



Atlas Mara Limited – Annual Financial Statements 2019

Contents

Overview

02 At a glance

Strategic report

04 Executive chairman's statement

07 Chief Financial Officer's review of financial performance

Governance and risk

13 Risk report

31 Directors' report

34 Statement of directors' responsibilities

Financial statements

35 Independent Auditor's report

39 Consolidated statement of financial position

40 Consolidated statement of profit or loss

41 Consolidated statement of other comprehensive income

42 Consolidated statement of changes in equity

43 Consolidated statement of cash flows

44 Notes to the financial statements

Additional information

98 Annexure

99 Glossary

100 Professional advisers

<http://atlasmara.com>

Atlas Mara at a glance

Financial facts and figures

Composition of loans and advances

by country

A – Botswana 94.1%

B – Zimbabwe 3.5%

C – Others 2.4%

Loans and advances

\$644.1m – (44.2%)

31 December 2018: \$1,154.1m

Deposits

\$723.7m – (55.7%)

31 December 2018: \$1,631.8m

Total equity

\$547.2m

31 December 2018: \$688.9m

Net book value per share US\$

\$2.97

31 December 2018: \$3.83

Operational facts and figures

	Botswana	Mozambique	Zambia	Zimbabwe	Tanzania	Rwanda	Nigeria	Corporate
Employees	358	286	699	260	154	894	2,300	42
Customers ('000s)	57	108	207	135	40	475	5,800	-
ATMs	13	21	114	21	9	54	1,009	-
Number of physical locations	8	10	46	19	109	184	240	1

Sources:

Atlas Mara, BPR Regulatory Submission documents, UBN 2019 investor analyst presentation management reports and annual reports, FY audited financials of BPR, Central Banks annual reports.

Total number of customers¹

>1m

Total number of ATMs¹

232

Total number of physical locations¹

376

Note:

1. Statistics exclude UBN's operational footprint (Atlas Mara owns 49.97%, which is accounted for as an investment in associate shareholding).

Executive Chairman's statement

Dear Atlas Mara shareholders,

In this extraordinary time, our priority is first and foremost the health and safety of our employees and customers and their families. The COVID-19 pandemic is affecting our businesses and the economies in which we operate in fundamental ways, many of which are yet unknown. We remain committed to serving our customers and communities to the best of our ability, and I want to personally thank our dedicated team members across our markets who are doing so every day under difficult and trying circumstances. While we did not achieve the objectives we set out to accomplish by the end of 2019, we remain on track and committed to the path we embarked on last year.

Strategic Transaction

I assumed the chairmanship of Atlas Mara in February 2019. The Board undertook a review of the Company's strategic options to drive shareholder value, including an in-depth review of each banking operation and its fit with our long-term strategy. This led to a decision to reposition our operations as well as assess indications of interest with respect to Atlas Mara's banking interests in four countries: Mozambique, Rwanda, Tanzania, and Zambia. These countries in aggregate represented less than 2% of total segment profits, before central costs, and the decision to partner or exit was driven by our belief that the right strategic operating partner could accelerate these banks' path to target returns, while enabling Atlas Mara to share in the value creation over time through potential equity participation, as these banks realized their potential. We subsequently announced a binding term sheet with Equity Group Holdings but were unable to complete the transaction by year-end. These divestitures have been further delayed in 2020 by COVID-19 related travel bans and lockdowns. The basis for our decision to exit direct ownership of these banks remains sound, and we remain committed to completing a strategic transaction that includes these banks as soon as practicable this year.

Financial Results

Our 2019 adjusted net profit (which excludes extraordinary and one-time items) was \$5.8 million, which was lower year over year due primarily to (i) lower revenue, resulting from loan book contraction, lower margins, and tighter liquidity, (ii) higher impairments, and (iii) a one-off gain recognised in the comparable period on the acquisition of additional shares in UBN. Overall, we reported a net loss of \$143.2 million, due predominantly to remeasurement of the four banks set to be part of a strategic transaction, which, in accordance with IFRS 5 accounting requirements, must be treated as assets held for sale.

Our 2019 financial performance reflects a more difficult year for our banks, with macroeconomic challenges across our markets of operation. I am pleased to report that our core markets – Nigeria, Botswana, and Zimbabwe – remained profitable, with our banks in Nigeria and Botswana each declaring a dividend for the first time since we became shareholders of these banks. While our holding company operating expenses remain above our target, we made significant progress in 2019 on cost reductions that should begin to show through in H2 2020. We also believe the completion of a strategic transaction will enable further and accelerated streamlining of holding company structure and costs.

Nigeria

UBN, our largest investment in our largest market, had a strong year, with net profit of NGN19.9 billion (\$64.9 million) and an NPL ratio improved by 290 bps. Assets, deposits, net profits, and return on equity all improved year on year; active mobile banking users reached about 2.1 million; and oil & gas sector concentration reduced by approximately 7% of the total loan book. The bank also recently received approval to pay dividends – its first in more than a decade – of approximately \$20 million. In the past five years, UBN has achieved impressive results across several metrics, including active customers average annual growth of 26%, gross loans average annual growth of 12%, and customer deposits average annual growth of 11%.

In June 2019, UBN issued a fully subscribed NGN30 billion Tier II bond, the largest ten-year bond ever issued by a Nigerian corporate. During the year, UBN also agreed with the U.S. International Development Finance Corporation ("DFC", formerly the Overseas Private Investment Corporation), for a \$200 million ten-year loan to support growth in key segments including SMEs and women-owned businesses. For Atlas Mara, this new facility represents another milestone in our partnership with DFC. This facility will be a pillar of UBN's targeted growth strategy. The bank remains well-capitalised and is positioned for long-term growth.

I want to congratulate Emeka Emuwa and the management team for delivering an excellent year and continuing to drive forward on UBN's long-term plans. We look forward to continuing to work closely with UBN management to capitalise on the considerable opportunities in Nigeria.

Subsequent to year-end

UBN announced in January an agreement to sell its UK subsidiary to MBU Capital following a competitive selection process. This will enable a substantially improved capital allocation and management focus on the domestic market, and we believe the transaction is accretive to shareholder value.

In March 2020, following the CBN's devaluation of the official exchange rate from NGN306.5/\$1 to NGN361/\$1 (driven primarily by low oil prices and impact of the COVID-19 pandemic), Atlas Mara shifted the exchange rate used to account for our investment from the official rate to the more market-driven NAFEX rate, to reflect a more accurate picture of USD value. While it may result in greater quarterly volatility, we view this as positive for the market, and it will enable us to more transparently present the financial picture for USD investors such as Atlas Mara. As a result, we expect to see in Q1 2020 negative accounting impact of \$104 million, or \$0.61 per share, to the carrying value of our investment in UBN and the Group's equity.

Botswana

BancABC Botswana remained profitable in 2019, showing a positive second half trajectory with a 35% increase in net profit over the first half. Botswana experienced sluggish economic growth in 2019 due to weakness in the diamond market, a severe drought, and slower growth in neighbouring (trade partner) countries. During the year, the bank made valuable progress in bolstering talent; launching new digital platforms including its corporate banking platform, BancOnline; reengineering legacy processes for improved efficiencies; strengthening risk functions; and revamping its customer value proposition. The bank also signed a new \$10 million Tier II financing facility with PROPARGO to support growth, which was funded in May 2020. I am also pleased to report that the bank declared and paid dividends to shareholders, including Atlas Mara, in Q4 2019, a first under our ownership. We commend management for their hard work to deliver dividends to shareholders and look forward to working with the team to execute the bank's long-term plans and continue to deliver returns to shareholders.

Zimbabwe

BancABC Zimbabwe continued to perform admirably, delivering strong operating and financial performance in local currency terms, despite an extremely difficult macro-environment. The economy contracted by 7.5% as local currency was reintroduced, severe FX shortages and hyperinflation ensued, and the country experienced an acute dry season. Nonetheless, the bank delivered a 162.2% increase in net profit in inflation-adjusted local currency terms, on the back of strong fees, commissions, and FX income, as the Markets and Treasury team in particular continues to deliver in a volatile market. BancABC Zimbabwe is now the number two bank in the market as measured by profit after tax.

We have moved proactively to position the bank for the near- and long-term future in Zimbabwe. The bank is appropriately focused on strong balance sheet management through foreign-denominated investments and growth in the property portfolio, while increasing focus on lower-risk borrowers across SME, commercial, and consumer segments. In the hyperinflationary environment, the team is reducing long-term lending and focusing on national priority areas such as infrastructure and renewable energy. Critically, the bank's aggressive digitisation effort is bearing fruit. Investments in mobile banking and the completion of the core banking system upgrade look well-timed in hindsight. Our CEO in Zimbabwe, Lance Mambondiani, who joined us last July, has done a tremendous job and we look forward to supporting the team as they continue to navigate a difficult environment.

Other markets

Performance in our other markets – now accounted for as assets classified as held for sale – was mixed, and, other than Rwanda, generally behind what we expected. Rwanda delivered an increase in profit year on year supported by a macroeconomic environment that saw real GDP growth of 9.5%, underpinned by a strong performance in the services and industrial sectors. Mozambique's core underlying performance improved on the back of its digital strategy, but it underperformed in profitability as a result of one-off costs. Tanzania underperformed in the face of a continually challenging macroeconomic environment, felt disproportionately by subscale banks, as well as investments made to refocus the business from a predominately corporate bank to a retail bank. Notwithstanding the challenges, Tanzania recorded 60% growth in its Retail business. We faced some very challenging market environments, particularly in Zambia, which saw a combination of commodity price collapse, currency weakness, increasing sovereign debt yields, and severe market liquidity shortages. While we fully intend to consummate a strategic transaction involving these banks during 2020, we are working very closely with our management teams to position the banks for better long-term performance.

COVID-19 impact and looking ahead

While we believe our long-term thesis and strategy remain intact, in 2020 our focus is on business continuity, contingency planning, and supporting our customers, employees, and communities through this crisis. The full impact of the pandemic on our business is not yet clear, but some of our countries have already seen broad effects. We expect near-term increases in NPLs, customer withdrawals, and other effects including yield and fee compression as central banks intervene and foreign exchange markets display extreme volatility. Each one of our banks had contingency planning in place, including for work from home, which are now being executed. We are monitoring the situation daily.

Our banks – deemed essential services in all our markets – remain open and are following government guidance on best practices. Our banks are proactively taking specific actions focused on protecting asset quality and managing balance sheets, as well as accelerating some of our digital propositions to ensure we remain resilient and weather the crisis. We have also responded to this crisis with innovation where possible. For example, we have seen a sharp uptick in digital banking utilisation, after seeing increased digital volumes and revenues across all countries in 2019. In Zimbabwe, USSD banking capabilities, and a new WhatsApp chatbot feature providing basic services as well as COVID-19 information, have been important additions. In Botswana, we launched our SaruMoney Retail Banking App in March 2020 to accelerate our digital strategy, and saw in one month the sign-up volume we expected for the first year. We will continue to look for opportunities to innovate in the near-term to better serve customers in this extraordinary environment. We are learning a lot about our ability to work from home and with fewer resources – learnings that will enable us to operate more efficiently in the future.

We know this year will be difficult. The global demand shock, low commodity prices, local currency devaluations, and current and potential future regulatory actions will likely affect our businesses. Regulatory and other government actions to date have varied across our markets, but have included:

- Liquidity support: lower reserve requirements, cheaper overnight funding, eased FX restrictions, and direct injections of liquidity (e.g. a nearly \$10 billion injection in Nigeria).
- Capital support: lower minimum CARs and special provision exemptions.
- Lending, cost, and money supply: lower interest rates, credit facilities for on-lending and refinancing, increased digital transaction limits, and lower transaction fees.
- Fiscal stimulus (e.g. a \$1.4 billion IMF package announced in Nigeria).

We hope to see further stimulus, and we will continue to work closely with our regulators to support our markets. However, many of these initiatives will be passed on to the customer and may ultimately result in more challenging financial performance for our banks.

Share price performance

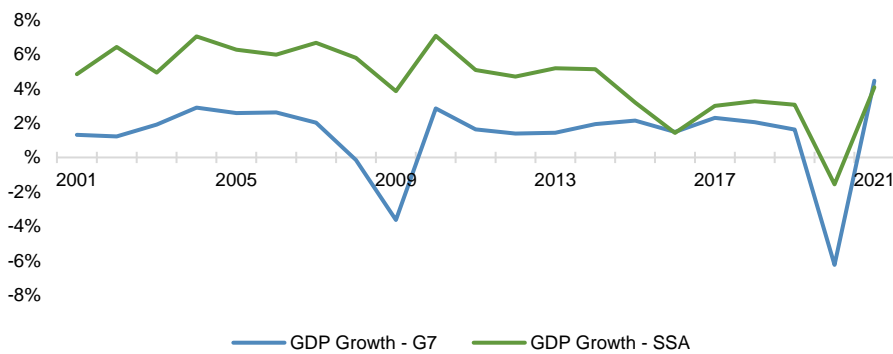
As Chairman and as a fellow shareholder, I share your frustration with our company's share price performance. While our financial results have been below our expectations, we firmly believe the current market price is disconnected from the fundamental value in the company. Our stock price underperformed throughout 2019, and unfortunately the impact of the current pandemic has exacerbated this trajectory in 2020. Atlas Mara is not alone among African corporates in this regard. Stock markets in Africa have performed especially poorly in the current crisis, with the impact of the pandemic already worse for Africa than the rest of the world, and indeed worse than in the depths of the 2008 global financial crisis.

<u>Stock / Index</u>	<u>Global Financial Crisis (Q4 2008)</u>	<u>COVID-19 Pandemic (Q1 2020)</u>
Atlas Mara	n/a	(46.6%)
Africa ⁽¹⁾	(20.8%)	(39.2%)
Emerging Markets ⁽²⁾	(27.9%)	(23.9%)
S&P 500	(22.6%)	(20.0%)
NASDAQ	(24.6%)	(14.2%)

(1) MSCI Emerging Markets Frontier Africa Index
(2) MSCI Emerging Markets Index

At FYE 2019, Atlas Mara’s tangible book value per share was \$2.87. Taking into account the subsequent impact of the Nigerian Naira devaluation and accounting change, the pro forma tangible book value per share of \$2.26 remains more than four times the current market price. We believe our stock – like major African markets – has been oversold.

At the same time, there are reasons for optimism. While Africa will be challenged by the pandemic, there are reasons to believe that the direct impact could be relatively less than in other parts of the world, and the region could be poised to show strong economic and social resilience in the recovery. The difference between Africa and developed markets in underlying fundamental demographic trends will be starker now, and Africa’s opportunity to accelerate directly into a digital future is unparalleled globally. From 2001 – or from 2008, the last global economic crisis – through the latest projections for 2020 – 2021, economic growth in sub-Saharan Africa has been fairly uncorrelated with that of the G7 economies.



The combination of our markets’ attractive underlying demographic trends, the long-term focus in Africa on increasing trade (in contrast to much of the West today), the importance of the banking sector in facilitating economic recovery efforts, and the apparent undervaluation of both African equities generally and Atlas Mara specifically make us optimistic that our strategy can bear fruit in the long-term, in conjunction with a broader African recovery and growth story.

Like most businesses globally, our banks will be tested this year, and management teams will likely need to defer some 2020 goals and priorities in favour of more urgently pressing concerns to weather the crisis. Our focus is on keeping customers and employees safe, prioritising liquidity and capital, delivering for our stakeholders, and supporting the recovery effort. We will be there for our communities today, and we will pursue the opportunities we see in tomorrow.

Thank you for your continued support, understanding and patience in this challenging environment.

Michael Wilkerson
Chairman

Chief Financial Officer's review of financial performance

These results reflect the continued execution of the strategic review that commenced in February 2019, combined with macroeconomic headwinds faced in some of our countries in both our continuing and discontinued operations.

Continuing operations

Nigeria

Union Bank of Nigeria ("UBN") reported robust results for the year, with profit before tax increasing by 33% on a constant currency basis and double digit return on equity of 10.2% compared to 6.2% in 2018. The NPL ratio improved from 8.7% to 5.8% in 2019, and cost to income ratio decreased to 74.1% from 79.8%.

While the Nigerian economy saw positive GDP momentum during 2019, with growth of 2.3% compared to 1.9% reported in 2018, this has been negated in Q1 2020 by the impact of the global crash in oil prices as well as the federal government's decision to impose strict lockdowns in the states of Abuja, Lagos, and Ogun, and introduce restrictions on movement elsewhere, in response to the global pandemic. Revised forecasts now predict that Nigeria will likely experience a contraction of GDP of between 2% - 3% in 2020.

In response to the oil price crisis and tight liquidity, the Central Bank of Nigeria ("CBN") adjusted the official exchange rate from NGN306/\$1 to NGN361/\$1.

Botswana

Botswana's economy continued to expand, as indicated by real (full year) GDP growth forecast for 2019 of 3.0%; however, this was lower than the 4.5% recorded in 2018, mainly as a result of sluggish output growth in the mining sector, which grew by only 1.6% compared with 4.1% in 2018.

BancABC Botswana's full year results showed a profit before tax of \$14.2 million, a decrease of 7.9% on a constant currency basis from \$16.2 million reported in 2018. After tax and non-controlling interest, Botswana reported \$8.9 million, compared to \$12.6 million in 2018. This decrease reflects the impact of Atlas Mara's sale of 20.47% out of its stake in BancABC Botswana in a successful IPO in December 2018 and an additional sale of 1.38% stake in 2019, bringing Atlas Mara's shareholding to 78.15% at the end of 2019. The bank achieved a modest performance in 2019, which was slightly lower than that of the previous financial year, albeit with a significant improvement in performance in the second half of the year. The project rollout for key transactional technology platforms will be a key driver in transforming the bank's balance sheet and future growth capacity. The bank will focus on accelerating momentum in order to continue to deliver returns to its investors.

Zimbabwe

Zimbabwe's economic landscape went through significant transformation in 2019 following the change from a multicurrency regime and the adoption of a local currency for the first time in a decade. The Zimbabwean Dollar ("ZWL") became the country's sole legal tender in June 2019, and has since been under severe devaluation pressure, reflecting supply and demand mismatch conditions. Monthly inflation accelerated from 42.1% year-on-year in December 2018 to 521% year-on-year in December 2019, resulting in significant erosion of consumer demand based on the hyperinflation status of the economy.

BancABC Zimbabwe exceeded expectations with a growth rate of 162.2% in net profit in 2019 on an inflation-adjusted local currency basis. Balance sheet management with hard assets, including a focus on foreign currency bonds and properties, helped to enhance profitability at a time when the country is in hyperinflation. The Markets and Treasury team reaffirmed their position as a market leader in foreign exchange trading and bonds. Trading and dealing income was strong despite extreme movements in the market.

The bank is continuing its transformation of digital platforms and launching a number of innovative products to provide broader and better service to customers. Amidst economic contraction and hyperinflation, BancABC Zimbabwe has developed a reputation for product innovation, tapping into growth opportunities while preserving shareholder value.

Discontinued operations

With the announcement on 30 April 2019 of the proposed strategic transaction involving the Group's subsidiaries in Mozambique, Rwanda, Tanzania, and Zambia, the operations of the four subsidiaries have been re-classified as disposal groups held for sale. The remeasurement of these disposal groups at lower of: (i) the carrying amount and (ii) fair value less costs to sell, resulted in an impairment loss of \$105.5 million, which predominantly impacted the intangible portion of Atlas Mara's book value. In addition, the recycling of the foreign currency translation losses and NCI (totalling \$31.8 million as at 31 December 2019, or (0.19) per share) through the statement of profit or loss upon disposal, is expected to result in a further decrease in book value.

Excluding one-off and transaction-related expenses or gains, our cost to income ratio was 106.6% (December 2018: 99.3%). Substantial cost reduction will be a key focus for management as we transition the Group to a more simplified structure following the completion of the strategic transaction.

COVID-19 impact

The COVID-19 pandemic has already had significant negative impact on the global economy, including the geographies in which we operate.

We believe the pandemic's full impact on our markets is yet to be seen. While there can be no certainty at this stage, we expect 2020 operating and financial performance to be negatively impacted in each of our markets. Each bank has been closely monitoring and prepared stress test models of the potential impact of COVID-19. Details are included in the consolidated audited financial statement section of this report.

Nigeria

UBN is relatively well-positioned to weather the impact with a capital adequacy ratio ("CAR") of 19.7%, which is significantly above the regulatory minimum of 15.0% for banks with international operations. This position will be further strengthened once the sale of UBN's UK subsidiary is completed, reducing the bank's regulatory minimum CAR to 10%, as required for domestic banks with a national/regional banking licence.

Atlas Mara accounts for UBN based on the equity accounting method and has historically applied the CBN official foreign exchange rate. The CBN's decision to adjust the official rate from NGN306/\$1 to NGN361/\$1 and move it closer to the NAFEX rate, combined with the uncertainties in the wake of the global crisis, triggered a reassessment of this policy. Effective 1 March 2020, we have moved away from the official rate to use the NAFEX rate.

As UBN is the Group's largest asset, we incorporated the impact of this exchange rate change as part of our sensitivity analysis. The change would result in a decrease of \$104 million in net asset value as further foreign currency translation losses are recognised, moving book value per share from \$2.97 to \$2.36 and tangible book value per share from \$2.87 to \$2.26.

Botswana

Botswana is expected to see significant economic impact due to weaker global demand affecting its two primary revenue sources: diamond exports and tourism. The Central Bank has committed to exercising regulatory forbearance in relation to the assessment of non-performing loans and determination of expected credit losses, for regulatory compliance purposes. The Central Bank will continue to assess the measures and announce additional actions as the need arises.

Our business in Botswana has taken the necessary steps to ensure that operations continue seamlessly during disruptions and that essential services are provided. We also continue to test our disaster recovery and business continuity plans. The bank also launched its SaruMoney retail banking app in March 2020 and in one month saw the signup volume exceeded the amount expected for a full year.

Zimbabwe

The Zimbabwean economy was expected to contract by 4% this year due to a depressed agricultural season. The lockdown announced on 19 April 2020 is expected to exacerbate this. Although the country failed to meet the conditions set out by the World Health Organization to lift the restrictions, mines have been allowed to resume operations at full capacity, while manufacturers are permitted to operate at limited capacity. The government has taken steps to manage the negative impact on the economy, including allowing the use of the US Dollar and fixing the exchange rate at 25:1 for the duration of the pandemic.

While critical businesses, including banking services, have been allowed to continue during the ongoing lockdown, branches are closed to the public and where possible staff are working from home. The bank continues to work with customers to support them and the economy through this period. In response to the crisis, the bank launched a virtual branch to service customers, as well as a new WhatsApp chatbot feature to provide basic banking services as well as COVID-19 information.

Performance summary

The Group recorded an adjusted net profit of \$5.8 million for the year ended 31 December 2019 versus \$26.4 million for the year ended 31 December 2018.

Statement of comprehensive income review

Total income

The Group reported a decrease in total income of 18.0% (18.3% on a constant currency basis) as a result of decline in net interest income.

Table 1: Total income for the year ended 31 December 2019

\$'million	31 December 2019			31 December 2018			Var %	CC Var %
	Continuing	Discontinued	Total	Continuing	Discontinued	Total		
Net interest income	11.4	74.8	86.2	51.4	81.2	132.6	(35.0)	(6.5)
Non-interest revenue	53.7	49.9	103.6	54.1	44.7	98.8	4.9	51.7
Total income	65.1	124.7	189.8	105.5	125.9	231.4	(18.0)	18.3

Net interest income

Net interest income declined by 35.0% (6.5% 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 higher cost of funds experienced in some of the banking subsidiaries.

Interest expense increased by 8.3% (25.6% on a constant currency basis) compared to the prior period mainly as a result of an increase in borrowed funds. This was also reflected in the increase in cost of funds to 5.9% for the year ended 31 December 2019 from 5.6% as reported in the comparable period. The subsidiaries are focused on reducing cost of funds through attrition of expensive deposits and replacement with sticky deposits.

Non-interest income

Non-interest income increased during the period by 4.9% (51.7% on a constant currency basis) mainly as a result of higher trading income in Zimbabwe, Mozambique and Zambia. Fee income declined by 8.3% in the current year compared to the prior period as a result of pressure on loan growth.

Total expenses

Total expenses of \$230.6 million (\$202.3 million excluding one-offs) represented a decrease of 4.1% (increase of 24.4% on a constant currency basis). The decrease was largely due to the effects of currency translation in Zimbabwe as well as the strategic cost management initiatives across the Group. Excluding one-off transaction and restructuring costs, total costs declined by 12.0%.

Costs at the Centre were reduced from \$37.4 million in 2018 to \$31.7 million in 2019 on a normalised basis. This reduction is based on the continuing focus by the Group to reduce costs as it transforms into a more focused and efficient platform.

Staff costs decreased by 3.9% from \$96.8 million in 2018 to \$93.0 million in the current year, but the contribution to total expenditure has increased to 42.4% from 40.2%.

On an adjusted operating profit basis, Atlas Mara reported a cost to income ratio of 106.6% (2018: 99.3%), compared to 121.5% (2018: 104.0%) on an IFRS basis.

Loan impairment charges

Credit impairment charges increased over 100% from \$0.2 million in 2018 to \$11.4 million in 2019, as a result of a significant increase in credit risk on certain loan exposures, reflected by the movements from stage 1 and 2 to stage 3, combined with the impact of recalibration of the model as the IFRS 9 process evolves and factors in the impact of macroeconomic changes.

The Group continues to enhance its risk management framework including credit monitoring and recovery processes.

Share of profit of associates

This represents Atlas Mara's share of profit from its 49.97% stake in UBN, based on UBN's published audited results for the year ended 31 December 2019. The impact of acquisition-related intangible asset amortisation is also included.

UBN's financial performance improved across a number of key metrics in 2019 as compared to 2018. Return on average equity improved to 10.2% from 6.2%, supported by profit before tax growth of 10.3% over the same period last year. During the year, UBN also focused on expanding its loan book, recording loan growth of 9.7% from the level at 31 December 2018, while driving recoveries of loans previously written off. Customer deposits also improved by 3.3%, demonstrating the success of on-going acquisition of low-cost deposits driven by strengthened brand affinity. UBN's aggressive focus on recoveries and improving asset quality resulted in the continued decline in the NPL ratio, from 8.7% at 31 December 2018 to 5.8% at 31 December 2019.

The cost optimisation programme initiated by the bank also started to yield positive results as total expenses declined by 0.5%, also resulting in a decline in cost to income ratio from 79.8% at 31 December 2018 to 74.1% at 31 December 2019. UBN remains well-capitalised, with its capital adequacy ratio sitting at 19.7% at 31 December 2019, substantially higher than the regulatory minimum of 15.0%.

Statement of financial position review

C Customer loans and advances comprise 39.1% of the Group's total assets (excluding assets included in disposal groups classified as held for sale). Cash, short-term funds and marketable securities represent 16.0%; investment in associate (UBN) balance accounts for 35.2%; goodwill and intangible assets make up 4.4% with other assets (made up of derivatives, property and equipment, investment property, prepayment and other receivables etc.) making up the remainder at 5.3% of total assets (excluding assets included in disposal groups classified as held for sale).

Including assets classified as held for sale, total assets contracted by 6.3% (3.8% increase on a constant currency basis) reflecting the impact of the currency devaluation in Zimbabwe and IFRS 5 impairment loss recognised on the remeasurement of the assets and associated liabilities of the disposal groups classified as held for sale.

Loans and deposits

Table 2: Customer loans and deposits composition by country at 31 December 2019

	31 December 2019 (\$'m)		31 December 2018 (\$'m)		Var (%)	CC Var (%)	Var (%)	CC Var (%)
	Loans	Deposits	Loans	Deposits	Loans	Deposits	Loans	Deposits
Continuing operations								
Botswana	606.3	662.5	541.4	671.8	12.0	10.9	(1.4)	(2.3)
Zimbabwe	22.7	61.2	86.6	152.4	(73.7)	76.2	(59.8)	>100
Other	15.1	–	16.9	0.1	(10.8)	(10.8)	(>100)	(>100)
Total	644.1	723.7	644.9	824.3	(0.1)	11.7	(12.2)	3.2
Discontinued operations								
Mozambique	89.9	179.3	65.9	147.3	36.4	36.6	21.7	21.8
Tanzania	51.2	65.3	57.2	65.9	(10.5)	(10.5)	(1.0)	(1.0)
Zambia	188.8	380.1	193.0	348.2	(2.2)	15.0	9.2	28.4
Rwanda	172.5	284.1	193.1	246.1	(10.6)	(4.6)	15.5	23.3
Total	502.4	908.8	509.2	807.5	27.0	(20.6)	(13.7)	(5.7)
Reclassified as part of held for sale	(502.4)	(908.8)	–	–	–	–	–	–
Reported Group balance	644.1	723.7	1,154.1	1,631.8	(12.0)	(2.8)	(12.9)	(1.4)

Loans

As presented in Table 2 above, total loans decreased to \$644.1 million at 31 December 2019 from \$1,154.1 million at 31 December 2018. The decline is mainly due to the balances related to the disposal groups held for sale, reclassified in line with IFRS 5. Other factors impacting the contraction of the loan book include market liquidity constraints and a lower than anticipated demand for credit due to the challenging economic environment in our countries of operations.

Loans in continuing operations increased by 11.7% in constant currency terms at 31 December 2019 due to growth in Botswana and Zimbabwe.

Deposits

Total deposits declined to \$723.7 million (December 2018: \$1,631.8 million) mainly as a result of the reclassified balances included in the disposal groups classified as held for sale. Loss of deposits in Tanzania and Botswana, and the continued devaluation of the currency in Zimbabwe, also contributed to the decline in total deposits.

Term deposits remained the highest percentage of deposits while the decline in transactional deposits and overnight deposits reflect the tight liquidity situation experienced in most of our countries of operation especially Zimbabwe.

Customer deposits comprise 60% of the liability base (excluding liabilities included in disposal groups held for sale) and represent 27.5% of the aggregate of liabilities and equity. The loan to deposit ratio for at 31 December 2019 was 89.0% (December 2018: 70.7%).

For continuing operations, deposits increased by 3.2% on a constant currency basis despite a reduction in expensive deposits in Botswana.

Credit quality

NPLs as a percentage of the loan book increased to 11.4% (December 2018: 11.1%), as a result of the 13.7% overall reduction in the loan book. The non-performing loan book showed positive movement by a 22.9% reduction in value.

The stage 3 ECL coverage ratio of 50.4% (December 2018: 44.8%) is considered appropriate given the credit quality at year-end and is in line with coverage ratios reported by other African banking groups.

Capital position

As at 31 December 2019, all of Atlas Mara's operating banks and affiliates complied with local minimum capital requirements relevant in respective countries, as summarised below.

Table 3: Capital adequacy ratios

	December 2019	December 2018	Regulatory Minimum
Continuing operations			
Botswana	18.6%	17.6%	15.0%
Zimbabwe	58.7%	39.0%	12.0%
Discontinued operations			
Mozambique	19.6%	23.8%	11.0%
Rwanda	23.5%	23.7%	15.0%
Tanzania	16.6%	14.8%	12.0%
Zambia	14.3%	15.9%	10.0%

Investment in associate: UBN

Our total shareholding in Union Bank of Nigeria increased to 49.97% as at 31 December 2019 from 49.0% at 31 December 2018. The investment is equity-accounted for in the statement of financial position as an investment in associate, with a closing balance of \$580.6 million (December 2018: \$530.6 million). The carrying value of the asset increased due to the additional shareholding acquired during the period and the increased profits reported by UBN during the period.

We performed an impairment assessment on the carrying value of the investment held in UBN as part of the year-end financial reporting process, and also performed stress-tests on UBN's future expected earnings. 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 carrying value for this investment at December 2019.

Goodwill and intangibles

The statement of financial position incorporates goodwill and intangible assets of \$73.0 million at 31 December 2019 (December 2018: \$159.0 million). The decline in this balance is attributable to the reclassification of balances relating to the four subsidiaries classified as held for sale. These assets represent 4.4% of the Group's asset base (excluding assets held for sale), resulting in a tangible book value of \$2.87 per share (December 2018: \$3.00 per share) and book value per share of \$2.97 (December 2018: \$3.83).

Segment information

The segmental results and statement of financial position information represents management's view of its underlying operations. In previous periods, management's view of the Group's operations was presented on a geographically grouped basis. However, following the announcement of the potential strategic transaction resulting in an accounting reclassification, the Group's activities were re-segmented based on countries of domicile of our operating banks. The countries of operation are as listed below:

Nigeria: Through our 49.97% stake in UBN and Board representation, Atlas Mara has a footprint in Nigeria, Africa's largest economy. 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, 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 49.97% stake in UBN is based on UBN's published audited financial statement for the year ended 31 December 2019.

Botswana: BancABC Botswana remains on track to execute its transformation for growth strategy. While the performance for 2019 was softer, there are several initiatives underway that should drive better momentum, including building on the launch of the new Corporate online banking platform and the onboarding of several new lending scheme clients. We expect BancABC Botswana to continue to pay dividends in 2020 and beyond.

Zimbabwe: In 2019, Zimbabwe managed to increase its profitability, on an inflation-adjusted basis in local currency terms, by 162.2%. The bank focused on customer experience and superior service with an emphasis on technology-driven solutions. With this purpose in 2019, the bank achieved significant milestones including a core banking system upgrade, enhanced basic platforms such as mobile banking and internet banking, and improved internal capabilities including core risk functions and cyber resilience.

Discontinued operations

As a result of the strategic decision to exit Atlas Mara's direct investment in four subsidiaries, and the related transaction announced on 30 April 2019, our operations in the following countries were reclassified as discontinued operations: Mozambique, Tanzania, Zambia and Rwanda.

Corporate

Included in this segment are Atlas Mara Limited, the BVI incorporated holding company, Atlas Mara Management Services, the Dubai subsidiary, and all other intermediate Group holding entities, also referred to as the Shared Services and Centre.

Segment report for the year ended 31 December 2019

\$'million	Group	Continuing operations				Discontinued operations
		Botswana	Zimbabwe	Nigeria	Corporate	
Total Income	189.8	50.1	38.3	–	(23.2)	124.6
Loan impairment charge	(11.4)	1.5	(0.2)	–	(0.3)	(12.4)
Operating expenses	(230.6)	(37.4)	(21.6)	–	(33.6)	(138.0)
Share of profits of associate	31.1	–	–	31.2	(0.1)	–
Profit / (loss) before tax	(21.1)	14.2	16.5	31.2	(57.2)	(25.8)
Loss on IFRS 5 remeasurement	(105.5)	–	–	–	–	(105.5)
Profit / (loss) after tax and NCI	(143.2)	8.9	7.8	31.2	(56.4)	(134.7)
Loans and advances	644.1	606.3	22.7	–	15.1	–
Total assets	2,627.4	856.7	161.3	580.6	49.2	979.6
Total liabilities	2,080.2	736.1	107.9	–	362.0	874.2
Deposits	723.7	662.5	61.2	–	–	–
Net interest margin - total assets	3.3%	4.5%	6.1%			
Net interest margin - earning assets	4.7%	5.0%	14.4%			
Cost to income ratio	121.5%	74.6%	56.4%			
Statutory credit loss ratio	1.0%	(0.2%)	0.8%			
Return on equity	(28.5%)	11.2%	14.7%			
Return on assets	(5.5%)	1.3%	4.8%			
Loan to deposit ratio	89.0%	91.5%	37.1%			

Segment report for the period ended 31 December 2018

\$'million	Group	Continuing operations				Discontinued operations
		Botswana	Zimbabwe	Nigeria	Corporate	
Total Income	231.4	54.0	57.1	–	(5.6)	125.9
Loan impairment charge	(0.2)	1.9	0.1	–	(0.5)	(1.7)
Operating expenses	(240.5)	(39.6)	(41.6)	–	(29.1)	(130.2)
Share of profits of associate	56.3	–	–	27.8	28.5	–
Profit / (loss) before tax	47.0	16.3	15.6	27.8	(6.7)	(6.0)
Profit / (loss) after tax and NCI	39.7	12.6	13.1	27.8	(2.8)	(11.0)
Loans and advances	1,154.1	541.4	86.6	–	210.0	316.1
Total assets	2,804.7	851.0	220.6	530.6	240.2	962.3
Total liabilities	2,115.8	741.2	181.3	–	222.2	971.2
Deposits	1,631.8	671.9	152.4	–	–	807.5
Net interest margin - total assets	4.7%	4.8%	19.0%			
Net interest margin - earning assets	7.3%	5.4%	16.5%			
Cost to income ratio	104.0%	73.4%	72.8%			
Statutory credit loss ratio	0.0%	(0.3%)	(0.1%)			
Return on equity	6.1%	13.9%	33.2%			
Return on assets	1.4%	1.5%	5.9%			
Loan to deposit ratio	70.7%	80.6%	56.8%			

Risk report

The Group operates in an environment where taking considered business risks within the jurisdictions in which we operate is 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 they 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's 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:

- Executive Credit Committee ('EXCO Credit') – 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 overseeing the banking operations regularly reports to the Atlas Mara Executive Committee and the Atlas Mara Board Audit, Risk and Compliance 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 Group CEO of banking subsidiaries who in turn reports to the Executive Chairman.

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 risk management

Credit risk is the risk of loss to the Group from the failure of clients, customers or counterparties, to fully honour their obligations to the Group, including the whole and timely payment of principal, interest, collateral and other receivable. Credit risk management is the most significant risk to which the Group is exposed to.

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 and guarantees. 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.

The Board has defined and documented a credit policy for the Group which forms the basis of credit decisions. This policy includes a framework of limits and delegation of credit approval authority which are strictly adhered to. No one individual has the power to authorise credit exposures. Each subsidiary has a credit committee which operates within the defined limits set by the Board. These committees are responsible for the management of credit risk within their country including credit decisions, processes, legal and documentation risk and compliance with impairment policies. The Group Risk Department regularly reviews each subsidiary's adherence to required standards.

The Group Executive Committee ("EXCO") reports to the Board and is responsible for approval of credit decisions that are above country limits, recommendations on exposure limits and impairment policies. There is also a Board Credit Committee that approves any loans above the EXCO limit

Approach to credit risk management

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 benchmarking, management experience and capability. Risk ratings awarded to obligors are reviewed annually with the latest financial information and account conduct for corporate exposures.

Measuring credit risk

The Group's approach to measuring credit risk aims to align with the requirements set out under IFRS 9, 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 the Expected Credit Loss ('ECL'). 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). 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.
Loss given default (LGD)	The loss that is expected to arise on default, which represents the difference between the contractual cash flows due and those that the bank expects to receive. 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.
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.

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. ECL 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. ECL estimates can be compared directly to portfolio impairment figures within the regulatory capital calculation to ensure that the organisation's estimates of ECL from doing business are sufficiently covered by the level of general impairments raised. Any situations in which general impairments are insufficient to cover total ECL 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 obligations for which the contractual terms of the facilities availed 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.

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.

Risk limit control and mitigation policies continued

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.

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. 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.

c. 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 Group has adopted standard impairment policies which at a minimum comply with the prudential guidelines of the respective countries' Central Banks. Impairments are determined monthly at subsidiary level and are subject to regular review by EXCO Credit.

The impairments shown in the statement of financial position at year-end are measured 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. Refer to the table below for further details:

Stage	Description	ECL recognised
Stage 1 – performing loans	Financial assets that have had no significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. 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 Losses expected on defaults which may occur within the next 12 months.
Stage 2 – underperforming loans	Financial assets that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For example: a loan on which payment is 30 days overdue.	Lifetime expected credit losses Losses expected on defaults which may occur at any point in a loan's lifetime. Losses are adjusted for probability weighted macro-economic scenarios.
Stage 3 – non-performing loans	Financial assets that are credit impaired or in default and represent those that are at least 90 days past due in respect of principal and/or interest. Financial assets are considered to be credit impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cash flows of the financial asset.	Lifetime expected credit losses Losses expected on defaults which may occur at any point in a loan's lifetime. Losses are adjusted for probability weighted macro-economic scenarios. Interest income is calculated on the carrying amount of the loan net of credit allowance.

Measurement of ECLs

ECL for exposures in stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

The Group employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial assets. For mortgages, loan to value ('LTV') ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for mortgage lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable.

As described above, and subject to using a maximum of a 12-month PD for stage 1 financial assets, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

ECLs for retail overdrafts that include both a loan and an undrawn commitment component are measured over a period longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect; however this contractual right is not enforced in the normal day to day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated after taking into account the credit risk management actions that the Group expects to take, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- collateral type
- LTV ratio for mortgages
- date of recognition;
- remaining term to maturity
- industry; and
- geographic location of the borrower.

The exposures are subject to regular reviews to ensure that exposures within a particular group remain appropriately homogeneous. For portfolios for which the Group has limited historical data, external benchmark information is used to supplement the internally available data.

Definition of default

The Group considers a financial instrument to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Group for regulatory capital purposes.

Credit impaired financial assets

Financial assets that are credit impaired (or in default) represent those that are at least 90 days past due in respect of principal and/or interest. Financial assets are also considered to be credit impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cash flows of the financial asset. It may not be possible to identify a single discrete event but instead the combined effect of several events may cause financial assets to become credit impaired.

- Evidence that a financial asset is credit impaired includes observable data about the following events:
- Significant financial difficulty of the issuer or borrower;
- Breach of contract such as default or a past due event;
- For economic or contractual reasons relating to the borrower's financial difficulty, the lenders of the borrower have granted the borrower concessions that lenders would not otherwise consider. This would include forbearance actions.
- Pending or actual bankruptcy or other financial reorganisation to avoid or delay discharge of the borrower's obligations;
- The disappearance of an active market for the applicable financial asset due to financial difficulties of the borrower;

Management overlays

In determining the final ECL, management applies expert judgement to determine an overlay ECL to incorporate best estimates of the impact of forward-looking information. Any overlay ECL is based on available information and qualitative risk factors within a governed process. Management will evaluate a range of possible outcomes, taking into account past events, current conditions and the economic outlook. Additional considerations that are assessed to have been inadequately addressed in the ECL model estimates will be addressed through the application of a structured management overlay framework. This incorporates considerations such as (1) individual loss assessments of large exposures on watchlists; (2) observed model limitations; and (3) stress-test outputs.

Group's internal rating scale

Financial assets are segmented into five rating classes. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary. The Group regularly validates the performance of the rating and their predictive power with regard to default events

Category	Description
Performing	The credit appears satisfactory
Special mention	The credit appears satisfactory but exhibits potential for inherent weakness which, if not attended to, may weaken the asset or prospects of collection in full e.g. poor documentation.
Sub-standard	The credit has defined weaknesses that may jeopardise liquidation of the debt i.e. the paying capacity of the borrower is doubtful or inadequate, or more than 90 days but less than 180 days in arrears.
Doubtful	Credit facilities with above weaknesses and has deteriorated further to the extent that even with the existing security, full recovery will not be possible, or 180 days but less than 12 months in arrears.
Loss	Facilities considered impossible to collect with little or no realisable security, or more than 12 months in arrears.

Credit quality analysis

The Bank manages the credit quality of financial assets using internal credit ratings. The table below shows the credit quality of the Group's on and off-balance sheet items relating to loans and advances. The amounts presented are gross of impairment allowances

i) Loans and advances at gross carrying amounts (audited)

	31 December 2019			31 December 2018		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Performing	86.7%	–	–	85.3%	–	–
Special mention	–	4.5%	0.2%	–	3.3%	–
Sub-standard	–	–	1.0%	–	–	3.5%
Doubtful	–	–	1.1%	–	–	1.4%
Lost	–	–	6.5%	–	–	6.5%

ii) Financial guarantees, loan commitments and other off-balance sheet items (audited)

	31 December 2019		31 December 2018	
	Stage 1	Stage 2	Stage 1	Stage 2
Performing	100%	–	99.9%	–
Special mention	–	–	–	0.1%

The table below shows the credit quality of the Group's on and off-balance sheet items relating to loans and advances exposed to credit risk, based on the Group's internal credit rating system. The amounts presented are gross of impairment allowances.

i) 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 2019				31 December 2018			
	12-month ECL Stage 1	Lifetime ECL not credit impaired Stage 2	Lifetime credit impaired Stage 3	Total	12-month ECL Stage 1	Lifetime ECL not credit impaired Stage 2	Lifetime credit impaired Stage 3	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Loans and advances								
Performing	592,203	70	–	592,273	1,080,990	–	–	1,080,990
Special mention	–	30,740	1,429	32,169	–	41,498	–	41,498
Sub-standard	–	178	6,123	6,301	–	–	44,061	44,061
Doubtful	–	–	7,402	7,402	–	–	17,315	17,315
Lost	–	–	44,602	44,602	–	–	83,695	83,695
	592,203	30,988	59,556	682,747	1,080,990	41,498	145,071	1,267,559

ii) Financial guarantees, loan commitments and other off-balance sheet items

The table below sets out the credit analysis for loans commitments, financial guarantees and other off-balance items. The amounts in the table represent the amounts committed or guaranteed, respectively

	31 December 2019				31 December 2018			
	12-month ECL Stage 1	Lifetime ECL not credit impaired Stage 2	Lifetime credit impaired Stage 3	Total	12-month ECL Stage 1	Lifetime ECL not credit impaired Stage 2	Lifetime credit impaired Stage 3	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Loans and advances								
Performing	39,640	–	–	39,640	133,201	–	–	133,201
Special mention	–	–	–	–	–	112	–	112
	39,640	–	–	39,640	133,201	112	–	133,313

Maximum exposure and effects of collateral and other credit enhancements (audited)

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.

At 31 December 2019	Maximum exposure	Fair value of collateral and credit enhancements held				Net collateral	Net exposure
		Cash	Letters of credit/ guarantees	Property ³	Other ^{1,3}		
		\$'000	\$'000	\$'000	\$'000		
On balance sheet:							
Cash and short-term funds²	117,588	–	–	–	–	–	117,588
Balances with central banks	16,531	–	–	–	–	–	16,531
Balances with other banks	30,067	–	–	–	–	–	30,067
Placement with other banks	70,990	–	–	–	–	–	70,990
Loans and advances (Gross)	682,747	612	–	224,507	3,466	228,585	454,162
Derivate financial instruments	5,692	–	–	–	–	–	5,692
Cross-currency interest rate swaps	5,583	–	–	–	–	–	5,583
Forward foreign exchange contracts	109	–	–	–	–	–	109
Financial assets at FVTPL⁴	4,955	–	–	–	–	–	4,955
Money market fund	3,925	–	–	–	–	–	3,925
Property units	1,030	–	–	–	–	–	1,030
Investment securities – Amortised cost (Gross)	107,667	–	–	–	–	–	107,667
Treasury bills	97,540	–	–	–	–	–	97,540
Government bonds	10,127	–	–	–	–	–	10,127
Other assets	15,588	–	–	–	–	–	15,588
Total on-balance sheet	934,237	612	–	224,507	3,466	228,585	705,652
Off-balance sheet (Gross)							
Guarantees	19,720	5,345	–	–	–	5,345	14,375
Letters of credit	8,578	–	4,913	–	–	4,913	3,665
Other contingent liabilities	11,529	–	–	–	–	–	11,529
Total off-balance sheet	39,827	5,345	4,913	–	–	10,258	29,569
Total	974,064	5,957	4,913	224,507	3,466	238,843	735,221

Notes:

1. Vehicles, machinery, other fixed assets, inventory and trade receivables.
2. Represents cash balances and placements held with other banks and excludes cash in hand. Included in \$130.5 million cash balance 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.
4. Excludes equity instruments. Balance disclosed is included in the \$25.2 million FVTPL balance per statement of financial position.

Maximum exposure to credit risk as at 31 December 2018 (audited)

	Maximum exposure	Fair value of collateral and credit enhancements held				Net collateral	Net exposure
		Cash	Letters of credit/ guarantees	Property ³	Other ^{1,3}		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
On-balance sheet:							
Cash and short-term funds ²	234,175	–	–	–	–	–	234,175
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	5,376	–	–	–	–	–	5,376
Forward foreign exchange contracts	226	–	–	–	–	–	226
Financial assets at FVTPL (Gross)⁴	621	–	–	–	–	–	621
Property units	621	–	–	–	–	–	621
Investment securities – FVOCI (Gross)⁵	99,951	–	–	–	18,104	18,104	81,847
Government bonds	68,655	–	–	–	5,157	5,157	63,498
Corporate bonds	18,467	–	–	–	–	–	18,467
Unlisted investment	12,829	–	–	–	12,512	12,512	317
Investment securities – Amortised cost (Gross)	270,100	–	–	–	–	–	270,100
Treasury bills	183,933	–	–	–	–	–	183,933
Government bonds	86,167	–	–	–	–	–	86,167
Other assets	24,887	–	–	–	–	–	24,887
Total on-balance sheet	1,902,895	9,645	–	485,634	90,284	585,563	1,317,332
Off-balance sheet:							
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
Total off-balance sheet	133,312	8,251	6,781	5,640	699	21,371	111,941
Total	2,036,207	17,896	6,781	491,274	90,983	606,934	1,429,273

Notes:

1. Vehicles, machinery, other fixed assets, inventory and trade receivables.
2. Represents cash balances and placements held with other banks and excludes cash in hand. Included in \$382 million cash balance 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.
4. Excludes equity instruments. Balance disclosed is included in the \$24.9 million FVTPL balance per statement of financial position.
5. Excludes equity instruments. Balance disclosed is included in the \$369.8 million investment securities balance per statement of financial position.

Concentration risk of financial assets with credit risk exposure (audited)

a. Geographical sectors

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

31 December 2019	Botswana \$'000	Tanzania \$'000	Zimbabwe \$'000	Other \$'000	Total \$'000
On-balance sheet:					
Cash and short-term funds ¹	85,693	1,128	29,234	1,533	117,588
Financial assets at FVTPL ²	3,925	–	1,030	–	4,955
Derivative financial assets	109	–	–	5,583	5,692
Loans and advances	606,297	7,368	22,733	7,714	644,112
Investment securities	64,747	–	42,543	–	107,290
Other assets	3,782	11,805	–	1	15,588
Total on-balance sheet	764,553	20,301	95,540	14,831	895,225
Off-balance sheet:					
Guarantees	5,264	–	14,269	–	19,533
Letters of credit	8,578	–	–	–	8,578
Other commitments	8,414	–	3,115	–	11,529
Total off-balance sheet	22,256	–	17,384	–	39,640
Total	786,809	20,301	112,924	14,831	934,865

Notes:

1. Represents cash balances and placements held with other banks and excludes cash in hand. Included in \$130.5 million cash balance per statement of financial position.
2. Excludes equity instruments. Balance disclosed is included in the \$25.2 million FVTPL balance per statement of financial position
3. Excludes equity instruments. Balance disclosed is included in the \$107.8 million investment securities balance per statement of financial position.

31 December 2018	Botswana \$'000	Mozambique \$'000	Tanzania \$'000	Zambia \$'000	Zimbabwe \$'000	Rwanda \$'000	Other \$'000	Total \$'000
On-balance sheet:								
Cash and short-term funds ¹	85,250	34,171	19,117	46,606	23,086	18,793	7,152	234,175
Financial assets at FVTPL ²	–	–	–	–	621	–	–	621
Derivative financial assets	216	10	–	–	–	–	5,376	5,602
Loans and advances	541,420	65,890	62,541	193,045	86,577	193,099	11,541	1,154,113
Investment securities ³	112,628	26,736	17,669	78,163	78,123	55,360	–	368,679
Other assets	2,510	566	1,118	15,421	1,363	1,758	2,151	24,887
Total on-balance sheet	742,024	127,373	100,445	333,235	189,770	269,010	26,220	1,788,077
Off-balance sheet:								
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	7,146	–	–	–	–	–	–	7,146
Other commitments	6,066	–	–	–	5,324	–	507	11,897
Total off-balance sheet	59,629	4,823	510	46,474	13,492	7,337	507	132,772
Total	801,653	132,196	100,955	379,709	203,262	276,347	26,727	1,920,849

Notes:

1. Represents cash balances and placements held with other banks and excludes cash in hand. Included in \$382 million cash balance per statement of financial position.
2. Excludes equity instruments. Balance disclosed is included in the \$24.9 million FVTPL balance per statement of financial position.
3. Excludes equity instruments. Balance disclosed is included in the \$369.8 million investment securities balance per statement of financial position.

Concentration risk of financial assets with credit risk exposure continued (audited)

b. Industry sectors

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

31 December 2019	Agriculture \$'000	Construction \$'000	Corporate, retail and trade \$'000	Public sector \$'000	Real estate \$'000	Mining and energy \$'000	Financial services \$'000	Transport \$'000	Individuals \$'000	Tourism \$'000	Other \$'000	Total \$'000
On-balance sheet:												
Cash and short-term funds ¹	–	–	–	–	–	–	117,588	–	–	–	–	117,588
Financial assets at FVTPL ²	–	–	–	–	1,030	–	3,925	–	–	–	–	4,955
Derivative financial assets	–	–	–	–	–	–	5,692	–	–	–	–	5,692
Loans and advances	4,613	9,973	28,852	6,949	69,224	2,096	22,165	2,546	475,929	6,229	15,536	644,112
Investment securities ³	–	–	–	103,028	–	–	4,262	–	–	–	–	107,290
Other assets	–	–	–	–	–	–	–	–	–	–	15,588	15,588
Total on-balance sheet	4,613	9,973	28,852	109,977	70,254	2,096	153,632	2,546	475,929	6,229	31,124	895,225
Off-balance sheet:												
Guarantees	–	10,066	5,264	3	–	–	29	–	–	–	4,171	19,533
Letters of credit	–	–	208	8,370	–	–	–	–	–	–	–	8,578
Other commitments	–	–	5,528	–	–	–	–	–	2,886	–	3,115	11,529
Total off-balance sheet	–	10,066	11,000	8,373	–	–	29	–	2,886	–	7,286	39,640
Total	4,613	20,039	39,852	118,350	70,254	2,096	153,661	2,546	478,815	6,229	38,410	934,865

Notes:

1. Represents cash balances and placements held with other banks and excludes cash in hand. Included in \$130.5 million cash balance per statement of financial position.
2. Excludes equity instruments. Balance disclosed is included in the \$25.2 million FVTPL balance per statement of financial position.
3. Excludes equity instruments. Balance disclosed is included in the \$107.8 million investment securities balance per statement of financial position.

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 \$'000	Other \$'000	Total \$'000
On-balance sheet:												
Cash and short-term funds ¹	–	–	–	–	–	–	234,175	–	–	–	–	234,175
Financial assets held at FVTPL ²	–	–	–	–	–	–	–	–	–	–	621	621
Derivative financial assets	–	–	–	–	–	–	5,602	–	–	–	–	5,602
Loans and advances	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 ³	–	–	–	186,489	–	–	182,190	–	–	–	–	368,679
Total on-balance sheet:	39,741	72,092	125,350	254,900	32,943	25,242	464,248	19,343	566,866	16,933	145,532	1,763,190
Off-balance sheet:												
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
Total off-balance sheet	697	3,919	25,205	79,435	404	5,102	17	954	2,425	–	14,614	132,772
Total	40,438	76,011	150,555	334,335	33,347	30,344	464,265	20,297	569,291	16,933	160,146	1,895,962

Notes:

1. Represents cash balances and placements held with other banks and excludes cash in hand. Included in \$382 million cash balance per statement of financial position.
2. Excludes equity instruments. Balance disclosed is included in the \$24.9 million FVTPL balance per statement of financial position.
3. Excludes equity instruments. Balance disclosed is included in the \$369.8 million investment securities balance per statement of financial position.

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 Audit, Risk and Compliance 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.

Analysis of liquidity risk (audited)

Non-derivative 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 2019	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
Financial assets:							
Cash and short-term funds	130,324	–	–	209	130,533	–	130,533
Financial assets at FVTPL	–	–	3,925	21,318	25,243	–	25,243
Loans and advances	16,436	20,244	88,674	886,474	1,011,828	(367,716)	644,112
Investment securities	70,344	19,726	11,839	5,960	107,869	(91)	107,778
Other assets	10,462	5,125	–	1	15,588	–	15,588
Total financial assets (contractual)	227,566	45,095	104,438	913,962	1,291,061	(367,807)	923,254
Financial liabilities:							
Deposits	319,782	199,313	180,166	32,656	731,917	(8,191)	723,726
Borrowed funds	12,384	9,666	184,738	209,257	416,045	(49,236)	366,809
Other liabilities	73,054	12,524	3,384	–	88,962	–	88,962
Loan commitments	3,115	–	–	–	3,115	–	3,115
Financial guarantee contracts	1,282	1,188	3,494	8,316	14,280	–	14,280
Total liabilities (contractual)	409,617	222,691	371,782	250,229	1,254,319	(57,427)	1,196,892
Liquidity gap	(182,051)	(177,596)	(267,344)	663,733	36,742	(310,380)	(273,638)
Cumulative liquidity gap	(182,051)	(359,647)	(626,991)	36,742			
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
Financial assets:							
Cash and short-term funds	374,413	4,513	3,009	–	381,935	53	381,988
Financial assets at FVTPL	–	72	2,517	22,320	24,909	–	24,909
Loans and advances	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
Financial liabilities:							
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
Loan commitments	405	11	52	4,919	5,387	–	5,387
Total liabilities (contractual)	1,060,293	310,640	278,652	426,836	2,076,421	(29,081)	2,047,340
Liquidity gap	(400,674)	(103,069)	88,016	674,347	258,620	(375,108)	(116,488)
Cumulative liquidity gap	(400,674)	(503,743)	(415,727)	258,620			

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.

Market and foreign currency exposures related to dealing positions are housed and managed in the Treasury division within a framework of pre-approved dealer, currency and counterparty limits. All trading positions are fair valued as required by IFRS 9. Group Risk is responsible for monitoring of limits and pricing, thereby ensuring that any errors or unauthorised transactions are promptly identified. The currency exposure that arises as a result of the Group's continuing expansion and cross border investment activities is managed through the Executive Committee and the Group Asset and Liability Committee ('ALCO').

Analysis of market risk

Sensitivity analysis of market price

The Group holds, directly or through its subsidiaries, listed equities with a fair value of \$0.8 million and unlisted equities of \$20 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 \$366.8 million and financial assets held at fair value through OCI of \$0.5 million and derivative financial instruments of \$0.08 million (net asset). 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 6.

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.

Foreign exchange risk (audited)

31 December 2019	USD \$'000	EUR \$'000	BWP \$'000	ZAR \$'000	TZS \$'000	ZWL \$'000	NGN \$'000	AED \$'000	Other \$'000	Total \$'000
Financial assets										
Cash and short-term funds	66,021	2,531	51,979	5,796	1,045	170	5	1,211	1,775	130,533
Financial assets held at FVTPL	19,860	–	3,925	–	1,439	19	–	–	–	25,243
Derivative financial assets	–	–	5,583	109	–	–	–	–	–	5,692
Loans and advances	4,968	–	604,832	–	3,866	22,733	–	–	7,713	644,112
Investment securities	42,702	–	64,747	–	329	–	–	–	–	107,778
Other assets	11,806	–	3,782	–	–	–	–	–	–	15,588
Total financial assets	145,357	2,531	734,848	5,905	6,679	22,922	5	1,211	9,488	928,946
Financial liabilities										
Deposits	99,956	2,145	616,118	4,401	–	–	–	–	1,106	723,726
Derivative financial liabilities	8	25	5,577	–	–	–	–	–	–	5,610
Borrowed funds	352,529	–	8,179	–	–	6,101	–	–	–	366,809
Other liabilities	5,493	5	12,789	80	–	–	–	–	70,595	88,962
Total financial liabilities	457,986	2,175	642,663	4,481	–	6,101	–	–	71,701	1,185,107

Foreign exchange risk continued (audited)

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
Financial assets												
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 held at FVTPL	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 financial assets	523,361	13,833	733,663	7,455	193,361	62,947	123,397	6	5	274,950	3,476	1,936,454
Financial liabilities												
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	47	25	5,444	–	1,020	–	–	–	–	–	–	6,536
Borrowed funds	382,179	–	21,888	–	368	2,863	2,164	–	–	695	–	410,157
Total financial liabilities	743,518	11,816	655,713	5,288	242,106	52,813	114,371	10	–	221,516	1,339	2,048,490

Sensitivity analysis (audited)

The Group is exposed to a number of currencies as a result of its investments in different countries. As a result of the recent COVID-19 outbreak and the resulting economic crisis, the Group's major currencies weakened against the US Dollar. The impact of the strengthening of the US Dollar against the Group's major currencies is presented below:

Currency	31 December 2019		31 December 2018	
	Effect on equity \$'000	Effect on profit or loss \$'000	Effect on equity \$'000	Effect on profit or loss \$'000
EUR: 5% movement (2018: 1% movement)	(17)	(17)	20	20
BWP: 10% movement (2018: 1% movement)	(8,380)	(8,380)	732	732
ZWL : 50% movement (2018: nil)	(5,607)	(5,607)	–	–
ZAR: 30% movement (2018: 1% movement)	(328)	(328)	22	22
TZS: 1% movement (2018: 1% movement)	(66)	(66)	102	102
ZMK: (2018: 1% movement)	–	–	(558)	(558)
MZN: (2018: 1% movement)	–	–	91	91
RWF: (2018: 1% movement)	–	–	540	540
All other currencies: 5% movement (2018: 1% movement)	2,905	2,905	22	22
	(5,886)	(5,886)	971	971

Interest rate risk (audited)

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.

The table below summarises the Group's total exposure to interest rate risks on financial instruments. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

31 December 2019	Up to 1 month \$'000	1-3 months \$'000	3-12 months \$'000	1-5 years \$'000	Non-interest bearing \$'000	Total \$'000
Financial assets						
Cash and short-term funds	106,755	–	–	–	23,778	130,533
Financial assets at FVTPL	–	–	3,925	–	21,318	25,243
Derivative financial assets	–	–	–	–	5,692	5,692
Loans and advances	614,259	1,562	5,782	12,795	9,714	644,112
Investment securities	70,344	19,726	11,767	5,453	488	107,778
Other assets	–	–	–	–	15,588	15,588
Total financial assets	791,358	21,288	21,474	18,248	76,578	928,946
Financial liabilities						
Deposits	319,605	197,919	175,756	30,446	–	723,726
Derivative financial liabilities	–	–	–	–	5,610	5,610
Borrowed funds	378	76,220	159,845	105,509	24,857	366,809
Other liabilities	6,511	–	–	159	82,292	88,962
Total financial liabilities	326,494	274,139	335,601	136,114	112,759	1,185,107
Net interest rate risk gap	464,864	(252,851)	(314,127)	(117,866)		
Cumulative interest rate gap	464,864	212,013	(102,114)	(219,980)		
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 at FVTPL	–	–	–	–	24,909	24,909
Derivative financial assets	–	–	–	–	5,602	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
Other assets	–	–	–	–	24,887	24,887
Total financial assets	874,806	112,969	170,867	564,134	238,565	1,961,341
Financial liabilities						
Deposits	819,268	269,592	465,827	77,110	–	1,631,797
Derivative financial liabilities	–	–	–	–	6,536	6,536
Borrowed funds	96,733	72,255	16,250	201,570	23,349	410,157
Other liabilities	–	–	–	–	23,116	23,116
Total financial liabilities	916,001	341,847	482,077	278,680	53,001	2,071,606
Net interest rate risk gap	(41,195)	(234,878)	(311,210)	285,454		
Cumulative interest rate gap	(41,195)	(276,073)	(587,283)	(301,829)		

Net interest income sensitivity to interest rate risk (audited)

The following is an analysis of the sensitivity of the Group's net interest income to increase or decrease in market interest rates. Based on a review of the movements in interest rates, especially as a result of the crisis caused by the COVID-19 pandemic, a 100-basis points ('bps') stress was deemed to be reflective of current interest rate movements.

	31 December 2019 \$'000		31 December 2018 \$'000	
	+100bps	-100bps	+50bps	-50bps
Change in net interest income	(3,370)	3,370	(143)	143
Taxation effects on the above	873	(873)	(224)	224
Effect on profit for the year	(2,497)	2,497	(367)	367
As a percentage of total shareholders' equity	(0.50%)	0.50%	(0.05%)	(0.05%)

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 at country level, a 100 bps (2018: 50 bps) stress was deemed to be reflective of current interest rate movements, except for Zimbabwe.

\$'000	31 December 2019				31 December 2018			
	Increase in rate		Decrease in rate		Increase in rate		Decrease in rate	
	Pre-tax	Post-tax	Pre-tax	Post-tax	Pre-tax	Post-tax	Pre-tax	Post-tax
African Banking Corporation of Botswana Limited								
Change in net interest income: +/-100 basis points (2018: +/-50 basis points)	(1,944)	(1,517)	1,944	1,517	(599)	(467)	599	467
As a percentage of total shareholders' equity	(1.92%)	(1.50%)	1.92%	1.50%	(0.55%)	(0.43%)	0.55%	0.43%
African Banking Corporation (Moçambique) S.A								
Change in net interest income: (2018: +/-50 basis points)	-	-	-	-	221	150	(221)	(150)
As a percentage of total shareholders' equity	-	-	-	-	0.53%	0.36%	(0.53%)	(0.36%)
African Banking Corporation (Tanzania) Limited								
Change in net interest income: (2018: +/-50 basis points)	-	-	-	-	82	58	(82)	(58)
As a percentage of total shareholders' equity	-	-	-	-	0.37%	0.26%	(0.37%)	(0.26%)
African Banking Corporation Zambia Limited								
Change in net interest income: (2018: +/-50 basis points)	-	-	-	-	261	169	(261)	(169)
As a percentage of total shareholders' equity	-	-	-	-	0.36%	0.23%	(0.36%)	(0.23%)
African Banking Corporation (Zimbabwe) Limited								
Change in net interest income: +/-1000 basis points (2018: +/-50 basis points)	377	280	(377)	(280)	351	261	(351)	(261)
As a percentage of total shareholders' equity	0.71%	0.53%	(0.71%)	(0.53%)	0.89%	0.66%	(0.89%)	(0.66%)
Banque Populaire du Rwanda Limited								
Change in net interest income: (2018: +/-50 basis points)	-	-	-	-	549	385	(549)	(385)
As a percentage of total shareholders' equity	-	-	-	-	1.15%	0.81%	(1.15%)	(0.81%)

Operational risk management

Managing operational risk requires timely, 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.

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 2019 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 7 and in this Directors' report.

Results

The consolidated statement of profit or loss shows a reported loss of \$141.0 million.

Dividends

The Directors do not propose paying a dividend in respect of the year ended 31 December 2019.

Events after the reporting date

Please see page 96 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, 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 13 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 92 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 11 May 2020, 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 32 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:

Director ¹	Date of appointment				
	3 December 2013	21 January 2015	3 October 2017	24 April 2018	1 April 2019
Robert E. Diamond, Jr.	•				
Rachel F. Robbins	•				
Amadou Raimi		•			
Michael Wilkerson			•		
Simon Lee				•	
Jawaid Mirza ²					•

Notes:

1. Funke Opeke, Hisham Ezz Al-Arab, Richie Boucher and Eduardo Mondlane Jr, were directors during the full year 2018 but stepped down from the Board during the first half of 2019. Funke Opeke and Hisham Ezz Al-Arab stepped down from the Board, effective 6 February 2019 and Richie Boucher and Eduardo Mondlane Jr stepped down from the Board, effective 10 May 2019.
2. Jawaid Mirza joined the Board, effective 1 April 2019.

Directors' report continued

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 11 May 2020, 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 2019, the Company had in issue 174,618,767 ordinary shares of no-par value and 1,250,000 Founder Preferred Shares of no-par value. As at 11 May 2020 (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 3 on page 55 and are incorporated into this Report by reference.

Directors' report continued

Directors' and senior managers' interest in shares

The Directors' and senior managers' beneficial shareholding in the Company, as of 16 April 2020 (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.	3,770,476	2.18%
Rachel F. Robbins	136,598	0.05%
Amadou Raimi	136,931	0.05%
Michael Wilkerson	178,344	0.02%
Simon Lee	61,424	0.01%
Jawaid Mirza	37,340	n/a
Aggregate holdings of Executive Committee ²	593,852	0.35%

Notes:

1. Funke Opeke and Hisham Ezz Al-Arab stepped down from the Board, effective 6 February 2019 and Richie Boucher and Eduardo Mondlane, Jr stepped down from the Board, effective 10 May 2019.
2. Jawaid Mirza joined the Board, effective 1 April 2019.
3. As at 13 August 2019, the Executive Committee is comprised of Beatrice Hamza Basse, Kenroy Dowers, 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 a date to be announced in due course 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.

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
12 May 2020

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 2019 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 note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2019 and of the Group's loss 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 on 3 December 2013. The period of total uninterrupted engagement is for the 7 financial years ended 31 December 2019. 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 judgment, 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, 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.

Impairment of loans and advances	
<i>Refer to Accounting policies: (iii) Financial assets and liabilities as well as notes 10 and 11 to the financial statements.</i>	
Key audit matter	How the matter was addressed in our audit
<p>The Group's core business involves providing loans and advances to retail and wholesale customers.</p> <p>Gross loans and advances amount to approximately USD 683 million and the expected credit loss amounts to approximately USD 39 million as at 31 December 2019.</p> <p>The expected credit loss (ECL) model applied to measure impairment requires management to exercise significant judgement in the determination of expected credit losses.</p> <p>Management calculates the ECL using statistical models. The following inputs to these models require significant management judgement: Determination of significant increase in credit risk (SICR); and Estimation of the probability of default, the exposure at default and the loss given default.</p> <p>In determining the final ECL, management applied expert judgement to determine an overlay ECL to incorporate best estimates of the impact of forward-looking information. Any overlay ECL is based on available information and qualitative risk factors within a governed process.</p> <p>Due to the significance of loans and advances and the significant estimation uncertainty and judgement involved in determining the ECL, the impairment of loans and advances was considered to be a key audit matter.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> • We evaluated the design and implementation, and where applicable, the operating effectiveness of key controls over the loan impairment process, focusing on the identification of the ECL, the governance processes implemented for credit models and inputs, and management's oversight over the ECL. • We evaluated the design and implementation and the operating effectiveness of controls relating to the Group's loan origination process and credit reviews. • Where expected credit losses were calculated on a modelled basis, we performed the following procedures, in conjunction with our credit risk specialists: <ul style="list-style-type: none"> ▪ We critically assessed the ECL models developed by management by using a challenger model and applying independent inputs to evaluate the appropriateness of the ECL model and output; ▪ We assessed the completeness, accuracy and validity of data and inputs used during the development and application of the ECL models; and ▪ We challenged the parameters and significant assumptions applied in the calculation models which included SICR, the estimated probability of default, exposure at default and loss given default by evaluating these assumptions against internal business practices, industry norms and our own independent assumptions. • We evaluated the appropriateness of management's additional post model overlays by independently assessing the reasonability of the assumptions and judgements made by management. • We evaluated the adequacy of the financial statement disclosures against the requirements of IFRS 9: <i>Financial Instruments</i> and IFRS 7: <i>Financial Instruments Disclosures</i>.

Non-current assets held for sale*Refer to note 34 to the financial statements.*

Key audit matter	How the matter was addressed in our audit
<p>On 30 April 2019, Atlas Mara Limited publicly announced that it had entered into a binding term sheet with Equity Group Holdings Plc (EGH) to dispose of its investments in the following subsidiaries: African Banking Corporation (Moçambique) S.A, African Banking Corporation (Tanzania) Limited, African Banking Corporation Zambia Limited and Banque Populaire du Rwanda in exchange for ordinary shares in EGH.</p> <p>The announcement stated that the proposed transaction was subject to completion of confirmatory due diligence, the entering of detailed transaction agreements and obtaining regulatory and shareholder approvals.</p> <p>In January 2020, EGH announced that the parties had yet to sign detailed transaction agreements and the Binding Term Sheet had expired, however, EGH and Atlas Mara Limited published that they expected to continue further discussions in early 2020 to try to reach mutually acceptable commercial terms with respect to the proposed transaction.</p> <p>The application of IFRS 5, Non-current assets held for sale (IFRS 5) as a result of the announcement had a significant effect on the profit or loss, the carrying values of its assets and on the presentation of results, and as such non-current assets held for sale was considered to be a key audit matter.</p>	<p>Our procedures include:</p> <ul style="list-style-type: none"> • We assessed the appropriateness of the classification of the disposal group as held for sale by assessing the terms and conditions of the offer term sheets. • We interrogated and compared the accuracy of the inputs, used to determine the lower of carrying value and fair value less costs to sell, against available evidence and third-party comparable data. • We evaluated the accuracy of the consolidation journal entries between continued and discontinued operations to assess the appropriate application of IFRS 5. • We evaluated the adequacy of the financial statement disclosures against the requirements of IFRS 5.

Valuation of goodwill*Refer to note 19 to the financial statements.*

Key audit matter	How the matter was addressed in our audit
<p>Goodwill has been allocated to two cash-generating units (CGUs) for the purposes of impairment testing, namely Botswana and West Africa.</p> <p>An annual impairment test was performed on goodwill by determining the recoverable amounts of the CGUs based on their value in use.</p> <p>Management's determination of the value in use required the application of significant judgements in the following areas:</p> <ul style="list-style-type: none"> ▪ future cash flows; ▪ discount rates applied; and ▪ the assumptions underlying the forecast growth and terminal growth rates. <p>The judgements applied by management have a significant impact on the valuation on the CGU's. Consequently, the valuation of goodwill was therefore considered to be a key audit matter.</p>	<p>Our procedures include:</p> <ul style="list-style-type: none"> • We compared the current methods and significant assumptions with the methods and assumptions used in previous impairment testing and valuations for consistency. • We performed a forecast comparison of the current year forecasts compared to forecasts received in the prior year. • We evaluated management's assumptions on growth rates and discount rates by comparing them to known market and industry trends. • We evaluated the adequacy of the disclosures made in the financial statements against the requirements of IAS 36 Impairment of Assets.

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 7.8 million (2018: USD 14.0 million), determined with reference to a benchmark of total assets of continued assets.

We agreed to report to the audit committee any corrected or uncorrected identified misstatements exceeding USD 0.3 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. The risk that we considered most likely to adversely affect the Group's available financial resources over this period was:

- Impact of the outbreak of COVID-19

As this was a risk that could potentially cast significant doubt on the Group's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise.

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. 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.

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.

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 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 members, as a body. Our audit work has been undertaken so that we might state to the Company's members 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 members, 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
12 May 2020

Consolidated statement of financial position

at 31 December 2019

	Notes	31 December 2019 \$'000	31 December 2018 \$'000
Assets			
Cash and short-term funds	16	130,533	381,988
Financial assets at fair value through profit or loss	13	25,243	24,909
Loans and advances	10	644,112	1,154,113
Investment securities	14	107,778	369,842
Derivative financial assets	15	5,692	5,602
Investment in associates	18	582,141	532,233
Property and equipment	20	41,232	78,417
Investment property	21	6,586	12,414
Goodwill and intangible assets	19	73,005	159,020
Current tax assets		2,243	8,585
Deferred tax assets	26.3	149	40,316
Other assets	23	29,052	37,287
		1,647,766	2,804,726
Assets included in disposal groups classified as held for sale	34	979,645	–
Total assets		2,627,411	2,804,726
Liabilities			
Deposits	8	723,726	1,631,797
Borrowed funds	7	366,809	410,157
Derivative financial liabilities	15	5,610	6,536
Current tax liabilities		767	7,832
Deferred tax liability	26.3	12,107	18,198
Other liabilities	22	96,974	41,268
		1,205,993	2,115,788
Liabilities included in disposal groups classified as held for sale	34	874,235	–
Total liabilities		2,080,228	2,115,788
Equity			
Founder preference shares	3	11,300	11,300
Ordinary share capital	3	993,192	993,192
Capital reserves		(38,478)	(38,314)
(Accumulated loss)/ retained earnings		(128,951)	2,981
Fair value through OCI reserves		310	488
Foreign currency translation reserve		(311,450)	(299,252)
Treasury shares		(23,393)	(23,551)
Equity attributable to ordinary shareholders		502,530	646,844
Non-controlling interest		44,653	42,094
Total equity		547,183	688,938
Total equity and liabilities		2,627,411	2,804,726

Consolidated statement of profit or loss

for the year ended 31 December 2019

	Notes	31 December 2019 \$'000			31 December 2018 \$'000		
		Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Interest and similar income	17	77,085	133,643	210,728	109,557	138,001	247,558
Interest and similar expense	9	(65,712)	(58,846)	(124,558)	(58,180)	(56,819)	(114,999)
Net interest income		11,373	74,797	86,170	51,377	81,182	132,559
Impairment charges on financial instruments	11	967	(12,388)	(11,421)	1,493	(1,704)	(211)
Net interest income after loan impairment charges		12,340	62,409	74,749	52,870	79,478	132,348
Non-interest income	24	53,741	49,925	103,666	54,057	44,753	98,810
Share of profit of associates	18	31,101	-	31,101	56,332	-	56,332
Total operating income		97,182	112,334	209,516	163,259	124,231	287,490
Operating expenses	25	(81,405)	(136,732)	(218,137)	(110,466)	(130,224)	(240,690)
Transaction and integration expenses		-	(1,350)	(1,350)	164	-	164
Loss on monetary position	35	(11,081)	-	(11,081)	-	-	-
Profit/(loss) before tax		4,696	(25,748)	(21,052)	52,957	(5,993)	46,964
Income tax expense	26.1	(12,459)	(2,061)	(14,520)	(1,252)	(3,495)	(4,747)
Profit/(loss) after tax		(7,763)	(27,809)	(35,572)	51,705	(9,488)	42,217
Loss on remeasurement to fair value less costs to sell		-	(105,461)	(105,461)	-	-	-
(Loss)/profit for the year		(7,763)	(133,270)	(141,033)	51,705	(9,488)	42,217
Attributable to:							
Ordinary shareholders		(8,451)	(134,768)	(143,219)	50,704	(10,996)	39,708
Non-controlling interests		688	1,498	2,186	1,001	1,508	2,509
(Loss)/profit for the year		(7,763)	(133,270)	(141,033)	51,705	(9,488)	42,217
Basic (loss)/earnings per share (\$)	27	(0.05)	(0.79)	(0.84)	0.30	(0.07)	0.23
Diluted (loss)/earnings per share (\$)	27	(0.05)	(0.79)	(0.84)	0.30	(0.07)	0.23

Consolidated statement of other comprehensive income

for the year ended 31 December 2019

	31 December 2019 \$'000			31 December 2018 \$'000		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
(Loss)/profit for the year	(7,763)	(133,270)	(141,033)	51,705	(9,488)	42,217
Other comprehensive income/(loss)						
Items that may be reclassified to profit or loss:	11,239	(11,613)	(374)	(61,893)	(14,214)	(76,107)
Exchange differences on translating foreign operations	(1,163)	(11,663)	(12,826)	(57,319)	(14,498)	(71,817)
Net change in FVOCI reserves (net of tax)	(150)	50	(100)	(199)	284	85
Share of OCI of equity-accounted investees (net of tax)	12,552	-	12,552	(4,375)	-	(4,375)
Items that will not be reclassified to profit or loss:				324	1,538	1,862
Revaluation of land and buildings (net of tax)	(414)	-	(414)	324	1,538	1,862
Total other comprehensive income/(loss), net of tax	10,825	(11,613)	(788)	(61,569)	(12,676)	(74,245)
Total comprehensive income/(loss) for the year	3,062	(144,883)	(141,821)	(9,864)	(22,164)	(32,028)
Attributable to:						
Ordinary shareholders	1,666	(145,045)	(143,379)	(10,803)	(22,576)	(33,379)
Non-controlling interests	1,396	162	1,558	939	412	1,351
Total comprehensive income/(loss) for the year	3,062	(144,883)	(141,821)	(9,864)	(22,164)	(32,028)

Consolidated statement of changes in equity

for the year ended 31 December 2019

	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	(Accumulated loss)/ retained earnings \$'000	Equity attributable to ordinary shareholders \$'000	Non-controlling interests \$'000	Total equity \$'000
Opening balance as at 1 January 2019	11,300	993,192	(38,314)	–	488	(299,252)	(23,551)	2,981	646,844	42,094	688,938
Profit for the year	–	–	–	–	–	–	–	(143,219)	(143,219)	2,186	(141,033)
Other comprehensive income:											
Exchange differences on translating foreign operations	–	–	–	–	–	(12,198)	–	–	(12,198)	(628)	(12,826)
Movement in available-for-sale reserves	–	–	–	–	(100)	–	–	–	(100)	–	(100)
Equity-accounted investees – OCI	–	–	–	–	–	–	–	12,552	12,552	–	12,552
Revaluation of property and equipment	–	–	80	–	–	–	–	(494)	(414)	–	(414)
Total comprehensive income for the year	–	–	80	–	(100)	(12,198)	–	(131,161)	(143,379)	1,558	(141,821)
Transactions within equity											
Employee share awards	–	–	3,983	–	–	–	699	–	4,682	–	4,682
Shares buy-back	–	–	–	–	–	–	(918)	–	(918)	–	(918)
Share of equity in subsidiary transferred to NCI	–	–	650	–	–	–	–	–	650	1,491	2,141
Dividends paid to NCI	–	–	–	–	–	–	–	–	–	(490)	(490)
Movements within reserves	–	–	(2,038)	–	(78)	–	–	2,116	–	–	–
Other movements	–	–	(2,839)	–	–	–	377	(2,887)	(5,349)	–	(5,349)
Closing balance as at 31 December 2019	11,300	993,192	(38,478)	–	310	(311,450)	(23,393)	(128,951)	502,530	44,653	547,183
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	–	–	(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
Profit for the year	–	–	–	–	–	–	–	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)
Movement in available-for-sale reserves	–	–	1,862	–	–	–	–	–	1,862	–	1,862
Equity-accounted investees – OCI	–	–	–	–	156	–	–	–	156	(71)	85
Revaluation of property and equipment	–	–	–	–	5	–	–	(4,380)	(4,375)	–	(4,375)
Total comprehensive income for the year	–	–	1,862	–	161	(70,730)	–	35,328	(33,379)	1,351	(32,028)
Transactions within equity											
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
Share of equity in subsidiary transferred to NCI	–	–	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 2019

	31 December 2019 \$'000			31 December 2018 \$'000		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Cash flows from operating activities:						
Profit before tax	4,696	(25,748)	(21,052)	52,957	(5,993)	46,964
Adjusted for:						
Foreign exchange gains	(21,866)	(14,755)	(36,621)	(2,706)	(843)	(3,549)
Loan impairment (credit)/charges	(967)	12,388	11,421	(1,493)	1,704	211
Depreciation and amortisation	8,649	16,729	25,378	13,343	12,115	25,458
Fair value losses/(gains) on derivative financial instruments	(296)	(110)	(406)	(60)	–	(60)
Fair value losses/(gains) on financial instruments at FVTPL	3,084	–	3,084	(14,572)	–	(14,572)
Share of profit of associates	(31,101)	–	(31,101)	(56,332)	–	(56,332)
Revaluation of investment property	(4,586)	–	(4,586)	(243)	(944)	(1,187)
(Gain)/loss on disposal of property and equipment	(21)	115	94	–	(629)	(629)
(Gain)/loss on disposal of investment property	–	(1,164)	(1,164)	–	–	–
Write-off of intangible asset	–	1,848	1,848	–	–	–
Equity-settled share-based payment transactions	4,682	–	4,682	4,437	–	4,437
Tax paid	(3,040)	(5,409)	(8,449)	(9,648)	(5,650)	(15,298)
Net cash (outflow)/inflow from operating activities before changes in operating funds	(40,766)	(16,106)	(56,872)	(14,317)	(240)	(14,557)
Net (decrease)/increase in operating funds	(60,923)	171,321	110,398	(39,946)	67,048	27,102
(Increase)/decrease in operating assets	38,548	(31,843)	6,705	299,437	34,483	333,920
Increase/(decrease) in operating liabilities	(99,471)	203,164	103,693	(339,383)	32,565	(306,818)
Net cash (utilized in)/generated from operating activities	(101,689)	155,215	53,526	(54,263)	66,808	12,545
Cash flow from investing activities						
Purchase of property and equipment	(2,888)	(27,587)	(30,475)	(2,464)	(6,540)	(9,004)
Purchase of investment property	(1,572)	(768)	(2,340)	–	(3,141)	(3,141)
Purchase of intangible assets	(4,618)	(4,353)	(8,971)	(5,682)	(11,288)	(16,970)
Additions to associates	(5,877)	–	(5,877)	(55,054)	–	(55,054)
Acquisition of financial assets held at FVTPL	(3,942)	–	(3,942)	(284)	–	(284)
(Addition)/proceeds from disposal of investment securities	39,083	(65,887)	(26,804)	(50,119)	(32,994)	(83,113)
Proceeds from disposal of property and equipment	284	175	459	–	1,332	1,332
Proceeds from disposal of investment property	–	2,531	2,531	–	–	–
Net cash generated from/(utilized in) investing activities	20,470	(95,889)	(75,419)	(86,545)	(52,631)	(139,176)
Cash flow from financing activities						
Increase/(decrease) in borrowed funds	75,778	(11,915)	63,863	62,029	22,354	84,383
Payment of lease liabilities	(996)	(4,925)	(5,921)	–	–	–
Proceeds from partial disposal of shareholding in subsidiary	2,142	–	2,142	27,058	–	27,058
Dividends paid to noncontrolling interests	(490)	–	(490)	–	–	–
Buy-back of treasury shares	(918)	–	(918)	–	–	–
Net cash generated from/(utilized in) financing activities	75,516	(16,840)	58,676	62,029	22,354	84,383
Increase/(decrease) in cash and cash equivalents	(5,703)	42,486	36,783	(78,779)	36,531	(42,248)
Cash and cash equivalents at the beginning of the year	161,577	220,411	381,988	246,976	210,042	457,018
Effect of exchange rate fluctuations on cash and cash equivalents held	(25,341)	(17,212)	(42,553)	(6,620)	(26,162)	(32,782)
Cash and cash equivalents reclassified held for sale	–	(245,685)	(245,685)	–	–	–
Cash and cash equivalents at the end of the year	130,533	–	130,533	161,577	220,411	381,988
Analysed as follows:						
Cash and cash equivalents	129,102	–	129,102	127,693	161,196	288,889
Statutory reserve balances	1,431	–	1,431	33,884	59,215	93,099
	130,533	–	130,533	161,577	220,411	381,988

Notes to the financial statements

for the year ended 31 December 2019

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.

1. Significant accounting policies

A. 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, engaged in retail banking, credit cards, wholesale banking, investment banking, wealth management and investment management services.

B. 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 2019, there were no unendorsed standards effective for the year ended 31 December 2019 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.

C. Basis of preparation

The financial statements have been prepared under the historical cost convention adjusted for the effects of inflation where entities operate in hyperinflationary economies and for the revaluation of certain financial instruments, property and equipment, investment property and non-current assets held for sale to 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 they 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 annual report and accounts has been subject to a thorough process involving analysis and discussion by Management, the Executive Committee, the Audit, Risk and Compliance Committee and the Board.

The Directors' assessment of going concern was based on the Group's forecasts, covering the period 2020 - 2022, 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, including the impact of the COVID-19 pandemic.

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. The Directors also considered forecasts for the Parent company itself.

In addition, the Directors have considered the impact of the economic disruptions caused by the COVID-19 pandemic on the operations of the Group and its ability to continue as a Going concern. Specifically, the Directors considered the results of stress-testing performed and the measures put in place internally by management to absorb the possible impact of the pandemic on the operations of the Group. The impact of the external measures introduced by regulators and national governments on the economies of the Group's countries of operations were also considered. The results of the stress testing and detailed measures put in place are disclosed in note 36.2.

Based on the above, the Directors have determined that the use of the going concern assumption is appropriate.

Notes to the financial statements

for the year ended 31 December 2019

D. Accounting policies

The Group's significant accounting policies relating to specific financial statement items, together with a description of the accounting estimates and judgements that were critical to preparing them, are set out under the relevant notes. Accounting policies that affect the financial statements as a whole are set out below:

(i) Consolidation

The Group applies IFRS 10 Consolidated financial statements. The consolidated financial statements combine the financial statements of Atlas Mara Limited and all its subsidiaries. Subsidiaries are entities over which the Group has control. The Group has control over another entity when the Group has all of the following:

- power over the relevant activities of the investee, for example through voting or other rights;
- exposure to, or rights to, variable returns from its involvement with the investee; and
- the ability to affect those returns through its power over the investee.

The assessment of control is based on the consideration of all facts and circumstances. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Intra-group transactions and balances are eliminated on consolidation. Consistent accounting policies are used throughout the Group for the purposes of the consolidation. Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has already been obtained and they do not result in loss of control.

(ii) Foreign currency translation

a) 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.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at closing rates, are recognised in the statement of profit or loss.

c) Foreign operations

The results and the financial position of Group subsidiaries and associates which are not accounted for as entities which operate in hyperinflationary economies and that have a functional currency that is different from the presentation currency of the Group are translated into the presentation currency as follows:

- Assets and liabilities, including goodwill and fair value adjustments arising on acquisition, are translated into US dollars at the spot exchange rates at the reporting date.
- Income and expenses are translated into US dollars at the at the average exchange rates for the period presented; and
- All resulting translation differences are recognised in other comprehensive income and presented as a separate component of equity in the foreign currency translation reserve (FCTR).

The results and the financial position of Group entities which operate in hyperinflationary economies and that have a functional currency that is different from the presentation currency of the Group are translated into US Dollars at the exchange rates ruling at the reporting date.

When a foreign operation is disposed of or sold and the Group loses control of or significant influence over a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Group are reclassified to the statement of profit or loss. On partial disposal of a foreign subsidiary, where a change occurs in the absolute ownership percentage held by the Group and control is not lost, a proportionate share of all related exchange rate differences recognised in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. On partial disposal of a foreign associate, where a change occurs in the absolute ownership percentage held by the Group and significant influence is not lost, a proportionate share of all related exchange rate differences recognised in other comprehensive income are reclassified from equity to the statement of profit or loss.

Notes to the financial statements

for the year ended 31 December 2019

(ii) Foreign currency translation (continued)

d) Hyperinflation

The results and the financial position, including comparative amounts, of Group entities whose functional currencies are the currencies of hyperinflationary economies are adjusted in terms of the measuring unit current at the end of the reporting period.

As the presentation currency of the Group is that of a non-hyperinflationary economy, comparative amounts are not adjusted for changes in the price level or exchange rates in the current year. Differences between these comparative amounts and the hyperinflation adjusted equity opening balances are recognised in equity.

Items in the statement of financial position not already expressed in terms of the measuring unit current at the reporting period, such as non-monetary items carried at cost or cost less depreciation, are restated by applying a general price index. The restated cost, or cost less depreciation, of each item is determined by applying to its historical cost and accumulated depreciation the change in a general price index from the date of acquisition to the end of the reporting period. An impairment loss is recognised in profit or loss if the restated amount of a non-monetary item exceeds its estimated recoverable amount.

Losses on the net monetary position are recognised separately on the statement of profit or loss.

All items recognised in the statement of comprehensive income are restated by applying the change in the general price index from the dates when the items of income and expenses were initially earned or incurred.

At the beginning of the first period of application, the components of owners' equity, except retained earnings, are restated by applying a general price index from the dates the components were contributed or otherwise arose. Restated retained earnings are derived from all other amounts in the restated statement of financial position.

At the end of the first period and in subsequent periods, all components of owners' equity are restated by applying a general price index from the beginning of the period or the date of contribution, if later.

All items in the statement of cash flows are expressed in terms of the general price index at the end of the reporting period.

The Zimbabwe economy was classified as hyperinflationary as of 1 July 2019. Accordingly, the results and financial position of the Group's subsidiary - African Banking Corporation (Zimbabwe) Limited expressed in terms of the measuring unit current at the reporting date. For further details, refer to note 35.

(iii) Financial assets and liabilities

The Group applies *IFRS 9 Financial Instruments* to the recognition, classification and measurement, and derecognition of financial assets and financial liabilities and the impairment of financial assets

Initial recognition, measurement and derecognition

Financial assets and liabilities are recognised initially when the Group becomes a party to the contractual provisions of the instruments. Trade date or settlement date accounting is applied depending on the classification of the financial asset.

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

At initial recognition, the Group measures all financial assets and liabilities 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 assets and liabilities at fair value through profit or loss are immediately recognised in profit or loss. The fair value of a financial instrument at initial recognition is generally its transaction price.

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 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. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

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

Financial liabilities – Classification and subsequent measurement

Financial liabilities are classified as financial liabilities at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis, 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 other liabilities, 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.

Notes to the financial statements

for the year ended 31 December 2019

Financial assets – Classification and subsequent measurement

The Group's financial assets comprise cash and short-term funds, financial assets at fair value through profit or loss (FVTPL), derivative financial assets, loans and advances to customers, other assets and investment securities. The Group classifies all its financial assets on the basis of two criteria:

- (i) the business model within which financial assets are managed, and
- (ii) their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest' (SPPI)).

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:

- (i) the stated policies and objectives for the portfolio and the operation of those policies in practice;
- (ii) how the performance and risks of the portfolio are managed, evaluated and reported to the Group's management; and
- (iii) the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

SPPI

The contractual cash flow characteristics of financial assets are assessed with reference to whether the cash flows represent SPPI. In assessing whether contractual cash flows are SPPI compliant, interest is defined as consideration primarily for the time value of money and the credit risk of the principal outstanding. The time value of money is defined as the element of interest that provides consideration only for the passage of time and not consideration for other risks or costs associated with holding the financial asset. Terms that could change the contractual cash flows so that it would not meet the condition for SPPI are considered, including: (i) contingent and leverage features, (ii) non-recourse arrangements and (iii) features that could modify the time value of money.

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 FVTPL, 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 FVTPL, 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 (FVTPL): 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. Subsequent changes in fair value for these financial assets are recognised in the statement of profit or loss within 'Non-interest income'.

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.

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.

Notes to the financial statements

for the year ended 31 December 2019

Derivative financial assets and liabilities

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps and forward-rate agreements. Derivatives are normally recorded in the statement of financial position at fair value. Notional amounts of the contracts are not recorded on the statement of financial position. Derivatives held by the Group are for risk management purposes and are used to hedge interest rate and exchange rates risks.

Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset where there is a legal right of offset of the recognised amounts and the parties intend to settle the cash flows on a net basis or realise the asset and settle the liability simultaneously.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value with changes in fair value recognised in profit or loss.

Interest income and expense

Interest income and expense for all financial instruments, excluding those classified as held for trading or designated at fair value, are recognised in 'Interest income' and 'Interest expense' in the statement of 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.

Interest on credit impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss

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

Notes to the financial statements

for the year ended 31 December 2019

Policy applicable from 1 January 2019

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed when the customer has the right to direct the identified asset's use and to obtain substantially its economic benefits from that use. This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of branches and office premises the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'property and equipment' and lease liabilities in 'Other liabilities' in the statement of financial position.

Policy applicable before 1 January 2019

The Group did not have any finance leases under IAS 17. Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

Notes to the financial statements

for the year ended 31 December 2019

Adoption of IFRS 16

The Group has applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 has not been restated. The Group has applied the following transition options available under the modified retrospective approach:

- To calculate the right of use asset equal to the lease liability.
- To apply the recognition exception for leases with a term not exceeding 12 months.
- To use hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying *IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease*. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

	1 January 2019
	\$'000
Operating lease commitments as at 31 December 2018	5,200
Discounted using the incremental borrowing rate at 1 January 2019	9,502
Add: finance lease liabilities recognised as at 31 December 2018	4,279
Lease liability recognised as at 1 January 2019	18,981
Analysed into:	
Current lease liabilities	7,680
Non-current lease liabilities	11,301
	18,981

The associated right-of-use assets for leases were measured at the amount equal to the lease liability. The recognised right-of-use assets relate to the following types of assets:

	1 January 2019
	\$'000
Land and buildings	18,597
Computer and office equipment	384
Total right-of-use assets	18,981

When measuring lease liabilities, the Group discounted lease payments using the incremental borrowing rate at 1 January 2019. The weighted average rate applied was 5.75%.

F. Standards and interpretations issued and not yet applicable

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019 and have not been applied in preparing these consolidated financial statements. The Group does not plan to adopt these standards early. The following amended standards are not expected to have a significant impact on the Group's consolidated financial statements:

- Amendments to References to Conceptual Framework in IFRS Standards.
- Amendments to IFRS 3 – *Definition of a business*
- Amendments to IAS 1 and IAS 8 – *Definition of material*

Notes to the financial statements

for the year ended 31 December 2019

G. 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 5,6);
- assessment of the investment in associates for impairment (note 18);
- assessment of control over equity-accounted investment (note 18)
- assessment of goodwill and intangible assets for impairment (note 19);
- loan impairment charges (note 11);
- share-based payment valuations (note 29);
- recognition of deferred tax assets (note 26);
- fair value of investment properties (note 21); and
- fair value of assets and liabilities included in disposal groups held for sale (note 34).

H. Other disclosures

To improve transparency and ease of reference, by concentrating related information in one place, certain disclosures required under IFRS have been included within the Risk review section as follows:

Credit risk – pages 14 to 23;

Liquidity risk – pages 24 to 25; and

Market risk – pages 26 to 29.

These disclosures are covered by the Audit opinion (included on pages 35 to 38) where referenced as audited.

Notes to the financial statements

for the year ended 31 December 2019

This section focuses on information on the segmental performance, income generated, expenditure incurred and tax.

2. Segmental reporting

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 had four reportable segments, as follows: Southern Africa, East Africa, West Africa and Corporate.

Following the announcement of the strategic transaction, the Group's activities were re-segmented based on countries of operations of our operating banks. Comparatives have been updated to reflect the re-segmentation. All entities and/or consolidation adjustments not part of operating banks, are included as 'Corporate'.

Transfer prices between operating segments are on an arm's-length basis in a manner similar to transactions with third parties. The Group's transfer pricing policy is in line with OECD requirements and 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.

An analysis of the Group's performance by countries of operation has been presented below:

Statement of profit or loss for the year ended 31 December 2019

	Continuing operations				
	Botswana \$'000	Zimbabwe \$'000	Nigeria \$'000	Corporate ⁴ \$'000	Total \$'000
Interest and similar income	69,170	12,560	–	(4,645)	77,085
Interest and similar expense	(30,889)	(2,790)	–	(32,033)	(65,712)
Net interest income	38,281	9,770	–	(36,678)	11,373
Loan impairment charges	1,455	(180)	–	(308)	967
Income/(loss) from lending activities	39,736	9,590	–	(36,986)	12,340
Non-interest income	11,809	39,569	–	2,363	53,741
Total operating income	51,545	49,159	–	(34,623)	66,081
Operating expenses	(37,392)	(21,569)	–	(22,444)	(81,405)
Loss on monetary position	–	(11,081)	–	–	(11,081)
Net income from operations	14,153	16,509	–	(57,067)	(26,405)
Share of profit of associates	–	–	31,230	(129)	31,101
Profit/(loss) before tax	14,153	16,509	31,230	(57,196)	4,696
Income tax expense	(2,834)	(8,688)	–	(937)	(12,459)
Profit/(loss) for the year	11,319	7,821	31,230	(58,133)	(7,763)
Non-controlling interest	(2,440)	–	–	1,752	(688)
Profit/(loss) attributable to ordinary shareholders	8,879	7,821	31,230	(56,381)	(8,451)

Notes to the financial statements

for the year ended 31 December 2019

2. Segmental reporting continued

Statement of profit or loss for the year ended 31 December 2019 continued

	Discontinued operations					Total \$'000
	Mozambique \$'000	Tanzania \$'000	Zambia \$'000	Rwanda \$'000	Other ¹ \$'000	
Interest and similar income	21,997	17,597	64,749	37,686	(8,386)	133,643
Interest and similar expense	(10,252)	(8,318)	(31,544)	(10,118)	1,386	(58,846)
Net interest income	11,745	9,279	33,205	27,568	(7,000)	74,797
Loan impairment charges	2,363	(535)	(9,597)	(3,742)	(877)	(12,388)
Income/(loss) from lending activities	14,108	8,744	23,608	23,826	(7,877)	62,409
Non-interest income	8,201	2,352	28,569	10,803	–	49,925
Total operating income	22,309	11,096	52,177	34,629	(7,877)	112,334
Operating expenses	(26,049)	(14,835)	(60,970)	(27,639)	(8,589)	(138,082)
(Loss)/profit before tax	(3,740)	(3,739)	(8,793)	6,990	(16,466)	(25,748)
Income tax expense	1,422	(63)	(1,011)	(2,425)	16	(2,061)
(Loss)/profit after tax	(2,318)	(3,802)	(9,804)	4,565	(16,450)	(27,809)
Loss on remeasurement to fair value less costs to sell	–	–	–	–	(105,461)	(105,461)
Loss for the year	(2,318)	(3,802)	(9,804)	4,565	(121,911)	(133,270)
Non-controlling interest	–	103	–	(1,732)	131	(1,498)
(Loss)/profit attributable to ordinary shareholders	(2,318)	(3,699)	(9,804)	2,833	(121,780)	(134,768)

Note:

- Others include intercompany eliminations between continuing and discontinued operations

Statement of profit or loss for the year ended 31 December 2018

	Continuing operations				Total \$'000
	Botswana \$'000	Zimbabwe \$'000	Nigeria \$'000	Corporate ¹ \$'000	
Interest and similar income	73,386	40,310	–	(4,139)	109,557
Interest and similar expense	(32,428)	(8,795)	–	(16,957)	(58,180)
Net interest income	40,958	31,515	–	(21,096)	51,377
Loan impairment charges	1,853	86	–	(446)	1,493
Income/(loss) from lending activities	42,811	31,601	–	(21,542)	52,870
Non-interest income	13,033	25,615	–	15,409	54,057
Total operating income	55,844	57,216	–	(6,133)	106,927
Operating expenses	(39,635)	(41,587)	–	(29,080)	(110,302)
Net income from operations	16,209	15,629	–	(35,213)	(3,375)
Share of profit of associates	–	–	27,831	28,501	56,332
Profit/(loss) before tax	16,209	15,629	27,831	(6,712)	52,957
Income tax expense	(3,649)	(2,538)	–	4,935	(1,252)
Profit/(loss) for the year	12,560	13,091	27,831	(1,777)	51,705
Non-controlling interest	–	–	–	(1,001)	(1,001)
Profit/(loss) attributable to ordinary shareholders	12,560	13,091	27,831	(2,778)	50,704

Note:

- Corporate segment includes Dubai, Germany, BVI, Mauritius and all other regions

Notes to the financial statements

for the year ended 31 December 2019

2. Segmental reporting continued

Statement of profit or loss for the year ended 31 December 2018 continued

	Discontinued operations					Total \$'000
	Mozambique \$'000	Tanzania \$'000	Zambia \$'000	Rwanda \$'000	Other ¹ \$'000	
Interest and similar income	26,863	21,331	60,400	38,177	(8,770)	138,001
Interest and similar expense	(10,313)	(10,014)	(25,739)	(10,753)	–	(56,819)
Net interest income	16,550	11,317	34,661	27,424	(8,770)	81,182
Loan impairment charges	3,226	(4,470)	1,698	(2,158)	–	(1,704)
Income/(loss) from lending activities	19,776	6,847	36,359	25,266	(8,770)	79,478
Non-interest income	6,155	2,511	25,106	10,981	–	44,753
Total operating income	25,931	9,358	61,465	36,247	(8,770)	124,231
Operating expenses	(22,558)	(15,034)	(61,479)	(29,985)	(1,168)	(130,224)
Profit/(loss) before tax	3,373	(5,676)	(14)	6,262	(9,938)	(5,993)
Income tax expense	(326)	(68)	(1,225)	(1,876)	–	(3,495)
Profit/(loss) for the year	3,047	(5,744)	(1,239)	4,386	(9,938)	(9,488)
Non-controlling interest	–	156	–	(1,664)	–	(1,508)
Profit/(loss) attributable to ordinary shareholders	3,047	(5,588)	(1,239)	2,722	(9,938)	(10,996)

Note:

- Others include intercompany eliminations between continuing and discontinued operations.

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

Statement of financial position for the year ended 31 December 2019

	Continuing operations				Discontinued operations				Total \$'000
	Botswana \$'000	Zimbabwe \$'000	Nigeria \$'000	Corporate ¹ \$'000	Mozambique \$'000	Tanzania \$'000	Zambia \$'000	Rwanda \$'000	
Loans and advances	606,297	22,733	–	15,082	–	–	–	–	644,112
Assets included in disposal group classified as held for sale	–	–	–	–	193,387	81,377	378,514	326,367	979,645
Total assets	856,680	161,262	580,622	49,202	193,387	81,377	378,514	326,367	2,627,411
Deposits	662,487	61,239	–	–	–	–	–	–	723,726
Liabilities included in disposal group classified as held for sale	–	–	–	–	168,017	73,477	330,963	301,778	874,235
Total liabilities	736,112	107,904	–	361,977	168,017	73,477	330,963	301,778	2,080,228

Note:

- Corporate segment includes Dubai, Germany, BVI, Mauritius and all other regions

Statement of financial position for the year ended 31 December 2018

	Botswana \$'000	Zimbabwe \$'000	Nigeria \$'000	Corporate ¹ \$'000	Mozambique \$'000	Tanzania \$'000	Zambia \$'000	Rwanda \$'000	Total \$'000
Loans and advances	541,420	86,576	–	16,917	65,890	57,166	193,045	193,099	1,154,113
Total assets	850,989	220,638	530,585	47,136	210,775	118,175	515,450	310,978	2,804,726
Deposits	671,871	152,406	–	–	147,323	65,984	348,174	246,039	1,631,797
Total liabilities	760,323	181,259	–	192,795	173,762	95,632	446,619	265,398	2,115,788

Note:

- Corporate segment includes Dubai, Germany, BVI, Mauritius and all other regions

Notes to the financial statements

for the year ended 31 December 2019

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.

3. Capital and reserves

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.

Other Reserves

Other reserves excluding capital reserves and treasury shares reserves recorded in equity (other comprehensive income) on the Group's statement of financial position include:

1) Foreign currency translation reserve

The currency translation reserve represents the cumulative gains and losses on the retranslation of the Group's net investment in foreign operations.

2) Fair value through OCI reserve

The fair value reserve represents the changes in the fair value of FVOCI investments since initial recognition.

3.1. Authorised and issued share capital

	31 December 2019		31 December 2018	
	No. of shares '000	\$'000	No. of shares '000	\$'000
Opening balance ¹	171,321	993,192	168,961	987,292
Ordinary shares issues	–	–	2,360	5,900
Shares held in escrow ²	3,298	–	3,298	–
Total shares in issue	174,619	993,192	174,619	993,192
Shares in issue excluding escrow shares	171,320	–	171,320	–
Founder preference shares ³	1,130	11,300	1,130	11,300
	172,450	1,004,492	172,450	1,004,492

Note:

1. Comprises ordinary shares.
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.

3.2. Issued and fully paid

	31 December 2019 \$'000	31 December 2018 \$'000
Ordinary share capital	993,192	993,192

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

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.

Notes to the financial statements

for the year ended 31 December 2019

4. 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.

Capital adequacy computations – 31 December 2019

	Continuing operations \$'000		Discontinued operations \$'000			
	ABC Botswana Limited	ABC (Zimbabwe) Limited	ABC Zambia Limited	ABC (Tanzania) Limited	ABC (Moçambique) S.A	BP Rwanda
Tier I Capital						
Share capital and premium	20,934	27,924	72,829	53,504	32,341	47,525
Capital reserves and retained earnings/ (accumulated loss)	76,360	23,873	(24,292)	(31,513)	(7,498)	1,590
Intangible assets (software)/deferred charges	(7,855)	–	(10,484)	–	(4,530)	(1,879)
Deferred tax asset	–	–	–	(6,722)	–	–
Prepayments	–	–	(1,591)	(557)	–	–
Exposures to insiders	–	(1)	–	–	(543)	–
Total qualifying for Tier I Capital	89,439	51,796	36,462	14,712	19,770	47,236
Tier II Capital						
Shareholder's loan	16,184	–	3,434	–	4,442	–
General debt provision	7,233	322	–	–	15	–
Revaluation reserves (limited to Tier I Capital)	–	–	–	–	800	–
Profit for the year	11,460	18,429	–	–	–	–
Total qualifying for Tier II Capital	34,877	18,751	3,434	–	5,257	–
Total Capital	124,316	70,547	39,896	14,712	25,027	47,236
Risk weighted assets¹						
Market risk	29,029	2,285	–	2,099	2,061	10,296
Operational risk	63,234	18,663	–	7,890	3,763	24,256
On balance sheet assets	562,812	97,521	273,812	74,072	118,962	161,158
Off balance sheet assets	14,063	1,611	5,524	4,347	3,084	5,039
Total risk weighted assets	669,138	120,080	279,336	88,408	127,870	200,749
Capital adequacy ratio	18.6%	58.7%	14.3%	16.6%	19.6%	23.5%
Minimum regulatory capital adequacy ratio	15.0%	12%	10%	12.0%	11.0%	15%

Note:

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

Notes to the financial statements

for the year ended 31 December 2019

4. Capital planning continued

Capital adequacy computations – 31 December 2018

	Continuing operations \$'000			Discontinued operations \$'000		BP Rwanda
	ABC Botswana Limited	ABC (Zimbabwe) Limited	ABC Zambia Limited	ABC (Tanzania) Limited	ABC (Moçambique) S.A	
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 assets¹ (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%	12.0%	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.

Notes to the financial statements

for the year ended 31 December 2019

5. 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, where the carrying values differ from the fair values

	31 December 2019		31 December 2018	
	Carrying amount \$'000	Fair value (Level 2) \$'000	Carrying amount \$'000	Fair value (Level 2) \$'000
Financial assets measured at amortised cost				
Investments securities held at amortised cost	107,290	106,548	268,914	268,914

	31 December 2019		31 December 2018	
	Carrying amount \$'000	Fair value (Level 2) \$'000	Carrying amount \$'000	Fair value (Level 2) \$'000
Financial liabilities measured at amortised cost				
Borrowed funds	341,952	333,797	386,808	393,394

Other financial instruments not carried at fair value are typically short term in nature and reprice to current market rates frequently. Accordingly, their carrying amount is a reasonable approximation of fair value. They include cash and short-term funds, loans and advances to customers, deposits, other assets and other liabilities.

The fair values of the financial instruments not carried at fair value disclosed in the table above were determined as follows:

i. Investment securities held at amortised cost

Fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

ii. Borrowed funds

The estimated fair value of borrowed funds is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Notes to the financial statements

for the year ended 31 December 2019

6. Fair value of financial assets and liabilities measured at fair value

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.

Critical accounting estimates and judgements

The valuation of financial instruments often involves a significant degree of judgement and complexity, in particular where valuation models make use of unobservable inputs ('Level 3' assets and liabilities). This note provides information on these instruments, including the related unrealised gains and losses recognised in the period, a description of significant valuation techniques and unobservable inputs, and a sensitivity analysis.

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

At 31 December 2019 \$'000	Quoted prices	Significant observable inputs	Significant unobservable inputs	Total at fair value
	Level 1	Level 2	Level 3	
Assets measured at fair value:				
Fair value through profit or loss	803	3,925	20,515	25,243
Money market funds	–	3,925	–	3,925
Listed equities	803	–	–	803
Unlisted equities	–	–	19,467	19,467
Unlisted debentures	–	–	18	18
Property units	–	–	1,030	1,030
Derivative financial assets	–	109	5,583	5,692
Investment securities: FVOCI: Unlisted equities	–	–	488	488
Fair value hierarchy for financial assets measured at fair value	803	4,034	26,586	31,423
Liabilities measured at fair value:				
Derivative financial liabilities	–	100	5,510	5,610
Borrowed funds	–	24,857	–	24,857
Fair value hierarchy for financial liabilities measured at fair value	–	24,957	5,510	30,467

There were no transfers between levels in the current period.

Notes to the financial statements

for the year ended 31 December 2019

6. Fair value of financial assets and liabilities continued

At 31 December 2018 \$'000	Quoted prices Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total at fair value
Assets measured at fair value:				
Fair value through profit or loss	1,711	–	23,198	24,909
Listed equities	1,711	–	–	1,711
Unlisted equities	–	–	22,463	22,463
Unlisted debentures	–	–	114	114
Property units	–	–	621	621
Derivative financial assets	–	226	5,376	5,602
Investment securities: FVOCI	55,649	44,842	437	100,928
Government bonds	49,105	19,386	–	68,491
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 measured at fair value	57,360	45,068	29,011	131,439
Liabilities measured at fair value:				
Derivative financial liabilities	–	1,092	5,444	6,536
Borrowed funds	–	23,349	–	23,349
Fair value hierarchy for financial liabilities measured at fair value	–	24,441	5,444	29,885

There were no transfers between levels in the period.

Notes to the financial statements

for the year ended 31 December 2019

6. 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:

At 31 December 2019 \$'000	Debt or equity investments	Derivative financial assets	Total assets at fair value	Derivative financial liabilities	Total liabilities at fair value
Opening balance	23,635	5,376	29,011	5,444	5,444
Total gains or losses	–	–	–	–	–
– in profit/(loss)	(2,790)	(102)	(2,892)	14	14
– in other comprehensive income	(26)	–	(26)	–	–
Purchases	–	–	–	–	–
Settlements	–	–	–	–	–
Exchange rate adjustment	184	309	493	52	52
Closing balance	21,003	5,583	26,586	5,510	5,510

At 31 December 2018 \$'000	Debt or equity investments	Derivative financial assets	Total assets at fair value	Derivative financial liabilities	Total liabilities at fair value
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)	(27,056)	(42,351)	–	–
Exchange rate adjustment	(1,615)	(533)	(2,148)	(502)	(502)
Closing balance	23,635	5,376	29,011	5,444	5,444

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

At 31 December 2019 \$'000	Debt or equity investments	Derivative financial assets	Total assets at fair value	Derivative financial liabilities	Total liabilities at fair value
Total gains or losses in profit/loss for the year:					
Net income from other financial instruments carried at fair value	(2,790)	(102)	(2,892)	14	14
Total gains or losses recognised in other comprehensive income	(26)	–	(26)	–	–

At 31 December 2018 \$'000	Debt or equity investments	Derivative financial assets	Total assets at fair value	Derivative financial liabilities	Total liabilities at fair value
Total gains or losses in profit/loss for the year:	5,174	–	5,174	–	–
Net income from other financial instruments carried at fair value	5,174	–	5,174	–	–
Total gains or losses recognised in other comprehensive income	(308)	(329)	(637)	(172)	(172)

Notes to the financial statements

for the year ended 31 December 2019

6. Fair value of financial assets and liabilities continued

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, unlisted investments and property units	Market comparison technique: The valuation model is based on market multiples derived from quoted prices of companies comparable to the investee on actual Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA). The estimate is adjusted for the effect of the non-marketability of the equity securities. Dividend discount model: This valuation model estimates the value of the company based on future dividends payable by the company, discounted back to the present value using the cost of equity.	Adjusted price to book ratio Adjusted Enterprise value (EV)/EBITDA, Discount rate, Terminal growth rate.	12-25%

Sensitivity analysis

a) Unlisted financial assets – equities, debentures and property units.

For unlisted financial assets measured at fair value, changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects:

\$'000	31 December 2019				31 December 2018			
	Profit or loss		Equity		Profit or loss		Equity	
	Increase	Decrease	Increase	Increase	Increase	Decrease	Increase	Decrease
Average price to book ratio (5% movement)	52	(52)	52	52	78	(78)	78	(78)
Book value (2% movement)	21	(21)	21	21	31	(31)	31	(31)
Adjusted EV/EBITDA (5% movement)	52	(52)	52	52	78	(78)	78	(78)
EBITDA (2% movement)	21	(21)	21	21	31	(31)	31	(31)

Notes to the financial statements

for the year ended 31 December 2019

6. Fair value of financial assets and liabilities continued

Sensitivity analysis continued

b) Derivative financial instruments

Credit valuation adjustment ('CVA') and debit valuation adjustment ('DVA') are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and the Group's own credit quality respectively: CVA for the asset and DVA for the liability. CVA and DVA are calculated using estimates of exposure at default, probability of default and recovery rates, at a counterparty level. CVA is calculated as the discounted product of the counterparties' marginal Probability of Defaults ('PDs'), Loss Given Defaults ('LGDs') and Expected Positive Exposures at every node while DVA is calculated as the discounted product of the Group's marginal PDs, LGDs and Expected Negative Exposures at every node.

Because of the uncertainty attached to recovery rates, the sensitivity analysis of the fair values of derivatives have been performed for a range of possible recovery rates (20%, 30% and 40%).

i) Derivative financial asset

\$'000	31 December 2019			31 December 2018		
	20%	30%	40%	20%	30%	40%
20%	(21)	(21)	(21)	(2,067)	(204)	(205)
30%	(19)	(19)	(19)	(178)	(178)	(179)
40%	(16)	(16)	(16)	(152)	(153)	(153)

ii) Derivative financial liability

\$'000	31 December 2019			31 December 2018		
	20%	30%	40%	20%	30%	40%
20%	7	7	7	199	200	201
30%	6	6	6	174	175	176
40%	5	5	5	150	150	151

Notes to the financial statements

for the year ended 31 December 2019

7. Borrowed funds

Refer to accounting policy pertaining to financial instruments.

	31 December 2019 \$'000	31 December 2018 \$'000
Convertible bond (a)	63,311	56,255
Other borrowed funds (b)	303,498	353,902
Total	366,809	410,157

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

	Carrying value		Fair value	
	31 December 2019 \$'000	31 December 2018 \$'000	31 December 2019 \$'000	31 December 2018 \$'000
Fairfax Africa Holdings Corporation	71,799	52,885	71,901	52,885
Convertible bond (liability)	63,311	56,255	60,851	56,255
Afrexim bank	49,098	54,000	46,726	59,629
U.S. International Development Finance Corporation ("DFC")	40,207	105,497	37,715	105,497
Standard Chartered	24,857	23,349	24,857	23,349
Africa Agriculture and Trade Investment Fund S.A.	21,039	20,000	21,080	20,954
Export Development Canada ("EDC")	19,816	12,577	19,798	12,577
Nineteen77 Capital Solutions A LP	12,948	12,594	13,388	12,594
Zimbabwe Agricultural Development Trust ("ZADT")	10,374	4,441	9,797	4,363
NORSAD	10,267	10,000	10,024	10,061
TLG Credit Opportunities Fund	10,241	–	9,620	–
Other	32,852	58,559	32,897	58,579
Total	366,809	410,157	358,654	416,743

a. Convertible bond

	31 December 2019 \$'000	31 December 2018 \$'000
Opening balance as at 1 January	56,255	51,325
Interest accrued	7,056	4,930
Closing balance	63,311	56,255

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.

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

Notes to the financial statements

for the year ended 31 December 2019

7. Borrowed funds continued

Convertible bond continued

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

	31 December 2019 \$'000	31 December 2018 \$'000
Borrowed funds – At fair value through profit/loss	24,857	23,349
Borrowed funds – Amortised cost	278,641	330,553
	303,498	353,902

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.

Afrexim Bank Limited

The loan from Afrexim Bank Limited is a \$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 \$6 million with the balance of \$54 million repaid over four years with a grace period of one year. The new loan agreement attracts interest of three-month LIBOR +7.3%, payable quarterly. In February 2018, the agreed sum of \$6 million was repaid in accordance with the agreed key terms.

Norsad Finance Limited

This \$10 million loan advanced to ABCH is a subordinated loan and attracts interest at six 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.

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

Standard Chartered

The loan from Standard Chartered is a US dollar denominated loan obtained to finance the funding from ADC to UGPL, on 19 July 2012. The loan is a non-recourse loan and can be settled in full by the delivery of the UBN shares. The loan was repayable in December 2019; however, the termination date was extended to 30 June 2020. The loan can be further extended by another one and a half-year period, based on mutual agreement. The loan is measured at fair value based on the determined fair value of the UBN shares at 6.00 NGN per share as at year end.

Nineteen77 Capital Solutions A LP

This represents \$20 million secured bonds issued by the Company during the year and due in 2021 to the bondholder – Nineteen77 Capital Solutions A LP. The bond attracts an interest rate of 9% 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 allows the holder to subscribe for one ordinary share of the Company.

DFC (previously Overseas Private Investment Corporation)

In March 2017, Banc ABC Botswana finalized a \$40 million Fintech and Financial Inclusion Debt Facility provided by DFC. The funding is part of the \$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%.

Zimbabwe Agricultural Development Trust ("ZADT")

This relates to funding of Zim\$ 2million obtained from ZADT for on-lending to customers in the Agricultural sector. Interest on the loan has been paid upfront at 7.5% per annum and while the principal amount is repayable on maturity in June 2020.

TLG Credit Opportunities Fund

On January 2019, Group obtained a \$10 million facility from TLG Credit Opportunities Fund with a two-year term, maturing in January 2021. The loan attracts interest at 9.8% per annum, payable half yearly.

Notes to the financial statements

for the year ended 31 December 2019

7. Borrowed funds continued

Fairfax Africa holdings Corporation

On 24 April 2018, the Group reached an agreement in principle for a \$36 million debt facility by issuing convertible bonds to Fairfax Africa Holdings Investments, the Company's largest shareholder. The agreement was amended and restated on 5 July 2018 and on 6 November 2018, with a further amendment to the deed poll on 11 December 2018. The tranche A \$16million convertible bonds facility was drawn down on 17 May 2018 and is repayable on December 2020. The facility accrues an interest rate of 11%, payable on maturity. On 6 July 2018, the tranche B \$20 million convertible bonds facility was obtained, with a three-year term maturing in July 2021 and an interest rate of 9%, accruable half-yearly – 30 June and 31 December.

On 26 June 2019, the Group obtained \$40 million Standby loan from Fairfax financial Holdings Limited secured against BancABC Botswana shares owned indirectly by Group (and directly by ABC Holdings Limited). The facility matures on June 2020, with a further extension to be mutually agreed upon. The loan accrues an interest rate of 10%, payable quarterly.

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 \$13.6 million, was drawn on 18 December 2018 and the second draw-down of \$6.4 million in April 2019. The facility attracts 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.

Other

Other borrowings relate to medium to long term funding from international financial institutions for working capital financing and onward lending to the Group's clients. Included in other is the BIFM loan with details below.

BIFM Capital Investment Fund One Proprietary Limited

The loan from BIFM Capital Investment Fund One Proprietary Limited (\$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 outstanding redemption date for the principal amount is 30 September 2020 relating to Promissory Note D \$6.3 million.

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

Maturity analysis

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

	31 December 2019 \$'000	31 December 2018 \$'000
On demand to one month	390	785
One to three months	606	5,566
Three months to one year	146,915	43,428
Over one year	218,898	360,378
Total	366,809	410,157

Events after the reporting date

a) New debt facilities

Subsequent to year end, the Group received additional funding from two of its current lenders. The terms and purpose of the funding are as follows:

TLG Credit Opportunities Fund

Subsequent to year-end, the Group reached a \$20 million loan agreement with TLG Credit Opportunities Fund, out of which \$8 million was drawn down in Q1 2020. The loan accrues interest at the rate of 10%, payable half-yearly every 30 June and 31 December and maturing in January 2021.

Fairfax Africa holdings Corporation

On 26 March 2020, the Group entered a \$40 million loan agreement with Fairfax Africa Holdings Limited. The facility accrues interest rate at the rate of 10%, payable quarterly and matures in March 2021 with further extension by mutual agreement. The first tranche of \$20.5 million has been received

b) COVID-19 considerations

(i) Modification of debt repayment terms.

As part of the measures taken by the Group to ease the impact of the COVID-19 pandemic on its operations, arrangements are ongoing or have been confirmed with the Group's lenders to extend or repay some of its debt facilities.

Notes to the financial statements

for the year ended 31 December 2019

7. Borrowed funds continued

(ii) Interest rates sensitivity

The Group is exposed to interest rate risk on a number of the borrowed funds which are linked to LIBOR. Following the health crisis and its economic impact, there has been a general decline in market interest rates such as LIBOR. The table below shows the potential impact on net interest income of changes to the LIBOR subsequent to year-end.

	31 December 2019 \$'000
Net interest income	1,053
Taxation effect	(223)
Effect on profit	830

8. Deposits

Refer to accounting policy pertaining to financial instruments.

	31 December 2019 \$'000	31 December 2018 \$'000
Deposits from banks	18,893	101,690
Deposits from other customers	704,833	1,530,107
	723,726	1,631,797
Payable on demand		
Corporate customers	69,656	316,899
Public sector	24,707	92,318
Retail customers	75,521	295,416
Other financial institutions	18,178	15,881
Banks	14,590	11,266
	202,652	731,780
Term and savings deposits		
Corporate customers	87,830	209,889
Public sector	162,862	297,766
Retail customers	41,262	92,217
Other financial institutions	224,817	216,199
Banks	4,303	83,946
	521,074	900,017
Total	723,726	1,631,797
Current	202,652	1,636,323
Non-current	521,074	78,594

9. Interest and similar expense

Refer to accounting policy pertaining to financial instruments.

	31 December 2019 \$'000			31 December 2018 \$'000		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Deposits	(24,775)	(47,697)	(72,472)	(32,620)	(44,097)	(76,717)
Borrowed funds	(39,846)	(9,941)	(49,787)	(25,560)	(12,722)	(38,282)
Other	(1,091)	(1,208)	(2,299)	-	-	-
	(65,712)	(58,846)	(124,558)	(58,180)	(56,819)	(114,999)

Other interest expense includes \$1.76 million (2018: nil) relating to IFRS 16 lease interest expenses.

Notes to the financial statements

for the year ended 31 December 2019

10. Loans and advances

Refer to accounting policy pertaining to financial instruments.

Critical accounting estimates and judgements

The measurement of the expected credit loss allowance for loans and advances is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting) and the resulting losses.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk ('SICR');
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment. The objective of this assessment is to identify whether a SICR has occurred for an exposure by comparing:

- The remaining lifetime PD as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Group uses 3 criteria for determining whether there has been a SICR:

- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due.

The Group monitors the effectiveness of the criteria used to identify SICR by regular reviews to confirm that:

- the criteria are capable of identifying SICR before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

	31 December 2019 \$'000	31 December 2018 \$'000
Gross loans and advances:		
Corporate	89,639	429,553
Corporate overdrafts	8,224	74,140
Retail overdrafts	5,589	9,766
Retails secured	77,523	149,799
Retail unsecured	501,772	604,301
Total gross loans and advances	682,747	1,267,559
Less expected credit loss (10.2):		
12 months ECL (Stage 1)	(7,341)	(33,253)
Lifetime not credit impaired (Stage 2)	(1,275)	(5,888)
Lifetime credit impaired (Stage 3)	(30,019)	(74,305)
Total expected credit loss	(38,635)	(113,446)
Net loans and advances	644,112	1,154,113
Current	152,629	463,109
Non-current	491,483	691,004

Notes to the financial statements

for the year ended 31 December 2019

10. Loans and advances continued

10.1. Analysis of gross loans and advances and ECL by product

	31 December 2019			31 December 2018		
	Gross \$'000	ECL \$'000	Net \$'00	Gross \$'000	ECL \$'000	Net \$'000
Corporate						
1	57,986	(1,172)	56,814	319,972	(6,146)	313,826
2	1,814	(193)	1,621	12,409	(735)	11,674
3	29,839	(10,638)	19,201	88,962	(37,144)	51,818
	89,639	(12,003)	77,636	421,343	(44,025)	377,318
Corporate overdrafts						
1	7,022	(293)	6,729	61,460	(4,410)	57,050
2	453	(10)	443	1,728	(81)	1,647
3	749	(588)	161	19,163	(9,459)	9,704
	8,224	(891)	7,333	82,351	(13,950)	68,401
Retail overdrafts						
1	2,500	(188)	2,312	5,261	(331)	4,930
2	288	(44)	244	559	(21)	538
3	2,801	(2,178)	623	7,504	(2,792)	4,712
	5,589	(2,410)	3,179	13,324	(3,144)	10,180
Retail secured						
1	63,677	(427)	63,250	126,834	(1,230)	125,604
2	5,600	(77)	5,523	9,059	(129)	8,930
3	8,246	(1,666)	6,580	24,834	(4,597)	20,237
	77,523	(2,170)	75,353	160,727	(5,956)	154,771
Retail unsecured						
1	461,019	(5,261)	455,758	539,322	(21,137)	518,185
2	22,833	(950)	21,883	10,738	(4,922)	5,816
3	17,920	(14,950)	2,970	39,754	(20,312)	19,442
	501,772	(21,161)	480,611	589,814	(46,371)	543,443
Total	682,747	(38,635)	644,112	1,267,559	(113,446)	1,154,113

Notes to the financial statements

for the year ended 31 December 2019

10. Loans and advances continued

10.2. Reconciliation of ECL of loans and advances

At 31 December 2019 \$'000	Subject to 12-month ECL (Stage 1)	Subject to lifetime ECL (Stage 2)	Credit impaired (excluding purchased / originated) (Stage 3)	Total
At 1 January 2019	33,253	5,888	74,305	113,446
Transfer to/(from) stage 1	(857)	57	800	–
Transfer to/(from) stage 2	1	(683)	682	–
Transfer to/(from) stage 3	(4,681)	258	4,423	–
ECL on new exposures	6,376	–	–	6,376
Impaired accounts written-off	(2,962)	(688)	(3,699)	(7,349)
Exchange rate adjustment	(7,732)	(1,583)	(918)	(10,233)
Reclassified as part of disposal group held for sale	(16,057)	(1,974)	(45,574)	(63,605)
As at 31 December 2019	7,341	1,275	30,019	38,635

At 31 December 2018 \$'000	Subject to 12-month ECL (Stage 1)	Subject to lifetime ECL (Stage 2)	Credit impaired (excluding purchased / originated) (Stage 3)	Total
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
Impaired accounts written-off	(5,826)	(460)	(19,494)	(25,780)
Exchange rate adjustment	(11,374)	(1,125)	(19,859)	(32,358)
Other	(42,214)	(7,987)	58,813	8,612
As at 31 December 2018	33,253	5,888	74,305	113,446

10.3. Credit quality

Stage 3 loans and advances:

	31 December 2019			31 December 2018		
	Carrying amount \$'000	Fair value of collateral \$'000	Over/(Under) collateralisation \$'000	Carrying amount \$'000	Fair value of collateral \$'000	Over/Under collateralisation \$'000
Corporate	19,201	27,465	8,264	51,818	29,208	(22,610)
Corporate overdrafts	161	1,086	925	9,704	14,874	5,170
Retail overdrafts	623	3,658	3,035	4,712	4,976	264
Retail - Secured	6,580	13,846	7,266	20,237	43,066	22,829
Retail - Unsecured	2,970	–	(2,970)	19,442	–	(19,442)
	29,535	46,055	16,520	105,913	92,124	(13,789)

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.

Notes to the financial statements

for the year ended 31 December 2019

11. Loan impairment charges

Accounting for the impairment of financial assets

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.

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. 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.

	31 December 2019 \$'000			31 December 2018 \$'000		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Stage 1 – 12-month ECL	318	(6,855)	(6,537)	6,671	3,797	10,468
Stage 2 – Lifetime ECL not credit impaired	(59)	(3,391)	(3,450)	208	–	208
Stage 3 – Lifetime ECL credit impaired	(342)	(5,442)	(5,784)	6,214	(5,291)	923
Purchased credit impaired	–	–	–	–	998	998
Recoveries of bad debts previously written off	1,050	3,300	4,350	2,581	3,409	5,990
Other	–	–	–	(14,181)	(4,617)	(18,798)
	967	(12,388)	(11,421)	1,493	(1,704)	(211)

12. Collateral

Liabilities for which collateral is pledged:

	31 December 2019 \$'000	31 December 2018 \$'000
Deposits from banks	4,530	34,839
Deposits from customers	1,859	50,891
Borrowed funds	52,743	81,360
	59,132	167,090

Assets pledged to secure these liabilities are as follows:

	31 December 2019 \$'000	31 December 2018 \$'000
Advances (collateral)	45,122	82,738
Financial assets at FVTPL	3,925	–
Investment securities	35,418	123,423
Property and equipment	3,258	15,751
	87,723	221,912

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

Notes to the financial statements

for the year ended 31 December 2019

13. Financial assets at fair value through profit or loss

Refer to accounting policy pertaining to financial instruments.

	31 December 2019 \$'000	31 December 2018 \$'000
Money market fund	3,925	–
Listed equities	803	1,711
Unlisted equities	19,467	22,463
Unlisted debentures	18	114
Property units	1,030	621
	25,243	24,909
Current	3,925	–
Non-current	21,318	24,909

14. Investment securities

Refer to accounting policy pertaining to financial instruments.

	31 December 2019 \$'000	31 December 2018 \$'000
Fair value through other comprehensive income (FVOCI)		
Gross balance (14.1)	488	101,114
Less: Expected credit loss	–	(186)
Net balance	488	100,928
Amortised cost		
Gross balance (14.2)	107,667	270,100
Less: Expected credit loss	(377)	(1,186)
Net balance	107,290	268,914
Gross total – investment securities	107,778	369,842
Current	101,837	224,922
Non-current	5,941	144,920

14.1. Analysis of gross investment securities at FVOCI

	31 December 2019 \$'000			31 December 2018 \$'000		
	Pledged	Non-pledged	Total	Pledged	Non-pledged	Total
Government bonds	–	–	–	49,271	19,384	68,655
Corporate bonds	–	–	–	6,274	12,193	18,467
Listed equities	–	–	–	291	–	291
Unlisted equities	–	488	488	–	872	872
Unlisted investment	–	–	–	–	12,829	12,829
Gross total – FVOCI	–	488	488	55,836	45,278	101,114

Notes to the financial statements

for the year ended 31 December 2019

14. Investment securities continued

14.2. Analysis of gross investment securities at amortised cost

	31 December 2019 \$'000			31 December 2018 \$'000		
	Pledged	Non-pledged	Total	Pledged	Non-pledged	Total
Treasury bills	26,900	70,640	97,540	30,662	153,271	183,933
Government bonds	8,518	1,609	10,127	36,925	49,242	86,167
Gross total – Amortised cost	35,418	72,249	107,667	67,587	202,513	270,100

The government bonds are partial security for the loan from BIFM (note 7). The government bonds earn a fixed interest at 7.75% p.a. and are redeemable on 8 September 2020.

15. Derivative financial instruments

Refer to accounting policy pertaining to 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 2019			31 December 2018		
	Assets \$'000	Liabilities \$'000	Notional amount \$'000	Assets \$'000	Liabilities \$'000	Notional amount \$'000
Derivatives held for trading						
Forward foreign exchange contracts	109	100	9	226	1,092	145
Derivatives designated at fair value through profit or loss						
Cross-currency interest rate swaps	5,583	5,510	5,127	5,376	5,444	2,916
	5,692	5,610	5,136	5,602	6,536	3,061

Forward foreign exchange contracts

The notional amounts of outstanding forward foreign exchange contracts at 31 December 2019 were \$9,000 (31 December 2018: \$145,000). These resulted in derivative financial assets of \$109,000 (31 December 2018: \$226,000) and derivative financial liabilities of \$100,000 (31 December 2018: \$1.09 million).

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.

Notes to the financial statements

for the year ended 31 December 2019

15. Derivative financial instruments continued

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. 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 2019 \$'000	Up to 1 month	1-3 months	3-12 months	Greater than 1 year	Total
Value on initial recognition					
Derivative financial liabilities	100	–	–	5,510	5,610

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

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.

16. 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.

	31 December 2019 \$'000	31 December 2018 \$'000
Cash on hand	11,514	54,582
Balances with central banks	16,531	37,669
Balances with other banks	30,067	121,149
Other cash balances	–	131
Money market placements maturing within three months	70,990	75,358
Cash and cash equivalents	129,102	288,889
Statutory reserve balances	1,431	93,099
Cash and short-term funds	130,533	381,988

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

17. Interest and similar income

Accounting for interest and similar income

Refer to accounting policy pertaining to financial instruments.

	31 December 2019 \$'000			31 December 2018 \$'000		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Interest income calculated using effective interest method:						
Cash and short-term funds	779	4,629	5,408	(1,535)	4,423	2,888
Investment securities at amortised cost	6,650	19,290	25,940	11,062	15,101	26,163
Investment securities at fair value through OCI	–	4,924	4,924	–	8,251	8,251
Loans and advances	69,026	104,800	173,826	96,795	110,226	207,021
	76,455	133,643	210,098	106,322	138,001	244,323
Financial assets held at FVTPL	558	–	558	666	–	666
Other interest income	72	–	72	2,569	–	2,569
	77,085	133,643	210,728	109,557	138,001	247,558

Interest income includes \$2.3 million (2018: \$3.3 million) accrued on impaired loans.

Notes to the financial statements

for the year ended 31 December 2019

18. Investment in associates

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 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, unless the associate 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 associate's 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 ended 31 December 2019, the Group acquired additional shareholding of c.0.98% share in UBN, increasing the Group's shareholding from 48.99% as at 31 December 2018 to c.49.97% as at 31 December 2019.

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.

Intangible assets

Included in the fair value of UBN are intangible assets of \$5.9 million.

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 2019.

Determination of control over the associate

Determining whether the Group has control of an entity is generally straightforward based on ownership of the majority of the voting capital. However, in certain instances, this determination will involve significant judgement, particularly in the case of UBN where the Group has approximately 50% shareholding and has representation on the board of directors.

Based on the assessment performed by management, UBN is not a controlled entity of the Group because the Group is not exposed, and has no right, to variable returns from this entity and is not able to use its power over the entity to affect those returns.

Notes to the financial statements

for the year ended 31 December 2019

18. Investment in associates continued

	31 December 2019 \$'000	31 December 2018 \$'000
Opening balance	532,233	444,569
Share of profits	31,101	56,332
Share of OCI	12,552	38,618
Exchange rate adjustment	–	(26)
Tax associated	–	(2)
Additions during year	6,255	60,954
Impact of changes on initial application of IFRS 9	–	(68,212)
Investment in associates	582,141	532,233

Investment in Union Bank of Nigeria ('UBN')

The Group effectively holds total direct and indirect share of UBN's voting rights of 49.97% as at 31 December 2019. 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%. The Group acquired a further 13.4% and c.4.5% of the voting rights in UBN in 2017 and 2018 respectively, bringing the Group's total share to 44.55% and 48.99% as at 31 December 2017 and 31 December 2018 respectively. A further acquisition of c.0.98% during the year brought the Group's total share to 49.97% as at 31 December 2019.

The investment in UBN is equity accounted using the annual financial statements of UBN for the year ended 31 December 2019. The local currency of UBN is Nigerian Naira.

The following table illustrates the published audited abridged financial information of UBN for the year ended 31 December 2019.

	31 December 2019 \$'000	31 December 2018 \$'000
Cash and cash equivalents	1,045,034	762,042
Loans and advances	1,796,454	1,544,737
Investment securities	980,610	650,300
Other assets	2,286,323	1,818,967
Total assets	6,108,421	4,776,046
Deposits from customers	2,891,560	2,798,020
Borrowed funds	499,103	354,816
Other liabilities	1,894,457	887,054
Total liabilities	5,285,120	4,039,889
Group's share of equity (49.97%) (2018: 48.99%)	400,772	350,612
Intangible assets	5,930	7,139
Share of total identifiable net assets	406,702	357,751
Carrying value of the investment in associate including intangible assets	580,622	530,586
Net interest income	171,399	181,132
Non-interest income	139,798	115,031
Loan impairment charges	(600)	9,791
Total expenses	(231,764)	(245,567)
Profit for the year	64,862	59,209
Other comprehensive income for the year	25,116	(8,937)
Total comprehensive income for the year	89,978	50,273

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.

Notes to the financial statements

for the year ended 31 December 2019

18. Investment in associates continued

Impairment testing

At 31 December 2019, 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 2019.

The table below illustrates the value in use ("VIU"), carrying value and fair value of the Group's 49.97% (2018: 48.99%) investment in UBN.

	31 December 2019			31 December 2018		
	VIU \$'000	Carrying amount* \$'000	Fair value \$'000	VIU \$'000	Carrying amount \$'000	Fair value \$'000
Union Bank of Nigeria	614,981	598,143	285,171	552,456	530,585	220,982

*Carrying amount includes the investment in associate balance of \$580.6 million and associated goodwill balance of \$17.5 million.

Basis of recoverable amount

The impairment test was performed by comparing the recoverable amount of the Group's investment in UBN with the carrying amount. The recoverable amount, calculated as value in use ("VIU"), has been determined using cash flow predictions based on financial budgets approved by UBN's management, covering a five-year period. 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

The key assumptions used in the calculation of value in use were as follows. The values assigned to the key assumptions represent management's assessment of future trends in the earnings of UBN and have been based on historical data from both external and internal sources.

	31 December 2019	31 December 2018
Discount rate	31.1%	29.5%
Long-term growth rate	2.3%	0.5%

Long-term growth rate

The long-term growth rate is used to extrapolate the cash flows in perpetuity. This has been derived as the lower of the forecast GDP growth rate for Nigeria and the long-term compound annual profit before taxes, depreciation and amortisation growth rate estimated by management.

Discount rate

The discount rate is a pre-tax rate, derived using the capital asset pricing model ("CAPM"). CAPM depends on a number of inputs reflecting financial and economic variables, including the risk-free rate and a premium to reflect the inherent risk of the business being evaluated.

The VIU based on the above assumptions was computed as \$615.0 million (2018: \$552.5 million); resulting in a headroom of \$16.8 million (2018: \$21.9 million).

Sensitivity of VIU to changes in key assumptions

The tables below illustrate the impact on VIU of changes to key assumptions, especially given the shock to the market resulting from the COVID-19 outbreak. This reflects the sensitivity of the VIU to each key assumption on its own, while keeping other inputs constant. It is possible that more than one favourable and/or unfavourable change may occur at the same time. The selected rates of reasonably possible changes to key assumptions are largely based on external analysts' forecasts.

a) Exchange rate sensitivity

Given the changes in the exchange rate environment in Nigeria, following the COVID-19 outbreak and decline in global demand for oil, the estimation of VIU to evaluate the carrying value of UBN is particularly sensitive to changes in the exchange rate. Reduction in the carrying value is recognised in equity as additional foreign currency translation losses. As at 31 December 2019, if exchange rates move in the directions specified in the table below, the adjusted carrying value of the Group's investment in UBN will be as follows:

\$'000	Adjusted carrying value
Devaluation to NGN360.5/\$1	526,801
Devaluation to NGN384.5/\$1	494,615
Devaluation to NGN400/\$1	475,880
Devaluation to NGN420/\$1	453,751

Notes to the financial statements

for the year ended 31 December 2019

b) Changes in other assumptions – discount rate and long-term growth rate

	Favourable change			Unfavourable change		
	Revised rate	VIU	Headroom	Revised rate	VIU	(Impairment)
Long-term growth rate	3.2%	638,639	40,495	0.0%	593,798	(4,345)
Discount rate	19.5%	749,824	151,681	23.2%	541,512	(56,631)

A reduction in the forecast cash flows of 10% per annum would reduce the recoverable amount by \$62 million.

Events after the reporting date

UBN currency devaluation

Following the recent global economic and health crisis, the Central Bank of Nigeria (“CBN”) adjusted the official exchange rate from NGN 306.5/\$1 to NGN 361/\$1 in March 2020. The policy change has prompted the Group to reassess the use of the official exchange rate for translating the investment in UBN. Based on this post-period development, the Board decided in April to change the Group’s accounting policy for translating its investment in UBN from the CBN official exchange rate to the Nigerian Autonomous Foreign Exchange Fixing (“NAFEX”) rate, to reflect a more accurate picture of USD value.

This change is expected to result in a \$104 million, or \$0.61 per share, reduction in the carrying value of the investment in UBN as at 31 March 2020, recognised directly in equity as currency translation losses.

19. Goodwill and intangible assets

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.

Intangible assets

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.

Notes to the financial statements

for the year ended 31 December 2019

The table below shows the movement in goodwill and intangible assets balance for the year

	31 December 2019			31 December 2018		
	Goodwill \$'000	Other intangible assets \$'000	Total \$'000	Goodwill \$'000	Other intangible assets \$'000	Total \$'000
Cost						
Opening balance	82,941	141,808	224,749	87,240	138,283	225,523
Exchange rate adjustment	(2,899)	3,523	624	(4,299)	(13,976)	(18,275)
Additions during the year	–	8,971	8,971	–	16,970	16,970
Disposals during the year	(34,215)	(79,316)	(113,531)	–	531	531
Cost or valuation at period end	45,827	74,986	120,813	82,941	141,808	224,749
Impairment losses and amortisation						
Opening balance	(2,936)	(62,793)	(65,729)	(3,500)	(47,402)	(50,902)
Exchange rate adjustment	440	(634)	(194)	564	(268)	296
Amortisation during the year	–	(11,819)	(11,819)	–	(15,123)	(15,123)
Disposals during the year	2,496	27,438	29,934	–	–	–
Accumulated impairment at year end	–	(47,808)	(47,808)	(2,936)	(62,793)	(65,729)
Carrying value at year end	45,827	27,178	73,005	80,005	79,015	159,020

Goodwill

For the purposes of impairment testing, goodwill is allocated to the Group's CGUs (operating banks) based on management's revised assessment of future synergies that would occur resulting from the acquisition of these banks. Goodwill has been allocated as follows:

	31 December 2019			31 December 2018		
	\$ million	Allocation		\$ million	Allocation	
		Retail \$ million	Corporate \$ million		Retail \$ million	Corporate \$ million
Botswana	28.3	15.6	12.7	31.6	17.4	14.2
Zambia	–	–	–	21.3	8.5	12.8
Mozambique	–	–	–	9.5	1.6	7.9
West Africa	17.5	–	17.5	17.6	–	17.6
Total	45.8	15.6	30.2	80.0	27.5	52.5

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 2019 (31 December 2018: nil) 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 2019. 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.

Notes to the financial statements

for the year ended 31 December 2019

19. Intangible assets and Goodwill continued

The following table summarises the key inputs used in testing the Group's goodwill for current and prior years.

	31 December 2019		31 December 2018	
	Botswana	West Africa	Botswana	West Africa
Discount rate (%)	20.0	31.1	14.3	29.5
Terminal growth rate (%)	4.4	2.3	5	0.5
Forecast period (years)	5	5	5	10

The key assumptions described above may change as economic and market conditions change. The Group estimates that for Botswana, a one percentage point (1%) change in the discount rate or terminal growth rate would increase the recoverable amount by \$14.5 million and \$8.9 million respectively or decrease the recoverable amount by \$12.7 million and \$7.8 million respectively. A reduction in the forecast cash flows of 10% per annum would reduce the recoverable amount by \$16 million. Changes in these assumptions would not cause the recoverable amount of the Botswana CGU 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 18 for the details of the valuation performed to determine the value-in-use of the investment. As at 31 December 2019, the carrying value of the investment of \$598.1 million is less than the VIU of \$615.0 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 2019, there were no indications of impairment.

20. 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.

Notes to the financial statements

for the year ended 31 December 2019

20. Property and equipment

The tables below show the movement in property and equipment balance for the current and prior years

At 31 December 2019 \$'000	Land and buildings	Motor vehicles	Computer and office equipment	Furniture and fittings	Total
Cost or valuation					
Opening balance at 1 January 2019	70,236	5,434	43,549	25,061	144,280
Recognition of right-of-use asset on initial application of IFRS 16	18,597	384	–	–	18,981
Adjusted balance at 1 January 2019	88,833	5,818	43,549	25,061	163,261
Exchange rate adjustment including hyperinflation impact	6,465	260	4,962	356	12,043
Additions during the year	17,359	806	8,597	3,713	30,475
Revaluation	(563)	–	–	–	(563)
Write-off	(1,061)	–	(56)	(6)	(1,123)
Reclassification from investment property	405	–	–	–	405
Disposal during the year	(173)	(703)	(7,163)	(2,977)	(11,016)
Reclassified as part of disposal groups held for sale	(68,536)	(4,409)	(30,098)	(14,450)	(117,493)
Cost or valuation at 31 December 2019	42,729	1,772	19,791	11,697	75,989
Accumulated depreciation					
Opening balance	(15,512)	(4,228)	(32,032)	(14,091)	(65,863)
Exchange rate adjustment including hyperinflation impact	(4,655)	(376)	(3,696)	(616)	(9,343)
Depreciation charge for the year	(6,550)	(242)	(3,944)	(2,823)	(13,559)
Disposals during the year	102	658	7,131	2,571	10,462
Write-off	703	–	22	–	725
Reclassified as part of disposal groups held for sale	14,943	2,840	17,800	7,238	42,821
Accumulated depreciation at 31 December 2019	(10,969)	(1,348)	(14,719)	(7,721)	(34,757)
Carrying value at 31 December 2019	31,760	424	5,072	3,976	41,232

As at 31 December 2019, property and equipment included right-of-use assets of \$6.39 million related to leased branches and office premises. Refer to note 32 for further details.

At 31 December 2018 \$'000	Land and buildings	Motor vehicles	Computer and office equipment	Furniture and fittings	Total
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

Notes to the financial statements

for the year ended 31 December 2019

21. 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 2019 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).

	31 December 2019 \$'000	31 December 2018 \$'000
Opening balance	12,414	21,199
Exchange rate adjustment	(2,017)	(4,832)
Fair value gain/(loss)	4,586	1,187
Additions during the period	2,341	3,141
Reclassifications to property and equipment	(405)	(5,437)
Disposals during the period	(1,367)	(2,843)
Reclassified as part of disposal groups held for sale	(8,966)	–
Closing balance	6,586	12,414

Notes to the financial statements

for the year ended 31 December 2019

22. Other liabilities

Accounting for other liabilities

Other liabilities include financial and non-financial liabilities. For other financial liabilities, refer to accounting policy pertaining to financial instruments.

Non-financial liabilities is made up mainly of Provisions. The Group applies IAS 37 Provisions, Contingent Liabilities and Contingent Assets in accounting for non-financial liabilities. Provisions are recognised for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, which can be reliably estimated.

	31 December 2019 \$'000	31 December 2018 \$'000
Accruals	8,361	7,511
Provisions	8,222	16,422
Lease liability	6,670	–
Other liability accounts	73,721	17,334
	96,974	41,267
Current	94,185	37,747
Non-current	2,789	3,520

Other liabilities include \$88.9 million (31 December 2018: \$23.1 million) of financial liabilities and they are measured at amortised cost.

23. Other assets

Accounting for other assets

Included in other assets are prepayments, security deposits and other receivables. Except for prepayments and some balances included in other receivables, other assets are financial assets carried at amortised cost. Refer to the accounting policy on financial instruments for further details. Prepayments are non-financial assets and are stated at their nominal values.

	31 December 2019 \$'000	31 December 2018 \$'000
Accounts receivable	5,100	6,541
Prepayments	4,967	12,400
Security deposits	28	3,825
Other receivables	18,957	14,521
	29,052	37,287
Current	23,622	36,886
Non-current	5,430	941

Other assets include \$15.6 million (31 December 2018: \$24.9 million) of financial assets and they are measured at amortised cost.

Notes to the financial statements

for the year ended 31 December 2019

24. 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.

	31 December 2019 \$'000			31 December 2018 \$'000		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Net fee and commission income:	19,365	30,367	49,732	25,678	29,077	54,755
Fee income on loans and advances	6,294	9,943	16,237	5,200	4,189	9,389
Fee income on investment securities	2,042	–	2,042	1,071	–	1,071
Fee income from trust and fiduciary activities	735	5,821	6,556	2,245	7,389	9,634
Cash transaction fees	7,377	10,032	17,409	10,550	10,246	20,796
Fee income on digital transactions	1,414	4,359	5,773	6,210	4,267	10,477
Fee income on off-balance sheet items	210	372	582	243	268	511
Other fee income	1,293	822	2,115	159	2,718	2,877
Fee and commission expense	–	(982)	(982)	–	–	–
Net gains/(losses) on financial instruments at FVTPL:	(3,084)	–	(3,084)	14,572	–	14,572
Financial assets at FVTPL	(1,574)	–	(1,574)	5,570	–	5,570
Financial liabilities at FVTPL	(1,510)	–	(1,510)	9,002	–	9,002
Net trading income:	31,033	15,054	46,087	9,302	10,318	19,620
Gains on foreign exchange transactions	30,375	14,755	45,130	8,622	9,172	17,794
Other net income from non-proprietary trading	658	299	957	680	1,146	1,826
Other non-interest income:	6,427	4,504	10,931	4,505	5,358	9,863
Dividends received	1,166	368	1,534	2,191	–	2,191
Gains/(losses) on disposal of property and equipment	21	(115)	(94)	1	628	629
Gains/(losses) on disposal of investment property	–	1,164	1,164	–	–	–
Gains on derivatives	296	110	406	52	8	60
Rental income on investment property	30	1,174	1,204	213	1,723	1,936
Realised losses on quoted shares	26	–	26	(86)	–	(86)
Gain on revaluation of investment property	4,586	–	4,586	243	944	1,187
Other income	302	1,803	2,105	1,891	2,055	3,946
	53,741	49,925	103,666	54,057	44,753	98,810

Notes to the financial statements

for the year ended 31 December 2019

25. Operating expenses

	31 December 2019 \$'000			31 December 2018 \$'000		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Administrative expenses	(31,265)	(62,243)	(93,508)	(42,034)	(60,950)	(102,984)
Property lease rentals	(930)	(516)	(1,446)	(2,233)	(7,111)	(9,344)
Staff costs (25.1)	(36,337)	(56,662)	(92,999)	(48,044)	(48,789)	(96,833)
Auditor's remuneration (25.2)	(1,242)	(582)	(1,824)	(1,257)	(1,259)	(2,516)
Depreciation	(3,314)	(10,245)	(13,559)	(4,594)	(5,740)	(10,334)
Amortisation charge	(5,335)	(6,484)	(11,819)	(8,748)	(6,375)	(15,123)
Directors' remuneration (30c)	(2,982)	–	(2,982)	(3,556)	–	(3,556)
	(81,405)	(136,732)	(218,137)	(110,466)	(130,224)	(240,690)

25.1. 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.

Post-retirement benefits – The Group operates a defined contribution scheme and recognises contributions due in respect of the accounting period in the income statement. Any contributions unpaid at the balance sheet date are included as a liability.

	31 December 2019 \$'000			31 December 2018 \$'000		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Salaries	(23,203)	(46,419)	(69,622)	(31,400)	(43,502)	(74,902)
Employer contributions to post-retirement funds	(1,884)	(2,802)	(4,686)	(3,513)	(3,172)	(6,685)
Other staff costs	(11,250)	(7,441)	(18,691)	(13,131)	(2,115)	(15,246)
	(36,337)	(56,662)	(92,999)	(48,044)	(48,789)	(96,833)

Notes:

- Total equity-settled share-based payments costs of \$2.5 million (2018: \$3 million) have been included in other staff costs. Other staff costs comprise incentive pay, medical aid contributions, staff training and other staff-related expenses.

25.2. Auditor's remuneration

	31 December 2019 \$'000			31 December 2018 \$'000		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Fees paid to external auditors	(1,242)	(582)	(1,824)	(1,257)	(1,259)	(2,516)
Fees paid for audit services	(1,131)	(582)	(1,713)	(1,006)	(1,259)	(2,265)
Fees paid for non-audit services:	(111)	–	(111)	(251)	–	(251)
Taxation-related services	(52)	–	(52)	(85)	–	(85)
Other assurance services	(59)	–	(59)	(166)	–	(166)

Notes to the financial statements

for the year ended 31 December 2019

26. Taxation

Accounting for taxation

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 \$19.6 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).

26.1 Income tax expense

\$'000	31 December 2019			31 December 2018		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Current tax expense						
Current year tax expense	162	(915)	(753)	(6,291)	(6,314)	(12,605)
Withholding tax	(288)	(1,298)	(1,586)	(35)	–	(35)
	(126)	(2,213)	(2,339)	(6,326)	(6,314)	(12,640)
Deferred tax						
Accruals	477	2,588	3,065	610	207	817
Impairment losses	(3,798)	3,883	85	(2,270)	–	(2,270)
Property and equipment	(1,398)	(3,894)	(5,292)	582	(2,440)	(1,858)
Gains/(losses) from investments	(419)	–	(419)	(27)	590	563
Utilisation of assessed losses	(635)	1,837	1,202	4,126	1,423	5,549
Impairment of deferred tax assets	–	–	–	–	3,496	3,496
Currency revaluation	(3,829)	(4,114)	(7,943)	–	–	–
Other	(2,731)	(148)	(2,879)	2,053	(457)	1,596
Total deferred tax	(12,333)	152	(12,181)	5,074	2,819	7,893
Total tax expense per statement of profit or loss	(12,459)	(2,061)	(14,520)	(1,252)	(3,495)	(4,747)
Reconciliation of effective tax charge:						
Profit before tax	4,696	(25,748)	(21,052)	52,957	(5,993)	46,964
Income tax using corporate tax rates	(4,126)	3,299	(827)	(9,974)	(1,250)	(11,224)
Non-taxable income	(362)	–	(362)	(1,177)	55	(1,122)
Tax exempt revenues	3,374	34	3,408	1,237	–	1,237
Non-deductible expenses	(41)	(1,928)	(1,969)	–	–	–
Tax incentives	–	–	–	–	(404)	(404)
Income tax at different rates	2	(432)	(430)	26	4,527	4,553
Unrecognised deferred tax	(10,291)	–	(10,291)	14	–	14
Tax and fair value losses of prior years claimed	280	–	280	6,036	(1,913)	4,123
Other ⁽¹⁾	(1,295)	(3,034)	(4,329)	2,586	(4,510)	(1,924)
Current tax expense per statement of profit or loss	(12,459)	(2,061)	(14,520)	(1,252)	(3,495)	(4,747)
Effective tax rate	265.3%	(8.0%)	69.0%	2%	(58%)	10%

⁽¹⁾ Other relates to legal fees, entertainment charges, depreciation and amortization not deductible and effects of tax rate on foreign income

Notes to the financial statements

for the year ended 31 December 2019

26. Tax continued

26.2. Income tax effects relating to components of other comprehensive income

31 December 2019	Continuing operations			Discontinued operations			Total		
	Before tax \$'000	Tax charge \$'000	After tax \$'000	Before tax \$'000	Tax charge \$'000	After tax \$'000	Before tax \$'000	Tax charge \$'000	After tax \$'000
Exchange differences on translating foreign operations	(1,163)	–	(1,163)	(11,663)	–	(11,663)	(12,826)	–	(12,826)
Share of reserves in associate	12,552	–	12,552	–	–	–	12,552	–	12,552
Movement in fair value reserves	(149)	(1)	(150)	62	(12)	50	(87)	(13)	(100)
Revaluation of land and buildings	(563)	149	(414)	–	–	–	(563)	149	(414)
	10,677	148	10,825	(11,601)	(12)	(11,613)	(924)	136	(788)
31 December 2018	Continuing operations			Discontinued operations			Total		
	Before tax \$'000	Tax charge \$'000	After tax \$'000	Before tax \$'000	Tax charge \$'000	After tax \$'000	Before tax \$'000	Tax charge \$'000	After tax \$'000
Exchange differences on translating foreign operations	(57,319)	–	(57,319)	(14,498)	–	(14,498)	(71,817)	–	(71,817)
Share of reserves in associate	(4,373)	(2)	(4,375)	–	–	–	(4,373)	(2)	(4,375)
Movement in fair value reserves	(290)	91	(199)	357	(73)	284	67	18	85
Revaluation of property	415	(91)	324	2,262	(724)	1,538	2,677	(815)	1,862
	(61,567)	(2)	(61,569)	(11,879)	(797)	(12,676)	(73,446)	(799)	(74,245)

26.3. Deferred tax

	31 December 2019 \$'000	31 December 2018 \$'000
Balance at the beginning of the year	22,118	(5,073)
IFRS 9 Day 1 impact	–	24,266
Exchange rate adjustment	1,897	(4,169)
Statement of profit or loss charge (note 26.1)	(12,181)	7,893
Deferred tax on amounts charged to equity (note 26.2)	136	(799)
Deferred tax relating to disposal group classified as held for sale	(23,928)	–
Closing balance	(11,958)	22,118
Disclosed as follows:		
Deferred tax asset	149	40,316
Deferred tax liability	(12,107)	(18,198)
Total	(11,958)	22,118
Tax effects of temporary differences:		
Accruals	2,421	3,565
Bond with warrant deferred tax	69	455
IFRS 9 Day 1 impact	–	24,266
Impairment losses	3,383	5,768
Property and equipment	(3,495)	(6,684)
Investment property	(406)	(963)
Unrealised gains on investment	(1,322)	(1,519)
Revaluation surplus	(2,878)	5,024
Tax losses	6,000	16,976
Other	(15,730)	(24,767)
	(11,958)	22,118

Notes to the financial statements

for the year ended 31 December 2019

27. Earnings per share

	31 December 2019 \$'000			31 December 2018 \$'000		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
(Loss)/profit attributable to ordinary shareholders	(8,451)	(134,768)	(143,219)	50,704	(10,996)	39,708
Basic and diluted earnings	(8,451)	(134,768)	(143,219)	50,704	(10,996)	39,708
Weighted-average ordinary shares (number of shares)						
Recognised as treasury shares	(1,327)	(1,327)	(1,327)	(1,523)	(1,523)	(1,523)
Ordinary shares issued during the period	172,450	172,450	172,450	171,432	171,432	171,432
Weighted-average ordinary shares (number of shares)	171,123	171,123	171,123	169,910	169,910	169,910
Diluted number of ordinary shares (number of shares)						
Diluted shares	362	362	362	472	472	472
Total diluted number of ordinary shares (number of shares)	171,485	171,485	171,485	170,382	170,382	170,382
Basic (loss)/earnings per share (\$)	(0.05)	(0.79)	(0.84)	0.30	(0.07)	0.23
Diluted (loss)/earnings per share (\$)	(0.05)	(0.79)	(0.84)	0.30	(0.07)	0.23

28. 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 2019 are summarised below:

	31 December 2019 \$'000	31 December 2018 \$'000
Guarantees	19,720	33,434
Letters of credit	8,578	80,772
Other contingent liabilities	11,529	19,107
Gross balance	39,827	133,313
Expected credit loss allowance	(187)	(541)
Net balance	39,640	132,772
Maturity analysis of loan commitments		
Less than one year	29,304	79,243
Between one and five years	10,336	43,393
Over five years	–	10,136
Total	39,640	132,772
b. Capital commitments		
Approved and contracted for	1,181	6,257
Approved but not contracted for	15,823	10,233
Total	17,004	16,490

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

Notes to the financial statements

for the year ended 31 December 2019

29. 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.

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.

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.

Notes to the financial statements

for the year ended 31 December 2019

29. Share-based payment transactions continued

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 occurs 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.

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
	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
Vesting dates	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
	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
Vesting dates	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	–	–	–	–
Expiry date	–	–	–	–	–	–	–	–	27 Apr 18	–	–	–	–

b. Reconciliation of outstanding share options

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

	2019		2018	
	Number of options	WAEP \$	Number of options	WAEP \$
Outstanding at 1 January	14,783,999	3.31	13,739,000	3.82
Granted during the year	–	–	1,800,000	2.36
Forfeited during the year	(1,800,000)	2.36	(150,001)	2.59
Expired during the year	(33,333)	7.18	(605,000)	11.1
Outstanding at 31 December	12,950,666	3.43	14,783,999	3.31
Exercisable at 31 December	7,555,666	4.20	7,280,667	4.21

The options outstanding at 31 December 2019 had an exercise price in the range of \$2.00-11.50 (31 December 2018: \$2.00-11.50) and a weighted-average contractual life of 5.89 years (31 December 2018: 6.31 years).

Notes to the financial statements

for the year ended 31 December 2019

29. Share-based payment transactions continued

c. Measurement of fair values of options granted

The fair value of the share grants have been measured using the binomial model. Service conditions attached to the transactions were not taken into account in the measurement of fair value. The fair value of a share award is based on the share price at the date of the grant. The model and key assumptions used in the valuation are as follows:

Expected volatility (%)	25.63/38.17
Risk-free interest rate (%)	0.90/1.20/1.70
Expected life of share options (years)	<10
Weighted average share price (\$)	3.59

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.

Share options outstanding at the end of the year have the following expiry dates, exercise prices and fair values:

Grant date	Expiry date	Exercise Price	Fair value per option	Spot price	Share options 31 December 2019	Share options 31 December 2018
08 September 2014	08 September 2021	11.00	2.29	10.10	436,333	436,333
15 November 2014	15 November 2021	9.50	2.41	9.50	145,000	145,000
26 March 2015	26 March 2022	7.18	1.69	7.00	416,000	449,333
26 March 2015	26 March 2025	7.18	1.69	7.00	500,000	500,000
19 November 2015	19 November 2022	5.68	1.68	5.68	313,333	313,333
11 January 2016	11 January 2023	5.00	1.49	5.25	700,000	700,000
27 April 2016	27 April 2023	4.28	1.24	4.30	925,000	925,000
25 August 2016	25 August 2023	3.05	0.81	3.00	20,000	20,000
3 October 2017	3 October 2026	2.36	2.17	3.53	8,100,000	8,100,000
4 October 2017	4 October 2027	2.36	1.99	3.56	1,395,000	1,395,000
1 May 2018	1 May 2028	2.36	2.24	3.61		1,800,000
					12,950,666	14,783,999
Weighted average remaining contractual life (years)					5.90 years	6.27 years

The spot prices are the prices per Atlas Mara share as traded on the London Stock Exchange, as at the respective grant dates, and were sourced from Bloomberg.

d. Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	31 December 2019 \$'000	31 December 2018 \$'000
Expenses relating to staff share options	2,427,351	2,665,983
Expenses relating to staff share awards	51,390	288,551
	2,478,741	2,954,534

Notes to the financial statements

for the year ended 31 December 2019

30. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, or one other party controls both. Related parties of the Group include subsidiaries, associates, and key management personnel ('KMP'). KMPs are defined as those persons having authority and responsibility for planning, directing and controlling the activities of Atlas Mara Limited (directly or indirectly) and comprise the directors and senior management.

Parent company and subsidiaries

The parent company, which is also the ultimate parent company, is Atlas Mara Limited. The main subsidiaries include:

- ABC Holdings Limited ('ABCH'): This is the holding company of the ABC Group subsidiaries made up of African Banking Corporation of Botswana Limited; African Banking Corporation (Zimbabwe) Limited, Tanzania Development Finance Company Limited; and the subsidiaries held for sale: African Banking Corporation (Mozambique) S.A; African Banking Corporation (Tanzania) Limited and African Banking Corporation Zambia Limited.
- Banque Populaire du Rwanda Limited ('BPR')
- Atlas Mara Financial Services Limited ('AMFS')

a) Transactions and balances with related parties

Related party transactions

	31 December 2019				31 December 2018			
	Management fees \$'000	Interest income/expense \$'000	Others \$'000	Total \$'000	Management fees \$'000	Interest income/expense \$'000	Others \$'000	Total \$'000
Related party:								
Transactions between Atlas Mara and ABCH	(1,881)	(2,580)	827	(3,634)	(3,772)	3,925	1,347	1,500
Transactions between Atlas Mara and ABC Group subsidiaries	2,451	2,136	–	4,587	(544)	(643)	–	(1,187)
Transactions between Atlas Mara and AMFS	–	–	–	–	–	–	33	33
Transactions between Atlas Mara and Atlas Mara Digital Ltd	–	–	–	–	–	24	(1,238)	(1,214)
Transactions between Atlas Mara and BPR	–	–	–	–	(1,078)	–	–	(1,078)
Transactions between Atlas Mara and founder shareholders' affiliated companies	–	–	(632)	(632)	–	–	(1,354)	(1,354)
Transactions between Atlas Mara and shareholder companies ⁽¹⁾	–	(5,974)	(256)	(6,230)	–	(2,087)	–	(2,087)
	570	(6,418)	(61)	(5,909)	(5,394)	1,219	(1,212)	(5,386)

Related party balances

	31 December 2019				31 December 2018			
	Loans to Group companies \$'000	Loans from Group companies \$'000	Other \$'000	Total \$'000	Loans to Group companies \$'000	Loans from Group companies \$'000	Other \$'000	Total \$'000
Related party:								
Balances between Atlas Mara and ABCH	15,692	–	–	15,692	78,220	–	2,443	80,663
Balances between Atlas Mara and Banc ABC subsidiaries	–	(11,964)	917	(11,047)	–	(11,533)	4,095	(7,438)
Balances between Atlas Mara and BPR	190	–	–	190	–	–	–	–
Balances between Atlas Mara and Atlas Mara Eagle	–	–	14	14	–	–	14	14
Balances between Atlas Mara and AMFS	–	–	(161)	(161)	–	–	(127)	(127)
Balances between Atlas Mara and founder shareholders' affiliated companies	–	–	(1,514)	(1,514)	–	–	(1,325)	(1,325)
Balances between Atlas Mara and shareholder companies ⁽¹⁾	–	(71,799)	–	(71,799)	–	(27,608)	–	(27,608)
	15,882	(83,763)	(744)	(68,625)	78,220	(39,140)	5,100	44,179

Note:

(1) Transactions and balances with shareholder companies relate to transactions with Fairfax Africa Holdings Corporation.

All outstanding balances with these related parties are to be settled in cash within twelve to twenty-four months (two years) of the reporting date. None of the balances is secured.

Notes to the financial statements

for the year ended 31 December 2019

30. Related parties continued

b) Transactions with key management personnel

	31 December 2019 \$'000	31 December 2018 \$'000
Short-term employee benefits	3,118	3,144
Post-employment benefits	183	308
Share-based payment expenses	1,510	1,503
Other benefits	1,941	1,906
	6,752	6,861

c. Directors' remuneration

	31 December 2019 \$'000			31 December 2018 \$'000		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Executive Directors						
Salary, performance-related remuneration and other	(500)	–	(500)	(2,133)	–	(2,133)
Non-Executive Directors				(1,423)	–	(1,423)
Fees as Director of holding company	(2,482)	–	(2,482)	(1,316)	–	(1,316)
Fees as Director of subsidiaries	–	–	–	(107)	–	(107)
Total Directors' remuneration	(2,982)	–	(2,982)	(3,556)	–	(3,556)

Notes:

The executive directors' fees include the cash component of \$171.9k, share based component of \$183k (in the form of actual shares granted) and share options of \$144.4k. Non-executive directors' fees include a cash component of \$ 475k, share based component of \$419k (in the form of actual shares granted) and share options of \$1.59 million.

31. Analysis of changes in financing during the year

Reconciliation of movements of liabilities to cash flows arising from financing activities

	31 December 2019 \$'000		31 December 2018 \$'000	
	Borrowings	Leases	Borrowings	Leases
Balance at 1 January	410,157	18,981	346,153	–
Changes from financing cash flows				
Proceeds from borrowings	97,645	–	124,382	–
Transaction costs related to borrowings	(1,055)	–	(5,808)	–
Repayment of borrowings	(32,727)	–	(34,191)	–
Payment of lease liabilities	–	(5,922)	–	–
Total changes from financing cash flows	63,863	(5,922)	84,383	–
Other changes				
Interest expenses	49,787	1,757	56,375	–
Interest paid	(30,101)	(309)	(44,400)	–
Foreign exchange adjustments	(6,303)	(1,186)	(24,443)	–
Fair value adjustments	1,510	–	(13,615)	–
Recognition of right-of-use asset on initial application of IFRS 16	–	–	–	18,981
Reclassified as part of disposal groups held for sale	(96,705)	(7,270)	–	–
Others	(25,399)	619	5,704	–
Total other changes	(107,211)	(6,389)	(20,379)	18,981
Balance at 31 December	366,809	6,670	410,157	18,981

Notes to the financial statements

for the year ended 31 December 2019

32. Leases

Accounting for leases

Refer to the accounting policy on leases

The Group leases a number of branch and office premises. Information about leases for which the Group is a lessee is presented below:

a) Right-of-use assets

Right-of-use assets relate to leased branch and office premises that are presented as part of Land and buildings, within property and equipment.

	31 December 2019 \$'000	1 January 2019 \$'000
Balance at 1 January	18,981	–
Additions	33	–
Depreciation charge for the year	(4,548)	–
Foreign exchange adjustment	(617)	–
Reclassified as part of disposal groups held for sale	(7,458)	–
Recognition of right-of-use asset on initial application of IFRS 16	–	18,981
	6,391	18,981

b) Lease liabilities

	31 December 2019 \$'000	1 January 2019 \$'000
Current	1,173	7,680
Non-current	5,497	11,301
	6,670	18,981

c) Amounts recognised in the statement of profit or loss

	31 December 2019 \$'000	1 January 2019 \$'000
Depreciation charge on right-of-use assets	5,122	–
Interest expense on lease liabilities	1,757	–
Lease expenses included in operating expenses	266	–

d) Amounts recognised in the statement of cash flow

	31 December 2019 \$'000	1 January 2019 \$'000
Total cash outflow for leases	5,921	–

33. Funds under management

	31 December 2019 \$'000	31 December 2018 \$'000
Funds under management	36,777	235,084

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 represent assets held by the Group.

Notes to the financial statements

for the year ended 31 December 2019

34. Disposal groups classified as held for sale and discontinued operations

Accounting for non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups 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.

The assets of a disposal group classified as held for sale are presented separately from other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

Discontinued operations

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. Discontinued operations are excluded from the results of continuing operations and are presented as discontinued operations in the statement of profit or loss on a line item basis. Profit or loss from discontinued operations comprises the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised on the remeasurement to fair value less costs to sell or on the disposal group(s) constituting the discontinued operation.

Critical accounting estimates and judgements

In determining the fair value less costs to sell of the disposal groups held for sale, the Group makes use of estimates based on the proposed multiples as part of the on-going negotiation with potential buyers. The fair value of the disposal groups has been determined as the estimated recoverable amount based on negotiations with potential buyers. The non-recurring fair value measurement for the disposal group has been categorised as a level 3 fair value based on the inputs to the valuation technique used.

On 30 April 2019, the Group publicly announced that it had entered into a binding term sheet with Equity Group Holdings Plc ('EGH') to dispose of its investments in the following subsidiaries: African Banking Corporation (Moçambique) S.A.; African Banking Corporation (Tanzania) Limited; African Banking Corporation Zambia Limited; and Banque Populaire du Rwanda Limited, in exchange for ordinary shares in EGH. Though the agreement with EGH elapsed in January 2020, the Group is still actively engaged in negotiations with EGH and other potential buyers, with a view to completing the disposal of the subsidiaries within a year from the reporting date.

The following assets and liabilities were reclassified as held for sale in relation to the disposal group as at 31 December 2019:

	31 December 2019 \$'000
Assets included in disposal groups classified as held for sale	
Cash and short-term funds	245,685
Loans and advances	371,489
Investment securities	181,453
Property and equipment	64,358
Investment property	8,965
Current tax assets	5,192
Deferred tax assets	13,685
Other assets	88,818
	979,645
Liabilities included in disposal groups classified as held for sale	
Deposits	697,063
Borrowed funds	96,705
Current tax liabilities	17
Deferred tax liability	7,212
Other liabilities	73,238
	874,235
Net assets directly associated with disposal group	105,410

Notes to the financial statements

for the year ended 31 December 2019

35. Hyperinflation accounting in Zimbabwe

On 11 October 2019, the Public Accountants and Auditors Board of Zimbabwe pronounced in their circular 01/19 that Zimbabwe met the conditions required to apply IAS 29: Financial Reporting in Hyper-inflationary Economies, therefore entities reporting in Zimbabwe are now required to apply the requirements of IAS 29 effective for financial periods end on or after 31 July 2019.

Consequently, the Group has applied for the first time IAS 29 *Financial reporting in Hyperinflationary Economies* to its subsidiary, African Banking Corporation (Zimbabwe) Limited ('ABC Zimbabwe') as from 1 July 2019 and for financial reporting purposes for the year ended 31 December 2019.

In line with IAS 29, the financial statements of ABC Zimbabwe have been restated by applying a general price index to the historical cost, in order to reflect the changes in the purchasing power of the ZWL, on the closing date of the financial statements. The non-monetary items of the statement of financial position as well as the income statement, statement of other comprehensive income and statement of cash flows of ABC Zimbabwe, have been adjusted for inflation and re-expressed in accordance with the variation of the consumer price index ('CPI'), at the presentation date of its financial statements. The re-expression of non-monetary items is made from the date of initial recognition in the statements of financial position and considering that the financial statements are prepared under the historical cost criterion.

The gain or loss on the net monetary position which has been derived as the difference resulting from the restatement of non-monetary assets, owners' equity and items in the statement of comprehensive income is recognised in the statement of profit or loss. During 2019, the resulting loss on the net monetary position for ABC Zimbabwe was \$11 million.

36. Other events after the reporting date

36.1 Payment of goods and services using free funds in Zimbabwe

The Government of Zimbabwe, through Statutory Instrument 85 of 2020: *Exchange Control (Exclusive use of Zimbabwe Dollar for Domestic Transactions) (Amendment) Regulations, 2020 (No.2)*, legalised payment of goods and services chargeable in Zimbabwe dollars using foreign currency at the ruling rate on the date of payment. The impact of transacting using foreign currency on the functional currency is still uncertain, and it will become clear in the coming months.

36.2 Considerations of the impact of COVID-19 on the Group

The global economy is facing extraordinary and unprecedented times with the crisis wrought across the globe by the COVID-19 pandemic. Measures taken by governments to contain the spread of the virus, including travel bans, border closures, mandatory "stay at home" policies, quarantines, social distancing, closures of non-essential services and in some countries full lockdown, have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global capital markets have seen levels of volatility reach, and at some stages exceed those seen during the 2008 financial crisis. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions.

The Group has determined that these events are non-adjusting post balance sheet events. Accordingly, the financial position and results of operations as of and for the year ended 31 December 2019 have not been adjusted to reflect their impact. The pandemic is deemed to be in its early stages across Sub Saharan Africa and the duration and impact, as well as the effectiveness of government and central bank responses, remain unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Group for future periods.

The Group has performed stress tests to estimate the impact of increased credit risk resulting from the pandemic, while stress tests are currently being performed to estimate the impact on the capital adequacy and liquidity positions on the Group's operating banking subsidiaries. Given the rapidly changing environments, we are unable to quantify the impact on liquidity and capital adequacy at the time of preparing this report.

Notes to the financial statements

for the year ended 31 December 2019

36. Events after the reporting date (continued)

Stress testing on credit risk

Management considered the sensitivity of ECL impairments and the NPL ratio against the economic impact of the COVID 19 pandemic at banking subsidiary level. The initial outcome result of the test suggest that the performances of these subsidiaries may be significantly affected by increased NPL levels and repayment defaults, as the banks are beginning to receive requests from customers for loan restructuring and grace period for maturing loan repayments.

The stress projections covered three (3) probable scenarios the Group might face as a result of the pandemic. These scenarios range from a realistic case to the worst case and covers the stress levels on business performance as a result of the effect of the COVID-19. The case scenarios are explained as followed:

- Base case: Business operations lockdown within three months, with limited economic activity;
- Moderate stress case: Business operations lockdown between three to six months, with limited economic activity; and
- Worst case scenario: Business operations lockdown longer than six months, with limited economic activity.

The stress scenarios have demonstrated that the Retail portfolio is forecasted to experience minimal stress compared to SME and Corporate, largely due to the underlying Government Group Schemes that underpin the majority of this portfolio. The Group Schemes are managed by payroll deductions at source and no Government or Parastatal is currently expected to reduce staff numbers in the next 12 months. Government is also a major employer across all of our subsidiaries. The NPL and impairment stress is therefore largely within the SME and Corporate segments across the Group. Both these segments are typically collateralized by immovable property as the pivotal collateral type.

Scenarios	Impact on NPL ratio (%)	Impact on ECL coverage ratio (%)
Position at 31 December 2019	11.4%	50.4%
Scenario 1 – Base case	Increase by 1.4%	Increase by 0.1%
Scenario 2 – Moderate stress case	Increase by 3.2%	Increase by 0.6%
Scenario 3 – Worst case scenario	Increase by 5.0%	Increase by 1.3%

The industry sectors most affected across the region are Aviation, Hotels & Tourism, Transport & Logistics, manufacturing, Trade, FMCG, mining and Construction.

The Group's banking subsidiaries continue to implement mitigating actions in terms of loan restructures and repayment plans to minimize the negative impact on the client base as far as possible, in line with other relief measures adopted across the countries by the respective national governments and regulatory bodies.

External measures have also been introduced by the regulators and governments in our countries of operations to ease the impact on the economies of the Group's countries of operations. Some of these measures include:

- The regulatory minimum CAR required for banks in Botswana has been revised from 15% to 12.5%, effective 1 April 2020. The punitive rate of 6% for assessing overnight funding from credit facility has also been removed. Collateral pool has been extended to all corporate bonds listed and traded on the Botswana Stock exchange. The Central bank of Botswana is also committed to exercising regulatory forbearance in assessing NPLs and determination of ECLs.
- Downward revision in statutory reserve requirement for banks in Zimbabwe, Rwanda and Zambia to free up liquidity. The base lending rate in Zimbabwe has been revised from 30% to 40% and use of USD is allowed and has been fixed at 1:25 for the duration of the outbreak.
- Intervention facilities have been provided by the central banks in Rwanda, Zambia and Mozambique to provide medium term liquidity for financial service providers. These facilities are being granted to help with restructuring and refinancing qualifying loans, amongst other reliefs. Charges have also been waived for interbank payments and online transactions in Zambia.

The Group continues to monitor the situation and implement measures to prioritise the health and safety of employees, customers and other stakeholders. The Group has activated the business continuity processes to weather this crisis.

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.

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 costs 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.

		2019	2018	CC Var %
Adjusted profit after tax	\$ million	5.8	26.4	86.1
Transaction and M & A related items	\$ million	(109.5)	28.3	>100
Reorganisations and restructuring costs	\$ million	(13.1)	(10.7)	(22.8)
Impact of hyperinflation	\$'million	(11.1)	–	–
Tax and NCI	\$ million	(15.3)	(4.3)	(>100%)
IFRS reported (loss)/profit attributable to ordinary shareholders	\$ million	(143.2)	39.7	(>100%)

Note:

* 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.

2019 – Included in M&A costs are the IFRS 5 impairment loss on remeasuring the net assets included in the disposal groups held for sale and related transaction costs. Included in reorganisation and restructuring costs are staff restructuring costs of \$2.4 million, amongst others.

Glossary

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