 611 593)	(1 611 593)	–	(1 611 593)
8 115	(483 886)	–	(1 911 326)	(2 376 103)	48 534 883	46 158 780
1 869 083	–	17 020	19 614 393	72 713 186	70 498 102	143 211 288

STATEMENTS OF CHANGES IN EQUITY *(CONTINUED)*

for the year ended 31 December 2018

	Separate		
US$	Share capital	Revenue deficit	Total equity
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 Comprehensive Income for the year	**–**	**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**
Balance as at 1 January 2017	100	(21 414)	(21 314)
Loss for the year	–	(1 716 325)	(1 716 325)
Total Comprehensive Income for the year	–	(1 716 325)	(1 716 325)
Transactions with owners, recorded directly in equity			
Contribution by and distribution to owners			
Issue of ordinary shares during the year	105 707 865	–	105 707 865
Balance as at 31 December 2017	105 707 965	(1 737 739)	103 970 226

STATEMENTS OF CASH FLOWS

for the year ended 31 December 2018

US$	Notes	Consolidated 2018	Consolidated 2017	Separate 2018	Separate 2017
Cash flows from operating activities					
Interest and fees received		159 054 073	95 523 197	3 608 466	20 118
Interest paid		(22 246 619)	(20 281 940)	(1 206 915)	(365 890)
Cash paid to suppliers and employees		(100 653 291)	(50 300 508)	(5 493 719)	517 163
		36 154 163	24 940 749	**(3 092 168)**	171 391
Increase in net customer balances		(169 969 730)	88 114 207	(3 820 127)	6 199
Cash (used)/generated from operations		**(133 815 567)**	113 054 956	**(6 912 295)**	177 590
Dividend received net of tax		1 009 699	421 749	6 200 152	–
Income taxes paid	12(c)	(7 847 231)	(7 116 058)	(612 217)	–
Cash (used) in/generated from operating activities		**(140 653 099)**	106 360 647	**(1 324 360)**	177 590
Cash flows from investing activities					
(Purchases)/maturities of money market investments (net)	8	(65 094 765)	(58 861 161)	(626 739)	–
(Purchases)/maturities of currency swaps (net)	11	4 820 256	(8 289 390)		–
Acquisition of business, net cash acquired	34(b)	–	341 865 513		–
Subscription of shares in subsidiary companies		–	–	(2 812 894)	(6 633 333)
Proceeds from sale of equipment		108 866	23 206		–
Acquisition of property and equipment and intangibles	16, 17	(11 650 094)	(8 030 976)	(207 574)	–
Cash (used) in/ generated from investing activities		**(71 815 737)**	266 707 192	**(3 647 207)**	(6 633 333)
Cash flows from financing activities					
Dividend paid	43	–	(1 611 593)	–	–
Proceeds from issue of shares		11 701 116		11 701 116	
Dividends paid to non-controlling interests		–	(583 751)	–	–
Net cash flow from equity investments		–	–	–	–
Proceeds/(repayment) of long term borrowings		(447 739)	9 373 255	–	6 500 000
Cash generated from financing activities		**11 253 377**	7 177 911	**11 701 116**	6 500 000
Net (Decrease)/Increase in cash and cash equivalents		**(201 215 459)**	380 245 750	**6 729 549**	44 257
Cash and cash equivalents at 1 January		499 167 446	116 985 147	44 257	–
Effect of changes in exchange rates		(55 128 886)	1 936 549	–	–
Cash and cash equivalents at 31 December	7	**242 823 101**	499 167 446	**6 773 806**	44 257

Details for all non-cash transactions have been disclosed as follows

a) In 2018, the Company acquired an investment in First Capital Bank Zambia Limited by way of dividend in specie from its subsidiary First Capital Bank Plc, Malawi – Note 14.

b) In 2017, the acquisition of Afcarme Zimbabwe Holdings (Private) was partly settled by issue of Redeemable preference shares – Note 34 (a).

c) In 2017, First Capital Bank Plc (formerly First Merchant Bank Plc) paid restructuring and acquisition expenses on behalf of FMBCH – Note 36.

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 private 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 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.

(iii) Functional and presentation currency

These consolidated and separate financial statements are presented in United States Dollar (US$), which is the Company's functional and presentation currency.

(iv) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in t financial statements are described in the following notes.

- Notes 4(f)(v), 9 and 37 – Loans and advances to customers – Impairment
- Notes 4(f)(v), 10 and 37 – Finance leases receivables – Impairment
- Notes 6, 13, 15 and 18 – Fair value measurement

(v) Comparatives

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

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

In the current year, the Group has adopted those new and revised Standards and Interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee of the International Accounting Standards Board that are relevant to its operations and are effective for annual reporting periods beginning on 1 January 2018.

The Group has adopted 2 key reporting standards that are relevant to operations across all the countries. These being IFRS 9 – *Financial Instruments* and IFRS 15 – *Revenue from Contracts with Customers*. IFRS 15 had no significant effect whereas IFRS 9 has resulted in significant effect on financial instruments classification and measurement as explained in note 5.

The accounting policies applied in the preparation of the audited financial results are consistent with the most recent financial statements for the year ended 31 December 2017 except for the current adoption of International Financial Reporting Standard 9 (IFRS 9 – *Financial Instruments*) and International Financial Reporting Standard 15 (IFRS 15 – *Revenue from Contracts with Customers*) detailed below.

3.1.1 IFRS 15 – Revenue from Contracts with Customers adoption

IFRS 15 establishes a framework for determining when and how much revenue is recognised. Under IFRS 15, revenue is recognised when the customer obtains control of goods or services. It replaces International Accounting Standard 18 (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.

There has been no significant change to the timing and value of revenue recognised from the existing policies. Therefore the Group has adopted IFRS 15 from the date of initial application with no restatement of 2017 financial statements.

Net fee and commission income

The adoption of IFRS 15 did not impact the Group's results. Fees and commissions charged for services provided by the Group companies are recognised as the services are provided, for example on completion of an underlying transaction.

Net trading income

Trading positions are held at fair value and the resulting gains and losses are included in the profit or loss component of the statement of comprehensive income, together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

Income arises from both the sale and purchase of trading positions, margins which are achieved through market making and customer business and from changes in fair value caused by movements in interest and exchange rates, equity prices and other market variables. Own credit gains/losses arise from the fair valuation of financial liabilities designated at fair value through the profit or loss component of the statement of comprehensive income.

Gains or losses on assets or liabilities reported in the trading portfolio are included in the profit or loss component of the statement of comprehensive income under gains and losses from banking and trading activities together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

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

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

3.1.1 IFRS 15 – Revenue from Contracts with Customers adoption *(CONTINUED)*

Net interest income

Interest income on loans and advances at amortised cost, fair value through other comprehensive income debt investments, and interest expense on financial liabilities held at amortised cost, are calculated using the effective interest method which allocates interest, direct and incremental fees and costs, over the expected lives of the assets and liabilities.

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

3.1.2 IFRS 9 – *Financial Instruments adoption*

The Group has adopted IFRS 9 as issued by the International Accounting Standards Board (IASB) in July 2014 with effect from 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The adoption of IFRS 9 has resulted in changes in 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.*

The Group did not early adopt IFRS 9 in previous periods. As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in prior year.

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

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

3.1.3 Effect of adopting IFRS 9 on the classification and measurement of Financial assets and liabilities

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018. In addition it shows the reconciliation between the carrying amount at 31 December 2017 under IAS 39 and the opening balance at 1 January 2018 under IFRS 9.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements, as described further below. There were no movement of balances between asset classes.

Consolidated

Classification	IAS 39 classification and measurement	IFRS 9 new classification and measurement	IAS 39 carrying amount at 31 December 2017	Re-measurement (Impairment impact)	IFRS 9 opening amount at 1 January 2018
Loans and advances to customers	Loans and receivables (amortised cost)	Financial assets at amortised cost	355 804 725	(1 936 937)	353 867 788
Placements with other banks (held for investment purposes)	Loans and receivables (amortised cost)	Financial assets at amortised cost	161 819 258	(701 564)	161 117 694
Investment securities (equity investments)	Available for sale – investments (FVOCI)	Financial assets at FVOCI	4 254 012	–	4 254 012
Investment securities (equity investments)	Held for trading (FVPL)	Financial assets at FVPL	7 184 758	–	7 184 758
Cash and bank balances	Loans and receivables (amortised cost)	Financial assets at amortised cost	499 167 446	–	499 167 446
Off balance sheet exposures	Off balance sheet	Off balance sheet	91 202 591	(106 953)	91 095 638
Other assets	Loans and receivables (amortised cost)	Financial assets at amortised cost	16 116 501	–	16 116 501
Total			1 135 549 291	(2 745 454)	1 132 803 837

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

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

3.1.3 Effect of adopting IFRS 9 on the classification and measurement of Financial assets and liabilities *(CONTINUED)*

Separate

Classification	IAS 39 classification and measurement	IFRS 9 new classification and measurement	IAS 39 carrying amount at 31 December 2017	Re-measurement (Impairment impact)	IFRS 9 opening amount at 1 January 2018
Cash and bank balances	Loans and receivables (amortised cost)	Financial assets at amortised cost	44 257	–	44 257
Other assets	Loans and receivables (amortised cost)	Financial assets at amortised cost	976	–	976
Total			45 233	–	45 233

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments; therefore IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, the measurement of financial assets eliminates the previous IAS 39 categories for financial assets held to maturity, loans and receivables and available for sale financial instruments.

The net impact of US$ 2 745 454 was adjusted through retained earnings in the consolidated statement of changes in equity.

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

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

3.1.3 Effect of adopting IFRS 9 on the classification and measurement of Financial assets and liabilities *(CONTINUED)*

Classification of Financial instruments

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

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

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

The business models are explained as follows:

i) Hold to collect contractual cash-flow – Amortised cost

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

✓ It is held within a business model whose objective is to hold assets to collect contractual cash flows; and

✓ Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

✓ It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

✓ Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

iii) Other business model – Equity investments (FVOCI)

On initial recognition of an equity investment that not held for trading, the Bank irrevocably elects to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

iv) Hold to sell – (FVTPL)

✓ All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets and debt instruments held for trading.

✓ A financial asset is initially measured at fair value plus transaction costs that are directly attributable to its acquisition for financial assets and liabilities not at fair value through profit and loss. Transaction costs for financial assets and liabilities carried at fair value through profit and loss are expensed in profit and loss.

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

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

3.1.3 Effect of adopting IFRS 9 on the classification and measurement of Financial assets and liabilities *(CONTINUED)*

The following accounting policies apply to the subsequent measurement of financial assets.

Financial instrument	Business model	IFRS 9 subsequent measurement
Loans and advances to customers	**Hold to collect – contractual cashflows**	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Loans and receivables from banks (held for investment purposes)	**Hold to collect – contractual cashflows**	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 on derecognition is recognised in profit or loss.
Investment securities – debt (held for liquidity purposes)	**Hold to collect – contractual cashflows and sell**	These assets are subsequently measured at fair value. Interest income and impairment is recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Investment securities – equity	**Other business model**	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly are recognised in OCI and are never reclassified to profit or loss.
Investment securities – debt (held for trading)	**Hold to sell**	These assets are subsequently measured at fair value. Net gains are recognised in profit or loss.

- Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'Expected Credit Loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The financial assets at amortised cost consist of loans and advances, cash and cash equivalents and debt securities.

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 are performing

✓ Stage 2 – If significant increase in credit risk is identified the asset is moved to Stage 2

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

For the year ended 31 December 2018

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

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

3.1.3 Effect of adopting IFRS 9 on the classification and measurement of Financial assets and liabilities *(CONTINUED)*

- Expected Credit Losses measurement (ECLs)

ECLs are measured on either a 12 month or Lifetime basis depending on whether a Significant Increase in Credit Risk (SICR) has occurred since initial recognition or whether the asset is considered credit impaired. The Group uses a combination of a portfolio-based approach and individual assessment to the calculation of ECLs.

Customer portfolios are segmented into Retail and Corporate, short and long term tenure (segregated by local and foreign currency) and further non-funded/off balance sheet product.

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 Probability of Default (PD), Loss Given Default (LGD) and Exposure at default (EAD).

Individual assessment is performed on all customer loans and advances after having defined a minimum exposure threshold.

The Group 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 Standard & Poor's (S&P) information.

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

✓ Stages 1 and 2: An internal benchmark.

✓ 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.

For the year ended 31 December 2018

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

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

3.1.3 Effect of adopting IFRS 9 on the classification and measurement of Financial assets and liabilities *(CONTINUED)*

- Expected Credit Losses measurement (ECLs) *(CONTINUED)*

The impairment impact of the initial application of the new provisioning model in transitioning from IAS 39 to IFRS 9 is as shown below:

	Consolidated	Company
Impairment balance for IAS 39 at 31 December 2017	10 738 154	–
Loans and advances to customers	1 936 937	–
Placements with other banks (held for investment purposes)	701 564	–
Placements with other banks (held for liquidity purposes)	–	–
Investment securities (equity investments)	–	–
Cash and bank balances	–	–
Off balance sheet exposures	106 953	–
Other assets	–	–
Total IFRS 9 opening balances as at 1 January 2018	13 483 608	–

3.2 Standards and Interpretations in issue, not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2019, and have not been applied in preparing these financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

Effective date	Standard, Amendment or Interpretation
Annual periods beginning on or after 1 January 2019	IFRS 16 – *Leases* IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guide including IAS 17 Leases and the related interpretations when it becomes effective. IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting and is replaced by a model where a right-of-use asset and corresponding liability have to be recognized for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at present value of the lease payments that are unpaid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion that will be presented as financing and operating cash flows respectively. In contracts to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by IFRS 16.

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

3.2 Standards and Interpretations in issue, not yet effective *(CONTINUED)*

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2021	IFRS 17 – *Insurance Contracts* IFRS 17 requires insurance liabilities to be measured at a current fulfilment 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, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 – *Insurance Contracts* as of 1 January 2021.
Annual reporting periods beginning on or after 1 January 2019	Amendments to IFRS 9 – *Prepayment Features with Negative Compensation* IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, 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.
Annual reporting periods beginning on or after 1 January 2019	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).
Annual reporting periods beginning on or after 1 January 2019	Annual Improvements to IFRS Standards 2015–2017 Cycle Makes amendments to the following standards: IAS 12 – *Income Taxes* The amendments clarify that an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits. IAS 23 – *Borrowing Costs* The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings. IFRS 3 – *Business Combinations* The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognized assets, liabilities and goodwill relating to the joint operation. IFRS 11 – *Joint Arrangements* The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.

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

3.2 Standards and Interpretations in issue, not yet effective *(CONTINUED)*

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2019	Amendments to IAS 19 *Employee Benefits Plan Amendment, Curtailment or Settlement* The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognized in the normal manner in other comprehensive income. The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).
Annual periods beginning on or after 1 January 2019	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 remeasurement 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.

Annual periods beginning on or after 1 January 2019	IFRIC 23 *Uncertainty over Income Tax Treatments*
	
	IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity 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:
	  ✓ If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
	  ✓ If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Directors anticipate that other than IFRS 16, these Standards and Interpretations in future periods will have no significant impact on the financial statements of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company, its subsidiaries, namely First Capital Bank Plc (Malawi) (Ex-First Merchant Bank PLC (Malawi), First Capital Bank Zambia Limited and Afcarme Zimbabwe Holdings (Private) Limited (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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 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 that 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.

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

e) Foreign currency *(CONTINUED)*

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to US$ at exchange rates (mid-rate) ruling at the reporting date. The income and expenses of foreign operations are translated to US$ at average exchange rates during the year.

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

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 liability is initially measured at fair value plus (for an item not classified at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

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

The adoption of IFRS 9 has resulted in changes in the Group's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 – *Financial Instruments: Disclosures*. The effect of adopting IFRS 9 is detailed in note 3.1.3.

ii) Classification

Financial assets

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

- loans and receivables;
- held to maturity;
- available-for-sale; and
- at fair value through profit or loss, and within this category as:
  - held for trading; or
  - designated at fair value through profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

f) Financial assets and liabilities *(CONTINUED)*

ii) Classification *(CONTINUED)*

The following mapping table explain the previous measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the bank's financial assets:

Financial Instrument	IAS 39 classification and measurement	IFRS 9 new classification and measurement
Loans and advances to customers	Loans and receivables (amortised cost)	Financial assets at amortised cost
Placements with other banks (held for investment purposes)	Loans and receivables (amortised cost)	Financial assets at amortised cost
Placements with other banks (held for liquidity purposes)	Investments (Amortised cost)	Financial assets amortised cost
Investment securities (equity investments)	Held for trading (FVPL)	Financial assets at FVPL
Cash and cash equivalents	Loans and receivables (amortised cost)	Financial assets at amortised cost
Other assets	Loans and receivables (amortised cost)	Financial assets at amortised cost

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 (HTM), 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 asset 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 and loss (FVTPL).

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

f) Financial assets and liabilities *(CONTINUED)*

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.

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 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

f) Financial assets and liabilities *(CONTINUED)*

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 PD, LGD and EAD.
- Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank 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 Bank 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 Probability of Default (PD), Loss Given Default (LGD) and Exposure at default (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 significant increase in credit risk)

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

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

ii. Lifetime ECLs (Stage 2 – significant increase in credit risk)

These are ECLs that result from all possible default events over the expected life of a financial instrument. These ECLs are measured on assets with a significant increase in credit risk 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 significant increase in credit risk (as demonstrated in terms of the Bank'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 significant increase in credit risk (as demonstrated in terms of the Bank'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 Bank's internal processes and all recoverable amounts have been collected.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

f) Financial assets and liabilities *(CONTINUED)*

(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.

(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 is there is no near-term realistic chance of recovery once collateral has been recovered. Recoveries are actively pursued but write-off of an account shall also not be unduly delayed. An asset shall not be written of earlier than:

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

(xi) De-recognition of financial liabilities

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 and loss. Subsequent to initial recognition, investment securities are accounted for depending on their classification as either fair value through Other Comprehensive Income or fair value through profit or loss.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 4(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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or 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 (u).

u) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

i) Finance lease – The Group as a lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

ii) Operating leases – The Group as a lessee

Rentals payable under operating leases are recognised in profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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.

x) Income tax

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

i) Current tax

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

ii) Deferred tax

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

Deferred tax is not recognised for:

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

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

x) Income tax *(CONTINUED)*

ii) Deferred tax *(CONTINUED)*

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

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

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

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

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

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 adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding after adjusting for the effects of all dilutive potential ordinary shares.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 6 to these consolidated and separate financial statements.

4. 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 are not measured at FVTPL.

Offsetting

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

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 their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Such assets are measured at the lower of carrying amount and fair value less costs to sell.

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

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

5. RISK MANAGEMENT

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

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

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

a) 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 corporate 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
- 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 counter parties and 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 value of loan to value of security is assessed on grant date and continuously monitored.

5. RISK MANAGEMENT *(CONTINUED)*

a) Credit Risk *(CONTINUED)*

iii) Credit risk grading

Customer Loans and Advances

Application:

The Group companies use external rating where available from ratings agencies, alternatively an internal application credit risk scoring tool that reflects its assessment of the PD of individual counterparties. Borrower and loan and advances specific information collected at the time of application (such as borrower profile, business activity, financial, account conduct, facility type, tenor and collateral) is fed into this rating tool. This is supplemented with external data such as credit bureau scoring information. The tool enables expert judgement to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

Originators and underwriters will incorporate any updated or new information/credit assessments into the credit system on an ongoing basis. In addition, the Group companies officials will also update information about the creditworthiness of the borrower every year from sources such as financial statements, bank statements, credit bureau information and market feedback. This will determine the updated internal credit rating.

Behavioural:

Payment and other behavioural aspects of the borrower are monitored on an ongoing basis in conjunction with collateral values and event driven factors to develop an internal behavioural credit rating. Exposures are monitored by grading customers in an early warning/ongoing monitoring list in order to identify those customers who are believed to be facing a Significant Increase in Credit Risk (SICR). Customers are categorised into Risk Categories 0 – 3. Those in 0 and 1 display no or temporary business as usual situations 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 meets its obligations and the risk of default is 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

Category 2 (sub categories 6a – 7c): 30 days to 89 days past due

Category 3 (sub categories 8 – 10): 90 days+ past due (Default)

5. RISK MANAGEMENT *(CONTINUED)*

a) Credit Risk *(CONTINUED)*

iv) Expected Credit Losses measurement (ECLs)

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

- A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored by the Group companies.
- If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired. Please refer to note below for a description of how the Group companies determine when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to life time ECLs – default below for a description of how the Group companies define credit-impaired and default.

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit impaired. ECLs are the discounted product of the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

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) Customer loans and advances

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) Low risk financial instruments

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

The Exposure At Default (EAD) is the amount the Group companies expect to be owed at the time of default. For a customer revolving commitment, the EAD includes the current drawn balance plus any undrawn amount at the time of default, should it occur. For term loans EAD is the drawn balance. For low risk financial instruments EAD is the current balance sheet exposure.

The 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.

5. RISK MANAGEMENT *(CONTINUED)*

a) Credit Risk *(CONTINUED)*

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

LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD1 is calculated on a discounted lifetime basis for accounts in Stages 1 and 2 where LGD is the percentage of loss expected to be made if the default occurs. LGD2 is individually determined or modelled based on historical data. LGD for low risk financial instruments exposure is based on observed recovery rates and:

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

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

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

- Customer loans and advances with central bank classification Pass, days past due 0 to 29 (Internal monitoring categories 0 and 1)
- Low risk financial instruments which are not past due
- These are a product of 12 months PD, LGD1 and EAD.

ii. Life time ECLs (Stage 2 – SICR)

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

- Customer loans and advances with central bank classification Standard, days past due 30 to 89 (Internal monitoring category 2)
- Low risk financial instruments where the credit risk has significantly increased since initial recognition
- These are a product of lifetime PD, LGD1 and EAD.

iii. Life time ECLs (Stage 3 – default)

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

- All credit impaired or in default customer loans and advances and low risk financial instruments in default.
- These are customers with central bank classification Substandard, Doubtful (internal monitoring category 3)
- Exposures which are 90 days+ past due
- These are a product of default PD, LGD2 and EAD.

Benchmarking ECL

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.

5. RISK MANAGEMENT *(CONTINUED)*

a) Credit Risk *(CONTINUED)*

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

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.

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 companies consider 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 companies' historical experience and informed credit assessment and including forward-looking information.

The use of the Rebuttable Presumption of significant increase in risk means that an account is categorized as Stage 2 when the DPD is >30 days and <90 days. In addition to the Rebuttable Presumption the Group companies will also consider the output of its multi factor early warning/risk monitoring analysis as a qualitative measure, which include but are not limited to:

- Significant adverse changes in regulatory, business, financial or economic conditions in which the borrower operates in
- Actual or expected restructuring of debt
- Early signs of cash-flow/liquidity problems such as delay in servicing debt
- Significant decline in account turnover
- Breach or anticipation of breach of significant debt covenants
- Significant changes in the value of the collateral supporting the facility
- Significant change in the quality of the guarantee or financial support provided by the shareholder.

The assessment of SICR incorporates forward looking information and is performed on a monthly basis at a portfolio level below internal thresholds. Customer loans and advances exceeding internal thresholds and low risk financial instrument exposures are assessed on a monthly and quarterly basis by the Credit department, Bank management and the Loans Review Committee.

5. RISK MANAGEMENT *(CONTINUED)*

a) Credit Risk *(CONTINUED)*

vi) Default

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

Based on the Rebuttable Presumption a customer loan and/or advance is categorized as Substandard/Doubtful/Loss on the central bank asset classification when the days past due (DPD) is 90 days or more.

In addition to the Rebuttable Presumption the Group companies will also consider the output of its multi factor risk analysis using internal risk monitoring as a qualitative measure. Qualitative examples of a significant increase in risk include but are not limited to:

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to action such as realising security (if any is held);
- The borrower commits an act of insolvency;
- The borrower's financial statements are qualified as to going concern; and/or
- The borrower or its Executive commit an act of fraud.

vii) Forward-looking information incorporated in the ECL model

The Group companies subscribe to a forward looking view informed by the identification and use of economic factors which demonstrate a strong correlation with default experience. The ECL model allows the Group companies to develop potential future scenarios, attach probabilities thereto and to incorporate this into the calculation of ECL.

However, in the absence of strongly correlating factors, allowance is also made for the use of Management's expert view in a holistic manner; implemented by way of adjustment of the PD/LGD/EAD levers built into the ECL model for this purpose.

The Group companies considered the composition of its customer loans and advances portfolio, limited number of defaults experienced and the unique causes of defaults in concluding that defaults did not strongly correlate to specific macroeconomic factors.

The Group companies have thus developed an alternative methodology which allows the direct amendment of key ECL Model inputs, the probability of occurrence of these events, and their impact on the provision model outputs.

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 ECL Models used for PD, EAD and LGD calculations are governed on a day to day basis through the Management Credit Committee comprising of senior managers in risk, finance and the business. Decisions and key judgements made by the Committee relating to the impairments and model overrides will be taken to Board Risk, Board Loans Review and Board Audit Committee as appropriate. Credit risk processes from origination to monitoring and other operational processes around impairments now take into cognisance IFRS 9 requirements.

5. 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 2018, these were as follows:

31 December 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	226 424 936
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	226 424 936
Separate				
Carrying amount		–	–	626 739
Standard (fully performing)	1	–	–	626 739
Past due but not impaired	2	–	–	–
Impaired	3	–	–	–
Gross exposure		–	–	626 739

31 December 2017 US$	Loans and advances to customers	Finance lease receivables	Money market investments
Consolidated			
Carrying amount	350 516 403	5 288 322	161 819 258
Standard (fully performing)	328 782 718	4 124 994	161 819 258
Past due but not impaired	16 769 102	651 133	–
Impaired	17 746 712	1 247 037	–
Gross receivable	363 298 532	6 023 164	161 819 258
Past due but not impaired assets			
30 – 60 days	8 976 080	525 028	–
61 – 90 days	7 793 022	126 105	–
	16 769 102	651 133	
An estimate of the fair value of collateral held			
Against individually impaired			
Property	27 600 884	693 059	–
Others *	335 099	578 986	–
	27 935 983	1 272 045	–
Against past due but not impaired			
Property	31 120 941	400 443	–
Others *	3 905 585	487 867	–
	35 026 526	888 310	–

* *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.*

5. RISK MANAGEMENT *(CONTINUED)*

a) Credit Risk *(CONTINUED)*

xi) Disclosures on credit risk

Banks in the Group have internal rating scale which is mapped into Basel II grading system. The internal rating in broadly classified into Standard (Performing), Past due but not impaired, 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.

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 concentrations of credit risk by sector. Economic sector risk concentrations within the customer loan and finance lease portfolio at 31 December were as follows:

	Consolidated	
US$	**2018**	**2017**
Agriculture	44 892 572	29 654 504
Mining	3 771 448	1 425 497
Financial Services	91 873 600	26 184 540
Construction	21 896 858	20 469 140
Energy/Electricity/Gas/Water	3 530 598	8 153 236
Manufacturing	40 577 938	43 868 447
Wholesale and Retail	61 285 427	51 837 374
Individual/Households	65 538 327	91 585 782
Real Estate	1 625 642	28 652 213
Tourism & Leisure	3 257 660	17 907 039
Transport & Communication	17 688 212	12 166 836
Others	15 191 639	15 146 420
	371 129 921	369 321 696
Split into:		
Loans and advances (Note 9)	368 266 798	363 298 532
Finance leases (Note 10)	2 863 123	6 023 164
	371 129 921	369 321 696

5. RISK MANAGEMENT *(CONTINUED)*

a) Credit Risk *(CONTINUED)*

xi) 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$		**2018**	**2017**	**2018**	**2017**
Gross maximum exposure					
Balances with central banks	7	61 321 889	276 209 019	–	–
Balances with other banks	7	147 085 622	187 662 512	6 773 806	44 257
Money market investments	8	226 424 936	161 819 258	626 739	–
Cheques in the course of clearing	7	1 746 023	255 716	–	–
Repurchase agreements	11	29 969 134	34 789 390	–	–
Finance lease receivables	10	2 228 832	5 288 322	–	–
Loans and advances to customers	9	359 147 633	350 516 403	–	–
Total recognised financial assets		827 924 070	1 016 540 620	7 400 545	44 257
Letters of credit		94 617 788	18 087 873	–	–
Financial guarantees		57 420 571	73 114 718	–	–
Total unrecognised financial assets		152 038 359	91 202 591	–	–
Total credit risk exposure		979 962 429	1 107 743 211	7 400 545	44 257

5. RISK MANAGEMENT *(CONTINUED)*

b) Interest Rate Risk

Interest rate gap analysis

The tables below summarises the exposure to interest rate risk as at 31 December. 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.

2018			Fixed rate					
Consolidated	**Zero rate**	**Floating 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	(156 483 381)	68 260 458	(57 553 115)	70 729 828	10 781 998	60 252 891	–

2017			Fixed rate					
Separate	Zero rate	Floating rate	0–3 months	3–6 months	6–9 months	9–12 months	Over 12 months	Total
Total assets	163 272 339	286 771 165	467 042 048	43 171 598	129 400 877	36 661 084	32 152 315	1 158 471 426
Total liabilities and equity	188 556 821	738 712 849	111 330 130	82 734 542	11 892 126	1 371 057	23 873 901	1 158 471 426
Interest sensitivity gap	(25 284 482)	(451 941 684)	355 711 918	(39 562 944)	117 508 751	35 290 027	8 278 414	–

5. RISK MANAGEMENT *(CONTINUED)*

b) Interest Rate Risk *(CONTINUED)*

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

%	2018	2017
Assets		
Government securities	1 – 19.5	1 – 26
Deposits with banking institutions	1 – 15	1 – 17
Loans and advances to customers (base rate)	6.5 – 23	6.5 – 25
Liabilities		
Customer deposits	0.15 – 10	0.15 – 14

Equity Risk

The value of investments at fair value through Profit or loss as at 31 December 2018 and 2017 were as follows:

US$	2018	2017
Fair value of investments at fair value through profit or loss	7 665 487	7 184 758
Net increase/(decrease) in fair value during the year	1 403 633	2 801 189
Impact on profit of:		
increase of share price by 10%	766 549	718 476
decrease of share price by 10%	(766 549)	(718 476)

5. RISK MANAGEMENT *(CONTINUED)*

c) Liquidity Risk

The maturity gap analysis as at 31 December 2018 is given below:

	Consolidated							
US$	Carrying amount	Gross nominal amount	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	over 3 years
Assets								
Cash and cash equivalents	242 823 101	242 823 101	242 823 101	–	–	–	–	–
Money market investments	226 424 936	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 lease receivables	361 376 465	371 129 920	139 786 645	25 622 772	40 671 111	40 098 864	91 789 639	33 160 888
Investments at fair value through profit or loss	7 665 487	7 665 487	1 533 098	1 533 098	1 533 098	1 533 098	1 533 096	–
Other financial assets	39 566 566	39 566 566	9 832 616	13 165 469	704 723	15 863 759	–	–
Total assets	877 856 555	887 610 010	440 628 318	98 615 635	79 366 841	113 817 760	122 020 569	33 160 888
Liabilities								
Liabilities to customers	720 825 817	720 825 817	495 105 468	112 555 361	98 488 703	98 158	14 578 127	–
Due to other banks	47 735 602	47 735 602	3 066 239	10 981 158	13 685 796	16 796 802	2 839 935	365 672
Loans payable	6 500 000	6 500 000	–	–	–	–	–	6 500 000
Redeemable preference shares	10 786 747	10 786 747	–	–	–	–	10 786 747	–
Subordinated debt	16 859 518	16 859 518	–	–	–	–	–	16 859 518
Other liabilities	27 825 897	27 825 897	23 148 203	2 069 273	1 260 113	1 106 608	241 701	–
Total liabilities	830 533 581	830 533 581	521 319 910	125 605 792	113 434 612	18 001 568	28 446 510	23 725 190
Net liquidity gap	47 322 974	57 076 429	(80 691 593)	(26 990 157)	(34 067 771)	95 816 192	93 574 059	9 435 698
Cumulative liquidity gap	47 322 974	57 076 429	(80 691 593)	(107 681 751)	(141 749 522)	(45 933 329)	47 640 731	57 076 429

5. RISK MANAGEMENT *(CONTINUED)*

c) Liquidity Risk *(CONTINUED)*

The maturity gap analysis as at 31 December 2017 is given below:

	Consolidated							
US$	Carrying amount	Gross nominal amount	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years (US$)	over 3 years
Assets								
Cash and cash equivalents	499 167 446	499 167 446	499 167 446	–	–	–	–	–
Money market investments	161 819 258	161 819 258	5 824 410	33 504 221	32 434 196	43 907 806	37 726 105	8 422 520
Loans and advances to customers and finance lease receivables	355 804 725	369 321 696	88 664 726	39 432 711	22 391 176	38 477 005	136 377 269	43 978 809
Investments at fair value through profit or loss	7 184 758	7 184 758	1 436 952	1 436 952	1 436 952	1 436 952	1 436 950	–
Other financial assets	59 695 502	59 695 502	21 502 902	35 640 192	850 802	850 802	850 804	–
Total assets	1 083 671 689	1 097 188 660	616 596 436	110 014 076	57 113 126	84 672 565	176 391 128	52 401 329
Liabilities								
Liabilities to customers	874 615 899	874 615 899	742 214 849	51 761 499	66 219 818	7 832 680	6 587 053	–
Due to other banks	63 787 552	63 787 552	11 424 563	15 535 891	12 783 624	18 612 971	4 059 446	1 371 057
Loans payable	6 500 000	6 500 000	–	–	–	–	–	6 500 000
Redeemable preference shares	10 786 747	10 786 747	–	–	–	–	10 786 747	–
Subordinated debt	14 224 307	14 224 307	–	–	–	–	–	14 224 307
Other liabilities	37 788 043	37 788 043	37 788 043	–	–	–	–	–
Total liabilities	1 007 702 548	1 007 702 548	791 427 455	67 297 390	79 003 442	26 445 651	21 433 246	22 095 364
Net liquidity gap	75 969 141	89 486 112	(174 831 019)	42 716 686	(21 890 316)	58 226 914	154 957 882	30 305 965
Cumulative liquidity gap	75 969 141	89 486 112	(174 831 019)	(132 114 333)	(154 004 649)	(95 777 735)	59 180 147	89 486 112

5. RISK MANAGEMENT *(CONTINUED)*

d) Foreign exchange risk *(CONTINUED)*

Foreign exchange exposures were as follows:

Consolidated

US$	2018				2017			
Currency	**Assets**	**Liabilities**	**Net**	**Sensitivity**	**Assets**	**Liabilities**	**Net**	**Sensitivity**
RTGS Dollar	2 437 787 271	252 751 387	2 185 035 884	21 850 359	–	–	–	–
MWK	38 782 397	35 922 316	2 860 081	28 601	44 012	43 970	42	–
ZAR	2 759 984	3 084 326	(324 342)	(3 243)	4 545 966	7 049 132	(2 503 166)	(25 032)
GBP	1 139 737	1 436 804	(297 067)	(2 971)	446 608	838 656	(392 048)	(3 920)
EUR	634 116	630 329	3 787	38	462 272	446 641	15 631	156
BWP	176 600	183 110	(6 510)	(65)	–	–	–	–
MZN	858 442	–	858 442	8 584	–	–	–	–
MUR	111 858	–	111 858	1 119	–	–	–	–
OTHER	2 646 767	1 778 307	868 460	8 685	1 390 486	1 884 027	(493 541)	(4 935)

Separate (US$)	2018				2017			
Currency	**Assets**	**Liabilities**	**Net**	**Sensitivity**	**Assets**	**Liabilities**	**Net**	**Sensitivity**
MWK	2 072 594	–	2 072 594	20 726	–	–	–	–
MZN	858 442	–	858 442	8 584	–	–	–	–
MUR	25 158	–	25 158	252	–	–	–	–

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.

6. 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	Carrying Value	Fair Value
31 December 2018							
Financial assets							
Cash and cash equivalents	7	–	242 823 101	–	–	242 823 101	242 823 101
Money market investments	8	–	226 424 936	–	–	226 424 936	226 424 936
Loans and advances to customers	9	–	359 147 633	–	–	359 147 633	359 147 633
Finance lease receivables	10	–	2 228 832	–	–	2 228 832	2 228 832
Repurchase agreements	11	–	–	29 969 134	–	29 969 134	29 969 134
Financial assets at FVOCI	41	–	1 793 644	–	–	1 793 644	1 793 644
Other assets	19	–	10 825 578	–	–	10 825 578	10 825 578
Investments at fair value through profit or loss	13	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	20	–	–	–	47 735 602	47 735 602	47 735 602
Customer deposits	21	–	–	–	720 825 817	720 825 817	720 825 817
Other payables	22	–	–	–	27 825 897	27 825 897	27 825 897
Subordinated debt	23	–	–	–	16 859 518	16 859 518	16 859 518
Loans payable	39	–	–	–	6 500 000	6 500 000	6 500 000
Redeemable preference shares	40	–	–	–	10 786 747	10 786 747	10 786 747
		–	–	–	830 533 581	830 533 581	830 533 581
31 December 2017							
Financial assets							
Cash and cash equivalents	7	–	499 167 446	–	–	499 167 446	499 167 446
Money market investments	8	–	161 819 258	–	–	161 819 258	161 819 258
Loans and advances to customers	9	–	350 516 403	–	–	350 516 403	350 516 403
Finance lease receivables	10	–	5 288 322	–	–	5 288 322	5 288 322
Repurchase agreements	11	–	34 789 390	–	–	34 789 390	34 789 390
Financial assets at FVOCI	41	–	–	4 254 012	–	4 254 012	4 254 012
Other assets	19	–	16 116 501	–	–	16 116 501	16 116 501
Investments at fair value through profit or loss	13	7 184 758	–	–	–	7 184 758	7 184 758
		7 184 758	1 067 697 320	4 254 012	–	1 079 136 090	1 079 136 090
Financial liabilities							
Balances due to other banks	20	–	–	–	63 787 552	63 787 552	63 787 552
Customer deposits	21	–	–	–	874 615 899	874 615 899	874 615 899
Other payables	22	–	–	–	37 788 043	37 788 043	37 788 043
Subordinated debt	23	–	–	–	14 224 307	14 224 307	14 224 307
Loans payable	39	–	–	–	6 500 000	6 500 000	6 500 000
Redeemable preference shares	40	–	–	–	10 786 747	10 786 747	10 786 747
		–	–	–	1 007 702 548	1 007 702 548	1 007 702 548

6. 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 and separate					
	2018			2017		
US$	**Level 1**	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Financial asset						
Investment at fair value through profit and loss	7 665 487	–	–	7 184 758	–	–

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.

7. CASH AND CASH EQUIVALENTS

	Consolidated		Separate	
US$	**2018**	**2017**	**2018**	**2017**
Deposits with central banks	61 321 889	276 209 019	–	–
Balances held with correspondent banks	57 976 057	61 672 008	–	–
Placements with other banks	89 109 565	125 990 504	6 773 806	44 257
Cheques in course of clearing	1 746 023	255 716	–	–
Cash balances	32 678 969	35 040 199	–	–
Cash and bank balances	242 832 503	499 167 446	6 773 806	44 257
Less: Expected Credit loss	(9 402)	–	–	
Net cash and bank balances	242 823 101	499 167 446	6 773 806	44 257

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 – 19.5% (2017: 1 – 26%).

8. MONEY MARKET INVESTMENTS

	Consolidated		Separate	
US$	**2018**	**2017**	**2018**	**2017**
Treasury Bills	92 326 870	94 231 641	626 739	
Malawi Government Promissory Notes	36 960 892	46 024 521	–	
Corporate Bonds	18 942 441	15 933 150	–	
Local Registered Government Stocks	78 683 820	5 629 946	–	
Total before expected credit losses	226 914 023	161 819 258	626 739	
Impairment allowance	(489 087)	–	–	
Total carrying amount at year end	226 424 936	161 819 258	626 739	
Movement during the year was as follows:				
As at 1 January	161 819 258	95 417 660	–	
On acquisition of subsidiaries (Note 34 (a))	–	7 540 437	–	
Net Purchase and maturities	65 094 765	58 861 161	626 739	
As at 31 December	226 914 023	161 819 258	626 739	
Expected Credit losses				
Balance at 1 January 2018	–	–	–	–
IFRS 9 transition adjustment	(701 564)	–	–	
Effect of changes in exchange rate	(154 735)	–	–	–
Recovery for the year (note 37)	367 212	–	–	–
Balance at 31 December	(489 087)	–	–	–
Carrying amount	226 424 936	161 819 258	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$ 29.5million as at 31 December 2018 (2017: US$ 29.5 million). These are Malawi Kwacha denominated Government of Malawi Treasury Notes which have a tenor of 36 months from 26 September 2017 to 26 September 2020, with a coupon rate of 12%.

The company invested in treasury bills for a carrying amount of US$ 626 739 as at 31 December 2018 (2017: US$ Nil) maturing partly in April 2019, with a coupon rate of 26.9%.

Treasury bills held for investment purpose 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.

9. LOANS AND ADVANCES TO CUSTOMERS

	Consolidated	
US$	**2018**	**2017**
Loans and advances at amortised cost are receivable as follows:		
Maturing within 3 months	172 431 670	127 272 759
Maturing between 3 and 12 months	83 389 638	59 776 261
Maturing after 12 months	112 445 490	176 249 512
	368 266 798	363 298 532
Specific impairment allowances (Stage 3)		
Balance at 1 January	(6 219 741)	(1 723 720)
IFRS 9 transition adjustment	(2 197 851)	–
Reclassification of interest in suspense	(1 900 949)	–
(Charge)/Recoveries for the year (Note 37)	(5 295 169)	(2 510 527)
Provision increase offset against fees and commission income	157 479	(41 128)
On acquisition of subsidiary	–	(5 180 867)
Effect of changes in exchange rate	5 369 379	1 985
Write-offs	5 223 894	3 234 516
Balance at 31 December	(4 862 958)	(6 219 741)
Collective impairment allowance (Stage 1 & 2)		
Balance at 1 January	(4 252 508)	
IFRS 9 transition adjustment	(1 862 548)	–
Transfer from loan loss reserve	–	(726 140)
On acquisition of subsidiary	–	(2 580 697)
On derecognition of subsidiary	–	(308 670)
On restructuring of subsidiary	110 074	–
Effect of changes in exchange rate	908 095	874
Charge for the year (Note 37)	840 680	(637 875)
Balance at 31 December	(4 256 207)	(4 252 508)
Interest in suspense:		
Balance at 1 January	(2 309 880)	(1 933 967)
Reclassified to specific impairment allowance	1 900 949	–
On acquisition of subsidiary	–	(292 000)
Effect of changes in exchange rate	12 931	2 369
Interest suspended for the year	396 000	(86 282)
Balance at 31 December	–	(2 309 880)
Net Loans and advances to customers	359 147 633	350 516 403

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 5(a) (iii) and 37.

Loans and advances as per industry/sector have been disclosed in note 5(a) (v).

Effective base interest rates for loans and advances have been disclosed in note 5(b).

10. FINANCE LEASE RECEIVABLES

	Consolidated	
US$	**2018**	**2017**
Investment in leases at amortised cost are receivable as follows:		
Maturing less than 1 year	1 267 772	2 123 157
Maturing after more than 1 year	1 595 350	3 900 007
	2 863 122	6 023 164
Specific impairment (Stage 3) allowances		
Balance at 1 January	(199 124)	(44 878)
IFRS 9 transition adjustment	(161 607)	
Reclassification of interest in suspense	(468 937)	–
(Charge) for the year (Note 37)	(79 939)	(176 466)
Effect of changes in exchange rate	471 289	56
Write-offs	61 335	22 164
Balance at 31 December	(376 983)	(199 124)
Collective impairment (Stage 1 &2) allowance		
Balance at 1 January	(66 781)	(77 978)
IFRS 9 transition adjustment	(191 770)	
Effect of changes in exchange rate	446	97
Credit for the year (Note 37)	798	11 100
Balance at 31 December	(257 307)	(66 781)
Interest in suspense:		
Balance at 1 January	(468 937)	(556 018)
Reclassified specific impairment allowance	468 937	
Effect of changes in exchange rate	–	681
Interest suspended for the year	–	86 400
Balance at 31 December	–	(468 937)
Net finance lease receivables	2 228 832	5 288 322

11. REPURCHASE AGREEMENTS

	Consolidated	
US$	**2018**	**2017**
Repurchase agreements	29 969 134	34 789 390
Movement during the year was as follows:		
As at 1 January	34 789 390	26 500 000
Additions	30 092 963	59 789 390
Maturities	(34 554 342)	(51 500 000)
Effect of changes in exchange rate	(234 688)	–
Expected credit losses	(124 189)	–
As at 31 December	29 969 134	34 789 390
Funds under currency swap		
31-Dec-18		
US$ 10.0 million	10 000 000	
US$ 10.0 million	10 000 000	
US$ 5.0 million	5 000 000	
GBP 4.0 million	4 969 134	
	29 969 134	
31-Dec-17		
US$ 10.0 million	–	10 000 000
US$ 10.0 million	–	10 000 000
US$ 10.0 million	–	10 000 000
EUR 4.0 million	–	4 789 390
	–	34 789 390

The Group entered into a Currency Swap arrangement with the Reserve Bank of Malawi (RBM) in which the Group sold US Dollars to RBM. The Group also arranged a GBP/US$ swap with Standard Bank South Africa with a principal amount of GBP 4 million in 2018 and a Euro/US$ swap with Standard Bank South Africa with a principal amount of € 4 million in 2017. The deals are listed above. The corresponding liability under the arrangements has been disclosed in Note 20 as part of balances due to other banks.

12. CURRENT TAX ASSET

	Consolidated		Separate	
US$	**2018**	**2017**	**2018**	**2017**
12(a) Tax expense				
Current year tax based on profits	8 427 216	3 969 594	612 217	–
Origination and reversal of temporary differences (Note 24)	(1 428 880)	3 724 284	–	–
	6 998 336	7 693 878	612 217	–
12(b) Reconciliation of effective tax rate				
Profit/(loss) before tax	37 616 088	42 552 041	3 987 137	(1 716 325)
Tax (using effective tax rate of 30% Consolidated 3% for Separate)	11 284 826	12 765 612	119 614	(51 490)
Foreign companies tax differential	(2 684 390)	(144 854)	483 312	46 341
Non-deductible expenses	320 247	466 399	9 291	5 153
Gain on bargain purchase	–	(5 596 786)	–	–
Losses not tax deductible	–	644 355	–	–
Tax exempt income	(1 922 347)	(440 848)	–	(4)
	6 998 336	7 693 878	612 217	–
12(c) Income tax recoverable/(payable)				
As at 1 January	(4 666 140)	(1 497 511)	–	–
Charges for the year	8 427 215	3 969 594	612 217	–
Effect of changes in exchange rate	1 694 112	(22 165)		
Paid during the year	(7 847 231)	(7 116 058)	612 217	–
As at 31 December	(2 392 044)	(4 666 140)	–	–

Income tax (recoverable)/payable is presented as follows in the statements of financial position:

	Consolidated	
US$	**2018**	**2017**
Current tax asset	3 698 352	5 014 906
Income tax payable	(1 306 308)	(348 766)
	2 392 044	4 666 140

Statutory tax rates for territories in the group are as follows*:

Mauritius (net of foreign tax credit)	3%
Mauritius	15%
Zimbabwe	25.75%
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 License company is entitled to a foreign tax credit equivalent to 80% on the Mauritius tax liability or the actual foreign tax suffered.*

13. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

At end of the reporting period the Group's portfolio of investments in listed companies comprised:

	Consolidated	
	2018	2017
Shares held (numbers)		
Illovo Sugar Malawi Plc	12 915 541	12 915 541
National Investment Trust Plc	25 766 628	25 766 628
Telekom Networks Malawi Plc	38 338 700	38 338 700
Share price (US' Cents)		
Illovo Sugar Malawi Plc	0.2743	0.3314
National Investment Trust Plc	0.1029	0.0829
Telekom Networks Malawi Plc	0.0384	0.0200
Market value (US$)		
Illovo Sugar Malawi Plc	3 542 757	4 280 227
National Investment Trust Plc	2 650 437	2 136 907
Telekom Networks Malawi Plc	1 472 293	767 624
	7 665 487	7 184 758
Change in fair value (US$)		
Balance at 1 January	7 184 758	4 388 848
Effect of Exchange rate difference	(922 904)	(5 279)
Movement in fair value (Note 33)	1 403 633	2 801 189
Balance at 31 December	7 665 487	7 184 758

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.

14. INVESTMENT IN SUBSIDIARY COMPANIES

At end of the reporting period the Company's portfolio of investments in subsidiary companies comprised:

	Nature of Business	Type of investment	Holding %		US$	
			2018	2017	2018	2017
First Capital Bank PLC (Malawi)	Banking	Equity shares	100	100	101 073 622	105 707 965
Afcarme Zimbabwe Holdings (Private) Limited	Banking	Equity shares	81	81	17 420 080	17 420 080
First Capital Bank Zambia Limited	Banking	Equity shares	49	–	4 634 343	–
First Capital Bank Ltd (Botswana)	Banking	Preference shares	100	–	1 995 000	–
First Capital Shared Services Ltd	Shared Service	Equity shares	100	–	105	–
First Capital Bank S.A. (Mozambique)	Banking	Subordinate Debt	100	–	817 889	–
					125 941 039	123 128 045

During the year 2018, the Company acquired a direct 49% shareholding in First Capital Bank Zambia Limited ("FCB Zambia") a company incorporated in Zambia by way of a dividend in specie from First Capital Bank Plc Malawi (FCB Malawi). This restructuring has no impact on the Group's financial statement.

The Company incorporated a domestic company, First Capital Shared Services Limited (FCSSL) in Mauritius.

During the year, the company invested US$ 1 995 000 in Cumulative Redeemable Preference Shares issued by First Capital Bank Limited (Botswana).

During the year, the company also invested US$ 817 889 as Subordinated Debt of First Capital Bank S.A. (Mozambique).

15. 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$	**2018**	**2017**
At fair value		
Balance as at 1 January	6 343 495	1 214 105
Reclassification from property and equipment		–
On acquisition of a subsidiary (Note 34)		5 145 000
Effect of changes in exchange rate	(195 134)	(15 610)
Change in fair value	397 500	–
Balance as at 31 December	6 545 861	6 343 495

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.

The fair value measurement of the investment property has been categorised as Level 3 in the fair value hierarchy based on the inputs to the valuation technique used, performed by independent valuers.

16. INTANGIBLE ASSETS

2018	Consolidated	
US$	**Computer software**	**Total**
Cost		
As at 1 January 2018	14 036 069	14 036 069
Disposals	(193 930)	(193 930)
Effect of changes in exchange rate	(1 577 448)	(1 577 448)
Additions	1 361 903	1 361 903
As at 31 December 2018	13 626 594	13 626 594
Accumulated amortisation		
As at 1 January 2018	5 546 009	5 546 009
Effect of changes in exchange rate	(552 900)	(552 900)
Charge for the year	1 716 332	1 716 332
As at 31 December 2018	6 709 441	6 709 441
Carrying Amount		
At 31 December 2018	6 917 153	6 917 153
At 31 December 2017	8 490 060	8 490 060

16. INTANGIBLE ASSETS *(CONTINUED)*

2017	Consolidated	
US$	Computer software	Total
Cost		
As at 1 January 2017	10 175 792	10 175 792
Transfer	380 428	380 428
Disposals	–	–
Effect of changes in exchange rate	338 405	338 405
On acquisition of subsidiary	1 429 351	1 429 351
Additions	1 712 093	1 712 093
As at 31 December 2017	14 036 069	14 036 069
Accumulated amortisation		
As at 1 January 2017	3 595 415	3 595 415
Effect of changes in exchange rate	205 464	205 464
Transfers	20 757	20 757
Charge for the year	1 724 373	1 724 373
As at 31 December 2017	5 546 009	5 546 009
Carrying Amount		
At 31 December 2017	8 490 060	8 490 060
At 31 December 2016	6 580 377	6 580 377

Intangible assets include computer software and website development measured at cost incurred on acquisition or development. An intangible asset has been recognized on acquisition of First Capital Bank Limited Zimbabwe (FCB Zimbabwe) in respect of the fair value of information technology support services agreed to be provided free of charge by Barclays Bank Plc for a two year period post acquisition. Intangible assets are amortised over their estimated useful lives

17. PROPERTY AND EQUIPMENT

	Consolidated							
	Freehold property	Leasehold improvements	Motor vehicles	Corporate Jet	Motor vehicles – operating lease	Equipment, fixtures & 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

17. PROPERTY AND EQUIPMENT *(CONTINUED)*

	Consolidated						
	Freehold property	Leasehold improve-ments	Motor vehicles	Motor vehicles – operating lease	Equipment, fixtures & fittings	Capital work in progress	Total
Cost or valuation							
Balance at 1 January 2017	5 842 809	5 417 170	1 707 727	935 783	9 719 224	732 663	24 355 376
Additions	–	433 052	129 121	30 909	1 111 654	4 614 147	6 318 883
On acquisition of subsidiary	20 464 487	–	5 446 310	–	10 530 542	106 376	36 547 715
Effects of exchange rate changes	132 200	164 120	145 341	–	111 915	112 204	665 780
Revaluation surplus	–	–	–	–	–	–	–
Disposals	–	–	(35 588)	–	(9 477)	–	(45 065)
Transferred to Intangibles	–	423 916	–	–	218 790	(1 023 134)	(380 428)
Balance at 31 December 2017	26 439 496	6 438 258	7 392 911	966 692	21 682 648	4 542 256	67 462 261
Accumulated depreciation							
Balance at 1 January 2017	295 432	973 166	778 773	232 010	6 734 292	–	9 013 673
Charge for the year	190 772	410 592	367 209	–	1 732 332	–	2 700 905
Released on disposal	–	–	(35 588)	–	(9 477)	–	(45 065)
On acquisition of subsidiary	2 667 000	–	2 373 000	–	6 263 687	–	11 303 687
Transferred to Intangibles	–	–	–	–	(20 757)	–	(20 757)
Effects of exchange rate changes	22 133	42 169	33 922	–	(142 665)	–	(44 441)
Charged against operating lease income	–	–	–	196 996	–	–	196 996
Balance at 31 December 2017	3 175 337	1 425 927	3 517 316	429 006	14 557 412	–	23 104 998
Carrying amount							
At 31 December 2017	23 264 159	5 012 331	3 775 595	537 686	7 125 236	4 642 256	44 357 263
At 31 December 2016	5 547 377	4 444 004	928 954	703 773	2 984 932	732 663	15 341 703

17. PROPERTY AND EQUIPMENT *(CONTINUED)*

	Separate	
	Equipment, Fixtures & Fittings	Total
Cost or valuation		
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.

Revaluation takes place at least every 2 years. 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. The resultant surpluses were credited to revaluation reserve. This is not available for distribution until realised.

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.

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 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 valuation process makes comparisons between the subject property and comparable property which has gone through the market in order to formulate an opinion as to a fair market value using an estimate of the future potential net income capable of being generated by the use of the property.	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.

18. ASSETS HELD FOR SALE

	Consolidated	
US$	**2018**	**2017**
At 1 January	15 129 612	–
Property repossessed during the year	2 198 231	–
On acquisition of subsidiaries (Note 34)	–	14 929 959
Income from non-current asset held for sale	205 595	–
Effect of changes in exchange rate	(2 179)	–
Share of post-acquisition profit in joint venture	–	199 653
	17 531 259	15 129 612

Assets held for sale include:

- 50% shareholding held by First Capital Bank Limited Zimbabwe (a subsidiary of Afcarme) in Makasa Sun (Private) Limited in Zimbabwe.
- Property taken over by First Capital Bank Plc Malawi on its acquisition of Opportunity International Bank of Malawi Ltd (OIBM). Some of the acquired assets related to closed operations which were earmarked for disposal and will not be used for the group's operations.
- First Capital Bank Zambia Limited had during the year repossessed property from a borrower following its failure to repay a loan granted to them. The Bank is in the process of looking for a buyer for the repossessed properties. The Bank expects to sell the properties within two years.

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.

19. OTHER ASSETS

	Consolidated		Separate	
US$	**2018**	**2017**	**2018**	**2017**
Prepayments	2 355 684	1 217 591	–	976
Dividend receivable	11 831	9 529	–	–
Stock of stationery	361 241	126 808	–	–
Stock of computer spares and other items	304 865	163 669	–	–
Non-customer treasury account	2 107 941	6 043 667	–	–
Other receivables	5 684 016	8 555 237	3 821 005	–
	10 825 578	16 116 501	3 821 005	976
Current	10 314 174	14 073 501	3 821 005	976
Non-current	511 404	2 043 000	–	–
	10 825 578	16 116 501	3 821 005	976

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.

Non-customer treasury account relates to receivables arising from transactions of First Capital Bank Zambia Limited with customers who have a dealing mandate with the bank but do not have a bank account.

All other current assets are recoverable/realisable within 12 months and no interest is charged on overdue balances.

20. BALANCES DUE TO OTHER BANKS

	Consolidated	
US$	**2018**	**2017**
European Investment Bank	5 352 622	8 010 664
Other banks	42 382 980	55 776 888
	47 735 602	63 787 552
Payable as follows:		
Due within 1 year	44 529 996	58 357 049
Due between 2 and 5 years	3 205 606	5 430 503
	47 735 602	63 787 552

All balances due to other banks are stated at amortised cost. Balances due to other banks represent short term borrowings by the Group. The Currency Swap liability was entered into by First Capital Bank Plc (FCB Malawi). The outstanding liability for the Currency Swap as at end of the reporting period was US$ 30.0 million (2017: US$ 36.6 million) and the corresponding asset has been disclosed under Note 11.

The 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 Dollars, carries interest between 3.9% and 5.8% per annum and is repayable in equal bi-annual installments ending on 16 June 2022.

21. CUSTOMER DEPOSITS

	Consolidated	
US$	**2018**	**2017**
Current accounts	333 748 821	567 228 438
Savings accounts	84 549 535	38 923 632
Foreign currency accounts	61 114 224	106 911 638
Term deposit accounts	240 083 187	159 835 149
Interest payable on deposits	1 330 050	1 717 042
	720 825 817	874 615 899
Payable as follows:		
Maturing within 3 months	607 660 830	793 976 348
Maturing after 3 months	113 164 987	80 639 551
	720 825 817	874 615 899

Deposits from customers only include financial instruments classified as liabilities at amortised cost. Fair value of deposits from customers approximates carrying amount because of their short tenure.

22. OTHER PAYABLES

	Consolidated		Separate	
US$	**2018**	**2017**	**2018**	**2017**
Accrued expenses	13 114 899	9 665 369	862 406	186 161
Bankers Cheques issued	2 413 672	9 229 535	–	–
Bills payable	1 243 482	1 383 182	–	–
Interest payable	1 510 813	1 114 381	95 608	243 247
Margins on LCs	744 909	10 653 492	–	–
Trade payables	8 798 122	5 742 084	62 064	2 664
Due to group company	–	–	–	1 484 233
	27 825 897	37 788 043	1 020 078	1 916 305

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.

23. SUBORDINATED DEBT

	Consolidated		Separate	
US$	**2018**	**2017**	**2018**	**2017**
Carrying amount	16 859 518	14 224 307	–	–
Movement during the year:				
As at 1 January	14 224 307	12 485 813	–	–
Additions	3 085 497	1 519 479	–	–
Unamortised issue cost	(34 038)	(29 660)	–	–
Effects of changes in exchange rate	(416 248)	248 675	–	–
As at 31 December	16 859 518	14 224 307	–	–

a) On 3 June 2016, First Capital Bank Plc, Malawi (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.

b) In 2017, First Capital Bank Botswana (FCB Botswana) a subsidiary of FCB Malawi, issued P 30 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. During the year 2017, FCB Botswana also issued P 15 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.

c) On 1 July 2018, FCB Botswana issued P 33 million rate (US$ 3 085 496) floating rate notes maturing on 25 January 2023 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

d) The subordinated debt notes constitute direct, subordinated and unsecured obligations of FCB Malawi and FCB Botswana respectively. The notes rank *pari passu* among themselves and are subordinated to general creditors and claims of depositors.

e) In July 2018, First Capital Bank S.A. Mozambique (FCB Mozambique) entered into a subordinated loan arrangement with FMBcapital Holdings Plc (a related entity). The principal amount under the arrangement is 50 million meticais (US$ 814 995) for a period of 7 years, with payment of semi-annual coupons, with the rate for the first coupon being 18.55%.

24. DEFERRED TAX

Consolidated

(US$)	Opening Balance	Recognised directly in retained earnings	Recognised in profit or loss (Note 12(a))	Recognised in other comprehensive income	Transferred on acquisition	Effect of changes in exchange rate	Closing balance
		Rate -37%	Rate -37%	Rate -37%			
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
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
2017							
Property and equipment	1 149 782		42 574	–	3 790 942	26 211	5 009 509
Accrued income	1 912 657		(157 827)	–	(189 674)	(2 338)	1 562 818
Revaluation of property	422 528		(4 322)	(4 354)	(5 736)	3 585	411 701
Tax losses	(500 365)		4 199 207	–	(3 699 472)	630	–
Gratuity and severance pay liabilities	(411 044)		(100 958)	–	(634 993)	500	(1 146 495)
Other temporary differences	(137 545)		(254 390)	–	(566 322)	(46 171)	(1 004 428)
	2 436 013		3 724 284	4 354	(1 305 255)	(18 183)	4 833 105

Consolidated

US$	2018	2017
Disclosed as under:		
Deferred tax assets	(499 256)	–
Deferred tax liabilities	3 243 342	4 833 105
Net effect	2 744 086	4 833 105

25. SHARE CAPITAL AND SHARE PREMIUM

a) Share capital

	Consolidated		Separate	
US$	**2018**	**2017**	**2018**	**2017**
Issued and fully paid up				
2 336 250 000 Ordinary shares of no par value	105 707 965	105 707 965	105 707 965	105 707 965
Issue of Shares – 122 000 000 shares of no par value	11 701 116	–	11 701 116	–
2 458 250 000 (2017: 2 336 250 000) Ordinary shares of no par value	117 409 081	105 707 965	117 409 081	105 707 965

On 20 December 2018, FMBcapital Holdings Plc ("FMBCH") issued and fully paid additional shares of 122 000 000 at the price of MWK 70.00 per share. All ordinary shares in FMBCH rank *pari passu* with one another and are listed on the Malawi Stock Exchange.

On 31 July 2017, a takeover offer ("Offer") was made by FMBcapital Holdings Plc ("FMBCH") to shareholders of First Capital Bank Plc (FCB Malawi), a company which was listed on the Malawi Stock Exchange until its delisting on 18 December 2017. The terms of the Offer required the shareholders of FCB Malawi to transfer their shares to FMBCH in exchange for shares in FMBCH. There was no element of cash consideration involved on the Offer.

At the close of the offer period, all shares in FMB (2 336 250 000) were exchanged with an equal number of new shares in FMBCH. All ordinary shares in FMBCH rank *pari passu* with one another and are listed on the Malawi Stock Exchange.

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.

b) Share premium

Premiums from the issue of shares by First Capital Bank Plc Malawi (FCB Malawi) are reported in the share premium.

Upon the takeover of FCB Malawi by FMBCH, the share premium account has been transferred to Restructuring reserve in 2017.

26. RESTRUCTURING RESERVE

In 2017, the takeover of First Capital Bank Plc 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 Plc 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 comprise:

US$	2018	2017
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
Translation reserve	3 467 428	3 467 428
Retained earnings	40 637 553	40 637 553
	(54 510 623)	(54 510 623)

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.

27. PROPERTY REVALUATION RESERVE

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

28. 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 International Financial Reporting Standards (IFRS) 9 – *Financial Instruments*.

29. NON DISTRIBUTABLE RESERVES

Prior period balances represent the capitalisation in 2009 of retained earnings in The Leasing and Finance Company of Malawi Limited ("LFC") a subsidiary of FMB. The operations of LFC have been fully merged into the operations of FCB Malawi and the shares of LFC were cancelled as of 31 December 2017. The reserve was transferred to FCB Malawi's retained earnings during the year.

30. TRANSLATION RESERVE

a) Translation reserve

This represents translation differences arising on translation of foreign investments at the end of the reporting period.

b) Investment revaluation reserve

The Group's investment in corporate bonds and debentures were classified as available-for-sale financial assets under IAS 39 have been classified as financial assets at FVTOCI because they are held within a business model whose objective is both to collect contractual cash flows and to sell the bonds, and they have contractual cash flows that are solely payments of principal and interest on principal outstanding. 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 IAS 39 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.

31. GROUP SUBSIDIARIES

As at 31 December 2018, the Company had the following subsidiaries:

Subsidiary	Domicile	Shares held by FMBCH	Sub-subsidiary	Domicile	Shares held by subsidiary 2018	Shares held by subsidiary 2017
First Capital Bank Plc	Malawi	100.00%	Capital Bank S.A	Mozambique	80.00%	80.00%
			First Capital Bank Limited	Botswana	38.60%	38.60%
			First Capital Bank Zambia Limited	Zambia	–	49.00%
			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%				
Afcarme Zimbabwe Holdings (Private) Limited	Zimbabwe	81.00%	First Capital Bank Limited	Zimbabwe	52.68%	52.68%
First Capital Shared Services Ltd	Mauritius	100.00%				

a) Acquisition of First Capital Bank Zambia Limited

On the 26th December 2018, First Capital Bank Plc Malawi (FCB Malawi) distributed its investment in First Capital Bank Zambia Limited (FCB Zambia) as dividend in specie to FMBcapital Holdings PLC (FMBCH), thereby making FCB Zambia its direct subsidiary.

b) Incorporation of First Capital Shared Services Ltd

During the year, FMBcapital Holdings PLC incorporated a wholly owned subsidiary company, First Capital Shared Services Ltd, in Mauritius.

31. GROUP SUBSIDIARIES *(CONTINUED)*

c) Non-controlling interest in subsidiaries

2018	Afcarme	First Capital Bank Mozambique	First Capital Bank Botswana	First Capital Bank Zambia	Total
NCI percentage and voting rights	57.32%	20%	61.40%	51%	
Assets					
Cash and cash equivalents	69 113 122	26 630 420	84 272 055	23 263 571	203 279 168
Money market investments	78 084 715	8 273 194	25 303 906	21 465 434	133 127 249
Loans and advances to customers	66 081 586	11 876 395	148 030 206	47 664 076	273 652 263
Repurchase agreements	361	–	–	–	361
Current tax asset	332 002	450 105	351 075	–	1 133 182
Financial assets at FVOCI	1 749 922	–	–	–	1 749 922
Investment property	5 145 000	–	–	1 400 861	6 545 861
Intangible assets	–	68 329	890 255	583 337	1 541 921
Property and equipment	20 551 444	1 361 963	6 887 036	1 243 646	30 044 089
Assets held for sale	15 034 595	–	–	2 198 231	17 232 826
Other assets	3 803 168	284 436	3 346 576	3 173 301	10 607 481
	259 895 915	48 944 842	269 081 109	100 992 457	678 914 323
Liabilities					
Balances due to other banks	802 528	–	–	14 126 155	14 928 683
Customer deposits	188 933 838	37 393 557	232 089 778	71 401 803	529 818 976
Income Tax Payable	–	–	–	285 963	285 963
Other payables	8 008 765	797 029	9 610 749	2 590 896	21 007 439
Provisions	873 869	–	–	–	873 869
Subordinated debt	–	888 490	7 258 954	–	8 147 444
Preference Shares	–	–	1 963 498	–	1 963 498
Deferred tax liabilities	759 182	(552 137)	(173 352)	(499 256)	(465 563)
	199 378 182	38 526 939	250 749 627	87 905 561	576 560 309
Net assets	60 517 733	10 417 903	18 331 482	13 086 896	102 354 014
Net assets attributable to NCI	34 699 235	2 083 580	11 255 530	6 674 317	54 712 662
Carrying amount of NCI	34 699 235	2 083 580	11 255 530	6 674 317	54 712 662
Dividend paid to NCI	–	–	–	–	–
NCI percentage and voting rights	57.32%	20%	61.40%	51%	
Interest income	33 650 369	6 020 575	15 216 429	9 604 188	64 491 561
Interest expense	(961 055)	(2 027 202)	(5 566 616)	(2 668 064)	(11 222 937)
Net interest income	32 689 314	3 993 373	9 649 813	6 936 124	53 268 624
Fees and commissions	22 948 385	1 159 567	2 517 188	3 038 518	29 663 658
Income from investments	1 810 638	–	–	–	1 810 638
Gain on foreign exchange transactions	10 963 269	1 161 025	2 746 496	3 199 601	18 070 391
Other operating income	734 568	–	–	–	734 568
Total operating income	69 146 174	6 313 965	14 913 497	13 174 243	103 547 879
Staff and training costs	23 766 255	2 738 527	4 398 232	4 033 357	34 936 371
Premises and equipment costs	7 510 326	853 358	1 210 140	1 095 054	10 668 878
Depreciation expense	2 051 019	521 699	606 333	660 179	3 839 230
Other expenses	14 120 437	1 530 165	3 603 734	2 440 266	21 694 602
Impairment loss on loans and advances	2 464 143	492 594	1 678 726	713 779	5 349 242
Total expenses	49 912 180	6 136 343	11 497 165	8 942 635	76 488 323
Profit before income tax expense	19 233 994	177 622	3 416 332	4 231 608	27 059 556
Income tax expense	251 708	48 896	621 161	1 504 874	2 426 639
Profit/(loss) for the year	18 982 286	128 726	2 795 171	2 726 734	24 632 917
Profit/(loss) allocated to NCI	10 883 930	25 745	1 716 235	1 390 635	14 016 545

31. GROUP SUBSIDIARIES *(CONTINUED)*

c) Non-controlling interest in subsidiaries *(CONTINUED)*

2017	Afcarme	First Capital Bank Mozambique	First Capital Bank Botswana	First Capital Bank Zambia	Total
NCI percentage and voting rights	57.32%	20%	61.40%	51%	
Assets					
Cash and cash equivalents	390 351 057	24 386 532	70 152 297	31 012 312	515 902 198
Loans and advances to customers	112 037 577	12 034 155	121 238 945	45 321 354	290 632 031
Current tax asset	637 246	707 217	137 893	115 575	1 597 931
Investment property	5 145 000	–	–	1 198 495	6 343 495
Intangible assets	1 143 481	305 377	983 038	715 396	3 147 292
Property and equipment	20 621 361	1 312 417	2 208 714	1 526 966	25 669 458
Assets held for sale	14 829 149	–	–	–	14 829 149
Available for sale assets	4 208 887	–	–	–	4 208 887
Other assets	6 856 725	163 184	960 614	6 373 917	14 354 440
	555 830 483	38 908 882	195 681 501	86 264 015	876 684 881
Liabilities					
Balances due to other banks	6 232 510	847 118	–	12 110 147	19 189 775
Customer deposits	443 783 408	26 615 322	171 135 496	55 449 284	696 983 510
Other payables	12 523 084	824 920	1 430 338	6 379 957	21 158 299
Provisions	2 375 719	–	–	–	2 375 719
Subordinated debt	–	–	4 558 437	–	4 558 437
Deferred tax liabilities	2 464 757	–	291 010	(338 555)	2 417 212
	467 379 478	28 287 360	177 415 281	73 600 833	746 682 952
Net assets	88 451 005	10 621 522	18 266 220	12 663 182	130 001 929
Net assets attributable to NCI	50 700 116	2 124 304	11 215 459	6 458 223	70 498 102
Carrying amount of NCI	50 700 116	2 124 304	11 215 459	6 458 223	70 498 102
Dividend paid to NCI	–	–	583 752	–	583 752
NCI percentage and voting rights	57.32%	30%	61.40%	51%	
Interest income	5 806 964	4 929 385	11 309 316	7 486 687	29 532 352
Interest expense	(68 859)	(2 302 547)	(3 016 744)	(2 171 835)	(7 559 985)
Net interest income	5 738 105	2 626 838	8 292 572	5 314 852	21 972 367
Fees and commissions	7 233 482	525 478	2 279 225	2 390 715	12 428 900
Income from investments	359 886	–	–	–	359 886
Gain on foreign exchange transactions	3 223 525	587 872	1 670 262	2 329 744	7 811 403
Other operating income	474 055	–	–	–	474 055
Total operating income	17 029 053	3 740 188	12 242 059	10 035 311	43 046 611
Staff and training costs	6 350 863	1 819 081	3 896 021	3 103 999	15 169 964
Premises and equipment costs	1 872 545	1 097 000	933 328	1 096 454	4 999 327
Depreciation expense	845 871	411 382	511 992	617 352	2 386 597
Other expenses	3 231 799	1 262 329	1 846 066	1 337 302	7 677 496
Impairment loss on loans and advances	(1 018 483)	1 298 169	1 484 950	165 605	1 930 241
Total expenses	11 282 595	5 887 961	8 672 357	6 320 712	32 163 625
Profit before income tax expense	5 746 458	(2 147 773)	3 569 702	3 714 599	10 882 986
Income tax expense	1 652 862	–	838 087	1 412 589	3 903 538
Profit/(loss) for the year	4 093 596	(2 147 773)	2 731 615	2 302 010	6 979 448
Profit/(loss) allocated to NCI	2 346 449	(644 332)	1 677 212	1 174 025	4 553 354

32. INTEREST INCOME

	Consolidated		Separate	
US$	**2018**	**2017**	**2018**	**2017**
Loans and advances	46 597 931	34 496 126	–	–
Lease finance	961 386	1 844 148	–	–
Treasury bills	15 510 201	19 782 850	–	–
Placement with other banks	23 409 515	3 583 255	–	1 392
Treasury Notes	71 945	–	–	–
Corporate bonds	6 468 725	–	602 274	–
Promissory notes	2 049 899	4 000 971	–	–
	95 069 602	63 707 350	602 274	1 392

33. INCOME FROM INVESTMENTS

	Consolidated		Separate	
US$	**2018**	**2017**	**2018**	**2017**
Dividend income	1 009 700	426 508	6 200 152	–
Movement in fair value of investments (Note 13)	1 403 633	2 801 189	–	–
	2 413 333	3 227 697	6 200 152	–

34. GAINS ON BARGAIN PURCHASES

US$	**Total 2018**	**Afcarme Zimbabwe Holdings (Private) Limited**	**Opportunity International Bank Malawi Ltd**	**Total 2017**
Fair value of net assets acquired (Note 34(a))	–	84 358 204	194 443	84 552 647
Non-controlling interest	–	(48 354 124)	–	(48 354 124)
	–	36 004 080	194 443	36 198 523
Consideration transferred	–	17 420 080	122 490	17 542 570
Gain on bargain purchase	–	18 584 000	71 953	18 655 953

Two acquisitions were completed in 2017; Afcarme Zimbabwe Holdings (Private) Limited (by FMBcapital Holdings Plc) and Opportunity International Bank Malawi Limited (by First Capital Bank Plc (FCB Malawi)). In both cases, the fair value of net assets acquired less the value of non-controlling interests exceeded consideration transferred. A gain on bargain purchase has been recognised in the income statement in accordance with IFRS 3 – *Business Combinations*.

Identifiable assets acquired and liabilities recognised at the date of acquisition are disclosed in Note 34 (a)

34. GAINS ON BARGAIN PURCHASES *(CONTINUED)*

a) Fair value of net assets acquired

US$	Total 2018	Afcarme Zimbabwe Holdings (Private) Limited	Opportunity International Bank Malawi Ltd	Total 2017
Cash and cash equivalents	–	346 313 111	2 308 225	348 621 336
Money market deposits	–	1 013 624	6 526 813	7 540 437
Loans and advances	–	114 653 553	2 961 177	117 614 730
Other receivables	–	11 613 783	51 986	11 665 769
Property and equipment	–	20 967 730	4 276 298	25 244 028
Intangible assets	–	1 429 351	–	1 429 351
Assets held for sale	–	14 629 496	300 463	14 929 959
Investment properties	–	5 145 000	–	5 145 000
Deferred tax asset	–	–	4 079 628	4 079 628
Total liabilities	–	(431 407 444)	(20 310 147)	(451 717 591)
Net assets acquired	–	84 358 204	194 443	84 552 647
Non-controlling interests	–	(48 354 124)	–	(48 354 124)
Gain on bargain purchase	–	(18 584 000)	(71 953)	(18 655 953)
Consideration transferred	–	17 420 080	122 490	17 542 570
Consideration discharged by:				
Cash	–	6 633 333	122 490	6 755 823
Issue of redeemable preference shares	–	10 786 747	–	10 786 747
	–	17 420 080	122 490	17 542 570

Expenses totalling US$ 1.2 million and US$ 0.8 million, related to advisory and professional fees on acquisition of Afcarme and Opportunity International Bank Malawi Ltd respectively have expensed in the 2017 income statement within the "Other expenses" line (see Note 36).

Included in the consolidated profit the year 2017, is US$ 4.1m profit after tax for Afcarme for the period 11 October 2017 to 31 December 2017. The consolidated net operating income and profit after tax from operations would have been more by US$ 71.5 million and US$ 19.5 million respectively had the business combination been effected at 1 January 2017.

b) Cash flow for acquisition of business, net of cash acquired

US$	Total 2018	Afcarme Zimbabwe Holdings (Private) Limited	Opportunity International Bank Malawi Ltd	Total 2017
Total cash consideration	–	6 633 333	122 490	6 755 823
Less: Cash and cash equivalents acquired	–	(346 313 111)	(2 308 225)	(348 621 336)
Net cash in flow	–	339 679 778	2 185 735	341 865 513

35. STAFF AND TRAINING EXPENSES

	Consolidated		Separate	
US$	2018	2017	2018	2017
Salaries and wages	38 833 872	20 138 910	2 510 640	–
Training and other staff costs	7 293 620	5 228 654	146 747	–
Contributions to defined contribution plans	2 794 547	739 436	–	–
	48 922 039	26 107 000	2 657 388	–

36. OTHER EXPENSES

	Consolidated		Separate	
US$	2018	2017	2018	2017
Auditor's remuneration	888 033	544 747	72 014	25 000
Bank charges	1 603 084	1 165 969	7 132	965
Directors' expenses and remuneration	303 371	666 353	65 487	33 918
Donations	31 643	27 606	–	–
Electricity	595 668	363 126	4 455	–
Fines and penalties	53 663	199 734	–	–
Fuel	19 769	19 613	–	–
Insurance	2 100 217	859 836	13 468	–
Legal and consultancy fees	2 202 071	245 243	601 036	–
Marketing costs	2 403 145	949 741	186 978	–
Motor vehicle running costs	556 791	449 275	15 490	–
Operational losses	1 166 125	159 808	–	–
Other administration costs	4 243 121	1 906 834	326 240	57 495
Postage	173 668	720 205	71	–
Printing and stationery	1 771 228	989 591	10 181	–
Professional subscriptions	109 244	144 106	–	–
Repairs and maintenance	328 938	796 590	3 391	–
Restructuring and acquisition expenses	2 902 347	2 035 972	–	1 235 113
Telephone expenses	3 141 775	561 485	4 005	–
Travel expenses	2 280 239	750 235	598 950	–
Water	86 505	59 486	–	–
	26 960 645	13 615 555	1 908 898	1 352 491

37. IMPAIRMENT LOSS ON LOANS AND ADVANCES

	Consolidated	
US$	2018	2017
Impairment allowance on loans		
Impairment charge	7 134 093	7 341 097
Recoveries	(2 679 604)	(4 192 695)
	4 454 489	3 148 402
Impairment allowance on finance leases		
Impairment charge	731 604	187 883
Recoveries	(652 463)	(22 517)
	79 141	165 366
Impairment allowance on other financial assets		
Impairment charge	119 686	–
Recoveries	(486 898)	–
	(367 212)	–
Total impairment loss on financial assets	4 166 418	3 313 768
Comprising:		
Impairment allowance on loans		
Specific impairment charges	5 295 169	2 510 227
Collective impairment charges	(840 680)	637 875
	4 454 489	3 148 402
Impairment allowance on finance leases		
Specific impairment charges	79 939	176 466
Collective impairment charges	(798)	(11 100)
	79 141	165 366
Impairment allowance on other financial assets		
Collective impairment charges	(367 212)	–
Total impairment loss on financial assets	4 166 418	3 313 768

38. PROVISIONS

US$	Consolidated Staff retention incentive	Outstanding employee leave	Separate Others	Total
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 as at 31 December 2018	2 110 112	483 035	(894 557)	1 698 590
Balance as at 1 January 2017	1 567 000	456 000	–	2 023 000
Net movement during the period	468 445	(115 726)	–	352 719
Balance as at 31 December 2017	2 035 445	340 274	–	2 375 719

The staff retention incentive represents a provision for a 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".

39. LOANS PAYABLE

During the year 2017, FMBcapital Holdings Plc, obtained loan facilities of US$ 6.5million from related parties for the purpose of discharging the purchase consideration for acquisition of shares in Afcarme. 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. The principal is payable as follows:

	Consolidated and separate		
US$	2018	2017	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
	6 500 000	6 500 000	

40. 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 Afcarme Zimbabwe Holdings (Private) Limited (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 or upon expiry of three years from the issue date.

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.

41. FINANCIAL ASSETS AT FVOCI

	Consolidated	
US$	**2018**	**2017**
Equity instruments	1 793 644	4 254 012
Represented by		
Investment in Zimswitch Ltd	1 749 922	4 208 887
Investment in Sociedade Interbancária de Moçambique (SIMO)	44 820	37 452
Effect of changes in exchange rate	(1 098)	7 673
	1 793 644	4 254 012

Available for sale assets represent shares held by banks in the group in local switch companies. First Capital Bank Limited Zimbabwe (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. 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.

42. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic and diluted earnings per share at 31 December 2018 was based on profit attributable to ordinary shareholders of US$ 16 601 206 (2017: US$ 30 304 809) and a weighted average number of ordinary shares outstanding of 2 340 260 959 (2017: 2 336 250 000) calculated as follows:

	Consolidated		Separate	
	2018	2017	2018	2017
Profit attributable to owners of the company (US$)	16 601 206	30 304 809	3 374 920	(1 716 325)
Weighted average number of ordinary shares in issue	2 340 260 959	2 336 250 000	2 340 260 959	2 336 250 000
Basic and diluted earnings per share (US' cents)	0.709	1.297	0.144	(0.073)

43. DIVIDENDS

No dividend has been declared for the year ended 31 December 2018 (2017: Nil).

44. CONTINGENT LIABILITIES

In common with other banks, the Group companies business involving acceptances, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

The contractual amounts of the Group companies' off balance sheet financial instruments that commit it to extend credit to customers are as follows:

	Consolidated		Separate	
	2018	2017	2018	2017
Acceptances and letters of credit	94 617 788	18 087 873	–	–
Financial guarantees	57 420 571	73 114 718	–	–
	152 038 359	91 202 591	–	–
Other contingent liabilities				
Legal claims	495 526	390 880	–	–

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

45. CORPORATE REBRANDING OF COMPONENT UNITS NAME

The Group engaged in a rebranding of the component units to First Capital Bank for all the banks and their new entity names are as follows:

Previous Component Unit Name	New Component Unit Name	Country Registered	Effective Date
First Merchant Bank Plc	**First Capital Bank Plc**	Malawi	12 September 2018
Capital Bank S.A.	**First Capital Bank S.A.**	Mozambique	12 February 2019
Capital Bank Limited	**First Capital Bank Limited**	Botswana	12 September 2018
First Capital Bank Zambia Limited	**No Change**	Zambia	10 September 2013
Barclays Bank of Zimbabwe Limited	**First Capital Bank Limited**	Zimbabwe	07 August 2018

46. RELATED PARTY TRANSACTIONS

Intercompany balances and transactions

The following transactions were carried out by FMBCH with related parties during the year:

Name of related parties	Relationship	Nature of transactions	US$ 2018	US$ 2017
First Capital Bank Plc (Malawi)*	Subsidiary	Other payables	(1 484 233)	(1 465 507)
First Capital Bank Plc (Malawi)	Subsidiary	Group shared services	809 082	
First Capital Bank Plc (Malawi)	Subsidiary	Other assets	6 200 152	
First Capital Shared Services Ltd	Subsidiary	Loan receivable	1 161 939	–
First Capital Bank Zambia Limited	Subsidiary	Group shared services	378 042	–
First Capital Bank Zambia Limited	Subsidiary	Interest on loan payable	(3 123)	
Afcarme Zimbabwe Holdings (Private) Limited	Subsidiary	Group shared services	1 763 043	–
First Capital Bank S.A. (Mozambique)	Fellow subsidiary	Subordinated debt	817 889	–
First Capital Bank S.A. (Mozambique)	Fellow subsidiary	Commitment fees receivable	1 333	
First Capital Bank Limited (Botswana)	Fellow subsidiary	Preference shares	1 995 000	–
First Capital Bank Limited (Botswana)	Fellow subsidiary	Group shared services	402 337	–
Minerva Fiduciary Services (Mauritius) Limited**	Administrator and secretary	Administrative and secretary fees	(62 584)	(52 277)
Premier Capital (Mauritius) Limited**	Shareholder	Loan payable	–	(1 250 000)
Mrs Meeta Anadkat**	Immediate family member of a shareholder	Loan payable	–	(1 000 000)
Prime Bank Limited**	Shareholder	Loan payable	–	(3 250 000)
Premier Capital (Mauritius) Limited**	Shareholder	Interest on loan payable	(112 500)	(46 541)
Mrs Meeta Anadkat**	Immediate family member of a shareholder	Interest on loan payable	(90 000)	(37 726)
Prime Bank Limited**	Shareholder	Interest on loan payable	(292 500)	(121 808)

46. RELATED PARTY TRANSACTIONS *(CONTINUED)*

Intercompany balances and transactions *(CONTINUED)*

Outstanding balances with related parties as at 31 December 2018 are as follows:

			US$	
Name of related parties	**Relationship**	**Nature of transactions**	**2018**	**2017**
First Capital Bank (Malawi) PLC*	Subsidiary	Other payables	–	(1 484 233)
First Capital Shared Services Ltd	Subsidiary	Other assets	1 161 939	–
First Capital Bank Zambia Limited	Subsidiary	Group shared services	378 042	–
Afcarme Zimbabwe Holdings (Private) Limited	Subsidiary	Group shared services	1 763 043	–
First Capital Bank S.A. (Mozambique)	Fellow subsidiary	Subordinated debt	817 889	–
First Capital Bank S.A. (Mozambique)	Fellow subsidiary	Commitment fees receivable	1 333	
First Capital Bank Limited (Botswana)	Fellow subsidiary	Preference shares	1 995 000	–
First Capital Bank Limited (Botswana)	Fellow subsidiary	Group shared services	402 337	–
Minerva Fiduciary Services (Mauritius) Limited**	Administrator and secretary	Administrative and secretary fees	–	(2 564)
Premier Capital (Mauritius) Limited**	Shareholder	Loan payable	(1 250 000)	(1 250 000)
Mrs Meeta Anadkat**	Immediate family member of a shareholder	Loan payable	(1 000 000)	(1 000 000)
Prime Bank Limited**	Shareholder	Loan payable	(3 250 000)	(3 250 000)
Premier Capital (Mauritius) Limited**	Shareholder	Interest on loan payable	(18 183)	(46 541)
Mrs Meeta Anadkat**	Immediate family member of a shareholder	Interest on loan payable	(14 795)	(37 726)
Prime Bank Limited**	Shareholder	Interest on loan payable	(48 082)	(121 808)

* *As at 31 December 2017, the First Capital Bank Plc Malawi ("FCB Malawi") paid US$ 1 484 233 on behalf of FMBcapital Holdings Plc ("FMBCH"). This amount represents expenses incurred by the FCB Malawi on behalf of FMBCH on group restructuring costs, acquisition of Afcarme Zimbabwe Holdings (Private) Limited and renovations of the Malawi branch office of FMBcapital Holdings Plc.*

** *These were the transactions and balances of the Group with related parties.*

Directors' fees and expenses

	Consolidated		Separate	
US$	**2018**	**2017**	**2018**	**2017**
Executive directors	1 024 517	853 358	1 024 517	–
Key Management Personnel	2 039 281	–	–	–
Non-Executive directors	303 371	666 353	65 487	33 918
Total	3 367 169	1 519 711	1 090 004	33 918

47. SEGMENTAL 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 the ability of the business to meet customer's needs.

The Group has considered the overriding core principles of IFRS 8 'Operating segments' as well as its internal reporting framework, management and operating structure. The Directors' conclusion is that the Group has two operating segments, that of corporate and retail banking and asset finance. The Group is not reliant on any major customer for 1% or more of revenues. Costs incurred by support functions are allocated to the two main business segments on the basis of determined cost drivers.

- Corporate and Retail banking – Banking branches and agencies in the group are all engaged in corporate and retail banking, offer similar products and services to similar classes of customer and are governed by the same regulatory environment. Given their common economic characteristics, these individual segments are aggregated and presented in a single segment. They offer various products and services to large corporates, financial institutions and government, medium and small businesses and private individuals. Services include direct debit facilities, current and savings accounts, debit cards, money market deposits, overdrafts, loans and other credit facilities and foreign currency products.
- Asset Finance – Until 31 December 2017 the Group provided asset finance through Leasing and Finance Company of Malawi Limited to a wide spectrum of individual and corporate customers in Malawi. This business has, from 1 January 2018 been amalgamated with corporate and retail banking.
- Other operating segments represent the company (FMBcapital Holdings Plc), First Capital Shared Services Ltd, FMB Forex Bureau Limited, FMB Pensions Limited, International Commercial Bank Limited and FMB Capital Markets Limited. The Group companies do not meet any of the quantitative thresholds set out in IFRS 8 – *Segment Reporting* for separate disclosure and reporting and this segment has been aggregated into the others segment information presented below.

47. SEGMENTAL REPORTING *(CONTINUED)*

2018 US$	Corporate & Retail	Asset Finance	Others	Consolidation Adjustments	Total
Net interest income	73 410 780	–	(590 060)	2 263	72 822 983
Fees and commissions	41 421 042	–	(64 003)	(23 358)	41 333 681
Income from investments	2 413 333	–	6 200 152	(6 200 152)	2 413 333
Other operating income	734 568	–	2 960 132	(2 943 630)	751 070
Gain on foreign exchange transactions	21 370 771	–	(291 666)	(1 393)	21 077 712
Total operating income	139 350 494	–	8 214 555	(9 166 270)	138 398 779
Staff and training costs	(46 162 178)	–	(2 759 861)	–	(48 922 039)
Premises and equipment	(14 036 134)	–	(95 198)	–	(14 131 332)
Depreciation and amortisation	(6 559 703)	–	(42 555)	–	(6 602 258)
Other expenses	(28 249 288)	–	(1 997 267)	3 285 910	(26 960 645)
Impairment of financial assets	(4 166 418)	–	–	–	(4 166 418)
Total expenditure	(99 173 721)	–	(4 894 881)	3 285 910	(100 782 692)
Operating profit	40 176 773	–	3 319 674	(5 880 360)	37 616 087
Gain on bargain purchase	–	–	–	–	–
Share of profit of joint venture	–	–	–	–	–
Profit before income tax expense	40 176 773	–	3 319 674	(5 880 360)	37 616 087
Income tax expense	(6 378 405)	–	(619 931)	–	(6 998 336)
Profit for the year	33 798 368	–	2 699 743	(5 880 360)	30 617 751
Total segment assets	993 027 428	–	139 703 467	(161 711 734)	971 019 161
Total segment liabilities	840 951 519	–	19 556 182	(23 725 880)	836 781 821

47. SEGMENTAL REPORTING (CONTINUED)

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

2018	Holding company	First Merchant Bank Plc				Afcarme		
US$	**Mauritius**	**Malawi**	**Mozambique**	**Botswana**	**Zambia**	**Zimbabwe**	**Adjustment**	**Consolidated**
Interest income	601 405	30 780 185	6 020 575	15 216 429	9 604 188	33 650 369	(803 549)	95 069 602
Interest expense	(1 206 915)	(10 622 579)	(2 027 202)	(5 566 616)	(2 668 064)	(961 055)	805 812	(22 246 619)
Net interest income	(605 510)	20 157 606	3 993 373	9 649 813	6 936 124	32 689 314	2 263	72 822 983
Fees and commissions	(70 200)	11 763 580	1 159 568	2 517 188	3 038 518	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
Other operating income	2 960 132					734 568	(2 943 630)	751 070
Gain on foreign exchange transactions	(291 666)	3 300 380	1 161 025	2 746 496	3 199 601	10 963 269	(1 393)	21 077 712
Total operating income	8 192 908	35 824 262	6 313 966	14 913 497	13 174 243	69 146 173	(9 166 270)	138 398 779
Staff and training costs	(2 759 862)	(11 225 807)	(2 738 526)	(4 398 233)	(4 033 357)	(23 766 254)	–	(48 922 039)
Premises and equipment	(95 198)	(3 367 256)	(853 358)	(1 210 140)	(1 095 054)	(7 510 326)	–	(14 131 332)
Depreciation and amortisation	(42 555)	(2 720 472)	(521 699)	(606 334)	(660 179)	(2 051 019)	–	(6 602 258)
Other expenses	(1 996 463)	(6 555 487)	(1 530 170)	(3 603 732)	(2 440 266)	(14 120 437)	3 285 910	(26 960 645)
Impairment of financial assets	–	1 182 824	(492 594)	(1 678 726)	(713 779)	(2 464 143)	–	(4 166 418)
Total expenditure	(4 894 078)	(22 686 198)	(6 136 347)	(11 497 165)	(8 942 635)	(49 912 179)	3 285 910	(100 782 692)
Operating profit or loss	3 298 830	13 138 064	177 619	3 416 332	4 231 608	19 233 994	(5 880 360)	37 616 087
Gain from bargain purchase	–	–	–	–	–	–	–	–
Share of profit of joint venture	–	–	–	–	–	–	–	–
Profit/(loss) before income tax	3 298 830	13 138 064	177 619	3 416 332	4 231 608	19 233 994	(5 880 360)	37 616 087
Income tax expense	(612 217)	(3 959 480)	(48 896)	(621 161)	(1 504 874)	(251 708)	–	(6 998 336)
Profit/(loss) for the year	2 686 613	9 178 584	128 723	2 795 171	2 726 734	18 982 286	(5 880 360)	30 617 751
Segment assets	138 268 224	316 055 145	48 944 842	267 274 616	102 292 154	259 895 914	(161 711 734)	971 019 161
Segment liabilities	19 499 064	264 992 967	38 526 940	248 933 887	89 176 661	199 378 182	(23 725 880)	836 781 821

47. SEGMENTAL REPORTING *(CONTINUED)*

2017 US$	Corporate & Retail	Asset Finance	Others	Consolidation Adjustments	Total
Net interest income	41 794 935	1 970 924	(340 449)	–	43 425 410
Fees and commissions	21 788 837	290 282	36 167	–	22 115 286
Income from investments	3 227 697	–	–	–	3 227 697
Gain on foreign exchange transactions	10 106 665	–	–	–	10 106 665
Other operating income	274 685	–	–	–	274 685
Total operating income	77 192 819	2 261 206	(304 282)	–	79 149 743
Staff and training costs	(25 529 492)	(577 508)	–	–	(26 107 000)
Premises and equipment	(7 960 824)	(11 299)	(19 301)	–	(7 991 424)
Depreciation and amortisation	(4 369 766)	(52 923)	(2 589)	–	(4 425 278)
Other expenses	(11 953 407)	(306 423)	(1 355 725)	–	(13 615 555)
Impairment of financial assets	(3 148 409)	(165 359)	–	–	(3 313 768)
Total expenditure	(52 961 898)	(1 113 512)	(1 377 615)	–	(55 453 025)
Operating profit	24 230 921	1 147 694	(1 681 897)	–	23 696 718
Gain on bargain purchase	71 951	–	–	18 584 002	18 655 953
Share of profit of joint venture	199 370	–	–	–	199 370
Profit before income tax expense	24 502 242	1 147 694	(1 681 897)	18 584 002	43 352 671
Income tax expense	(7 315 766)	(368 536)	(9 576)	–	(7 693 878)
Profit for the year	17 186 476	779 158	(1 691 473)	18 584 002	34 858 163
Total segment assets	1 142 080 610	16 422 460	124 600 709	(124 632 352)	1 158 471 426
Total segment liabilities	985 493 068	11 995 153	19 256 149	(1 484 233)	1 015 260 138

47. SEGMENTAL REPORTING *(CONTINUED)*

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

2018	**Holding company**	**First Merchant Bank Plc**				**Afcarme**		
US$	Mauritius	Malawi	Mozambique	Botswana	Zambia	Zimbabwe	Adjustment	Consolidated
Interest income	1 392	34 801 071	4 929 385	11 309 316	7 486 687	5 806 964	(627 465)	63 707 350
Interest expense	(365 890)	(12 983 530)	(2 302 547)	(3 016 744)	(2 171 835)	(68 859)	627 465	(20 281 940)
Net interest income	(364 498)	21 817 541	2 626 838	8 292 572	5 314 852	5 738 105	–	43 425 410
Fees and commissions	18 726	9 447 475	525 478	2 279 225	2 390 715	7 508 167	(54 500)	22 115 286
Income from investments	–	3 207 261	–	–	–	359 886	(339 450)	3 227 697
Gain on foreign exchange transactions	–	2 295 262	587 872	1 670 262	2 329 744	3 223 525	–	10 106 665
Other operating income	–	274 685	–	–	–	–	–	274 685
Total operating income	(345 772)	37 042 224	3 740 188	12 242 059	10 035 311	16 829 683	(393 950)	79 149 743
Staff and training costs	–	(10 937 036)	(1 819 081)	(3 896 021)	(3 103 999)	(6 350 863)	–	(26 107 000)
Premises and equipment	(18 062)	(2 793 109)	(1 097 000)	(933 328)	(1 096 454)	(2 053 471)	–	(7 991 424)
Depreciation and amortisation	–	(2 038 681)	(411 382)	(511 992)	(617 352)	(845 871)	–	(4 425 278)
Other expenses	(1 352 491)	(4 820 994)	(1 262 329)	(1 846 066)	(1 337 302)	(3 050 873)	54 500	(13 615 555)
Impairment of financial assets	–	(1 383 527)	(1 298 169)	(1 484 950)	(165 605)	1 018 483	–	(3 313 768)
Total expenditure	(1 370 553)	(21 973 347)	(5 887 961)	(8 672 357)	(6 320 712)	(11 282 595)	54 500	(55 453 025)
Operating profit or loss	(1 716 325)	15 068 877	(2 147 773)	3 569 702	3 714 599	5 547 088	(339 450)	23 696 718
Gain from bargain purchase	–	71 953	–	–	–	–	18 584 000	18 655 953
Share of profit of joint venture	–	–	–	–	–	199 370	–	199 370
Profit/(loss) before income tax	(1 716 325)	15 140 830	(2 147 773)	3 569 702	3 714 599	5 746 458	18 244 550	42 552 041
Income tax expense	–	(3 790 340)	–	(838 087)	(1 412 589)	(1 652 862)	–	(7 693 878)
Profit/(loss) for the year	(1 716 325)	11 350 490	(2 147 773)	2 731 615	2 302 010	4 093 596	18 244 550	34 858 163
Segment assets	123 173 278	338 946 179	38 908 882	195 681 500	86 607 674	555 830 483	(180 676 570)	1 158 471 426
Segment liabilities	19 203 052	282 627 480	28 287 368	177 415 281	73 944 462	467 379 478	(33 596 983)	1 015 260 138

48. EVENTS AFTER THE REPORTING DATE

The following event took place after reporting date that required disclosure in but not adjustment to the 2018 financial statements of FMBcapital Holdings Plc:

In February 2019, First Capital Bank Plc Malawi (FCB Malawi) distributed its investment in First Capital Bank Limited Botswana (FCB Botswana) as dividend in specie to FMBcapital Holdings PLC (FMBCH), thereby making FCB Botswana its direct subsidiary.

49. CHANGE IN FUNCTIONAL CURRENCY

The Group's subsidiary, FCB Zimbabwe, assessed its functional currency for the year ended 31 December 2018 continuing from the previous assessment done in 2017 using same IAS 21 primary and secondary indicators:

- FCB Zimbabwe concluded that a greater proportion of the interest income and non-funded income was being priced and settled in Real Time Gross Settlement (RTGS) dollars and costs being largely determined and settled in RTGS dollars;
- Net receipts from operations were largely retained in RTGS dollars;
- A greater proportion of the FCB Zimbabwe's assets and deposits were now predominantly denominated in RTGS dollars

FCB Zimbabwe also considered the following factors:

i) Separation of Nostro and RTGS balances

The separation of these balance was effective from 1 October 2018, which meant that customers who had RTGS balances would not ordinarily be able to access foreign cash with effect from 1 October 2018, implying that the two were now different currencies.

ii) Substance over form of RTGS transactions

Although the RTGS was a mode of settlement and not legally recognised as a currency FCB Zimbabwe considered the substance of the transactions done in RTGS, taking into account the significant disparity between the market perception of the relative value between the United States Dollar ($) and the RTGS dollar and concluded that the economic substance of these transactions over their legal form was that RTGS was a currency.

Based on the above considerations FCB Zimbabwe concluded that its functional currency had changed from United States Dollars ($) to RTGS dollars from 1 October 2018. However, as at 31 December 2018 the RTGS dollar had not been promulgated legally as a currency. Statutory Instrument (S.I) 33 commissioned the RTGS dollar as a currency from 22 February 2019 and prescribed that all United States dollar ($) 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 (IFRSs), the financial statements of Afcarme were translated to United States Dollars using a closing rate of United States Dollars ($) 1:3.62 for the Statement of Financial Position and an average rate of United States Dollars ($) 1:3.27 for the Income Statement. The exchange rates are best estimate at the date of reporting. The tables below provide an analysis of the impact on FCB Zimbabwe's performance and financial position using exchange rates in the range of 2.5 to 5.

49. CHANGE IN FUNCTIONAL CURRENCY *(CONTINUED)*

PL Sensitivity Analysis for 2018	As notified by SI 33 US$: RTGS$ @ 1:2.5	As reported US$: RTGS$ @ 1:3.27	Incremental Rate US$: RTGS$ @ 1:4	Incremental Rate US$: RTGS$ @ 1:5
Interest income	34 712	33 650	33 021	32 457
Interest expense	(1 025)	(961)	(923)	(890)
Net interest income	33 688	32 689	32 098	31 568
Net fee and commission income	23 562	22 948	22 585	22 260
Net trading income	11 835	11 835	11 835	11 835
Net investment income	1 001	938	901	868
Other income	762	735	718	703
Total non-interest income	37 161	36 457	36 040	35 666
Total income	70 848	69 146	68 138	67 234
Staff costs	(24 407)	(23 153)	(22 410)	(21 745)
Infrastructure costs	(9 697)	(7 510)	(9 251)	(9 102)
Administration and general expenses	(15 193)	(16 785)	(14 692)	(14 525)
Impairment losses	(2 464)	(2 464)	(2 464)	(2 465)
Operating expenses	(51 760)	(49 912)	(48 817)	(47 837)
Profit (loss) before tax	19 089	19 234	19 320	19 397
Taxation	(329)	(252)	(206)	(165)
Profit for the year	18 759	18 982	19 114	19 233
Impact on Group's consolidated profit for the year due to change in functional currency	(5 563)	(5 340)	(5 208)	(5 089)

49. CHANGE IN FUNCTIONAL CURRENCY *(CONTINUED)*

BS Sensitivity Analysis for 2018	As notified by SI 33 US$: RTGS$ @ 1:2.5	As reported US$: RTGS$ @ 1:3.62	Incremental Rate US$: RTGS$ @ 1:4	Incremental Rate US$: RTGS$ @ 1:5
Cash and bank balances	82 142	68 000	65 001	59 287
Investment securities	115 601	79 835	72 250	57 800
Loans and receivables from banks	1 612	1 113	1 007	806
Loans and advances to customers	88 070	66 082	61 419	52 535
Other assets	4 786	4 009	3 844	3 530
Property and equipment	22 270	20 551	20 187	19 493
Investment properties	5 145	5 145	5 145	5 145
Non-current assets held for sale	14 829	14 829	14 829	14 829
Current tax asset	481	332	300	240
Total assets	334 935	259 896	243 983	213 666
Liabilities				
Derivative financial instruments	1	1	1	1
Balances due to other banks	1 162	803	726	581
Deposits from customer	251 283	188 934	175 713	150 522
Provisions	1 265	874	791	633
Other liabilities	8 229	6 202	5 773	4 954
Deferred tax liabilities	1 099	759	687	550
Bank balances due to Group companies	1 806	1 806	1 806	1 806
Total liabilities	264 845	199 378	185 496	159 046
Equity				
Share capital	216	216	216	216
Share premium	23 837	23 837	23 837	23 837
Property revaluation reserve	4 936	4 936	4 936	4 936
Loan loss reserve	611	611	611	611
Investment revaluation reserve	4 926	4 926	4 926	4 926
Capital reserves	9 013	9 013	9 013	9 013
Translation reserve	(40 850)	(50 646)	(52 809)	(56 795)
Profit and Loss for the year	18 759	18 982	19 114	19 233
Retained income	48 643	48 643	48 643	48 643
Total equity	70 091	60 518	58 488	54 620
Total equity and liabilities	334 936	259 896	243 983	213 666
Impact on Group's consolidated equity for the year due to change in functional currency	(46 412)	(55 985)	(58 015)	(61 883)

50. NEW ACCOUNTING PRONOUNCEMENTS

a. Standards issued but not yet effective

2018 has witnessed the adoption of 2 key reporting standards that are relevant to the Group. These being IFRS 9 for *Financial Instruments* and IFRS 15 for *Revenue from Contracts with Customers*. IFRS 15 had no significant effect whereas IFRS 9 has resulted in significant effect on financial instruments classification and measurement as explained in notes 3.1.2, 5(a), 9 and 37.

b. Standards, amendments and interpretations that are not yet effective and have not been early adopted

The following new standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2018 and are expected to be relevant to the Group. The Group is in the process of assessing the potential impact that the adoption of these Standards and interpretations may have on its future financial performance or disclosures in the annual financial statements. The Group will not early adopt the standards.

IFRS 16 – *Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Group plans to adopt IFRS 16 retrospectively to each prior reporting period presented. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group has taken properties on lease from third parties with contract terms in excess of 12 months. The contracts have their lease payments present valued to determine the right of use asset and the lease liability (capitalized). Preliminary group assessment of the impact of the adoption of the new standard is expected to be finalized before 30 June 2019.

SHAREHOLDER INFORMATION

for the year ended 31 December 2018

Industry Statistics	Holders	Holder %	Total Shares	Shares %
Foreign Companies	12	0.69	1 730 999 593	70.42
Local Companies	55	3.17	199 850 945	8.13
Other Resident Individuals	6	0.35	107 547 545	4.37
Citizen Resident Individuals	1 407	81.05	93 968 635	3.82
Investment Companies & Trusts	31	1.79	96 149 977	3.91
Pension Funds	34	1.96	183 597 809	7.47
Holding Company	1	0.06	13 116 970	0.53
Insurance Companies	3	0.17	11 973 916	0.49
Nominees Local	73	4.21	10 171 382	0.41
Banks	4	0.23	4 553 920	0.19
Non Residents	28	1.61	3 545 877	0.14
Other Organisations	6	0.35	1 162 271	0.05
Employees	66	3.80	794 875	0.03
Permanent Resident	1	0.06	534 152	0.02
Non Resident Citizens	3	0.17	176 783	0.01
Leasing And Finance	5	0.29	101 150	0.00
Deceased Estates	1	0.06	4 200	0.00
Grand Totals	1 736	100.00	2 458 250 000	100.00
Country Statistics				
Angola	5	0.29	315 205	0.01
Botswana	1	0.06	20 000	0.00
Cayman Island	1	0.06	990	0.00
Isle Of Man	1	0.06	88 333 334	3.59
Kenya	3	0.17	525 002 750	21.36
Malawi	1656	95.39	666 257 819	27.10
Mauritius	1	0.06	766 266 044	31.17
Portugal	8	0.46	2 335 200	0.09
South Africa	4	0.23	36 615	0.00
United Kingdom	8	0.46	408 003 000	16.60
USA	6	0.35	665 268	0.03
Warrant Not Presentable	40	2.30	1 002 855	0.04
Zimbabwe	2	0.12	10 920	0.00
	1736	100.00	2 458 250 000	100.00
Range Statistics				
1 – 5000	1 128 562	0.05	503	28.97
5001 – 10000	1 747 380	0.07	256	14.75
10001 – 25000	5 872 465	0.24	377	21.72
25001 – 50000	5 561 847	0.23	148	8.53
50001 – 100001	8 476 049	0.34	123	7.09
100001 – 200000	13 905 894	0.57	113	6.51
200001 – 500000	36 733 191	1.49	126	7.26
500001 – 1000000	18 534 522	0.75	26	1.50
1000001 and Above	2 366 290 090	96.26	64	3.69
	2 458 250 000	100.00	1 736	100.00

CORPORATE INFORMATION

		Date of appointment	Date of resignation
DIRECTORS	Manogaran Thamothiram	16-Mar-16	14-Mar-18
	Rajkamal Taposeea	18-Apr-17	N/A
	Hitesh Natwarlal Anadkat	18-Apr-17	N/A
	Terence Michael Davidson	18-Apr-17	N/A
	Dheeraj Dikshit	18-Apr-17	N/A
	John Michael O'Neill	18-Apr-17	N/A
	Vedanand Singh Mohadeb	29-Sep-17	N/A
	Francesco Ceccato	31-Dec-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		

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