



# FBC Holdings Limited

strength • diversity • service

## unaudited interim results

for the six months ended 30 June 2009

FBC Holdings Limited, FBC Centre, 45 Nelson Mandel Avenue, P.O. Box 1227  
Telephone: 706760/ 9, Harare, Zimbabwe, www.fbc.co.zw

### Chairman's Statement

#### Financial Highlights

s	Profit before tax - US\$1 820 472.
s	Basic earnings per share - 0.3 US cents.
s	Cost income ratio - 71%
s	Total shareholders funds - US\$28 213 853
s	Total balance sheet size - US\$76 896 560.

#### Financial Performance

The Group achieved profit before tax of US\$ 1 820 472 during the six months ended 30 June 2009. This commendable performance was achieved after the impairment of all the Group's Zimbabwean dollar financial assets and financial liabilities in the wake of the introduction of the multi-currencies system in January 2009. A number of strategic initiatives were adopted to ensure the survival and continued existence of our businesses following the watershed changes on the operating landscape. The Group judiciously managed its assets to create adequate revenue and to cover streamlined overhead costs. Operating expenses were contained through the strategic closure of a number of marginal retail branches and securing the agreement and sacrifice of our committed workforce to go on voluntary rotational shift work to ensure maximum productivity of labour against a background of reduced business volumes following the demise of the Zimbabwean dollar.

The Group has witnessed a significant improvement in revenues by all the subsidiaries in the second quarter of the year. Our flagship subsidiary, FBC Bank contributed 50% of the Group's profit before income tax whilst FBC Reinsurance contributed 46% with the other subsidiaries contributing the balance. The performance of the Group is forecast to improve in line with the anticipated recovery of the economy.

#### Capitalisation

The Group's businesses achieved and exceeded the regulatory prescribed minimum capital well ahead of the September 30, 2009 deadline and a significantly improved shareholders' funds position is expected during the remaining half of the year. It is pertinent to note that whilst the Group has total equity adequate to meet the minimum regulatory requirements, the operating landscape has significantly changed that the business subsidiaries will in future require more than just the regulatory minimum capital for it to take full advantage of the anticipated opportunities in the economy.

#### Inflation

The adoption of multicurrencies and Short Term Economic Recovery Programme (STERP) has ushered in a period of pricing stability. This resulted in the economy recording consecutive negative inflation levels, with the month-on-month rate deflating since January 2009, albeit at a slower pace by mid-year. Prices fell by 2.3% in January, 3.1% during February, and a further 3% in March before averaging around 1% at the end of May. Intense competition in the retail sector has pressured prices downwards towards regional parity. The resuscitation of local production should improve product supply and further reduce prices.

#### Foreign Exchange

The first half of the year saw the death of the Zimbabwe dollar with the authorities allowing the use of multi-currencies namely the United States Dollar, South African Rand, British Pound, Euro and Botswana Pula as legal tender. Although the first quarter saw a dip in foreign currency inflows, the second quarter was characterized by an improvement in inflows as the business environment began to recover. This has provided the bank with opportunities to trade in both local and international foreign currency markets.

#### Global Political Agreement

The Global Political Agreement has ushered in a period of relative stability and optimism, generating a lot of interest by investors and other stakeholders. The dollarisation of the economy and a new era of policy consistency derived from the political agreement will spur investment. The recovery of the economy will to a great extent be dependant on the success of this watershed agreement in Zimbabwe's political history.

#### Share Price Performance

The 19th of February saw the resumption of trades on the ZSE after a three month cessation following the national payment system crisis experienced in the third quarter of 2008. Initially activity was very low with traditional institutional players shying away from the market. The market's lowest level of capitalization was US\$1.6 billion in early April and trade turnover has increased progressively, buoyed by institutional and foreign investor interest. The FBC share recovered steadily and peaked at 2 cents in May with a market return over the half-year period of 106%. The share remains grossly undervalued compared to peers in the market.

#### Dividend

In view of the current operating environment which requires high operating liquidity levels, and the need to have adequate capital that addresses regulatory capitalization levels, the directors are recommending that the dividend for the period under review be passed.

#### Directorate

There were no changes in the directorate during the half year ended 30 June 2009. I would like to take this opportunity to thank all the directors for their valuable contributions and commitment during the period under review.

#### Outlook

Capacity utilization in the productive sector has taken an upward trend in the wake of the global political agreement, policy stability and engagement of multilateral institutions and investors. The GPA's successful implementation remains pivotal to the recovery of the economy, mainly through balance of payments support and credit lines to industry and commerce. The Group remains optimistic of the recovery of the economy through progressive policies that are business-friendly and integral to the prosperity of the nation.

#### Appreciation

The commendable performance of the Group bears testimony to the good work and sacrifices put in by management and staff. The guidance and support of the non-executive directors deserves special mention. Last but by no means least, I want to thank our valued customers across the whole Group for their support and confidence in us.

Herbert Nkala

Chairman

27 August 2009

### Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2009

	Notes	Unaudited 30 June 2009 US\$
Interest income	7	1,454,296
Interest expense	8	411,080
Net interest income		1,043,216
Fee and commission income		2,482,499
Fee and commission expense		-
Net fee and commission income		2,482,499
Net trading income		289,455
Net income from financial instruments carried at fair value		794,141
Underwriting income		823,945
Other operating income	9	730,514
Total income		6,163,770
Operating expenses		1,950,886
Personnel expenses		307,740
Depreciation and amortisation		2,084,672
Other expenses		4,343,298
Total operating expenses		4,343,298
Operating profit		1,820,472
Profit before taxation		1,820,472
Income tax expense		792,134
Profit for the period		1,028,338
Other comprehensive income		1,368,584
Gains on property revaluation		(273,785)
General provisions for doubtful debts		1,094,799
Other comprehensive income, net of income tax		1,094,799
Total comprehensive income for the period		2,123,137
Profit attributable to:		982,350
Owners of the parent company		45,988
Minority interests		1,028,338
Profit for the period		1,028,338
Total comprehensive income attributable to:		1,531,828
Owners of the parent company		591,309
Minority interests		2,123,137
Total comprehensive income for the period		2,123,137
Earnings per share (US cents)		
Basic	10	0.3
Diluted		0.3

### Consolidated Statement of Financial Position

As at 30 June 2009

	Notes	Unaudited 30 June 2009 US\$
Equity		-
Share capital and share premium		14,051,771
Retained earnings		12,086,736
Other reserves		26,138,507
Total attributable to equity holders of the parent company		2,075,346
Minority interests		28,213,853
Total equity		28,213,853
Liabilities		5,896,617
Deposits from banks		31,958,490
Deposits from customers		76,552
Current tax liabilities		4,908,775
Deferred tax liabilities		5,842,273
Other liabilities		48,682,707
Total liabilities		76,896,560
Total equity and liabilities		76,896,560
Assets		38,325,327
Cash and cash equivalents		2,240,651
Trading assets		10,749,011
Loans and advances to customers		1,360,843
Investment securities		545,000
Investment properties		17,003,256
Property and equipment	11	118,882
Intangible assets		6,553,590
Other assets		76,896,560
Total assets		76,896,560

### Consolidated Statement of Changes in Equity

For the six months ended 30 June 2009

	Ord Shares US\$	Retained Profit US\$	Share Premium US\$	Share option Reserve US\$	Non-Distributable Reserves US\$	Minority Interests US\$	Total US\$
Balance at 1 January 2009	-	13,341,093	-	-	11,199,115	1,484,037	26,024,245
Total comprehensive income for the period	-	710,678	-	-	821,150	591,309	2,123,137
Employee share option scheme	-	-	-	66,471	-	-	66,471
- value of employee service	-	-	-	-	-	-	-
- share options exercised	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	-
Shareholders' equity at 30 June 2009	-	14,051,771	-	66,471	12,020,265	2,075,346	28,213,853

## Consolidated Statement of Cash Flows

For the six months ended 30 June 2009

	Unaudited 30 June 2009 US\$
<b>Cash flows from operating activities</b>	
Profit before taxation	1,820,472
Adjustments for:	
Depreciation and amortisation	307,740
Profit on disposal of fixed assets	(19,076)
Profit on disposal of investment properties	(234,513)
Fair value adjustment on investment properties	(249,923)
Equity settled share based payments	66,471
Net cash generated before changes in operating assets and liabilities	1,691,171
Change in trading assets	259,349
Change in loans and advances to customers	(4,036,179)
Change in other assets	(3,131,234)
Change in deposits from banks	-
Change in deposits from customers	29,294,450
Change in other liabilities	392,574
	24,470,131
Income tax paid	(21,634)
Net cash flows from operating activities	24,448,497
<b>Cash flows from investing activities</b>	
Net cash on investment securities	(354,909)
Purchase of property and equipment	(136,040)
Proceeds from sale of investment properties	1,331,167
Proceeds from sale of property and equipment	22,826
Net cash flows used in investing activities	863,044
<b>Cash flows from financing activities</b>	
Share issue and minority contribution	-
Dividend paid	-
Net cash flows from financing activities	-
Net increase/(decrease) in cash and cash equivalents	25,311,541
Cash and cash equivalents at the beginning of the period	13,013,786
Cash and cash equivalents at the end of the period	38,325,327

## Notes to the Consolidated Financial Statements

For the six months ended 30 June 2009

### 1. REPORTING ENTITY

FBC Holdings Limited is an investment holding company domiciled in Zimbabwe whose registered office is 45 Nelson Mandela Avenue, Harare. The consolidated financial statements of the Group as at and for the six months ended 30 June 2009 comprise the Group and its subsidiaries. The Group, through its subsidiaries, provides a wide range of financial services; commercial banking, mortgage finance, stockbroking and reinsurance services.

### 2. BASIS OF PREPARATION

#### 2.1. Basis of Measurement

The financial statements are presented in United States dollars and are rounded to the nearest dollar. They are based on the historical cost approach.

#### 2.2 Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other services. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis.

### 3. BASIS OF CONSOLIDATION

The consolidated financial information comprise the financial information of the company and all its subsidiaries (subsidiaries are enterprises which are controlled by the holding company), the results of which are included from the effective dates of acquisition and up to the effective date of disposal.

#### Transactions eliminated on consolidation

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

### 4. CORPORATE GOVERNANCE

The Board is committed to the principles of openness, integrity and accountability. It recognises the developing nature of corporate governance and assesses its compliance with local and international generally accepted corporate governance practices on an ongoing basis through its various subcommittees.

The Board is responsible to the shareholders for setting the direction of the Group through the establishment of strategies, objectives and key policies. The Board monitors the implementation of these policies through a structured approach to reporting and accountability.

The Board meets regularly, with a minimum of four scheduled meetings annually. To assist the Board in the discharge of its responsibilities a number of committees have been established, of which the following are the most significant: (i) Board Audit Committee, (ii) Board Human Resources and Remuneration Committee, (iii) Board Finance and Strategy (iv) Board Risk Committee,

#### Board attendance

Board member	Main Board	
	Q1	Q2
Herbert Nkala	✓	✓
Livingstone T. Gwata	✓	✓
Kenzias Chibota	X	✓
Philip M. Chiradza	X	✓
Stanley Kudenga	✓	✓
Trynos Kufazvinei	✓	✓
Shingirai A. Munyeza	X	✓
John Mushayavanhu	✓	✓
Johnson R. Mawere	✓	✓
Godfrey G. Nhemachena	✓	✓
Nancy Saungweme	✓	✓
Webster Rusere	✓	✓

Key  
T - Attended X - Apologies  
Q1 - Quarter 1 Q2 - Quarter 2

### 5. RISK MANAGEMENT

#### 5.1 Overview

The Group continued to maintain a strong risk management culture in response to the changing operating environment in order to achieve an appropriate balance between risk and reward. The introduction of the multi-currency trading system has generally resulted in economic stability and has made strategic planning meaningful and relevant. Further the formulation of relevant macroeconomic policies has seen some sectors showing signs of economic recovery.

The principal risks to which the Group is exposed to and which it continues to manage are detailed below.

#### 5.2 Risk categories

##### 5.2.1 Strategic risk

Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. The Board of Directors retains the overall responsibility for strategic risk management through the Board Finance and Strategy Committee.

##### 5.2.2 Reputational risk

Reputational risk is the potential that negative publicity regarding the Group's business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions. This risk may result from the Group's failure to effectively manage any or all of the other risk types. Management translates the reputational risk management strategy established by the Board of Directors into policies, processes and procedures that are implemented throughout the Group.

##### 5.2.3 Credit risk

Credit risk is the current or prospective risk to earnings and capital arising from a debtor's failure to meet the terms of any contract with the Group or if a debtor otherwise fails to perform as agreed.

## Notes to the Consolidated Financial Statements (cont'd)

For the six months ended 30 June 2009

#### Credit risk framework and governance

The Group's largest source of credit risk is loans, albeit that credit risk exists throughout the other activities of the Group, on and off the balance sheet. These other activities include inter-bank transactions, mortgage loans, foreign exchange transactions, and guarantees. Given the significant size of the loan portfolio on the balance sheet of the Group, credit risk remains one of the major risks.

To effectively manage credit risk, the Board and Management established an effective and sound credit risk management framework which is supported by a strong risk culture and environment. Credit risk management is governed by each entity's credit policy guidelines and ultimately approved by the Board of Directors. The Board of Directors is ultimately responsible for credit risk. Group Credit Management Division, is responsible for the implementation of the credit policies, which cover compliance with prescribed sanctioning authority levels, avoidance of a high concentration of credit risk and regular review of credit limits. The Group Risk Management Division, Group Compliance and Group Audit also monitor independently the management of Credit risk.

#### Credit policies, procedures and limits

The Group has sound and well-defined policies, procedures and limits which are reviewed annually and approved by the Boards of Directors and strictly implemented by management. Credit risk limits include delegated approval and write-off limits to advances managers, management and board credit committees, counterparty limits, individual account limits, group limits and concentration limits.

#### Credit risk mitigation and hedging

As part of the Group's credit risk mitigation and hedging strategy, various types of collateral is taken by the banking subsidiaries. These include mortgage bonds over residential, commercial and industrial properties, cession of book debts and the underlying moveable assets financed. In addition, a guarantee is often required particularly in support of a credit facility granted to counterparty. Generally, guarantor counterparties include parent companies and shareholders. Creditworthiness for the guarantor is established in line with the credit policy.

#### Credit risk stress testing

The Group and the entities recognise the possible events or future changes that could have a negative impact on the credit portfolios and affect the Group's ability to generate more business. To mitigate this risk, the Group has put mechanisms in place to enhance its stress testing methodologies.

#### Impairments

An allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

#### Credit terms:

##### Default

This is failure by a borrower to comply with the terms and conditions of a loan facility as set out in the facility offer letter or loan contract. Default occurs when a debtor is either unwilling or unable to repay a loan.

##### Past due loans

These are loans whereby the debtor is in default by exceeding the loan tenure or expiry date as expressly set out in the loan contract i.e. the debtor fails to repay the loan by a specific given date.

##### Impaired loans

The Group's policy regards impaired/ doubtful loans as all those loans where the degree of default becomes extensive such that the Group no longer has reasonable assurance of collection of the full outstanding amount of principal and interest. All such loans are classified in the C, D and E loan categories.

#### Provisioning policy and write offs

##### Determination of general and specific provisions

Provisioning is determined on the basis of account classification whereby provisions or provisioning methods are uniformly determined for specific grades.

##### General provisioning

Pass Grade "A" - No evident weakness, performing to contractual terms

General provisions for facilities in this category are maintained at 1% of total customer account outstanding balances and off balance sheet (i.e. contingent) risks.

##### Special Mention Grade "B" - Exhibits potential weaknesses, which require close monitoring

General provisions for these facilities are maintained at 3% of total customer account outstanding balances and off balance sheet (i.e. contingent) risks.

##### Specific provisioning

Sub-Standard Grade "C" - Timely repayment and/or settlement may be at risk. Specific provisions for facilities in this category are currently maintained at 20% of total customer outstanding balances and off balance sheet (i.e. contingent) risks less the value of tangible security held.

##### Doubtful Grade "D" - Full repayment and/or settlement highly improbable

Specific provisions for exposures in this grade are currently maintained at 50% of total customer outstanding balances and off balance sheet (i.e. contingent) risks after deducting the value of any tangible security held.

##### Loss Grade "E" - Collection not possible

Specific provisions for debts in this category are currently maintained at 100% of total customer outstanding balances and off balance sheet (i.e. contingent) risks again after deducting the value of any tangible security held.

#### The basis for writing off assets

When an advance which has been identified as impaired and subjected to a specific provision, continues to deteriorate, a point will come when it may be concluded that there is no realistic prospect of recovery. Authority will be sought from Group Credit Management Division for the exposure to be immediately written off from the bank's books while long term recovery strategies are being pursued.

#### Credit risk and Basel II

The Group took a gradual process in implementing Basel II in line with the regulatory authorities' approach. The Group continues to implement all Basel II related guidelines issued by the Central Bank and internal processes have been revamped in an effort to comply with the requirements.

#### 5.2.4 Liquidity risk

Liquidity Risk is the current or prospective risk to earnings and capital arising from the Group's inability to meet its liabilities when they fall due without incurring unacceptable losses.

#### Liquidity risk framework and governance

The Group does not treat Liquidity risk in isolation as it is often triggered by consequences of other financial risks such as credit risk and market risk. The Group's liquidity risk management framework is therefore designed to ensure that its subsidiaries have adequate liquidity to withstand any stressed conditions. To achieve this objective, the Board of Directors through the entities' Board Asset Liability Committees is ultimately responsible for liquidity risk management. The responsibility for managing the daily funding requirements is delegated to the Heads of Treasury Divisions for banking entities and Finance Managers for non-banking entities with independent day to day monitoring being provided by Group Risk Management.

#### Liquidity and funding management

The Group's management of liquidity and funding is decentralised and each entity is required to fully adopt the liquidity policy approved by the Board with independent monitoring being provided by the risk management function. The Group uses concentration risk limits to ensure that funding diversification is maintained across the products, counterparties and sectors. Major sources of funding are in the form of deposits across a spectrum of retail and wholesale clients for all the subsidiaries.

#### Cash flow and maturity profile analysis

The Group uses the cash flow and maturity mismatch analysis on both contractual and behavioural basis to assess their ability to meet immediate liquidity requirements and plan for their medium to long term liquidity profile.

#### Liquidity contingency plans

In line with the Group's liquidity policy, liquidity contingency plans are in place for the subsidiaries in order to ensure a positive outcome in the event of a liquidity crisis. The plans clearly outline early warning indicators which are supported by clear and decisive crisis response strategies. The crisis response strategies are created around the relevant crisis management structures and address both specific and market crises.

#### Liquidity stress testing

It is the Group's policy that each entity conducts stress tests on a regular basis to ensure that they have adequate liquidity to withstand stressed conditions. In this regard, anticipated on- and off-balance sheet cash flows are subjected to a variety of specific and systemic stress scenarios during the period in an effort to evaluate the impact of unlikely events on liquidity positions.

#### 5.2.5 Market risk

Market risk is the risk of financial loss in on and off-balance sheet trading positions arising from movements in market prices. Market risk exists whenever the Group has taken trading, banking or investment positions.

##### Market risk from trading positions

The Group uses a collection of risk measurement methodologies to assess market risk, including value-at-risk (VaR), stress testing, loss triggers and traditional risk management measures.

##### Market risk from banking positions

Banking related market risk is contained within the Group's two major treasury operations at the Bank and the Building Society. The interest rate risk profile is assessed regularly based on the fundamental trends in interest rates, economic developments and technical analysis.

##### Market risk from investments

This is managed in accordance with their purpose and strategic benefit rather than on market considerations and periodic reviews and reassessments are undertaken.

##### Foreign exchange risk

Foreign exchange risk is the potential adverse impact on earnings and economic value due to currency rate movements. This involves settlement risk which arises when the Group or one of its entities incurs a financial loss due to foreign exchange positions taken in both the trading and banking books. The potential for loss arises from translation exposure, transaction exposure and economic exposure. This risk is largely concentrated at the Bank, Society and Reinsurance Company.

## Notes to the Consolidated Financial Statements (cont'd)

For the six months ended 30 June 2009

### Framework and governance

The Board of Directors is ultimately accountable and approves the market risk appetite for all types of market risk. The Board delegated the effective management of market risk to the entities' Asset Liability Committees (ALCO) for the banking entities and Risk and Compliance Committees for non-banking entities. On a day-to-day basis, market risk exposures are independently reviewed and measured by the Group Risk Management function, and appropriate management reports are generated. A comprehensive framework of limits to control market risk including foreign exchange risk exposures is in place for the different levels of reporting.

### Market risk measurement

The tools for measuring market risk that are applied within the Group range from the very fundamental and basic marking-to-market, to the more sophisticated Value at Risk Models. Generally, measurement tools in use at any point in time are commensurate with the scale, complexity, and nature of trading activities and positions held by entity. The tools and techniques used to measure and control market risk include the repricing gap, scenario analysis on net interest income and economic value of equity, stop loss limits, duration analysis, stress testing and Value at Risk. In addition, the Group also performs ratio analysis on the key ratios of each entity. Risk limits for all the measures are documented in each entity's ALCO policy. Group Risk Management performs regular reviews of the existing models to ensure that they are still relevant and behaving within expectations.

### 5.2.6 Operational risk

Operational risk is the risk of loss arising from the potential that inadequate information system, technology failures, breaches in internal controls, fraud, unforeseen catastrophes, or other operational problems may result in unexpected losses. Operational risk exists in all products and business activities.

### Group's approach to managing operational risk

The Group's approach is that business activities are undertaken in accordance with fundamental control principles of operational risk identification, clear documentation of control procedures, segregation of duties, authorization, close monitoring of risk limits, monitoring of assets use, reconciliation of transactions and compliance.

### Operational risk framework and governance

The Board has ultimate responsibility for ensuring effective management of operational risk. This function is implemented through the Board Risk and Compliance Committee at Group level which meets on a quarterly basis to review all other major risks including operational risks. This Committee serves as the oversight body in the application of the Group's operational risk management framework, including business continuity management. Each entity has a Management and Board Risk and Compliance Committee to ensure a robust operational risk management framework. Other Group management committees which report to Group

Executive Committee include the Group New Product Committee, Group IT Steering Committee and Group Business Continuity Committee.

### The management and measurement of operational risk

The Group identifies and assesses operational risk inherent in all material products, activities, processes and systems. It ensures that before new products, activities, processes and systems are introduced or undertaken, the operational risk inherent in them is subjected to adequate assessment by the appropriate risk committees which include the Risk and Compliance Committee and Group New Product Committee.

The Group conducts Operational Risk Assessments in line with the Group's risk strategy. These assessments cover causes and events that have, or might result in losses, as well as monitor overall effectiveness of controls and whether prescribed controls are being followed or need correction. Key Risk Indicators (KRIs) which are statistical data relating to a business or operations unit are monitored on an ongoing basis. The Group also maintains a record of loss events that occur in the Group in line with Basel II requirements. These are used to measure the Group's exposure to the respective losses. Risk Limits are used to measure and monitor the Group's operational risk exposures. These include branch cash holding limits, teller transaction limits, transfer limits and write off limits which are approved by management and the Board. In addition, the Group also uses risk mitigation mechanisms such as insurance programmes to transfer risks. The Group maintains adequate insurance to cover key operational and other risks.

### Business continuity management

To ensure that essential functions of the Group are able to continue in the event of adverse circumstances, the Group Business Continuity Plan is reviewed annually and approved by the Board. The Group Business Continuity Committee is responsible for ensuring that all units and branches conduct tests half yearly in line with the Group policy. The Group continues to conduct its business continuity tests in the second and fourth quarters of each year and all the processes are well documented.

### 5.2.7 Compliance risk

Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with laws, rules, regulations, prescribed practices, internal policies and procedures or ethical standards.

The Compliance function assesses the conformity of codes of conduct, instructions, procedures and organizations in relation to the rules of integrity in financial services activities. These rules are those which arise from the institution's own integrity policy as well as those which are directly provided by its legal status and other legal and regulatory provisions applicable to the financial services sector.

Management is also accountable to the Board for designing, implementing and monitoring the process of compliance risk management and integrating it with the day to day activities of the Group.

### 5.2.8 Statement of Compliance

The Group complied with the following statutes inter alia:-

The Banking Act (Chapter 24:20) and Banking Regulations, Statutory Instrument 205 of 2000; Bank Use Promotion & Suppression of Money Laundering (Chapter 24:24); Exchange Control Act (Chapter 22:05); the National Payments Systems Act (Chapter 24:23) and the Companies Act (Chapter - 24:03).

In addition, the Group also complied with the Reserve Bank of Zimbabwe's directives on liquidity management, capital adequacy as well as prudential lending guidelines.

## 6. INDEPENDENT RATINGS

### 6.1 Reserve Bank of Zimbabwe onsite examinations

The Group and its subsidiaries have their corporate governance and risk management processes independently audited by the Reserve Bank of Zimbabwe at least every 18 months. The most recent inspection was carried out for the 12 months to 30 September 2007 and the results indicate that the Group's risk management and corporate governance practices are sound as illustrated below.

#### (i) FBC Holdings

Summary risk assessment system (RAS) ratings

RAS component	Latest RAS rating 30 Sept 2007	Previous RAS rating rating	Previous RAS rating rating
Overall inherent risk	Moderate	Not applicable	Not applicable
Overall risk management systems	Acceptable	Not applicable	Not applicable
Overall composite risk	Moderate	Not applicable	Not applicable
Direction of overall composite risk	Stable	Not applicable	Not applicable

FBC Holdings summary risk matrix

Type of risk	Level of inherent risk	Adequacy of risk management systems	Overall composite risk	Direction of overall composite risk
Credit	Moderate	Acceptable	Moderate	Stable
Liquidity	Moderate	Acceptable	Moderate	Stable
Interest rate	Low	Acceptable	Low	Stable
Foreign exchange	Moderate	Acceptable	Moderate	Stable
Strategic	Moderate	Acceptable	Moderate	Stable
Operational risk	High	Acceptable	High	Increasing
Legal and compliance	Moderate	Acceptable	Moderate	Stable
Reputation	Low	Acceptable	Low	Stable
Overall	Moderate	Acceptable	Moderate	Stable

## Notes to the Consolidated Financial Statements (cont'd)

For the six months ended 30 June 2009

### (ii) FBC Bank

FBC Bank CAMELS\* ratings

Camels component	Latest RBS ratings 30 Sept 2007	Previous RBS ratings 31 March 2005	Previous RBS ratings
Capital adequacy	1	2	Not applicable
Asset quality	2	2	Not applicable
Management	2	2	Not applicable
Earnings	1	2	Not applicable
Liquidity	2	2	Not applicable
Sensitivity to market risk	2	Not applicable	Not applicable
Composite rating	2	2	Not applicable

\*CAMELS is an acronym for capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk. CAMELS rating system uses a rating scale of 1-5, where '1' is strong, '2' is satisfactory, '3' is fair, '4' is weak and '5' is critical.

\*\*RBS stands for risk-based supervision.

FBC Bank summary risk assessment system (RAS) ratings

RAS component	Latest RAS rating 30 Sept 2007	Previous RAS rating rating	Previous RAS rating rating
Overall inherent risk	Moderate	Not applicable	Not applicable
Overall risk management systems	Acceptable	Not applicable	Not applicable
Overall composite risk	Moderate	Not applicable	Not applicable
Direction of overall composite risk	Stable	Not applicable	Not applicable

FBC Bank summary risk matrix

Type of risk	Level of inherent risk	Adequacy of risk management systems	Overall composite risk	Direction of overall composite risk
Credit	Moderate	Acceptable	Moderate	Stable
Liquidity	Moderate	Acceptable	Moderate	Stable
Interest rate	Low	Acceptable	Low	Stable
Foreign exchange	Moderate	Acceptable	Moderate	Stable
Strategic	Moderate	Acceptable	Moderate	Stable
Operational risk	High	Acceptable	High	Increasing
Legal and compliance	Moderate	Acceptable	Moderate	Stable
Reputation	Low	Acceptable	Low	Stable
Overall	Moderate	Acceptable	Moderate	Stable

### (iii) FBC Building Society

Building Society CAMELS\* ratings

Camels component	Latest RBS ratings 30 Sept 2007	Previous RBS ratings 31 March 2005	Previous RBS ratings
Capital adequacy	1	2	Not applicable
Asset quality	2	2	Not applicable
Management	2	2	Not applicable
Earnings	1	2	Not applicable
Liquidity	2	2	Not applicable
Sensitivity to market risk	2	Not applicable	Not applicable
Composite rating	2	2	Not applicable

Building Society summary risk assessment system (RAS) ratings

RAS component	Latest RAS rating 30 Sept 2007	Previous RAS rating rating	Previous RAS rating rating
Overall inherent risk	Moderate	Not applicable	Not applicable
Overall risk management systems	Acceptable	Not applicable	Not applicable
Overall composite risk	Moderate	Not applicable	Not applicable
Direction of overall composite risk	Stable	Not applicable	Not applicable

Building Society summary risk matrix

Type of risk	Level of inherent risk	Adequacy of risk management systems	Overall composite risk	Direction of overall composite risk
Credit	Moderate	Acceptable	Moderate	Stable
Liquidity	Moderate	Acceptable	Moderate	Stable
Interest rate	Low	Acceptable	Low	Stable
Foreign exchange	Moderate	Acceptable	Moderate	Stable
Strategic	Moderate	Acceptable	Moderate	Stable
Operational risk	High	Acceptable	High	Increasing
Legal and compliance	Moderate	Acceptable	Moderate	Stable
Reputation	Low	Acceptable	Low	Stable
Overall	Moderate	Acceptable	Moderate	Stable

**Notes to the Consolidated Financial Statements (cont'd)**

For the six months ended 30 June 2009

**Level of inherent risk key**

Rating	Description
Low	Reflects a lower than average probability of an adverse impact on a banking institution's capital and earnings. Losses in a functional area with low inherent risk would have little negative impact on the banking institution's overall financial condition.
Moderate	Could reasonably be expected to result in a loss which could be absorbed by a banking institution in the normal course of business.
High	Reflects a higher than average probability of potential loss. High inherent risk could reasonably be expected to result in a significant and harmful loss to the banking institution.

**Adequacy of risk management systems key**

Rating	Description
Weak	Risk management systems are inadequate or inappropriate given the size, complexity and risk profile of the banking institution. Institution's risk management systems are lacking in important ways and therefore a cause of more than normal supervisory attention. The internal control systems will be lacking in important aspects particularly as indicated by continued control exceptions or by the failure to adhere to written policies and procedures.
Acceptable	Management of risk is largely effective but lacking to some modest degree. While the institution might be having some minor risk management weaknesses, these have been recognized and are being addressed. Management information systems are generally adequate.
Strong	Management effectively identifies and controls all types of risk posed by the relevant functional areas or per inherent risk. The board and senior management are active participants in managing risk and ensure appropriate policies and limits are put in place. The policies comprehensively define risk tolerance, responsibilities and accountabilities are effectively communicated.

**Overall composite risk key**

Rating	Description
Low	Would be assigned to low inherent risk areas. Moderate risk areas may be assigned a low composite risk where internal controls and risk management systems are strong and effectively mitigate such risks.
Moderate	Risk management systems appropriately mitigate inherent risk. For a given low risk area, significant risks in the risk management systems may result in a moderate composite risk assessment. On the other hand, a strong risk management system may reduce the risk so that any potential financial loss from the activity would have only a moderate negative impact on the financial condition of the institution.
High	Risk management systems do not significantly mitigate the high inherent risk. Thus, the activity could potentially result in a financial loss that would have a significant impact on the bank's overall condition.

**Direction of overall risk key**

Rating	Description
Increasing	Based on the current information, risk is expected to increase in the next 12 months.
Decreasing	Based on the current information, risk is expected to decrease in the next 12 months.
Stable	Based on the current information, risk is expected to be stable in the next 12 months.

**6.2 International credit ratings**

The banking and reinsurance subsidiaries have their credit ratings reviewed annually by an international credit rating agency, Global Credit Rating. In spite of the deterioration in the economic environments, all subsidiaries have at least maintained their investor grade ratings as illustrated below.

Subsidiary	2008	2007	2006
FBC Bank	A-	A-	BBB+
FBC Reinsurance	A-	A-	BBB-
FBC Building Society	BBB	BBB	BBB-

n/a - not applicable

**7. INTEREST INCOME**

Cash and cash equivalents	37,962
Loans and advances to banks	990,926
Loans and advances to customers	425,408
	<u>1,454,296</u>

**8. INTEREST EXPENSE**

Deposits from banks	300,278
Deposits from customers	110,802
Other	411,080
	<u>411,080</u>

**9. OTHER OPERATING INCOME**

Change in fair value of investment properties	249,923
Foreign exchange	49,075
Rental income	84,811
Profit on disposal of fixed assets	19,076
Profit on disposal of investment properties	234,513
Other	93,116
	<u>730,514</u>

**10. EARNINGS PER SHARE (US cents)**

Profit attributable to equity holders of the Company	982,350
Weighted average number of shares (m)	361
Basic earnings (cents)	0.3

**11. PROPERTY AND EQUIPMENT**

Cost/ Revaluation	
1 January	15,765,413
Additions	136,040
Disposals	(3,750)
Revaluation	1,400,084
	<u>17,297,787</u>

Accumulated depreciation	
1 January	-
Charge for the year	294,531
Disposals	-
	<u>294,531</u>

Net book value	<u>17,003,256</u>
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**12. CAPITAL COMMITMENTS**

Capital expenditure authorised but not contracted for	-
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**13. CONTINGENT LIABILITIES**

Guarantees and letters of credit	18,216,527
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**14. SEGMENT REPORTING**

Segment information is presented in respect of business segments.

Segment revenue, expenses, results and assets are items that are directly attributable to the business segment or which can be allocated on a reasonable basis to a business segment. All transactions between segments are conducted at arms length.

The Group comprises of four business segments i.e. Commercial Banking, Reinsurance, Building Society and Stockbroking.

**Notes to the Consolidated Financial Statements (cont'd)**

For the six months ended 30 June 2009

	Commercial Banking US\$	Reinsurance US\$	Building Society US\$	Stockbroking US\$
30 June 2009				
External revenue				
Net interest income	1,038,943	-	4,273	-
Underwriting income	-	823,945	-	-
Net fee and commission income	2,152,589	-	279,861	50,049
Net trading income	289,455	-	-	-
Investment income	-	377,623	-	-
Other operating income	561,068	-	563,065	22,899
Intersegment revenue	92,609	-	-	-
Total segment revenue	4,134,664	1,201,568	847,199	72,948
Segment profit before income tax	895,806	819,036	114,969	(9,339)
Segment assets	64,626,755	9,321,379	6,386,355	285,373
Segment liabilities	44,165,253	6,854,632	1,197,991	254,604
Impairment losses on financial assets	-	-	-	-
Depreciation and amortisation	224,566	15,587	63,988	3,600
Capital expenditure	13,104	122,936	-	-
Investment in associates	-	-	-	-

**16. COMPARATIVE FIGURES**

No comparative information for the corresponding period is available following the impairment of all financial assets and liabilities in Zimbabwean dollars in January 2009. Translation of the Zimbabwe dollar based balances for the previous period would not present a true and fair value of the financial position due to the multiple exchange rates that existed in the market at the time.

By order of the Board



T. Mabeza  
GROUP COMPANY SECRETARY

27 August 2009