**Atlas Mara Limited** – Annual Financial Statements 2018

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http://atlasmara.com

# Atlas Mara at a glance

## Financial facts and figures

**Composition of loans and advances**
by business unit

A – Retail **62.4%**

B – Corporate **37.6%**

**Composition of loans and advances**
by country

A – Botswana **46.9%**

B – Zimbabwe **7.5%**

C – Mozambique 5.7**%**

D – Zambia **16.7%**

E – Rwanda **16.7%**

F – Tanzania **5.0%**

**Loans and advances** US$

**$1,154.1m** -13.2%

2017: $1,330.0m

**Deposits** US$

**$1,631.8m** -13.1%

2017: $1,877.5m

**Total equity** US$

**$688.9m**

2017: $813.2m

**Net book value per share** US$

**$3.83**

2017: $4.77

**Total number of customers (including UBN)**

**>5m**

# Operational facts and figures

| | Botswana | Mozambique | Zambia | Zimbabwe | Tanzania | Rwanda | Nigeria | Corporate |
|---|---|---|---|---|---|---|---|---|
| Employees | 425 | 278 | 831 | 382 | 532 | 1,000 | 2,600 | 30 |
| Customers ('000s) | 58 | 70 | 122 | 63 | 109 | 521 | 4,500 | - |
| ATMs | 14 | 22 | 166 | 35 | 9 | 96 | 246 | - |
| Number of physical locations | 8 | 10 | 105 | 19 | 109 | 186 | 105 | 1 |

**Total number of customers (excluding UBN)**

**~1m**

**Total number of ATMs[1]**

**342**

**Total number of physical locations**

**382**

**Note:**

1. Statistics exclude UBN's operational footprint (Atlas Mara owns 48.99%, which is accounted for as an investment in associate shareholding in UBN).

# Overview of our footprint

| | SADC | | | | EAC | | ECOWAS |
|---|---|---|---|---|---|---|---|
| | Botswana | Zambia | Zimbabwe | Mozambique | Rwanda | Tanzania | Nigeria[1] |
| Number of physical locations | 8 | 49 | 19 | 10 | 186 | 109 | 300 |
| Number of ATMs | 14 | 166 | 35 | 22 | 96 | 9 | 1,032 |
| Number of employees | 425 | 831 | 382 | 278 | 1,000 | 532 | 2,600 |
| Loans and advances $m | 541 | 193 | 87 | 66 | 192 | 57 | 1,545 |
| Customer deposits $m | 711 | 443 | 181 | 145 | 265 | 88 | 2,798 |

**Note:**

1. Nigeria operational footprint parameters represented by UBN total operations in country

**Sources:**

Atlas Mara, BPR Regulatory Submission documents, UBN management reports and annual reports, FY audited financials of BPR, Central Banks annual reports, Capital IQ.

# Chairman's introduction

Dear fellow shareholders,

This is my first letter to you since assuming the role of Chairman of Atlas Mara in February 2019. I welcome the opportunity to serve our shareholders and the Company in this leadership position, and I appreciate the support expressed by many of you since the announcement. I'm further grateful for the full support of the Board and management team, and for Bob Diamond's support and assistance in the transition. I accepted the responsibility recognizing the scale of the opportunities and challenges we face, and I am optimistic about the potential to achieve our strategic objectives.

## Update on Review of Strategic Options

In February, the Board of Atlas Mara announced that it was undertaking a review of strategic options, including an analysis of each banking operation to ensure that top five market leadership was practicably achievable in the near term, with the intention to focus on investments in such core markets, and to partner, exit or reduce risk exposure elsewhere.

Earlier today the Company announced a proposed share exchange transaction with Equity Group Holdings ("EGH") for our banks in Rwanda, Zambia, Mozambique, and Tanzania, which aligns clearly with this strategic objective. In 2018, the four banks contributed in aggregate less than 2% of Group net income with an implied aggregate return on equity of 2%, and represent substantial carrying costs in terms of capital and liquidity support. At $105.4 million of aggregate upfront consideration, we believe the proposed transaction represents fair value to the Company for these assets. Over time the proposed transaction is expected to be substantially value-enhancing for Atlas Mara, notwithstanding any potential near-term accounting loss as a result of the discount to gross book value. Atlas Mara will become a meaningful shareholder in one of Africa's most successful and well-run banks. The transaction will result in increased scale in two of the four markets (Rwanda and Tanzania) as a result of in-country mergers with EGH's local banks, and through the implementation of EGH's business model for digitally-driven banking, we expect these four banks will generate improved financial performance. The Board believes this transaction is in the best interests of Atlas Mara's shareholders and will enable us to maximize value from these assets.

With the closing of this transaction and concurrent initiatives to streamline the operating platform, Atlas Mara will be better positioned to deliver shareholder value.

## 2018 in review

Atlas Mara reported net profit attributable to shareholders of $39.7 million for the full year 2018, a decline of 12.6% from $45.4 million in 2017. Return on average equity increased from 5.6% to 6.3%. Financial performance in Nigeria and Zimbabwe exceeded management expectations, Botswana, Mozambique and Rwanda were in line, while Tanzania and Zambia lagged. On a consolidated basis, Zimbabwe's strong performance in local terms was undermined by the severe devaluation of the currency in the first quarter of 2019, which along with currency devaluations in other BancABC markets resulted in an aggregate $71.8 million impact to the Group's capital position from an unrealized loss on foreign currency translation, in Zimbabwe's case retroactively imposed as at 31 December 2018. As a result of Zimbabwe's and other currencies' impact on consolidated capital, as well as one-time IFRS 9 adjustments taken by all of our banks in 2018, book value per share declined from $4.77 at year-end 2017 to $3.83 at year-end 2018. IFRS 9 imposes a different approach to the treatment of loan impairments, and our results, like those of most banks across the EMEA region, have been impacted, including in a negative impact on retained earnings and capital. These factors led to a $124.3 million decrease in the Company's book value, despite the substantial net profit contribution for the year. However, as a result of the full adoption of IFRS 9 in 2018, we expect that future loan impairments will have a lesser impact on our financial results, and that the Company may benefit from recoveries going forward.

While we were not pleased with the financial impact of these two factors to the Group's capital, we believe they are non-recurring in nature. The underperformance across most of the BancABC banks during the year remains a concern, and we have taken immediate steps to address these performance challenges, including by way of the proposed transaction with EGH.

In a more positive light, UBN, our largest investment, delivered a strong performance in 2018, continuing the positive trend of operational improvements seen since Atlas Mara's investments were made in 2016 and 2017. For 2018, UBN's profit after tax increased 39% to 18 billion Nigerian Naira ($59 million), while returns on average tangible equity at the bank increased from 5.9% to 11.3% and bank NPLs declined to 8.1%. Amidst an improving environment for growth in the Nigerian economy, the bank achieved substantially increased profitability while delivering on the key strategic priorities for the year, which included disciplined balance sheet management, growth in retail deposits, an aggressive reduction of the NPL ratio, and optimizing the capital and funding structure including through an oversubscribed local bond issuance. Looking ahead, we remain positive about the near-term opportunities for UBN, and remain committed to supporting management's initiatives in pursuit of higher shareholder returns, which in 2019 include a program to make the cost structure more efficient without sacrificing customer service.

We ended 2018 having increased our shareholding in UBN to 49% from 44.5% in December 2017. After acquiring additional shares in the open market in recent months, as of 30 April 2019 we control, directly and indirectly, 49.7% of the shareholding in UBN. This increase aligns with our stated focus on UBN and underscores the importance of the bank to our plans.

Finally, I would note that in December 2018, the Company successfully completed the IPO of BancABC Botswana on the Botswana Stock Exchange, selling 20.5% to institutional and retail investors at a price to book value of 1.5x. The transaction was intended to strengthen BancABC Botswana's local market connectivity by providing a broad base of more than 450 domestic shareholders and served to illustrate the value of the Group's underlying banking operations not reflected in the share price of Atlas Mara.

**2019 and beyond**

Our key strategic priorities for 2019 include completing the proposed transaction with EGH, achieving our shareholding objectives at UBN, working with UBN's management to drive for further growth and profitability improvement at the bank, stabilizing Zimbabwe operations in the current macroeconomic environment, and fully streamlining the Atlas Mara platform to align with a simpler group structure. By delivering on these aims we can create an accelerated path to our return targets through a more narrowly focused and efficient platform. We share your frustration with the Company's share price and believe it does not represent the fundamental value of the Company. We remain committed to delivering value to shareholders and believe a streamlined Atlas Mara focused on growing our position in Nigeria and other core markets will be better equipped to execute our strategies.

With the strategic initiatives to be completed in 2019 – including the proposed transaction with EGH announced today, which will result in the relevant operations being classified as held for sale and deconsolidated from the Group – we expect greater than usual variability in our financial results over the course of this year. In light of these circumstances, and in line with our regulatory requirements, we will release financial results to the market on a six-month (as opposed to three-month) basis going forward.

We remain positive on what lies ahead. Our position in Nigeria is strong with a good management team and a path to accelerated growth. A shareholding in EGH, and the relationship that this represents with the leader in digital banking in Africa, can meaningfully enhance our value proposition across our operations. Our strategic review continues, but we believe the new Atlas Mara emerging from the proposed transaction is the right model for delivering value for shareholders over the long-term.

On behalf of the Board I want to thank our shareholders and all stakeholders for their continued support.

Michael Wilkerson
Chairman

# Chief Financial Officer's review of financial performance

### Performance Overview

2018 was a year in which we continued to pursue our strategy for delivering shareholder value, with a focus on operations and profitability, as well as increasing our share in UBN. We also saw sustained profit performance driven in large part by the performance of UBN.

Our adjusted operating profit for 2018 was $26.4 million versus the $37.0 million on a similar basis for 2017, representing a decrease of 28.5% on a constant currency basis (computing 2017 operating earnings on 2018 foreign exchange rates as a more appropriate year-on-year comparative). Adjusted operating profit excludes certain non-recurring revenues and costs that are not part of the ongoing earnings base, to make us more comparable to other market peers by separately identifying and excluding one-off gains and charges, including acquisition costs, integration of businesses, etc.

Excluding one-off and transaction-related expenses or gains, our cost to income ratio was 99.3% versus the comparable figure in 2017 of 82.0%, driven primarily by a decrease in total income more than an increase in expenses.

Overall the returns being generated by the business remain below the level to which we aspire, but there is a positive trajectory. We remain committed to improving the ROE realized by the business.

2018 represents the first year where the full impact of IFRS 9 Financial Instruments have been included in the Group results, and the impact negatively affected a number of key lines in the financial statements, including the loan book, financial investments and our investment in UBN, which in turn negatively impacted book value, without 2017 being restated. The impact of IFRS 9 has been seen across the industry in all our countries of operation as all banks reported higher portfolio or general impairments compared to IAS 39 and higher coverage ratios on all stages.

In October 2018, the Reserve Bank of Zimbabwe (RBZ) instructed banks to separate bank accounts into FCA Nostro (USD balances) and FCA RTGS (RTGS balances). This confirmed the position in Zimbabwe that both USD and RTGS were legal tender and that the different currencies could have different values, even though the official exchange rate remained 1:1 through the end of 2018. During February 2019, further clarification was provided as the exchange rate was formally moved to 2.5: $1.

In line with the general market practice, we included the assets and liabilities of our Zimbabwean operations in our statement of financial position using an exchange rate of 2.5: $1 whereas this was previously included at a rate of 1:1, while income has been included at 1: 1 vs an average exchange rate, as the impact of such a change was deemed immaterial.

At the end of the year our book value was $3.83 per share (December 2017: $4.77) and our tangible book value was $3.00 per share (December 2017: $3.87). The main contributors to this reduction in year-on-year book value is the impact of IFRS 9 for both our operating subsidiaries and our share of the impact reported by UBN. The currency change in Zimbabwe, which became effective 31 December 2018 for accounting purposes, further impacted the situation.

Looking to 2019, following the announcement of the proposed transaction with EGH and our continued efforts to increase our shareholding in UBN, we expect results throughout the year to be negatively impacted by the impact of deconsolidation of those subsidiaries, earmarked for disposal during the next 12 months, and the possible consolidation of UBN. This will be driven mostly by the realisation of cumulative translation losses booked and the write down of goodwill and intangible assets associated with the business combination at the time of the acquisition of these investments.

### Statement of comprehensive income review

Total income for the year ended 31 December 2018

| $'m | 2018 | 2017 | CC Var % |
|---|---|---|---|
| Net interest income | 132.6 | 145.3 | (12.1) |
| Non-interest income | 98.8 | 115.2 | (17.9) |
| **Total income** | **231.4** | **260.5** | **(14.7)** |

Atlas Mara reported a reduction in total income of 11.2% (14.7% on a ccy basis) as a result of decline in net interest income and non-interest revenue.

### Net interest income

Net interest income declined by 12.1% on a constant currency basis, mainly driven by the decline in interest income on loans, as a result of contraction of the loan book, lower margins and market illiquidity experienced in a number of the operating countries.

Interest expense declined by 5% compared to the prior period as a result of decline in deposits. The decline in interest income was negated by the decline in interest expense.

The net interest margin at 7.3% (2017: 6.8%) benefited from the reduction in earning assets driven by the impact of IFRS 9 and the continued focus on managing the risk appetite for credit growth given the more challenging economic conditions across the sub-Saharan Africa region.

Although improved cost of funds continues to be a key focus area for the Group, in the markets where we experienced liquidity pressures, specifically relating to local currency shortages, there continues to be pressure on loan growth and the cost of funding.

### Non-interest income

Non-interest income declined in 2018 by 14.2% to $98.8 million (2017: $115.2 million) mainly as a result of decline in net trading revenue and lower fee and commission income and other income.

The decline in trading revenue is attributable to depressed trading volumes and reduced trading activity at the SSC level.

### Total expenses

Total costs of $229.8 million, excluding one-offs, represented an increase of 7.6%, with this increase mostly attributable to increased costs in the countries of operation, specifically in Zimbabwe where inflation increased to approximately 20% during Q4, driven by the acute foreign exchange shortages which triggered fuel and basic goods shortages, in the process, partially reversing the positive economic gains that had been experienced earlier during the year.

Shared Services and Centre costs increased but remain under control, increasing to $30.2 million from $29.0 million. The Group continues to focus on driving these costs lower.

Staff costs remained relatively constant at $96.8 million (2017: $99.8 million) for the year, but the contribution to total expenditure has reduced to 40.2%. On an adjusted operating profit basis, Atlas Mara reported a cost to income ratio of 99.3% (2017: 82.0%), compared to 104.0% (2017: 85.8%) on an IFRS basis.

### Loan impairment charges

Impairment charges reduced gradually quarter by quarter to end the year at $0.2 million as a result of loan recoveries, loan write-offs and impairment reversals carried out in Zimbabwe and Mozambique. Improvements in credit quality seen by movements from stage 2 and 3 from the day 1 levels also contributed to the lower impairment charge during the year.

We continue to focus on restructuring and recovering further from the legacy NPL book and have made good progress on a couple of large single name exposures in Mozambique and Zimbabwe, both to increase profitability and to reduce our overall NPL ratios to closer to comparable peer levels.

### Statement of financial position review

Customer loans and advances comprise c.41.2% of the Group's total asset base. Cash, short-term funds and marketable securities represent c.27.7%, other assets represent 6.5%, the investment in associate UBN accounts for 19.0% of the asset base, with goodwill and intangible assets making up the remainder at c.5.7% of total assets. Total assets contracted by 10.7%, but grew by 6.0% on a constant currency basis, reflecting the impact of the currency change in Zimbabwe.

### Customer loan composition – 2018

Customer loan composition - By Country ($ millions)

| Botswana | Mozambique | Rwanda | Tanzania | Zambia | Zimbabwe | Other | Total |
|---|---|---|---|---|---|---|---|
| 541.4 | 65.9 | 193.1 | 57.2 | 193.0 | 86.6 | 16.9 | 1,154.1 |

### Credit quality

The credit information presented below is based on the IFRS results reported by operating countries, excluding the impact of IFRS 3 Business Combinations and fair value adjustments made on acquisition in respect of gross loans and advances and impairment allowances.
The stage 3 impairment coverage ratio of 44.8% (NPL coverage 2017: 46.5%), is considered appropriate given the credit quality at year-end and in line with coverage ratios reported by other African banking Groups.

NPLs as a percentage of the loan book declined to 11.1% (December 2017: 11.8%), reflecting our focused efforts on credit monitoring and the collection processes. The year-on-year improvement was specifically supported by asset recoveries secured in Mozambique and Zimbabwe.

### Capital position

As at 31 December 2018, all of Atlas Mara's operating banks complied with local minimum capital requirements relevant in that country, as summarised below.

### Capital adequacy ratios

| Capital Ratios | 2018 | 2017 | Regulatory Minimum |
|---|---|---|---|
| Botswana | 17.6% | 19.7% | 15.0% |
| Mozambique | 23.8% | 24.4% | 9.0% |
| Rwanda | 23.7% | 22.6% | 15.0% |
| Tanzania | 14.8% | 17.7% | 14.5% |
| Zambia | 15.9% | 13.8% | 10.0% |
| Zimbabwe | 39.0% | 37.6% | 12.0% |

In Zambia, the bank remains compliant with the minimum capital adequacy requirement and is now compliant with the absolute capital requirement of ZMW520 million set by the Central Bank for foreign-owned banks.

Risk-weighted asset growth, excluding acquisitions, was limited reflecting both the subdued demand for credit across our markets but also our selective approach to credit risk from refining our overall risk appetite.

### Investment in associate: UBN

Our investment in Union Bank of Nigeria of 49.0% at the end of December 2018, is equity-accounted for in the statement of financial position as an investment in associate, with a closing balance of $530.6 million (2017: $442.7 million). The value of the asset increased due to the additional investments, the gain on acquisition booked and the increased profits reported by UBN, however was offset by a further clean-up of the loan book including the impact of IFRS 9 on UBN's accounts.

We have reviewed the carrying value of the investment held in UBN from a valuation perspective as part of the year-end audit review and valuation work. We have stress-tested future expected earnings and having considered the impact of the devaluation of the Naira, coupled with potential credit shocks in the Nigerian market from lower oil prices and market-wide shortages of US Dollar liquidity, the carrying value was nonetheless substantiated, with no impairment required to the UBN carrying value for this investment at December 2018.

### Goodwill and intangibles

Due to the acquisitions made in the prior years and in compliance with IFRS 3: Business Combinations, the statement of financial position incorporates goodwill and intangible assets of $159.0 million at December 2018 (December 2017: $174.6 million). These assets represent 5.6% of the Group's asset base, resulting in a tangible book value of $3.00 per share (December 2017: $3.87 per share) versus a book value per share of $3.83 (December 2017: $4.77).

### Liabilities

**Customer deposits ($ millions)**

| | Retail | Corporate | Treasury | Total |
|---|---|---|---|---|
| FY 2018 | 410.4 | 972.1 | 249.3 | 1,631.8 |
| FY 2017 | 489.5 | 1 115.3 | 272.7 | 1 877.5 |

There was a decline in total deposits compared to the prior year, mainly attributable to loss of deposits in Tanzania, Botswana and Zambia.

Term deposits remained the highest percentage of deposits reflecting the tight liquidity situation in the countries of operation.
Decline in transactional deposits and overnight deposits reflect the tight liquidity situation experienced in most of our countries of operation especially the ones listed above.

Customer deposits comprise 77.1% of the liability base and represent 58.2% of the aggregate of liabilities and equity. The loan to deposit ratio for 2018 was 70.7% (December 2017: 70.8 %).

### Segment information

The segmental results and statement of financial position information represents management's view of its underlying operations on a geographic distributed basis, with the business focus aligned to promote inter-Africa trade within the trade blocs on the continent. The seven countries of operation and investment are grouped as follows:

### Our Business

Through our 49% stake in UBN and Board representation, Atlas Mara has a footprint in Africa's largest economy, Nigeria. Nigeria continues to represent a long-term destination for investment, particularly in financial services, and our stake in UBN is a key facet of our strategy for the region.

Atlas Mara, through its board seats on the UBN board, is working closely with UBN management to monitor the impact of oil price and currency changes on the credit and capital positions. We see positive medium-term growth potential for UBN irrespective of the near-term challenges from the macroeconomic environment.

Our share of profit from the 49.0% stake in UBN is based on UBN's audited year-end results.

**Botswana** continued to perform well during 2018, although the impact of liquidity constraints particularly in the earlier part of the year, and a significant decline in the forex trading volumes, affected overall income.

Despite broader economic challenges in **Mozambique** in 2018, the business reported a profit for 2018, underscoring the benefit of the focus during 2016 and 2017 to improve the capability of the workforce.

Our business in **Zimbabwe** reported strong operating profits boosted by NPL recoveries, continued focus on cost reduction and fair value gains booked on some core banking and other assets.

In **Rwanda** our business continues to show improvement in performance due to the strong focus on cost efficiency initiatives.

### Other

Included in this segment are Atlas Mara Limited, the BVI incorporated holding company and Atlas Mara's Dubai subsidiary and all other intermediate Group holding entities acquired through the acquisitions of ABCH and ADC in August 2014, also referred to as the Shared Services and Centre.

### Segment report for the year-ended 31 December 2018

| 2018 | | Banking Operations | | | Other |
|---|---|---|---|---|---|
| **US$m** | **Group** | **Southern** | **East** | **West** | **Corporate** |
| Total Income | 231.4 | 193.6 | 52.2 | - | (14.4) |
| Loan impairment charge | (0.2) | 6.9 | (6.6) | - | (0.5) |
| Operating expenses | (240.5) | (165.3) | (45.0) | - | (30.2) |
| Share of profits of associate | 56.3 | - | - | 27.8 | 28.5 |
| Profit / (loss) before tax | 47.0 | 35.2 | 0.6 | 27.8 | (16.6) |
| **Profit / (loss) after tax and NCI** | **39.7** | **27.5** | **(2.9)** | **27.8** | **(12.7)** |
| | | | | | |
| Loans and advances | 1,154.1 | 886.9 | 250.3 | - | 16.9 |
| Total assets | 2,804.7 | 1,674.4 | 421.7 | 530.6 | 178.0 |
| Total liabilities | 2,115.8 | 1,479.9 | 353.5 | - | 282.4 |
| Deposits | 1,631.8 | 1,319.8 | 312.0 | - | - |

| | Group | Southern | East |
|---|---|---|---|
| Net interest margin - total assets | 4.7% | 7.4% | 9.2% |
| Net interest margin - earning assets | 7.3% | 8.8% | 10.4% |
| Cost to income ratio | 104.0% | 85.4% | 86.2% |
| Statutory Credit loss ratio | 0.0% | (0.8%) | 2.6% |
| Return on equity | 6.1% | 11.7% | (4.2%) |
| Return on assets | 1.4% | 1.6% | (0.7%) |
| Loan to deposit ratio | 70.7% | 67.2% | 80.2% |

## Segment report for the year-ended 31 December 2017

| 2017<br>US$m | Group | Banking Operations<br>Southern | East | West | Other<br>Corporate |
|---|---|---|---|---|---|
| Total Income | 260.5 | 181.7 | 54.1 | - | 24.7 |
| Loan impairment charge | (22.3) | (12.7) | (9.6) | - | - |
| Operating expenses | (223.5) | (156.8) | (41.3) | - | (25.4) |
| Share of profits of associate | 38.4 | - | - | 38.4 | - |
| Profit / (loss) before tax | 53.1 | 12.2 | 3.2 | 38.4 | (0.7) |
| Profit / (loss) after tax and NCI | 45.4 | 8.5 | 1.4 | 38.4 | (2.9) |
| | | | | | |
| Loans and advances | 1,330.0 | 1,037.6 | 286.7 | - | 5.7 |
| Total assets | 3,140.4 | 2,000.1 | 503.0 | 442.7 | 194.6 |
| Total liabilities | 2,327.2 | 1,875.2 | 422.3 | - | 29.7 |
| Deposits | 1,877.5 | 1,505.1 | 372.4 | - | - |
| | | | | | |
| Net interest margin - total assets | 4.6% | 5.6% | 7.6% | | |
| Net interest margin - earning assets | 6.8% | 6.7% | 9.0% | | |
| Cost to income ratio | 85.8% | 86.3% | 76.5% | | |
| Statutory Credit loss ratio | 1.7% | 1.2% | 3.3% | | |
| Return on equity | 5.6% | 6.8% | 1.8% | | |
| Return on assets | 1.4% | 0.4% | 0.3% | | |
| Loan to deposit ratio | 70.8% | 68.9% | 77.0% | | |

# Risk report

The Group operates in an environment where taking considered business risks within the jurisdictions in which we operate are key to delivering on our strategy and to delivering value to shareholders.

In executing our business strategy, it is important to navigate uncertainties deftly, to optimise growth opportunities and to ensure that attendant risks fall within the Group's risk appetite framework of whichever risk type, with appropriate risk mitigants in place.

## Group risk management objectives

The Board recognises that it is ultimately responsible and accountable to shareholders for:
- the process of risk management and the systems of internal control;
- identifying, evaluating and managing the significant risks faced by the Group;
- ensuring that effective internal control systems are in place to mitigate significant risks faced;
- ensuring that a documented and tested process is in place to allow the Group to continue its critical business in the event of a severe incident impacting its activities; and
- reviewing the efficacy of the internal control system.

The Group risk management function, as mandated by the Board of Directors is to:
- coordinate risk management activities across the organisation, by ultimately becoming the custodian of Atlas Mara's risk management culture;
- analyse, monitor and manage all aspects of exposures across risk classes;
- ensure risk parameters and limits are set, approved and implemented and ensure that such risk parameters and limits are consistently adhered to; and
- facilitate various risk management committees as part of the Group's risk management process.

## The Group's approach to risk management

The Group's approach to risk management involves a number of fundamental elements. The procedures and methodology are enshrined in the evolving Atlas Mara Enterprise-wide Risk Management ('ERM') Framework.

The Group's risk appetite sets out the level of risk that the Group is willing to take in pursuit of its business objectives. This risk appetite is calibrated against the Group's broad financial targets including profitability and impairment targets, dividend coverage and capital levels. The Group's risk methodologies include systems that enable the Group to measure, aggregate and report risk for internal and regulatory purposes in line with best practice.

ERM in business includes the methods and processes used by organisations to manage risks and identify opportunities related to the achievement of their objectives. ERM provides a framework for risk management, which typically involves identifying particular events or circumstances relevant to the organisation's objectives (risks and opportunities), assessing them in terms of likelihood and magnitude of impact, determining a response strategy, and monitoring progress.

The Group risk management framework defines the risk management Principles and Standards followed by the Group. These Principles and Standards ensure that risks are consistently managed throughout the Group through a set of internal controls. The Principles and Standards also ensure that risk awareness filters down through every level of the Group, and that every employee understands their responsibility in managing risk. At each operating subsidiary entity, the following sub-committees, comprising executives and senior management, are responsible for dealing with the risks facing the Group in a structured manner:
- Credit Committee ('CREDCO') – responsible for credit risk;
- Assets and Liability Committee ('ALCO') – responsible for interest rate, market, liquidity, counterparty, currency and capital adequacy risk; and
- Operational Risk Committee ('ORCO') – responsible for technology, compliance, legal, human resources, reputational, operational and regulatory risk.

Atlas Mara has adopted the three lines of defence model to address how specific duties related to risk and control can be assigned and coordinated within the various business units. The model's underlying premise is that, under the oversight and direction of senior management and the Board of Directors, three separate groups (or lines of defence) within Atlas Mara are necessary for effective management of risk and control.

The three lines of defence are:
- Business operations;
- Risk and control functions; and
- Internal audit.

Each of the three lines plays a distinct role within Atlas Mara's wider governance framework. When each performs its assigned role effectively, the prospects of Atlas Mara being successful in achieving its overall objectives are highly enhanced.

### Role of Atlas Mara Group Risk Management

Atlas Mara Group Risk Management is responsible for maintaining a culture of risk awareness throughout the Group. While each business unit is primarily responsible for managing its own risks, Group Risk Management independently monitors, manages and reports on all risks facing the Group, as mandated by the Board of Directors. It coordinates risk management activities across the Group to ensure that risk parameters are properly set and adhered to across all risk categories and in all Group companies. It also ensures that all risk exposures can be measured and monitored across the Group. Managing risk effectively is one of the key drivers of the Group's continuous investment in technology. Group Risk Management continually seeks new ways to enhance its risk management techniques.

It also updates the Group risk management framework on a regular basis to reflect new policies adopted by the Board of Directors. Group Risk Management regularly reports to the Atlas Mara Executive Committee and the Atlas Mara Risk and Audit Committee, to provide the Board with assurance that risks are being appropriately identified, managed and controlled. Group Risk Management is headed by an executive manager who reports to the CEO.

The Board has approved the Group risk management framework which applies to all Group companies and deals with enterprise-wide risk and governance protocol. Risk management in the Group is underpinned by governance structures as well as risk ownership, identification and evaluation. Ownership and management of risks begins in the business units of each subsidiary, who identify and evaluate risks particular to their function. Group Risk Management reviews actions taken by business units to mitigate identified risks.

Each subsidiary or business unit produces risk reports which, along with the detailed risk information provided by Group Risk Management, is discussed by the Board. The risk reports present a balanced assessment of significant risks and the effectiveness of risk management procedures, and management actions in mitigating those risks.

## Credit

Credit risk management is by far the most significant risk type and accounts for more than 80% of the Group's Economic Capital requirement and 61% of Regulatory Capital.

Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Group's portfolio, could result in losses that are different from those provided for at the reporting date. Country (or Sovereign) risk is part of overall credit risk and is managed as part of the credit risk management function as it has a major impact on individual counterparties' ability to perform. Management therefore carefully manages its exposure to credit risk.

Credit exposures arise principally in loans and advances, debt securities and other similar instruments. There is also credit risk in off-balance sheet financial arrangements such as loan commitments. The Group Risk team reviews subsidiary risk exposures regularly and reports to the Atlas Mara Board of Directors.

### Credit risk management and strategy

Credit risk is managed across the Group in terms of its Board approved risk management framework, encompassing credit principles and standards, mandate limits and governance structures.

The governance structures mandated with accountability for loan approvals, monitoring and risk management include the following:
- In Country Management Committee Credit Committee (Manco Credit Committee) (including BancABC entities and BPR).
- In Country Board Credit Committee including (BancABC entities and BPR).
- ABCH Group Credit Committee.
- ABCH Board Credit Committee.
- ABCH Board Loans Review Committee.

Atlas Mara Group credit risk management objectives are to:
- enable sustainable asset growth in line with the Group Risk appetite;
- optimise credit governance and operational structures;
- create a robust control environment;
- invest in skills, training and appropriate experience;
- simplify risk management processes;
- implement and refine appropriate models for credit granting;
- improve early warning, problem recognition and remedial management capability; and
- improve credit policies and governance framework.

## Approach to credit risk

### Credit life cycle

The credit life cycle consists of target market identification and quantification, principles of credit evaluation and decisioning, post-sanctioning fulfilment, credit administration, portfolio monitoring, early warning triggers, problem recognition and remedial management. The business, risk and senior management are integrated into the end-to-end credit lifecycle. Atlas Mara Group uses a Risk Grading tool for corporate exposures to determine a minimum credit rating for acceptance for credit granting purposes.

The rating is the result of qualitative and quantitative criteria, based on statement of financial position and profit or loss inputs including critical ratios, industry bench-marking, management experience and capability. Risk ratings awarded to obligors are reviewed annually with the latest financial information and account conduct for corporate exposures.

The consumer and standardised SME (low turnover) obligors are assessed via a predetermined scorecard that is regularly reviewed.

## Measuring credit risk

The Group's approach to measuring credit risk aims to align with international best practice and is, in all substantial aspects, aligned with the standard approach and methodology employed by international financial institutions.

In line with IFRS 9, the Group has adopted the Expected Credit Loss approach effective 1 January 2018. Credit risk is broken down into the common risk components of Probability of Default ('PD'), Exposure at Default ('EAD') and Loss Given Default ('LGD'), modelled at a client, facility and portfolio level. These risk components are used in the calculation of a number of aggregate risk measures such as Expected Loss ('EL'). The models used by the Group are compliant with Basel II and regulatory requirements. These risk measures would be used as inputs to calculate the collective impairment amounts.

| Component | Definition |
|---|---|
| Probability of default (PD) | The probability that a counterparty will default, over the next 12 months from the reporting date (stage 1) or over the lifetime of the product (stage 2) and incorporating the impact of forward-looking economic assumptions that have an effect on credit risk, such as interest rates, unemployment rates and GDP forecasts.<br>The PD estimates will fluctuate in line with the economic cycle. The lifetime (or term structure) PDs are based on statistical models, calibrated using historical data and adjusted to incorporate forward-looking economic assumptions. |
| Loss given default (LGD) | The loss that is expected to arise on default, incorporating the impact of forward-looking economic assumptions where relevant, which represents the difference between the contractual cash flows due and those that the bank expects to receive.<br>The Group estimates LGD based on the history of recovery rates and considers the recovery of any collateral that is integral to the financial asset, taking into account forward-looking economic assumptions where relevant. |
| Exposure at default (EAD) | The expected statement of financial position exposure at the time of default, taking into account the expected change in exposure over the lifetime of the exposure. This incorporates the impact of drawdowns of committed facilities, repayments of principal and interest, amortisation and prepayments, together with the impact of forward-looking economic assumptions where relevant. |

To determine the expected credit loss (ECL), these components are multiplied together (PD for the reference period (up to 12 months or lifetime) x LGD at the beginning of the period x EAD at the beginning of the period) and discounted to the balance sheet date using the effective interest rate as the discount rate

#### Expected loss and capital requirements*

The three components, PD, EAD and LGD, are building blocks used in a variety of measures of risk across the entire portfolio. EL is the measurement of loss, which enables the application of consistent credit risk measurement across all retail and corporate credit exposures. LGD, EAD and PD estimates are also used in a range of business applications, including pricing, customer and portfolio strategy and performance measurement. EL estimates can be compared directly to portfolio impairment figures within the regulatory capital calculation to ensure that the organisation's estimates of EL from doing business are sufficiently covered by the level of general impairments raised. Any situations in which general impairments are insufficient to cover total EL in totality have a direct bearing on the Group's capital requirement to ensure that these potential losses are absorbed.

#### Forbearance and restructuring*

Forbearance refers to obligors where the contractual terms of the facilities extended are modified or formalised into a new transaction. Atlas Mara Group Credit Principles and Standards documents the criteria to be applied in assessing clients that will qualify for restructure. Great emphasis is placed on sustainability of cash flows to repay the restructured instalments.

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status after satisfying the relevant curing period of instalments paid on time. Restructuring policies and practices are based on indicators or criteria which, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review.

#### Credit transformation programme*

One of the major investments by Atlas Mara during 2015 has been to elevate its credit risk management capability.

The Group successfully launched a credit transformation programme ('CTP') covering the portfolios in five countries. The programme is a key enabler to support the bank's growth plans for 2016 and beyond focusing on reducing NPLs and improving customer experience. To date the programme has made significant progress in uplifting the credit capabilities at a Group and country level. The programme aims to establish five main building blocks as shown opposite.

#### Risk limit control and mitigation policies*

The Group manages, limits and controls concentrations of credit risk in respect of individual counterparties and groups, and to industries and countries. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved by the Board of Directors (intermediate holding company) and relevant sub-committees and reviewed regularly. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Some other specific control and mitigation measures are outlined below.

a. Collateral*

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice.

The Group implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The principal collateral types for loans and advances are:

- cash collateral;
- charges over assets financed;
- mortgages over residential and commercial properties;
- charges over business assets such as premises, inventory and accounts receivable; and
- charges over financial instruments such as debt securities and equities.

## Atlas Mara's loan book classification criteria

| Stage | Description | ECL recognised |
|---|---|---|
| Stage 1 – performing loans | Financial instruments that have had no significant increase in credit risk since initial recognition or that have low credit risk at the reporting date.<br><br>For example: a newly originated loan on which repayments are being received and there are no other indicators of a significant increase in credit risk. | 12-month expected credit losses<br><br>Losses expected on defaults which may occur within the next 12 months. |
| Stage 2 – underperforming loans | Financial instruments that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment.<br><br>For example: a loan on which payment is 30 days overdue. | Lifetime expected credit losses<br>Losses expected on defaults which may occur at any point in a loan's lifetime.<br><br>Losses are adjusted for probability weighted macro-economic scenarios. |
| Stage 3 – non-performing loans | Market comparison technique: The valuation model is based on market multiples derived from quoted prices of companies comparable to the investee on actual EBITDA for the period ended 31 December 2018. The estimate is adjusted for the effect of the non-marketability of the equity securities. | Lifetime expected credit losses<br>Losses expected on defaults which may occur at any point in a loan's lifetime.<br><br>Losses are adjusted for probability weighted macro-economic scenarios.<br><br>Interest income is calculated on the carrying amount of the loan net of credit allowance. |

**Note:**

* Audited.

Loans and advances to corporates are generally secured. In addition, in order to minimise credit loss, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

b. Master netting arrangements*

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of statement of financial position assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

c. Credit-related commitments*

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

d. Derivatives*

The Group maintains strict control limits on net open derivative positions (that is, the difference between purchase and sale contracts) by both amount and term. The amount subject to credit risk is limited to expected future net cash inflows of instruments, which in relation to derivatives are only a fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not always obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

**Impairment policies***

The impairments shown in the statement of financial position at year-end are measure in line with the expected credit loss model prescribed by IFRS 9. IFRS 9 outlines a 'three stage' model for impairment based on changes in credit quality since initial recognition as summarised in the accounting policy detailed in note vi. Please refer to note Figure 1 shows the percentage of the Group's on- and off-balance sheet items relating to loans and advances and the associated impairment for each of the Group's internal rating categories.

## Figure 1: Credit quality*

| | **2018** | | | 2017 | |
|---|---|---|---|---|---|
| Category | **Stage 1** | **Stage 2** | **Stage 3** | Loans and advances | Impairments |
| Performing | **85.3%** | – | – | 83% | 14% |
| Special mention | – | **3.3%** | – | 2% | 0% |
| Sub-standard | – | – | **3.5%** | 3% | 1% |
| Doubtful | – | – | **1.4%** | 2% | 1% |
| Lost | – | – | **6.5%** | 11% | 84% |

**Note:**

* Audited.

# Maximum exposure to credit risk as at 31 December 2018*

The following table shows the maximum exposure to credit risk by class of financial asset. It also shows the total fair value of collateral, any surplus collateral (the extent to which the fair value of collateral held is greater than the exposure to which it relates), and the net exposure to credit risk.

| | | Fair value of collateral and credit enhancements held | | | | | |
|---|---|---|---|---|---|---|---|
| **Type of collateral or credit enhancement** | **Maximum exposure to credit risk $'000** | **Cash $'000** | **Letters of credit/ guarantees $'000** | **Property[3] $'000** | **Other[1,3] $'000** | **Net collateral $'000** | **Net exposure $'000** |
| **Placement with other banks[2]** | **75,358** | **–** | **–** | **–** | **–** | **–** | **75,358** |
| | | | **–** | | | | |
| **Loans and advances (Gross)** | **1,267,559** | **9,645** | **–** | **485,634** | **72,180** | **567,459** | **700,100** |
| | | | | | | | |
| **Derivate financial instruments** | **5,602** | **–** | **–** | **–** | **–** | **–** | **5,602** |
| Cross-currency interest rate swaps | **5,400** | **–** | **–** | **–** | **–** | **–** | **5,400** |
| Forward foreign exchange contracts | **202** | **–** | **–** | **–** | **–** | **–** | **202** |
| Equity derivative | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | | | | | | | |
| **Financial assets designated at fair value through profit or loss** | **24,909** | **–** | **–** | **–** | **–** | **–** | **24,909** |
| Listed equities | **1,711** | **–** | **–** | **–** | **–** | **–** | **1,711** |
| Unlisted equities | **22,463** | **–** | **–** | **–** | **–** | **–** | **22,463** |
| Unlisted debentures | **114** | **–** | **–** | **–** | **–** | **–** | **114** |
| Property units | **621** | **–** | **–** | **–** | **–** | **–** | **621** |
| | | | | | | | |
| **Investment securities – FVOCI** | **101,114** | **–** | **–** | **–** | **18,104** | **18,104** | **83,010** |
| Government bonds | **68,655** | **–** | **–** | **–** | **5,157** | **5,157** | **63,498** |
| Corporate bonds | **18,467** | **–** | **–** | **–** | **–** | **–** | **18,467** |
| Listed equities | **291** | **–** | **–** | **–** | **–** | **–** | **291** |
| Unlisted equities | **872** | **–** | **–** | **–** | **435** | **435** | **437** |
| Unlisted investment | **12,829** | **–** | **–** | **–** | **12,512** | **12,512** | **317** |
| | | | | | | | |
| **Investment securities – Amortised cost** | **270,100** | **–** | **–** | **–** | **–** | **–** | **270,100** |
| Treasury bills | **183,933** | **–** | **–** | **–** | **–** | **–** | **183,933** |
| Government bonds | **86,167** | **–** | **–** | **–** | **–** | **–** | **86,167** |
| | | | | | | | |
| | **1,744,642** | **9,645** | **–** | **485,634** | **90,284** | **585,563** | **1,159,079** |
| **Credit exposures relating to off-balance sheet items are as follows:** | **133,312** | **8,251** | **6,781** | **5,640** | **699** | **21,371** | **111,941** |
| Guarantees | **33,434** | **2,990** | **6,781** | **4,030** | **699** | **14,500** | **18,934** |
| Letters of credit | **80,772** | **5,261** | **–** | **1,610** | **–** | **6,871** | **73,901** |
| Forward contracts and Currency swaps | **7,146** | **–** | **–** | **–** | **–** | **–** | **7,146** |
| Other contingent liabilities | **11,960** | **–** | **–** | **–** | **–** | **–** | **11,960** |
| | **1,877,954** | **17,896** | **6,781** | **491,274** | **90,983** | **606,934** | **1,271,020** |

**Notes:**
1. Vehicles, machinery, other fixed assets, inventory and trade receivables.
2. Represents cash balances held with other banks. Included in $382 million cash per statement of financial position.
3. These collateral items are not readily convertible into cash as these items are sold in the market and are dependent on a buyer and seller.

* Audited.

## Maximum exposure to credit risk as at 31 December 2017*

| Type of collateral or credit enhancement | Maximum exposure to credit risk $'000 | Fair value of collateral and credit enhancements held | | | | Net collateral $'000 | Net exposure $'000 |
|---|---|---|---|---|---|---|---|
| | | Cash $'000 | Letters of credit/ guarantees $'000 | Property[3] $'000 | Other[1,3] $'000 | | |
| **Placement with other banks[2]** | 63,707 | – | – | – | – | – | 63,707 |
| **Loans and advances** | 1,387,850 | 63,680 | 78,562 | 1,373,725 | 212,212 | 1,728,179 | (340,329) |
| **Derivate financial instruments** | 6,990 | – | – | – | – | – | 6,990 |
| Currency swaps | 6,492 | – | – | – | – | – | 6,492 |
| Forward foreign exchange contracts | 10 | – | – | – | – | – | 10 |
| Equity derivative | 488 | – | – | – | – | – | 488 |
| **Financial assets held for trading** | 76,786 | – | – | – | – | – | 76,786 |
| Government bonds | 14,137 | – | – | – | – | – | 14,137 |
| Treasury bills | 62,649 | – | – | – | – | – | 62,649 |
| **Financial assets designated at fair value through profit or loss** | 19,151 | – | – | – | – | – | 19,151 |
| Listed equities | 1,547 | – | – | – | – | – | 1,547 |
| Unlisted equities | 17,306 | – | – | – | – | – | 17,306 |
| Unlisted debentures | 268 | – | – | – | – | – | 268 |
| Property units | 30 | – | – | – | – | – | 30 |
| **Investment securities – available-for-sale** | 294,287 | – | – | – | 23,738 | 23,738 | 270,549 |
| Government bonds | 211,925 | – | – | – | 5,040 | 5,040 | 206,885 |
| Corporate bonds | 61,960 | – | – | – | – | – | 61,960 |
| Unlisted equities | 1,375 | – | – | – | – | – | 1,375 |
| Unlisted investment | 19,027 | – | – | – | 18,698 | 18,698 | 329 |
| **Investment securities – held-to-maturity** | 60,701 | – | – | – | – | – | 60,701 |
| Treasury bills | 50,355 | – | – | – | – | – | 50,355 |
| Corporate bonds | 3,308 | – | – | – | – | – | 3,308 |
| Government bonds | 7,038 | – | – | – | – | – | 7,038 |
| | 1,909,472 | 63,680 | 78,562 | 1,373,725 | 235,950 | 1,751,917 | 157,555 |
| **Credit exposures relating to off-balance sheet items are as follows:** | 140,932 | 1,839 | 897 | 14,314 | 274 | 17,324 | 123,608 |
| Guarantees | 29,944 | 1,839 | 897 | 11,697 | 274 | 14,707 | 15,237 |
| Letters of credit | 44,295 | – | – | 2,617 | – | 2,617 | 41,678 |
| Forward contracts and currency swaps | 2,241 | – | – | – | – | – | 2,241 |
| Other commitments | 64,452 | – | – | – | – | – | 64,452 |
| | 2,050,404 | 65,519 | 79,459 | 1,388,039 | 236,224 | 1,769,241 | 281,163 |

**Notes:**

1. Vehicles, machinery, other fixed assets, inventory and trade receivables.
2. Represents cash balances held with other banks. Included in $457 million cash per statement of financial position.
3. These collateral items are not readily convertible into cash as these items are sold in the market and are dependent on a buyer and seller.

* Audited.

## Repossessed collateral

During 2018, the Group obtained assets by taking possession of collateral held as security, as follows:

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Property and equipment | **5,621** | 9,051 |
| Motor vehicles | **313** | 341 |
| Other assets | **230** | – |
| | **6,164** | 9,392 |

## Credit quality analysis

### Loans and advances

The table below sets out information about credit quality of loans and advances. Unless otherwise specifically indicated the amounts in the table represent gross carrying amounts:

| | 31 December 2018 | | | |
|---|---|---|---|---|
| Category | Subjected to 12-month ECL (Stage 1)<br>$'000 | Not credit impaired assets (Stage 2)<br>$'000 | Credit impaired assets –excluding purchased or originated (Stage 3)<br>$'000 | Total<br>$'000 |
| Performing | **1,080,990** | **–** | **–** | **1,080,990** |
| Special mention | **–** | **41,498** | **–** | **41,498** |
| Sub-standard | **–** | **–** | **44,061** | **44,061** |
| Doubtful | **–** | **–** | **17,315** | **17,315** |
| Lost | **–** | **–** | **83,695** | **83,695** |
| | **1,080,990** | **41,498** | **145,071** | **1,267,559** |

## Concentration risk of financial assets with credit risk exposure*

a. Geographical sectors

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorised by geographical region as of 31 December 2018. For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties:

| 31 December 2018 | Botswana $'000 | Mozambique $'000 | Tanzania $'000 | Zambia $'000 | Zimbabwe $'000 | Rwanda $'000 | Other $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|
| Placements with other banks | 28,440 | 14,098 | 8,678 | 21,853 | 22 | 2,265 | 2 | 75,358 |
| Financial assets designated at fair value | – | – | 22,320 | – | 2,589 | – | – | 24,909 |
| Derivative financial assets | 216 | 10 | – | – | – | – | 5,376 | 5,602 |
| Loans and advances (net) | 541,420 | 65,890 | 62,541 | 193,045 | 86,577 | 193,099 | 11,541 | 1,154,113 |
| Investment securities | 112,628 | 26,736 | 18,459 | 78,163 | 78,205 | 55,651 | – | 369,842 |
| | 682,704 | 106,734 | 111,998 | 293,061 | 167,393 | 251,015 | 16,919 | 1,629,824 |
| | | | | | | | | |
| Guarantees | 10,190 | 4,823 | 430 | 2,360 | 8,168 | 7,337 | – | 33,308 |
| Letters of credit | 36,227 | – | 80 | 44,114 | – | – | – | 80,421 |
| Forward contracts and currency swaps | 7,146 | – | – | – | – | – | – | 7,146 |
| Other commitments | 6,066 | – | – | – | 5,324 | – | 507 | 11,897 |
| | 59,629 | 4,823 | 510 | 46,474 | 13,492 | 7,337 | 507 | 132,772 |

| 31 December 2017 | Botswana $'000 | Mozambique $'000 | Tanzania $'000 | Zambia $'000 | Zimbabwe $'000 | Other/ Rwanda $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| Placements with other banks | 10,357 | 22,426 | 7,644 | 5,147 | 18,133 | – | 63,707 |
| Financial assets held for trading | 64,232 | – | – | – | 12,554 | – | 76,786 |
| Financial assets designated at fair value | – | – | 17,231 | – | 1,920 | – | 19,151 |
| Derivative financial assets | – | 10 | – | (32,433) | – | 39,413 | 6,990 |
| Loans and advances (net) | 588,312 | 75,211 | 80,573 | 186,120 | 186,534 | 213,212 | 1,329,962 |
| Investment securities | 4,309 | 19,715 | 24,865 | 63,874 | 185,586 | 56,639 | 354,988 |
| | 667,210 | 117,362 | 130,313 | 222,708 | 404,627 | 309,264 | 1,851,584 |
| | | | | | | | |
| Financial guarantees | 15,214 | 5,212 | 1,121 | 1,895 | 1,071 | 5,431 | 29,944 |
| Letters of credit for customers | 42,291 | 489 | 205 | 1,309 | – | – | 44,294 |
| Other commitments | 17,466 | – | – | – | 48,214 | 1,013 | 66,693 |
| | 74,971 | 5,701 | 1,326 | 3,204 | 49,285 | 6,444 | 140,931 |

**Note:**

* Audited.

## b. Industry sectors

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorised by industry sectors as of 31 December 2018 of the counterparties:

| 31 December 2018 | Agriculture $'000 | Construction $'000 | Corporate, retail and trade $'000 | Public sector $'000 | Manufacturing $'000 | Mining and energy $'000 | Financial services $'000 | Transport $'000 | Individuals $'000 | Tourism | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Placements with other banks | – | – | – | – | – | – | 75,358 | – | – | – | – | 75,358 |
| Financial assets designated at fair value | 54 | 3 | 2,341 | – | 21 | 20,628 | 1,215 | – | – | 15 | 632 | 24,909 |
| Derivative financial assets | – | – | – | – | – | – | 5,602 | – | – | – | – | 5,602 |
| Loans and advances (net) | 39,741 | 72,092 | 125,350 | 68,411 | 32,943 | 25,242 | 42,281 | 19,343 | 566,866 | 16,933 | 144,911 | 1,154,113 |
| Investment securities | – | – | – | 186,489 | – | – | 183,271 | – | – | – | 82 | 369,842 |
| | 39,795 | 72,095 | 127,691 | 254,900 | 32,964 | 45,870 | 307,727 | 19,343 | 566,866 | 16,948 | 145,625 | 1,629,824 |
| | | | | | | | | | | | | |
| Guarantees | 697 | 3,795 | 12,415 | 2,920 | 324 | 3,605 | 17 | 386 | – | – | 9,149 | 33,308 |
| Letters of credit | – | 124 | 1,393 | 76,515 | 80 | 1,497 | – | 568 | – | – | 244 | 80,421 |
| Forward contracts | – | – | 7,146 | – | – | – | – | – | – | – | – | 7,146 |
| Other commitments | – | – | 4,251 | – | – | – | – | – | 2,425 | – | 5,221 | 11,897 |
| | 40,492 | 76,014 | 152,911 | 333,102 | 33,368 | 50,972 | 307,744 | 20,297 | 569,291 | 16,948 | 160,240 | 1,761,376 |

| 31 December 2017 | Agriculture $'000 | Construction $'000 | Corporate, retail and trade $'000 | Public sector $'000 | Manufacturing $'000 | Mining and energy $'000 | Financial services $'000 | Transport $'000 | Individuals $'000 | Tourism | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Placements with other banks | – | – | – | – | – | – | 63,707 | – | – | – | – | 63,707 |
| Financial assets held for trading | – | – | – | – | – | – | 76,786 | – | – | – | – | 76,786 |
| Financial assets designated at fair value | 23 | – | 1,982 | – | 212 | 15,266 | (3,874) | – | – | – | 5,542 | 19,151 |
| Derivative financial assets | – | – | – | – | – | – | 6,990 | – | – | – | – | 6,990 |
| Loans and advances (net) | 36,137 | 73,016 | 135,653 | 94,409 | 53,307 | 40,030 | 46,615 | 67,665 | 692,089 | 9,647 | 81,394 | 1,329,962 |
| Investment securities | – | – | – | 185,059 | – | – | 169,929 | – | – | – | – | 354,988 |
| | 36,160 | 73,016 | 137,635 | 279,468 | 53,519 | 55,296 | 360,153 | 67,665 | 692,089 | 9,647 | 86,936 | 1,851,584 |
| | | | | | | | | | | | | |
| Financial guarantees | – | 4,665 | 3,248 | 540 | 2,261 | 850 | 14,709 | 801 | 11 | – | 2,859 | 29,944 |
| Letters of credit for customers | – | – | 42,405 | – | 1,309 | 91 | – | 489 | – | – | – | 44,294 |
| Other commitments | – | – | 2,241 | – | – | – | – | – | – | – | – | 2,241 |
| | 21,127 | 2,492 | 14,539 | 1,911 | 5,224 | 3,307 | – | 11,226 | 3,613 | – | 1,013 | 64,452 |

**Note:**
* Audited.

## Selected 2017 credit disclosures

Below are certain IAS 39 related disclosures for 2017, included for comparative purposes:

### Credit quality by class of financial assets*

| 31 December 2017 | Neither past due nor impaired | Past due but not impaired | | | | |
|---|---|---|---|---|---|---|
| | Performing $'000 | 30 days $'000 | 31-60 days $'000 | 61-90 days $'000 | Individually impaired $'000 | 31 December 2015 $'000 |
| Cash and cash equivalents | 457,018 | – | – | – | – | 457,018 |
| Derivative financial assets | 6,990 | – | – | – | – | 6,990 |
| Financial assets held for trading | 76,786 | – | – | – | – | 76,786 |
| Financial assets designated at fair value through profit/loss | 19,151 | – | – | – | – | 19,151 |
| **Loans and advances to customers** | | | | | | |
| Mortgage lending | 129,880 | 9,990 | 5,618 | 5,441 | 13,953 | 164,882 |
| Instalment finance | 9,507 | 295 | 365 | 77 | 3,387 | 13,631 |
| Corporate lending | 373,638 | 9,914 | 10,180 | 8,616 | 53,045 | 455,393 |
| Commercial and property finance | 89,365 | 4,728 | 3,066 | 7,480 | 33,297 | 137,936 |
| Consumer lending | 548,057 | 6,200 | 17,525 | 1,840 | 42,386 | 616,008 |
| **Gross loans and advances** | 1,150,447 | 31,127 | 36,754 | 23,454 | 146,068 | 1,387,850 |
| Less: Allowance for impairment | (8,161) | (115) | (461) | (320) | (48,831) | (57,888) |
| **Net loans and advances** | 1,142,286 | 31,012 | 36,293 | 23,134 | 97,237 | 1,329,962 |
| | | | | | | |
| Investment securities – available-for-sale | 294,287 | – | – | – | – | 294,287 |
| Government bonds | 211,925 | – | – | – | – | 211,925 |
| Unlisted equities | 1,375 | – | – | – | – | 1,375 |
| Unlisted investment | 19,027 | – | – | – | – | 19,027 |
| Corporate bonds | 61,960 | – | – | – | – | 61,960 |
| | | | | | | |
| Investment securities – held to maturity | 60,701 | – | – | – | – | 60,701 |
| Treasury bills | 50,355 | – | – | – | – | 50,355 |
| Corporate bonds | 3,308 | – | – | – | – | 3,308 |
| Government bonds | 7,038 | – | – | – | – | 7,038 |
| | | | | | | |
| **Total** | 2,057,219 | 31,012 | 36,293 | 23,134 | 97,237 | 2,244,895 |

### 10.3. Credit quality

Loans and advances individually impaired:

| | 31 December 2017 | | |
|---|---|---|---|
| | Individually impaired $'000 | Fair value of collateral $'000 | Under collateralisation[1] $'000 |
| Mortgage lending | 13,952 | 10,111 | 3,841 |
| Instalment finance | 3,387 | 986 | 2,401 |
| Corporate lending | 53,046 | 68,428 | (15,382) |
| Commercial and property finance | 33,297 | 27,379 | 5,918 |
| Consumer lending | 42,387 | 582 | 41,805 |
| | 146,069 | 107,486 | 38,583 |

**Notes:**

1. The under collateralisation amount if fully impaired.

Collateral taken for this category includes cash, mortgages over residential properties, charges over business assets such as premises, inventory and accounts receivable, and charges over financial instruments such as debt securities and equities.

**Loans and advances renegotiated**

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review.

Renegotiated loans that would otherwise be past due are as follows:

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Mortgage lending | 661 | 4,486 |
| Instalment finance | – | 61 |
| Corporate lending | 6,037 | 30,683 |
| Commercial and property finance | 19,523 | 1,722 |
| Consumer lending | 12,822 | 1,979 |
| | 39,043 | 38,931 |
| | | |
| Continuing to be impaired after restructuring | 4,626 | 2,358 |
| Non-impaired after restructuring – would otherwise have been impaired | 24,793 | 35,376 |
| Non-impaired after restructuring – would otherwise not have been impaired | 9,624 | 1,197 |
| | 39,043 | 38,931 |

**Total loan impairments by loan class and type**

a. Impairment by loan class

| | 31 December 2017 $'000 | 31 December 2016 $'000 |
|---|---|---|
| Mortgage lending | 3,602 | 2,260 |
| Instalment finance | 6,365 | 5,643 |
| Corporate lending | 14,646 | 14,136 |
| Commercial and property finance | (434) | 1,007 |
| Consumer lending | 33,709 | 14,687 |
| **Total loan impairments** | 57,888 | 37,733 |

b. Impairment analysis

| | 31 December 2017 $'000 | 31 December 2016 $'000 |
|---|---|---|
| Collective impairments | 14,483 | 13,243 |
| Specific impairments | 43,405 | 24,490 |
| **Total loan impairments** | 57,888 | 37,733 |

c. Credit quality supplement

| | 31 December 2017 $'000 | 31 December 2016 $'000 |
|---|---|---|
| Gross loans and advances | 1,387,850 | 1,372,496 |
| Collective impairments | (14,483) | (13,243) |
| Specific impairments | (43,405) | (24,490) |
| **Net loans and advances** | 1,329,962 | 1,334,763 |
| | | |
| Non-performing loans | 146,079 | 131,203 |
| Impairments (profit/loss) | (22,265) | (15,448) |
| Impairments (allowance) | (57,888) | (37,733) |
| **Percentage (%)** | | |
| Non-performing loans/gross loans and advances | 10.5% | 9.6% |
| Total impairment allowance/non-performing loans | 39.6% | 28.8% |
| Specific impairments/gross loans and advances | 3.1% | 1.8% |

# Liquidity risk*

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for derivatives. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the consolidated statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Group will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

**Capital and liquidity risk management***

ALCO reviews the capital status of the Group on a monthly basis. It also considers the activities of the treasury desk which operates in terms of an approved treasury management policy and in line with approved limits.

Liquidity is of critical importance to financial institutions. Our markets often face the challenge of under-developed secondary securities markets and at times illiquid government securities. As such, the bank has in place a comprehensive liquidity and funding policy to address both firm-specific and market-wide liquidity events. Our primary objective is to be able to fund the bank and to enable our core businesses to continue to operate and meet their obligations under adverse circumstances.

We have established liquidity guidelines that are intended to ensure that we have sufficient asset-based liquidity to withstand the potential impact of deposit attrition or diminished liquidity in the funding markets. Our guidelines include maintaining an adequate liquidity reserve to cover our potential funding requirements and diversified funding sources to avoid over-dependence on volatile, less reliable funding market sources.

We seek to manage liquidity risk according to the following principles:

- Excess liquidity: We seek to maintain excess liquidity to meet a broad and comprehensive range of potential cash outflows and collateral needs in a stressed environment.
- Asset-Liability Management: Through ALCO, we assess anticipated holding periods for our assets and their potential illiquidity in a stressed environment. We manage maturity mismatches and level of funding diversification across markets, products and counterparties and seek to maintain liabilities of appropriate tenor relative to our asset base.

Contingency Funding Plan: We seek to maintain a contingency funding plan to provide a framework for analysing and responding to a liquidity crisis situation or periods of market stress. The framework sets the plan of action to fund normal business activity in emergency and stress situations. The Group approaches liquidity cautiously and conservatively by managing the liquidity profile with a preference for long-term, fixed rate funding. As such, the Group is exposed to funding liquidity risk.

There has been a refinement of the capital management framework, incorporating all the best practices in risk management since the financial crisis. Implementation of the international accord on revised risk-based capital rules known as 'Basel II' continues to progress. Our capital management framework is for the most part guided by Basel II. In theory, Basel II attempted to accomplish this by setting up risk and capital management requirements designed to ensure that a bank has adequate capital for the risk the bank exposes itself to through its lending and investment practices. Generally speaking, these rules mean that the greater the risk to which the bank is exposed, the greater the amount of capital the bank needs to hold to safeguard its solvency and overall economic stability.

**Stress testing**

As a part of our core risk management practices, we conduct enterprise-wide stress tests on a periodic basis to better understand earnings, capital and liquidity sensitivities to certain economic and business scenarios, including economic and market conditions that are more severe than anticipated.

These enterprise-wide stress tests provide an understanding of the potential impacts from our risk profile to earnings, capital and liquidity, and serve as a key component of our capital management practices. Scenarios are selected by senior management. Impacts to each line of business from each scenario are then determined and analysed, primarily leveraging the models and processes utilised in everyday management routines.

Impacts are assessed along with potential mitigating actions that may be taken. Analysis from such stress scenarios is compiled for and reviewed through our weekly Liquidity Risk Management Committee, ALCO, Executive Management Committee and the Board's Risk and Audit Committee, and serves to inform and be incorporated, along with other core business processes, into decision-making by management and the Board. We have made substantial commitment through the development of tools and systems to establish stress testing capabilities as a core business process.

**Note:**

*Audited

### Analysis of liquidity risk*

Non-derivative financial liabilities' cash flow*

The table below presents the cash flows payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the reporting date of the consolidated statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows:

| **31 December 2018** | **Up to 1 month $'000** | **1-3 months $'000** | **3-12 months $'000** | **Greater than 1 year $'000** | **Total $'000** | **Effect of discount/ financing rates $'000** | **Total $'000** |
|---|---|---|---|---|---|---|---|
| Deposits | **1,005,442** | **304,850** | **242,912** | **83,119** | **1,636,323** | **(4,527)** | **1,631,796** |
| Borrowed funds | **54,446** | **5,779** | **35,688** | **338,798** | **434,711** | **(24,554)** | **410,157** |
| **Total liabilities (contractual)** | **1,059,888** | **310,629** | **278,600** | **421,917** | **2,071,034** | **(29,081)** | **2,041,953** |

| 31 December 2017 | Up to 1 month $'000 | 1-3 months $'000 | 3-12 months $'000 | Greater than 1 year $'000 | Total $'000 | Effect of discount/ financing rates $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| Deposits | 1,219,556 | 350,995 | 294,936 | 11,235 | 1,876,722 | 755 | 1,877,477 |
| Creditors and accruals | 45,422 | 6,182 | 18,737 | 2,140 | 72,481 | – | 72,481 |
| Borrowed funds | 68,784 | 4,470 | 35,612 | 250,510 | 359,376 | (13,223) | 346,153 |
| **Total liabilities (contractual)** | 1,333,762 | 361,647 | 349,285 | 263,885 | 2,308,579 | (12,468) | 2,296,111 |

**Note:**
* Audited.

Non-derivative financial assets' cash flow*

| **31 December 2018** | **Up to 1 month $'000** | **1-3 months $'000** | **3-12 months $'000** | **Greater than 1 year $'000** | **Total $'000** | **Effect of discount/financing rates $'000** | **Total $'000** |
|---|---|---|---|---|---|---|---|
| Cash and short-term funds | **374,413** | **4,513** | **3,009** | **–** | **381,935** | **53** | **381,988** |
| Financial assets designated at fair value | **–** | **72** | **2,517** | **22,320** | **24,909** | **–** | **24,909** |
| Loans and advances (net) | **239,891** | **120,841** | **263,679** | **931,684** | **1,556,095** | **(401,982)** | **1,154,113** |
| Investment securities | **45,315** | **82,145** | **97,463** | **147,179** | **372,102** | **(2,260)** | **369,842** |
| **Total financial assets (contractual)** | **659,619** | **207,571** | **366,668** | **1,101,183** | **2,335,041** | **(404,189)** | **1,930,852** |

| 31 December 2017 | Up to 1 month $'000 | 1-3 months $'000 | 3-12 months $'000 | Greater than 1 year $'000 | Total $'000 | Effect of discount/financing rates $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| Cash and short-term funds | 451,980 | 1,503 | 3,503 | – | 456,986 | 32 | 457,018 |
| Financial assets held for trading | 39,864 | – | 25,204 | 14,101 | 79,169 | (2,383) | 76,786 |
| Financial assets designated at fair value | 5,512 | 80 | 1,840 | 11,719 | 19,151 | – | 19,151 |
| Loans and advances (net) | 261,741 | 141,979 | 322,402 | 1,012,403 | 1,738,525 | (408,563) | 1,329,962 |
| Investment securities | 26,432 | 33,917 | 148,858 | 154,840 | 364,047 | (9,059) | 354,988 |
| **Total financial assets (contractual)** | 785,529 | 177,479 | 501,807 | 1,193,063 | 2,657,878 | (419,973) | 2,237,905 |

**Note:**
* Audited.

## Operational risk management

Managing operational risk requires timely and reliable as well as a strong control culture. We seek to manage our operational risk through:
– active participation of all business units in identifying and mitigating key operational risks across the Group;
– the training and development of the bank's employees;
– independent control and support functions that monitor operational risk periodically; and
– a network of systems and tools throughout the bank to facilitate the collection of data used to analyse and assess our operational risk exposure.

Operational risk is overseen by senior management under the Operational Risk Committee Framework. Our operational risk framework is in part designed to comply with operational risk measurement and assessment rules under Basel II. The Group's operational risk management processes focus primarily on risk assessment, loss data collection and the tracking of key risk indicators. The results of these processes are used to raise awareness of operational risk management and to enhance the internal control environment, with the ultimate aim of reducing losses.

## Analysis of market risk*

**Sensitivity analysis of market price**
The Group holds, directly or through its associates, listed equities with a fair value of $2 million and unlisted equities of $22.5 million. The Group is therefore exposed to gains or losses related to the variability in the market prices of the equities held.

Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include borrowed funds of $410 million and financial assets held at fair value through OCI of $101 million and derivative financial instruments of $0.9 million (net liability). The exposure to equity price risk is described below.

**Equity price risk**
The Group's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments. The Group's Board of Directors reviews and approves all equity investment decisions.

Further details on key assumptions in valuations, and sensitivity analysis of equity instruments and price risk are shown in note 29.

**Foreign currency risk**
Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities and the Group's net investments in foreign subsidiaries.

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Group Risk sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The following table summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2018:

**Foreign exchange risk***

| | | | | | | Total | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **31 December 2018** | **USD $'000** | **EUR $'000** | **BWP $'000** | **ZAR $'000** | **ZMK $'000** | **TZS $'000** | **MZN $'000** | **JPY $'000** | **NGN $'000** | **RWF $'000** | **Other $'000** | **Total $'000** |
| Cash and short-term funds | **196,560** | **11,903** | **77,819** | **7,240** | **9,714** | **5,518** | **39,656** | **6** | **5** | **30,091** | **3,476** | **381,988** |
| Financial assets designated at fair value | **23,196** | **–** | **–** | **–** | **–** | **1,713** | **–** | **–** | **–** | **–** | **–** | **24,909** |
| Derivative financial assets | **2,398** | **–** | **2,979** | **215** | **–** | **–** | **10** | **–** | **–** | **–** | **–** | **5,602** |
| Loans and advances | **190,519** | **1,873** | **540,237** | **–** | **137,824** | **37,257** | **57,194** | **–** | **–** | **189,209** | **–** | **1,154,113** |
| Investment securities | **110,688** | **57** | **112,628** | **–** | **45,823** | **18,459** | **26,537** | **–** | **–** | **55,650** | **–** | **369,842** |
| Total assets | **523,361** | **13,833** | **733,663** | **7,455** | **193,361** | **62,947** | **123,397** | **6** | **5** | **274,950** | **3,476** | **1,936,454** |
| | | | | | | | | | | | | |
| **Shareholders' equity and liabilities** | | | | | | | | | | | | |
| Equity | **707,812** | **–** | **–** | **–** | **–** | **(18,874)** | **–** | **–** | **–** | **–** | **–** | **688,938** |
| Deposits | **361,292** | **11,791** | **628,381** | **5,288** | **240,718** | **49,950** | **112,207** | **10** | **–** | **220,821** | **1,339** | **1,631,797** |
| Derivative financial liabilities | **(11,936)** | **25** | **10,932** | **–** | **7,515** | **–** | **–** | **–** | **–** | **–** | **–** | **6,536** |
| Borrowed funds | **382,179** | **–** | **21,888** | **–** | **368** | **2,863** | **2,164** | **–** | **–** | **695** | **–** | **410,157** |
| Total equity and liabilities | **1,439,347** | **11,816** | **661,201** | **5,288** | **248,601** | **33,940** | **114,371** | **10** | **–** | **221,516** | **1,339** | **2,737,428** |

## Foreign exchange risk*

| | Total | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 31 December 2017 | USD $'000 | EUR $'000 | BWP $'000 | ZAR $'000 | ZMK $'000 | TZS $'000 | MZN $'000 | JPY $'000 | NGN $'000 | RWF $'000 | Other $'000 | Total $'000 |
| Cash and short-term funds | 234,226 | 18,751 | 48,223 | 8,859 | 70,272 | 11,418 | 39,821 | 2 | – | 22,656 | 2,790 | 457,018 |
| Financial assets held for trading | 12,554 | – | 64,232 | – | – | – | – | – | – | – | – | 76,786 |
| Financial assets designated at fair value | 16,774 | – | – | – | – | 2,377 | – | – | – | – | – | 19,151 |
| Derivative financial assets | 32,918 | – | (25,450) | – | (488) | – | 10 | – | – | – | – | 6,990 |
| Loans and advances | 261,854 | 2,169 | 586,928 | 10 | 158,214 | 50,683 | 61,324 | – | – | 208,761 | 19 | 1,329,962 |
| Investment securities | 200,230 | 206 | 4,309 | – | 48,744 | 24,865 | 20,242 | – | – | 56,392 | – | 354,988 |
| Total assets | 758,556 | 21,126 | 678,242 | 8,869 | 276,742 | 89,343 | 121,397 | 2 | – | 287,809 | 2,809 | 2,244,895 |
| **Shareholders' equity and liabilities** | | | | | | | | | | | | |
| Equity | 778,156 | – | 291 | (78) | (1,700) | (11,287) | (4,777) | – | – | 52,619 | – | 813,224 |
| Deposits | 602,027 | 18,228 | 573,385 | 8,464 | 273,966 | 78,325 | 88,935 | 10 | – | 227,939 | 6,198 | 1,877,477 |
| Derivative financial liabilities | 5,632 | – | (7,708) | – | 8,815 | – | 2 | – | – | – | – | 6,741 |
| Borrowed funds | 301,957 | – | 35,318 | – | – | 641 | 7,511 | – | – | 726 | – | 346,153 |
| Total equity and liabilities | 1,687,772 | 18,228 | 601,286 | 8,386 | 281,081 | 67,679 | 91,671 | 10 | – | 281,284 | 6,198 | 3,043,595 |

**Note:**
* Audited.

## Sensitivity analysis*

The impact of a 1% change in the value of the Group's major currency exposure vs. the US dollar is presented below:

| | **31 December 2018** | | 31 December 2017 | |
|---|---|---|---|---|
| Currency | **Effect on equity $'000** | **Effect on profit or loss $'000** | Effect on equity $'000 | Effect on profit or loss $'000 |
| EUR | **20** | **20** | 29 | 29 |
| BWP | **732** | **732** | 962 | 962 |
| ZAR | **22** | **22** | 4 | 4 |
| ZMK | **(558)** | **(558)** | (61) | (61) |
| All other currencies | **22** | **22** | (34) | (34) |
| TZS | **102** | **102** | 105 | 105 |
| MZN | **91** | **91** | 252 | 252 |
| JPY | **–** | **–** | – | – |
| NGN | **–** | **–** | – | – |
| RWF | **540** | **540** | 564 | 564 |
| | **971** | **971** | 1,821 | 1,821 |

### Interest rate risk*

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. In order to reduce interest rate risk, the majority of the Group's lending is on a variable interest rate with a term of less than one year. This approach has been adopted as a result of the scarcity of term deposits in the region which limits the Group's ability to build a substantial, stable pool of fixed rate funding.

**Note:**

* Audited.

The table below summarises the Group's total exposure to interest rate risks on financial and non-financial instruments. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. Variable rate financial instruments are categorised in the 'Up to 1 month' column.

| | Total | | | | | |
|---|---|---|---|---|---|---|
| **31 December 2018** | **Up to 1 month $'000** | **1-3 months $'000** | **3-12 months $'000** | **1-5 years $'000** | **Non-interest bearing $'000** | **Total $'000** |
| Cash and short-term funds | **192,120** | **4,548** | **3,023** | **–** | **182,297** | **381,988** |
| Financial assets designated at fair value | **–** | **–** | **–** | **–** | **24,909** | **24,909** |
| Derivative financial assets | **227** | **2,421** | **–** | **5,632** | **(2,678)** | **5,602** |
| Loans and advances | **639,629** | **26,003** | **70,654** | **417,827** | **–** | **1,154,113** |
| Investment securities | **43,057** | **82,418** | **97,190** | **146,307** | **870** | **369,842** |
| Total assets | **875,033** | **115,390** | **170,867** | **569,766** | **205,398** | **1,936,454** |
| | | | | | | |
| **Shareholders' equity and liabilities** | | | | | | |
| Equity | **–** | **209** | **1,994** | **8,050** | **678,685** | **688,938** |
| Deposits | **819,268** | **269,592** | **465,827** | **77,110** | **–** | **1,631,797** |
| Derivative financial liabilities | **71** | **–** | **–** | **12,959** | **(6,494)** | **6,536** |
| Borrowed funds | **96,733** | **72,255** | **16,250** | **201,570** | **23,349** | **410,157** |
| Total equity and liabilities | **916,072** | **342,056** | **484,071** | **299,689** | **695,540** | **2,737,428** |

| | Total | | | | | |
|---|---|---|---|---|---|---|
| 31 December 2017 | Up to 1 month $'000 | 1-3 months $'000 | 3-12 months $'000 | 1-5 years $'000 | Non-interest bearing $'000 | Total $'000 |
| Cash and short-term funds | 221,790 | 3,775 | 3,514 | – | 227,939 | 457,018 |
| Financial assets held for trading | 15,240 | 22,241 | 25,204 | 14,101 | – | 76,786 |
| Financial assets designated at fair value | – | – | – | – | 19,151 | 19,151 |
| Derivative financial assets | 26,810 | – | – | (25,452) | 5,632 | 6,990 |
| Loans and advances | 744,357 | 28,402 | 65,044 | 488,244 | 3,915 | 1,329,962 |
| Investment securities | 20,847 | 37,754 | 143,492 | 151,190 | 1,705 | 354,988 |
| Total assets | 1,029,044 | 92,172 | 237,254 | 628,083 | 258,342 | 2,244,895 |
| | | | | | | |
| **Shareholders' equity and liabilities** | | | | | | |
| Equity | – | – | – | 18,724 | 794,500 | 813,224 |
| Deposits | 722,961 | 193,235 | 276,774 | 264,961 | 419,546 | 1,877,477 |
| Derivative financial liabilities | (13,825) | – | 2 | 14,932 | 5,632 | 6,741 |
| Borrowed funds | 61,818 | 4,460 | 34,047 | 245,828 | – | 346,153 |
| Total equity and liabilities | 770,954 | 197,695 | 310,823 | 544,445 | 1,219,678 | 3,043,595 |

## Interest rate sensitivity*

The table below illustrates the impact of interest rate movements for each banking subsidiary, on the subsidiary. Based on a review of the movements in interest rates as 100 basis points stress was deemed to be reflective of current interest rate movements.

| | **31 December 2018** | | | | 31 December 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Increase of 50bp** | | **Decrease of 50bp** | | Increase of 50bp | | Decrease of 50bp | |
| | **Pre-tax $'000** | **Post-tax $'000** | **Pre-tax $'000** | **Post-tax $'000** | Pre-tax $'000 | Post-tax $'000 | Pre-tax $'000 | Post-tax $'000 |
| **BancABC Botswana** | | | | | | | | |
| Change in net interest income | **(599)** | **(467)** | **599** | **467** | (1,743) | (1,360) | 1,743 | 1,360 |
| As a percentage of total shareholders' equity | **(0.55%)** | **(0.43%)** | **0.55%** | **0.43%** | (1.37%) | (1.07%) | 1.37% | 1.07% |
| **BancABC Mozambique** | | | | | | | | |
| Change in net interest income | **221** | **150** | **(221)** | **(150)** | 291 | 198 | (291) | (198) |
| As a percentage of total shareholders' equity | **0.53%** | **0.36%** | **(0.53%)** | **(0.36%)** | 0.63% | 0.43% | (0.63%) | (0.43%) |
| **BancABC Tanzania** | | | | | | | | |
| Change in net interest income | **82** | **58** | **(82)** | **(58)** | 237 | 166 | (237) | (166) |
| As a percentage of total shareholders' equity | **0.37%** | **0.26%** | **(0.37%)** | **(0.26%)** | 0.84% | 0.59% | (0.84%) | (0.59%) |
| **BancABC Zambia** | | | | | | | | |
| Change in net interest income | **261** | **169** | **(261)** | **(169)** | 652 | 424 | (652) | (424) |
| As a percentage of total shareholders' equity | **0.36%** | **0.23%** | **(0.36%)** | **(0.23%)** | 0.76% | 0.49% | (0.76%) | (0.49%) |
| **BancABC Zimbabwe** | | | | | | | | |
| Change in net interest income | **351** | **261** | **(351)** | **(261)** | 915 | 679 | (915) | (679) |
| As a percentage of total shareholders' equity | **0.89%** | **0.66%** | **(0.89%)** | **(0.66%)** | 0.95% | 0.71% | (0.95%) | (0.71%) |
| **Rwanda** | | | | | | | | |
| Change in net interest income | **549** | **385** | **(549)** | **(385)** | 817 | 572 | (817) | (572) |
| As a percentage of total shareholders' equity | **1.15%** | **0.81%** | **(1.15%)** | **(0.81%)** | 1.55% | 1.09% | (1.55%) | (1.09%) |

## Market risk management

This defines the risk that movements in market prices will adversely affect the value of on- or off-balance sheet positions. It encompasses risks arising from changes in investment market values or other features correlated with investment markets, in particular, changes in interest rates, foreign exchange rates, and equity and commodity prices. Market risk is often propagated by other forms of financial risk such as credit and market-liquidity risks.

## Compliance risk management

Compliance risk is the risk of non-compliance with all relevant regulatory statutes, Central Bank supervisory requirements and industry codes of practice. The compliance function is an integral part of the overall Group Risk Management function. A decentralised compliance function has been implemented within business units and subsidiaries, and compliance officers have been appointed in each operating entity.
Compliance risk is effectively managed through developing and implementing compliance processes, developing effective policies and procedures affecting the respective regulatory frameworks, and providing advice and training on the constantly changing regulatory environment. A key role of compliance officers in the Group is to develop and maintain sound working relationships with its various regulators in the Group's operating countries.

## Legal risk management

Group Chief Legal Counsel is responsible for ensuring that legal risk is adequately managed. This is achieved through standard approved legal documentation wherever possible; however, specialised external legal advisers are used when required for non-standard transactions. Group Chief Legal Counsel ensures that only approved legal advisers provide legal opinions or draw up specialised agreements for the Group.

## Group Internal Audit

The primary function of Internal Audit is to give objective assurance to the Board that adequate management processes are in place to identify and monitor risks, and that effective internal controls are in place to manage those risks. Group Internal Audit independently audits and evaluates the effectiveness of the Group's risk management, internal controls and governance processes.

Internal Audit operates under terms of reference approved by the Audit, Risk and Compliance Committee. The terms of reference define the role and objectives, authority and responsibility of the internal audit function. The Group's reporting structures ensure that the Group internal auditor has unrestricted access to the Chairman of the Audit, Risk and Compliance Committee.

At the outset of each financial year, Group Internal Audit carries out a risk assessment for all business units and subsidiaries. A comprehensive audit plan for the year that identifies specific areas of focus is then derived from this assessment. The audit plan is reviewed regularly, and any changes must be approved by the Audit, Risk and Compliance Committee. The areas of focus are confirmed with executive management before being submitted to the Audit, Risk and Compliance Committee for approval.

# Directors' report

### Corporate governance and management report

DTR 7.2 requires that certain information be included in a corporate governance statement. The Corporate Governance Report is included in the Company's 2018 Annual Report, which will be published with the Notice of AGM, at least 20 working days prior to the AGM of the Company.

For the purposes of compliance with DTR 4.1, the required content of the 'Management Report' can be found on page 5 and in this Directors' report.

### Results

The consolidated statement of profit or loss shows a reported profit of $42.2m.

### Dividends

The Directors do not propose paying a dividend in respect of the year ended 31 December 2018.

### Events after the reporting date

Please see page 100 in the Financial statements, which is incorporated into this Report by reference.

### Branches

Atlas Mara has subsidiaries and investments domiciled and/or operating in Botswana, Germany, Luxembourg, Mauritius, Mozambique, Nigeria, Rwanda, South Africa, Tanzania, United Arab Emirates, Zambia and Zimbabwe.

### Financial risk management objectives and policies

Details on financial risk management are set out in the Risk Report on pages 12 to 30 and are incorporated into this Report by reference.

### Change of control

The Company is party to the following contracts that are subject to change of control provisions in the event of a takeover bid. In connection with the placement of senior secured convertible notes due 2020 and the placement of secured bonds due 2021 (the "Bonds"), the Company is party to contracts that give Bondholders the right to require redemption of their Bonds upon a change of control. In addition, a change of control triggers a downward adjustment to the conversion applicable to the Convertible Bonds due 2020, for a limited period of time following the change of control. The Company is also party to facility agreements that give the Lenders the right to declare all amounts outstanding under the loans immediately due and payable upon a change of control. There are no agreements between the Company and its Directors or employees providing compensation for loss of office or employment that occurs because of a takeover bid. However, if options are granted to senior executive officers, the vesting of issued options is accelerated in the case of a change of control.

### Significant contracts

Details of related party transactions are set out on page 90 and are incorporated into this Report by reference.

### Going concern

The going concern of the Company is dependent on successfully funding the balance sheet of Atlas Mara and its subsidiaries ('the Group') and maintaining adequate levels of capital. In order to satisfy themselves that the Company has adequate resources to continue to operate for the foreseeable future, the Directors have considered a number of key dependencies relating to funding, liquidity and capital. Having considered these, the Directors consider that it is appropriate to adopt the going concern basis in preparing the accounts.

### Directors

The names of the current members of the Board of Directors of the Company, as at 22 April 2019, are listed in the table below. Particulars of their emoluments will be provided in the remuneration report and interests in shares in the Company are provided on page 33 below. These pages are incorporated into this Report by reference. The composition of the Board and dates of appointment are shown in the table below:

| | Date of appointment | | | | |
|---|---|---|---|---|---|
| Director[1] | 3 December 2013 | 21 January 2015 | 3 October 2017 | 24 April 2018 | 1 April 2019 |
| Robert E. Diamond, Jr. | ● | | | | |
| Rachel F. Robbins | ● | | | | |
| Amadou Raimi | | ● | | | |
| Eduardo C. Mondlane, Jr. | | ● | | | |
| Michael Wilkerson | | | ● | | |
| Richie Boucher | | | ● | | |
| Simon Lee[2] | | | | ● | |
| Jawaid Mirza[2] | | | | | ● |

**Notes:**

1. Funke Opeke and Hisham Ezz Al-Arab were directors during the full year 2018 but stepped down from the Board, effective 6 February 2019. Quinn McLean stepped down from the Board, effective 24 April 2018.
2. Simon Lee joined the Board, effective 24 April 2018 and Jawaid Mirza joined the Board, effective 1 April 2019.

### Directors' indemnities

As at the date of this Report, indemnities granted by the Company to the Directors are in force to the extent permitted under BVI law. The Company also maintains Directors' and Officers' liability insurance, the level of which is reviewed annually.

### Rights to appoint and remove Directors

On 31 August 2017, the Company entered a strategic financing transaction with Fairfax Africa, which resulted in Fairfax Africa acquiring a 42.4% ownership stake in the Company (the 'Strategic Financing'). On 22 December 2017 Fairfax Africa acquired additional ordinary shares of Atlas Mara, increasing its ownership stake to 43.3%. Pursuant to the terms of the Strategic Financing, Fairfax Africa was granted certain rights to appoint and remove directors to the Company's Board, which were incorporated into the Articles of the Company and approved by the shareholders of the Company at an extraordinary general meeting held on 14 July 2017. The amended Articles of the Company are available for inspection at the Company's registered office.

Pursuant to the Strategic Financing agreement, Fairfax Africa has the right to nominate 4 persons as Directors of the Company (the 'Investor Directors'), and the Directors shall appoint such persons to the Board, subject to the BVI Companies Act and the Articles. In the event Fairfax Africa notifies the Company to remove an Investor Director from the Board, the Directors shall remove such Investor Director, and Fairfax Africa shall have the right to nominate an Investor Director to fill such vacancy. For so long as Fairfax Africa has the right to appoint 4 Directors to the Board, the Directors retain the right, acting by majority, to nominate 5 persons as Directors of the Company (the 'Non-Investor Directors').

Following completion of the Strategic Financing, and subsequent to the changes in the governance arrangements of the Company, a holder of Founder Preferred Shares (being a Founding Entity together with its affiliates) owning 20% or more of the Founder Preferred Shares in issue, is no longer entitled to nominate a person as a Director of the Company.

### Powers of the Directors

Subject to the provisions of the BVI Companies Act and the Articles, the business and affairs of the Company shall be managed by, or under the direction or supervision of, the Directors. The Directors have all the powers necessary for managing, and for directing and supervising, the business and affairs of the Company. The Directors may exercise all the powers of the Company to borrow or raise money (including the power to borrow for the purpose of redeeming shares) and secure any debt or obligation of or binding on the Company in any manner including by the issue of debentures (perpetual or otherwise) and to secure the repayment of any money borrowed, raised or owing by mortgage charge pledge or lien upon the whole or any part of the Company's undertaking property or assets (whether present or future) and also by a similar mortgage charge pledge or lien to secure and guarantee the performance of any obligation or liability undertaken by the Company or any third party.

### Substantial shareholders

As at 22 April 2019, the Company has been notified of the following significant holdings (being 5% or more of the voting rights in the Company) in the Company's ordinary share capital.

| Shareholder | Number of ordinary shares[1] | % fully diluted interest[1] | Transaction date[1] |
|---|---|---|---|
| Fairfax Africa Holdings Investments Limited | 71,958,670 | 43.30 | 31/08/2017 & 20/12/2017 |
| Wellington Management Company, LLP | 6,952,805 | 9.91 | 19/01/2017 |
| UBS Asset Management: O'Connor | 10,080,551 | 5.9 | 12/07/2018 |

**Note:**

1. Per public TR-1 filings with the Financial Conduct Authority.

### Share capital

#### General

As at 31 December 2018, the Company had in issue 174,618,767ordinary shares of no par value and 1,250,000 Founder Preferred Shares of no par value. As at 22 April 2019 (the latest practicable date prior to the publication of this document) the Company had a total number of 174,618,767 ordinary shares in issue, of which 1,541,782 are held in treasury and 3,298,298 are held in escrow as part of the contingent consideration for the acquisition of Finance Bank Zambia Limited.

#### Founder Preferred Shares

Details of the Founder Preferred Shares can be found in note 1 on page 56 and are incorporated into this Report by reference.

### Directors' and senior managers' interest in shares

The Directors' and senior managers' beneficial shareholding in the Company, as of 22 April 2019 (the latest practicable date prior to the publication of this document) is as follows:

| Directors and Executive Committee | Number of ordinary shares held | % ownership |
|---|---|---|
| Robert E. Diamond, Jr. | 3,696,021 | 2.18% |
| Rachel F. Robbins | 86,522 | 0.05% |
| Amadou Raimi | 84,653 | 0.05% |
| Eduardo Mondlane, Jr. | 74,496 | 0.04% |
| Michael Wilkerson | 30,412 | 0.02% |
| Richie Boucher | 30,412 | 0.02% |
| Simon Lee[2] | 18,170 | 0/01% |
| Jawaid Mirza [2] | 0 | n/a |
| Aggregate holdings of Executive Committee [3] | 657,707 | 0.39% |

**Notes:**

1. Funke Opeke and Hisham Ezz Al-Arab stepped down from the Board, effective 6 February 2019. Quinn McLean stepped down from the Board, effective 24 April 2018.
2. Simon Lee joined the Board, effective 24 April 2018 and Jawaid Mirza joined the Board, effective 1 April 2019.
3. As at 22 April 2019, the Executive Committee is comprised of John Staley, Beatrice Hamza Bassey, Kenroy Dowers, Michael Christelis, Sanjeev Anand, Muhammad Omar Khan, and Jonathan Muthige.

### Securities carrying special rights

Save as disclosed above in relation to the shares held by Fairfax Africa and the Founder Preferred Shares, no person holds securities in the Company carrying special rights with regard to control of the Company.

### Voting rights

Holders of ordinary shares will have the right to receive notice of and to attend and vote at any meetings of members. Each holder of ordinary shares being present in person or by proxy at a meeting will, upon a show of hands, have one vote and upon a poll each such holder of ordinary shares present in person or by proxy will have one vote for each ordinary share held by him.

In the case of joint holders of a share, if two or more persons hold shares jointly each of them may be present in person or by proxy at a meeting of members and may speak as a member, if only one of the joint owners is present he may vote on behalf of all joint owners, and if two or more joint holders are present at a meeting of members, in person or by proxy, they must vote as one.

### Restrictions on voting

No member shall, if the Directors so determine, be entitled in respect of any share held by him to attend or vote (either personally or by proxy) at any meeting of members or separate class meeting of the Company or to exercise any other right conferred by membership in relation to any such meeting if he or any other person appearing to be interested in such shares has failed to comply with a notice requiring the disclosure of shareholder interests and given in accordance with the Articles within 14 calendar days, in a case where the shares in question represent at least 0.25% of their class, or within seven days, in any other case, from the date of such notice. These restrictions will continue until the information required by the notice is supplied to the Company or until the shares in question are transferred or sold in circumstances specified for this purpose in the Articles.

### Transfer of shares

Subject to the BVI Companies Act and the terms of the Articles, any member may transfer all or any of his certificated shares by an instrument of transfer in any usual form or in any other form which the Directors may approve. The Directors may accept such evidence of title of the transfer of shares (or interests in shares) held in uncertificated form (including in the form of depositary interests or similar interests, instruments or securities) as they shall in their discretion determine. The Directors may permit such shares or interests in shares held in uncertificated form to be transferred by means of a relevant system of holding and transferring shares (or interests in shares) in uncertificated form. No transfer of shares will be registered if, in the reasonable determination of the Directors, the transferee is or may be a Prohibited Person (as defined in the Articles) or is or may be holding such shares on behalf of a beneficial owner who is or may be a Prohibited Person. The Directors shall have power to implement and/or approve any arrangements they may, in their absolute discretion, think fit in relation to the evidencing of title to and transfer of interests in shares in the Company in uncertificated form (including in the form of depositary interests or similar interests, instruments or securities).

### Independent auditor and audit information

Each person who is a Director at the date of approval of this report confirms that, so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Annual General Meeting

The AGM of the Company will be held on 31 May 2019 in New York City at 375 Park Avenue (21st floor), New York, NY, 10152. All shareholders have the opportunity to attend and vote, in person or by proxy, at the AGM. The Notice of the AGM will be mailed out and made available on the Company's website at least 20 working days prior to the date of the AGM. The Notice of the AGM sets out the business of the meeting and explanatory notes on all resolutions. Separate resolutions will be proposed in respect of each substantive issue. The Chairman of the Board and the Chairpersons of the Board Committees will be available to answer shareholders' questions. Chairpersons of the Board Committees will be available to answer shareholders' questions.

# Statement of Directors’ responsibilities

### Statement of directors' responsibilities

The directors are responsible for preparing the Annual Financial Statements and the Group financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of their profit or loss for that period. In preparing each of the Group Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company’s transactions and disclose with reasonable accuracy at any time the financial position of the parent Company. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic report, Risk report and Directors’ report that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company’s website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Responsibility statement of the directors in respect of the annual financial statements**

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the group and the undertakings included in the consolidation taken as a whole; and

- the Strategic report, Risk report and Directors’ report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the Board

**Michael Wilkerson**
Chairman
29 April 2019

# Independent Auditor's report

**1. Our opinion is unmodified**

We have audited the financial statements of Atlas Mara Limited ("the Group") for the year ended 31 December 2018 which comprise the Consolidated statement of financial position, Consolidated statement of profit and loss, Consolidated statement of other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows and related notes, including the accounting policies.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2018 and of the Group's profit for the year then ended; and
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU).

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors during 2013. The period of total uninterrupted engagement is for the 6 financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

**2. Key audit matters: our assessment of risks of material misstatement**

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2017), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters:

**a. Impairment of loans and advances**

*Refer to Significant accounting policies: (iv) Use of estimates and judgement, (vi) Changes in accounting policies and (vii) Financial assets and liabilities, as well as notes 10 and 11 to the financial statements.*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| Loans and advances, which represent over 41% of total assets, and the associated impairment allowances, are significant in the context of the consolidated financial statements.<br><br>Atlas Mara Limited adopted IFRS 9 with effect from 1 January 2018 which requires impairment losses to be evaluated on an expected credit loss (ECL) basis. The determination of impairment allowances for expected losses requires significant judgement, and we have identified the audit of ECL impairment allowances to be a key audit matter.<br><br>The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the group's implementation of IFRS 9 are:<br><br>Accuracy of ECL models<br>The ECL model applies to financial assets measured at amortised cost. Under IFRS 9 loss allowances are measured on either of the following bases:<br>• 12 month ECLs that result from possible default events within the 12 months after the reporting date.<br>• Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.<br><br>The group is required to recognise an allowance for either 12 month or lifetime ECLs, depending on whether there has been a significant increase in credit risk (SICR) since initial recognition. | Our response to the key audit matter included performing the following audit procedures:<br>• Identified relevant controls that address the impairment risks identified and evaluated the design and implementation, and in certain instances the operating effectiveness, of these controls. We focused on controls over the identification of impairment losses; the governance processes in place for credit models, inputs and overlays; the credit forums where key judgements are considered; and governance processes over allowances for loan impairments and other credit risk allowances.<br>• To challenge the accuracy of models we:<br>o performed an assessment of changes to definitions and methodologies (at a parameter and ECL calculation level);<br>o re-performed the IFRS 9 model build at a parameter level as well as the assessment of its components, e.g. probability of default, loss given default, exposure at default, significant increase in in credit risk; and<br>o re-performed the ECL, SICR and stage migration calculations.<br>We evaluated the forward looking models and focused on reviewing the suitability of the macroeconomic scenario forecasts generated as well as any changes made to processes or governance. We tested how scenarios have performed against actual results and how they compare based on our knowledge of the industry. |

| | |
|---|---|
| Indicators of SICR in the retail portfolio may include short-term forbearance, direct debit cancellation, extension to the terms granted and previous arrears within the past months.<br>Indicators of a SICR in the corporate portfolio may include any of the following: significant increase in the credit spread, significant adverse changes in business, financial and/or economic conditions in which the client operates, actual or expected forbearance or restructuring, significant change in collateral value or early signs of liquidity and cashflow problems.<br><br>The measurement of ECLs reflects a probability-weighted outcome, the time value of money and the group's best available forward-looking information. The abovementioned probability-weighted outcome considers the possibility of a credit loss occurring and the possibility of no credit loss occurring, even if the possibility of a credit loss is low. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cashflows that the Group expects to receive). ECLs are discounted at the original effective interest rate of the financial asset.<br><br>The assessment of the ECL of a financial asset or a portfolio of financial assets entails estimations of the likelihood of defaults occurring and of the default correlations between counterparties. The group measures ECL using probability of default (PD), exposure at default (EAD) and loss given default (LGD). These three components are multiplied together and adjusted for the likelihood of default. The calculated ECL is then discounted using the original effective interest rate of the financial asset.<br><br>The assessment of SICR and the calculation of ECL both incorporate forward looking information. Significant judgement and estimates are applied in this process of incorporating forward looking information into the SICR assessment and ECL calculation.<br><br>Accordingly, due to the significance of loans and advances and the significant judgement involved, the expected credit risk evaluations was considered to be a key audit matter. | • We challenged the completeness, accuracy and validity of qualitative adjustments made to model results. In model adjustments are audited through our independent assessment of models as we compare our model output to the final provision incorporating adjustments.<br>• With regard to retail and corporate portfolio exposures:<br>o For a sample of loans and advances that had been individually evaluated and impaired, we challenged the valuation of impairment losses by developing an independent expectation of the amount of the allowance. This involved challenging the collateral value and assessing the reasonableness of expected cashflows;<br>o When performing work on the valuation of allowances, we considered any collateral held. Where management used specialists to perform the valuations, with the assistance of our financial risk management specialists, we reperformed the calculations of the expected credit losses for loans and advances.<br>o We evaluated management specialists' competence, capabilities and objectivity in performing these valuations.<br>• With regard to corporate portfolio exposures:<br>o We selected a sample of performing loans and advances and performed a detailed independent assessment of the expected credit losses, this included benchmarking internal ratings of loans and advances against external ratings and the ratings produced by a challenger model. |

**b. Goodwill**

*Refer to Significant accounting policies: (iv) Use of estimates and judgement and note 8 to the financial statements*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| Goodwill has been allocated to four cash-generating units (CGU's) for the purposes of impairment testing.<br><br>An annual impairment test was performed on goodwill by determining the value in use of the CGUs.<br><br>Management's assessment of impairment of the group's goodwill requires the application of significant judgements in the following areas:<br>• forecast cash flows;<br>• discount rates applied; and<br>• the assumptions underlying the forecast growth and terminal growth rates.<br><br>The judgements applied by management have a significant impact on the valuation on the CGU's. The valuation of goodwill was therefore considered a key audit matter. | Our procedures include:<br>• We evaluated management's determination of the group's CGU's with reference to:<br>o our understanding of the group's business;<br>o how earnings are monitored and reported internally within the group; and<br>o requirements of the financial reporting framework around identification of CGU's.<br><br>• We evaluated management's forecasting ability by comparing previous forecasts to current actual results.<br>o We evaluated managements assumptions on growth rates and discount rates by comparing them to known market and industry trends;<br>o We evaluated the forecast cash flows in light of the expected continuation of depressed market conditions and capital constraints and challenged the group's estimation of the rate of turnaround against market expectations.<br><br>We evaluated the adequacy of the disclosures made in the financial statements. |

### 3. Our application of materiality and an overview of the scope of our audit

Materiality

Materiality for the group financial statements as a whole was set at USD 14.0 million (2017: USD 13.0 million), determined with reference to a benchmark of total assets.

We agreed to report to the board audit committee any corrected or uncorrected identified misstatements exceeding USD 0.7 million (2017: USD 0.65 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Scope-general

The group team performed the audit of the group as if it was a single aggregated set of financial information. The audit was performed using the materiality levels set out above.

### 4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or to cease their operations, and as they have concluded that the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's business model and analysed how those risks might affect the Group's financial resources or ability to continue operations over the going concern period.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

### 5. We have nothing to report on the other information in the Annual Financial Statements

The directors are responsible for the other information presented in the Annual Financial Statements together with the financial statements. The other information comprises the Strategic report, Risk report, Directors' report and the Statement of directors' responsibilities. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

***Corporate governance disclosures***

Based solely on our work on the other information described above:

- with respect to the Corporate Governance Statement disclosures about internal control and risk management systems in relation to financial reporting processes and about share capital structures:
  - we have not identified material misstatements therein; and
  - the information therein is consistent with the financial statements; and
- in our opinion, the Corporate Governance Statement has been prepared in accordance with relevant rules of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

We are also required to report to you if a corporate governance statement has not been prepared by the group. We have nothing to report in these respects.

### 6. We have nothing to report on the other matters on which we are required to report by exception

We have nothing to report in these respects.

**7. Respective responsibilities**

**Directors' responsibilities**

As explained more fully in their statement set out on page 34, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

*Irregularities – ability to detect*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

The Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies' legislation) and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the Group is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations

**8. The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the Company's shareholders, as a body. 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.

**KPMG** Inc
Pierre Fourie
Chartered Accountant
85 Empire Road
Parktown
Johannesburg
2193
2 May 2019

# Consolidated statement of financial position

at 31 December 2018

| | Notes | 31 December 2018 $'000 | 31 December 2017 $'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and short-term funds | 22 | **381,988** | 457,018 |
| Financial assets held at fair value through profit or loss | 14 | **-** | 76,786 |
| Financial assets designated at fair value | 15 | **24,909** | 19,151 |
| Derivative financial assets | 17 | **5,602** | 6,990 |
| Loans and advances | 10 | **1,154,113** | 1,329,962 |
| Investment securities | 16 | **369,842** | 354,988 |
| Prepayments and other receivables | 29 | **37,287** | 136,105 |
| Current tax assets | | **8,585** | 10,024 |
| Investment in associates | 7 | **532,233** | 444,569 |
| Property and equipment | 28 | **78,417** | 95,728 |
| Investment property | 27 | **12,414** | 21,199 |
| Other intangible assets | 8 | **79,015** | 90,881 |
| Deferred tax assets | 23.3 | **40,316** | 13,244 |
| Goodwill on acquisition | 8 | **80,005** | 83,740 |
| **Total assets** | | **2,804,726** | 3,140,385 |
| | | | |
| **Equity and liabilities** | | | |
| Deposits | 4 | **1,631,797** | 1,877,477 |
| Derivative financial liabilities | 17 | **6,536** | 6,741 |
| Creditors and accruals | 20 | **41,268** | 72,481 |
| Current tax liabilities | | **7,832** | 5,992 |
| Deferred tax liability | 23.3 | **18,198** | 18,317 |
| Borrowed funds | 3 | **410,157** | 346,153 |
| **Total liabilities** | | **2,115,788** | 2,327,161 |
| | | | |
| Founder Preference Shares | 1 | **11,300** | 12,500 |
| Ordinary share capital | 1 | **993,192** | 987,292 |
| Capital reserves | | **(38,314)** | 51,723 |
| Retained earnings / (Accumulated loss) | | **2,981** | (5,977) |
| Fair value reserves | | **488** | 39 |
| Foreign currency translation reserve | | **(299,252)** | (228,522) |
| Treasury shares | | **(23,551)** | (24,539) |
| **Equity attributable to ordinary shareholders** | | **646,844** | 792,516 |
| | | | |
| Non-controlling interest | | **42,094** | 20,708 |
| | | | |
| Total equity | | **688,938** | 813,224 |
| | | | |
| Total equity and liabilities | | **2,804,726** | 3,140,385 |

# Consolidated statement of profit or loss

for the year ended 31 December 2018

| | Notes | 31 December 2018 $'000 | 31 December 2017 $'000 |
|---|---|---|---|
| Interest and similar income | 13 | **247,558** | 266,503 |
| Interest and similar expense | 5 | **(114,999)** | (121,217) |
| **Net interest income** | | **132,559** | 145,286 |
| Impairment charges on financial instruments | 11 | **(211)** | (22,265) |
| **Net interest income after loan impairment charges** | | **132,348** | 123,021 |
| Non-interest income | 18 | **98,810** | 115,167 |
| Share of profit of associates | | **56,332** | 38,400 |
| **Total operating income** | | **287,490** | 276,588 |
| Operating expenses | 19 | **(240,690)** | (223,384) |
| Transaction and integration expenses | 6 | **164** | (150) |
| **Profit before tax** | | **46,964** | 53,054 |
| Income tax expense | 23.1 | **(4,747)** | (5,268) |
| **Profit for the period** | | **42,217** | 47,786 |
| **Attributable to:** | | | |
| Ordinary shareholders | | **39,708** | 45,432 |
| Non-controlling interests | | **2,509** | 2,354 |
| | | **42,217** | 47,786 |
| | | | |
| Basic earnings per share ($) | 26 | **0.23** | 0.42 |
| Diluted earnings per share ($) | 26 | **0.23** | 0.42 |

# Consolidated statement of other comprehensive income

for the year ended 31 December 2018

| | 31 December 2018 $'000 | 31 December 2017 $'000 |
|---|---|---|
| **Profit for the period:** | **42,217** | 47,786 |
| | | |
| **Other comprehensive income to be reclassified to profit/loss in subsequent periods:** | **(76,107)** | 33,039 |
| Exchange differences on translating foreign operations | **(71,817)** | 21,975 |
| Financial assets at fair value through OCI – net change in fair value (net of tax) | **85** | 783 |
| Share of other comprehensive income of equity-accounted investees (net of tax) | **(4,375)** | 10,281 |
| | | |
| **Other comprehensive income not to be reclassified to profit/loss in subsequent periods:** | **1,862** | 503 |
| Revaluation of land and buildings (net of tax) | **1,862** | 516 |
| Other comprehensive income | **–** | (13) |
| **Total other comprehensive income for the period, net of tax** | **(74,245)** | 33,542 |
| **Total comprehensive income for the period, net of tax** | **(32,028)** | 81,328 |
| | | |
| **Total comprehensive income attributable to:** | | |
| Ordinary shareholders | **(33,379)** | 79,980 |
| Non-controlling interests | **1,351** | 1,348 |
| | **(32,028)** | 81,328 |

# Consolidated statement of changes in equity

for the year ended 31 December 2018

| | Founder Preference Shares $'000 | Ordinary share capital $'000 | Capital reserves[1] $'000 | Available for sale reserves $'000 | Fair value through OCI reserves $'000 | Foreign currency translation reserve $'000 | Treasury shares[2] $'000 | Retained earnings/ (Accumulated loss) $'000 | Equity attributable to ordinary shareholders $'000 | Non-controlling interests $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Opening balance as at 1 January 2017** | **12,500** | **773,213** | **45,840** | **(744)** | **–** | **(251,503)** | **(26,085)** | **(46,676)** | **506,545** | **19,510** | **526,055** |
| | | | | | | | | | | | |
| Results for the period | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **45,432** | **45,432** | **2,354** | **47,786** |
| | | | | | | | | | | | |
| **Other comprehensive income:** | | | | | | | | | | | |
| Exchange differences on translating foreign operations | **–** | **–** | **–** | **–** | **–** | **22,981** | **–** | **–** | **22,981** | **(1,006)** | **21,975** |
| Revaluation of property net of deferred tax | **–** | **–** | **516** | **–** | **–** | **–** | **–** | **–** | **516** | **–** | **516** |
| Movement in available-for-sale reserves | **–** | **–** | **–** | **783** | **–** | **–** | **–** | **–** | **783** | **–** | **783** |
| Other comprehensive income | **–** | **–** | **(13)** | **–** | **–** | **–** | **–** | **–** | **(13)** | **–** | **(13)** |
| Equity-accounted investees | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **10,281** | **10,281** | **–** | **10,281** |
| **Total comprehensive income** | **–** | **–** | **503** | **783** | **–** | **22,981** | **–** | **55,713** | **79,980** | **1,348** | **81,328** |
| **Transactions with owners** | | | | | **–** | | | | | | |
| Employee share awards | **–** | **–** | **2,042** | **–** | **–** | **–** | **1,017** | **–** | **3,059** | **–** | **3,059** |
| Issue of ordinary shares to Directors | **–** | **–** | **–** | **–** | **–** | **–** | **529** | **–** | **529** | **–** | **529** |
| New shares issued on private placement | **–** | **214,079** | **–** | **–** | **–** | **–** | **–** | **–** | **214,079** | **–** | **214,079** |
| Non-controlling interests acquired | **–** | **–** | **(242)** | **–** | **–** | **–** | **–** | **–** | **(242)** | **–** | **(242)** |
| Movements in non-distributable reserves | **–** | **–** | **14,539** | **–** | **–** | **–** | **–** | **(15,014)** | **(475)** | **(150)** | **(625)** |
| Share issue expense | **–** | **–** | **(10,959)** | **–** | **–** | **–** | **–** | **–** | **(10,959)** | **–** | **(10,959)** |
| **Closing balance as at 31 December 2017** | **12,500** | **987,292** | **51,723** | **39** | **–** | **(228,522)** | **(24,539)** | **(5,977)** | **792,516** | **20,708** | **813,224** |
| | | | | | | | | | | | |
| **Opening balance as at 1 January 2018** | **12,500** | **987,292** | **51,723** | **39** | **–** | **(228,522)** | **(24,539)** | **(5,977)** | **792,516** | **20,708** | **813,224** |
| **Change on initial application of IFRS 9 at 1 January 2018 (see note vi (a))** | **–** | **–** | **(86,807)** | **(39)** | **327** | **–** | **–** | **(47,284)** | **(133,803)** | **(2,788)** | **(136,591)** |
| **Restated balance as at 1 January 2018** | **12,500** | **987,292** | **(35,084)** | | **327** | **(228,522)** | **(24,539)** | **(53,261)** | **658,713** | **17,920** | **676,633** |
| | | | | | | | | | | | |
| Results for the period | **–** | **–** | **–** | | **–** | **–** | **–** | **39,708** | **39,708** | **2,509** | **42,217** |
| | | | | | | | | | | | |
| **Other comprehensive income:** | | | | | | | | | | | |
| Exchange differences on translating foreign operations | **–** | **–** | **–** | **–** | **–** | **(70,730)** | **–** | **–** | **(70,730)** | **(1,087)** | **(71,817)** |
| Revaluation of property net of deferred tax | **–** | **–** | **1,862** | **–** | **–** | **–** | **–** | **–** | **1,862** | **–** | **1,862** |
| Movement in available-for-sale reserves | **–** | **–** | **–** | **–** | **156** | **–** | **–** | **–** | **156** | **(71)** | **85** |
| Equity-accounted investees | **–** | **–** | **–** | **–** | **5** | **–** | **–** | **(4,380)** | **(4,375)** | **–** | **(4,375)** |
| **Total comprehensive income** | **–** | **–** | **1,862** | **–** | **161** | **(70,730)** | **–** | **35,328** | **(33,379)** | **1,351** | **(32,028)** |
| **Transactions with owners** | | | | | | | | | | | |
| Employee share awards | **–** | **–** | **4,513** | **–** | **–** | **–** | **289** | **–** | **4,802** | **–** | **4,802** |
| Conversion of founder preference shares to ordinary shares | **(1,200)** | **–** | **888** | **–** | **–** | **–** | **312** | **–** | **–** | **–** | **–** |
| Issue of shares on business acquisition (UBN 1%) | **–** | **5,900** | **–** | **–** | **–** | **–** | **–** | **–** | **5,900** | **–** | **5,900** |
| Issue of ordinary shares to Directors | **–** | **–** | **–** | **–** | **–** | **–** | **387** | **–** | **387** | **–** | **387** |
| Equity portion of convertible debt issued | **–** | **–** | **11,377** | **–** | **–** | **–** | **–** | **–** | **11,377** | **–** | **11,377** |
| Non-controlling interests acquired | **–** | **–** | **4,235** | **–** | **–** | **–** | **–** | **–** | **4,235** | **22,823** | **27,058** |
| Movements in non-distributable reserves | **–** | **–** | **(26,105)** | **–** | **–** | **–** | **–** | **20,914** | **(5,191)** | **–** | **(5,191)** |
| **Closing balance as at 31 December 2018** | **11,300** | **993,192** | **(38,314)** | **–** | **488** | **(299,252)** | **(23,551)** | **2,981** | **646,844** | **42,094** | **688,938** |

Notes:

1. Capital reserves consists of the following:
   - The credit risk reserve represents an appropriation from retained earnings to comply with the Countries Central Bank Regulations. The balance in the reserve represents the excess of impairment provisions determined in accordance with Central Bank regulations over the impairment provisions recognised in accordance with IFRSs. The reserve is not distributable.
   - Equity-settled share-based payment reserve.
   - The revaluation reserve represents the revaluation surplus on the revaluation of property for the year.
   - The equity portion of the convertible bond represents the equity component of the compound instrument. This has been measured as the residual amount which is the issued price less the fair value of the liability component.
2. Treasury shares: Treasury shares comprise the cost of the Company's own shares held by subsidiaries.

# Consolidated statement of cash flows

for the year ended 31 December 2018

| | Notes | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Profit before tax | | **46,964** | 53,054 |
| Adjusted for: | | | |
| Fair value adjustment | | **–** | (5,941) |
| Foreign exchange gains | | **(3,549)** | (8,640) |
| Loan impairment charges | 11 | **211** | 22,265 |
| Depreciation and amortisation | 19 | **25,458** | 24,467 |
| Impairment of goodwill | 8 | **–** | 3,500 |
| Net losses on derivative financial instruments | | **(60)** | 56 |
| Net gains on financial instruments at fair value through profit/loss | | **(14,572)** | (1,331) |
| Share of profit of associates | | **(56,332)** | (38,355) |
| Fair value adjustment on acquisition related financial instrument | | **–** | (26,800) |
| Revaluation of investment property | | **(1,187)** | (1,699) |
| (Gain)/loss on disposal of property and equipment | | **(629)** | 814 |
| Equity-settled share-based payment transactions | | **4,437** | 3,059 |
| Tax paid | | **(15,298)** | (4,826) |
| Net cash (outflow)/inflow from operating activities before changes in operating funds | | **(14,557)** | 19,623 |
| **Net (decrease)/increase in operating funds** | | **27,102** | (4,404) |
| (Increase)/decrease in operating assets | | **333,920** | (90,253) |
| Increase/(decrease) in operating liabilities | | **(306,818)** | 85,849 |
| **Net cash used in operating activities** | | **12,545** | **15,219** |
| | | | |
| **Cash flow from investing activities:** | | | |
| Purchase of property and equipment | | **(9,004)** | (13,679) |
| Purchase of investment property | | **(3,141)** | (2,099) |
| Purchase of intangible assets | | **(16,970)** | (15,757) |
| Additions to associates | | **(55,054)** | (75,734) |
| Acquisition of financial assets designated at fair value | | **(284)** | (3,952) |
| Disposal of financial assets held at fair value through profit or loss | | **–** | 24,941 |
| Purchase of Investment securities | | **(83,113)** | (117,013) |
| Proceeds on disposal of property and equipment | | **1,332** | 2,010 |
| Net proceeds from IPO (ABC Botswana) | | **27,058** | – |
| **Net cash used in investing activities** | | **(139,176)** | (201,283) |
| | | | |
| **Cash flow from financing activities** | | | |
| Share issue expense | | **–** | (10,959) |
| Proceeds from issue of shares | | **–** | 214,079 |
| Increase in borrowed funds | | **84,383** | 23,772 |
| Net cash generated from financial activities | | **84,383** | 226,892 |
| Increase in cash and cash equivalents | | **(42,248)** | 40,828 |
| Cash and cash equivalents at the beginning of the year | | **457,018** | 406,325 |
| Effect of exchange rate fluctuations on cash and cash equivalents held | | **(32,782)** | 9,865 |
| **Cash and cash equivalents at the end of the year** | | **381,988** | 457,018 |
| | | | |
| **Cash and short-term funds** | 22 | **381,988** | 457,018 |
| Cash and cash equivalents | | **288,889** | 355,098 |
| Statutory reserve balances | | **93,099** | 101,920 |

# Segmental report

for the year ended 31 December 2018

**Segment information**

Segment results that are reported to the Group's Executive Committee (EXCO – being the chief operating decision maker) include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly of corporate assets (primarily the Group's headquarters), head office expenses and tax assets and liabilities.

For management purposes, the Group is organised into business units based on its products and services and has four reportable segments, as follows:

- Southern Africa
- East Africa
- West Africa
- Corporate

Atlas Mara identifies segments based on the geography of operating banks. All entities and/or consolidation adjustments not part of operating banks, are included as 'Corporate'. Business unit segmentation (retail and corporate) within geographies are determined by revenue drivers relating to client segmentation within each operating entity. Operating banks in each geography are aggregated. All consolidation entries are included in 'Corporate'.

Transfer prices between operating segments are on an arm's-length basis in a manner similar to transactions with third parties. During 2015, the Group designed and implemented a new transfer pricing policy that is in line with OECD requirements. The policy is in the implementation stage and currently undergoing regulatory approval at operational country level. The impact of this policy is that in addition to formalising the manner in which arm's-length is determined, it is also in line with both Group and country-level tax and regulatory best practice.

Revenue from external parties reported to the EXCO is measured in a manner consistent with that in the consolidated statement of profit or loss.

As the banking operations comprise of stand-alone banks, each banking operation is funded with Tier I and II Capital from the holding and intermediate holding company.

Other material items of income or expense between the operating segments comprise of management fees and dividends.

The Group's management reporting is based on a measure of operating profit comprising net interest income, loan impairment charges, net fee and commission income, non-interest income and operating expenses.

The CFO's review of financial performance describes the impact of non-recurring items of income and expenses.

The information provided about each segment is based on the internal reports about segment profitability, assets and liabilities composition, and other information, which are regularly reviewed by the EXCO.

**Main products include**

- Transactional accounts
- Business accounts
- Savings accounts
- Prepaid cards
- Overdrafts
- Term lending
- Mortgage loans
- Vehicle and asset finance
- Unsecured personal lending/payroll deduction lending
- Fixed term deposits
- Call deposits
- Forex, bond and fixed income trading

The Group operates on a universal product offering across countries, managed by a New Products Committee. Exceptions could occur when new products are tested in an individual country before being rolled out across the Group.

No one client contributes more than 10% of total Group revenue.

### Statement of profit or loss

| | 31 December 2018 | | | | |
|---|---|---|---|---|---|
| | Southern Africa[1] $'000 | East Africa[2] $'000 | West Africa[3] $'000 | Corporate[4] $'000 | Total $'000 |
| Interest and similar income | **200,958** | **59,509** | **–** | **(12,909)** | **247,558** |
| Interest and similar expense | **(77,274)** | **(20,767)** | **–** | **(16,958)** | **(114,999)** |
| **Net interest income** | **123,684** | **38,742** | **–** | **(29,867)** | **132,559** |
| Loan impairment charges | **6,863** | **(6,628)** | **–** | **(446)** | **(211)** |
| **Income/(loss) from lending activities** | **130,547** | **32,114** | **–** | **(30,313)** | **132,348** |
| Non-interest income | **69,908** | **13,492** | **–** | **15,410** | **98,810** |
| **Total operating income** | **200,455** | **45,606** | **–** | **(14,903)** | **231,158** |
| Operating expenses | **(165,259)** | **(45,019)** | **–** | **(30,248)** | **(240,526)** |
| **Net income from operations** | **35,196** | **587** | **–** | **(45,151)** | **(9,368)** |
| Share of profit of associates | **–** | **–** | **27,831** | **28,501** | **56,332** |
| | | | | | |
| **Profit/(loss) before tax** | **35,196** | **587** | **27,831** | **(16,650)** | **46,964** |
| Income tax expense | **(7,737)** | **(1,944)** | **–** | **4,934** | **(4,747)** |
| **Profit/(loss) for the year** | **27,459** | **(1,357)** | **27,831** | **(11,716)** | **42,217** |
| **Non-controlling interest** | **–** | **1,508** | **–** | **1,001** | **2,509** |
| **Profit/(loss) attributable to ordinary shareholders** | **27,459** | **(2,865)** | **27,831** | **(12,717)** | **39,708** |

| | 31 December 2017 | | | | |
|---|---|---|---|---|---|
| | Southern Africa[1] $'000 | East Africa[2] $'000 | West Africa[3] $'000 | Corporate[4] $'000 | Total $'000 |
| Interest and similar income | 200,650 | 64,162 | – | 1,691 | 266,503 |
| Interest and similar expense | (87,726) | (26,007) | – | (7,484) | (121,217) |
| **Net interest income** | 112,924 | 38,155 | – | (5,793) | 145,286 |
| Loan impairment charges | (12,725) | (9,540) | – | – | (22,265) |
| **Income/(loss) from lending activities** | 100,199 | 28,615 | – | (5,793) | 123,021 |
| Non-interest income | 68,769 | 15,979 | – | 30,419 | 115,167 |
| **Total operating income** | 168,968 | 44,594 | – | 24,626 | 238,188 |
| Operating expenses | (156,750) | (41,420) | – | (25,364) | (223,534) |
| **Net income from operations** | 12,218 | 3,174 | – | (738) | 14,654 |
| Share of profit of associates | – | – | 38,400 | – | 38,400 |
| | | | | | |
| **Profit/(loss) before tax** | 12,218 | 3,174 | 38,400 | (738) | 53,054 |
| Income tax expense | (3,735) | (240) | – | (1,293) | (5,268) |
| **Profit/(loss) for the year** | 8,483 | 2,934 | 38,400 | (2,031) | 47,786 |
| **Non-controlling interest** | – | 1,515 | – | 839 | 2,354 |
| **Profit/(loss) attributable to ordinary shareholders** | 8,483 | 1,419 | 38,400 | (2,870) | 45,432 |

**Notes:**

1. Southern Africa segment includes Zambia, Zimbabwe, Botswana and Mozambique.
2. East Africa segment includes Rwanda and Tanzania.
3. West Africa segment includes the investment in associate (UBN).
4. Corporate segment includes Dubai, Germany, BVI, Mauritius and all other regions.
5. In line with the manner in which the Group has moved to manage the business as primarily geographic segments and on a secondary basis as business lines, the segment report presents the results in geographic segments. As the business lines develop and financial results become material a secondary segmental split showing the business lines will be presented.

Segment assets and liabilities comprise the majority of items appearing in the consolidated statement of financial position.

**Statement of financial position**

| | 31 December 2018 | | | | |
|---|---|---|---|---|---|
| | **Southern Africa[1] $'000** | **East Africa[2] $'000** | **West Africa[3] $'000** | **Corporate[4] $'000** | **Total $'000** |
| Loans and advances | **886,931** | **250,265** | – | **16,917** | **1,154,113** |
| Total assets | **1,674,376** | **421,657** | **530,585** | **178,108** | **2,804,726** |
| Deposits | **1,319,773** | **312,024** | **–** | **–** | **1,631,797** |
| Total liabilities | **1,479,940** | **353,534** | – | **282,314** | **2,115,788** |

| | 31 December 2017 | | | | |
|---|---|---|---|---|---|
| | Southern Africa[1] $'000 | East Africa[2] $'000 | West Africa[3] $'000 | Corporate[4] $'000 | Total $'000 |
| Loans and advances | 1,037,541 | 286,717 | – | 5,704 | 1,329,962 |
| Total assets | 2,000,110 | 502,996 | 442,738 | 194,541 | 3,140,385 |
| Deposits | 1,505,111 | 372,366 | – | – | 1,877,477 |
| Total liabilities | 1,875,164 | 422,267 | – | 29,730 | 2,327,161 |

**Notes:**

1. Southern Africa segment includes Zambia, Zimbabwe, Botswana and Mozambique.
2. East Africa segment includes Rwanda and Tanzania.
3. West Africa segment includes the investment in associate (UBN).
4. Corporate segment includes Dubai, Germany, BVI, Mauritius and all other regions.

# Significant accounting policies

for the year ended 31 December 2018

This section describes the Group's significant accounting policies and critical accounting estimates and judgements that relate to the financial statements and notes as a whole. If an accounting policy or a critical accounting estimate relates to a specific note, the applicable accounting policy and/or critical accounting estimate is contained within the relevant note.

### i. Reporting entity

These financial statements have been prepared for Atlas Mara Limited (the 'Company'), a company domiciled in the BVI, and its subsidiaries (the 'Group').

The Group is a financial services provider, focused on becoming the premier financial services institution in sub-Saharan Africa and aims to support economic growth and strengthen financial systems in the countries in which it operates.

During the course of 2014 – 2016, Atlas Mara acquired control of ABC Holdings Limited, which operates banking subsidiaries in Botswana, Mozambique, Tanzania, Zambia and Zimbabwe and conducts business under the BancABC brand in each country, African Development Corporation AG ('ADC'), BRD Commercial Bank Limited ('BRD Commercial'), a non-controlling holding, both direct and indirect, in Union Bank of Nigeria plc ('UBN'), BPR and FBZ. During 2017 the Group increased its non-controlling holding in UBN to c.49%

### ii. Compliance with IFRS

The consolidated financial statements of the Group (the 'financial statements') have been prepared in accordance with International Financial Reporting Standards ('IFRS') and IFRS Interpretations Committee ('IFRIC') interpretations as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU').

The financial statements of all material subsidiaries and associates are prepared in accordance with IFRS as issued by the IASB and there are no material inconsistencies in the accounting policies applied.

IFRS as endorsed by the EU may differ from IFRSs as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU.

As at 31 December 2018, there were no unendorsed standards effective for the year ended 31 December 2018 that affect these consolidated financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Group.

### iii. Basis of preparation

The financial statements have been prepared on a historical cost basis except for financial assets held for trading, financial assets designated at fair value, derivative financial instruments, investment securities (FVOCI instruments), property, investment property and a portion of borrowed funds which are measured at fair value.
All amounts disclosed in the financial statements and notes have been rounded off to the nearest thousand currency units unless otherwise stated.

#### Going concern

The Directors consider it appropriate to adopt the Going Concern basis for preparing the financial statements, as the Directors have a reasonable expectation that the Group will continue to have the necessary resources to continue in business for the foreseeable future.

When considering the Going Concern basis of the Group, the Directors have referenced the Financial Reporting Council's Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks, as was published in April 2016. The assessment of the appropriateness of the Going Concern basis of accounting for the Group's Report and Accounts has been subject to a thorough process involving analysis and discussion by Management, the Executive Committee, the Audit Committee and the Board.

The Directors' assessment of Going Concern was based on the Group's forecasts, covering the period 2018-2019, which have been considered by the Group's Board of Directors and included a particular focus on the 12-month period following the date of publication of the financial statements. The Group's forecasts are based on bottom-up financial forecasts for the existing Group, which have been approved by the boards of subsidiaries and associates and include a detailed review of known and potential risks and factors mitigating such risk events.

The Directors considered the capital forecast, liquidity and funding position of individual banking entities within the Group, compared with minimum requirements set by banking regulators in each country as well as reasonable commercial headroom or so-called buffers in line with the Group's risk appetite. In addition, the Directors considered forecasts for the Parent company itself.

### iv. Use of estimates and judgements

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's 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 estimates are recognised prospectively.

The Group's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. Further information about key assumptions concerning the future, and other key sources of estimation uncertainty, are set out in the relevant disclosure notes for the following areas:

- fair value of financial instruments (notes 3, 9 and 27);
- assessment of the investment in associates for impairment (note 7);
- assessment of goodwill and intangible assets for impairment (note 8);
- loan impairment charges (note 11);
- share-based payment valuations (note 21);
- recognition of deferred tax assets (note 23); and
- fair value of investment properties (note 27).

### v. Foreign currency translation

Functional and presentation currency

The Directors consider US dollars as the currency that represents the economic effects of the underlying transactions, events and conditions. The financial statements of the Company are presented in US dollars, which is also the Company's functional currency. The presentation currency of the Group is also US dollars.

Transactions and balances

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange 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 spot exchange rate at the date of the transaction.

In the consolidated financial statements, the assets and liabilities of branches, subsidiaries, joint ventures and associates whose functional currency is not US dollars are translated into the Group's presentation currency at the rate of exchange at the statement of financial position date, while their results are translated into US dollars at the average rates of exchange for the reporting period.

Exchange differences arising from the retranslation of opening foreign currency net assets, and the retranslation of the results for the reporting period from the average rate to the exchange rate at the period end, are recognised in other comprehensive income ('OCI').

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into US dollars at the spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into US dollars at the spot exchange rates at the dates of the transactions.

Foreign currency differences are recognised in OCI and accumulated in the foreign currency translation reserve ('FCTR'), except to the extent that the translation difference is allocated to non-controlling interest ('NCI').

### vi. Changes in accounting policies

Adoption of IFRS 9

Effective 1 January 2018, the Group adopted IFRS 9 ('Financial Instruments') which has resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements.

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustment to carrying amounts of financial assets and financial liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. The Group has also elected to continue to apply the hedge accounting requirements of IAS 39.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but have not been applied to the comparative information. The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarised below.

### Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Group classifies financial assets under IFRS 9, see note vii below.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Group classifies financial liabilities under IFRS 9, see note vii below.

### Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The Group assesses on a forward-looking basis the expected credit loss (ECL) associated with its debt instruments carried at amortised cost and FVOCI and with the exposure arising from loans commitments and financial guarantee contracts.

*Loans and advances*

Sophisticated impairment models have been developed for our retail and commercial loan portfolios, with three core models Expected credit losses must be calculated for drawn loans, and for committed lending.

In general terms, the ECL for a loan is calculated using the following formula:

ECL = **Probability of default x Loss given default x Exposure at default**

Key model inputs and judgements include:

- **Consideration of when a significant increase in credit risk occurs**
- **Probability of default, loss given default, and exposure at default.**

IFRS 9 requires a higher level of expected credit loss to be recognised for underperforming loans. This is considered based on a staging approach:

| Stage | Description | ECL recognised |
|---|---|---|
| Stage 1 – performing loans | Financial instruments that have had no significant increase in credit risk since initial recognition or that have low credit risk at the reporting date.<br><br>For example: a newly originated loan on which repayments are being received and there are no other indicators of a significant increase in credit risk. | 12-month expected credit losses<br><br>Losses expected on defaults which may occur within the next 12 months. |
| Stage 2 – underperforming loans | Financial instruments that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment.<br><br>For example: a loan on which payment is 30 days overdue. | Lifetime expected credit losses<br>Losses expected on defaults which may occur at any point in a loan's lifetime.<br><br>Losses are adjusted for probability weighted macro-economic scenarios. |
| Stage 3 – non-performing loans | Market comparison technique: The valuation model is based on market multiples derived from quoted prices of companies comparable to the investee on actual EBITDA for the period ended 31 December 2018. The estimate is adjusted for the effect of the non-marketability of the equity securities. | Lifetime expected credit losses<br>Losses expected on defaults which may occur at any point in a loan's lifetime.<br><br>Losses are adjusted for probability weighted macro-economic scenarios.<br><br>Interest income is calculated on the carrying amount of the loan net of credit allowance. |

A significant increase in credit risk may be identified in a number of ways:

- Qualitative criteria – for example, the borrower's credit risk grade has deteriorated, the client is included on a watch list or there are signs that the customer is unlikely or unwilling to pay
- Quantitative criteria – for example, where payments are at least 30 days overdue,

A loan will be considered to be 'non-performing' when it meets the Group's definition of default – e.g. the loan is 90 days past due, or the borrower is considered unlikely to pay.

### Probability of default

The Probability of Default (PD) model estimates the probability of default across various product segments. PD curves are created for each of these segments to identify the likelihood of default from the point of observation into the future.
Survival methodology was selected for the calculation of PD which is explained in the section below.

PD term structures are developed for each segment. The base term structures are calculated empirically based on one monthly hazard rates. The hazard rates are calculated as the proportion of the default balances for a given time on the book across all origination cohorts in the data, to the balance of the accounts at risk.

### Loss given default

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cashflows due and those that the lender would expect to receive, including from any collateral. We have applied two LGD rates – one for unsecured lending and one for secured lending.

LGD rates have been modelled considering a range of inputs, including:

- value of collateral on secured portfolios, including any haircut applied to the collateral value to take into account a force sale value
- forecasting of recoveries in the case of unsecured facilities.
- Stress factors based on macro-economic scenarios

### Exposure at default

Represents the amount expected to be owed at the point of default. This is subject to judgement since a balance will not necessarily remain static between the balance sheet date and the point of expected default. For example:

- Interest accrued
- Repayments may be received
- For a revolving product, further drawings may be taken between the current point in time and the point of default.

*Investment securities and other financial assets*

Impairment provisions have been calculated based on our best estimate of expected credit losses on other assets classified and measured at amortised cost and fair value through other comprehensive income. These include investment securities, cash held at banks and other financial assets. Impairment provisions are not material.

### Hedge accounting

The new requirements under IFRS 9 align hedge accounting more closely with risk management. The revised standard also establishes a more principles-based approach to hedge accounting. IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting. Hedge accounting is not currently material for us and we have elected to continue applying the requirements of IAS 39.

### IFRS 9 governance

Responsibility for initial approval of all impairment models has been assigned to an IFRS 9 Steer Committee. The Credit Risk Committee is responsible for review of credit impairment models, including model design and outcomes. The Audit Risk and Compliance Committee is responsible for review and approval of accounting policy.

### Impact of adoption of IFRS 9

Set out below are the disclosures relating to the impact of adoption of IFRS 9 on the Group:

a) Impact on equity

The following table illustrates the impact, net of tax of transition to IFRS 9 on reserves and retained earnings:

| | Fair value reserves $'000 | Available for sale reserve $'000 | Capital reserves $'000 | Retained earnings $'000 | NCI | Others [1] $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| Opening balance – IAS 39 | – | 39 | 51,723 | (5,977) | 20,708 | 746,731 | 813,224 |
| Reclassification from available for sale to fair value reserves | 39 | (39) | – | – | – | – | – |
| IFRS 9 remeasurement impact (see Table d below) | 288 | – | (18,595) | (71,550) | (2,788) | – | (92,645) |
| Deferred tax on IFRS 9 (Note 23.3) | – | – | – | 24,266 | – | – | 24,266 |
| Group's share of IFRS 9 impact on UBN (Note 7) | – | – | (68,212) | – | – | – | (68,212) |
| Total IFRS 9 impact | 288 | – | (86,807) | (47,284) | (2,788) | – | (136,591) |
| **Opening balance – IFRS 9** | **327** | **–** | **(35,084)** | **(53,261)** | **17,920** | **746,731** | **679,067** |

**Notes:**

1. Others include ordinary share capital, founder preference shares, foreign currency translation reserves and treasury shares

b) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and financial liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

| | Measurement category | Carrying Value $'000 | Measurement category | Carrying Value $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and short-term funds | Loans and receivables | **457,018** | Amortised cost | **457,018** |
| Loans and advances | Loans and receivables | **1,329,962** | Amortised cost | **1,239,354** |
| Trading assets | FVPL (Held for trading) | **76,786** | FVPL | **–** |
| Investment securities | Held to maturity | **60,701** | Amortised cost | **384,542** |
| | Available for sale | **294,287** | FVOCI | **45,353** |
| | FVPL (designated) | **19,151** | FVPL | **19,145** |
| Derivative financial assets | FVPL | **6,990** | FVPL | **6,990** |
| **Financial liabilities** | | | | |
| Deposits | Amortised cost | **1,877,477** | Amortised cost | **1,877,477** |
| | | | | **6,741** |
| Derivative financial liabilities | FVPL | **6,741** | FVPL | |

The classification requirements in IFRS 9 were applied after performing a detailed analysis of its business models for managing financial assets. The Group has considered whether financial assets are held for the collection of principal and interest payments, or whether cash flows are expected to be collected from their sale, as well as how the performance of such financial assets is assessed.

c) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

| | IAS 39 carrying amount at 31 December 2017 $'000 | Reclassification $'000 | Remeasurement $'000 | IFRS 9 carrying amount at 1 January 2018 $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| ***Amortised cost*** | | | | |
| Cash and short-term funds | **457,018** | **–** | **–** | **457,018** |
| Loans and advances | **1,329,962** | **–** | **–** | **–** |
| Remeasurement: ECL Allowance | **–** | **–** | **(90,608)** | **–** |
| Closing balance under IFRS 9 | **–** | **–** | **–** | **1,239,354** |
| Investment securities held to maturity | **60,701** | **–** | **–** | **–** |
| Transfer from available for sale (IAS 39) | **–** | **248,933** | **–** | **–** |
| Remeasurement: ECL Allowance | **–** | **–** | **(1,031)** | **–** |
| Transfer from held for trading (IAS 39) | **–** | **76,786** | **–** | **–** |
| Remeasurement from FV to amortised cost | **–** | **–** | **(2)** | **–** |
| Remeasurement of amortised cost | **–** | **–** | **(845)** | **–** |
| Closing balance under IFRS 9 | **–** | **–** | **–** | **384,542** |
| ***Fair value through other comprehensive income*** | | | | |
| Investment securities available for sale | **294,287** | **–** | **–** | **–** |
| Transfer to amortised cost (IFRS 9) | **–** | **(248,933)** | **–** | **–** |
| Remeasurement from amortised cost to FV | **–** | **–** | **(1)** | **–** |
| Closing balance under IFRS 9 | **–** | **–** | **–** | **45,353** |
| ***Fair value through profit or loss*** | | | | |
| Financial assets held for trading | **76,786** | **–** | **–** | **–** |
| Transfer to amortised cost (IFRS 9) | **–** | **(76,786)** | **–** | **–** |
| Closing balance under IFRS 9 | **–** | **–** | **–** | **–** |
| Financial assets designated at fair value | **19,151** | **–** | **–** | **19,151** |
| Derivative financial asset | **6,990** | **–** | **–** | **6,990** |
| **Total** | **2,244,895** | **–** | **(92,487)** | **2,152,408** |

**d) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9**

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

| Measurement categories | Loan loss allowance under IAS 39 $'000 | Remeasurement $'000 | Loan loss allowance under IFRS 9 $'000 |
|---|---|---|---|
| ***Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)*** | | | |
| Loans and advances | **57,888** | **90,608** | **148,496** |
| ***Held to maturity (IAS 39)/Financial assets at amortised cost (IFRS 9)*** | | | |
| Investment securities | **–** | **1,878** | **1,878** |
| ***Available for sale (IAS 39)/Fair value through other comprehensive income (IFRS 9)*** | | | |
| Investment securities | **–** | **1** | **1** |
| ***Fair value through profit or loss*** | | | |
| Financial assets designated at fair value | **–** | **–** | **–** |
| Off-balance sheet items | **–** | **158** | **158** |
| **Total** | **57,888** | **92,645** | **150,533** |

**Adoption of IFRS 15**

On 1 January 2018, the Group adopted IFRS 15 ("Revenue from Contracts with Customer"). Most of the Group's income is accounted for under other accounting standards and as such there was no significant impact to the financial statements upon transition.

## vii. Financial instruments (financial assets and liabilities)

Initial recognition, measurement and derecognition

Financial instruments are recognised initially when the Group becomes a party to the contractual provisions of the instruments.

The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned. These investments are measured initially and subsequently at fair value. Gains and losses arising from changes in fair value are recognised in profit or loss, until the instrument is disposed of or is determined to be impaired, at which time the gain or loss is included in the profit or loss for the period.

Financial assets are derecognised when rights to receive cash flows from the financial asset have expired or where the Group has transferred substantially all contractual risks and rewards of ownership. The Group derecognises financial liabilities when its contractual obligations are discharged, cancelled, or expire.

At initial recognition, the Group measures all financial instruments at fair value plus or minus, in case of a financial asset or financial liability not at fair value through profit or loss, transactions costs that are incremental and directly attributable to the acquisition or the issue of the financial asset or financial liability, such as fees and commissions. Transaction costs on financial instruments at fair value through profit or loss are immediately recognised in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

In both the current and prior periods, financial liabilities are classified as subsequently measured at amortised cost, except for financial liabilities at fair value through profit or loss. Transaction costs are included in the initial measurement and accounted for in profit or loss as part of the effective interest.

Financial liabilities at fair value through profit or loss are classified as such where the financial liability is either held for trading (derivative financial liabilities) or it is designated as at fair value through profit or loss (borrowed funds).

Financial liabilities comprise creditors and accruals, deposits, derivative financial liabilities, borrowed funds and loans from Group companies.

The Group derecognises financial liabilities when its contractual obligations are discharged, expired or cancelled.

Financial liabilities, comprising of creditors and accruals, deposits, borrowed funds and loans from Group companies, are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

## Financial assets

### Classification and subsequent measurement – Policy applicable from 1 January 2018

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

- Fair value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI)
- Amortised cost.

The Group classifies all its financial assets based on the business model for managing the assets and the asset's contractual cash flow characteristics. The classification requirements for debt and equity instruments are as described below:

*Debt instruments*

**Amortised cost:** Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'); and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

**Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest ('SPPI'); and that are not designated at FVPL, are measured at fair value through other comprehensive income. Movements in carrying amounts are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

**Fair value through profit or loss (FVPL): Financial** assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

*Business model assessment*

The Group assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. Whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed; how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

*SPPI*

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial assets' cash flows represent solely payments of principal and interest (the 'SPPI' test). For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. In making the assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration of the time value of money, credit risk and other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial assets are classified and measured at fair value through profit or loss.

*Equity instruments*

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Group subsequently measures all equity instruments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity instrument at FVOCI. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value.

The Group's financial assets comprise cash and short-term funds, financial assets held at fair value through profit or loss and OCI, financial assets designated at fair value, derivative financial assets, loans and other advances, investment securities and loans to Group companies.

### Impairment

The Group assesses on a forward-looking basis the expected credit loss (ECL) associated with its debt instruments carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

### Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

### Classification and subsequent measurement – Policy applicable before 1 January 2018

The Group classified its financial assets into one of the following categories: loans and receivables, fair value through profit or loss, held-to-maturity or available-for-sale:

### Loans and receivables

Loans and receivables include loans and advances and loans to Group companies.

Loans and receivables are subsequently measured at amortised cost using the effective interest method, less impairment.

### Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months maturity from date of acquisition including cash on hand and demand deposits and other 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 is measured at amortised cost and approximates fair value due to the short-term nature of these instruments.

### Financial assets at fair value through profit or loss

*Held for trading financial assets*

Financial assets are classified as held for trading if they have been acquired or incurred principally for the purpose of selling or repurchasing in the near term, or on initial recognition they are part of an identified portfolio of identifiable financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

Subsequent gains and losses arising from changes in fair value are recognised in profit or loss.

*Financial instruments designated at fair value*

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below. These instruments are designated at inception and this designation is irrevocable. Instruments may be designated at fair value when the designation:

- eliminates or significantly reduces measurement or recognition mismatches that would otherwise arise from measuring financial instruments or recognising gains and losses on different bases from related positions. Designation at fair value of the financial assets and related liabilities allows the changes in fair values to be recorded in the statement of profit or loss and presented in the same line; and
- applies to groups of financial instruments that are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management strategy, and where information about the groups of financial instruments is reported to management on that basis.

Subsequent gains and losses arising from changes in fair value are recognised in profit or loss.

### Held-to-maturity financial assets

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. These financial assets are initially measured at fair value plus direct transaction costs.

Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment.

### Available-for-sale financial assets

Financial assets are available-for-sale financial assets if they are non-derivative and not classified as 'loans and receivables', 'held-to-maturity' or 'at fair value through profit or loss'.

Available-for-sale assets are measured at fair value with gains and losses arising from changes in fair value recognised in OCI. When an asset is derecognised or impaired, the cumulative gain or loss recognised in OCI is reclassified from equity to profit or loss.

### Derivative financial assets and liabilities

A derivative is a financial instrument with the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable;
- it 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
- it is settled at a future date.

Derivatives are normally recorded in the statement of financial position at fair value with any changes in value reported in profit or loss.

### Effective interest method

Interest income and expense are recognised in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, excluding credit losses.

### Compound instruments

Convertible Bonds entitle bondholders to convert their bonds into a fixed number of shares of the issuing company usually at the time of their maturity. Convertible bonds are compound financial instruments. This implies the instrument has the characteristics of both liability and equity.

On initial recognition the liability component of the instrument is measured at fair value (in terms of IFRS 13 Fair Value) and the equity component is the residual amount which is the issued price less the fair value of the liability component.

Subsequently, the liability will be accounted for at amortised cost using the effective interest method. The equity component will not be remeasured. On conversion of the instrument, the liability component is reclassified to equity. No gain or loss is recognised in profit or loss.

### Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have the assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment charges on financial instruments' in the statement of profit or loss.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

### Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Deferred loan income reduces the outstanding loans and advances balance on the basis that the revenue will be recognised over the terms of the loans.

Effective for periods ending 30 June 2017, the offsetting requirements were clarified. In terms of the amendment it was confirmed that 'legal enforceable right to set off' is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and counterparties. The revised guidance did not affect the Group.

During the current period, there was no offsetting of financial assets and liabilities

**Standards and interpretations issued and not yet applicable or adopted**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018 and have not bn applied in preparing these consolidated 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 for the financial year commencing 1 January 2019

– **IFRS 16 Leases** – IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the statement of financial position. No significant changes have been included for lessors.

The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15. The transitional requirements are different for lessees and lessors. The Group is assessing the potential impact on the financial statements resulting from the application of IFRS 16.

### Other standards:

The following amended standards are not expected to have a significant impact on the Group's consolidated financial statements

- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to References to Conceptual Framework in IFRS Standards

# Notes to the financial statements

for the year ended 31 December 2018

The notes to the financial statements have been presented in a manner that links the financial reporting to the way the business is managed and in line with the business model.

## 1. Capital and reserves

Refer to accounting policy pertaining to financial instruments.

**Share capital**

Founder Preferred Shares and ordinary share capital are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction from the proceeds.

### 1.1. Authorised and issued share capital and share warrants

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | No. of shares '000 | $'000 | No. of shares '000 | $'000 |
| **Opening balance[1]** | **168,961** | **987,292** | 72,759 | 773,213 |
| Ordinary shares issues | **2,360** | **5,900** | 96,202 | 214,079 |
| Shares held in escrow[2] | **3,298** | **–** | 3,298 | – |
| **Total shares in issue** | **174,619** | **993,192** | 172,259 | 987,292 |
| **Shares in issue excluding escrow shares** | **171,320** | **–** | 168,961 | – |
| Founder Preference Shares[3] | **1,130** | **11,300** | 1,250 | 12,500 |
| | **172,450** | **1,004,492** | 170,211 | 999,792 |

**Note:**

1. Comprises ordinary shares and share warrants.
2. Shares held in escrow are part of the contingent consideration for the acquisition of Finance Bank Zambia and has no voting rights associated to it.
3. As allowed, under Article 5.2 of the Company's Articles, a holder of Founder Preferred Shares (FPS) has the right to request for conversion of FPS into Ordinary Shares at any time, by providing notice in writing to the Company requiring such conversion of FPS into an equal number of Ordinary Shares. On 23 May 2018, Ashish Thakkar elected to covert 120,000 FPS into 120,000 ordinary shares, and the transfer was effective from 23 May 2018. Following conversion of the 120,000 FPS into ordinary shares, Ashish now holds 5,000 FPS.

### 1.2. Issued and fully paid

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Ordinary share capital and share warrants | **993,192** | 987,292 |
| | **993,192** | 987,292 |

The holders of ordinary shares are entitled to receive a dividend as declared from time to time and are entitled to one vote per share at the AGM of the Company.

### 1.3. Reconciliation of the number of shares in issue

| | 2018 No. of shares | 2017 No. of shares |
|---|---|---|
| **Opening balance** | **168,961** | 72,759 |
| Ordinary shares issued during the period | **2,360** | 96,202 |
| Shares held in escrow | **3,298** | 3,298 |
| **Closing balance** | **174,619** | 172,259 |

**Share warrants**

On 17 December 2013, the Company issued 32,529,500 warrants to its warrant subscribers, pursuant to a resolution of the Board passed on 16 December 2013. Each warrant entitles a warrant holder to subscribe for one-third of an ordinary share upon exercise. Warrant holders will have subscription rights to subscribe in cash for all or any whole number of ordinary shares at an exercise price of $11.50 during the period commencing on 17 December 2013 and ending on the earlier to occur of (i) the third anniversary of the completion of the Company's initial acquisition and (ii) such earlier date as determined by the Warrant Instrument.

On 18 August 2017, the Group announced that the 32,529,500 outstanding warrants on 17 December 2013 would be de-listed and cancelled following their expiration on 21 August 2017.

### Terms of the Founder Preferred Shares

The Founder Preferred Shares do not carry the same voting rights as are attached to the ordinary shares. The Founder Preferred Shares do not carry any voting rights except in respect of any variation or abrogation of class rights or on any Resolution of Members required, pursuant to BVI law, to approve either an acquisition or, prior to an acquisition, a merger or consolidation.

Once the average price per ordinary share is at least $11.50 for 10 consecutive trading days, the holders of Founder Preferred Shares will be entitled to receive an 'annual dividend amount', payable in ordinary shares, equal in value to 20% of the increase each year, if any, in the market price of the ordinary shares multiplied by the then outstanding number of ordinary shares. On the last day of the seventh full financial year following completion of the BancABC acquisition the Founder Preferred Shares will automatically convert to ordinary shares on a one-for-one basis.

The shares have a monetary value and the fair value is based on future performance of the share price. Given the limited market data available that would be required to measure the shares, it is impractical to assign a value to the shares. IFRS 2 allows for valuing the shares at the intrinsic value in circumstances where a fair value cannot be reliably determined. Given that no dividend has been paid as yet and the trigger has not been met, the intrinsic value of the optionality is deemed to be $nil.

## 2. Capital planning

For the purpose of the Group's capital management, capital includes issued share capital, convertible preference shares, share premium and all other equity reserves attributable to the equity holders of the Company.

The Group's principal objectives when managing capital are:

- to optimise business activities and ensure return on capital targets is achieved through efficient capital management and allocation;
- to ensure the Group and operating banks hold sufficient risk capital in compliance with regulatory requirements in relevant jurisdictions;
- to ensure that the Group's ability to operate as a going concern and to provide returns to shareholders is safeguarded; and
- to support the development of the Group's business by maintaining a strong and sustainable capital base.

These objectives are delivered through regular reviews of the capital position of operating banks both in-country and at Group. Group management closely monitors capital adequacy and the use of regulatory capital and is actively involved in country level discussions to ensure compliance with local supervisory requirements. An annual capital plan is prepared by each operating entity and submitted to Group for review and approval as part of the annual budget process. A buffer of 2% above regulatory minimum capital limit is generally set and monitored by country management and Group as part of the Asset and Liability Management Committee ('ALCO'). In addition, operating entities carry out stress testing of capital position as part of the Internal Capital Adequacy Assessment Process ('ICAAP').

Subject to compliance with laws and regulations in relevant jurisdictions, no significant restrictions exist on transfer of funds and regulatory capital within the Group.

## 2. Capital planning continued

### Capital adequacy computations

| | BancABC Botswana $'000 | BancABC Zimbabwe $'000 | Atlas Mara Zambia $'000 | BancABC Tanzania $'000 | BancABC Mozambique $'000 | BPR Rwanda $'000 |
|---|---|---|---|---|---|---|
| **Tier I Capital** | | | | | | |
| Share capital and premium | 20,735 | 49,989 | 85,658 | 50,478 | 32,374 | 50,761 |
| Capital reserves and retained earnings/(accumulated loss) | 69,092 | 37,004 | (16,826) | (28,611) | (7,843) | (9,474) |
| Intangible assets (software)/deferred charges | (6,198) | - | (8,968) | (4,103) | (4,933) | (1,907) |
| Deferred tax asset | - | - | - | (4,479) | - | - |
| Prepayments | - | - | (3,173) | (825) | - | - |
| Exposures to insiders | - | (292) | - | - | - | - |
| **Total qualifying for Tier I Capital** | **83,629** | **86,701** | **56,691** | **12,460** | **19,598** | **39,380** |
| | | | | | | |
| **Tier II Capital** | | | | | | |
| Shareholder's loan | 18,081 | - | 3,666 | - | 4,447 | 2,123 |
| General debt provision | 7,187 | 2,188 | - | 562 | 11 | - |
| Revaluation reserves (limited to Tier I Capital) | - | 4,736 | - | - | (1,460) | 427 |
| Profit for the year | 11,947 | - | - | - | - | 4,105 |
| **Total qualifying for Tier II Capital** | **37,215** | **6,924** | **3,666** | **562** | **2,998** | **6,655** |
| **Total Capital** | **120,845** | **93,625** | **60,357** | **13,022** | **22,596** | **46,035** |
| | | | | | | |
| **Risk weighted assets[1] (unaudited)** | | | | | | |
| Market risk | 49,623 | 3,800 | 26,251 | 2,945 | 338 | - |
| Operational risk | 60,480 | 60,304 | 51,473 | 9,253 | 3,625 | - |
| On balance sheet assets | 551,359 | 172,999 | 292,776 | 74,858 | 90,083 | 191,802 |
| Off balance sheet assets | 23,626 | 2,824 | 9,047 | 966 | 987 | 2,518 |
| **Total risk weighted assets** | **685,088** | **239,927** | **379,547** | **88,022** | **95,033** | **194,320** |
| | | | | | | |
| Capital adequacy ratio | 17.6% | 39.0% | 15.9% | 14.8% | 23.8% | 23.7% |
| Minimum regulatory capital adequacy ratio | 15.0% | 12% | 10% | 14.5% | 9.0% | 15% |

**Note:**

1. Weighting of assets is based on the nature of the asset and the weighting as prescribed by the relevant regulatory authority.

## 2. Capital planning continued

| | 31 December 2017 | | | | | |
|---|---|---|---|---|---|---|
| | BancABC Botswana $'000 | BancABC Zimbabwe $'000 | BancABC Zambia $'000 | BancABC Tanzania $'000 | BancABC Mozambique $'000 | BRD-C Rwanda $'000 |
| **Tier I Capital** | | | | | | |
| Share capital and premium | 22,587 | 49,989 | 84,539 | 51,781 | 33,700 | 53,071 |
| Capital reserves and retained earnings/(accumulated loss) | 71,439 | 27,699 | (28,932) | (25,566) | (7,356) | (6,917) |
| Intangible assets (software)/deferred charges | (3,669) | – | (17,016) | (3,748) | (4,824) | (2,148) |
| Deferred tax asset | – | – | – | (3,462) | – | – |
| Prepayments | – | – | (1,357) | (728) | – | (1,380) |
| Exposures to insiders | – | (1,960) | – | – | – | – |
| **Total qualifying for Tier I Capital** | 90,357 | 75,728 | 37,234 | 18,277 | 21,520 | 42,626 |
| **Tier II Capital** | | | | | | |
| Shareholder's loan | 18,724 | – | – | – | 4,546 | 2,220 |
| General debt provision | 1,765 | 2,769 | – | 497 | 12 | – |
| Revaluation reserves (limited to Tier I Capital) | – | 4,719 | – | – | – | 446 |
| Profit for the year | 14,129 | – | – | – | – | 1,227 |
| **Total qualifying for Tier II Capital** | 34,618 | 7,488 | – | 497 | 4,558 | 3,893 |
| **Total Capital** | 124,975 | 83,216 | 37,234 | 18,774 | 26,078 | 46,519 |
| **Risk weighted assets[1] (unaudited)** | | | | | | |
| Market risk | 11,618 | 4,340 | – | 1,795 | 3,703 | – |
| Operational risk | 60,485 | 64,334 | – | – | 3,176 | – |
| On balance sheet assets | 529,149 | 144,442 | 264,077 | 103,052 | 97,794 | 203,211 |
| Off balance sheet assets | 32,748 | 8,413 | 6,127 | 1,322 | 2,141 | 1,358 |
| **Total risk weighted assets** | 634,000 | 221,529 | 270,204 | 106,169 | 106,814 | 204,569 |
| Capital adequacy ratio (unaudited) | 19.7% | 37.6% | 13.8% | 17.7% | 24.4% | 22.7% |
| Minimum regulatory capital adequacy ratio | 15.0% | 12% | 10% | 14.5% | 9.0% | 15% |

**Note:**

1. Weighting of assets is based on the nature of the asset and the weighting as prescribed by the relevant regulatory authority.

## 3. Borrowed funds

Refer to accounting policy pertaining to financial instruments.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Convertible bond (a) | **56,255** | 51,325 |
| Other borrowed funds (b) | **353,902** | 294,828 |
| | **410,157** | 346,153 |

The following table illustrates the carrying value compared to the fair value of the borrowed funds:

| | Carrying value | | Fair value | |
|---|---|---|---|---|
| | **2018 $'000** | 2017 $'000 | **2018 $'000** | 2017 $'000 |
| Overseas Private Investment Corporation ('OPIC') | **105,497** | 104,657 | **105,497** | 104,657 |
| Afreximbank | **54,000** | 61,273 | **59,629** | 64,176 |
| Convertible bond (liability) | **56,255** | 51,325 | **56,255** | 51,325 |
| Fairfax Africa Financial Holding Corporation | **52,885** | – | **52,885** | – |
| Standard Chartered | **23,249** | 32,398 | **23,349** | 31,309 |
| Africa Agriculture and Trade Investment Fund S.A. ('AATIF') | **20,000** | 20,008 | **20,954** | 20,027 |
| UBS | **12,594** | – | **12,594** | – |
| EDC | **12,577** | – | **12,577** | – |
| BIFM Capital Investment Fund One Proprietary Limited ('BIFM') | **11,995** | 19,594 | **12,134** | 20,118 |
| NORSAD | **10,000** | 10,228 | **10,061** | 10,074 |
| European Investment Bank (EIB) | **8,326** | 9,073 | **8,326** | 9,073 |
| Sanlam | **4,937** | – | **4,937** | – |
| Kuhanha | – | 4,448 | – | 4,535 |
| Shelter Afrique | **1,121** | 3,969 | **1,002** | 3,442 |
| Other | **36,621** | 29,180 | **36,543** | 28,320 |
| | **410,057** | 346,153 | **416,743** | 347,056 |

### a. Convertible bond

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Opening balance as at 1 January | **51,325** | 47,790 |
| Issued during the year | **–** | – |
| Interest accrued | **4,930** | 3,535 |
| Closing balance as at 31 December | **56,255** | 51,325 |

#### Convertible bond

On 1 October 2015 Atlas Mara placed $63.4 million five-year senior secured convertible bonds with a maturity date in 2020.

The bonds carry a coupon of 8.0% and were issued at an issue price of 82.7% of their principal amount, have a maturity date of 31 December 2020 and are convertible into the ordinary shares of Atlas Mara at a price of $11.00 per share at the option of the bondholder. Atlas Mara is using the net proceeds of the issue of the bonds to fund near-term acquisition opportunities and for general corporate purposes. This instrument is a compound instrument.

The conversion period commences 60 days following the closing date and ends at the close of business on the 10th dealing day prior to the maturity date.

The fair value of the liability at inception was determined using a market-based rate of 17.7% calculated using the US five-year treasury rate adjusted for the average yield on similar instruments with similar risk exposure to discount the contractual cash flows.

## 3. Borrowed funds continued

The equity component was determined as the residual value after deducting the fair value of the liability component from the receipts of the issue of the bond. The equity portion of $14 million is included in capital reserves.

On 22 April 2017, following discussions with both existing and prospective investors, including reverse inquiries, and given remaining capacity under the bonds' structure, Atlas Mara placed a further $17.4 million of its 8.00% senior secured convertible notes due 2020.
The additional issuance was undertaken on identical terms to the October 2015 tranche, except that these bonds were issued at a price of $84, as opposed to $82.7 in October, to account for the intervening passage of time.
The instrument will continue to be treated as a compound financial instrument. The discount rate used to determine the fair value of the liability for the original convertible bond has been assessed as meeting the valuation requirements of IFRS 13 Fair Value. For this issue, a discount rate of 17.7% was used to determine the fair value of the liability at $11.2 million, resulting in the equity component being valued as $3.4 million included in capital reserves.

**b. Other borrowed funds**

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| **Borrowed funds – At fair value through profit/loss:** | **23,349** | 32,398 |
| **Borrowed funds – Amortised cost** | **330,553** | 262,430 |
| | **353,902** | **294,828** |

Borrowed funds

The following represents a summary of significant Group borrowed funds, i.e. funding obtained to support business growth other than through banking products and customer accounts, rather third-party lenders supporting the liability side of the statement of financial position.

BIFM Capital Investment Fund One Proprietary Limited

The loan from BIFM Capital Investment Fund One Proprietary Limited (USD 25.2 million) is denominated in Botswana Pula and was granted on 20 December 2006. It attracts interest at 11.63% per annum, payable semi-annually.

The redemption dates for the principal amount are as follows:

- 30 September 2017 - Promissory Note A USD 6.3 million;
- 30 September 2018 - Promissory Note B USD 6.3 million;
- 30 September 2019 - Promissory Note C USD 6.3 million; and
- 30 September 2020 - Promissory Note D USD 6.3 million.

Payments of BWP 62.5 million each were made to BIFM in September 2017 and September 2018 to redeem Promissory Notes A and B respectively as per the redemption schedule. Promissory Notes C and D are scheduled for redemption in September 2019 and 2020 respectively.

Afrexim Bank Limited

The loan from Afrexim Bank Limited is a USD 60 million advanced to ABCH on 26 July 2013. In November 2018, ABCH and Afrexim Bank Limited entered into a new loan agreement. These principal terms include a reduction in the principal balance via a repayment of USD 6 million with the balance of USD 54 million repaid over four years with a grace period of one year. The new loan agreement attracts interest of 3-month LIBOR +7.3%, payable quarterly. In February 2018, the agreed USD 6 million loan repayment was made in accordance with the agreed key terms.

Norsad Finance Limited

This USD 10 million loan advanced to ABCH is a subordinated loan and attracts interest at 6 months LIBOR + 7.5%. Interest is payable quarterly on 31 March, 30 June, 30 September and 31 December. The loan matures on 9 October 2020 when the full principal amount is due for repayment in one instalment.

Africa Agriculture and Trade Investment Fund S.A.

The loan of USD 25 million from AATIF is denominated in US Dollars and attracts interest at 3 months LIBOR +6.25%. Interest is payable quarterly on 31 March, 30 June, 30 September and 31 December. An initial repayment of USD 5 million was made in December 2017 in accordance with the loan agreement with an outstanding principal of USD 20 million on the loan facility which is scheduled to be paid in one instalment on the 23rd December 2018.

A new loan agreement was entered with AATIF in December 2018 with the repayment of the outstanding principal of USD 20 million commencing on 30 June 2020 until the maturity date of 30 June 2022 with five equal semi-annual repayments of USD 4 million each at an interest rate of Libor plus 6.5%

Standard Chartered

The loan from Standard Chartered is US dollar denominated and secured by the UBN shares held by ADC Ventures and pledged as collateral for such loan. The loan was obtained to finance the loan from ADC to UGPL, on 19 July 2012, upon the acquisition of the referenced shares. The loan is a non-recourse loan and can be settled in full by the delivery of the UBN shares. The loan is repayable in December 2019 and could be further extended by another two-year period, to be mutually agreed upon. The loan is measured at fair value based on the determined fair value of the UBN shares at ca.5.6 NGN per share.

## **3. Borrowed funds** continued

### Overseas Private Investment Corporation

The USD 65 million loan is denominated in USD and was advanced to BancABC Zambia to finance the acquisition of Finance Bank Zambia. The loan attracts interest at a rate of 3 months LIBOR +4.45%. There is a three-year grace period on the repayment of principal with the loan repaid on a quarterly basis over 16 quarters starting in the first quarter of 2019.

In March 2017, Banc ABC Botswana finalized a USD 40 million Fintech and Financial Inclusion Debt Facility provided by the Overseas Private Investment Corporation. The funding is part of the USD 200 million multi-country facility the OPIC approved for Atlas Mara's banks in Botswana, Zambia and Mozambique in August 2015. The debt facility will be used to provide access to finance for SME's and support the company's efforts to accelerate its digital finance initiatives, which are key area of the company's strategy. The loan has a seven-year tenor with a three-year moratorium on capital. Interest is paid quarterly during the three years and capital is paid in 16 equal instalments after year three. The rate is three-month LIBOR plus a margin of 4.5%

### Fairfax Africa financial holdings Corporation

On 6 August 2018, the Group reached an agreement in principle for a $40 million debt facility. This debt facility replaced the convertible bond (the 'April Convertible') issued to Fairfax Africa Holdings Corporation ('Fairfax Africa'), the Company's largest shareholder, as previously announced on 24 April 2018. The first tranche of the facility was drawn down on 6 November 2018, with a three-year term maturing in July 2021 and an interest rate of 7.5%, accruable half-yearly – 30 Jun and 31 Dec. The facility is secured by a portion of the Company's indirect shareholding in Union Bank of Nigeria and it includes the issuance of 12,400,000 detachable warrants that on exercise each allow the holder to subscribe for one ordinary share of the Company at an initial strike price of $3.20.

### UBS

This represents $20 million secured convertible bonds issued by the Company during the year and due in 2021. The loan attracts an interest rate of 7.5% per annum, with the interest accruable half-yearly on 30 June and 31 December. The bonds are secured by a portion of the Company's indirect shareholding in Union Bank of Nigeria and it includes the issuance of 6,200,000 warrants that on exercise each allow the holder to subscribe for one ordinary share of the Company.

### Export Development Canada (EDC)

On 11 December 2018, the Group secured a three-year $20 million debt facility from Export Development Canada ("EDC") for general corporate purposes. The first tranche of the facility was drawn on 18 December 2018 with an interest rate of 9.0%, accruable half yearly. The facility is secured by a portion of the Company's indirect shareholding in Union Bank of Nigeria.

### Sanlam

The loan from Sanlam Africa Credit Investments Limited is a three year $5 million payable quarterly and attracts interest of LIBOR + 7%. The facility is secured by the Company's direct shareholding in Union Bank of Nigeria.

### Maturity analysis

The table presents the maturity analysis based on contractual cash flows.

| | **2018**<br>**$'000** | 2017<br>$'000 |
|---|---|---|
| On demand to one month | **785** | 61,820 |
| One to three months | **5,566** | 4,460 |
| Three months to one year | **43,428** | 34,047 |
| Over one year | **360,378** | 245,826 |
| Total | **410,157** | 346,153 |

## 4. Deposits

Refer to accounting policy pertaining to financial instruments.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Deposits from banks | **101,690** | 157,209 |
| Deposits from other customers | **1,530,107** | 1,720,268 |
| | **1,631,797** | 1,877,477 |
| **Payable on demand** | | |
| Corporate customers | **316,899** | 452,477 |
| Public sector | **92,318** | 58,540 |
| Retail customers | **295,416** | 349,753 |
| Other financial institutions | **15,881** | 82,949 |
| Banks | **11,266** | 42,028 |
| | **731,780** | 985,747 |
| **Term and savings deposits** | | |
| Corporate customers | **209,889** | 281,649 |
| Public sector | **297,766** | 207,281 |
| Retail customers | **92,217** | 90,798 |
| Other financial institutions | **216,199** | 221,904 |
| Banks | **83,946** | 90,098 |
| | **900,017** | 891,730 |
| Total | **1,631,797** | 1,877,477 |
| | | |
| Current | **1,636,323** | **1,865,486** |
| Non-current | **78,594** | **11,991** |

## 5. Interest and similar expense

**Accounting for interest expense**
Refer to accounting policy pertaining to financial instruments.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Deposits | **(76,717)** | (83,764) |
| Borrowed funds | **(38,282)** | (37,453) |
| **Interest and similar expense** | **(114,999)** | (121,217) |

## 6. Transaction and integration expenses

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Professional fees (including legal and due diligence costs) | **179** | (144) |
| Others | **(15)** | (6) |
| | **164** | (150) |

## 7. Investment in associate

**Accounting for investment in associate**
Associates are entities in which the Group has significant influence, but not control, over the operating and financial policies.

The Group's investments in associates are recognised using the equity method. These investments are initially recorded at cost and increased (or decreased) each year by the Group's share of the post-acquisition profit (or loss).

The Group ceases to recognise its share of the losses of equity accounted associates when its share of the net assets and amounts due from the entity have been written off in full, unless it has a contractual or constructive obligation to make good its share of the losses.

When the Group acquires an additional share in the investment, while still maintaining significant influence, the investment is accounted for at cost. The incremental fair value adjustments of the assets and liabilities of the investment is determined and included in the carrying amount of the investment.

**Impairment losses**
After application of the equity method, including recognising the associate's losses, the entity applies IAS 36 Impairment of Assets to determine whether it is necessary to recognise any additional impairment loss with respect to its net investment in the associate or joint venture.

The entity also applies IAS 36 to determine whether any additional impairment loss is recognised with respect to its interest in the associate or joint venture that does not constitute part of the net investment and the amount of that impairment loss.

Goodwill forms part of the carrying amount of an investment in an associate and is not separately recognised, it is therefore not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 Impairment of Assets. Instead, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever there are indications that the investment may be impaired.

An impairment loss recognised in those circumstances is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Accordingly, any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

In determining the value in use ('VIU') of the investment, an entity estimates:

(a) its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds from the ultimate disposal of the investment.

The recoverable amount of an investment in an associate shall be assessed for each associate or joint venture, unless the associate or joint venture does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity.

**Assets of the associate**
The investor should measure its interest in an associate's identifiable net assets at fair value at the date of acquisition of an associate. If the value that the investor attributes to the associate's net assets differs from the carrying value amounts in the associates' books, the investor should restate any impairment losses recognised by the associate.

**Investment in the associate**
As well as applying the equity method, IAS 28 requires an investor to apply the requirements of IAS 36 to determine whether any impairment loss should be recognised with regards to the investor's net investment in the associate.

**Critical accounting estimates and judgements**

Fair value of assets and liabilities of associate

During the year (January and June), the Group concluded the acquisition of an additional 3.5% and c.1% share in UBN respectively, increasing the Group's shareholding from 44.5% as at 31 December 2017 to c. 49%.

The Group applies judgement in determining the value of the assets and liabilities of the associate. The Group's share of the fair value of the assets and liabilities vs the fair value of the consideration paid.

Following the conclusion of the assessment of the fair value of the assets and liabilities acquired during the additional c.4.5% share in UBN, the Group recognised a gain on acquisition of $28.7 million.

Intangible assets

Included in the fair value of UBN are intangible assets of $7.1 million.

Impairment losses

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the loss as part of the 'share of profit of an associate' in the statement of profit or loss.

The following assessments for impairment losses are required for an investment in associates:
- assets of the associate;
- investment in the associate; and
- other interests that are not part of the net investment in the associate.

Share of profit and OCI

The value of equity accounted earnings in the statement of comprehensive income for Atlas Mara represents the reported year-end profit and other comprehensive income for UBN, based on the audited financial statements of UBN for the year 31 December 2018.

| | **2018 $'000** | 2017 $'000 |
|---|---|---|
| Opening balance | **444,569** | 293,980 |
| Share of profits | **56,332** | 38,400 |
| Share of OCI | **38,618** | 10,281 |
| Exchange rate adjustment | **(26)** | (40) |
| Tax associated | **(2)** | – |
| Additions during year | **60,954** | 101,948 |
| Impact of changes on initial application of IFRS 9 | **(68,212)** | – |
| **Investment in associates** | **532,233** | 444,569 |

**Investment in Union Bank of Nigeria ('UBN')**

The group holds an effective direct and indirect share of UBN's voting rights of c.49% as at 31 December 2018. This is as a result of the acquisitions completed during 2014 and 2015, which included an indirect share of 9.05% and a direct investment of 21.16%. In 2017, the group acquired a further 13.4% of the voting rights in UBN, bringing the group's total share to 44.55% as at 31 December 2017. A further acquisition of c.4.5% during the year 2018 brought the group's total share to c.49% as at 31 December 2018.

UBN is a company incorporated in 1917 and listed on the Nigerian Stock Exchange. UBN is a respected and recognised financial institution situated in Nigeria. UBN is a commercial and retail banking franchise with a stable customer deposit base.

The Group acquired its stake in UBN as it is consistent with Atlas Mara's entry strategy into Nigeria and the broader ECOWAS region and UBN provides Atlas Mara with a meaningful position in a major Nigerian banking platform.

The investment in UBN is equity accounted using the annual financial statements of UBN for the period 1 January 2018 to 31 December 2018. The local currency of UBN is Nigerian Naira.

## **7. Investment in associate** continued

The following table illustrates the audited published summarised financial information of the Group's investment in UBN for the year ended 31 December 2018. The audited UBN annual financial statements has been published on the Group's website.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Cash and cash equivalents | **762,042** | 569,977 |
| Loans and advances | **1,544,737** | 1,555,712 |
| Investment securities | **650,300** | 623,954 |
| Other assets | **1,851,592** | 1,696,282 |
| **Total assets** | **4,776,046** | 4,445,925 |
| Deposits | **2,798,020** | 2,868,255 |
| Borrowed funds | **354,816** | 263,221 |
| Other liabilities | **887,054** | 379,774 |
| **Total liabilities** | **4,039,889** | 3,511,250 |
| | | |
| Group's share of equity (48.99%) (2017: 44.55%) | **360,212** | 416,397 |
| Intangible assets | **7,139** | 8,368 |
| **Share of total identifiable net assets** | **424,765** | 424,765 |

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Carrying value of the investment in associate including intangible assets | **530,586** | 442,738 |
| | | |
| Net interest income | **181,132** | 153,645 |
| Non-interest income | **115,031** | 68,928 |
| Loan impairment charges | **9,791** | (19,683) |
| Profit after tax | **59,209** | 47,846 |

The risks directly associated with the investment are foreign exchange risk, equity pricing risk and the country risk. UBN is a banking entity in Nigeria and, accordingly, Atlas Mara is exposed to the key underlying risks of UBN, namely credit risk, liquidity risk, market risk and operational risk.

### Impairment testing

At 31 December 2018, the Group performed an impairment test on the carrying amount of the investment in UBN. The test confirmed that there was no impairment at 31 December 2018.

The table below illustrates the VIU, carrying value and fair value of the Group's 48.99% (2017: 44.55%) in UBN.

| | **31 December 2018** | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | **VIU $'000** | **Carrying amount $'000** | **Fair value $'000** | VIU $'000 | Carrying amount $'000 | Fair value $'000 |
| Union Bank of Nigeria | **552,456** | **530,585** | **220,982** | 460,500 | 442,738 | 227,142 |

### Basis of recoverable amount

The impairment test was performed by comparing the recoverable amount of UBN, determined by a value in use ('VIU') calculation, with its carrying amount. The VIU calculation uses discounted cash flow projections based on management's estimates of earnings. Detailed cash flow analysis was prepared for the first three years to take into account the focused turnaround strategy currently in the process of implementation in the bank. The forecast period was extended by seven years (until 2028) to achieve a steady state after the significant forecast growth as a result of the turn-around programme currently in place. Extending the forecast to 2028 has allowed for the terminal year to be based on normalised growth and margins.

Forecast risk weighted assets have been calculated to ensure that the bank maintains the capital adequacy requirements in order to calculate the movement in regulatory reserve requirements. This movement has been deducted from forecast cash flows.

**Key assumptions in VIU calculation**

Long-term growth rate

Increasing growth rates are assumed for net interest income, interest income and non-interest income in line with the transformation plan. Over the extended forecast period these items have been forecast to grow at annually decreasing rates, reaching 9% in the terminal year.

Long-term asset growth rate

The average growth rate used up to 2021 was 15.5%. Over the extended forecast period these items have been forecast to grow at annually decreasing rates, reaching 9.8% in the terminal year.

Discount rate

The discount rate used was based on the CoE for UBN. This has been calculated by taking into account the following components to adjust for specific risks associated with the business and specifically the future strategy for turnaround. The discount rate used is within the range of 29.5%. The rate is calculated using the yield on US treasury bills with 10-year maturity, maturing on 31 December 2028 as a starting point (2.68), adjusted for a Nigerian country risk premium of 4.2 and an equity market risk premium of 13.60 and an entity specific risk.

The VIU based on the above assumptions is $552.5 million. This value has on $21.9 million headroom.

Sensitivity analysis

Given the changes in the exchange rate environment in Nigeria, the estimation of VIU to evaluate the carrying value of UBN is particularly sensitive to changes in the exchange rate. This is somewhat different to prior periods, where small changes in the discount rate could have triggered impairment. As at 31 December 2018, the sensitivity to the changes in rate are set out below:

| Sensitivity | Potential impairment |
|---|---|
| 4.1% devaluation to 319.1 NGN | Reduces headroom to $120 000 |
| 5% devaluation to 321.8 NGN | c$4.5 million |
| 10% devaluation to 337.2 NGN | c$28.3 million |
| 5% devaluation to 352.5 NGN | c$50.2 million |
| 5% devaluation to 322 NGN | c$70.2 million |

## 8. Intangible assets and goodwill

### Goodwill

Goodwill arises on the acquisition of subsidiaries and associates and represents the excess of the fair value of the purchase consideration over the fair value of the Group's share of the assets acquired and the liabilities and contingent liabilities assumed on the date of the acquisition. Goodwill arising on the acquisition of subsidiaries and associates is measured at cost less accumulated impairment losses. Goodwill has an indefinite useful life.

An annual impairment evaluation is performed in respect of goodwill, or more frequently when there are indications that an impairment may be necessary. The evaluation involves comparing the carrying value of goodwill with the present value of the pre-tax cash flows, discounted at a rate of interest that reflects the inherent risks, of the cash-generating unit ('CGU') to which the goodwill relates, or the CGU's fair value if this is higher.

### Intangibles

Intangible assets other than goodwill are accounted for in accordance with IAS 38 Intangible Assets. Intangible assets include trade names, customer relationships, core deposits, core overdrafts, software, licences and other contracts. They are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use.

Intangible assets are stated at cost (which is, in the case of assets acquired in a business combination, the acquisition date fair value) less amortisation and provisions for impairment, if any, and are amortised over their useful lives in a manner that reflects the pattern to which they contribute to future cash flows, generally over 10 years.

Intangible assets are reviewed for impairment when there are indications that an impairment may be necessary.

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

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

The intangible assets have the following amortisation method and useful lives:

| | Goodwill | Other intangibles |
|---|---|---|
| Useful lives | Indefinite | From 3 to 10 years |
| Amortisation method | n/a | Straight-line |

### Critical accounting estimates and judgements

The Group assesses goodwill for impairment on an annual basis based on value in use calculations. Significant estimates and judgements are applied in projecting the future pre-tax cash flows, the appropriate growth and discount rates as set out below. An absolute movement of +/-1% on the discounted rates listed could result in a potential movement of $38.5 million in the value of goodwill.

| | **2018 $'000** | 2017 $'000 |
|---|---|---|
| Goodwill | **80,005** | 83,740 |
| Other intangible assets | **79,015** | 90,881 |
| | **159,020** | 174,621 |

## 8. Intangible assets and goodwill continued

| | 31 December 2018 | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | Goodwill $'000 | Other intangible assets $'000 | Total $'000 | Goodwill $'000 | Other intangible assets $'000 | Total $'000 |
| **Intangible assets and goodwill** | | | | | | |
| Opening balance | **87,240** | **138,283** | **225,523** | 83,800 | 117,482 | 201,282 |
| Exchange rate adjustment | **(4,299)** | **(13,976)** | **(18,275)** | 3,440 | 3,357 | 6,797 |
| Additions during the year | **–** | **16,970** | **16,970** | – | 17,444 | 17,444 |
| Reclassification during the year | **–** | **531** | **531** | – | – | – |
| **Cost or valuation at period end** | **82,941** | **141,808** | **224,749** | 87,240 | 138,283 | 225,523 |
| **Impairment losses and amortisation** | | | | | | |
| Opening balance | **(3,500)** | **(47,402)** | **(50,902)** | – | (33,047) | (33,047) |
| Exchange rate adjustment | **564** | **(268)** | **296** | – | (939) | (939) |
| Amortisation during the year | **–** | **(15,123)** | **(15,123)** | – | (13,416) | (16,916) |
| Impairment losses during the year | **–** | **–** | **–** | (3,500) | – | – |
| **Accumulated impairment at period end** | **(2,936)** | **(62,793)** | **(65,729)** | (3,500) | (47,402) | (50,902) |
| **Carrying value at period end** | **80,005** | **79,015** | **159,020** | 83,740 | 90,881 | 174,621 |

### Goodwill

Effective 21 August 2014, Atlas Mara acquired a controlling stake in BancABC (through the acquisition of ADC and the direct acquisition of shares).

During 2016 Atlas Mara completed a further two acquisitions, as set out in note 6. The completion of these acquisitions resulted in additional intangible assets identified.

In terms of IFRS 3, at the date of the acquisition, the purchaser is required to measure all identifiable assets and liabilities separately at acquisition date fair values. This could include assets that were not previously recognised by the acquiree in its financial statements.

In the case of the ADC, BancABC and in 2016, the BPR and FBZ acquisitions, these assets include certain intangible assets acquired, namely:
- trademarks;
- customer relationships (the valuation of the customer relationships was adjusted to take into account the risk and uncertainty of the future of the payroll deduction businesses included in the valuation);
- core deposits which consists of fixed rate deposits to retail and corporate customers which earn a net interest margin over a defined period; and
- core overdrafts which consists of retail and corporate overdrafts.

These assets are recognised only if they meet the asset recognition criteria, i.e. it is probable that the expected future economic benefits attributable to the asset will flow to the entity and the cost can be measured reliably. The intangible assets will only be recognised at Atlas Mara (consolidated) level and will be amortised over their useful lives.

### Allocation of goodwill to CGUs

The goodwill that arose in the acquisition of BancABC and ADC has been allocated to the CGUs based on the following basis:
- The primary quantitative indicator used for the allocation of goodwill is based on the debt value of each underlying operating bank in the Group combined with management's view, based on judgement of current and future operating performance, asset quality and management's judgement on the probability of future synergies that will arise as a result of the business combination;
- The allocation of goodwill to non-core operating entities was limited; and
- Secondary allocation of goodwill to the lowest level of CGU presented per IFRS 8 was based on management's judgement of current and future operating performance and asset quality and current asset contribution.

During the 2016 acquisition of FBZ, a further $11.8 million of goodwill was identified. This goodwill has been allocated to the Zambia CGU and has been included in the assessment of impairment of the CGU. During 2017, following a reduction in the forecast performance of the Zambia CGU, the group recognised an impairment loss of $3.5 million.

The re-allocation is deemed to be a change to a critical estimate and judgement in 2015. The impact on the prior year statement of OCI arising from this change in estimate is $nil million.

The table below illustrates the allocation of goodwill to the operating banks acquired, allocated based on management's revised assessment of future synergies that would occur as a result of the business combination. The judgement applied focuses on future cash flows from operations.

## **8. Intangible assets and goodwill** continued

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | | Allocation | | | Allocation | |
| | $ million | Retail $ million | Corporate $ million | $ million | Retail $ million | Corporate $ million |
| Botswana | **31.6** | **17.4** | **14.2** | 34.4 | 19.0 | 15.4 |
| Zambia | **21.3** | **8.5** | **12.8** | 21.9 | 8.7 | 13.2 |
| Mozambique | **9.5** | **1.6** | **7.9** | 9.9 | 1.7 | 8.2 |
| West Africa | **17.6** | **–** | **17.6** | 17.6 | – | 17.6 |
| **Total** | **80.0** | **27.5** | **52.5** | 83.8 | 29.4 | 54.4 |

### Impairment testing

IFRS requires annual impairment testing of goodwill, or more frequently when there is an indication that the CGU may be impaired. Where there is no impairment trigger, there is no need for the two-step approach.

The annual impairment test was performed for goodwill. A comprehensive assessment of the underlying CGUs has taken place. This assessment included a review of the forecast financial information. The review and testing of goodwill for impairment inherently requires significant management judgement as it requires management to derive the best estimates of the identified CGUs' future cash flows.

The recoverable amounts for the CGUs have been calculated based on their value in use (VIU), determined by discounting the future cash flows expected to be generated from the continuing use of the CGUs' assets. No impairment losses were recognised during the year ended 31 December 2018 (2017: $3.5 million on Zambia CGU) because the recoverable amounts of these CGUs were determined to be higher than their carrying amounts.

The principal assumptions considered in determining the VIUs were as follows:

**Future cash flows** – The forecast periods adopted reflect a set of cash flows that, based on management judgement and expected market conditions, could be sustainably generated over such a period. The cash flow projections covering a five-year period were based on financial budgets approved by management. Cashflows beyond the five-year period are extrapolated into perpetuity to reflect the long-term plans for the entity, using the estimated growth rates stated in the table below. These growth rates are consistent with forecasts included in industry reports specific to the industry the CGUs operate.

**Discount rates** – The CoE percentages were derived from an equity pricing model deemed appropriate based on the entities under review. The risk-free rate used to determine the CoE has been derived from the 10-year US treasury bonds as at 31 December 2018. The future cash flows are discounted using the CoE assigned to the appropriate CGUs and by nature can have a significant effect on their valuations.

The following table summarises the impairment test methodology applied, and the key inputs used in testing the Group's goodwill collectively in respect of 31 December 2018.

| | Botswana | Mozambique | Zambia | West Africa |
|---|---|---|---|---|
| Discount rate (%) | 14.3 | 22.0 | 17.9 | 29.5 |
| Terminal growth rate (%) | 5 | 5 | 0.5 | 0.5 |
| Forecast period (years) | 5 | 10 | 10 | 10 |

The key assumptions described above may change as economic and market conditions change. The Group estimates that reasonably possible changes in these assumptions would not cause the recoverable amounts of the CGUs to decline below the carrying amount.

### West Africa segment goodwill

A goodwill test was also performed in respect of the West Africa segment. This segment houses the investment in associate. Refer to note 7 for the details of the valuation performed to determine the value-in-use of the investment. As at 31 December, the carrying value of the investment of $530.6 million is less than the VIU of $552.5 million and therefore no impairment is required.

### Other intangible assets

The other intangible assets have been assessed for indications of impairment and at 31 December 2018, there are no indications of impairment.

## 9. Financial instruments

Refer to accounting policy pertaining to financial instruments.

**Comparison of carrying amounts and fair values for assets and liabilities not held at fair value:**
The following tables show the breakdown of carrying amounts and fair values of financial assets and financial liabilities by class and category of financial instrument measured at amortised cost:

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | Carrying amount $'000 | Fair value $'000 | Carrying amount $'000 | Fair value $'000 |
| **Financial assets measured at amortised cost** | | | | |
| Loan and receivables | | | | |
| Cash and short-term funds | **381,988** | **381,988** | 457,018 | 457,018 |
| Loan and advances | **1,154,113** | **1,154,113** | 1,329,962 | 1,329,962 |
| Investments securities held at amortised cost | | | | |
| Government bonds | **85,790** | **85,790** | 7,038 | 7,038 |
| Treasury bills | **183,125** | **183,125** | 50,355 | 50,355 |
| Corporate bonds | **–** | **–** | 3,308 | 3,308 |

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | Carrying amount $'000 | Fair value $'000 | Carrying amount $'000 | Fair value $'000 |
| **Financial liabilities measured at amortised cost** | | | | |
| Deposits | **1,631,797** | **1,631,797** | 1,877,477 | 1,877,477 |
| Creditors and accruals | **23,116** | **23,116** | 72,481 | 72,481 |
| Borrowed funds | **410,157** | **416,743** | 346,153 | 347,056 |

Financial instruments not measured at fair value, where the carrying value is estimated to approximate the fair value of these instruments, were as follows:

**i. Cash and short-term funds**
Placements with other banks include inter-bank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity. All placements are floating rate placements.

**ii. Loans and advances**
The fair value of loans and advances is deemed to closely approximate the carrying value. This is due to most of the instruments included in this classification being variable rate instruments. The impact of fixed rate exposures has been assessed and is deemed to be immaterial. The value of variable rate instruments is determined with reference to the estimated future cash flows discounted back at the market rate prevailing for such instruments.

**iii. Investment securities – Held-to-maturity**
Fair value for held-to-maturity assets is based on market prices or broker/dealer price quotations.

Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

**iv. Deposits; borrowed funds and creditors and accruals**
The estimated fair value of deposits, borrowed funds and creditors and accruals with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The majority of deposits and other borrowings are at floating rates, or when at fixed rates, fixed for less than three months.

## 10. Loans and advances

Refer to accounting policy pertaining to financial instruments.

**Critical accounting estimates and judgements**

The Group reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the statement of profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed monthly to reduce any differences between loss estimates and actual loss experience.

| | **2018 $'000** | 2017 $'000 |
|---|---|---|
| Gross loans and advances | **1,267,559** | 1,387,850 |
| Less expected credit loss (10.1a)/impairment allowance (10.1b): | | |
| 12 months ECL (Stage 1) | **(33,253)** | – |
| Lifetime not credit impaired (Stage 2) | **(5,888)** | – |
| Lifetime credit-impaired (stage 3) | **(74,305)** | – |
| Specific impairments | **–** | (43,405) |
| Collective impairments | **–** | (14,483) |
| **Net loans and advances** | **1,154,113** | 1,329,962 |
| Current | **463,109** | 555,480 |
| Non-current | **691,004** | 774,482 |

### 10.1a. Reconciliation of impairment allowance for loans and advances – 2018 only

| | **31 December 2018** | | | |
|---|---|---|---|---|
| | **Subject to 12 month ECL (Stage 1) $'000** | **Subject to lifetime ECL (Stage 2) $'000** | **Credit impaired (excluding purchased / originated) (Stage 3) $'000** | **Total $'000** |
| **At 1 January 2018** | **78,420** | **19,137** | **50,939** | **148,496** |
| Changes due to financial instruments recognised as at 1 January 2018: | | | | |
| Transfer to Stage 2 | **(2,358)** | **3,249** | **(891)** | **–** |
| Transfer to Stage 3 | **(3,364)** | **(2,985)** | **6,349** | **–** |
| Transfer to Stage 1 | **5,493** | **(3,941)** | **(1,552)** | **–** |
| New financial assets originated or purchased | **14,476** | **–** | **–** | **14,476** |
| Other | **(59,414)** | **(9,572)** | **19,460** | **(49,526)** |
| As at 31 December 2018 | **33,253** | **5,888** | **74,305** | **113,446** |

### 10.1b. Reconciliation of impairment allowance for loans and advances by market segment – 2017 only

| | 31 December 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Mortgage lending $'000 | Instalment finance $'000 | Corporate lending $'000 | Commercial and property finance $'000 | Consumer lending $'000 | Gross loans and advances $'000 |
| **1 January 2017** | | | | | | |
| Opening balance | 2,260 | 5,643 | 14,136 | 1,007 | 14,687 | 37,733 |
| Exchange rate adjustment | (113) | (282) | (707) | (50) | (958) | (2,110) |
| Credit impairment charges | 1,455 | 1,004 | 1,217 | (1,391) | 19,980 | 22,265 |
| **31 December 2017** | | | | | | |
| Closing balance | 3,602 | 6,365 | 14,646 | (434) | 33,709 | 57,888 |
| | | | | | | |
| Specific impairment | 263 | 4,104 | 10,154 | (1,275) | 30,159 | 43,405 |
| Gross non-performing loans | 13,952 | 3,387 | 53,046 | 33,297 | 42,387 | 146,069 |

## 10. Loans and advances continued

### 10.1c. Allowance for loan impairments – 2017 only

The changes in impairment losses included in the allowances for losses on loans and advances recognised under assets, shown by class of financial instrument, were as follows:

| | 31 December 2017 | | |
|---|---|---|---|
| | Collective allowance for credit losses $'000 | Specific allowance for credit losses $'000 | Total $'000 |
| Opening balance as at 1 January 2017 | 13,243 | 24,490 | 37,733 |
| Impairments created | 2,311 | 19,954 | 22,265 |
| Exchange rate adjustment | (1,071) | (1,039) | (2,110) |
| **Balance as at 31 December 2017** | 14,483 | 43,405 | 57,888 |

The specific allowance for credit losses of $24,5 million exclusively relates to loans and advances to customers.

## 11. Loan impairment charges

### Accounting for impairments of loans and advances

Refer to accounting policy pertaining to financial instruments.

**Critical accounting estimates and judgements**

The group assesses its loan portfolios for impairment at each reporting date. In determining whether an impairment loss should be recorded in the statement of comprehensive income the group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cashflows from a portfolio of loans before the decrease can be allocated to an individual loan in that portfolio. Estimates are made of the duration between the occurrence of a loss event and the identification of a loss on an individual basis. The impairment for performing loans is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These include early arrears and other indicators of potential default, such as changes in macroeconomic conditions and legislation affecting credit recovery. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated-loss emergence period.

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

- A financial instrument that is not credit-impaired on initial recognition is classified as stage 1 and has its credit continuously monitored by the group.
- Where a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to stage 2, but not yet deemed to be credit-impaired.
- Where the financial instrument is credit-impaired, the financial instrument is moved to stage 3.
- Financial instruments in stage 1 have their ECLs measured at an amount equal to the portion of lifetime ECLs that result from default events possible within the next 12 months. Instruments at stages 2 and 3 have their ECLs measured based on ECLs on a lifetime basis.
- A pervasive concept in measuring the ECLs in accordance with IFRS 9 is that forward-looking information should be considered.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECLs are measured on a lifetime basis.

| | **2018 $'000** | 2017 $'000 |
|---|---|---|
| Stage 1 – 12-month ECL | **10,468** | – |
| Stage 2 – Lifetime ECL not credit -impaired | **208** | – |
| Stage 3 – Lifetime ECL credit-impaired | **923** | – |
| Purchased credit impaired | **998** | – |
| Recoveries of bad debts previously written off | **5,990** | – |
| Write offs | **(18,798)** | – |
| Specific impairment | **–** | (8,758) |
| Collective impairment | **–** | (18,342) |
| Recoveries for the period | **–** | 4,835 |
| **Total impairment charge** | **(211)** | (22,265) |

## 12. Collateral

Liabilities for which collateral is pledged:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Deposits from banks | **34,839** | 54,437 |
| Deposits from customers | **50,891** | 68,587 |
| Borrowed funds | **81,360** | 48,147 |
| | **167,090** | 171,171 |

Assets pledged to secure these liabilities are carried at amortised cost and are included under the following:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Advances (collateral) | **82,738** | 44,071 |
| Investment securities | **79,034** | 128,531 |
| Property and equipment | **15,751** | 2,954 |
| | **177,523** | 175,556 |

These transactions are conducted under terms that are usual and customary to standard lending and borrowing activities.

The fair value of financial assets accepted as collateral that the Group is permitted to sell or re-pledged in the absence of default is:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| The fair value of financial assets accepted as collateral that have been sold or repledged is: | **–** | 41,936 |
| | **–** | 41,936 |

## 13. Interest and similar income

**Accounting for interest income**
Refer to accounting policy pertaining to financial instruments.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Unwind of fair value adjustment to loans and advances acquired at fair value through business combination | **–** | 1,503 |
| Cash and short-term funds | **2,888** | 10,259 |
| Investment securities and dated financial instruments | **34,413** | 33,377 |
| Loans and advances | **207,021** | 218,703 |
| Other interest income | **2,570** | 1,971 |
| **Interest and similar income** | **246,892** | 265,813 |
| Interest income on financial assets designated at fair value through profit/loss | **666** | 690 |
| **Interest and similar income** | **247,558** | 266,503 |

## 14. Financial assets held at fair value through profit or loss

Refer to accounting policy pertaining to financial instruments.

**Critical accounting estimates and judgements**
Many of the Group's financial instruments are measured at fair value on the statement of financial position and it is usually possible to determine their fair values within a reasonable range of estimates. Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of judgement (e.g. interest rates, volatility and estimated cash flows) and therefore cannot be determined with precision.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Government bonds | – | 14,137 |
| Treasury bills | – | 40,405 |
| | – | 54,542 |
| **Financials assets held at fair value through profit or loss pledged as collateral** | | |
| Treasury bills and other open market instruments | – | 22,244 |
| **Financial assets held at fair value through profit or loss** | – | 76,786 |
| Current | – | 65,067 |
| Non-current | – | 11,719 |

Investment in government bonds and treasury bills by subsidiaries is partly for liquidity requirements as stipulated by local Central Banks and also as a source of diversification of the assets portfolio. There are no cross-border investments in government securities by any of the subsidiaries and the holding company. The Group also invests in tradable paper issued by large corporates in the respective markets.

## 15. Financial assets designated at fair value

Refer to accounting policy pertaining to financial instruments.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Listed equities | **1,711** | 1,547 |
| Unlisted equities | **22,463** | 17,306 |
| Unlisted Debentures | **114** | 268 |
| Property units | **621** | 30 |
| **Financial assets designated at fair value** | **24,909** | 19,151 |
| Current | **2,588** | 7,432 |
| Non-current | **22,321** | 11,719 |

The listed equities comprise various counters listed on the Zimbabwe Stock Exchange that subsidiaries have invested in.

The balance comprises of a number of unlisted equity investments housed in an investment company in the Group (refer to the overview of valuation assumptions included in the financial risk management section of the financial statements).

## 16. Investment securities

Refer to accounting policy pertaining to financial instruments.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Balance at 31 December consists of:** | | |
| **Held at fair value through other comprehensive income/Available for sale** | | |
| Government bonds | **68,655** | 211,925 |
| Corporate bonds | **18,467** | 61,960 |
| Listed equities | **291** | – |
| Unlisted equities | **872** | 1,375 |
| Unlisted investment | **12,829** | 19,027 |
| Gross total | **101,114** | – |
| Less: Expected credit loss | **(186)** | – |
| | **100,928** | 294,287 |
| **Amortised cost/Held-to-maturity** | | |
| Treasury bills | **183,933** | 50,355 |
| Corporate bonds | **–** | 3,308 |
| Government bonds | **86,167** | 7,038 |
| Gross total | **270,100** | – |
| Less: Expected credit loss | **(1,186)** | – |
| | **268,914** | 60,701 |
| **Investment securities** | **369,842** | 354,988 |
| Current | **224,922** | 209,206 |
| Non-current | **144,920** | 145,782 |

The investments in unlisted equities are accounted for at fair value. Refer to note 30 for details.

The government bonds are partial security for the loan from BIFM (note 3). The government bonds earn a fixed interest at 10% and 7.75% p.a. and are redeemable on 12 September 2019 and 8 September 2020. The fair value of the government bonds has not been determined as the government bonds are specifically conditional to the terms of the BIFM loan referred to in note 3.

## 17. Derivative financial instruments

Refer to accounting policy pertaining to financial instruments.

**Critical accounting estimates and judgements**

The fair value of financial instruments that are not quoted in active markets is determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are indicative of neither the market nor the credit risk.

| | 31 December 2018 | | |
|---|---|---|---|
| | **Assets $'000** | **Liabilities $'000** | **Notional amount $'000** |
| **Derivatives held for trading** | | | |
| Forward foreign exchange contracts | **202** | **7,562** | **145** |
| **Derivatives designated at fair value through profit or loss** | | | |
| Cross-currency interest rate swaps | **5,400** | **10,933** | **2,916** |
| Equity derivative | **-** | **(11,959)** | **-** |
| | **5,602** | **6,536** | **3,061** |

| | 31 December 2017 | | |
|---|---|---|---|
| | Assets $'000 | Liabilities $'000 | Notional amount $'000 |
| **Derivatives held for trading** | | | |
| Forward foreign exchange contracts | 10 | 136 | 620 |
| **Derivatives designated at fair value through profit or loss** | | | |
| Cross-currency interest rate swaps | 6,493 | 14,932 | 25,234 |
| Equity derivative | 487 | (8,327) | – |
| | 6,990 | 6,741 | 25,854 |

**Forward foreign exchange contracts**

The notional amounts of outstanding forward foreign exchange contracts at 31 December 2018 were $145,000 (2017: $620,000). These resulted in derivative financial assets of $202,000 (2017: $10,000) and derivative financial liabilities of $7.56million (2017: $136,000).

**Cross-currency interest rate swaps**

The Group uses cross-currency rate swaps to manage its exposure to foreign currency and interest rate risk. These instruments are transacted for both hedging and non-hedging activities. These instruments result in an economic exchange of currencies and interest rates. An exchange of principal takes place for all cross-currency interest rate swaps. The Group's credit risk exposure represents the potential cost to replace swap contracts if counterparties fail to fulfil their obligation. To control the level of credit risk taken, the Group assesses counterparties using the same technique as for its lending activities.

The notional amounts of the financial instruments provide a basis of comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows or the current fair value of the instrument and, therefore, do not indicate the Group's exposure to credit or price risks.

The table below presents the cash flows payable by the Group for derivative financial liabilities by remaining contractual maturities at the date of the consolidated statement of financial position.

## **17. Derivative financial instruments** continued

The amounts disclosed in the table are the contractual undiscounted nominal currency swap cash flows for the liability leg of such swaps, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows:

| **31 December 2018** | **Up to 1 month $'000** | **1-3 months $'000** | **3-12 months $'000** | **Greater than 1 year $'000** | **Total $'000** |
|---|---|---|---|---|---|
| **Value on initial recognition** | | | | | |
| Derivative financial liabilities | **71** | **–** | **–** | **5,444** | **5,515** |
| **Equity derivative** | | | | | |
| Derivative financial liabilities | **–** | **–** | **–** | **–** | **–** |

| 31 December 2017 | Up to 1 month $'000 | 1-3 months $'000 | 3-12 months $'000 | Greater than 1 year $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Value on initial recognition** | | | | | |
| Derivative financial liabilities | 26,936 | – | – | 973 | 27,909 |
| **Equity derivative** | | | | | |
| Derivative financial liabilities | – | – | – | – | – |

With the exception of swaps where ongoing cash flows are settled on a gross basis, all derivative financial liabilities are settled on a net basis.

## 18. Non-interest income

**Accounting for non-interest income**

Fees and commission

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

Other fees and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

| | **2018 $'000** | 2017 $'000 |
|---|---|---|
| **Net fee and commission income:** | | |
| **Fee and commission income** | | |
| Fee income on loans and advances | **9,389** | 6,362 |
| Fee income on investments held at amortised cost | **1,071** | 107 |
| Fee income from trust and fiduciary activities | **9,634** | 9,118 |
| Cash transaction fees | **22,748** | 14,806 |
| Fee income on off-balance sheet items | **511** | 998 |
| Other fee income | **11,402** | 20,420 |
| **Net fee and commission income:** | **54,755** | 51,811 |
| | | |
| **Net gains/(losses) on financial instruments designated at fair value through profit/loss** | | |
| Financial assets designated at fair value through profit/loss | **5,570** | 2,189 |
| Financial liabilities designated at fair value through profit/loss | **9,002** | (858) |
| **Net gains/(losses) on financial instruments designated at fair value through profit/loss** | **14,572** | 1,331 |
| | | |
| **Net income from derivative and foreign exchange transactions:** | | |
| Gains on derivatives | **60** | 26,743 |
| Gains on foreign exchange transactions | **17,794** | 16,057 |
| Other net income from non-proprietary trading | **1,826** | 4,278 |
| **Net trading income** | **19,680** | 47,078 |
| | | |
| **Gains on investments held at FVOCI** | | |
| Equities available for sale – quoted | **(86)** | (114) |
| | | |
| **Other non-interest income:** | | |
| Dividends received – listed shares – fair value through profit/loss | **2,191** | 1,433 |
| Gains/(losses) on disposal of property and equipment | **629** | (106) |
| Gains/(losses) on disposal of investment property | **–** | 284 |
| Rental income on investment property | **1,936** | 1,598 |
| Other non-interest income | **3,946** | 5,652 |
| Gain on revaluation of investment property | **1,187** | 6,200 |
| **Other non-interest income** | **9,889** | 15,061 |
| | | |
| **Non-interest income** | **98,810** | 115,167 |

## 19. Operating expenses

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Administrative expenses | **(102,984)** | (82,597) |
| Property lease rentals | **(9,344)** | (10,555) |
| Staff costs (note 19.1) | **(96,833)** | (99,873) |
| Auditor's remuneration | **(2,516)** | (3,379) |
| Depreciation | **(10,334)** | (11,051) |
| Amortisation charge (note 8) | **(15,123)** | (13,416) |
| Directors' remuneration (note 19.2) | **(3,556)** | (2,513) |
| | **(240,690)** | (223,384) |

### 19.1. Staff costs

**Accounting for staff costs**
The Group applies IAS 19 Employee Benefits in its accounting for most of the components of staff costs.

Short-term employee benefits – Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid 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.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Salaries | **(74,902)** | (72,251) |
| Employer contributions to post-retirement funds | **(6,685)** | (5,276) |
| Other staff costs | **(15,246)** | (22,346) |
| | **(96,833)** | (99,873) |

**Notes:**
1. Total equity-settled share-based payments costs of $5.1 million (2017: $6.1 million) have been included in other staff costs. Other staff costs comprise incentive pay, medical aid contributions, staff training and other staff-related expenses.

### 19.2. Directors' remuneration

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Executive Directors** | | |
| Salary, performance-related remuneration and other | **(2,133)** | (1,685) |
| **Non-Executive Directors** | **(1,423)** | (828) |
| Fees as Director of holding company | **(1,316)** | (828) |
| Fees as Director of subsidiaries | **(107)** | – |
| **Total Directors' remuneration** | **(3,556)** | (2,513) |

**Notes:**
The executive directors' fees include the cash component of $200k, share based component of $ 200k (in the form of actual shares granted) and share options of $1.73 million.
Non-executive directors fees include a cash component of $ 539k and share based component of $776k (in the form of actual shares granted)

Details of other transactions and balances with related parties have been disclosed under note 25.

### 19.3. Auditor's remuneration

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Fees paid to KPMG (external auditor) | **(2,516)** | (3,379) |
| | | |
| Fees paid to KPMG in their capacity as auditor | **(2,265)** | (2,003) |
| Fees paid for non-audit services: | **(251)** | (1,376) |
| – Taxation-related services | **(85)** | (246) |
| – Other assurance services | **(166)** | (143) |
| – Other non-audit services[1] | **–** | (987) |

**Note:**

1. 2017 included fees paid to KPMG for services performed in their capacity as the auditor related to the issuance of the prospectives in 2017.

## 20. Creditors

Refer to accounting policy pertaining to financial instruments.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Accruals | **7,511** | (189,366) |
| Provisions | **16,422** | 229,026 |
| Other liability accounts | **17,334** | 32,821 |
| | **41,267** | 72,481 |

Creditors and accruals are due and payable within 12 months.

## 21. Share-based payment transactions

**Accounting for share-based payments**
Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions). Employees working in the business development group are granted share appreciation rights, which are settled in cash (cash-settled transactions).

**Equity-settled transactions**
The CoE-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefits expense. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The statement of profit or loss expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense had the terms not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share and only presented if the result is a loss.

**Cash-settled transactions**
The cost of cash-settled transactions is measured initially at fair value at the grant date using a binomial model. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognised in employee benefits expense.

**Critical accounting estimates and judgements**
Atlas Mara has entered into equity-settled share-based payment arrangements with its employees and Directors as compensation for services provided. The grant-date fair value of share-based payment awards – i.e. stock options – granted to employees is recognised as personnel expenses, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards.

The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Fair value is determined by using appropriate valuation models. Vesting conditions include service conditions. Vesting conditions are not taken into account in the initial estimate of the fair value at the grant date. They are taken into account by adjusting the number of equity instruments included in the measurement of the share-based payment transaction. In determining the grant date fair value of the equity-settled share-based payments, the Group has made key assumptions in relation to inputs included in the valuation methodology, the most significant thereof, relating to the expected volatility of the Atlas Mara shares. In making these assumptions the following were taken into account to determine a proxy volatility:

Volatility of the traded shares of the significant investments held by the Group.
Volatilities of peer group companies in the same markets as the significant investments.

## 21. Share-based payment transactions continued

a. Description of share-based payment arrangements

Atlas Mara currently operates three share-based remuneration arrangements for key management, Directors and employees. These programmes are limited to Directors, key management and senior employees. The key terms and conditions related to these arrangements are listed below. All options/grants are settled by the physical delivery of shares. A number of options were granted to employees to buy Atlas Mara shares, as traded on the London Stock Exchange, in the future at a predetermined price (strike price).

**Employee/consultant options**

These options were granted to employees and consultants of Atlas Mara. These options were granted under terms similar to the Atlas Mara Global Share Plan. Under this plan the employee/consultant is required to remain employed or engaged with the Group during the vesting period. Requirements are subject to Board discretion. One-third of the options vests on the grant date (8 September 2014 and 15 November 2014 respectively), one-third of the options vests on the first anniversary of the grant date and the remaining third vests on the second anniversary of the grant date. All vested options expire seven years from the grant date. Management indicated that the employees are not entitled to dividends (if any) prior to the vesting date, nor will they receive the value of the dividends that they would have earned if they had been the owner of the shares from grant date.

**Summary of Share Awards Scheme operation**

Awards C-M

The employee must remain in the employment of the Group for the duration of the vesting period in order to be eligible to receive the shares.

The vesting of the shares occur on variable dates as summarised below.

The employees are not entitled to dividends (if any) prior to the vesting date, nor will they receive the value of the dividends that they would have earned if they had been the owner of the shares from grant date.

b. Measurement of fair values

The fair value of the IPO, employee and key management scheme and the key management share grants have been measured using the risk-neutral valuation principles. Service conditions attached to the transactions were not taken into account in the measurement of fair value. The inputs used in the measurement of the grant date fair value of the equity-settled arrangements are as follows:

| | Share Options Scheme | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Employee options | | | | | | | | |
| | Award C | Award D | Award E | Award F | Award G | Award H | Award I | Award J | Award K |
| Grant date | 31-Mar-15 | 19-Nov-15 | 11-Jan-16 | 11-Jan-16 | 27 Apr 16 | 25 Aug 16 | 03 Oct 17 | 4-Oct-17 | 1-May-18 |
| Vesting dates | 31-Mar-15 | 19-Nov-15 | 11-Jan-16 | 11-Jan-16 | 27 Apr 17 | 25 Aug 16 | 03 Oct 22 | 4-Oct-22 | 1-Nov-19 |
| | 31-Mar-16 | 19-Nov-16 | 1-Mar-16 | 11-Jan-17 | 27 Apr 18 | 25 Aug 17 | – | – | 1-May-23 |
| | 31-Mar-17 | 19-Nov-17 | 11-Jan-17 | 11-Jan-18 | 27 Apr 19 | 25 Aug 18 | – | – | |
| | | | 1-Mar-17 | | – | – | – | – | |
| | | | 11-Jan-18 | | – | – | – | – | |
| Expiry date | 31 Mar 22 | 19 Nov 22 | 11 Jan 23 | 11 Jan 23 | 27 Apr 23 | 25 Aug 23 | 04 Oct 27 | 4-Oct-27 | 4-May-28 |

| | Share Awards Scheme | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Award A | Award C | Award D | Award E | Award F | Award G | Award H | Award I | Award J | Award K | Award L | Award M | Award M |
| Grant date | 8 Sep 14 | 31 Mar 15 | 19 Nov 15 | 14 Dec 15 | 11 Jan 16 | 11 Jan 16 | 27 Apr 16 | 27 Apr 16 | 27 Apr 16 | 27 Apr 16 | 25 Aug 16 | 22-Mar-17 | 22-Mar-17 |
| Vesting dates | 8 Sep 14 | 31 Mar 15 | 1 Mar 16 | 14 Dec 15 | 1 Mar 16 | 1 Mar 17 | 27 Apr 17 | 27 Apr 16 | 27 Apr 16 | 1 Mar 17 | 1 Mar 17 | 22-Mar-17 | 1-Apr-17 |
| | 1 Apr 15 | 31 Mar 16 | 1 Mar 17 | 1 Mar 17 | 1 Mar 17 | 1 Mar 18 | 27 Apr 18 | 27 Apr 17 | 1 Mar 17 | 1 Mar 18 | 1 Mar 18 | 22-Mar-18 | 1-Apr-18 |
| | 1 Apr 16 | 31 Mar 17 | 1 Mar 18 | 1 Mar 18 | 1 Mar 18 | – | 27 Apr 19 | 27 Apr 18 | 27 Apr 17 | – | 1 Mar 19 | 22-Mar-19 | 1-Apr-19 |
| | 1 Apr 17 | – | – | – | – | – | – | | 1 Mar 18 | – | – | – | – |
| | – | – | – | – | – | – | – | | 27 Apr 18 | – | – | – | – |

## 21. Share-based payment transactions continued

### Number of options and awards granted

The following tables contain the number of options and awards granted per grant date:

| Share Options Scheme | |
|---|---|
| Grant date | Number of options granted |
| 31 March 2015 | 1,016,000 |
| 19 November 2015 | 369,999 |
| 11 January 2016 | 700,000 |
| 27 April 2016 | 925,001 |
| 25 August 2016 | 20,000 |
| 03 October 2017 | 8,100,000 |
| 04 October 2017 | 1,395,000 |
| 1 May 2018 | 1,800,000 |

| Share Awards Scheme | |
|---|---|
| Grant date | Number of options granted |
| 31 March 2015 | 75,627 |
| 19 November 2015 | 229,506 |
| 14 December 2015 | 3,572 |
| 11 January 2016 | 164,853 |
| 27 April 2016 | 423,745 |
| 25 August 2016 | 13,518 |
| 22 March 2017 | 10,000 |
| 22 March 2017 | 11,162 |

Valuation models and key assumptions used The following tables list the inputs to the models used for the year ended 31 December 2018:

| | **2018** | 2017 |
|---|---|---|
| Dividend yield (%) | **0.00** | 0.00 |
| Expected volatility (%) | **25.63/38.17** | 36.97 |
| Risk-free interest rate (%) | **0.90/1.20/1.70** | 1.00/3.00 |
| Expected life of share options (years) | **<10** | <10 |
| Weighted average share price ($) | **3.59** | 3.53 |
| Model used | **Binomial** | Binomial |

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

## 21. Share-based payment transactions continued

**Valuation results**

Share Options Scheme

Based on the aforementioned inputs and assumptions, we obtained the following results. The tables below contain the amortisation schedules per grant made.

**Movements during the year**

The following table illustrates the number and weighted average exercise prices ('WAEP') of, and movements in, share options during the year:

| | **2018** | 2017 |
|---|---|---|
| Granted during the year | **3,195,000** | 8,100,000 |
| Forfeited during the year | **–** | – |
| Exercised during the year | **–** | – |
| Expired during the year | **(605,000)** | – |

The weighted average remaining contractual life for the share options outstanding as at 31 December 2018 was:

| | **2018** | 2017 |
|---|---|---|
| Employee options | | |
| Award C | **5.25** | 5.25 |
| Award D | **5.89** | 5.89 |
| Award E | **6.03** | 6.03 |
| Award F | **6.03** | 6.03 |
| Award G | **6.32** | 6.32 |
| Award H | **6.65** | 6.65 |
| Award I | **9.76** | 9.76 |
| Award J | **8.76** | – |
| Award K | **9.35** | – |

The range of exercise prices for options outstanding at the end of the year was $2.00-11.50.

The weighted average fair value of option per unit granted during the year was $1.99 (2017: $2.17).

**Valuation report information**

Spot prices

The following share prices per Atlas Mara share, as traded on the London Stock Exchange, as at the respective grant dates, were sourced from Bloomberg:

| Grant date | **2018 Spot price ($)** | 2017 Spot price ($) |
|---|---|---|
| 17 December 2013 | **10.90** | 10.90 |
| 8 September 2014 | **10.10** | 10.10 |
| 15 November 2014 | **9.50** | 9.50 |
| 17 November 2014 | **9.35** | 9.35 |
| 26 March 2015 | **7.00** | 7.00 |
| 19 November 2015 | **5.68** | 5.68 |
| 11 January 2016 | **5.25** | 5.25 |
| 27 April 2016 | **4.30** | 4.30 |
| 25 August 2016 | **3.00** | 3.00 |
| 03 October 2017 | **3.53** | 3.53 |
| 04 October 2017 | **3.56** | – |
| 01 May 2018 | **3.61** | – |

### Strike prices

The following strike prices relating to the share options granted were provided by management:

| Grant date | 2018 Strike price ($) | 2017 Strike price ($) |
|---|---|---|
| 17 December 2013 | **11.50** | 11.50 |
| 8 September 2014 | **11.00** | 11.00 |
| 15 November 2014 | **9.50** | 9.50 |
| 26 March 2015 | **7.18** | 7.18 |
| 17 November 2015 | **5.68** | 5.68 |
| 11 January 2016 | **5.00** | 5.00 |
| 27 April 2016 | **4.28** | 4.28 |
| 25 August 2016 | **3.05** | 3.05 |
| 03 October 2017 | **2.36** | 2.36 |
| 04 October 2017 | **2.36** | – |
| 01 May 2018 | **2.36** | – |

### Fair values

| | | | | Employee options | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Grant date | Vesting date | Fair value per option ($) | Number of options granted | December 2014 ($) | December 2015 ($) | December 2016 ($) | December 2017 ($) | December 2018 ($) | Totals ($) |
| 31 March 2015 | 31 March 2017 | 1.78 | 338,667 | – | 226,205 | 301,058 | 74,031 | – | 601,294 |
| 19 November 2015 | 19 November 2017 | 1.82 | 123,333 | – | 12,918 | 112,400 | 99,313 | – | 224,631 |
| 11 January 2016 | 11 January 2017 | 1.51 | 150,000 | – | – | 219,791 | 6,810 | – | 226,601 |
| | 11 January 2018 | 1.59 | 150,001 | – | – | 115,661 | 119,240 | 3,698 | 238,598 |
| 11 January 2016 | 11 January 2016 | 1.40 | 50,000 | – | – | 69,763 | – | – | 69,763 |
| | 01 March 2016 | 1.40 | 50,000 | – | – | 69,763 | – | – | 69,763 |
| | 11 January 2017 | 1.51 | 50,000 | – | – | 73,264 | 2,270 | – | 75,534 |
| | 01 March 2017 | 1.52 | 50,000 | – | – | 65,063 | 11,101 | – | 76,164 |
| | 11 January 2018 | 1.59 | 50,000 | – | – | 38,553 | 39,746 | 1,233 | 79,532 |
| 27 April 2016 | 27 April 2017 | 1.19 | 308,334 | – | – | 247,589 | 117,804 | – | 365,393 |
| | 27 April 2018 | 1.24 | 308,333 | – | – | 130,138 | 191,974 | 61,655 | 383,767 |
| | 27 April 2019 | 1.29 | 308,333 | – | – | 90,109 | 132,925 | 132,964 | 355,998 |
| 25 August 2016 | 25 August 2016 | 0.77 | 6,667 | – | – | 5,114 | – | – | 5,114 |
| | 25 August 2017 | 0.80 | 6,667 | – | – | 1,876 | 3,489 | – | 5,365 |
| | 25 August 2018 | 0.85 | 6,666 | – | – | 993 | 2,837 | 1,844 | 5,674 |
| 03 October 2017 | 03 October 2022 | 2.17 | 8,100,000 | – | – | – | 855,693 | 3,814,995 | 4,670,688 |
| 04 October 2017 | 03 October 2022 | 1.99 | 1,395,000 | – | – | – | – | 688,277 | 688,277 |
| 01 May 2018 | 03 October 2022 | 2.24 | 1,800,000 | – | – | – | – | 177,713 | 177,713 |
| | | **Totals** | **12,218,998** | – | **239,123** | **1,514,136** | **1,657,233** | **4,882,378** | **8,319,870** |

## 21. Share-based payment transactions continued

### Share awards scheme

| Award C | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Grant date | Vesting date | Fair value per award ($) | Number of awards granted | December 2015 ($'000) | December 2016 ($'000) | December 2017 ($'000) | December 2018 ($'000) | Totals ($'000) |
| 31 March 2015 | 31 March 2017 | 6.73 | 25,209 | 58,745 | 78,185 | 19,226 | – | 156,156 |
| | | **Totals** | **25,209** | **58,745** | **78,185** | **19,226** | – | **156,156** |

| Award D | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Grant date | Vesting date | Fair value per award ($) | Number of awards granted | December 2015 ($'000) | December 2016 ($'000) | December 2017 ($'000) | December 2018 ($'000) | Totals ($'000) |
| 17 November 2015 | 1 March 2017 | 5.53 | 96,845 | 48,119 | 418,683 | 68,891 | – | 535,693 |
| 17 November 2015 | 1 March 2018 | 5.42 | 32,240 | 8,820 | 76,740 | 76,616 | 12,628 | 174,804 |
| | | **Totals** | **129,085** | **56,939** | **495,423** | **145,507** | **12,628** | **710,497** |

| Award E | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Grant date | Vesting date | Fair value per award ($) | Number of awards granted | December 2015 ($'000) | December 2016 ($'000) | December 2017 ($'000) | December 2018 ($'000) | Totals ($'000) |
| 14 December 2015 | 1 March 2017 | 5.47 | 1,191 | 250 | 5,376 | 884 | – | 6,510 |
| 14 December 2015 | 1 March 2018 | 5.36 | 1,190 | 134 | 2,886 | 2,881 | 475 | 6,376 |
| | | **Totals** | **2,381** | **384** | **8,262** | **3,765** | **475** | **12,886** |

| Award F | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Grant date | Vesting date | Fair value per award ($) | Number of awards granted | December 2015 ($'000) | December 2016 ($'000) | December 2017 ($'000 | December 2018 ($'000 | Totals ($'000) |
| 11 January 2016 | 1 March 2017 | 5.13 | 89,816 | – | 393,765 | 67,182 | – | 460,947 |
| 11 January 2016 | 1 March 2018 | 5.03 | 14,969 | – | 34,210 | 35,268 | 5,824 | 75,302 |
| | | **Totals** | **104,785** | **–** | **427,975** | **102,450** | **5,824** | **536,249** |

| Award G | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Grant date | Vesting date | Fair value per award ($) | Number of awards granted | December 2015 ($'000) | December 2016 ($'000) | December 2017 ($'000) | December 2018 ($'000) | Totals ($'000) |
| 11 January 2016 | 01 March 2017 | 5.13 | 22,157 | – | 97,139 | 16,573 | – | 113,712 |
| 11 January 2016 | 01 March 2018 | 5.03 | 9,362 | – | 21,396 | 22,058 | 3,643 | 47,097 |
| | | **Totals** | **31,519** | **–** | **118,535** | **38,631** | **3,643** | **160,809** |

| Award H | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Grant date | Vesting date | Fair value per award ($) | Number of awards granted | December 2015 ($'000) | December 2016 ($'000) | December 2017 ($'000) | December 2018 ($'000) | Totals ($'000) |
| 27 April 2016 | 27 April 2017 | 4.21 | 116,804 | – | 333,588 | 158,723 | – | 492,311 |
| 27 April 2016 | 27 April 2018 | 4.13 | 116,804 | – | 163,647 | 241,404 | 77,350 | 482,401 |
| 27 April 2016 | 27 April 2019 | 4.05 | 116,805 | – | 106,915 | 157,716 | 157,762 | 422,392 |
| | | **Totals** | **350,413** | **–** | **604,150** | **557,843** | **235,692** | **1,397,104** |

| Award I | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Grant date | Vesting date | Fair value per award ($) | Number of awards granted | December 2015 ($'000) | December 2016 ($'000) | December 2017 ($'000) | December 2018 ($'000) | Totals ($'000) |
| 27 April 2016 | 27 April 2016 | 4.30 | 10,000 | – | 43,000 | – | – | 43,000 |
| 27 April 2016 | 27 April 2017 | 4.21 | 10,000 | – | 28,560 | 13,589 | – | 42,149 |
| 27 April 2016 | 27 April 2018 | 4.13 | 10,000 | – | 14,010 | 20,667 | 6,638 | 41,315 |
| | | **Totals** | **30,000** | **–** | **85,570** | **34,256** | **6,638** | **126,464** |

## 21. Share-based payment transactions continued

Award J

| Grant date | Vesting date | Fair value per award ($) | Number of awards granted | December 2015 ($'000) | December 2016 ($'000) | December 2017 ($'000) | December 2018 ($'000) | Totals ($'000) |
|---|---|---|---|---|---|---|---|---|
| 27 April 2016 | 27 April 2016 | 4.30 | 10,781 | – | 46,358 | – | – | 46,358 |
| 27 April 2016 | 01 March 2017 | 4.23 | 779 | – | 2,645 | 649 | – | 3,294 |
| 27 April 2016 | 27 April 2017 | 4.21 | 10,000 | – | 28,560 | 13,589 | – | 42,149 |
| 27 April 2016 | 01 March 2018 | 4.14 | 6,977 | – | 10,636 | 15,690 | 2,590 | 28,916 |
| 27 April 2016 | 27 April 2018 | 4.13 | 10,000 | – | 14,010 | 20,667 | 6,638 | 41,315 |
| | | **Totals** | **38,537** | **–** | **102,209** | **50,595** | **9,228** | **162,032** |

Award K

| Grant date | Vesting date | Fair value per award ($) | Number of awards granted | December 2015 ($'000) | December 2016 ($'000) | December 2017 ($'000) | December 2018 ($'000) | Totals ($'000) |
|---|---|---|---|---|---|---|---|---|
| 27 April 2016 | 01 March 2017 | 4.23 | 2,151 | – | 7,303 | 1,792 | – | 9,095 |
| 27 April 2016 | 01 March 2018 | 4.14 | 2,644 | – | 4,031 | 5,946 | 981 | 10,958 |
| | | **Totals** | **4,795** | **–** | **11,334** | **7,738** | **981** | **20,053** |

Award L

| Grant date | Vesting date | Fair value per award ($) | Number of awards granted | December 2015 ($'000) | December 2016 ($'000) | December 2017 ($'000) | December 2018 ($'000) | Totals ($'000) |
|---|---|---|---|---|---|---|---|---|
| 25 August 2016 | 01 March 2017 | 0.41 | 7,922 | – | 15,972 | 7,551 | – | 23,523 |
| 25 August 2016 | 01 March 2018 | 0.53 | 3,586 | – | 2,411 | 6,889 | 1,137 | 10,437 |
| 25 August 2016 | 01 March 2019 | 0.66 | 2,010 | – | 798 | 2,280 | 2,281 | 5,359 |
| | | **Totals** | **13,518** | **–** | **19,181** | **16,720** | **3,418** | **39,319** |

Award M

| Grant date | Vesting date | Fair value per award ($) | Number of awards granted | December 2015 ($'000) | December 2016 ($'000) | December 2017 ($'000) | December 2018 ($'000) | Totals ($'000) |
|---|---|---|---|---|---|---|---|---|
| 22 March 2017 | 22 March 2017 | 2.97 | 3333 | – | – | – | 1,378 | 1378 |
| 22 March 2017 | 22 March 2018 | 2.91 | 3333 | – | – | – | 1,766 | 1766 |
| 22 March 2017 | 22 March 2019 | 2.85 | 3334 | – | – | – | 1,934 | 1934 |
| | | **Totals** | **10,000** | **–** | **–** | **–** | **5,078** | **5,078** |

Award M

| Grant date | Vesting date | Fair value per award ($) | Number of awards granted | December 2015 ($'000) | December 2016 ($'000) | December 2017 ($'000) | December 2018 ($'000) | Totals ($'000) |
|---|---|---|---|---|---|---|---|---|
| 22 March 2017 | 22 March 2017 | 2.97 | 5691 | – | – | – | 2,359 | 2,359 |
| 22 March 2017 | 22 March 2018 | 2.91 | 3803 | – | – | – | 2,029 | 2,029 |
| 22 March 2017 | 22 March 2019 | 2.85 | 1668 | – | – | – | 959 | 959 |
| | | **Totals** | **11,162** | **–** | **–** | **–** | **5,347** | **5,347** |

## 22. Cash and short-term funds

Cash and cash equivalents comprise of balances with banks that are short-term highly liquid investments with an original maturity of three months or less that are readily convertible into known amounts of cash.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Cash on hand | **54,582** | 64,104 |
| Balances with central banks | **37,669** | 88,951 |
| Balances with other banks | **121,149** | 135,365 |
| Other cash balances | **131** | 2,971 |
| Money market placements maturing within three months | **75,358** | 63,707 |
| **Cash and cash equivalents** | **288,889** | 355,098 |
| Statutory reserve balances | **93,099** | 101,920 |
| **Cash and short–term funds** | **381,988** | 457,018 |

Statutory reserve balances are restricted minimum statutory balances not available for the banking operations' daily operations. These balances do not accrue interest.

## 23. Tax

**Accounting for tax and deferred tax**
Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is recognised in the same statement as the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year and any adjustment to tax payable in respect of previous years. Potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities are provided for.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position, and the amounts attributed to such assets and liabilities for tax purposes.
Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled.

Current and deferred tax is calculated based on tax rates and laws enacted, or substantively enacted, at the reporting date.

**Critical accounting estimates and judgements**
The recognition of a deferred tax asset relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies. In the absence of a history of taxable profits, the most significant judgements relate to expected future profitability and to the applicability of tax planning strategies, including corporate reorganisations.

The group's deferred tax asset includes an amount of $16 million, relating to carried forward tax losses. The group has concluded that the deferred tax assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets of the affected subsidiaries. The subsidiaries are expected to generate taxable profit from 2020 onwards.

This estimate would be most sensitive to a change in the underlying projected profits, where a change of $1 million would have an approximate impact on the carrying value of +/- 25% (based on average tax rate for entities in tax jurisdictions).

### 23.1. Income tax expense

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Current tax expense** | | |
| Current year tax expense | **(12,605)** | (7,389) |
| Withholding tax | **(35)** | (4) |
| | **(12,640)** | (7,393) |
| **Deferred tax** | | |
| Accruals | **817** | 1,510 |
| Impairment losses | **(2,270)** | (2,802) |
| Property and equipment | **(1,858)** | 370 |
| Gains/(losses) from investments | **563** | 254 |
| Utilisation of assessed losses | **5,549** | 4,431 |
| Impairment of deferred tax assets | **3,496** | (137) |
| Other | **1,596** | (1,501) |
| **Total deferred tax** | **7,893** | 2,125 |
| | | |
| **Total tax expense per statement of profit/loss** | **(4,747)** | (5,268) |
| | | |
| **Reconciliation of effective tax charge:** | | |
| | | |
| **Profit before tax** | **46,964** | 53,054 |
| Income tax using corporate tax rates | **(11,224)** | (7,928) |
| Non-taxable income | **(1,122)** | (357) |
| Non-deductible expenses | **–** | 3,003 |
| Effect of share of loss of associates | **–** | (16) |
| Tax exempt revenues | **1,237** | (1,578) |
| Tax incentives | **(404)** | – |
| Income tax at different rates | **4,553** | 530 |
| Unrecognised deferred tax | **14** | 35 |
| Minimum tax charge | **(68)** | (44) |
| Tax and fair value losses of prior years claimed | **4,123** | 14 |
| Other | **(1,856)** | 1,073 |
| **Current tax expense per statement of profit/loss** | **(4,747)** | (5,268) |
| **Effective tax rate** | **10%** | 10% |

## 23. Tax continued

### 23.2. Income tax effects relating to components of other comprehensive income

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Before tax $'000 | Tax charge $'000 | After tax $'000 | Before tax $'000 | Tax charge $'000 | After tax $'000 |
| Exchange differences on translating foreign operations | **(71,817)** | – | **(71,817)** | 21,975 | – | 21,975 |
| Revaluation of property net of deferred tax | **2,678** | **(815)** | **1,863** | 1,019 | (503) | 516 |
| Share of reserves in associate | **(4,373)** | **(2)** | **(4,375)** | – | – | – |
| Movement in fair value/available-for-sale reserves | **67** | **18** | **85** | 783 | – | 783 |
| Other | **(248)** | – | **(248)** | (13) | – | (13) |
| **Other comprehensive income** | **(73,693)** | **(799)** | **(74,492)** | 23,764 | (503) | 23,261 |

### 23.3. Deferred tax

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Balance at the beginning of the year | **(5,073)** | (8,765) |
| IFRS 9 Day 1 impact | **24,266** | – |
| Exchange rate adjustment | **(4,169)** | 2,068 |
| Statement of profit or loss charge (note 23.1) | **7,893** | 2,127 |
| Deferred tax on amounts charged to equity (note 23.2) | **(799)** | (503) |
| | **22,118** | (5,073) |
| | | |
| Disclosed as follows: | | |
| Deferred tax asset | **40,316** | 13,244 |
| Deferred tax liability | **(18,198)** | (18,317) |
| | **22,118** | (5,073) |
| | | |
| **Tax effects of temporary differences:** | | |
| Accruals | **3,565** | 623 |
| Bond with warrant deferred tax | **455** | 1,251 |
| IFRS 9 Day 1 impact | **24,266** | – |
| Impairment losses | **5,768** | 8,017 |
| Property and equipment | **(6,684)** | (6,129) |
| Investment property | **(963)** | (62) |
| Unrealised gains on investment | **(1,519)** | (821) |
| Revaluation surplus | **5,024** | (1,655) |
| Tax losses | **16,976** | 19,179 |
| Tax and fair value losses of prior years claimed | – | (19,995) |
| Other | **(24,767)** | (5,481) |
| | **22,118** | (5,073) |

Amount for which no deferred tax assets are recognised:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Deductible temporary difference | **–** | – |
| Unused tax losses | **2,902** | 2,963 |
| Unused tax credits | **–** | – |

## 24. Funds under management

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Funds under management | **235,084** | 159,177 |

The Group provides asset management and unit trust activities to pension funds, individuals, trusts and other institutions, whereby it holds and manages assets. The Group receives a management fee for providing these services. The Group is not exposed to any credit risk relating to such placements as these do not represents assets held by the Group.

## 25. Related parties

Related party transactions are a normal feature of business and are disclosed in terms of IAS 24. Related party transactions may affect the assessment of operations, risk and opportunity facing the organisation.

### Nature of related party relationships

**Note:**
* These represent the founder shareholders' affiliated group of companies.

### Related party transactions

| | **2018** | | | |
|---|---|---|---|---|
| Related party: | **Management fees $'000** | **Interest income/expense $'000** | **Others $'000** | **Total $'000** |
| Transactions between Atlas Mara and ABCH | **(3,772)** | **3,925** | **1,347** | **1,500** |
| Transactions between Atlas Mara and BancABC subsidiaries | **(544)** | **(643)** | – | **(1,187)** |
| Transactions between Atlas Mara and Atlas Mara Digital Ltd | – | **24** | **(1,238)** | **(1,214)** |
| Transactions between Atlas Mara and AMFS | – | – | **33** | **33** |
| Transactions between Atlas Mara and BPR | **(1,078)** | – | – | **(1,078)** |
| Transactions between Atlas Mara and founder shareholders' affiliated companies | – | – | **(1,354)** | **(1,354)** |
| Transactions between Atlas Mara and shareholder companies | – | **(2,087)** | – | **(2,087)** |
| | **(5,394)** | **1,219** | **(1,212)** | **(5,386)** |

### Related party balances

| | **2018** | | | |
|---|---|---|---|---|
| Related party: | **Loans to Group companies $'000** | **Loans from Group companies $'000** | **Other $'000** | **Total $'000** |
| Balances between Atlas Mara and ABCH | **78,220** | – | **2,443** | **80,663** |
| Balances between Atlas Mara and Banc ABC subsidiaries | – | **(11,533)** | **4,095** | **(7,438)** |
| Balances between Atlas Mara and Atlas Mara Eagle | – | – | **14** | **14** |
| Balances between Atlas Mara and AMFS | – | – | **(127)** | **(127)** |
| Balances between Atlas Mara and founder shareholders' affiliated companies | – | – | **(1,325)** | **(1,325)** |
| Balances between Atlas Mara and shareholder companies | – | **(27,608)** | – | **(27,608)** |
| | **78,220** | **(39,140)** | **5,100** | **44,179** |

### Related party transactions

| | 2017 | | | |
|---|---|---|---|---|
| Related party: | Management fees $'000 | Interest income/expense $'000 | Others $'000 | Total $'000 |
| Transactions between Atlas Mara and ABCH | 3,385 | (918) | (885) | 1,582 |
| Transactions between Atlas Mara and BancABC subsidiaries | 11,956 | (1,082) | (7,738) | 3,136 |
| Transactions between Atlas Mara and BPR | 1,077 | – | – | 1,077 |
| Transactions between Atlas Mara and founder shareholders' affiliated companies | – | – | (2,494) | (2,494) |
| | 16,418 | (2,000) | (11,117) | 3,301 |

## 25. Related parties continued

### Related party balances

| Related party: | Loans to Group companies $'000 | Cash and cash equivalents $'000 | Loans from Group companies $'000 | Other $'000 | Total $'000 |
|---|---|---|---|---|---|
| | 2017 | | | | |
| Balances between Atlas Mara and ABCH | 62,438 | – | – | 23,707 | 86,145 |
| Balances between Atlas Mara and Banc ABC subsidiaries | – | – | (5,763) | – | (5,763) |
| Balances between ABC Holdings and Banc ABC subsidiaries | 32,683 | 268 | (119,021) | 20,110 | (65,960) |
| Balances between Atlas Mara and ADC AG | – | – | – | (289) | (289) |
| Balances between Atlas Mara and Atlas Mara Digital | 1,000 | – | – | 268 | 1,268 |
| Balances between Atlas Mara and BRD Commercial | – | – | – | 1,077 | 1,077 |
| Balances between Atlas Mara and founder shareholders' affiliated companies | – | – | – | (321) | (321) |
| | 96,121 | 268 | (124,784) | 44,552 | 16,157 |

## 26. Earnings per share

**Accounting for earnings per share ('EPS')**
The Group presents basic and diluted EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is 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 that is attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Earnings** | | |
| Profit for the period | **39,708** | 45,432 |
| | | |
| **Basic and diluted earnings** | **39,708** | 45,432 |
| | | |
| **Weighted-average ordinary shares (number of shares)** | | |
| Recognised as treasury shares | **(1,523)** | (2,023) |
| Ordinary shares issued during the period | **171,432** | 110,089 |
| **Weighted-average ordinary shares (number of shares)** | **169,910** | 108,066 |
| | | |
| **Diluted number of ordinary shares (number of shares)** | | |
| Diluted shares | **472** | 684 |
| **Total diluted number of ordinary shares (number of shares)** | **170,382** | 108,750 |
| | | |
| **Basic earnings per share ($)** | **0.23** | 0.42 |
| **Diluted earnings per share ($)** | **0.23** | 0.42 |

## 27. Investment property

**Accounting for investment property**
Investment property is initially measured at cost and subsequently at fair value, with any change therein recognised in profit or loss within non-interest income.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Investment property comprises commercial properties that are leased to third parties

**Critical accounting estimates and judgements**
The group obtains independent valuations for its investment properties at least annually.

At the end of each reporting period, the directors update their assessment of the fair value of each property, taking into account the most recent independent valuations. The directors determine a property's value within a range of reasonable fair value estimates.

The fair values of the investment properties at 31 December 2018 have been determined based on the valuations performed by accredited independent valuers.

The Group has no restrictions on the realizability of its investment properties and no contractual obligations to either purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

Valuation technique and significant unobservable inputs
The fair value of investment property was determined by independent professional valuers, across the Group. The valuations, which conform to International Valuation Standards, were in terms of the policy as set out in the accounting policies section and was derived with reference to market information close to the date of the valuation.

The fair values of investment properties have been categorised under level 3 in the fair value hierarchy based on the inputs used. These inputs include:
- Expected market rental growth
- Void periods
- Occupancy rate
- Rent-free periods
- Risk-adjusted discount rates
- Adjusted rentals per square meter effected to the net lettable areas.

The estimated fair value would increase/(decrease) if:

- Expected market rental growth were higher (lower);
- Void periods were shorter (longer);
- The occupancy rates were higher (lower);
- Rent-free periods were shorter (longer);
- The risk – adjusted discount rates were lower (higher);
- Present use of land and improvements is ceased (lower); or
- Developments are made on the land (increase).

| | **2018 $'000** | 2017 $'000 |
|---|---|---|
| Opening balance | **21,199** | 17,199 |
| Exchange rate adjustment | **(4,832)** | 202 |
| Fair value gain/(loss) | **1,187** | 1,699 |
| Additions during the period | **3,141** | 2,099 |
| Reclassifications to property and equipment | **(5,437)** | |
| Disposals during the period | **(2,843)** | - |
| | **12,414** | 21,199 |

## 28. Property and equipment

**Accounting for property and equipment**

Land and buildings are shown at fair value based on annual valuations by external independent valuers under hyperinflationary economies, otherwise at least once every three years. However, management conducts annual assessments, to ensure that the carrying amount of land and buildings is not significantly different from fair value.

Surpluses and deficits arising thereon are transferred to the property revaluation reserve included under capital reserves in equity. All other items of property and equipment are stated at cost less accumulated depreciation and impairment losses. Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment. Owner-occupied properties are held for use in the supply of services or for administrative purposes.

Depreciation is charged to the statement of profit or loss on a straight-line basis over the estimated useful life of the property and equipment. Land is not depreciated.

The estimated useful lives are as follows:

- Buildings: 20–50 years;
- Buildings: 4 years;
- Computer and office equipment: 3–5 years; and
- Furniture and fittings: 4–10 years.

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate only when it is probable that future economic benefits associated with the item will flow to the Group.

The cost of day-to-day servicing of property and equipment are recognised in the statement of profit or loss as incurred.

Any gain or loss on disposal of an item of property and equipment is recognised within non-interest income in the statement of profit or loss.

| | 31 December 2018 | | | | |
|---|---|---|---|---|---|
| | Land and buildings $'000 | Motor vehicles $'000 | Computer and office equipment $'000 | Furniture and fittings $'000 | Total $'000 |
| **Cost or valuation** | | | | | |
| Opening balance at 1 January 2018 | **85,782** | **7,503** | **49,354** | **30,052** | **172,690** |
| Exchange rate adjustment | **(23,879)** | **(1,715)** | **(12,212)** | **(5,245)** | **(43,052)** |
| Additions during the year | **893** | **120** | **5,759** | **2,232** | **9,004** |
| Revaluation | **2,667** | **–** | **–** | **–** | **2,667** |
| Reclassification from investment property | **5,437** | **–** | **–** | **–** | **5,437** |
| Disposal during the year | **(1,309)** | **(473)** | **(124)** | **(30)** | **(1,936)** |
| Other reclassifications | **646** | **–** | **773** | **(1,949)** | **(530)** |
| **Cost or valuation at 31 December 2018** | **70,236** | **5,434** | **43,549** | **25,060** | **144,280** |
| **Accumulated depreciation** | | | | | |
| Opening balance | **(20,225)** | **(5,720)** | **(36,183)** | **(14,833)** | **(76,962)** |
| Exchange rate adjustment | **7,068** | **1,370** | **9,034** | **2,728** | **20,201** |
| Depreciation charge for the year | **(3,025)** | **(333)** | **(4,978)** | **(1,998)** | **(10,334)** |
| Disposals during the year | **670** | **455** | **95** | **12** | **1,233** |
| **Accumulated depreciation at 31 December 2018** | **(15,512)** | **(4,228)** | **(32,032)** | **(14,091)** | **(65,863)** |
| **Carrying value at 31 December 2018** | **54,724** | **1,207** | **11,517** | **10,970** | **78,417** |
| **Carrying value at 31 December 2017** | **65,556** | **1,783** | **13,171** | **15,218** | **95,728** |

## 29. Prepayment and other receivables

**Accounting for prepayment and other receivables**
Prepayments and other receivables are not financial assets and are carried at amortised cost. Identifiable risks of default are accounted for by means of impairments.

| | **2018**<br>**$'000** | 2017<br>$'000 |
|---|---|---|
| Accounts receivable | **6,541** | 15,113 |
| Prepayments | **12,400** | 13,637 |
| Security deposits | **3,825** | 13,624 |
| Other receivables | **14,521** | 93,731 |
| | **37,287** | 136,105 |

## 30. Fair value of financial assets and liabilities

**Fair value determination**
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 measurement date.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:
- quoted prices (unadjusted) in active markets for identical assets or liabilities (**level 1**);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (**level 2**); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (**level 3**).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustments based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

Fair value determination as included in the measurement and disclosure requirements of IFRS 13 is applicable to all elements of the statement of financial position, and not only financial instruments.

## 30. Fair value of financial assets and liabilities continued

The following table shows the Group's assets and liabilities that are held at fair value disaggregated by fair value hierarchy:

| | 31 December 2018 | | | |
|---|---|---|---|---|
| | Quoted prices Level 1 $'000 | Significant observable inputs Level 2 $'000 | Significant unobservable inputs Level 3 $'000 | Total at fair value $'000 |
| **Assets measured at fair value:** | | | | |
| *Fair value option* | | | | |
| *Designated at fair value* | | | | |
| Listed equities | 1,711 | – | – | 1,711 |
| Unlisted equities | – | – | 22,463 | 22,463 |
| Unlisted debentures | – | – | 114 | 114 |
| Property units | – | – | 621 | 621 |
| | | | | |
| *Derivative financial instruments* | | | | |
| Cross-currency interest swaps | – | 2,422 | 2,978 | 5,400 |
| Forward foreign exchange contracts | 192 | 10 | – | 202 |
| | | | | |
| *Fair value through other comprehensive income* | | | | |
| Government bonds | 49,105 | 19,384 | – | 68,490 |
| Corporate bonds | 6,253 | 12,193 | – | 18,446 |
| Listed equities | 291 | – | – | 291 |
| Unlisted equities | – | 435 | 437 | 872 |
| Unlisted investment | – | 12,828 | – | 12,828 |
| **Fair value hierarchy for financial assets** | 57,554 | 47,272 | 26,613 | 131,439 |
| **Liabilities measured at fair value:** | | | | |
| *Derivative financial instruments* | | | | |
| Cross-currency interest swaps | 5,488 | – | 5,444 | 10,932 |
| Forward foreign exchange contracts | 7,563 | – | – | 7,563 |
| Equity derivative | – | (11,959) | – | (11,959) |
| | | | | |
| *Borrowed funds* | – | 23,349 | – | 23,349 |
| | | | | |
| **Liabilities for which fair values are disclosed:** | | | | |
| Borrowed funds | – | 393,394 | – | 393,394 |
| **Fair value hierarchy for financial liabilities** | 13,051 | 404,784 | 5,444 | 423,279 |

## 30. Fair value of financial assets and liabilities continued

| | 31 December 2017 | | | |
|---|---|---|---|---|
| | Quoted prices Level 1 $'000 | Significant observable inputs Level 2 $'000 | Significant unobservable inputs Level 3 $'000 | Total at fair value $'000 |
| **Assets measured at fair value:** | | | | |
| *Financial assets held for trading* | | | | |
| Government bonds | – | 1,583 | 12,554 | 14,137 |
| Treasury bills | – | 62,649 | – | 62,649 |
| | | | | |
| *Fair value option* | | | | |
| *Designated at fair value* | | | | |
| Listed equities | 1,547 | – | – | 1,547 |
| Unlisted equities | – | – | 17,306 | 17,306 |
| Unlisted debetures | – | – | 268 | 268 |
| Property units | – | – | 30 | 30 |
| | | | | |
| *Derivative financial instruments* | | | | |
| Cross-currency interest swaps | (487) | 486 | 6,494 | 6,493 |
| Equity derivative | – | 487 | 26,800 | 27,287 |
| Forward foreign exchange contracts | – | 10 | – | 10 |
| | | | | |
| *Available-for-sale investments* | | | | |
| Unlisted equities | – | 446 | 929 | 1,375 |
| Unlisted investment | – | 19,027 | – | 19,027 |
| Government bonds | – | 211,925 | – | 211,925 |
| Corporate bonds | – | 61,960 | – | 61,960 |
| **Fair value hierarchy for financial assets** | 1,060 | 358,573 | 64,381 | 424,014 |
| | | | | |
| **Liabilities measured at fair value:** | | | | |
| *Derivative financial instruments* | | | | |
| Cross-currency interest swaps | 8,816 | – | 6,117 | 14,933 |
| Forward foreign exchange contracts | – | 136 | – | 136 |
| Equity derivative | – | (8,328) | – | (8,328) |
| | | | | |
| *Borrowed funds* | – | 31,309 | – | 31,309 |
| | | | | |
| **Liabilities for which fair values are disclosed:** | | | | |
| Borrowed funds | – | 315,747 | – | 315,747 |
| **Fair value hierarchy for financial liabilities** | 8,816 | 338,864 | 6,117 | 353,797 |

There were no transfers between levels in the current period.

## 30. Fair value of financial assets and liabilities continued

### Level 3 fair value movements

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in level 3 of the fair value hierarchy:

| | 31 December 2018 | | | | |
|---|---|---|---|---|---|
| | **Debt or equity investments $'000** | **Derivative financial assets $'000** | **Total assets at fair value $'000** | **Derivative financial liabilities $'000** | **Total liabilities at fair value $'000** |
| **Opening balance** | **31,088** | **33,294** | **64,382** | **6,117** | **6,117** |
| **Total gains or losses** | **–** | **–** | **–** | **–** | **–** |
| – in profit/(loss) | **5,174** | **–** | **5,174** | **–** | **–** |
| – in other comprehensive income | **(308)** | **(329)** | **(637)** | **(172)** | **(172)** |
| Purchases | **2,193** | **–** | **2,193** | **–** | **–** |
| Settlements | **(12,897)** | **(29,454)** | **(42,351)** | **–** | **–** |
| Exchange rate adjustment | **(1,615)** | **(533)** | **(2,148)** | **(502)** | **(502)** |
| **Closing balance** | **23,635** | **2,978** | **26,613** | **5,444** | **5,444** |

| | 31 December 2017 | | | | |
|---|---|---|---|---|---|
| | Debt or equity investments $'000 | Derivative financial assets $'000 | Total assets at fair value $'000 | Derivative financial liabilities $'000 | Total liabilities at fair value $'000 |
| **Opening balance** | 14,021 | 6,024 | 20,045 | 5,733 | 5,733 |
| **Total gains or losses** | 4,485 | 26,773 | 31,258 | (88) | (88) |
| – in profit/(loss) | 4,514 | 26,773 | 31,287 | (88) | (88) |
| – in other comprehensive income | (29) | – | (29) | – | – |
| Purchases | (288) | – | (288) | – | – |
| Exchange rate adjustment | (27) | 497 | 470 | 472 | 472 |
| Transfer into level 3 | 12,897 | – | 12,897 | – | – |
| **Closing balance** | 31,088 | 33,294 | 64,382 | 6,117 | 6,117 |

Total gains or losses for the year in the above table are presented in the statement of comprehensive income as follows:

| | 31 December 2018 | | | | |
|---|---|---|---|---|---|
| | **Debt or equity investments $'000** | **Derivative financial assets $'000** | **Total assets at fair value $'000** | **Derivative financial liabilities $'000** | **Total liabilities at fair value $'000** |
| **Total gains or losses in profit/loss for the year:** | **5,174** | **–** | **5,174** | **–** | **–** |
| Net trading income | **–** | **–** | **–** | **–** | **–** |
| Net income from other financial instruments carried at fair value | **5,174** | **–** | **5,174** | **–** | **–** |
| **Total gains or losses recognised in other comprehensive income** | **–** | **(329)** | **(329)** | **(172)** | **(172)** |

| | 31 December 2017 | | | | |
|---|---|---|---|---|---|
| | Debt or equity investments $'000 | Derivative financial assets $'000 | Total assets at fair value $'000 | Derivative financial liabilities $'000 | Total liabilities at fair value $'000 |
| **Total gains or losses in profit/loss for the year:** | | | | | |
| Rental income | 4,494 | – | 4,514 | – | – |
| Net income from other financial instruments carried at fair value | (27) | – | (27) | (88) | (88) |
| **Total gains or losses recognised in other comprehensive income** | (29) | – | (29) | – | – |

### Description of significant unobservable inputs to valuation

The table below sets out information about significant unobservable inputs used at year end in measuring financial instruments categorised as level 2 and 3 in the fair value hierarchy.

| Type of financial instrument | Valuation technique | Significant unobservable input | Range of estimates (weighted average) for unobservable input |
|---|---|---|---|
| **Government debt** | This includes government bonds and treasury bills. Liquid government bonds that are actively traded through an exchange or clearing house are marked-to-market. Less liquid bonds are valued using observable market prices which are sourced from broker quotes, inter-dealer prices or other reliable pricing services. Where there are no observable market prices, a proxy curve is constructed by using the US interest rate swap yield curve and adding a spread indicative of the inherent risk relating to credit, liquidity and for the sovereign risk of the government debt. | Discount rate where no traded market exists. | 12-22% |
| **Corporate debt** | This includes corporate bonds which are valued using observable market prices which are sourced from broker quotes, inter-dealer prices or other reliable pricing services. Where there are no observable market prices, a proxy curve is constructed by using the US interest rate swap yield curve and adding a spread indicative of the inherent risk relating to credit, liquidity and for the sovereign risk of the corporate debt. | Discount rate where no traded market exists. | 12-18% |
| **Unlisted equities and investments** | Market comparison technique: The valuation model is based on market multiples derived from quoted prices of companies comparable to the investee on actual EBITDA for the year ended 31 December 2018. The estimate is adjusted for the effect of the non-marketability of the equity securities. | Adjusted price to book ratio. Adjusted EV/EBITDA. | 12-25% |

### Sensitivity analysis

For the fair values of unlisted equities – designated at fair value through profit or loss, reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects:

| | 31 December 2018 | | | |
|---|---|---|---|---|
| | **Profit or loss** | | **Equity** | |
| | **Increase $'000** | **Decrease $'000** | **Increase $'000** | **Decrease $'000** |
| Average price to book ratio (5% movement) | **78** | **(78)** | **78** | **(78)** |
| Book value (2% movement) | **31** | **(31)** | **31** | **(31)** |
| Adjusted EV/EBITDA (5% movement) | **78** | **(78)** | **78** | **(78)** |
| EBITDA (2% movement) | **31** | **(31)** | **31** | **(31)** |

| | 31 December 2017 | | | |
|---|---|---|---|---|
| | Profit or loss | | Equity | |
| | Increase $'000 | Decrease $'000 | Increase $'000 | Decrease $'000 |
| Average price to book ratio (5% movement) | 14 | (14) | 14 | (14) |
| Book value (2% movement) | 6 | (6) | 6 | (6) |
| Adjusted EV/EBITDA (5% movement) | 14 | (14) | 14 | (14) |
| EBITDA (2% movement) | 6 | (6) | 6 | (6) |

## 30. Fair value of financial assets and liabilities continued

**Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions:**
The following table shows the impact on the fair value of level 3 financial instruments of using reasonably possible alternative assumptions by class of instrument. The positive and negative effects are approximately the same.

| | **31 December 2018** | | 31 December 2017 | |
|---|---|---|---|---|
| | **Carrying amount $'000** | **Effect of reasonably possible alternative assumptions $'000** | Carrying amount $'000 | Effect of reasonably possible alternative assumptions $'000 |
| **Financial assets** | | | | |
| *Financial assets held at fair value through profit or loss* | | | | |
| Government bonds | **–** | **–** | 12,554 | 1,255 |
| *Fair value option* | | | | |
| Unlisted equities | **142** | **14** | 17,306 | 1,731 |
| Unlisted debentures | **114** | **11** | 268 | 27 |
| Property units | **621** | **62** | 30 | 3 |
| *Derivative financial instruments* | | | | |
| Cross-currency interest swaps | **5,632** | **5,604** | 6,494 | 649 |
| Equity derivative | **–** | **–** | 26,800 | 2,680 |
| *Financial assets held at fair value through other comprehensive income* | | | | |
| Unlisted equities | **82** | **8** | 929 | 93 |
| **Financial liabilities** | | | | |
| *Derivative financial instruments* | | | | |
| Cross-currency interest swaps | **5,444** | **5,415** | 6,117 | 612 |

## 31. Off-balance sheet items

### a. Loan commitments and other financial facilities

The timing profile of the contractual amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities for the year ended 31 December 2018 are summarised below:

| | **2018 $'000** | 2017 $'000 |
|---|---|---|
| Guarantees | **33,434** | 29,944 |
| Letters of credit | **80,772** | 44,295 |
| Forward contracts and currency swaps | **7,146** | 2,241 |
| Other contingent liabilities | **11,961** | 64,452 |
| Gross balance | **133,313** | 140,932 |
| Expected credit loss allowance | **(541)** | – |
| | **132,772** | 140,932 |
| Maturity analysis of loan commitments | | |
| Less than one year | **79,243** | 106,071 |
| Between one and five years | **43,393** | 33,049 |
| Over five years | **10,136** | 1,812 |
| | **132,772** | 140,932 |
| b. Capital commitments | | |
| Approved and contracted for | **6,257** | 5,724 |
| Approved but not contracted for | **10,233** | 22,090 |
| | **16,490** | 27,814 |

Funds to meet these commitments will be provided from existing Group resources.

## 32. Non-current assets held-for-sale

### a) Non-current asset/disposal group classified as held for sale

**Accounting for non-current assets held-for-sale (or disposal groups)**
The Group classifies non-current assets as held-for-sale (or disposal groups) to equity holders of the Parent if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets classified as held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell.

Costs to sell are the incremental costs directly attributable to the sale, excluding the finance costs and income tax expense.

The criteria for held-for-sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the sale will be withdrawn.

Management must be committed to the sale expected within one year from the date of the classification.
Property and equipment and intangible assets are not depreciated or amortised once classified as held-for-sale.
Assets and liabilities classified as held-for-sale are presented separately as current items in the statement of financial position.

On 30 April, the Group announced its intention to dispose of its investments in:

- BancABC Mozambique
- BancABC Tanzania
- Atlas Mara Zambia
- BPR Rwanda

This will result in deconsolidation effective 30 March 2019. The disposal group includes all the assets and liabilities of these entities as well as Group balances associated with them.

## Annexure A – Reconciliation Non-GAAP measures

### Use of non-GAAP financial measures

As stated in our reported results, our financial results are prepared in accordance with IFRS as detailed in the Financial Statements starting on page 39 of the Atlas Mara Annual Report and Accounts 2018.

When measuring our performance, we include certain financial measures, to report our results, where the impact of certain non-recurring or non-core activities are excluded to provide a view of our sustainable performance.

We also include certain measures, where factors that distort year-on-year comparison is excluded.

These are considered non-GAAP measures.

### Adjusted operating profit

When calculating our adjusted operating profit, we exclude the impact of one-off and transaction-related items.

One-off items are considered, but not limited to be those related to matters such as separation packages paid to staff and executives, integration cots when acquiring new business and costs associated with corporate restructures and reorganisations which management would identify and evaluate separately when assessing performance and performance trends of the business. The following table provides a reconciliation of the adjusted operating profit to most directly comparable measures under IFRS.

| | | **2018** | 2017 | CC Var % |
|---|---|---|---|---|
| **Adjusted profit after tax** | $ million | **26.4** | 37.0 | 77% |
| Transaction and M & A related items | $ million | **26.3** | 20.6 | >100% |
| Reorganisations and restructuring costs | $ million | **(8.7)** | (10.0) | (12.4) |
| Tax and NCI | $ million | **(4.3)** | (2.2) | (>100%) |
| **IFRS reported profit** | $ million | **39.7** | 45.4 | >100% |

**Note:**

* 2017 – Included in M&A costs are the gain recognised in respect of the acquisition of the additional 13.4% share of UBN. Included in reorganisation and restructuring costs are amongst others, goodwill impairment of $3.5 million, restructuring and integration costs of ca $.6.5 million.
2018 – Included in M&A costs are the gain recognised in respect of the acquisition of the additional c.4.5% share of UBN. Included in reorganisation and restructuring costs are amongst others, restructuring and integration costs of ca $8.7 million.

# Glossary

| | |
|---|---|
| AMFS | Atlas Mara Financial Services Limited (formerly ADC Financial Services Limited) |
| AATIF | Africa Agriculture and Trade Investment Fund S.A |
| ABC | BancABC |
| ABCH | ABC Holdings Limited |
| AfDB | African Development Bank |
| ADC AG | ADC African Development Corporation AG |
| AED | United Arab Emirates Dirham |
| AGM | Annual General Meeting |
| ALCO | Assets and Liability Committee |
| BIFM | BIFM Capital Investment Fund One (Pty) Ltd |
| BPR | Banque Populaire du Rwanda Limited |
| BRD-C | Banque Rwandaise de Développement – Commercial/Development Bank of Rwanda – Commercial |
| BVI | British Virgin Islands |
| CEO | Chief Executive Officer |
| CFO | Chief Financial Officer |
| CGU | Cash-generating unit |
| CoE | Cost of equity |
| COMESA | Common Market for Eastern and Southern Africa |
| Corporate centre | Atlas Mara Dubai based office |
| CPI | Corruption Perceptions Index |
| CREDCO | Credit Committee |
| CRO | Chief Risk Officer |
| CTP | Credit transformation programme |
| DFI | Development finance institution |
| DTR | Disclosure and Transparency Rules |
| EAC | East African Community |
| EAD | Exposure at default |
| ECOWAS | Economic Community of West African States |
| EIR | Effective interest rate |
| EL | Expected loss |
| EPS | Earnings per share |
| ERM | Enterprise-wide Risk Management |
| EU | European Union |
| EXCO | Executive Committee |
| EV | Expected value |
| EBITDA | Earnings before interest, tax, depreciation and amortisation |
| FDI | Foreign Direct Investment |
| FISP | Farmer Input Support Programme |
| GBFC | Green Buffaloes Football Club |
| HIFA | Harare International Festival of the Arts |
| IASB | International Accounting Standards Board |
| ICAAP | Internal Capital Adequacy Assessment Process |
| IFC | International Finance Corporation |
| IFRS | International Financial Reporting Standards |
| IFRSIC | International Financial Reporting Standards Interpretation Committee |
| IMA | Investment Management Association |
| IMF | International Monetary Fund |
| IPDEV | I&P Development |
| IPO | Initial Public Offering |
| KPI | Key performance indicator |
| KPMG | KPMG Inc |
| LGD | Loss given default |
| NBTS | National Blood Transfusion Services |
| NCI | Non-controlling interests |
| NPL | Non-performing loan |
| OCI | Other comprehensive income |
| OECD | Organisation for Economic Co-operation and Development |
| OPIC | Overseas Private Investment Corporation |
| ORCO | Operational Risk Committee |
| Parent company | Atlas Mara |
| PD | Probability of default |
| PE | Private equity |
| RAROC | Risk adjusted return on capital |
| REC | Regional Economic Community |
| REMCO | Remuneration Committee |
| RoE | Return on equity |
| SADC | Southern African Development Community |
| SMEs | Small- and medium-sized enterprises |
| SSA | Sub-Saharan Africa |
| TFTA | Tripartite Free Trade Agreement |
| The Model | Three lines of defence model |
| Translation reserve | Foreign currency translation reserve |
| TSA | Treasury Single Account |
| UBN | Union Bank of Nigeria |
| UGPL | Union Global Partners Limited |
| VIU | Value in use |
| WAEP | Weighted-average exercise price |
| WEF | World Economic Forum |
| ZAMCO | Zimbabwean Asset Management Company |

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