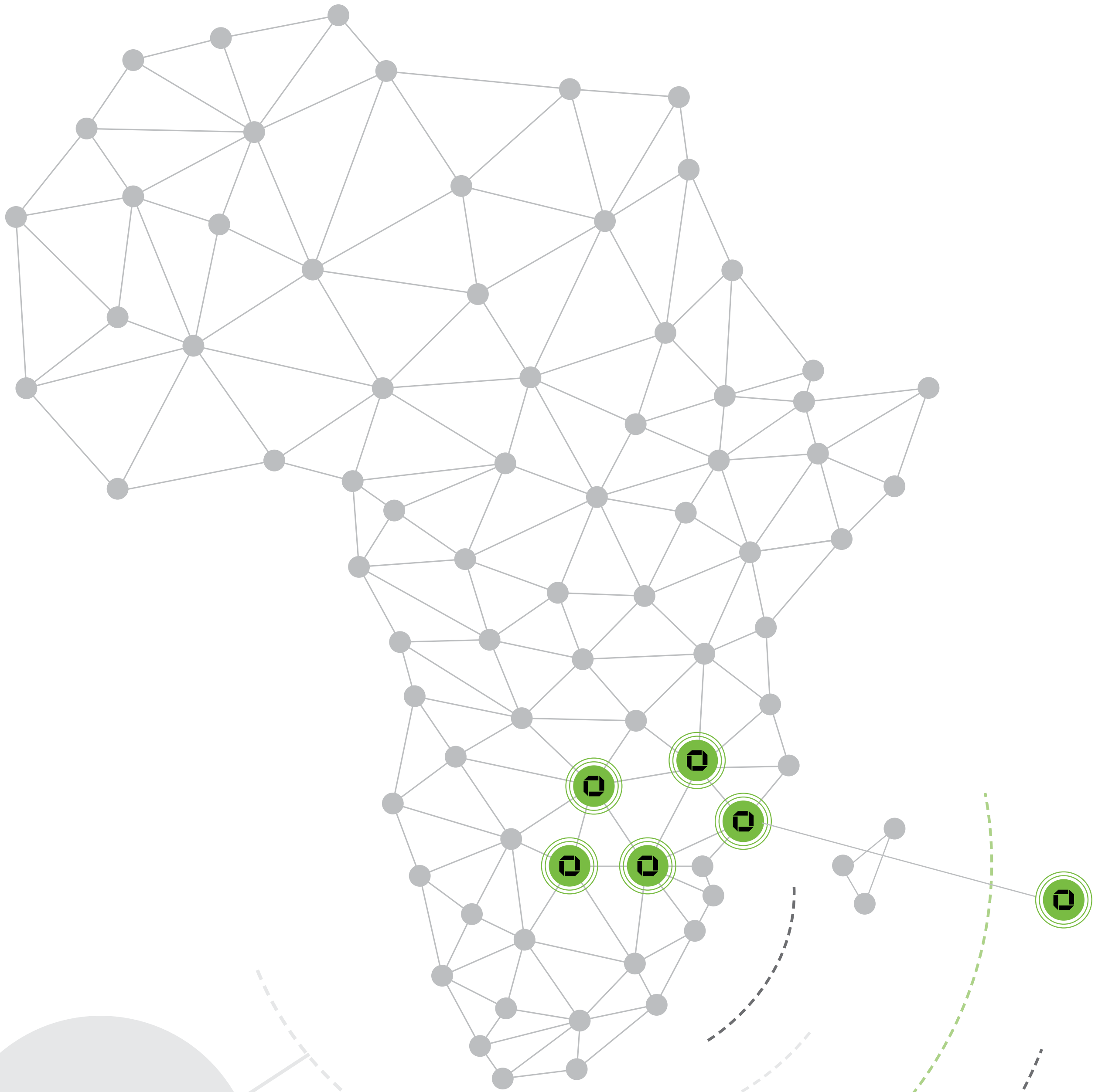
FMB capital Holdings plc



ANNUAL REPORT 2017

TABLE OF CONTENTS

01

INTRODUCTION

02

ABOUT FMBCH

03

2017 PERFORMANCE

04

DIRECTORS AND EXECUTIVE MANAGEMENT

05

OUR ANNUAL FINANCIAL STATEMENTS

06

SHAREHOLDER INFORMATION


01

INTRODUCTION

ABOUT THIS REPORT

INTRODUCTION

This is the primary report of FMBcapital Holdings plc (FMBCH) 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 2017 to 31 December 2017.

BACKGROUND

This is the first year the Group is reporting as FMBCH. It has previously reported as First Merchant Bank (FMB) Malawi. Following a corporate restructuring process in September 2017, FMBCH assumed control of the entire issued share capital of FMB (Malawi).

SCOPE OF THE REPORT

The report covers the performance of FMBCH and all of its operating companies in Botswana, Malawi, Mozambique, Zambia and Zimbabwe for the financial year ending 31 December 2017. Where applicable and relevant information subsequent to this date has been included.

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

REPORTING PRINCIPLES

The content of this report has been informed by the International Integrated Reporting Framework (IRC) developed by the International Integrated Reporting Council (IIRC), a global coalition of regulators, investors, companies, standards bodies, accounting bodies and non-profit organisations. FMBCH is working towards an integrated form of reporting that will be in full compliance with the IRC. As such, the report also takes into account material, financial, economic, social, environmental and governance issues.

AUDIT REPORT

An independent audit of the group's annual financial statements was performed by Deloitte in Mauritius, where FMBCH is registered. The rest of this report has not been subjected to independent audit or review. Information contained in the report, other than that mentioned above, 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, but it should be noted that this report is aimed primarily at the providers of financial capital.

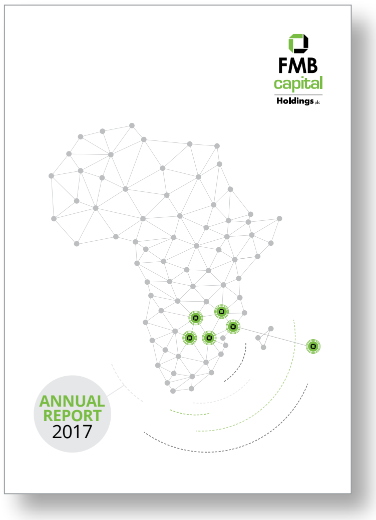
THE SIX CAPITALS

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.

- SOCIAL AND RELATIONSHIP CAPITAL
- MANUFACTURED CAPITAL
- HUMAN CAPITAL
- NATURAL CAPITAL
- INTELLECTUAL CAPITAL
- FINANCIAL CAPITAL

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 fmbcapitalgroup.com.



2017 HIGHLIGHTS

2017 was a landmark year for the Group. Our restructuring laid the foundations for future growth while through our acquisitions we significantly expanded our business and regional footprint.

Operational highlights

June 2017:
FMBCH acquired
Opportunity International Bank Malawi Limited.

September 2017:
FMBCH undertook a one-on-one share exchange transaction with FMB shareholders, making it the sole holding company for the FMBCH Group.

October 2017:
FMBCH acquired a 81% stake in Afcarme Zimbabwe Holdings (Pvt) Limited, the holding company for Barclays Bank of Zimbabwe Limited (BBZ), from Barclays Bank Plc (BBPLC).

September 2017:
FMBCH listed on the Malawi Stock Exchange

December 2017:
The Leasing and Finance Company of Malawi Limited, which was previously a wholly owned subsidiary of FMB Malawi, was merged into the main FMB Malawi banking operation.

December 2017:
FMB Plc is delisted on the Malawi Stock Exchange

Financial Highlights

Earnings per Share **1.297 US' cents** (2016: 0.378 cents)	ROE **79%** (2016: 29%)	Shareholders' Funds **USD 73 million** (2016: USD 44 million)
Total Assets **USD 1,158 million** (2016: USD 452 million)	Total Income **USD 98 million** (2016: USD 47 million)	Profit After Tax **USD 35 million** (2016: USD 10.6 million)


02

ABOUT FMBCH

WHO WE ARE AND WHERE WE'VE COME FROM

OUR HISTORY

JUNE 1995

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

JULY 2002

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

JUNE 2006

FMB is listed on Malawi Stock Exchange

JULY 2008

FMB establishes Capital Bank in Botswana

JUNE 2013

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

JUNE 2017

FMB acquires Opportunity International Bank Malawi

SEPTEMBER 2017

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

OCTOBER 2017

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

DECEMBER 2017

Leasing & Finance Company of Malawi merges with FMB Malawi

VISION

FMBCH aims to be the leading provider of financial services in the SADC region.

MISSION

The Group aims to achieve this vision by:

- Expanding and consolidating its regional footprint;
- Offering comprehensive and innovative products and services;
- Deploying advanced ICT delivery platforms;
- Prioritising customer service levels;
- Providing strong leadership and management; and
- Implementing strong and robust principles of corporate governance

OUR VALUES DEFINE OUR BUSINESS
AND INFORM EVERYTHING WE DO.

VALUES

INTEGRITY

We are transparent, honest and fair in the way in which we conduct our business;

APPROACHABILITY

We value relationships above all else. We see every interaction as an opportunity to establish meaningful long-term partnerships;

STABILITY

We stay true to our roots and values. Only by knowing ourselves can we make a meaningful difference in the lives of others;

INNOVATION

We look towards the future with a pioneering and entrepreneurial spirit. We seek new opportunities to create value for all our partners and stakeholders;

RESPONSIVENESS

Partnerships are mutual relationships. We engage sincerely and respond to all interactions promptly and consistently.

WHAT WE DO AND WHERE WE DO IT

The Group total assets are **USD 1,158 million**

FMBCH's banking operations employ over 1 800 staff and service a client base of nearly 840 000 people.

First Capital Bank Zambia (49%)

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 six branches based in Lusaka and Ndola with plans to add two more to its network in 2018.

- Branches: 6
- ATM's: 6
- POS devices: NIL
- Staff: 99
- Customers: 7 900

Barclays Bank of Zimbabwe

Barclays Bank of Zimbabwe (42,68%)

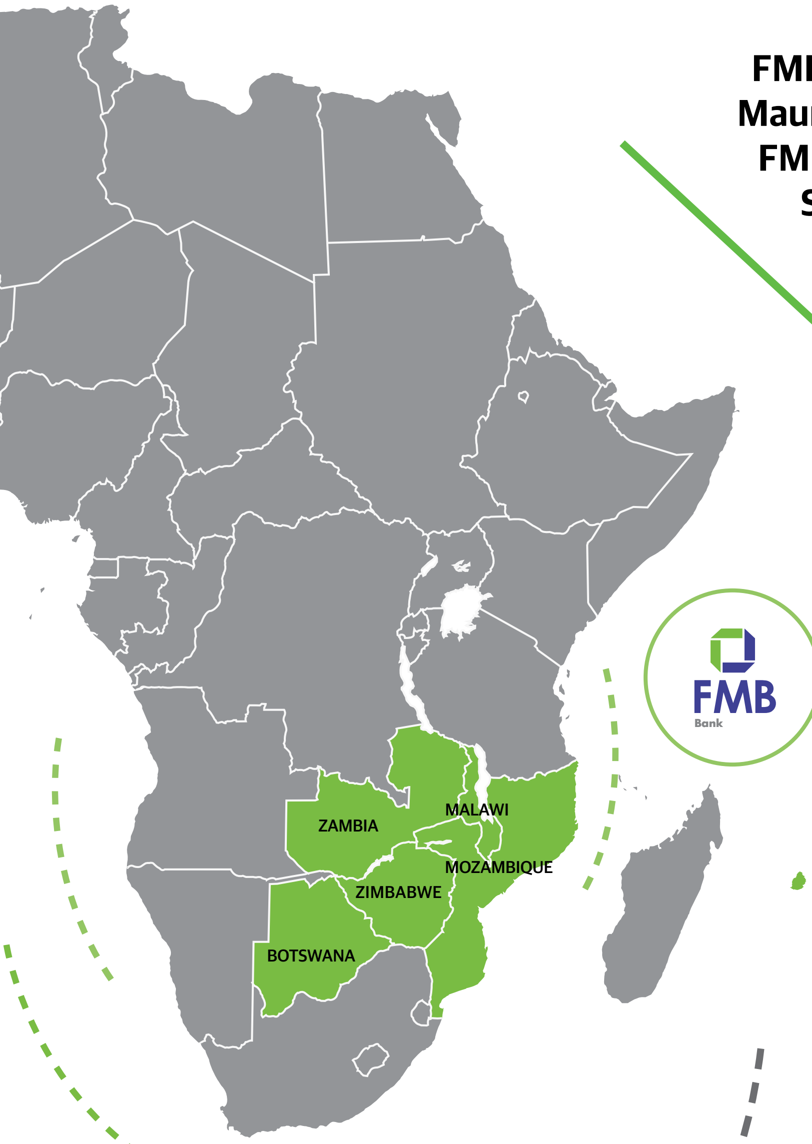
Long established in Zimbabwe, Barclays is one of the largest banks in the country and offers a full range of financial products and services to the corporate, commercial and personal markets. Barclays Bank of Zimbabwe is listed on the Zimbabwe Stock Exchange.

- Branches: 25
- Service Centres: 2
- ATMs: 47
- POS Devices: 566
- Staff: 690
- Customers: 157 800

Capital Bank Botswana (38,6%)

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. More recently, the operation has successfully implemented strategic initiatives to expand its share of the retail market. Capital Bank Botswana is headquartered in Gaborone and has branches in Gaborone, Broadhurst, Mogoditshane and Francistown

- Branches: 4
- ATMs: 6
- POS devices: 0
- Staff: 131
- Customers: 18 500



FMBcapital Holdings plc (FMBCH) is the Mauritius-based holding company of the FMBCH Group. It is listed on the Malawi Stock Exchange and has banking and finance operations in five SADC countries, namely Botswana, Malawi, Mozambique, Zambia and Zimbabwe.

First Merchant Bank (FMB) Malawi (100%)

FMB 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 FMB caters to the needs of all segments of the Malawi market and has one of the most extensive branch and agency distribution networks in the country.

Branches: 6

Agencies: 30

ATMs: 65

POS Devices: 70

Bill Payment Cashier Counters: 20

Staff: 837

Customers: 636 100

Capital Bank Mozambique (80%)

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

Branches: 4

ATMs: 5

POS devices: 52

Staff: 63

Customers: 17 700

BUSINESS MODEL

The Group's value creation process is illustrated in the business model below, which demonstrates how the Group draws on various capital inputs and transforms them into products and services to deliver on the Group's value proposition. The capital inputs and the capital outcomes are discussed in more detail on the following page.

MAKING USE OF OUR RESOURCES

FINANCIAL CAPITAL

The pool of funds available to FMBCH, including equity finance and debt.

HUMAN CAPITAL

The value of the skills and experience embodied in the Group's staff, management and executives.

INTELLECTUAL CAPITAL

The value of proprietary procedures and assets (intangible assets).

MANUFACTURED CAPITAL

The material goods owned, leased or controlled by FMBCH and used in the normal course of doing business (tangible assets).

SOCIAL & RELATIONSHIP CAPITAL

The relationships the Group has with customers, regulators, business partners and our communities.

NATURAL CAPITAL

The value of any natural resources used in the process of creating and delivering products and services.

THROUGH OUR BUSINESSES

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.

FMB Malawi 100%

Barclays Zimbabwe 42,68%

OUR PRODUCTS AND SERVICES

BUSINESS, CORPORATE AND INSTITUTIONAL BANKING

Transactional Accounts

Current Accounts
Savings accounts

Payments & Cash Management

Payroll Solutions
Vendor Payments
Bulk Electronic Payments
Cashiering Services & Cash Management
Cash in Transit Services

Loans & Overdrafts

Overdrafts
Term Loans
Foreign Currency Loans
Seasonal Agricultural Loans

Treasury & Foreign Exchange

Foreign Exchange Services
Trade Finance
Letters of credit
Bank Guarantees
Documents under Collection
Remittances

Investments

Fixed deposits
Call deposits
Treasury Bills
Promissory Notes

Electronic banking

Internet banking
ATM's
POS services

TO DELIVER ON OUR VALUE PROPOSITION

Capital Bank Botswana
38,6%

Capital Bank Mozambique
80%

First Capital Bank Zambia
49%

Transactional Accounts
Current Accounts
Savings accounts

Debit Cards
Visa debit cards
Bank debit cards

Remittances
Providing both traditional and electronic enabling channels for the remittance of funds

RETAIL BANKING

Premium Banking Services
Segmented, personalized banking services for high net worth customers

Electronic banking
Internet banking
ATM's
POS services
Mobile banking
Bill payments

Investments
Fixed deposits
Call deposits
Treasury Bills

Maintaining a consistently high level of financial stability and security

Offering a superior level of experience and expertise in all areas of its business

Offering a fully comprehensive range of products and services

Focusing on innovation in products, services, processes and ICT

Continuously expanding and improving its regional footprint

Leveraging off non-traditional distribution channels

Maintaining a strong customer focus

Adhering to a well-defined talent management, retention and training strategy

Subscribing to a strict code of corporate governance

Refer to page 16 to see Capital inputs and outcomes

OUR CAPITAL INPUTS AND 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 the guidelines provided in the International Integrated Reporting Framework, is given below.

FINANCIAL CAPITAL

INPUTS

- Share capital of USD106 million
- Debt capital of USD32 million
- Customer deposits of USD875 million
- Retained profits of USD20 million

OUTCOMES

- Profit after tax increased by 229%
- Total assets increased by 156%
- Return on equity increased by 178%

HUMAN CAPITAL

INPUTS

- 1 820 permanent staff members
- Staff and training to the value of USD26 million
- Intellectual property (innovation, knowledge, expertise and experience)

OUTCOMES

- 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

INTELLECTUAL CAPITAL

INPUTS

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

OUTCOMES

- 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

MANUFACTURED CAPITAL

INPUTS

- 75 branches
- 129 ATMs
- 688 POS devices
- Executive and general management office buildings
- IT infrastructure

OUTCOMES

- 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, such as Finacle, which offer customers convenient and affordable digital banking solutions

SOCIAL AND RELATIONSHIP CAPITAL

INPUTS

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

OUTCOMES

- Successfully serviced the diverse needs of nearly 840 000 customers in both the retail and corporate banking sectors.
- Facilitated financial inclusion across all market sectors
- Provided on-going support for various initiatives in the areas of health, education and sport within the communities that the Group operates
- Taxes paid in the amount of USD7 million

NATURAL CAPITAL

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

03

2017 PERFORMANCE

MESSAGE FROM THE CHAIRMAN

Terence Davidson
Chairman

The 2017 financial year saw our Group make further significant progress towards fulfilling its vision **of becoming a leading provider of financial services in the Southern Africa Development Community ("SADC") region.**

FMBcapital Holdings Plc ("FMBCH") has, following successful completion of an offer to shareholders of First Merchant Bank Plc ("FMB"), become the ultimate beneficial owner of all of the Group's banking interests. FMBCH is domiciled in Mauritius and presently listed on the Malawi Stock Exchange. It is our intention to also list FMBCH on a capital market with more developed global linkages compatible with our ambitious growth aspirations.

The scale of the Group's operations has grown tremendously, principally as a result of the acquisition of a controlling interest in Barclays Bank of Zimbabwe Limited ("BBZ") but also through acquisition of Opportunity International Bank Malawi Limited ("OIBM") and through organic growth across existing Group operations. Total assets of the Group increased by more than 150% over the course of the year and stood at US$1.16 billion at 31 December 2017.

OVERVIEW

As discussed in the economic reviews included in this annual report, the economic trends in the region were in general positive but a number of challenges remain in various territories.

Business sentiment improved in both Botswana and Zambia and this is reflected in improved results for our operations in these countries, particularly Zambia where there was also a relaxation of monetary policy in response to improved economic fundamentals.

Malawi succeeded in taming inflation and stabilizing the Kwacha exchange rate but economic growth was muted due to depressed agricultural commodity prices and the legacy impact of a long running contractionary monetary policy. Accordingly, operating results for Malawi were flat but overall profitability was up 25% due largely to a much improved performance of our listed equity investment portfolio.

Mozambique continues to suffer the consequences of its undisclosed debt scandal and subsequent debt default. Both investor sentiment and relationships with development partners have been negatively impacted. From the Group perspective, Mozambique is our worst performing operation reporting a loss for the year of some US$2 million on the back of much lower foreign exchange earnings and higher debt impairment provisions.

The results of BBZ have only been consolidated into our Group results for less than three months but already this investment is performing beyond expectations contributing US$1.75 million to profits attributable to FMBCH shareholders.

There is a degree of optimism that political change will see the introduction of more business friendly economic policies in Zimbabwe but we remain cautious as serious structural distortions in that economy have to be addressed in order for the country to achieve its economic potential.

STRATEGIC CORPORATE ACTIONS

On 31 July 2017, FMBCH made an offer to all shareholders of FMB to acquire on a one-for-one basis their FMB shares in exchange for shares in FMBCH. This offer was accepted by shareholders holding 97.888% of the total FMB shares in issue. As provided in the rules of the Panel on Takeovers and Mergers, the balance of the issued shares of FMB were compulsorily acquired subsequent to the offer on the same terms as the offer. 2 336 250 000 FMBCH ordinary shares were admitted to the official list of the Malawi Stock Exchange and the issued shares of FMB, now wholly owned by FMBCH, were delisted.

In October 2017, following receipt of all regulatory approvals, FMBCH acquired from Barclays Bank Plc ("BBPLC") an 81% shareholding in Afcarme Zimbabwe Holdings Private Limited, the controlling shareholder with a 52% shareholding in BBZ, a bank listed on the Zimbabwe Stock Exchange. This acquisition was negotiated at a discount to the value of the proportionate share of net assets acquired on acquisition date.

BBZ has been operating in Zimbabwe since 1912 and has a nationwide branch network that will give the Group a strong footprint in Zimbabwe. BBZ remains listed on the ZSE and will continue to operate under the Barclays brand until October 2018 thereafter co-branding with the FMBCH Group for two years before fully transitioning to our brand by October 2020. We also have the option to acquire the residual 19% Barclay's shareholding in Afcarme in 2020.

In Malawi, FMB acquired 100% of the issued share capital of OIBM and thereafter, with the sanction of the courts, merged its operations with those of FMB. OIBM was a commercial bank which targeted the entrepreneurial poor and disadvantaged providing, in particular, deposit and credit services. The acquisition of OIBM has broadened our transactional banking base and extended our presence in the micro savings and microfinance sectors of the economy.

At the end of 2017, and again with the sanction of the Malawi courts, FMB merged the operations of its wholly owned subsidiary, the Leasing and Finance Company of Malawi Limited ("LFC"), with those of FMB. The merger will create significant synergistic benefits going forward for both our asset finance and wholesale deposit business in Malawi.

Harare, Zimbabwe

MESSAGE FROM THE CHAIRMAN (continued)

In Mozambique, the Central Bank prescribed a higher minimum capital requirement for banks to be phased in over a three year period. In order to comply with this directive, FMB subscribed a further US$6 million capital in Capital Bank Mozambique, in the process increasing its percentage shareholding in that bank from 70% to 80%.

FINANCIAL RESULTS

The results for the year were influenced to a significant extent by the financial implications of the strategic corporate actions undertaken. The takeover of FMB and the merger of LFC and FMB were combinations of entities under common control and had no overall impact on aggregate shareholders' equity. The acquisitions of Afcarme and OIBM were business combinations in which the Group was the acquirer.

In the latter two instances, the amounts by which the fair value of net assets acquired less non-controlling interests therein exceeded the considerations paid are recognised as gains on bargain purchases of US$18 million included in profit for the year. The figures reported for these business combinations should be regarded as provisional amounts subject to retrospective adjustment until 15 October 2018, the end of the measurement period permitted under IFRS. It is also worth noting that costs of US$2.2 million related to the acquisitions of Afcarme and OIBM have been included in other expenses deducted from profit for the year.

Whilst the Afcarme acquisition had a very positive impact on profitability, other territories, on an overall basis, performed well in challenging circumstances. Factoring out Zimbabwe, we still saw strong growth in net interest income from US$29 million to US$38 million and fees and commission income from US$13 million to US$15 million together with a US$3 million improvement in return from our investment portfolio. Foreign exchange earnings contracted marginally from US$7.2 million to US$6.9 million as a result of difficult trading conditions which were also reflected in much higher debt impairment provisions. Overall, recurring Group cost to income ratio is trending in the right direction down from 65% to 53%.

The Group now has a much enhanced balance sheet with total year end assets of US$1,158 million against US$452 million at 31 December 2016. Our balance sheet remains extremely liquid with US$660 million of our total assets comprised of cash, cash equivalents and money market investments.

OPERATIONS

As part of the arrangements for the acquisition by FMBCH of control of BBZ, FMBCH and Barclays entered into a transitional services agreement that allows for a phased transition of IT systems, over a two year period, from those of Barclays to those of FMBCH. Extensive preparatory work related to the transition has commenced and it is expected that system migration will be completed well within the stipulated timeframe.

The integration of OIBM's operations and network was successfully completed in November after court approval of its merger with FMB.

The Group continued to invest in information technology with a view to improve operational efficiency and service delivery. Over the course of 2018, we plan to upgrade the Group internet banking platform, launch a new mobile banking application and continue to integrate additional service/utility companies with our payment platforms.

CORPORATE GOVERNANCE

The corporate restructuring initiatives undertaken have had no impact on governance structures at individual subsidiary bank level. Each bank retains its own board with an appropriate representation of independent and non-executive directors. Board committees also remain in place for the key areas of risk, audit, credit and human resources.

At holding company level, a highly experienced board has been appointed comprising a mix of independent, non-executive and executive directors. Audit and risk committees of the board have also been established and a Group IT committee has been constituted to take responsibility for IT strategy and governance for the Group as a whole.

An appropriately skilled and experienced head office team under leadership of the Managing Director is required to ensure effective oversight and management of critical functional areas in the Group. Many of the key roles in this team have already been filled with the remainder of the team expected to be in place during the course of 2018.

OUTLOOK

The economic outlook for the region is, on balance, largely positive though structural reforms are still required in several territories. The pace of economic recovery may vary but the overall medium term outlook remains promising.

Mozambique's growth will remain subdued in the short-term but that country looks set to enjoy an economic boom in a few years' time when the mega projects in the extractive industries go into production.

Zimbabwe has the opportunity in the near term to win back the confidence and support of the international community and, through appropriate structural adjustment and policy reform, set itself on the path to major economic recovery.

Projected stronger world economic growth should translate into benefits for both Botswana and Zambia in the form of firmer demand for their principal exports, diamonds and copper respectively. Zambia badly needs to bolster its low international reserves but faces challenges to secure an IMF facility amid concerns over the level of government debt which may have become unsustainable.

Malawi, despite continuing power shortages, expects to see improved growth led mainly by a recovery of agricultural sector output. Hard won gains in terms of relative macro-economic stability could, however, be at risk if fiscal discipline is not maintained on the run up to the May 2019 elections.

We have a well defined strategy and business model in place and are strongly positioned to take advantage of both short and medium term opportunities in the SADC region. Our intention remains to augment our capital base through a capital raise and dual listing on another regional stock exchange. We will, however, continue to conservatively manage our balance sheet until more certainty emerges over the likely future business environment in the territories in which we operate. Our short-term focus will be on initiatives to increase the efficiency and effectiveness of the Group's operations, building on our common technology platform to achieve economies of scale through centralisation and improvement of processes in a shared services unit. We would also endeavour to leverage our now expanded regional footprint to better serve our customers with businesses across the markets in which we operate aiming to capture a larger share of their wallet.

APPRECIATION

In conclusion, I would like to extend my sincere appreciation to my fellow directors and our management teams as well as to our staff, customers, regulators and investors for their ongoing commitment to FMBCH. The Group's success is your success.

Terence Davidson
Chairman

REGIONAL ECONOMIC AND PERFORMANCE REVIEWS

BOTSWANA

Jaco Viljoen
Chief Executive Officer

Economic Review

In 2017, Botswana continued to recover from the setbacks of 2015, when the economy contracted by 1.7% due to the weak demand for diamond exports, severe drought and on-going electricity and water supply shortages. In 2016, a slow recovery in diamond prices, together with broad-based expansion into non-mining sectors such as water, electricity, general trade, transport, communication and construction, resulted in real GDP rising to 4.3%. This increased marginally to 4.5% in 2017.

The country's inflation rate remained at around 2.8% for the year, below the central bank's target range of 3% to 6%, and government continued to take advantage of this in its monetary policy. For example, the Bank of Botswana reduced the bank rate by 50 basis points to 5% in October 2017 in order to support domestic growth.

The country's budget balance moved from a deficit in 2016 to a modest surplus in 2017, but is expected to return to a modest deficit in 2018, reflecting lower mining revenues, lower revenues from the Southern African Customs Union (SACU) and higher spending associated with the economic stimulus programme. A return to surplus is expected by 2020, especially as public debt remains well below the statutory ceiling of 40% of GDP.

In the short to medium term, the economy is expected to deliver sustained growth, with GDP expected to rise to nearly 5% in 2018. This is anticipated due to the continued recovery in mining and sustained good performance in non-mining sectors. Continued expansion in the construction sector resulting from the economic stimulus programme, as well as planned upgrades to electricity and water infrastructure, are further expected to boost growth. This is expected to be counterbalanced by sluggish performance in the agricultural sector where, despite good weather, crop production continues to be hampered by traditional farming methods, erosion and disease.

Downside risks remain centred around the country's dependence on diamond exports, which makes it extremely vulnerable to external shocks. This risk is expected to be complicated by the slow recovery of the global economy, uncertainty in global trade, possible adverse weather and subdued economic conditions in the country's southern neighbour, South Africa. Delays in the construction of electricity and water projects, as well as the slow rate of structural reforms is further expected to impact on GDP growth, as is the relatively slow rate of economic diversification.

Source: African Economic Outlook 2018, African Development Bank Group

CAPITAL BANK BOTSWANA

Key Indicators

Customer Deposits: **+20%**	Total Assets: **+19%**	Net Interest Income: **+29%**	Operating Expenses: **+24%**
Loans and Advances: **+47%**	Shareholder Funds: **+9%**	Non-Interest Income: **+27%**	Profit After Tax: **+14%**

Performance

Capital Bank's growth in Y2017 was particularly noteworthy as the banking industry as a whole reported a year-on-year decline of 9% in profits after tax. Within this context, the bank nevertheless succeeded in growing its balance sheet, loan book, customer deposits and profitability. This was due to the strategy implemented in 2015, which has resulted in better focus, greater efficiencies and improved customer confidence.

The growth of the transactional customer base continues to assist in reducing the cost of funds and in growing both fee and commission income. The introduction of unsecured payroll loans has also had a positive impact on the net interest margin.

Net profit after tax (NPAT) improved by 14% from BWP 23.8 million in Y2016 to BWP 27.3 million in Y2017. This was driven by a 29% increase in total income against a net increase in total costs of only 24%.

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 29% and 27% respectively. In addition, fee income increased by 18% during the reporting period, primarily due to the growth in transactional banking business. Foreign exchange income also recorded a robust 64% increase over Y2016 levels.

Loans and advances grew at a healthy rate of 47%, a reflection of the success of the bank's intensive activity management and its 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 reducing from 8.4% to 3.5%.

Substantial progress was also made in enhancing the risk management and compliance framework through the implementation of several key initiatives. There was also a strong focus on increasing the number of counterparties, such as correspondent banks, which is creating a superior product offering for clients.

Outlook

Capital Bank is positive about its growth prospects for Y2018, especially as it is continuing to focus on growing its 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 28% in profits and 16% in assets it has been able to report over the past five years.

In 2018, Capital Bank Botswana will be celebrating ten years in operation. This milestone, together with the improved performance of the past five years, the construction of a planned new head office and good macro-economic growth prospects all support a positive outlook.

Jaco Viljoen
Chief Executive Officer

MALAWI

Fernando Rodrigues
Chief Executive Officer

Economic Review

Like Botswana, Malawi was affected by adverse weather conditions from 2014 through to 2016, with drought affecting not only the country's dominant sector, agriculture, but also impacting on its hydro-electric capabilities, resulting in widespread blackouts and water shortages. These had a profound impact on the SME sector, which is almost totally dependent on distributed power. Larger companies, although able to use back-up power sources, saw this impacting on the cost of doing business.

More adequate rainfall in 2017 led to an improvement in agricultural output, which contributed to an increase in GDP growth from 2.3% in 2016 to 4.5% in 2017. Macro-economic stability also improved and year-on-year inflation dropped from 18% in 2016 to 12.3% in 2017. This enabled the Reserve Bank of Malawi to start easing monetary policy in July, reducing the policy rate by 600 basis points to 18%. An increase of 36% in maize production during the year all but eliminated the fiscal pressure of maize importation, but the country is making little progress towards recovering budget support from development partners that withdrew this support after the Cashgate Scandal of 2014.

Looking forward, economic performance will continue to depend heavily on weather conditions, which are expected to become more variable as a result of climate change. Reliable electricity supply also remains a notable challenge, partly because of lower-than-average water levels in the Shire River and in Lake Malawi, which feeds the Shire. Further, while GDP growth is expected to be 4%, upcoming elections are expected to increase pressure on fiscal spending, while the banking sector remains exposed to a high level of risk due to the limited number of large, creditworthy borrowers in the country.

Source: African Economic Outlook 2018, African Development Bank Group

FMB MALAWI

Key Indicators

Customer Deposits: **+65%**	Total Assets: **+47%**	Net Interest Income: **+18%**	Operating Expenses: **+30%**
Gross Loans and Advances: **+6%**	Shareholder Funds: **+35%**	Non-Interest Income: **+45%**	Profit After Tax: **+47%**

Performance

While 2017 was a challenging year for the Malawian economy, the growth rate nevertheless improved, the exchange rate stabilised, interest rates came down and inflation eased. Within this context, FMB Malawi managed to achieve very positive results.

The bank recorded substantial growth during the reporting period, with total assets increasing by 48% and profitability increasing by 46%, up from MWK 5.2 billion in Y2016 to MWK 7.6 billion in Y2017. This was partially due to the effect of the acquisition of Opportunity International Bank Malawi in June and the merger with the Leasing and Finance Company of Malawi in December. It was also due to increases in both net interest income and non-interest income, which went up by 19% and 45% respectively. This led to an increase of 29% in total operating income.

The strong performance of the equity market contributed significantly to this growth in income, with investments gaining MWK 2.3 billion compared to the loss of MWK 962 million in Y2016. This was mainly as a result of a positive movement in the fair value of investments. Fees and other commissions income also maintained a steady performance, growing at 11%. This was supported by positive evolution in income derived from billers, money transfer agencies and transactional deposit accounts.

In contrast, Y2017 was a difficult year for foreign exchange transactions, with the low-margin environment leading to a decrease of 26% in revenue.

In terms of risk management, the bank maintained a conservative lending policy throughout the year. The gross value of loans and advances grew by 6%, but this was offset by provisions for loans and advances, which grew from MWK 404 million in Y2016 to MWK 1.96 billion in Y2017. This came about as a result of the integration of the OIBM and led to growth of only 3% in the net value of loans and advances.

In the investment portfolio, money market investments grew 68%, demonstrating the limited scope for liquidity deployment and the growing exposure to government through investments in promissory notes and treasury bills. Exposure to liquid and low-risk money market instruments therefore increased in Y2017 as, together with cash, money market investments grew from 45% to 51% of total assets.

The bank did, however, record very positive performance in the area of customer deposits, which increased by 65% from MWK 78.5 billion to MWK 129.7 billion with low cost current and savings account deposits continuing to have dominant share of total deposits.

Total expenses increased by 30%, with staff and administrative costs accounting for most of this. The integration of the OIBM and LFC operations was completed during the fourth quarter and should lead to further gains in efficiency in Y2018. In addition, the bank continued to reduce its cost-to-income ratio, which declined to 58% in Y2017 compared to 59% in Y2017, demonstrating a disciplined and controlled approach to cost and income management.

Finally, FMB Malawi continued to have strong solvency ratios in Y2017. Its Tier Capital Ratio moved from 17% to 19%, while its Total RWA Capital Ratio was largely flat at 23%. Both of these are well above the minimum regulatory benchmarks, which are 10% and 15% respectively.

Outlook

Economic growth in 2018 is expected to be subdued at 4% with the exchange rate expected to remain stable, and a low rate of inflation but an overhang of the general elections in mid-2019. The potential downsides could be from the bout of dry spells, the possible impact of fall army worms, an increase in electricity tariffs and rising government debt.

With these factors in mind, FMB Malawi will continue to follow conservative growth policies, while selectively searching for appropriate lending opportunities. This approach will support its strategic goal of becoming a larger and profitable player in the Malawian financial services sector.

Fernando Rodrigues
Chief Executive Officer

MOZAMBIQUE

Jorge Stock
Chief Executive Officer

Economic Review

Like Botswana and Malawi, Mozambique is slowly recovering from the economic downturn that started in 2015. A combination of declining prices for traditional export commodities, persistent drought, internal conflict and a dramatic decrease in foreign direct investment (FDI) nearly halved the average annual growth rate to 3.8% in 2016. This was further complicated by the disclosure of previously undisclosed government debt to the value of nearly 10% of GDP, pushing the debt-to-GDP ratio to 125% by the end of the year. Naturally, this impacted heavily on the value of the metical, which experienced a 40% devaluation against the US dollar.

Strong central bank intervention, higher coal exports and increased agricultural production enabled the country to recover somewhat from these shocks in 2017 but GDP growth remained flat at 3.7% but inflation abated, reducing to single digits by close of the year. This was, however, counterweighed by the fact that government defaulted on its sovereign bond in January 2017 and, as a result, continues to be faced with significant financing constraints. In order to address this, it has implemented a fiscal consolidation programme, and expenditure as a portion of GDP is expected to decline gradually. GDP growth is expected to improve to 5.8% in 2018.

Mineral exports, most notably exports of coal, graphite, titanium, rubies and iron ore, will continue to be the major contributor to growth, as will increased agricultural production, which is the mainstay of Mozambique's economy. Improvements in FDI and the ongoing initial development stage of the country's first offshore natural gas extraction project are further expected to support economic recovery and growth.

The risk inherent in the economy is, however, significant. Discussions with the IMF regarding a new support programme have stalled due to the crisis in government, and the fiscal position is not only fragile but deteriorating. If there is no resumption in foreign financing, the country will experience continuing difficulty in its ability to finance its domestic deficit, especially as it already frequently resorts to the central bank for financing. In addition, the 2018 budget makes no mention of how the country intends to restructure its USD 2.2 billion in defaulted sovereign debt, which has a debt service-to-revenue ratio of above 30%.

Source: African Economic Outlook 2018, African Development Bank Group

CAPITAL BANK MOZAMBIQUE

Key Indicators

Customer Deposits: **+29%**	Total Assets: **+39%**	Net Interest Income: **+32%**	Operating Expenses: **+15%**
Loans and Advances: **-6%**	Shareholder Funds: **+56%**	Non-Interest Income: **-57%**	Profit After Tax: **-MZN 135 million**

Performance

In the 2017 financial year, Capital Bank made considerable advances in the execution of its strategy, which is focused on improving customer satisfaction through progressive improvements to its transactional channels and services.

While continuing to operate within a demanding macroeconomic context and a fluid regulatory environment, the bank nevertheless focused on strengthening its financial position, maintaining a solid market presence and growing its portfolio.

Despite this, it reported a loss of MZN 135 million for the year, mainly due to the atypical environment in which it was operating during the reporting period. This was characterised by high interest rate inflows, the increasingly high cost of funding, market competition for deposits in the foreign exchange market and, finally, the country's deteriorating credit risk profile. Results were also negatively affected by a 59% decline in foreign exchange income when compared to the previous period, affected by lower margins, as well as by the need to increase provisions.

Another factor that influenced results was a 6% decrease in loans and advances, which was nevertheless ahead of the banking industry average of -10%. This came about as a result of the lack of appetite for credit amongst customers – mainly due to the high cost of acquisition – as well as caution on the part of commercial banks in relation to the high credit risk in the country.

Capital Bank's growth in customer deposits and total assets was, however, particularly noteworthy as the country's banking industry on the whole reported a year-on-year decline in the value of both deposits and credit portfolios. It is also noteworthy that it succeeded in growing its balance sheet, mainly as a result of the growth in customer deposits. A parallel growth in the size of the customer base further enabled it to reduce the cost of funds and increase both fee and commission income. Also on a positive note, interest income grew by 32% over the previous period, driven mainly by a significant growth in investment securities. Most importantly, the bank's solvency ratio remained strong, growing to 41.45% (2016: 31.77%), which is well above the growth in interest income from investments.

From an operational perspective, the bank successfully managed to maintain costs, recording an increase of only 15% over the previous period despite the macroeconomic and financial challenges it had to face.

Outlook

Mozambique faces many difficult challenges in 2018. Although inflation declined rapidly over the twelve months ending 31 December 2017, real GDP growth remains weak and macroeconomic imbalances are growing. Monetary policy therefore needs to be adjusted to ensure long-term macroeconomic stability. Structural reforms also need to be implemented in order to promote inclusive growth.

Despite this outlook, Capital Bank Mozambique is positioned to perform well in Y2018. With a strategic focus on transactional banking in the SME and commercial sectors, where risk is well managed and the economic outlook is positive, the bank expects to perform above the market average and to gain market share in all segments.

Jorge Stock
Chief Executive Officer

ZAMBIA

Sachin Nigam
Chief Executive Officer

Economic Review

Like its neighbours, Zambia experienced two years of below-average rainfall in 2015 and 2016, which had a significant impact on agricultural and hydro-electrical output, leading to load-shedding of up to 12 hours at a stretch. Together with low copper prices, this led to economic activity reaching its lowest point in a decade and to the country recording only a 2.9% growth in GDP in 2015. This rebounded to 3.4% in 2016 and, with good rains and a rising global demand for copper, GDP growth is expected to improve to 4% in the medium term.

Key indicators showed an improvement throughout 2016 and 2017 despite relatively slow growth. This was partly due to a spike in inflation, which reached 18.2% in 2016, as well as to excessive exchange rate volatility. The central bank nevertheless moved swiftly to curb the policy rate, reduce market liquidity and prevent further price hikes; as a consequence, the exchange rate was relatively range bound in 2017 and inflation reduced to single digits. Despite high debt levels, international investors are therefore regaining confidence in the government's ability to manage the economy.

In the short term, Chinese demand for copper is expected to remain steady throughout 2018 and the country's mining tax regime is expected to remain stable. Electricity supply is expected to improve and revisions to the Electricity Act and the Energy Regulation Act will encourage private sector involvement. High levels of domestic borrowing are, however, expected to dampen an increase in the amount of credit available to the private sector.

Similarly, the IMF's October 2017 reclassification of the country as being at high risk of debt distress will also pose significant challenges for government in the short and medium term. Agreeing to a fiscal stabilisation programme with the IMF would help to offset the effects of this.

Source: African Economic Outlook 2018, African Development Bank Group

FIRST CAPITAL BANK ZAMBIA

Key Indicators

Customer Deposits: **+37%**	Total Assets: **+60%**	Net Interest Income: **+63%**	Operating Expenses: **+26%**
Loans and Advances: **59%**	Shareholder Funds: **+21%**	Non-Interest Income: **+77%**	Profit After Tax: **+226%**

Performance

Despite significant economic headwinds in Y2017, FCB accelerated its growth trajectory by increasing its profit after tax by 226%. This was propelled by an increase of 70% in revenue, by maintaining a high level of asset quality and by limiting cost increases without compromising on service quality. As a result of increasing revenue while keeping cost increases to just 26%, net profit after tax increased by 226% to ZMW 21.9 million.

Strong performances by almost all areas of operation translated into the bank strengthening its position as one of the fastest-growing financial institutions in Zambia

The substantial growth in revenue stemmed from balanced growth in both net interest income and non-interest income, which grew by 63% and 77% respectively. Transaction fee income also increased by 90%, primarily as a result of the growth in transactional banking business. In addition, foreign exchange income recorded a robust 99% increase over the figures for Y2016.

Loans and advances grew at a healthy rate of 59%, a reflection of the success of concerted activity management and a customer-centric approach. Continuing focus on the transactional banking business resulted in a reduction in interest costs, leading to an increase of 63% in net interest income from loans and advances. A strong emphasis on monitoring the health of the bank's credit portfolio resulted in a marginal credit impairment charge of ZWW 1.5 million.

On the back of its conservative lending approach on loans and advances, FCB was able to deploy surplus liquidity into low-risk money market instruments, principally treasury bills, and grew the income from these investments by 54%.

Significant effort also went into acquiring new customers in the corporate and business banking segment. This growing customer base and improvements in the bank's service offering led to a number of successful investments being concluded. These included relocating the Cairo Road branch, which has improved visibility and extended the branch's catchment area.

In terms of risk management, substantial progress was made on enhancing the bank's risk management and compliance framework through a number of different initiatives. It also increased the number of counterparties, such as corresponding banks, that it works with, which will lead to a superior overall product and service offering for clients.

Outlook

FCB is confident that investments made in attracting new customers during the course of Y2017, efforts made in expanding the base of transactional accounts, the entrenchment of stronger internal controls, extending the bank's reach, and improving service levels have equipped it to benefit from the improved economic and investment environment during Y2018. The bank proposes to further expand its footprint in the Copper Belt with opening of a branch in Kitwe in the second half of 2018.

Sachin Nigam
Chief Executive Officer

ZIMBABWE

Sam Matsekete
Chief Executive Officer

Economic Review

Economic growth in Zimbabwe improved to around 2.7% in 2017 from 0.7% in 2016, driven by stronger performance in agriculture, mining, electricity, and water. This is expected to be only slightly better in 2018, with real GDP growth reaching around 1%.

The Zimbabwean economy as a whole continues to face challenges relating to a high level of informality, weak domestic demand, high levels of public debt, weak investor confidence and an uncertain political environment. The country is also experiencing a liquidity crisis resulting from structural deficiencies and distortions within the economy. Progress has been made in improving the business climate over the past year, but governance and accountability remain problematic.

With limited access to direct foreign investment and other foreign inflows, the country's budget deficit reached 8.7% of GDP in 2016, up from 2.4% in 2015. The elections scheduled to take place in 2018 are likely to put further pressure on the budget, and the government is resorting to domestic borrowing to cover the deficit.

In 2016 – the latest year for which figures are available – public domestic debt almost doubled to 25% of GDP, while external debt reached 42.6% of GDP. The government has nevertheless managed to clear its debt arrears with the IMF, and a debt arrears clearance strategy continues to be implemented with both the African Development Bank and the World Bank. Against this backdrop, monetary financing of the budget deficit led to a 24% increase in the monetary supply in 2017, which fuelled inflationary pressure and undermined the ability of commercial banks to finance private sector activities.

Looking ahead, a modest recovery in international commodity prices is likely to spur some growth in the mining sector. Energy production is also expected to improve following the completion of the Kariba South Extension Plant in December 2017. In agriculture, the good rainfall expected in 2018, together with targeted support for farmers, is likely to prompt significant growth in output. The manufacturing sector is also expected to perform better than in recent years due to a protectionist policy aimed at supporting local industry.

With regard to money supply and foreign exchange, the introduction in 2016 of bond notes pegged to the US dollar saw the emergence of a parallel market for foreign exchange in the country due to the general shortage of foreign currency. The real exchange rate also remains overvalued, which undermines the currency's ability to compete in the international market.

Within this context, the investment environment remains 'gloomy' according to the African Development Bank Group and the upcoming elections are likely to generate uncertainties that will further hinder economic growth and investment. According to the World Economic Forum's 2017/18 Global Competitiveness Report, the most problematic factors related to doing business in Zimbabwe include policy instability, inadequate foreign currency regulations, inefficient government bureaucracy, difficulties in access to finance, inadequate supply of infrastructure, restrictive labour regulations, and inefficient tax administration and regulations.

Source: African Economic Outlook 2018, African Development Bank Group

BARCLAYS BANK ZIMBABWE

Key Indicators

Customer Deposits: **+13%**	Total Assets: **+17%**	Net Interest Income: **+17%**	Operating Expenses: **+9%**
Loans and Advances: **-20%**	Shareholder Funds: **+35%**	Non-Interest Income: **+26%**	Profit After Tax: **+83%**

Performance

The 2017 financial year was characterised by significant developments, both at macroeconomic level and within the banking sector.

The two key challenges that banks and the banking public had to deal with were cash shortages and a constrained capacity to service cross-border payments. Amongst other things, this meant that the cost of procuring goods and services became distorted and inflation increased.

The bank considers ongoing efforts to resuscitate the economy and address banking sector challenges to be essential to future success at both country and business level. Its response to operating conditions during the reporting period was to sustain a strategy focused on segments that are stable and growing.

The bank's firm strategic focus resulted in strong revenue growth in Y2017, led by treasury income, which grew by 55%. Interest-earning assets grew by 10%, while fees and commissions grew by 13%, largely due to an increased number of card transactions and electronic transfers. Costs were also contained within budgeted levels. The 9% year-on-year increase in costs included expenditure on transition and other specific projects carried out during the course of the year. The cost-to-income ratio improved by 800 basis points to 65% compared to the 73% in Y2016.

Non-performing loans at the end of the year stood at 2%, which reflects the quality of the bank's loan book. Profit before tax for the year was USD 25 million, up 75% on Y2016 and representing a five-year compound annual growth rate (CAGR) of 53%. Return on average equity closed at 22%, up from 18% in the previous period. The capital adequacy ratio closed the year at 28%, which is indicative of the business's long-term stability and huge scope for growth. Deposits grew by 13%, although loan facility utilisation fell below internal targets as clients adopted a more conservative approach to drawing down loans. Facility utilisation by the targeted corporate customers was therefore lower than in previous years.

Diversification of revenue streams, the growth of a quality loan book and enhanced transaction channels were the main areas of focus during the reporting period. These areas will continue to be prioritised, both during the current year and in the future.

Outlook

Barclays Bank Zimbabwe is well on course to meet the 2020 minimum core capital level of USD 100 million from both growth and the retention of profits. In support of this, the bank's liquidity ratio is at 83%, which is significantly above the regulatory minimum of 30% and represents a significant opportunity for future growth.

The performance of the bank will, however, continue to be influenced by developments in the national economy. Against this backdrop, a significant investment of both time and resources into the migration process will secure the bank's ability to provide competitive services well into the future. It 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.

Sam Matsekete
Chief Executive Officer

CORPORATE SOCIAL RESPONSIBILITY

FMBCH operates or supports corporate social responsibility (CSR) programmes in the areas of health, education, community development, the environment, the arts, and sports development. The Group does this through its subsidiaries in the countries in which it operates, and consciously supports programmes that deliver sustainable outcomes by partnering with relevant stakeholders in each focus area. At present, there are active CSR programmes in Botswana, Malawi and Zimbabwe. CSR initiatives will be extended into Mozambique and Zambia in due course.

FMBCH focuses on supporting programmes that deliver sustainable outcomes for the communities in which the Group operates.

Botswana Colour Run 2017

BOTSWANA

During the course of the 2017 financial year, Capital Bank Botswana supported a number of CSR initiatives in all of FMBCH's focus areas. Highlights included:

Health and Education

Gabaresepe Day Care Centre Walk: This sponsored walk was organised by the Village Development Committee of Old Naledi in Gaborone to raise funds for the Gabaresepe Day Care Centre, which is situated in the area. The centre caters for children aged between one and five who come from various socio-economic backgrounds. They are provided with a safe environment, food, educational activities and counselling on a day-care basis.

Capital Bank and its staff sponsored the walk, which took place on 24 June, Many employees took part, as did a number of community representatives, including the local ward councillor, representatives of the Shoppers supermarket that services the community, members of the Botswana Police Service and residents of Old Naledi.

Arts

Moratiwa Musical: Capital Bank was a proud sponsor of this thought-provoking musical, which was produced by legendary Jazz artist, Socca Moruakgomo. The production, which ran at the Maitisong Theatre in late August and early September, tells the tragic story of ritual murders in Botswana through song, dance, poetry and narration. The aim of the production was to highlight and support children's rights.

Sports Development

Colour Run 2017: Capital Bank was one of the main sponsors of this unique fun run, which was held on 5 August in Gaborone. The concept of the event is to cover participants, who came in all shapes, sizes and ages, in brightly coloured powders while they sprint, jog or walk along the Colour Run route.

Capital Bank Cycle Challenge: Together with Jonmol Cycling Club, Capital Bank successfully planned, organised and presented the third annual Capital Bank Cycling Challenge, which was held on 23 July at Airport Junction Mall. The event featured races of 30km, 60km and 120km, which were classified as either fun, motivational or challenging in order to accommodate both first-time and veteran cyclists.

Malawi An FMB Official makes a symbolic handover of a hamper to a nurse at Mangochi District Hospital

Malawi MUST Scholarship beneficiaries take a group photo with FMB officials

MALAWI

FMB Malawi sponsored and took part in a number of different CSR initiatives during the course of the year. These included:

Health

Hampers for Healthcare Workers: As it does every year, FMB sponsored Christmas hampers for nurses at the Salima, Nkhotakola and Mangochi district hospitals. This is done to acknowledge the important role they play in community-based healthcare and to express the bank's appreciation for their service and dedication throughout the year.

Education

The FMB Scholarship Programme: This programme has been in place for over 15 years and is intended to assist students who have performed well at school but who are not in a position to finance further studies. It provides funding for qualifying students to undertake courses of their choice at a number of different tertiary institutions.

As part of this initiative, the bank launched a new scholarship programme for needy but deserving students planning to study at the Malawi University of Science and Technology.

Environment

Nyambadwe Tree-Planting Initiative: During the course of 2017, FMB partnered with the Blantyre City Council and pupils from the Nyambadwe Primary School to plant trees on Nyambadwe Hill in Blantyre. This formed part of the bank's on-going **Go Green Tree Planting Campaign**.

Zomba Tree-Planting Initiative: In another environmental project, FMB partnered with the Malawi Defence Force to plant 6 000 trees at the Cobbe Barracks in Zomba. The bank launched this initiative to help curb the effects of climate change and deforestation, which is a challenge throughout the country. It will continue to partner with government institutions, utility companies and learning institutions to ensure that this initiative is both inclusive and sustainable.

Sports Development

FMB Malawi Cricket Tournament: Cricket is just one of the sports supported by FMB, and the FMB Cricket Tournament has now been running for four years. The bank's sponsorship of the event has had a significant impact on the game of cricket as it promotes development by facilitating greater participation.

Under-20 Youth Football League: FMB has been sponsoring the Under-20 Youth Football League since 2009 and the size of the sponsorship has grown considerably over the years. In 2009, 44 teams participated in three districts. By 2017, participation had grown by a staggering 700%, with 144 teams competing in 12 districts.

Bankers' Sports Day: FMB continued to dominate this event, which is held at the College of Medicine Sports Complex in Blantyre every year, emerging as the overall champion for the second year in a row. This outcome was the result of the kind of teamwork that FMB encourages both in the workplace and beyond.

Boost Enactus/Barclays Incubation Hub for young Entrepreneurs

Junior Achievement Zimbabwe (JAZ) Partnership

ZIMBABWE

Barclays Bank of Zimbabwe is strongly committed to investing in community development through sustainable initiatives; a commitment it regards as one of its core responsibilities as a good corporate citizen. The bank delivers on these initiatives by forming alliances with community organisations such as the Zimbabwe Farmers Union (ZFU), Junior Achievement Zimbabwe (JAZ) and the BOOST Fellowship.

Barclays Zimbabwe's corporate social responsibility programme helped to identify and support more than 13 000 young participants during the course of 2017. More than 95% of the bank's staff also contributed over 2 300 hours of voluntary work to community projects throughout the year. As part of the annual Pay It Forward Campaign, which is held in October every year, they contributed a further 5 500 hours of voluntary work, which impacted on 9 544 beneficiaries.

Some of the highlights of the year were:

Education and Community Development

Barclays Zimbabwe/BOOST Incubation Partnership: This hands-on, interactive programme, which was launched in May 2016, focuses on empowering young entrepreneurs of up to 35 years of age by using a business incubation model. The partnership aims to develop start-up businesses and to help them become viable SMEs that will not only benefit their owners and staff, but also contribute to the country's economic development. Over 500 young people participated in this programme in 2017.

Junior Achievement Zimbabwe (JAZ) Partnership: Building on the existing JAZ Partnership, the focus for 2017 was on three programmes specifically targeted at high school students and out-of-school alumni of the programme. The three programmes were the Job Shadow Programme, the Mentorship Programme and the Company Programme.

JAZs aim is to equip young people with entrepreneurship training and to improve their access to business development services and mentorship. The programme also aims to empower them with employment and self-employment skills through job shadowing and mentorship, as well as by creating a platform for them to develop the attributes of good citizenship and volunteerism.

During the course of the year, 250 young people benefitted from the Job Shadow Programme, and 76 alumni benefitted from the Mentorship and Company Programmes.

Zimbabwe Farmers Union (ZFU) Fit for Life Programme

Zimbabwe Farmers Union (ZFU) Fit for Life Programme

Zimbabwe Farmers Union (ZFU) Fit for Life Programme: The ZFU Fit for Life Programme, which is sponsored by Barclays, is an agriculture programme aimed at giving out-of-school youth who have not been successful in following an academic path – or who were not able to continue with their schooling due to poverty or other social circumstances – a second chance at skills development. The programme is aimed at young people aged between 16 and 30 and, during the course of 2017, selected groups underwent training at schools in rural districts throughout the country. The programme's curriculum includes numeracy, literacy, financial and farming as a business modules and is delivered with the assistance of implementing partners.

After training, qualifying candidates are encouraged to set up young farmers' clubs. They are also given the opportunity to apply for start-up funding to start an agricultural enterprise of their own in order to earn a livelihood and provide employment for others.

Over 30 000 young people have benefitted from this programme since its inception, with 300 benefitting from the associated ZFU Agripreneurship Forum Thought Leadership Programme.

Barclays Zimbabwe Volunteering Programme: The culture of giving back to the communities in which it operates is fundamental to the ethos of Barclays Zimbabwe. Good citizenship is one of the bank's core values and is a concept embodied not only in the way the bank does business, but also in the values of its staff.

During the course of the year, 650 staff – including all members of the executive committee – contributed 2 300 hours of voluntary work to community development, reaching 7 000 beneficiaries. Amongst other things, they supported initiatives hosted by blue-chip companies, such as the La Farge Top 100 Girl-Child Mentorship Programme.

In addition, they threw themselves into the spirit of Make a Difference Day, which is held in October every year. The purpose of this volunteering initiative is to give back to the communities in which the bank operates as well as to foster a team spirit amongst colleagues. A total of 5 500 hours of voluntary work were contributed on this day alone, touching the lives of 9 544 beneficiaries.

Pay It Forward Campaign: This campaign focuses on giving back to local communities by helping to upskill young people in those communities and ultimately helping them to prosper.

In 2017, the bank's executives invited seven top industrialists to participate, and they, in turn, each invited six business leaders to 'pay it forward'; to share the value of their knowledge and skills with future business leaders. Each of the thirteen CEOs made a personal commitment to make a difference in their individual capacities.

They committed to:

- Providing entrepreneurship training for young adults;
- Empowering young, professional women and artisans;
- Offering life skills training and job shadowing opportunities for primary and secondary school children;
- Mentoring young farmers in partnership with the Zimbabwe Farmers Union;
- Training young entrepreneurs in partnership with the BOOST Fellowship; and
- Providing free dental services and oral health education in local communities.

04

DIRECTORS AND EXECUTIVE MANAGEMENT

FMB GROUP BOARD OF DIRECTORS

NON-EXECUTIVE DIRECTORS

Terence Davidson

Chairman

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, 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 publicly listed Kenol Kobil, KK security group, Prime Bank Kenya Ltd and Asilia Ltd.

Kamal Taposeea

Non-Executive Director

Mr Taposeea is a Director of Minerva Fiduciary Services (Mauritius) Limited since 2007. He is also a member of Monetary Policy Committee of The Bank of Mauritius and has worked for banks both in Mauritius and Europe including Cedel Bank Luxembourg and JP Morgan Belgium. He holds a Masters Degree in International and Comparative Law (LLM) from Vrije Universiteit in Belgium. He also holds a Licence in Law (LLB) from University of Buckingham.

Shyam Mohadeb

Non-Executive Director

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

Francesco Ceccato

Non-Executive Director

Mr Ceccato, an Italian national, holds a BA from Oxford University and an 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 seven years at GE Capital and eight 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 serves as a director for several Barclays group companies.

Manon Thamothiram

Non-Executive Director

Mr. Thamothiram has more than 25 years of experience -15 in the financial services industry. He has wide experience in the establishment and administration of global businesses and collective investment schemes. Prior to joining Minerva in 2007, he held various positions with leading management companies in Mauritius. He is a Fellow of the Institute of Chartered Secretaries Administrators (ICSA UK) and is the Managing Director of Minerva Fiduciary Services (Mauritius) Limited.

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 FMB, he worked in corporate finance in the USA specializing in mergers, acquisitions and valuations. He holds directorships in four commercial banks (part of FMB Group) and in other sectors of the Malawi economy. He is also the Non-Executive Chairman for First Merchant Bank Malawi.

EXECUTIVE DIRECTORS

Sean O'Neill

Group Strategy & Corporate Finance

Mr 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.

Dheeraj Dikshit

Group Managing Director

Mr Dikshit is Group Managing Director of FMBCH. He holds an MBA and a Bachelor of Commerce Degree. Prior to joining First Merchant Bank Plc, Mr Dikshit worked for HSBC in different senior capacities. He has more than 21 years' working experience in corporate and commercial banking as well as retail banking and consumer assets. Mr Dikshit joined First Merchant Bank Plc in 2011.

Board Committee Membership

Sub-committee:	Members:
Audit Committee	Mr Vedanand Mohadeb *(Chairman of committee)*
	Mr John O'Neill
	Mr Manogaran Thamothiram
Risk Committe	Mr Rajkamal Taposeea *(Chairman of committee)*
	Mr Dheeraj Dikshit
	Mr Hitesh Anadkat

FMB GROUP EXECUTIVE MANAGEMENT TEAM

EXECUTIVES

Mr Shwetank Singhvi

Group Chief Operating Officer

Mr Singhvi holds an MBA and a Bachelor of Engineering. He has previously worked for HDFC Bank, HSBC, Barclays, and Standard Chartered Bank. He has over 15 years' experience in retail banking, retail broking, commercial banking and banking operations. He joined FMB in 2013.

Thomas J Kadantot

Group General Manager, Treasury and International Banking

Mr Kadantot's holds an MBA in Finance and Accounting, and a post-graduate Diploma in Business Administration. He also holds a Bachelor of Science degree in Physics, Mathematics and Statistics from Bombay University, and a CAIIB (1) from India Institute of Bankers. He has over 29 years' work experience in various functions in banking.

Kobus Louw

Group General Manager, Credit and Operations

Mr Louw holds an MBA and a Bachelor of Economics. He is currently studying towards a Masters 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 FMB was Head of Business Banking for First National Bank, Namibia. Mr Louw joined FMB in April 2015.

Mr Willium Masamba

Group Head of Risk and Compliance

Mr Masamba is a certified Professional Risk Manager (PRM) with Professional Risk Managers International Association in USA. His academic qualifications include an MSc in Applied Finance and Bachelor of Accountancy degree. He joined FMB in 2017 following 16 years of banking sector regulation with The Reserve Bank of Malawi.

Mr Fernando Rodrigues

Chief Executive Officer, FMB Malawi

Mr Rodrigues holds an MBA from INSEAD (France) and a Bachelor of Engineering from Instituto Superior Tecnico (Portugal). Mr Rodrigues has 20 years' experience, having worked for two strategy consulting firms, McKinsey & Company and Roland Berger, as well as for Banif Financial Group in Portugal. Before joining FMB Malawi as CEO, he was at Banif Financial Group as CEO of BCN in Cape Verde from 2008 to 2017. Mr Fernando Rodrigues joined FMB in 2017.

Mr Jaco Viljoen

Chief Executive Officer, Capital Bank, Botswana

Mr Viljoen holds an MBA from Oxford Brookes University in the UK, as well as degrees from the Universities of Stellenbosch and the Orange Free State. His 21 years' experience includes working in various African countries for The Standard Bank of South Africa and Barclays.

Mr Jorge Stock

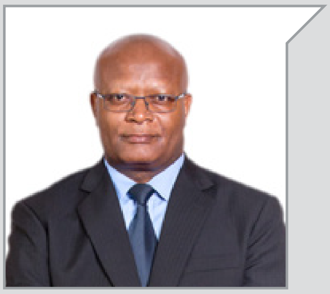
Chief Executive Officer, Capital Bank, Mozambique

Mr Stock holds a BA Honours in Economics and French, Cambridge, UK. He has 24 years' experience in retail and corporate banking, marketing and lean value stream leading. Mr. Stock worked for Banco BPI in Portugal and Banco de Fomento Angola.

Mr. Sachin Nigam

Chief Executive Officer, First Capital Bank, Zambia

Mr. Nigam is the Chief Executive Officer of First Capital Bank, Zambia. He holds a Masters of Business Management degree and a Bachelor of Economics. He has more than 20 years' experience in the Banking and Financial Services sector which include years served in CRISIL, HSBC and ICICI Banks in India. Mr. Nigam serves on the Board of Directors of Zambia Electronic Clearing House Limited.



Mr. Sam Matsekete

Chief Executive Officer, Barclays Bank of Zimbabwe Limited

Mr Matsekete joined Barclays Zimbabwe as Financial Controller in 2007. A year later, he was appointed to the Board as Chief Finance Officer until his appointment as Chief Executive Officer in December 2018. During his time at Barclays, Sam has held extended responsibilities covering Risk, Compliance and Legal. Sam's experience prior to joining Barclays involved executive roles in advisory services, investment management, insurance, manufacturing and mining. He holds a Master of Business Leadership degree from UNISA, a Bachelor of Accountancy degree from the University of Zimbabwe and is an associate of the Institute of Bankers Zimbabwe. Sam is a qualified chartered accountant.


05

ANNUAL FINANCIAL STATEMENTS

DIRECTORS REPORT

For the year ended 31 December 2017

The Directors have pleasure in submitting 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 2017.

NATURE OF BUSINESS, SUBSIDIARIES AND REGISTERED OFFICE

The Company is a public limited liability company registered as a Global Business Licence Category 1 company with the Financial Services Commission in Mauritius. The Company is registered as an investment holding company.

The Company was incorporated in Mauritius on 16 March 2016 as a private company limited by shares and obtained a Category 1 Global Business Licence issued by the Financial Services Commission Mauritius, was converted into a public company limited by shares on 27 January 2017 and was listed on the Malawi Stock Exchange with effect from 18 September 2017.

It has two direct subsidiaries incorporated in Malawi and Zimbabwe respectively as follows:

- First Merchant Bank PLC (Malawi)
- Afcarme Zimbabwe Holdings (Private) Limited

During the year, the Company acquired a 100% shareholding in First Merchant Bank PLC ("FMB") in exchange for the issue on a one for one basis of 2 336 250 000 ordinary shares of the company to the existing shareholders of FMB.

FMB has the following subsidiaries operating outside Malawi:

- Capital Bank SA Mozambique – involved in corporate and retail banking (80.0% shareholding)
- First Capital Bank (Zambia) Limited – involved in corporate and retail banking (49.0% shareholding)
- Capital Bank Limited, Botswana – involved in corporate and retail banking (38.6% shareholding)

Also, the Company concluded an agreement with Barclays Bank Plc ("BBPLC") for the acquisition of 81% of the issued share capital of Afcarme Zimbabwe Holdings (Private) Limited ("Afcarme"). Payment for the acquisition was made partly through cash consideration and partly by issue to BBPLC of 10 786 747 Redeemable Preference shares of USD 1 each in the capital of the Company.

Afcarme does not carry out any trade activities but holds 52.68% of the issued share capital of its subsidiary, Barclays Bank of Zimbabwe Limited ("BBZ") which provides retail, corporate and investment banking services in Zimbabwe.

DIRECTORS REPORT (continued)

For the year ended 31 December 2017

FINANCIAL HIGHLIGHTS

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

Directors' interests in the company

As at 31 December 2017, 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:

Name		Shares	%
Premier Capital Limited	(i)	766 266 044	32.80
Prime Bank Limited	(ii)	262 500 000	11.24
NG Anadkat Limited	(i)	167 067 289	7.15
Hitesh N Anadkat	(i)	106 666 667	4.57
Livingstone Exports Limited	(i)	16 446 961	0.70
Livingstone Holdings Limited	(i)	13 116 970	0.56
Dheeraj Dikshit		12 000 000	0.51
Manhill Limited	(iii)	1 309 391	0.06
Modecai Msisha	(iv)	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 JM O'Neill has a beneficial interest in Manhill Limited
(iv) Mr M Msisha is a director of FMB, a wholly owned subsidiary of the Company.

Mr Francesco Ceccato is a director of several group companies of Barclays Bank Plc ("BBPLC") which during the year acquired 10 786 747 redeemable preference shares of US$1.00 each in the share capital of the Company. BBPLC also owns 19% of the issued share capital of Afcarme.

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 subsequent to year end)

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)

DIRECTORS REPORT (continued)

For the year ended 31 December 2017

Board committees

During the year, the following board committees were established which had not as yet held any meetings by year end:

Sub-committee:	Members:
Audit Committee	Mr Vedanand Mohadeb *(Chairman of committee)* Mr John O'Neill Mr Manogaran Thamothiram
Risk Committee	Mr Rajkamal Taposeea *(Chairman of committee)* Mr Dheeraj Dikshit Mr Hitesh Anadkat

Related parties

The Company and the Group's dealings with its related parties are disclosed in Note 44 of the financial statements.

Audit fee

Audit fee payable to Deloitte, for the year ended 31 December 2017 amounts to US$25 000 (2016: US$4 000) excluding VAT and disbursements.

Financial risk factors

The financial risk factors have been set out in Note 5 of the financial statements.

Corporate social responsibility and donation

During the year, the Company has not made any donation for political or charitable purposes.

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 49 to 52 and the financial statements are set out on pages 54 to 130.

On behalf of the board

D Dikshit
Director

JM O'Neill
Director

11 May 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

For the year ended 31 December 2017

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 2017 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$25 000 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 11 May 2018 and are signed on its behalf by:

D Dikshit
Director

JM O'Neill
Director

11 May 2018

By order of the Board

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 (Formerly known as FMB Capital Holdings Plc), under the Mauritius Companies Act 2001 during the financial year ended 31 December 2017.

Manogaran Thamothiram
for Minerva Fiduciary Services (Mauritius) Limited
Corporate Secretary

Registered office:

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

Date: 11 May 2018

Deloitte.

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

Independent auditor's report to the shareholders of
FMBcapital Holdings Plc (formerly FMB Capital 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** (formerly FMB Capital Holdings Plc) (the "Company") and its subsidiaries (the "Group") set out on pages 54 to 130, which comprise the consolidated and separate statement of financial position as at 31 December 2017, 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 2017, 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 the Audit of the 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 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.

Acquisition of Opportunity International Bank Malawi Limited (OIBM) and Afcarme Zimbabwe Holdings (Private) Limited	**How the matter was addressed**
During the year, the Group concluded an agreement with Opportunity International Group to acquire 100% of the issued share capital of Opportunity International Bank Malawi Limited (OIBM). The Group also entered into an agreement with Barclays Bank PLC to acquire 81% of the issued shares in Afcarme Zimbabwe Holdings (Private) Limited (Afcarme). Directors performed the valuation of assets acquired and liabilities assumed. The identification, recognition and measurement of assets acquired and liabilities assumed is considered a key audit matter as it involved significant management Judgement.	We checked whether the effective date of the acquisition was in compliance with IFRS 3, Business combinations, per inspection of the salient terms and conditions of the respective sale and purchase agreement between FMB PLC and Opportunity International Group and FMBcapital Holdings Plc and Barclays Bank PLC. We assessed the appropriateness of the fair values assigned to identifiable assets acquired and liabilities assumed as at the acquisition date by: 1. assessing the competence, capabilities and objectivity of the Directors' independent expert enlisted to value the acquired property; and 2. confirming that the valuation techniques used are consistent with industry norms We checked whether that the resulting gain on bargain purchase was recognised in accordance with IFRS 3. We evaluated the presentation and disclosure of the transactions within the consolidated and separated financial statements. We concur with the Directors' IFRS 3 acquisition date accounting treatment of the OIBM and Afcarme acquisitions.

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Independent auditor's report to the shareholders of FMBcapital Holdings Plc (formerly FMB Capital Holdings Plc)

Key audit matters (continued)

Loans and advances – Allowance for credit impairment	**How the matter was addressed**
Due to the substantial amount of the loans and advances outstanding at the reporting date and the significance of the judgements applied, allowance for credit impairment on loans and advances is considered a key audit matter. The determination of assumptions for the measurement of impairment is subjective due to the level of judgement applied by Management. Changes in the assumptions and the methodology applied may have a major impact on the measurement of allowance for credit impairment. The judgements applied in determining the impairment include: 1. The expected realisable value of the collateral securing the advance; 2. The expected rate of default; and 3. The expected timing to realise the collateral securing the advance.	Our audit procedures included identifying relevant controls that address the impairment risks identified and evaluating the design and implementation, and where possible the operating effectiveness, of these controls. We focused on controls over the identification of impairment losses. We considered the qualitative factors that indicate impairment including the amount in arrears, period in arrears and the financial strength of the borrower. We challenged management's assumptions regarding recovery period and fair value of security by performing a retrospective review of the performance of the loan book. When performing work on the valuation of provisions, we paid particular attention to the valuation of, and rights to, security held. We found that the judgements applied in determining impairment against loans and advances were appropriate and that the amount raised was reasonable.

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, 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 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.

Deloitte.

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Mauritius

Independent auditor's report to the shareholders of FMBcapital Holdings Plc (formerly FMB Capital Holdings Plc)

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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the consolidated and separate 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 financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism 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 consolidated and separate internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the consolidated and separate 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 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 consolidated and separate to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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Independent auditor's report to the shareholders of FMBcapital Holdings Plc (formerly FMB Capital Holdings Plc) (continued)

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe those matters in our auditor's report unless laws or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte.

Deloitte

Chartered Accountants

11 May 2018

Vishal Agrawal, FCA

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FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2017

	Notes	CONSOLIDATED 2017 US$	CONSOLIDATED 2016 US$	SEPARATE 2017 US$	SEPARATE 2016 US$
ASSETS					
Cash and cash equivalents	7	**499 167 446**	116 985 147	**44 257**	–
Money market investments	8	**161 819 258**	95 417 660	**–**	–
Loans and advances to customers	9	**350 516 403**	174 922 963	**–**	–
Finance lease receivables	10	**5 288 322**	6 612 787	**–**	–
Derivative assets	11	**34 789 390**	26 500 000	**–**	–
Current tax asset	12(c)	**5 014 906**	1 497 511	**–**	–
Investments at fair value through profit or loss	13	**7 184 758**	4 388 848	**–**	–
Investment in subsidiary companies	14	**–**	–	**123 128 045**	–
Investment property	15	**6 343 495**	1 214 105	**–**	–
Intangible assets	16	**8 490 060**	6 580 377	**–**	–
Property and equipment	17	**44 357 263**	15 341 703	**–**	–
Assets held for sale	18	**15 129 612**	9 740	**–**	–
Available for sale investments	41	**4 254 012**	37 452	**–**	–
Other assets	19	**16 116 501**	2 985 168	**976**	7 275
Total assets		**1 158 471 426**	452 493 461	**123 173 278**	7 275
LIABILITIES AND EQUITY					
Liabilities					
Balances due to other banks	20	**63 787 552**	40 858 628	**–**	–
Customer deposits	21	**874 615 899**	311 399 009	**–**	–
Other payables	22	**37 788 043**	24 731 013	**1 916 305**	28 589
Subordinated debt	23	**14 224 307**	12 485 813	**–**	–
Deferred tax liabilities	24	**4 833 105**	2 436 013	**–**	–
Income tax payable	12(c)	**348 766**	–	**–**	–
Provisions	38	**2 375 719**	–	**–**	–
Loans payable	39	**6 500 000**	–	**6 500 000**	–
Redeemable preference shares	40	**10 786 747**	–	**10 786 747**	–
Total liabilities		**1 015 260 138**	391 910 476	**19 203 052**	28 589
Equity					
Share capital	25(a)	**105 707 965**	161 497	**105 707 965**	100
Share premium	25(b)	**–**	2 164 142	**–**	–
Restructuring reserve	26	**(54 510 623)**	–	**–**	–
Property revaluation reserve	27	**15 348**	4 766 722	**–**	–
Loan loss reserve	28	**1 869 083**	1 742 259	**–**	–
Non distributable reserves	29	**–**	483 886	**–**	–
Translation reserve	30	**17 020**	2 618 072	**–**	–
Retained earnings		**19 614 393**	31 977 172	**(1 737 739)**	(21 414)
Total equity attributable to equity holders of the company		**72 713 186**	43 913 750	**103 970 226**	(21 314)
Non-controlling Interest	31(c)	**70 498 102**	16 669 235	**–**	–
Total equity		**143 211 288**	60 582 985	**103 970 226**	(21 314)
Total equity and liabilities		**1 158 471 426**	452 493 461	**123 173 278**	7 275

The consolidated and separate financial statements were approved for issue by the Company's Board of Directors on 11 May 2018 and were signed on its behalf by:

Mr D Dikshit
Director

Mr JM O'Neill
Director

11 May 2018

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	CONSOLIDATED 2017 US$	CONSOLIDATED 2016 US$	SEPARATE 2017 US$	SEPARATE 2016 US$
Interest income	32	**63 707 350**	47 008 665	**1 392**	–
Interest expense on deposits and other accounts		**(20 281 940)**	(17 911 120)	**(365 890)**	–
Net interest income		**43 425 410**	29 097 545	**(364 498)**	–
Fees and commissions		**22 115 286**	12 982 780	**18 726**	–
Income from investments	33	**3 227 697**	(1 898 997)	**–**	–
Gain on foreign exchange transactions		**10 106 665**	7 238 566	**–**	–
Other operating income		**274 685**	–	**–**	–
		35 724 333	18 322 349	**18 726**	–
Gains on a bargain purchases	34	**18 655 953**	–	**–**	–
Total income		**97 805 696**	47 419 894	**(345 772)**	–
Staff and training costs	35	**26 107 000**	15 619 176	**–**	–
Premises and equipment costs		**7 991 424**	4 992 358	**18 062**	–
Depreciation and amortisation	16, 17	**4 425 278**	2 964 431	**–**	–
Other expenses	36	**13 615 555**	7 415 020	**1 352 491**	21 414
Impairment loss on loans and advances	37	**3 313 768**	687 068	**–**	–
Total expenses		**55 453 025**	31 678 053	**1 370 553**	21 414
Operating profit		**42 352 671**	15 741 841	**(1 716 325)**	(21 414)
Share of profit of joint venture		**199 370**	–	**–**	–
Profit/(loss) before income tax expense		**42 552 041**	15 741 841	**(1 716 325)**	(21 414)
Income tax expense	12(a)	**(7 693 878)**	(5 150 244)	**–**	–
Profit/(loss) for the year		**34 858 163**	10 591 597	**(1 716 325)**	(21 414)
Other comprehensive income					
Items that will never be classified to profit or loss					
Revaluation surplus on property		**–**	1 250 247	**–**	–
Deferred tax on revalued property		**4 354**	(126 243)	**–**	–
Deferred tax released on disposal of a revalued property		**–**	424	**–**	–
		4 354	1 124 428	**–**	–
Items that are or may be classified to profit or loss					
Translation difference for foreign operations		**1 915 676**	2 235 040	**–**	–
Total other comprehensive income for the year		**1 920 030**	3 359 468	**–**	–
Total comprehensive income/(loss) for the year		**36 788 193**	13 951 065	**(1 716 325)**	(21 414)
Profit or loss attributable to:					
Owners of the company		**30 304 809**	8 830 644	**(1 716 325)**	(21 414)
Non-controlling interest	31	**4 553 354**	1 760 953	**–**	–
Profit/(loss) for the year		**34 858 163**	10 591 597	**(1 716 325)**	(21 414)
Total comprehensive income/(loss) attributable to:					
Owners of the company		**31 294 685**	10 487 873	**(1 716 325)**	(21 414)
Non-controlling interest		**5 483 508**	3 463 192	**–**	–
Total comprehensive income/(loss) for the year		**36 778 193**	13 951 065	**(1 716 325)**	(21 414)
Basic and diluted earnings per share (US' cents)	42	**1.297**	0.378	**–**	–

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2017

CONSOLIDATED	Share capital (US$)	Share premium (US$)	Restructuring reserve (US$) (Note 26)	Property revaluation reserve (US$)
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

Loan loss reserve US$)	Non-distributable reserves (US$)	Translation reserve (US$)	Retained earnings (US$)	Equity attributable to owners (US$)	Non-controlling Interest (US$)	Total equity (US$)
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 2017

CONSOLIDATED (continued)	Share capital (US$)	Share premium (US$)	Property revaluation reserve (US$)
Balance as at 1 January 2016	161 497	2 164 142	3 642 294
Total comprehensive income for the year			
Profit for the year			
Other Comprehensive income			
Property revaluation	–	–	1 250 247
Deferred tax on revalued assets	–	–	(126 243)
Deferred tax released on property revaluation surplus	–	–	424
Arising on consolidation of subsidiary	–	–	–
Total other comprehensive income	–	–	1 124 428
Total comprehensive income for the year	–	–	1 124 428
Transfers within reserves			
Transfer to loan loss reserve	–	–	–
Transactions with owners, recorded directly in equity			
Contribution by and distribution to owners			
Additional capital subscription	–	–	–
Dividends paid to non-controlling interests	–	–	–
Dividends paid	–	–	–
Total transactions with owners	–	–	–
Balance as at 31 December 2016	161 497	2 164 142	4 766 722

	Loan loss reserve US$)	Non-distributable reserves (US$)	Translation reserve (US$)	Retained earnings (US$)	Equity attributable to owners (US$)	Non-controlling Interest (US$)	Total equity (US$)
	2 483 577	483 886	2 085 271	23 051 198	34 071 865	13 231 946	47 303 811
				8 830 644	8 830 644	1 760 953	10 591 597
	–	–	–	–	1 250 247	–	1 250 247
	–	–	–	–	(126 243)	–	(126 243)
	–	–	–	–	424	–	424
	–	–	532 801	–	532 801	1 702 239	2 235 040
	–	–	532 801	–	1 657 229	1 702 239	3 359 468
	–	–	532 801	8 830 644	10 487 873	3 463 192	13 951 065
	(741 318)	–	–	741 318	–	–	–
	–	–	–	–	–	877 577	877 577
	–	–	–	–	–	(903 480)	(903 480)
	–	–	–	(645 988)	(645 988)	–	(645 988)
	–	–	–	(645 988)	(645 988)	(25 903)	(671 891)
	1 742 259	483 886	2 618 072	31 977 172	43 913 750	16 669 235	60 582 985

STATEMENTS OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2017

SEPARATE	Share capital (US$)	Revenue deficit (US$)	Total equity (US$)
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**
Balance as at 16 March 2016	–	–	–
Loss for the period	–	(21 414)	(21 414)
Total Comprehensive Income for the period	–	(21 414)	(21 414)
Transactions with owners, recorded directly in equity			
Contribution by and distribution to owners			
Issue of ordinary shares during the period	100	–	100
Balance as at 31 December 2016	100	(21 414)	(21 314)

STATEMENTS OF CASH FLOWS

For the year ended 31 December 2017

		CONSOLIDATED		SEPARATE	
	Notes	2017 US$	2016 US$	2017 US$	2016 US$
Cash flows from operating activities					
Interest and fees received		**95 544 070**	68 313 498	**20 118**	–
Interest paid		**(20 281 940)**	(17 771 460)	**(365 890)**	–
Cash paid to suppliers and employees		**(50 300 508)**	(22 567 611)	**517 163**	(7 175)
		24 961 622	27 974 427	**171 391**	(7 175)
Increase in net customer balances		**88 114 207**	37 494 604	**6 199**	7 175
Cash generated from operations		**113 075 829**	65 469 031	**177 590**	–
Dividend received net of tax		**421 749**	96 370	**–**	–
Income taxes paid	12(c)	**(7 116 058)**	(4 274 360)	**–**	–
Cash flows from operating activities		**106 381 250**	61 291 041	**177 590**	–
Cash flows from investing activities					
(Purchases)/maturities of money market investments	8	**(58 861 161)**	(23 168 501)	**–**	–
(Purchases)/maturities of currency swaps	11	**(8 289 390)**	(17 500 000)	**–**	–
Acquisition of business, net cash acquired	34(b)	**341 865 513**	–	**–**	–
Paid for acquisition of subsidiary		**–**	–	**(6 633 333)**	–
Proceeds from sale of equipment		**23 206**	18 291	**–**	–
Acquisition of property and equipment	16, 17	**(8 030 976)**	(5 173 225)	**–**	–
Cash flows from investing activities		**266 707 192**	(45 823 435)	**(6 633 333)**	–
Cash flows from financing activities					
Dividend paid	43	**(1 611 593)**	(645 988)	**–**	–
Capital subscription by non-controlling interests		**–**	877 577	**–**	–
Dividends paid to non-controlling interests		**(583 752)**	(903 480)	**–**	–
Proceeds/(repayment) of long term borrowings		**9 373 255**	(1 276 652)	**6 500 000**	–
Cash flows from financing activities		**7 177 911**	(1 948 543)	**6 500 000**	–
Net Increase in cash and cash equivalents		**380 245 750**	13 519 063	**44 257**	–
Cash and cash equivalents at 1 January		**116 985 147**	101 231 044	**–**	–
Effect of changes in exchange rates		**1 915 676**	2 235 040	**–**	–
Cash and cash equivalents at 31 December	7	**499 167 446**	116 985 147	**44 257**	–

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

a) Issue of Redeemable preference shares on acquisition of subsidiary – Note 34 (a)
b) Restructuring and acquisition expenses paid by FMB on behalf of FMBCH – Note 36

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 Company was converted into a public company limited by shares on 27 January 2017. The Company changed its name to FMB Capital Holdings Plc on 17 March 2017 and to FMBcapital Holdings Plc with effect from 17 October 2017. 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 the 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) Going concern basis of accounting

The consolidated and separate financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet the mandatory repayment terms of the banking facilities as disclosed in note 20, customer deposits as disclosed in note 21, other payables as disclosed in note 22, subordinated debt as disclosed in note 23 and loans payable as disclosed in note 39.

(vi) Comparatives

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

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

In the current year, the Group has adopted those new and revised Standards and Interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee of the International Accounting Standards Board that are relevant to its operations and are effective for annual reporting periods beginning on 1 January 2017.

The adoption of these new and revised Standards and Interpretations did not have a significant impact on these financial statements.

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 2018, 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 2018	IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include impairment requirements for financial assets and limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss;
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes In other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Changes in fair value attributable to financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss;
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit losses and changes in those expected credit losses each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised; and
- The new general hedge accounting requirements retain the three types of hedge accounting mechanics currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

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 periods beginning on or after 1 January 2018	IFRS 15 Revenue from Contracts with Customers IFRS 15 specifies how and when an entity will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-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 IFRS15, an entity recognises Revenue when (or as) a performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. In April 2016, the IASB issued Classifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.
Annual periods beginning on or after 1 January 2018	Classification and Measurement of Share-based Payment Transactions Amends IFRS 2 Share-based Payment to clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

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 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 recognised 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 aid 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.
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.
The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018	Annual Improvements to IFRS Standards 2014–2016 Cycle Makes amendments to the following standards: • IFRS 1 – Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose • IAS 28 – Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

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

Standards and Interpretations in issue, not yet effective (continued)

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2018	IFRIC 22 Foreign Currency Transactions and Advance Consideration The interpretation addresses foreign currency transactions or parts of transactions where: • there is consideration that is denominated or priced in a foreign currency; • the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary. The Interpretations Committee came to the following conclusion: • The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. • If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.
Annual reporting periods beginning on or after 1 January 2019	IFRIC 23 Uncertainty over Income Tax Treatments The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: • Whether tax treatments should be considered collectively; • Assumptions for taxation authorities' examinations; • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and • The effect of changes in facts and circumstances.
Annual periods beginning on or after 1 January 2019	Prepayment Features with Negative Compensation (Amendments to IFRS 9) Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.
Annual periods beginning on or after 1 January 2019	Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) Clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The Directors anticipate that other than IFRS 9, these Standards and Interpretations in future periods will have no significant impact on the financial statements of the Group. IFRS 9 will impact the measurement of financial instruments. The Group engaged external consultants to work alongside existing teams from Credit, Risk, Information Technology and Finance departments to complete the development of IFRS 9 models, internal controls and procedures. The project has progressed according to plan. As at the end of the reporting period, the impact assessment phase was in its completion stage. Firm quantitative indications should be provided within the first half of the year ending 31 December 2018.

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 Merchant Bank PLC 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) Funds management

The Group manages and administers assets held in investment vehicles on behalf of investors. The financial statements of these entities are not included in the consolidated financial statements except when the Group controls the entity.

(iv) 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.

(v) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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.

(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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial assets and liabilities (continued)

(iv) Offsetting

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

Income and expenses are presented on a net basis only when permitted by accounting standards.

(v) Identification and measurement of impairment

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

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

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

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

Impairment losses on financial assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted using the financial assets' original effective interest rate.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss. The Group writes off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when Group Credit determines that there is no realistic prospect of recovery.

(vi) Designation at fair value through profit or loss

The Group has designated financial assets and liabilities at fair value through profit or loss when either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis; and
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

Investments in listed companies (see note 13) have been accounted for at fair value through profit or loss.

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 held-to-maturity or fair value through profit or loss.

(i) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are measured at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Held-to-maturity investments comprise Treasury Bills, Local Registered Government Stocks and Malawi Government Promissory Notes and are included in money market investments.

(ii) Fair value through profit or loss

The Group recognises some investment securities at fair value, with fair value changes recognised immediately in profit or loss as described in accounting policy (c).

(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 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.

Goodwill is tested annually for impairment. An impairment loss in respect of goodwill is not reversed.

(p) Customer deposits and balances due to other banks

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

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

(q) Other liabilities and subordinated debt

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

(r) Share capital

Share issue costs

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

(s) Employee benefits

(i) Short-term employee benefits

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

(ii) Defined contribution plan

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation of the effective interest rate includes all fees and rewards paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the profit or loss include:

- interest on financial assets and liabilities at amortised cost on an effective interest rate basis; and
- Interest on held to maturity investments.

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

(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 so as 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.

(v) Fees and commission income

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, account service fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are performed.

(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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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 as described under the fair value policy. Derivatives are always categorised as held-for-trading.

All derivative instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative, subject to offsetting principles as described under note 4 (f) (iv).

Embedded derivatives included in hybrid instruments are treated and disclosed as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. The financial host contracts are accounted for and measured applying the rules of the relevant financial instrument category.

The method of recognising fair value gains and losses depends on whether the derivatives are designated as hedging instruments, and if so, the nature of the hedge relationship, or if they are classified as held-for-trading.

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in profit or loss as trading revenue.

(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 recognised 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 recognised previously in any remeasurement. A gain is recognised 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 recognised previously on the asset.

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

5. RISK MANAGEMENT

The Group, through its group companies, is exposed to a variety of risks principal of which are strategic, credit, liquidity, interest rate, foreign exchange, price, operational, compliance/regulatory and reputation risk. The Group is committed to an effective Enterprise Wide Risk Management program for the attainment of a sustainable balance between performance and risk exposure. This is attained through closely monitoring its risk/return mix to ensure an efficient allocation of capital for the long term.

The responsibility for the active oversight of risk management within FMBCH primarily rests with the Board of Directors. The FMBCH Board is responsible for ensuring the establishment of proper governance structures, policies and procedures for the effective management of all risks within its universe. Executive management assumes this responsibility through setting limits and targets for effective risk monitoring and management in all its operations. The Group's Enterprise-Wide Risk Management Framework (EWRMF) provides guidance and direction on the governance and structure of risk management, identification, measurement, monitoring and control of all significant risks.

(a) Risk Management Policies and Control

The Group's approach to risk management is based on well-established governance, oversight, management and reporting processes. These risk management processes are established within the specific frameworks, policies, procedures and guidelines for each of the identified key risks. FMBCH has an independent risk and compliance function responsible for ensuring the effective enterprise-wide risk management across its operations. The Group Risk and Compliance function coordinates the management of risks within the subsidiaries providing oversight and guidance on risk management standards.

(b) Risk Management Structure

The Group's risk management governance structure is established in cognisance of the three levels of defence for effective risk management. Responsibility for risk management resides at all levels within the Group, starting at Board level, filtering down to each business unit and ultimately each employee.

The first level of defence rests primarily with the Board of Directors. The FMBCH Board of Directors is responsible for ensuring effective governance structures for the oversight and management of enterprise-wide risk. This entails the approval of frameworks, policies and procedures for the management of specific risks. Central in this process is the approval of risk appetite statement defining the acceptable level of risks within the Group's business. The responsibility for a detailed oversight of this responsibility is delegated to the Board Risk Committee (BRC). The BRC meets at least quarterly to review risk management reports for the Group and advise on adopted risk management strategies.

Executive Management and all business units also comprise part of the FMBCH first line of defence. It is the responsibility of Executive Management to ensure that the risk appetite framework is embedded in key decision-making and operational processes, supporting the implementation of the Group strategy.

The Group Risk and Compliance function is the second level of defence, providing independent monitoring and assessment of the implementation and effectiveness of risk management practices across the business of the Group. The Group Risk and Compliance function will monitor risk management through the review of adherence to set risk limits in line with the risk appetite. Furthermore, the Risk and Compliance function advises the Board and Executive Management on effective risk management strategies across the business. The Group Head of Risk and Compliance reports to the Board Risk Committee on a quarterly basis on the Group's risk universe and the effectiveness of risk management techniques.

The Internal Audit function provides the third line of defence through assurance of the effectiveness of the control environment and internal control processes within the Group.

5. RISK MANAGEMENT (continued)

(c) Board Sub-Committees

The governance structures outlined below exist in all the Group companies for the effective management and oversight of the risks that the companies are exposed to.

(i) The Risk Committee

The Risk Committee provides oversight on the effectiveness of the Group in assessing, mitigating and controlling risks. It is responsible for ensuring that the Group has sufficient oversight of all risks and effective risk management processes are established. The Committee comprises two non-executive Directors and one executive Director as follows:

Mr Rajkamal Taposeea	Chairman
Mr Dheeraj Dikshit	Executive director
Mr Hitesh Anadkat	Non-executive director

(ii) The Audit Committee

The Audit Committee assists the Board in discharging its duties in relation to financial reporting, asset management, internal control systems and processes. It also monitors the quality of both the external and internal audit functions. The Group's external and internal auditors have unlimited access to the Audit Committee and report to it in their independent, private meetings to discuss risk exposure areas. Where the committee identifies causes for concern or scope for improvement, it makes recommendations to the Board and presents remedial actions.

It is Board policy to maintain an independent internal audit function to undertake internal audit work throughout the Group. Internal Audit provides reliable, valued, insightful and timely assurance to the Board and executive management on the effectiveness of governance, risk management and controls over current and evolving risks in the context of the current and expected business environment.

The Committee comprises two non-executive Directors. At year end, the membership of the committee was as follows:

Mr Vedanand Mohadeb	Chairman
Mr John O'Neill	Executive director
Mr Manogaran Thamothiram	Non executive director

(d) Management

(i) The Group Managing Director

The Group Managing Director is appointed by the Board to manage the Group's business within an acceptable risk profile, while delivering the approved strategy that leads to the achievement of long term objectives.

The Group Managing Director appoints the Group Head of Risk & Compliance, who heads an independent Risk and Compliance function and has overall day-to-day accountability for risk management.

(ii) Group Head of Risk and Compliance

The Group Head of Risk & Compliance is responsible for ensuring that an integrated and effective risk management framework is maintained throughout the Group. The Group Head of Risk & Compliance has a direct reporting line to the Chairman of the Risk Committee with functional report to the Group Managing Director.

5. RISK MANAGEMENT (continued)

(e) Risk Appetite

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

From its long term strategic goals, the Group companies have identified key strategic objectives (KSOs) that they will need to pursue in the short to medium term, some of which will be measured quantitatively while others will be measured qualitatively. There are set measurable thresholds for the KSOs with levels of tolerance for all risk categories. These are monitored on an ongoing basis with a three colour coded scale: green, amber and red: Red indicates that the Group company has reached the minimum limit; Amber serves as a warning that the it is approaching minimum limits; whilst Green indicates that it is operating with buffer and not approaching the minimum levels.

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

(f) Stress Testing

The stress testing framework provides guidance on the assessment of its capability to survive shocks within its business environment. The framework also requires that the Group companies, individually, identify strategies of dealing with shocks that are identified as too severe for it to survive. The stress testing framework promotes the use of extreme but plausible scenarios. The stress scenarios that are used cover all the major types of risks including market, credit and liquidity risks.

(g) Significant Risks

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

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

5. RISK MANAGEMENT (continued)

(h) Capital Management

(i) Overview

The Group companies manage their capital to ensure that it is adequate to meet regulatory requirements and also support the business. Thus the Group companies focus on managing both regulatory and economic capital at all times. A key aspect of capital management also entails the maximising of shareholder returns through the optimisation of the debt and equity mix.

Management reviews the capital structure on an on-going basis to achieve its capital management objectives. The Group operates a centralised capital management model in all companies. The capital management objectives are

To meet the regulatory capital ratios in all jurisdictions where it operates;

To meet capital target buffers set by the Board and maintaining sufficient capital to support business development;

Safeguard the group as a going concern to continue to meet shareholder and investor expectations.

Capital risks and are presented to the Risk Committee and Board. Capital adequacy is monitored closely by the executive management, being measured in line with the home regulatory guidance from The Reserve Bank of Malawi in line with the Basel II Capital Accord.

(ii) Capital Adequacy Ratios

The following minimum capital adequacy ratios have been determined by The Reserve Bank of Malawi ("RBM") and Reserve Bank of Zimbabwe ("RBZ") are as follows:

	RBM	RBZ
Tier 1 Capital (Core Capital)	**10%**	**10%**
Total Capital	**15%**	**12%**

(iii) Capital Position as at 31 December 2017

The following is the capital position of the Group:

	2017 US$	2016 US$
Share capital	**105 707 965**	161 497
Restructuring reserve	**(54 510 623)**	-
Share Premium	**-**	2 164 142
Non distributable reserves	**-**	483 886
Retained earnings	**19 614 393**	31 977 172
Deferred tax asset	**(1 399 551)**	(1 158 270)
Non-controlling interest	**35 352 790**	12 296 092
Total Tier 1 Capital	**104 764 974**	45 924 519
Tier 2 Capital		
Translation reserve	**17 020**	2 618 072
Property revaluation reserve	**15 348**	4 766 722
Loan loss reserve	**1 869 083**	1 742 259
Non-controlling interest	**11 973 771**	2 150 843
Eligible subordinated debt	**14 224 307**	12 485 813
Tier 2 Capital	**28 099 529**	23 763 709
Total qualifying capital	**132 864 503**	69 688 228
Total risk weighted assets	**725 756 659**	330 998 648
Tier 1 risk based capital ratio (minimum 10%)	**14.4%**	13.9%
Total risk-weighted capital ratio (minimum 15%)	**18.3%**	21.1%

5. RISK MANAGEMENT (continued)

(i) Credit Risk

(i) Credit Risk Management

Credit risk is the risk of financial loss as a result of failure of a counterparty to discharge its contractual obligation. This can be failure or delay in paying interest or the principal amount borrowed.

(ii) Credit Policies

The Group companies have credit policies which cover the types of credit that can be offered, procedures for granting of local currency loans, overdrafts, foreign currency loans, guarantees and letters of credit; approval limits to be exercised by different authority levels for various types of exposures; applicable charges and margins above the base lending rate for different credit facilities; acceptable security and security loan ratios; record keeping; impairments and provisions; prudential limits on lending concentration; insider lending; and sector limits.

The Group companies have a risk management framework which covers credit risk management outlining risk identification, measurement, monitoring and control procedures.

A stress testing framework covers credit risk stress testing procedures.

(iii) Stress Testing

Stress testing is carried out to measure levels of credit risk, among other things. Three different shocks with at least four scenarios for each are used to show impact of the behavioural pattern of the credit portfolio on Capital Adequacy Ratio (CAR).

The outcome is included in the quarterly stress testing report which is presented to the Board Risk Committee.

(iv) Assessment of Credit Risk Exposures

The Group's credit risk arises from its exposure to a portfolio consisting of foreign currency loans, local currency loans and overdrafts, leases to customers, staff loans, lending to local banks, guarantees and letters of credit and is managed as follows:

(a) Loans and overdraft in local currency

Banks within the Group have centralised approval of loans and overdrafts. Branches refer all new proposals and renewal of existing facilities to Head Office for approval. Head Office also grants credit in excess of agreed overdraft limits and marks the limits on the customer accounts. Depending on the set thresholds and type of customer, some credit facilities have to be approved by the Credit Committee and/or the full Board for respective banks.

(b) Leases

First Merchant Bank Plc offers leases to its customers (previously offered through The Leasing and Finance Company of Malawi Limited (LFC)). Proposals are referred to its Credit Committee for approval. The Board issued a credit policy with procedures and limits that must be adhered to. Acceptable lease assets are land, buildings, motor vehicles and equipment. Financing is for working capital, real estate and residential mortgages and other capital expenditure. All credit facilities must be secured.

(c) Foreign currency loans

The loan approval process followed is stipulated in the credit policy of each bank in compliance with all regulatory requirements. To hedge from foreign exchange risk, borrowers of foreign currency must be foreign exchange earners.

(d) Lending to local banks

The Group companies lend to local banks through their local interbank markets. Such lending is short-term, overnight in most cases. Investment policy and the policy for domestic money market has limits on how much can be lent unsecured and secured to individual banks in the country.

(e) Guarantees

Banks in the Group issue financial and non-financial guarantees to third parties on behalf of its customers. Guarantees are normally issued on cash cover basis in form of a fixed deposit. There are other cases where property is accepted as security and in very exceptional cases, guarantees are issued on a clean basis. All guarantees are approved by the Credit Committee.

(f) Letters of credit

Letters of credit are issued if the security requirement as stipulated in the Group's credit policy is met.

5. RISK MANAGEMENT (continued)

(j) IFRS 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 2017, these were as follows:

CONSOLIDATED	Note	Loans and advances to customers 2017 US$	Loans and advances to customers 2016 US$	Finance lease receivables 2017 US$	Finance lease receivables 2016 US$	Money market investments 2017 US$	Money market investments 2016 US$
Carrying amount	8, 9, 10	**350 516 403**	174 922 963	**5 288 322**	6 612 787	**161 819 258**	95 417 660
Standard (fully performing)		**328 782 718**	156 470 334	**4 124 994**	5 522 163	**161 819 258**	95 417 660
Past due but not impaired		**16 769 102**	11 696 389	**651 133**	617 216	**–**	–
Impaired		**17 746 712**	11 140 067	**1 247 037**	1 152 282	**–**	–
Gross receivable		**363 298 532**	179 306 790	**6 023 164**	7 291 661	**161 819 258**	95 417 660
Past due but not impaired assets							
30 – 60 days		**8 976 080**	9 590 172	**525 028**	343 909	**–**	–
61 – 90 days		**7 793 022**	2 106 217	**126 105**	273 307	**–**	–
		16 769 102	11 696 389	**651 133**	617 216	**–**	–
An estimate of the fair value of collateral held							
Against individually impaired							
Property		**27 600 884**	86 184 121	**693 059**	1 672 310	**–**	–
Others		**335 099**	20 132 207	**578 986**	600 663	**–**	–
		27 935 983	106 316 328	**1 272 045**	2 272 973	**–**	–
Against past due but not impaired							
Property		**31 120 941**	11 844 701	**400 443**	636 932	**–**	–
Others		**3 905 585**	4 066 080	**487 867**	142 124	**–**	–
		35 026 526	15 910 781	**888 310**	779 056	**–**	–

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)

(j) IFRS Disclosures on credit risk (continued)

(i) 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.

(ii) 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.

(iii) Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main component of this allowance is a specific loss component that relates to individually significant exposures.

(iv) Impairment policy

The Group companies write off a loan/security balance (and any related allowances for impairment losses) when the Credit committee determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, and the proceeds from collateral will not be sufficient to pay back the entire exposure.

(v) Distribution of Credit Exposure by Sector

The Group companies monitor concentrations of credit risk by sector. Economic sector risk concentrations within the customer loan and finance lease portfolio at 31 December 2017 were as follows:

	CONSOLIDATED	
	2017 US$	2016 US$
Agriculture	29 654 504	21 828 199
Mining	1 425 497	45 394
Financial services	26 184 540	3 352 185
Construction	20 469 140	6 631 244
Energy/electricity/gas /water	17 497 303	692 669
Manufacturing	43 868 447	19 112 405
Wholesale and retail	51 837 374	90 730 031
Individual/households	91 585 782	10 688 729
Real estate	28 652 213	102 663
Tourism & leisure	17 907 039	1 072 735
Transport & communication	25 093 437	7 111 373
Others	15 146 420	25 230 824
	369 321 696	186 598 451
Split into:		
Loans and advances (Note 9)	363 298 532	179 306 790
Finance leases (Note 10)	6 023 164	7 291 661
	369 321 696	186 598 451

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

5. RISK MANAGEMENT (continued)

(j) IFRS Disclosures on credit risk (continued)

(vi) Credit quality per class of financial assets

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

		CONSOLIDATED		SEPARATE	
	Notes	2017 US$	2016 US$	2017 US$	2016 US$
Gross maximum exposure					
Balances with central banks	7	**276 209 019**	25 996 112	**-**	-
Balances with other banks	7	**187 662 512**	76 662 238	**44 257**	-
Money market investments	8	**161 819 258**	95 417 660	**-**	-
Cheques in the course of clearing	7	**255 716**	951 560	**-**	-
Derivative asset	11	**34 789 390**	26 500 000	**-**	-
Investment in finance leases	10	**5 288 322**	6 612 787	**-**	-
Loans and advances	9	**350 516 403**	174 922 963	**-**	-
Total recognised financial assets		**1 016 540 620**	407 063 320	**44 257**	-
Letters of credit		**18 087 873**	23 449 778	**-**	-
Financial guarantees		**73 114 718**	40 239 055	**-**	-
Total unrecognised financial assets		**91 202 591**	63 688 833	**-**	-
Total credit risk exposure		**1 107 743 211**	470 752 153	**44 257**	-

5. RISK MANAGEMENT (continued)

(k) Market Risk

Market risk management

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

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

Foreign exchange risk

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

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

Interest rate risk

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

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

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

Equity risk

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

5. RISK MANAGEMENT (continued)

(l) Policies

The Group companies have several policies which cover:

- foreign exchange business limits for individual currencies, forex exposures and trading limits for the banks in the Group and dealers;
- domestic money market limits for counterparties and dealers;
- types of instruments that the Group can invest in and maximum amounts that it can invest;
- market risk management and stress testing; and
- categorisation of assets into trading book and banking book.

(m) Assessment of market risk

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

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

In 2017, market risk was properly managed and the Group companies operated within limits.

(n) Stress testing/scenario analysis

Stress testing is done by an independent Risk and Compliance function every quarter to ascertain impact on the Company's capital adequacy of changes in interest rates, exchange rates and share prices. Based on the result, management takes corrective steps acting on the advice of the Board.

The following are the assumptions used:

1. Increase/(decrease) in interest rate by 1%, 2%, 3%, 5%, 7.5% and 10%. The same is used to measure the level of Interest Rate Risk in the Banking Book.
2. Foreign exchange rate devaluation/appreciation by 5%, 10%, 25% and 50%.
3. Fall in share prices by 10%, 20%, 40% and 50%.

5. RISK MANAGEMENT (continued)

(o) Exposure to market 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.

			Fixed rate					
	Zero rate	Floating rate	0 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months	Over 12 months	Total
2017								
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**	**-**
2016								
Total assets	72 428 938	115 389 517	117 074 705	22 737 986	19 233 781	30 489 005	75 139 529	452 493 461
Total liabilities and equity	87 750 011	186 764 158	100 039 228	47 945 264	20 550 938	-	9 443 862	452 493 461
Interest sensitivity gap	(15 321 073)	(71 374 641)	17 035 477	(25 207 278)	(1 317 157)	30 489 005	65 695 667	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

5. RISK MANAGEMENT (continued)

(o) Exposure to market risk (continued)

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

	2017 %	2016 %
Assets		
Government securities	1 - 26	1 - 29
Deposits with banking institutions	1 - 17	1 - 26
Loans and advances to customers (base rate)	6.5 - 25	7 - 33
Liabilities		
Customer deposits	0.15 - 14	0.15 - 10

The value of investments at fair value through profit or loss as at 31 December 2017 and 2016 were as follows:

	2017 US$	2016 US$
Equity risk		
Fair value of investments at fair value through profit or loss	**7 184 758**	4 388 848
Net increase/(decrease) in fair value during the year	**2 801 189**	(1 995 367)
Impact on profit of:		
increase of share price by 10%	**718 476**	438 885
decrease of share price by 10%	**(718 476)**	(438 885)

Liquidity risk

Liquidity risk is the potential for loss to an institution arising from its inability to meet its obligations as they fall due and/or fund its asset book and operations due to insufficient cash flow.

Liquidity risk is often triggered by consequences of other risks such as credit risk, market risk and operational risk. For instance, increasing credit risk through asset concentration may increase liquidity risk and a large loan default or changes in interest rate can adversely impact the liquidity position. If management misjudges the impact on liquidity of entering into a new business or product line, the Group's liquidity risk would increase. Large off-balance sheet exposures, high concentrations in deposits and rapid growth in assets may pose relatively high levels of liquidity risk to the Group.

Policies

Banks in the Group have an asset liability management policy which outlines policies and procedures in liquidity management including a contingency funding plan. All liquidity policies and procedures are subject to Board approval.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

5. RISK MANAGEMENT (continued)

(o) Exposure to market risk (continued)

Liquidity risk management

At individual banks in the Group, Boards and senior management are responsible for liquidity risk management. The responsibility for managing the overall liquidity of the Group is delegated to ALCO. ALCO is responsible for the implementation of sound policies and procedures keeping in view the strategic direction and risk appetite specified by the Board. ALCO meets every month. The committee interacts regularly with line managers and Board members to enable it to monitor and control liquidity risk arising from new products and future business activities.

Group company ALCO measures the liquidity position using liquidity ratios 1 and 2, liquidity analysis also known as maturity gap analysis, its ability to keep the liquidity reserve requirements, cash flow projections, credit/deposit ratio and other ratios. The Group companies all have an asset liability management policy, liquidity risk management policy and compliance policy. Credit and investments policies and limits are set with liquidity risk management in mind. All these policies are subject to Board approval.

Assessment of liquidity risk

Liquidity risk is assessed and monitored on a daily basis. A daily dashboard is circulated to executive management every morning and a Liquidity Position Report is produced by Treasury back office before end of day. This report is used for making decisions on whether to invest surplus funds or borrow funds from the interbank market in order to cover liquidity gaps. Weekly and fortnightly Liquidity Reports are also produced.

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

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

Stress testing

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

5. RISK MANAGEMENT (continued)

Liquidity risk

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

CONSOLIDATED	Carrying amount (US$)	Gross nominal amount (US$)	Up to 1 month (US$)	1 - 3 months (US$)	3 - 6 months (US$)	6 - 12 months (US$)	1 - 3 years (US$)	Over 3 years (US$)
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
Gross loans, advances and leases	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	53 651 835	53 651 835	15 459 235	35 640 192	850 802	850 802	850 804	-
Total assets	1 077 628 022	1 091 144 993	610 552 769	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	28 122 674	28 122 674	28 122 674	-	-	-	-	-
Total liabilities	998 037 179	998 037 179	781 761 086	67 297 390	79 003 442	26 445 651	21 433 246	22 095 364
Net liquidity gap	79 590 843	93 107 814	(171 209 317)	42 716 686	(21 890 316)	58 226 914	154 957 882	30 305 965
Cumulative liquidity gap	79 590 843	93 107 814	(171 209 317)	(128 492 631)	(150 382 947)	(92 156 033)	62 801 849	93 107 814

5. RISK MANAGEMENT (continued)

Liquidity risk

The maturity gap analysis as at 31 December 2016 is given below:-

CONSOLIDATED	Carrying amount (US$)	Gross nominal amount (US$)	Up to one month (US$)	One – three months (US$)	Three – six months (US$)	Six – 12 months (US$)	One – three years (US$)	Over three years (US$)
Assets								
Cash and cash equivalents	116 985 147	116 985 147	116 985 147	–	–	–	–	–
Money market investments	95 417 660	95 417 660	10 470 039	28 465 347	16 822 117	39 592 197	67 960	–
Gross loans, advances and leases	181 535 750	186 598 451	40 593 098	20 566 461	18 758 705	17 599 478	50 007 504	39 073 205
Investments at fair value through profit or loss	4 388 848	4 388 848	877 770	877 770	877 770	877 770	877 768	–
Other financial assets	27 952 072	27 952 072	1 422 110	7 490	7 490	7 490	26 507 492	–
Total assets	**426 279 477**	**431 342 178**	**170 348 164**	**49 917 068**	**36 466 082**	**58 076 935**	**77 460 724**	**39 073 205**
Liabilities								
Liabilities to customers	311 399 009	311 399 009	193 666 132	72 504 887	24 887 342	18 992 177	1 348 471	–
Due to other banks	40 858 628	40 858 628	1 230 796	6 016 937	23 217 583	1 558 728	5 655 065	3 179 519
Subordinated debt	12 485 813	12 485 813	–	–	–	–	–	12 485 813
Other liabilities	21 874 081	21 874 081	21 874 081	–	–	–	–	–
Total liabilities	**386 617 531**	**386 617 531**	**216 771 009**	**78 521 824**	**48 104 925**	**20 550 905**	**7 003 536**	**15 665 332**
Net liquidity gap	39 661 946	44 724 647	(46 422 845)	(28 604 756)	(11 638 843)	37 526 030	70 457 188	23 407 873
Cumulative liquidity gap	39 661 946	44 724 647	(46 422 845)	(75 027 601)	(86 666 444)	(49 140 414)	21 316 774	44 724 647

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

5. RISK MANAGEMENT (continued)

Operational risk

Operational risk is a risk of loss or reputational damage resulting from inadequate or failed internal processes, people and systems/ technology or from external events. Losses due to damage to physical assets, natural disasters, law suits, frauds, staff injuries, robberies and theft are all part of operational risk.

Operational risk management

The Board and senior management have created a culture that places high priority on effective operational risk management and adherence to sound operating controls. This culture emphasises high standards of ethical behaviour, honesty and integrity at all levels of the Group companies. Banks have organisational structures with clear reporting lines, efficient lay-out of premises conducive to close supervision, sound work systems and procedures and strong internal controls.

The Group has operations manuals, IT policies and manuals, a system of vetting employees, employee-friendly personnel policies, an employee training centre, systems of regular reconciliations of suspense accounts, an array of periodic Management Information Systems (MIS) reports, security and internal audit functions for effective management of operational risk in the Group. Disaster recovery and business continuity plans are in place to manage business disruptions. New products are thoroughly examined by a senior management committee and the risk management function before the Board accords approval for adoption. Insurance policies are in place for premises, various assets and employee fidelity and professional indemnity.

The policies, plans and manuals are regularly reviewed and updated, to ensure that they continue to be relevant to the environment within which the Group operates.

Processes

The Group companies have policies, operational manuals, guidelines and structures to manage its processes.

At bank level, each Bank has a Chief Operating Officer who heads the Operations department and oversees Administration, IT, Central Clearing, Card Centre, Regional Processing Centres, Quality Control department, Branch Supervision and Head Office Operations department. All these departments have departmental heads at senior or middle management levels.

All customer service back office processes are centralised. The centralised processes are handled at the central processing centre (CPC). This was done with the aim of minimising operational risk and improving efficiency. The CPC manager reports to the Chief Operating Officer. Work done by CPC is reviewed everyday by an independent Quality Control department in Head Office to ensure that procedures are adhered to and any errors are detected at the earliest.

Branch and Agency Managers report to Regional Managers who report to the Head of Branch Banking and Agriculture.

Other specialised departments like Credit, Treasury, Risk, Compliance, Legal, Finance, Human Resources, Internal Audit report directly to the in-country Chief Executive Officer. Credit, Risk and Compliance and Internal Audit also have direct reporting to the Board sub-committees.

Fraud

The Group companies have systems and controls to mitigate fraud risk. The fraud policy outlines what is to be done in cases of frauds. Staff and the public are encouraged to report actual or suspected fraud through the tip-offs anonymous service, line management or the Compliance Officer. Internal Audit department investigates all fraud cases.

5. RISK MANAGEMENT (continued)

IT risk
The risk that the Group can suffer losses or business disruptions due to technological system failure is very high. To manage and mitigate this risk, the Group has the following in place:

1. Policies
2. Modern data centre
3. IT disaster recovery site
4. Offsite backup centre
5. Trained personnel in hardware and software systems
6. Maintenance agreements with system providers

People risk
The Group realises that its human capital is one of its most important resources. The Group companies have policies and guidelines on operations to ensure that employees are motivated and perform their duties at high standards at all times. As such the Group companies have a Learning and Development Centre (L&D) under Human Resources Department. All new staff go through induction training. L&D organises training throughout the year for staff at all levels. Timely communication is made to staff on the Group's plans, new products and other developments. The Group recruits qualified staff and police clearance is sought for all new staff.

Assessment of operational risk
An independent Risk and Compliance function conducts *ad hoc* risk assessments on premises, products and processes and reports the findings to business units or respective departments and the Managing Director/Chief Executive Officer. It conducts operational risk assessments as part of the bank-wide risk assessments and reports to the Managing Director/Chief Executive Officer and the Risk Committee on a quarterly basis.

Each entity in the Group has a risk management framework which gives guidelines on how to identify, assess, monitor and control/ mitigate operational risk. In addition, there are policies and procedures on operational risk management that are aligned to the overall business strategy and support continuous improvement of overall risk management in the Group.

The Group has an Operational Risk Management System (ORMS) for recording all operational risk incidents and losses at individual entity level.

Stress testing
Stress testing is done using operational risk scenarios.

Other Risks

Compliance risk
This is the risk of legal or regulatory sanctions, material financial loss or damage to reputation that the Group may suffer as a result of failure to comply with laws, regulations, internal policies or code of conduct applicable to the Group's activities.

The Group's Board of Directors has set in place systems for identifying, measuring, monitoring and controlling all the potential lapse areas to ensure continued compliance with all the sections of the Banking Act 2010, Reserve Bank of Malawi Act 1989, Financial Services Act 2011, Money Laundering, Proceeds of Serious Crimes and Terrorist Financing Act, 2006 and RBM directives/prudential guidelines and all other relevant laws in Malawi and other territories in which it conducts operations.

5. RISK MANAGEMENT (continued)

Other risks (continued)

Compliance risk management

To achieve proper management of compliance risk, the Board has set limits and guidelines through policies on liquidity, credit, money laundering, etc. to ensure that management operates within limits and conditions set in the laws, regulations and directives issued by the government and the regulator. Senior management is responsible for effective management of compliance risk by implementing and instituting a risk management framework to identify, assess, monitor and control the compliance risk in the Group as well as to report to the Board on management of risk and compliance failures, if any, from time to time. Senior management reviews the compliance management framework, operational manuals and employee guidelines periodically for appropriateness and soundness.

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

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

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

Reputational risk

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

Reputational risk management

It is every employee's responsibility to ensure that the Group's reputation is guarded at all times. From product development stage, we ensure that all products have been vetted to ensure that they don't tarnish the Group's image. All employees and senior management are encouraged to report any negative publicity in newspapers, social media and the grapevine to ensure that any incorrect perceptions are corrected.

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

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

The Board and the Managing Director have the ultimate responsibility of managing reputation risk.

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

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

5. RISK MANAGEMENT (continued)

Strategic risk management

Strategic risk

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

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

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

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

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

6. FINANCIAL ASSETS AND LIABILITIES

Classification of financial assets and financial liabilities

The table below provides reconciliation between line items in the statement of financial position and categories of financial instruments.

CONSOLIDATED	Notes	Held for trading US$	Available for sale US$	Designated at fair value US$	Held to maturity US$	Loans and receivables US$	Other amortised cost US$	Carrying Value US$
31 December 2017								
Financial assets								
Cash and cash equivalents	7	–	–	–	–	499 167 446	–	499 167 446
Money market investments	8	–	–	–	161 819 258	–	–	161 819 258
Loans and advances to customers	9	–	–	–	–	350 516 403	–	350 516 403
Finance lease receivables	10	–	–	–	–	5 288 322	–	5 288 322
Derivative asset	11	34 789 390	–	–	–	–	–	34 789 390
Available-for-sale investments	41	–	4 254 012	–	–	–	–	4 254 012
Investments at fair value through profit or loss	13	–	–	7 184 758	–	–	–	7 184 758
		34 789 390	4 254 012	7 184 758	161 819 258	854 972 171	–	1 063 019 589
Financial liabilities								
Balances due to other banks	20	–	–	–	–	–	63 787 552	63 787 552
Customer deposits	21	–	–	–	–	–	874 615 899	874 615 899
Other payables	22	–	–	–	–	–	37 788 043	37 788 043
Subordinated debt	23	–	–	–	–	–	14 224 307	14 224 307
Loans payable	39	–	–	–	–	–	6 500 000	6 500 000
Redeemable preference shares	40	–	–	–	–	–	10 786 747	10 786 747
		–	–	–	–	–	1 007 702 548	1 007 702 548
31 December 2016								
Financial assets								
Cash and cash equivalents	7	–	–	–	–	116 985 147	–	116 985 147
Money market investments	8	–	–	–	95 417 660	–	–	95 417 660
Loans and advances to customers	9	–	–	–	–	174 922 963	–	174 922 963
Finance lease receivables	10	–	–	–	–	6 612 787	–	6 612 787
Derivative asset	11	26 500 000	–	–	–	–	–	26 500 000
Available-for-sale investments	41	–	37 452	–	–	–	–	37 452
Investments at fair value through profit or loss	13	–	–	4 388 848	–	–	–	4 388 848
		26 500 000	37 452	4 388 848	95 417 660	298 520 897	–	424 864 857
Financial liabilities		–	–	–	–	–	–	
Balances due to other banks	20	–	–	–	–	–	40 858 628	40 858 628
Customer deposits	21	–	–	–	–	–	311 399 009	311 399 009
Other payables	22	–	–	–	–	–	24 731 013	24 731 013
Subordinated debt	23	–	–	–	–	–	12 485 813	12 485 813
		–	–	–	–	–	389 474 463	389 474 463

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

6. FINANCIAL ASSETS AND LIABILITIES (continued)

Classification of financial assets and financial liabilities (continued)

SEPARATE	Notes	Held for trading US$	Designated at fair value US$	Held to maturity US$	Loans and receivables US$	Other amortised cost US$	Carrying Value US$
31 December 2017							
Financial assets							
Cash and cash equivalents	7	-	-	-	44 257	-	44 257
Investment in subsidiaries	14	-	-	-	-	123 128 045	123 128 045
		-	-	-	44 257	123 128 045	123 172 302
Financial liabilities							
Other payables	22	-	-	-	-	432 072	432 072
Intercompany loan	22	-	-	-	-	1 484 233	1 484 233
Loans payable	39	-	-	-	-	6 500 000	6 500 000
Redeemable preference shares	40	-	-	-	-	10 786 747	10 786 747
		-	-	-	-	19 203 052	19 203 052

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.

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

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.

6. FINANCIAL ASSETS AND LIABILITIES (continued)

Financial instruments measured at fair value – Fair value hierarchy

		2017 (US$)			2016 (US$)		
CONSOLIDATED	Notes	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Cash and cash equivalents	7	-	499 167 446	-	–	116 985 147	–
Money market investments	8	-	161 819 258	-	–	95 417 660	–
Loans and advances to customers	9	-	350 516 403	-	–	174 922 963	–
Finance lease receivables	10	-	5 288 322	-	–	6 612 787	–
Investments at fair value through profit or loss	13	7 184 758	-	-	4 388 848	–	–
		7 184 758	1 016 791 429	-	4 388 848	393 938 557	–
Separate							
Cash and cash equivalents	7	-	44 257	-	–	–	–
		-	44 257	-	–	–	–

7. CASH AND CASH EQUIVALENTS

	CONSOLIDATED		SEPARATE	
	2017 US$	2016 US$	2017 US$	2016 US$
Deposits with central banks	276 209 019	25 996 112	-	–
Balances with banks abroad	61 672 008	38 176 282	-	–
Placements with other banks	125 990 504	38 485 956	44 257	–
Cheques in course of clearing	255 716	951 560	-	–
Cash balances	35 040 199	13 375 237	-	–
	499 167 446	116 985 147	44 257	–

Deposits with central banks include US$37.9million (2016: US$21.2million) of statutory reserve balances not available for meeting the Group's daily operational requirements and which do not carry interest.

Balances with banks abroad relate to operating account balances domiciled at various correspondent banking institutions.

Placements with other banks relate to lending to other banks for a period of up to 3 months. Placements with other banks earn interest between 1 - 17% (2016: 1 - 26%).

8. MONEY MARKET INVESTMENTS

	CONSOLIDATED	
	2017 US$	2016 US$
Treasury Bills	**94 231 641**	81 725 535
Malawi Government Promissory Notes	**46 024 521**	13 634 180
Corporate Bonds	**15 933 150**	57 945
Local Registered Government Stocks	**5 629 946**	–
	161 819 258	95 417 660
Movement during the year was as follows:		
As at 1 January	**95 417 660**	72 249 159
On acquisition of a subsidiary (Note 34 (a))	**7 540 437**	–
Net movements	**58 861 161**	23 168 501
As at 31 December	**161 819 258**	95 417 660

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 Promissory notes, at a carrying amount of US$29.5 million as at 31 December 2017. 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%.

9. LOANS AND ADVANCES TO CUSTOMERS

	CONSOLIDATED	
	2017 US$	2016 US$
Loans and advances at amortised cost are receivable as follows:		
Maturing within 3 months	**127 272 759**	59 284 630
Maturing between 3 and 12 months	**59 776 261**	35 367 534
Maturing after 12 months	**176 249 512**	84 654 626
	363 298 532	179 306 790
Specific impairment allowances		
Balance at 1 January	**(1 723 720)**	(2 007 546)
On acquisition of subsidiary	**(5 180 867)**	–
Charge for the year **(Note 37)**	**(2 510 527)**	(455 954)
Customer balances offset against non-interest income	**(41 128)**	(370 556)
Effect of exchange rate differences	**1 985**	163 382
Write offs	**3 234 516**	946 954
Balance at 31 December	**(6 219 741)**	(1 723 720)
Collective impairment allowance		
Balance at 1 January	**(726 140)**	(587 293)
On acquisition of subsidiary	**(2 580 697)**	–
Transfer from loan loss reserve	**(308 670)**	–
Effect of exchange rate differences	**874**	47 796
Charge for the year **(Note 37)**	**(637 875)**	(186 643)
Balance at 31 December	**(4 252 508)**	(726 140)
Interest in suspense:		
Balance at 1 January	**(1 933 967)**	(2 191 582)
On acquisition of subsidiary	**(292 000)**	–
Effect of exchange rate differences	**2 369**	178 359
Interest suspended for the year	**(86 282)**	79 256
Balance at 31 December	**(2 309 880)**	(1 933 967)
Net Loans and advances to customers	**350 516 403**	174 922 963

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(l) (iii) and 37**.

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

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

10. FINANCE LEASE RECEIVABLES

	CONSOLIDATED	
	2017 US$	2016 US$
Investment in leases at amortised cost are receivable as follows:		
Maturing less than 1 year	**2 123 157**	3 774 689
Maturing between 1 and 5 years	**3 230 853**	3 298 663
Maturing after more than 5 years	**669 154**	218 309
	6 023 164	7 291 661
Specific impairment allowances		
Balance at 1 January	**(44 878)**	(387 469)
Charge for the year **(Note 37)**	**(176 466)**	(9 888)
Effect of exchange rate differences	**56**	31 533
Transfer	**-**	190 402
Write offs	**22 164**	130 544
Balance at 31 December	**(199 124)**	(44 878)
Collective impairment allowance		
Balance at 1 January	**(77 978)**	(47 239)
Effect of exchange rate differences	**97**	3 844
(Credit)/Charge for the year **(Note 37)**	**11 100**	(34 583)
Balance at 31 December	**(66 781)**	(77 978)
Interest in suspense:		
Balance at 1 January	**(556 018)**	(1 064 983)
Transfer	**-**	(190 402)
Effect of exchange rate differences	**681**	86 672
Interest suspended for the year	**86 400**	612 695
Balance at 31 December	**(468 937)**	(556 018)
Net finance lease receivables	**5 288 322**	6 612 787

11. DERIVATIVE ASSETS

	CONSOLIDATED	
	2017 US$	2016 US$
Foreign currency swaps	**34 789 390**	26 500 000
Movement during the year was as follows:		
As at 1 January	**26 500 000**	9 000 000
Additions	**59 789 390**	26 500 000
Maturities	**(51 500 000)**	(9 000 000)
As at 31 December	**34 789 390**	26 500 000
Funds under currency swap		
31-Dec-17		
US$10.0 million	**10 000 000**	–
US$10.0 million	**10 000 000**	–
US$10.0 million	**10 000 000**	–
EUR4.0 million	**4 789 390**	–
	34 789 390	–
31-Dec-16		
US$5.0 million	**-**	5 000 000
US$2.5 million	**-**	2 500 000
US$7.0 million	**-**	7 000 000
US$5.0 million	**-**	5 000 000
US$7.0 million	**-**	7 000 000
	-	26 500 000

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 Euro/US$ swap with Standard Bank South Africa with a principal amount of €4 million. 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	
		2017 US$	2016 US$	2017 US$	2016 US$
12(a)	**Tax expense**				
	Current year tax based on profits	**3 969 594**	4 052 272	**-**	-
	Origination and reversal of temporary differences (Note 24)	**3 724 284**	1 097 972	**-**	-
		7 693 878	5 150 244	**-**	-
12(b)	**Reconciliation of effective tax rate**				
	Operating Profit/(loss)	**42 552 041**	15 741 841	**(1 716 325)**	(21 414)
	Tax (using effective tax rate of 30% Consolidated 3% for Separate)	**12 765 612**	4 722 552	**(51 490)**	(642)
	Foreign companies tax differential	**(144 854)**	-	**46 341**	578
	Non-deductible expenses	**466 399**	656 598	**5 153**	64
	Gain on bargain purchase	**(5 596 786)**	-	**-**	-
	Losses not tax deductible	**644 355**	-	**-**	-
	Tax exempt income	**(440 848)**	(228 906)	**(4)**	-
		7 693 878	5 150 244	**-**	-
12(c)	**Income tax (recoverable)/payable**				
	As at 1 January	**(1 497 511)**	(1 388 417)	**-**	-
	Charges for the year	**3 969 594**	4 052 272	**-**	-
	Exchange rate difference	**(22 165)**	112 994		
	Paid during the year	**(7 116 058)**	(4 274 360)	**-**	-
	As at 31 December	**(4 666 140)**	(1 497 511)	**-**	-

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

	CONSOLIDATED	
	2017	2016
Current tax asset	**5 014 906**	1 497 511
Income tax payable	**(348 766)**	-
	4 666 140	1 497 511

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

Mauritius (net of foreign tax credit)	3%
Zimbabwe	25.75%
Malawi	30%
Botswana	22%
Mozambique	32%
Zambia	35%

* The tax rates for the foreign operations range from 22% to 35%. In Mauritius, the Company is subject to income tax at 15%. However, it is entitled to a foreign tax credit equivalent to 80% on the Mauritius tax liability or the actual foreign tax suffered.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

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	
	2017	2016
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	**0.3314**	0.2212
National Investment Trust Plc	**0.0829**	0.0470
Telekom Networks Malawi Plc	**0.0200**	0.0084
Market value (US$)		
Illovo Sugar Malawi Plc	**4 280 227**	2 856 983
National Investment Trust Plc	**2 136 908**	1 211 188
Telekom Networks Malawi Plc	**767 624**	320 677
	7 184 758	4 388 848
Change in fair value (US$)		
Balance at 1 January	**4 388 848**	6 949 816
Effect of Exchange rate difference	**(5 279)**	(565 601)
Movement in fair value (Note 33)	**2 801 189**	(1 995 367)
Balance at 31 December	**7 184 758**	4 388 848

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:

	Holding	US$
First Merchant Bank Plc	**100%**	**105 707 965**
Afcarme Zimbabwe Holdings (Private) Limited	**81%**	**17 420 080**
		123 128 045

During the year, the Company acquired a 100% shareholding in First Merchant Bank PLC ("FMB") a company incorporated in Malawi in exchange for the issue of its own shares to shareholders of FMB on a one-for-one basis as described in Notes 25 and 26.

The Company also entered into a Share Purchase Agreement with Barclays Bank Plc ("BBPLC") for the acquisition of 81% of the issued shares of Afcarme Zimbabwe Holdings (Private) Limited ("Afcarme"), a company with a majority shareholding in Barclays Bank Zimbabwe Limited ("BBZ"). Payment for the acquisition was made through cash consideration of US$6.6 million and 10 786 747 redeemable preference shares of US$1 each in the capital of the Company issued to BBPLC. Afcarme does not carry out any trade activities as its purpose is to solely hold the investment in the subsidiary, BBZ.

Fair value of net assets acquired and related gain on bargain purchase has been disclosed in **Note 34**.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

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	
	2017 US$	2016 US$
At fair value		
Balance as at 1 January	**1 214 105**	–
Reclassification from property and equipment	**–**	678 114
On acquisition of a subsidiary (Note 34)	**5 145 000**	–
Effect of Exchange rate difference	**(15 610)**	–
Change in fair value	**–**	535 991
Balance as at 31 December	**6 343 495**	1 214 105

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.

16. INTANGIBLE ASSETS

	CONSOLIDATED	
	2017 US$	2016 US$
Cost		
As at 1 January	**10 175 792**	8 793 222
Transfer	**380 428**	–
Disposals	**–**	(37 955)
Effect of Exchange rate difference	**338 405**	(1 157 333)
On acquisition of subsidiary	**1 429 351**	–
Additions	**1 712 093**	2 577 858
As at 31 December	**14 036 069**	10 175 792
Accumulated amortisation		
As at 1 January	**3 595 415**	2 707 404
Effect of Exchange rate difference	**205 464**	(250 087)
Transfers	**20 757**	–
Charge for the year	**1 724 373**	1 138 098
As at 31 December	**5 546 009**	3 595 415
Carrying Amount	**8 490 060**	6 580 377

Intangible assets include computer software and website development measured at cost incurred on acquisition or development. An intangible asset has been recognised on acquisition of Barclays Bank Zimbabwe Limited 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 US$	Leasehold improvements US$	Motor vehicles US$	Motor vehicles - operating lease US$	Equipment, fixtures and fittings US$	Capital work in progress US$	Total US$
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**
Disposals	**–**	**–**	**(35 588)**	**–**	**(9 477)**	**–**	**(45 065)**
Transfers	**–**	**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**
Transfers	**–**	**–**	**–**	**–**	**(20 757)**	**–**	**(20 757)**
Effects of exchange rate changes	**22 133**	**42 169**	**33 922**	**–**	**(142 665)**	**–**	**(44 441)**
Charge on operating lease	**–**	**–**	**–**	**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**
Cost or valuation							
Balance at 1 January 2016	6 159 540	5 216 965	1 295 774	691 138	9 354 339	668 550	23 386 306
Additions	–	74 671	685 692	300 893	1 083 554	450 557	2 595 367
Effects of exchange rate changes	(242 573)	(494 506)	(151 072)	(56 248)	(576 095)	(29 199)	(1 549 693)
Revaluation surplus	631 137	339 842	–	–	–	–	970 979
Disposals	(27 181)	–	(122 667)	–	(17 004)	(202 617)	(369 469)
Transfers	(678 114)	280 198	–	–	(125 570)	(154 628)	(678 114)
Balance at 31 December 2016	**5 842 809**	**5 417 170**	**1 707 727**	**935 783**	**9 719 224**	**732 663**	**24 355 376**
Accumulated depreciation							
Balance at 1 January 2016	**331 395**	**767 609**	**720 506**	**43 344**	**5 976 984**	**–**	**7 839 838**
Charge for the year	156 161	348 506	260 750	–	1 060 916	–	1 826 333
Released on disposal	(668)	–	(116 404)	–	(17 004)	–	(134 076)
Effects of exchange rate changes	7 389	(62 526)	(86 079)	(3 527)	(286 604)	–	(431 347)
Charge on operating lease	–	–	–	192 193	–	–	192 193
Eliminated on revaluation	(198 845)	(80 423)	–	–	–	–	(279 268)
Balance at 31 December 2016	**295 432**	**973 166**	**778 773**	**232 010**	**6 734 292**	**–**	**9 013 673**
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)

Registers of land and buildings giving details are maintained at the registered offices of the companies in the group and are open for inspection by members or their duly authorised agents. Property and equipment were subjected to impairment testing by way of internal evaluation of obsolescence of equipment.

Revaluation takes place at least every 3 years. The freehold properties and leasehold improvements of First Merchant Bank Plc were last revalued on 31 December 2016 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 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 valuation approach adopted takes cognisance of the performance of the property market at the time of valuation. The approach relies on sales data and all relevant factors pertaining to the property market. The method recognises that property can be assembled, not only for occupation and use of the owner, but also to let to one or more tenants who will pay the owner rent for the right to the use and occupation of the property.

18. ASSETS HELD FOR SALE

	CONSOLIDATED	
	2017 US$	2016 US$
At fair value less costs to sell		
On acquisition of subsidiaries (Note 34)	**14 929 959**	–
Equipment	**–**	9 740
Share of post-acquisition profit in joint venture	**199 653**	–
	15 129 612	9 740

The Group is assessing offers from various potential buyers of the following:

- 50% shareholding held by Barclays Bank Zimbabwe Limited (a subsidiary of Afcarme) in Makasa Sun (Private) Limited in Zimbabwe.
- Property taken over by First Merchant Bank 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.

Both the joint venture and land and property related to closed branches of OIBM continue to be classified as current assets held for sale as management's assessment is that in all cases a sale transaction is highly probable.

19. OTHER ASSETS

	CONSOLIDATED		SEPARATE	
	2017 US$	2016 US$	2017 US$	2016 US$
Prepayments	**1 217 591**	1 276 471	**976**	7 275
Dividend receivable	**9 529**	4 770	**–**	–
Stock of stationery	**126 808**	138 873	**–**	–
Stock of computer spares and other items	**163 669**	155 204	**–**	–
Non-customer treasury account	**6 043 667**	–	**–**	–
Other receivables	**8 555 237**	1 409 850	**–**	–
	16 116 501	2 985 168	**976**	7 275
Current	**14 073 501**	2 985 168	**976**	7 275
Non-current	**2 043 000**	–	**–**	–
	16 116 501	2 985 168	**976**	7 275

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

20. BALANCES DUE TO OTHER BANKS

	CONSOLIDATED	
	2017 US$	2016 US$
European Investment Bank	**8 010 664**	11 952 040
Other banks	**55 776 888**	28 906 588
	63 787 552	40 858 628
Payable as follows:		
Due within one year	**58 357 049**	32 024 044
Due between two and five years	**5 430 503**	8 834 584
	63 787 552	40 858 628

All balances due to other banks are stated at amortised cost. Balances due to other banks represent short term borrowings by the Group and a Currency Swap liability which First Merchant Bank Plc (FMB) entered into with the Reserve Bank of Malawi (RBM) in which the FMB received Malawi Kwacha from RBM. The liability outstanding as at end of the reporting period was US$36.6 million (2016: US$27.8 million). The corresponding asset under the arrangement has been disclosed under **Note 11**.

The credit line facility with European Investment Bank (EIB) was made available to FMB 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 instalments ending on 15 March 2019.

21. CUSTOMER DEPOSITS

	CONSOLIDATED	
	2017 US$	2016 US$
Current accounts	**567 228 438**	88 398 396
Savings accounts	**38 923 632**	19 725 690
Foreign currency accounts	**106 911 638**	75 831 981
Term deposit accounts	**159 835 149**	126 707 986
Interest payable on deposits	**1 717 042**	734 956
	874 615 899	311 399 009
Payable as follows:		
Maturing within three months	**793 976 348**	266 171 019
Maturing after three months	**80 639 551**	45 227 990
	874 615 899	311 399 009

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	
	2017 US$	2016 US$	2017 US$	2016 US$
Accrued expenses	**9 665 369**	2 856 932	**186 161**	9 640
Bankers Cheques issued	**9 229 535**	1 209 438	**-**	-
Bills payable	**1 383 182**	1 744 902	**-**	-
Interest payable	**1 114 381**	811 186	**243 247**	-
Margins on LCs	**10 653 492**	15 466 024	**-**	-
Trade payables	**5 742 084**	2 642 531	**2 664**	223
Due to group company	**-**	-	**1 484 233**	18 726
	37 788 043	24 731 013	**1 916 305**	28 589

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	
	2017 US$	2016 US$
Carrying amount	**14 224 307**	12 485 813
Movement during the year:		
As at 1 January	**12 485 813**	-
Additions	**1 519 479**	12 485 813
Repayment	**-**	-
Unamortised issue cost	**(29 660)**	-
Effects of changes in exchange rate	**248 675**	-
As at 31 December	**14 224 307**	12 485 813

(a) On 3 June 2016, FMB 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) Capital Bank Botswana (CBB) a subsidiary of FMB, issued P30 million (US$3 038 958), floating rates notes maturing on 18 January 2022 which earn interest at 70 basis points below the bank rate for the first 5 years, and thereafter at 20 basis points below the bank rate. During the year, CBB also issued P15 million (US$1 519 479) floating rate notes maturing on 1 July 2027 and earning interest at 270 basis points above the bank rate. CBB has an early optional redemption date of 18 January 2022 subject to prior written consent from the Bank of Botswana.

(c) The subordinated debt notes constitute direct, subordinated and unsecured obligations of FMB and CBB respectively. The notes rank *pari passu* among themselves and are subordinated to general creditors and claims of depositors.

24. DEFERRED TAX

CONSOLIDATED	Opening Balance US$	Recognised in profit or loss (Note 12(a)) US$	Recognised in other comprehensive income US$	Transferred on acquisition US$	Effect of Changes in exchange rate rate US$	Closing balance US$
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**
2016						
Property and equipment	854 113	511 074	–	–	(215 405)	1 149 782
Accrued income	1 452 174	578 666	–	–	(118 183)	1 912 657
Revaluation of property	322 534	–	126 243	–	(26 249)	422 528
Tax losses	–	(475 254)	–	–	(25 111)	(500 365)
Gratuity and severance pay liabilities	(158 069)	(265 839)	–	–	12 864	(411 044)
Subordinated debt revaluation	(911 442)	837 265	–	–	74 177	–
Other temporary differences	91 893	(87 940)	–	–	(141 498)	(137 545)
	1 651 203	**1 097 972**	**126 243**	**-**	**(439 405)**	**2 436 013**

No deferred tax has been recognised for the Company on carried forward losses due to uncertainty of future taxable profits.

25. SHARE CAPITAL AND SHARE PREMIUM

25 (a) Share capital

	CONSOLIDATED		SEPARATE	
	2017 US$	2016 US$	2017 US$	2016 US$
Issued and fully paid up				
2 336 250 000 Ordinary shares of no par value	**105 707 965**	161 497	**105 707 965**	100
	105 707 965	161 497	**105 707 965**	100

On 31 July 2017, a takeover offer ("Offer") was made by FMBcapital Holdings Plc ("FMBCH") to shareholders of First Merchant Bank Plc ("FMB"), a company which was listed on the Malawi Stock Exchange until its delisting on 18 December 2017 **(Note 14)**. The terms of the Offer required the shareholders of FMB 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.

25 (b) Share premium

Premiums from the issue of shares are reported in the share premium.

On 19 June 2006, following an initial public offer by First Merchant Bank Plc, 225 000 000 ordinary shares were allotted at a premium. The resultant premium on issue less offer expenses was credited to share premium account.

In 2009, FMB issued by way of bonus issue from retained earnings, 111 250 000 ordinary shares giving rise to a share premium which was also credited to the share premium account.

Upon the takeover of FMB by FMBCH, the share premium account has been transferred to Restructuring reserve.

26. RESTRUCTURING RESERVE

The takeover of First Merchant Bank Plc 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 FMB issued shares, share premium, and accumulated non-statutory reserves at date of share exchange.

Restructuring reserve comprise:

	US$
Historical cost of 2 336 250 000 shares	161 497
Share premium	2 164 142
Fair value of 2 336 250 000 shares at the completion of share exchange	(105 707 965)
Net increase	(103 382 326)
Adjustment for reserves prior to restructuring	
Property revaluation reserve	4 766 722
Translation reserve	3 467 428
Retained earnings	40 637 553
	(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 Accounting Standards (IAS) 39 Financial Instruments: Recognition and Measurement).

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 FMB and the shares of LFC were cancelled as of 31 December 2017. The reserve was transferred to FMB's retained earnings during the year.

30. TRANSLATION RESERVE

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

31. GROUP SUBSIDIARIES

As at 31 December 2017, the Company had the following subsidiaries:

Subsidiary	Domicile	Shares held by FMBCH	Sub-subsidiary	Domicile	Shares held by subsidiary 2017	Shares held by subsidiary 2016
First Merchant Bank Plc	Malawi	100.00%	Capital Bank S.A	Mozambique	**80.00%**	70.00%
			Capital Bank Limited	Botswana	**38.60%**	38.60%
			First Capital Bank Zambia Limited	Zambia	**49.00%**	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%
			The Leasing and Finance Company of Malawi Limited	Malawi	**-**	100.00%
Afcarme Zimbabwe Holdings (Private) Limited	Zimbabwe	81.00%	Barclays Bank of Zimbabwe Limited	Zimbabwe	**52.68%**	-

31 (a) Acquisition of First Merchant Bank Plc

During the year, on completion of an offer to FMB shareholders, all shares in FMB were exchanged with an equal number of new shares issued by FMBCH and FMB became a wholly owned subsidiary of FMBCH.

31 (b) Acquisition of Afcarme Zimbabwe Holdings (Private) Limited

On 10 October 2017 FMBcapital Holdings PLC acquired 81% of the issued share capital of Afcarme Zimbabwe Holdings (Private) Limited the majority shareholder in Barclays Bank of Zimbabwe Limited whilst Barclays Bank PLC retains 19% shareholding in Afcarme.

Fair value of net assets acquired and gain on bargain purchase have been disclosed under **Note 34**.

31. GROUP SUBSIDIARIES (continued)

31 (c) Non-controlling interest in subsidiaries

2017	Afcarme	Capital Bank Mozambique	Capital Bank Botswana	First Capital Bank Zambia	Total
NCI percentage and voting rights	57.32%	30%	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
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

31. GROUP SUBSIDIARIES (continued)

31 (c) Non-controlling interest in subsidiaries (continued)

2016	Capital Bank Mozambique	Capital Bank Botswana	First Capital Bank Zambia	Total
NCI percentage and voting rights	**30%**	**61.40%**	**51%**	
Cash and cash equivalents	9 067 582	59 115 125	15 031 647	83 214 354
Money Market Investments	798 838	14 192 730	6 721 384	21 712 952
Loans and Advances to Customers	11 424 848	76 957 108	28 076 704	116 458 660
Other assets	188 148	538 249	99 690	826 087
Current Tax Asset	447 715	–	568 927	1 016 642
Intangible Assets	424 393	908 980	814 147	2 147 520
Investment Property	–	–	1 214 105	1 214 105
Property and Equipment	878 208	2 220 484	1 363 693	4 462 385
	23 229 732	**153 932 676**	**53 890 297**	**231 052 705**
Liabilities				
Customer Deposits	17 135 960	133 507 027	40 982 103	191 625 090
Balances Due to Other Financial Institutions	–	–	514 439	514 439
Other Payables	438 313	1 639 600	1 824 206	3 902 119
Income Tax Payable	–	57 936	–	57 936
Deferred Tax Liabilities	–	313 952	–	313 952
Subordinated debt	–	2 808 091	–	2 808 091
	17 574 273	**138 326 606**	**43 320 748**	**199 221 627**
Net Assets	5 655 459	15 606 070	10 569 549	31 831 078
Net assets attributable to NCI	1 696 638	9 582 127	5 390 470	16 669 235
Carrying amount of NCI	1 696 638	9 582 127	5 390 470	16 669 235
Interest income	3 335 280	7 627 619	5 555 914	16 518 813
Interest expense on deposits and other accounts	(1 391 210)	(1 890 845)	(2 550 392)	(5 832 447)
Net interest income	**1 944 070**	**5 736 774**	**3 005 522**	**10 686 366**
Fees and commissions	463 847	1 976 461	1 720 312	4 160 620
Gain on foreign exchange transactions	2 081 858	957 687	1 079 223	4 118 768
Total operating income	**4 489 775**	**8 670 922**	**5 805 057**	**18 965 754**
Staff and training costs	1 892 092	2 921 554	2 199 204	7 012 850
Premises and equipment costs	1 047 409	878 120	858 417	2 783 946
Depreciation expense	398 704	500 497	482 317	1 381 518
Other expenses	561 924	1 229 785	1 334 992	3 126 701
Impairment loss on loans and advances	256 117	279 207	94 786	630 110
Total expenses	**4 156 246**	**5 809 163**	**4 969 716**	**14 935 125**
Profit before income tax expense	333 529	2 861 759	835 341	4 030 629
Income tax expense	–	679 768	205 633	885 401
Profit for the year	**333 529**	**2 181 991**	**629 708**	**3 145 228**
Profit allocated to NCI	100 059	1 339 742	321 152	1 760 953

32. INTEREST INCOME

	CONSOLIDATED		SEPARATE	
	2017 US$	2016 US$	2017 US$	2016 US$
Loans and advances	**34 496 126**	28 729 167	**-**	-
Lease finance	**1 844 148**	1 976 663	**-**	-
Treasury bills	**19 782 850**	9 900 778	**-**	-
Placement with other banks	**3 583 255**	2 730 155	**1 392**	-
Promissory notes	**4 000 971**	3 671 902	**-**	-
	63 707 350	47 008 665	**1 392**	-

33. INCOME FROM INVESTMENTS

	CONSOLIDATED	
	2017 US$	2016 US$
Dividend income	**426 508**	96 370
Movement in fair value of investments (Note 13)	**2 801 189**	(1 995 367)
	3 227 697	(1 898 997)

34. GAINS ON BARGAIN PURCHASES

	Afcarme Zimbabwe Holdings (Private) Limited US$	Opportunity International Bank Malawi Ltd US$	Total 2017 US$
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 during the year; Afcarme Zimbabwe Holdings (Private) Limited (by FMBcapital Holdings Plc) and Opportunity International Bank Malawi Limited (by First Merchant Bank Plc). 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)

34 (a) Fair value of net assets acquired

	Afcarme Zimbabwe Holdings (Private) Limited US$	Opportunity International Bank Malawi Ltd US$	Total 2017 US$
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 income statement within the "Other expenses" line (see Note 36).

Fair values of assets and liabilities are the best estimates as determined by directors. The initial accounting for acquisition remains subject to retrospective adjustment until 11 October 2018, the end of the measurement period as fair values of net assets acquired have only been provisionally determined at the acquisition date.

Included in the consolidated profit the year, is US$4.1 million 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.

34. GAIN ON BARGAIN PURCHASE (continued)

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

	Afcarme Zimbabwe Holdings (Private) Limited US$	Opportunity International Bank Malawi Ltd US$	Total US$
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	
	2017 US$	2016 US$	**2017 US$**	2016 US$
Salaries and wages	**20 138 910**	10 697 572	**-**	-
Training and other staff costs	**5 228 654**	4 327 502	**-**	-
Contributions to defined contribution plans	**739 436**	594 102	**-**	-
	26 107 000	15 619 176	**-**	-

36. OTHER EXPENSES

	CONSOLIDATED		SEPARATE	
	2017 US$	2016 US$	**2017 US$**	2016 US$
Auditor's remuneration	**544 747**	437 321	**25 000**	4 600
Bank charges	**1 165 969**	730 055	**965**	223
Directors' expenses	**64 504**	145 085	**-**	-
Directors' remuneration	**601 849**	394 437	**33 918**	-
Donations	**27 606**	9 394	**-**	-
Electricity	**363 126**	383 032	**-**	-
Fines and penalties	**199 734**	227 817	**-**	-
Fuel	**19 613**	18 102	**-**	-
Insurance	**859 836**	235 615	**-**	-
Legal and consultancy fees	**245 243**	378 950	**-**	-
Marketing costs	**949 741**	715 084	**-**	-
Motor vehicle running costs	**449 275**	254 534	**-**	-
Operational losses	**159 808**	549 713	**-**	-
Other administration costs	**1 906 834**	550 320	**57 495**	16 591
Postage	**720 205**	216 566	**-**	-
Printing and stationery	**989 591**	774 662	**-**	-
Professional subscriptions	**144 106**	97 811	**-**	-
Repairs and maintenance	**796 590**	297 487	**-**	-
Restructuring and acquisition expenses	**2 035 972**	-	**1 235 113**	-
Telephone expenses	**561 485**	358 438	**-**	-
Travel expenses	**750 235**	600 408	**-**	-
Water	**59 486**	40 189	**-**	-
	13 615 555	7 415 020	**1 352 491**	21 414

37. IMPAIRMENT LOSS ON LOANS AND ADVANCES

	CONSOLIDATED	
	2017 US$	2016 US$
Impairment allowance on loans and advances:		
Credit impairment charge	**7 341 097**	2 473 842
Recoveries	**(4 192 695)**	(1 831 245)
	3 148 402	642 597
Impairment allowance on finance leases:		
Credit impairment charge	**187 883**	101 004
Recoveries	**(22 517)**	(56 533)
	165 366	44 471
Total impairment loss on financial assets	**3 313 768**	687 068
Comprising:		
Impairment allowance on loans and advances (Note 9):		
Net specific credit impairment charges	**2 510 527**	455 954
Collective credit impairment charges	**637 875**	186 643
	3 148 402	642 597
Impairment allowance on finance leases (Note 10):		
Net specific credit impairment charges	**176 466**	9 888
Collective credit impairment charges	**(11 100)**	34 583
	165 366	44 471
Total impairment loss on financial assets	**3 313 768**	687 068

38. PROVISIONS

	CONSOLIDATED	
	2017 US$	2016 US$
Opening balance on acquisition of subsidiary		
Staff retention incentive	**1 567 000**	–
Outstanding employee leave	**456 000**	–
	2 023 000	–
Net movement during the period		
Staff retention incentive	**468 445**	–
Outstanding employee leave	**(115 726)**	–
	352 719	–
Closing balance		
Staff retention incentive	**2 035 445**	–
Outstanding employee leave	**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, 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$	Due date
Premier Capital (Mauritius) Limited	**1 250 000**	**3 August 2023**
Prime Bank Limited	**3 250 000**	**3 August 2023**
Mrs Meeta Anadkat	**1 000 000**	**31 July 2023**
Pipal Limited	**1 000 000**	**1 August 2023**
	6 500 000	

40. REDEEMABLE PREFERENCE SHARES

During the year, 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 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
Preference Shares shall constitute unsecured and subordinated obligations of the Company and shall accordingly rank junior to all secured and unsubordinated creditors of the Company but ahead of ordinary shareholders. Preference Shares have been classified as a financial liability in the balance sheet.

41. AVAILABLE FOR SALE INVESTMENTS

	CONSOLIDATED 2017 US$	CONSOLIDATED 2016 US$
Equity instruments	**4 254 012**	37 452
Represented by		
Investment in Zimswitch Ltd	**4 208 887**	–
Investment in Sociedade Interbancária de Moçambique (SIMO)	**37 452**	37 452
Effects of exchange rate difference	**7 673**	–
	4 254 012	37 452

Available for sale assets represent shares held by banks in the group in local switch companies. Barclays Bank Zimbabwe Limited ("BBZ") holds 11.98% of the issued share capital of Zimswitch Limited and Capital Bank S.A. Mozambique ("CBM") holds 0.5% of SIMO's issued share capital.

Directors have used the dividend growth model to value BBZ'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 this financial asset 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 2017 was based on profit attributable to ordinary shareholders of US$30 304 809 (2016: US$8 830 644) and a weighted average number of ordinary shares outstanding of 2 336 250 000 (2016: 2 336 250 000) calculated as follows:

	CONSOLIDATED 2017	CONSOLIDATED 2016
Profit attributable to owners of the company (US$)	**30 304 809**	8 830 644
Weighted average number of ordinary shares in issue	**2 336 250 000**	2 336 250 000
Basic and diluted earnings per share (US' cents)	**1.2972**	0.3780

43. DIVIDENDS

A final 2016 dividend equivalent to US$1 611 593 was declared and paid during the year by First Merchant Bank Plc. No interim dividend has been declared for the year ended 31 December 2017.

44. 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	2017 (US$)	2016 (US$)
First Merchant Bank Limited*	Shareholder	Current account	**1 465 507**	18 726
Minerva Fiduciary Services (Mauritius) Limited	Administrator and secretary	Administrative and secretary fees	**52 277**	14 150
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**	–

Outstanding balances with related parties as at 31 December 2017 are as follows:

Name of related parties	Relationship	Nature of transactions	2017 (US$)	2016 (US$)
First Merchant Bank Limited*	Shareholder	Current account	**1 484 233**	18 726
Minerva Fiduciary Services (Mauritius) Limited	Administrator and secretary	Administrative and secretary fees	**2 564**	14 150
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**	

* As at 31 December 2017, the First Merchant Bank Plc ("FMB") paid US$1 484 233 on behalf of FMBcapital Holdings Plc ("FMBCH"). This amount represents expenses incurred by the FMB 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

44. RELATED PARTY TRANSACTIONS (continued)

Related party transactions of First Merchant Bank Plc

There were banking and other transactions that were entered into by First Merchant Bank Plc and its related parties in the normal course of business. These include loans, deposits and dividends received. Outstanding balances and the related interest income, interest expense and fees were eliminated as intercompany transactions on consolidation of FMB Plc as follows:

	2017 (US$)	2016 (US$)
Balances due to other financial institutions	**15 000 000**	-
Placements by group companies	**3 385 863**	-
Customer deposits	**1 480 223**	553 576
Net interest income	**627 486**	14 388
Ledger fees and commissions	**(54 502)**	36 095
Dividends received	**339 464**	567 275
FMB Capital Markets Limited	**-**	374
Capital Bank Limited, Botswana	**-**	267 834
First Capital Bank Limited, Zambia	**100 590**	74 965

During the year First Merchant Bank Plc obtained US$15 million from Capital Bank Limited (Botswana) as interbank placement at 6.5% pa interest rate. The amount was outstanding at year end. Capital Bank S.A. Mozambique placed a total of US$3 285 863 deposit with First Capital Bank Limited (Zambia) at interest rates ranging from 2.75% to 4% pa.

Customer deposits comprise current and term deposit accounts for Leasing and Finance Company of Malawi Limited and FMB Capital Markets Limited maintained by First Merchant Bank Limited.

During the year, Capital Bank Limited (Botswana) paid a dividend of US$339 464 (2016: US$567 275) to First Merchant Bank Plc.

	CONSOLIDATED		SEPARATE	
Directors' fees and expenses	2017 US$	2016 US$	2017 US$	2016 US$
Directors' remuneration	**601 849**	394 437	**33 918**	-
Directors' expenses	**64 504**	145 085	**-**	-

45. 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 segment, 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 wide spectrum of individual and corporate customers in Malawi.
- Other operating segments represent asset management.

45. SEGMENTAL REPORTING (continued)

2017	Corporate and retail	Asset finance	Others	Consolidation adjustments	Total (US$)
Net interest income	41 794 935	1 970 924	(340 449)	–	43 425 410
Fees and commissions	22 063 522	290 282	36 167	–	22 389 971
Income from investments	3 227 697	–	–	–	3 227 697
Gain on bargain purchase	71 953	–	–	18 584 000	18 655 953
Gain on foreign exchange transactions	10 106 665	–	–	–	10 106 665
Total operating income	77 264 772	2 261 206	(304 282)	18 584 000	97 805 696
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	24 302 874	1 147 694	1 681 897	18 584 000	43 352 671
Share of profit of joint venture	199 370	–	–	–	199 370
Profit before income tax expense	24 502 244	1 147 694	(1 681 897)	18 584 000	42 552 041
Income tax expense	(7 315 766)	(368 536)	(9 576)	–	(7 693 878)
Profit for the year	17 186 478	779 158	(1 691 473)	18 584 000	34 858 163
Other comprehensive income					
Deferred tax on revalued property	–	4 354	–	–	4 354
Other movements	1 904 721	10 955	–	–	1 915 676
Total other comprehensive income for the year	1 904 721	15 309	–	–	1 920 030
Total comprehensive income for the year	19 091 199	794 467	(1 691 473)	18 584 000	36 778 193
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

45. SEGMENTAL REPORTING (continued)

2016	Corporate and retail	Asset finance	Others	Consolidation adjustments	Total (US$)
Net interest income	27 510 453	1 567 441	19 651	-	29 097 545
Fees and commissions	12 662 016	289 484	45 686	(14 406)	12 982 780
Income from investments	(1 331 007)	-	-	(567 990)	(1 898 997)
Gain on foreign exchange transactions	7 238 566	-	-	-	7 238 566
Total operating income	46 080 028	1 856 925	65 337	(582 396)	47 419 894
Staff and training costs	(15 230 566)	(388 610)	-	-	(15 619 176)
Premises and equipment	(4 975 737)	(14 135)	(2 486)	-	(4 992 358)
Depreciation and amortisation	(2 926 854)	(35 849)	(1 728)	-	(2 964 431)
Other expenses	(7 218 089)	(183 801)	(27 536)	14 406	(7 415 020)
Impairment of financial assets	(642 596)	(44 472)	-	-	(687 068)
Total expenditure	(30 993 842)	(666 867)	(31 750)	14 406	(31 678 053)
Profit before income tax expense	15 086 186	1 190 058	33 587	(567 990)	15 741 841
Income tax expense	(4 774 319)	(362 841)	(13 084)	-	(5 150 244)
Profit for the year	**10 311 867**	**827 217**	**20 503**	**(567 990)**	**10 591 597**
Other comprehensive income					
Revaluation surplus on property	1 214 200	36 047	-	-	1 250 247
Deferred tax on revalued property	(123 878)	(1 941)	-	-	(125 819)
Other movements	2 235 040	-	-	-	2 235 040
Total other comprehensive income for the period	**3 325 362**	**34 106**	**-**	**-**	**3 359 468**
Total comprehensive income for the period	**13 637 229**	**861 323**	**20 503**	**(567 990)**	**13 951 065**
Total segment assets	449 817 979	16 117 121	1 357 566	(14 799 205)	452 493 461
Total segment liabilities	380 694 429	12 468 899	6 432	(1 259 284)	391 910 476

45. SEGMENTAL REPORTING (continued)

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

	Holding company	First Merchant Bank Plc				Afcarme		
2017	Mauritius US$	Malawi US$	Mozam-bique US$	Botswana US$	Zambia US$	Zimbabwe US$	Adjust-ment US$	Consoli-dated US$
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	9 722 160	525 478	2 279 225	2 390 715	7 508 167	(54 500)	22 389 971
Income from investments	–	3 207 261	–	–	–	359 886	(339 450)	3 227 697
Gain from bargain purchase	–	71 953	–	–	–	–	18 584 000	18 655 953
Gain on foreign exchange transactions	–	2 295 262	587 872	1 670 262	2 329 744	3 223 525	–	10 106 665
Total operating income	(345 772)	37 114 177	3 740 188	12 242 059	10 035 311	16 829 683	18 190 050	97 805 696
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)	15 140 830	(2 147 773)	3 569 702	3 714 599	5 547 088	18 244 550	42 352 671
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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

45. SEGMENTAL REPORTING (continued)

2016	Malawi US$	Mozambique US$	Botswana US$	Zambia US$	Adjustments US$	Total US$
Net interest income	18 411 177	1 944 071	5 736 775	3 005 522	–	29 097 545
Fees and commissions	8 836 566	463 846	1 976 460	1 720 312	(14 404)	12 982 780
Income from investments	(1 331 008)	–	–	–	(567 989)	(1 898 997)
Gain on foreign exchange transactions	3 119 798	2 081 858	957 688	1 079 222	–	7 238 566
Total operating income	29 036 533	4 489 775	8 670 923	5 805 056	(582 393)	47 419 894
Staff and training costs	(8 606 326)	(1 892 093)	(2 921 554)	(2 199 203)	–	(15 619 176)
Premises and equipment	(2 437 324)	(1 047 409)	(649 208)	(858 417)	–	(4 992 358)
Depreciation and amortisation	(1 582 914)	(398 704)	(500 496)	(482 317)	–	(2 964 431)
Other expenses	(4 073 813)	(561 924)	(1 458 697)	(1 334 992)	14 406	(7 415 020)
Impairment of financial assets	(56 959)	(256 117)	(279 206)	(94 786)	–	(687 068)
Total expenditure	**(16 757 336)**	**(4 156 247)**	**(5 809 161)**	**(4 969 715)**	**14 406**	**(31 678 053)**
Profit before income tax expense	12 279 197	333 528	2 861 762	835 341	(567 987)	15 741 841
Income tax expense	(4 264 842)	–	(679 770)	(205 632)	–	(5 150 244)
Profit for the year	**8 014 355**	**333 528**	**2 181 992**	**629 709**	**(567 987)**	**10 591 597**
Total segment assets	236 090 767	23 229 731	153 932 675	54 039 492	(14 799 204)	452 493 461
Total segment liabilities	193 798 930	17 574 279	138 326 607	43 469 943	(1 259 283)	391 910 476

06

SHAREHOLDER INFORMATION

SHAREHOLDERS' STATS

Industry Statistics

Industry	Holders	Holders %	Total Shares	Total Shares %
Foreign Companies	12	0,70	1 755 099 593	75,12
Local Companies	54	3,20	198 436 755	8,49
Other Resident Individuals	6	0,40	107 510 252	4,60
Citizen Resident Individuals	1 405	82,30	101 023 957	4,32
Investment Companies & Trusts	27	1,60	77 301 909	3,31
Pension Funds	22	1,30	48 127 679	2,06
Holding Company	1	0,10	13 116 970	0,56
Insurance Companies	3	0,20	11 253 916	0,48
Banks	3	0,20	9 328 408	0,40
Nominees Local	47	2,80	7 963 610	0,34
Non Residents	29	1,70	3 967 439	0,17
Other Organisations	6	0,40	1 162 271	0,05
Employees	78	4,60	1 176 675	0,05
Permanent Resident	2	0,10	603 983	0,03
Non Resident Citizens	3	0,20	155 383	0,01
Financials	1	0,10	17 000	0,00
Deceased Estates	1	0,10	4 200	0,00
	1 700	100,00	2 336 250 000	100,00

Country Statistics

Country	Holders	Holders %	Total Shares	Total Shares %
Angola	3	0,18	201 200	0,01
Botswana	1	0,06	20 000	0,00
Cayman Islands	1	0,06	990	0,00
Kenya	3	0,18	525 002 750	22,47
Malawi	1 621	95,35	509 440 143	21,81
Mauritius	1	0,06	766 266 044	32,80
Portugal	8	0,47	2 335 200	0,10
South Africa	3	0,18	36 015	0,00
United Kingdom	10	0,59	530 857 896	22,72
USA	6	0,35	665 268	0,03
Warrant Not Presentable	40	2,35	1 002 855	0,04
Zimbabwe	3	0,18	421 639	0,02
	1 700	100,00	2 336 250 000	100,00

Range Statistics

Range	Holders	Holders %	Total Shares	Total Shares %
1 - 5000	477	28,06	1 094 173	0,05
5001 - 10000	249	14,65	1 705 119	0,07
10001 - 25000	374	22,00	5 818 067	0,25
25001 - 50000	162	9,53	6 086 955	0,26
50001 - 100001	113	6,65	7 690 302	0,33
100001 - 200000	119	7,00	14 447 371	0,62
200001 - 500000	127	7,47	37 436 661	1,60
500001 - 1000000	29	1,71	21 510 763	0,92
1000001 and Above	50	2,94	2 240 460 589	95,90
	1 700	100,00	2 336 250 000	100,00

CORPORATE INFORMATION

FMBcapital Holdings plc (formerly known as FMB Capital Holdings plc)

		Date of appointment	Date of resignation
DIRECTORS:	Manogaran Thamothiram	16 March 2016	14 March 2018
	Poovazhagan Soobramanien	16 March 2016	18 April 2017
	Rajkamal Taposeea	18 April 2017	N/A
	Hitesh Natwarlal Anadkat	18 April 2017	N/A
	Terence Michael Davidson	18 April 2017	N/A
	Dheeraj Dikshit	18 April 2017	N/A
	John Michael O'Neill	18 April 2017	N/A
	Vedanand Singh Mohadeb	29 September 2017	N/A
	Francesco Ceccato	31 December 2017	N/A

SECRETARY/ADMINISTRATOR:

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Mauritius

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AUDITOR:

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