FBC Holdings Limited

strength • diversity • service

FBC Bank Limited
(Registered Commercial Bank)

FBC Building Society
(Registered Building Society)

FBC Securities (Private) Limited
(Registered Stockbroker) - Zimbabwe Stock Exchange

FBC Reinsurance Limited

Eagle Insurance Company Limited

TURNALL
Turnall Holdings Limited

MicroPlan
Financial Services (Pvt) Limited
(A registerd microfinance institution)

Unaudited Interim Results

For the six months ended 30 June 2012

FBC Holdings Limited

strength • diversity • service

Unaudited Interim Results

For the six months ended 30 June 2012

Financial Highlights

- Group profit before tax up 43% to US$9,2 million, from US$6,4 million for the corresponding period last year.
- Group profit after tax increased by 40% to US$6,9 million from US$4,9 million for the same period last year.
- Cost to income ratio improved to 71% from 74%.
- Basic earnings per share increased to 1.06 US cents from 0,66 US cents.
- Total equity US$79,6 million.
- Total assets increased by 24% to US$346,3 million from US$279,6 million at 31 December 2011.
- Net asset value per share 10 US cents.

Chairman's Statement

Financial Performance Review

The Group maintained its solid growth path, achieving a profit before tax of US$9,2 million for the six months ended 30 June 2012. This creditable performance is 43% better than the US$6,4 million achieved for the same period last year and is 58% of the US$15,7 million attained for the 2011 full financial year. The Group continues to benefit from its diversified business model, with all the subsidiaries except for the stockbroking business contributing to the Group's strong earnings.

The Group's total income increased by 30% to US$31,6 million from US$24,4 million as a result of increased economic activity and an increase in customer acquisitions by all our banking subsidiaries.

Net interest income registered a growth of 58% to US$9,4 million contributing 30% of the Group's total income compared to a contribution of 24% for the corresponding period last year. The marked increase in net interest income was achieved through a combination of increased lending and an improved cost of funding.

Despite net fee and commission income recording a growth of 27% to US$11,3 million from US$8,9 million, its contribution to Group total income remained at the same levels as last year at 36%, due to increased contributions by other revenue lines. The increase in net fee and commission income was mainly due to increased number of transactions by our customers.

The contribution of gross profit on sales reduced to 24% from the 29% achieved last year, predominantly due to a change in focus at the Group's manufacturing subsidiary, Turnall Holdings Limited. The company is now focusing on optimising working capital management, by realigning production activities with available cash resources.

The Group's net earned insurance premium increased by 47% to US$2,5 million contributing 8% (compared to 7% achieved for the same period last year) of the total Group income. The marked growth was driven by increased customer acquisitions by both Eagle Insurance and FBC Reinsurance. Eagle Insurance has been successfully turned around, following its acquisition in April 2011.

The Group's charge for impairment loss on financial assets increased to US$1,4 million from US$0,8 million in response to the deteriorating liquidity in the market. The Group's total impairment allowance at US$5,7 million is considered adequate in view of the security being held by the banking subsidiaries.

The Group's cost to income ratio improved to 71% from 74% compared to the same period last year as a result of improved cost management. However, overhead expenses increased by 23% over last year as the Group embarked on an aggressive marketing campaign in an effort to build the Group's customer base and the Group's brand. The growth in total income of 30% significantly counter weighed the growth in total expenses of 23% resulting in an increase in profit before tax of 43%.

The Group's statement of financial position grew by 24% to US$346 million as the Group registered increased success in deposits mobilisation and other customer acquisitions.

Operating Environment

GDP growth forecasts were revised downwards to 5,6% from an initial projection of 9,4%. Economic growth has slowed down due to a number of downside risks, which include a poor agricultural season; policy inconsistencies and uncertainties undermining investor confidence; lack of capital inflows and the absence of alternative financing instruments; revenue underperformance against a high and unsustainable wage bill, crowding out social and infrastructure spending; limited implementation and monitoring capacity; slow pace of reforms; and a volatile and fragile global financial environment. Further, there is still no political consensus which negatively affects the sovereign risk profile. This scenario has created a risky operating environment for investors. As a result, the ability of the country to attract meaningful foreign direct investment remains weak. The few investors who have come through are charging high premiums for their funds.

Zimbabwe's annual inflation slowed to 3,97% in June 2012, from 4,02% in May 2012, due to the easing of transport costs. The year-on-year food and non-alcoholic beverages inflation, stood at 4,79% whilst non-food inflation stood at 3,61%. This implies that food process remain the key drivers of inflation. There is likely to be sustained pressure on inflation levels owing to a looming food deficit following a poor agricultural season and the volatility of the foreign exchange markets.

Overview of the Financial Sector

The banking sector has witnessed the closure of two banking institutions and the placement of one under curatorship since the beginning of the year. The failure of these institutions suggests that there are banking sector vulnerabilities. However the systemic effect of these failures is considered insignificant. Total banking sector deposits are estimated at $4 billion from $3,3 billion recorded last year as tobacco sales provided some inflows in the local money market which is currently reeling from liquidity challenges.

There is still a wide gap between the supply and demand for funds. The appetite to borrow remains very high and this has sustained the high lending rates prevailing in the economy. Banking institutions have failed to meet the demand of the borrowing public hence they have concentrated mainly on the low risk segment of the market leaving a significant portion of the market with no access to credit, particularly individuals and SMEs. Building societies are also concentrating on the low risk segment of the market, mainly salary based short-term loans.

Changes in the New Capital Requirements

In an attempt to strengthen financial institutions in the after-math of a number of bank failures the Reserve Bank of Zimbabwe announced landmark changes to the regulatory minimum capital requirements for banking institutions in Zimbabwe. The new minimum regulatory capital requirement for commercial banks was increased in a phased approach from the current US$12,5 million to US$100 million, whilst that of building societies was increased from US$10 million to US$80 million. All banking institutions are required to submit their recapitalisation plans to the Central Bank by the end of September 2012, clearly articulating the following compliance benchmarks; 25% of the prescribed minimum equity capital by 31 December 2012; 50% of the prescribed minimum capital by 30 June 2013, 75% of the minimum capital by 31 December 2013; and 100% by 30 June 2014, with 31 December 2014 as the full compliance deadline.

The Group's priority is to achieve compliance by merging the Bank and Building Society licences into one, commercial bank. This will immediately boost the Bank's capital level to US$46 million by merging FBC Bank and FBC Building Society's current capital levels of US$30 million and US$16 million respectively. A further US$6 million is expected to be recapitalised in the second half of the year through trading profits, resulting in a total capital of US$52 million by 31 December 2012 which is, six months ahead of the 30 June 2013 deadline. The remaining portion of the required capital is to be met from the disposal of one of the subsidiaries as well as from trading profits for the period 2013 to 2012. The Group is confident that it will achieve the new minimum regulatory capital as announced by the Reserve Bank of Zimbabwe, and will be submitting its capitalisation plan to the Reserve Bank before 30 September 2012.

As at 30 June 2012, all the FBC Holdings Limited subsidiaries were in full compliance with regulatory requirements and had the following total equity:

- FBC Bank Limited: US$30 million compared to regulatory minimum of US$12,5 million.
- FBC Building Society: US$16 million compared to regulatory minimum of US$10 million.
- FBC Reinsurance Limited: US$6 million compared to regulatory minimum of US$400 000.
- Eagle Insurance Limited: US$1,9 million compared to regulatory minimum of US$300 000.
- FBC Securities recapitalised to US$150 thousand in line with the regulatory minimum requirement.
- Micro Plan Financial Services US$0,7 million compared to the regulatory minimum of US$5 000.

The Commissioner of Insurance has also indicated an intention to review the minimum capital requirements for Insurance and Re-insurance companies. The Group is confident that the Insurance subsidiaries will achieve these new capital thresholds from normal trading income.

The implementation of the Basel II Risk Management Framework is proceeding according to schedule. Quarterly stress tests are being conducted and regular feedback on results is being received from the Reserve Bank. The Group is on course to comply with the Basel II requirements by 1 January 2013 as per the Central Bank deadline.

Share Price Performance

The market capitalization closed 9 percentage points softer at US$3.341 billion as the mainstream industrial index shed off 9.5 percentage points at 131.96 points. Despite policy and regulatory developments within the banking sector, the FBCH counter maintained minimum volatility, shedding only 4.6% to close at 6.20 US cents at average daily trading volumes of 179 356. Despite the slight decline in the FBC Holdings share price, the share remains highly undervalued, when compared against the net asset value of 10 cents per share. The sustained and commendable Group performance is expected to positively affect the share price, going forward.

Corporate Social Environment

The Group has disbursed over US$300,000 towards various corporate social responsibility projects in the fields of, health, education, community share trusts, sports and the arts during the first half of the year. The Group remains committed to giving back to the communities it operates in.

Directorate

Mr Stanley Kudenga, Managing Director of FBC Reinsurance resigned from the Group effective 1 March 2012 after having served the Group for more than ten years. Mr Kleto Chiketsani, a seasoned Insurance Practitioner with over 20 years experience was appointed Managing Director of FBC Reinsurance taking over from Mr Kudenga. Subsequent to 30 June 2012, Mr Kleto Chiketsani and Mrs Chipo Mtasa were appointed directors of FBC Holdings Limited on 3 July 2012.

Dividend

In view of the new minimum regulatory capital requirements announced by the Reserve Bank of Zimbabwe on 31 July 2012, the Board of Directors have thought it prudent not to declare a dividend until the new capital levels have been achieved.

Marketing and Public Relations

The Group has been highly visible within the marketplace over the first six months having re-introduced a number of products. That, coupled with a sustained public relations presence, has seen FBC Holdings Limited being publicly recognised in various spheres such as the recently held Independent Quoted Companies Survey 2012 where FBC Holdings Limited was awarded the Banking Award, an award given to the best performing banking institution on the Zimbabwe Stock Exchange.

e-Commerce

The Group continues to implement a number of exciting initiatives in line with the e-commerce strategy. The migration of the Building Society to the Bank's scalable operating system should enable the group to consolidate its client base and efficiently offer a wider menu of technology-driven value-added services. The bank has launched Mobile Moola, a mobile money product that will be complimented by an agency network to reach the unbanked and under-banked segments of the economy. The Group expects to grow its non-funded income through an increase in transaction count, driven by a wider account base and cost-effective delivery. The MasterCard and VISA brands are leveraging the Bank to enter new segments and establish partnerships which should give the FBC brand a global reach.

Outlook

With all Group units having resiliently conformed to macro-economic shifts within the first half of the year, we remain confident of the company's model to sustain shareholder value through diversified service delivery and product innovation.

Appreciation

I remain grateful to our valued customers for the confidence they have shown in the FBC brand and to the non-executive directors for their support, guidance and counsel during this sometimes challenging environment. The professionalism, dedication and commitment demonstrated at all times, by the Group Chief Executive, his management team and staff, is highly commendable.

Herbert Nkala
GROUP CHAIRMAN

23 August 2012

Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2012

	Note	Unaudited 30 June 2012 US$	Unaudited 30 June 2011 US$
Interest income	15	18 594 134	12 059 519
Interest expense	16	(9 194 778)	(6 098 433)
Net interest income		**9 399 356**	**5 961 086**
Fee and commission income	17	11 288 650	8 873 850
Fee and commission expense		-	-
Net fee and commission income		**11 288 650**	**8 873 850**
Revenue	18.1	22 802 615	23 800 273
Cost of sales	18.2	(15 358 030)	(16 682 570)
Gross profit		**7 444 585**	**7 117 703**
Net earned insurance premium	19	2 535 118	1 722 748
Net trading income		762 279	469 848
Net gains from financial instruments carried at fair value		(183 795)	-
Other operating income	20	386 391	245 459
Total income		**31 632 584**	**24 390 694**
Impairment loss on financial assets	5.3	(1 368 383)	(809 137)
Operating expenses	21	(21 105 466)	(17 122 552)
Share of loss of associate		-	(32 924)
Profit before income tax		**9 158 735**	**6 426 081**
Income tax expense	22	(2 218 950)	(1 485 646)
Profit for the period		**6 939 785**	**4 940 435**
Other comprehensive income		-	-
Gains on revaluation of land and buildings		-	-
Tax relating to other comprehensive income		-	-
Other comprehensive income, net income tax		**-**	**-**
Total comprehensive income for the period		**6 939 785**	**4 940 435**
Profit attributable to :			
Owners of the parent		5 636 385	3 919 270
Non-controlling interests		1 303 400	1 021 165
Total		**6 939 785**	**4 940 435**
Total comprehensive income attributable to :			
Equity holders of the parent		5 636 385	3 919 270
Non-controlling interests		1 303 400	1 021 165
Total		**6 939 785**	**4 940 435**
Earnings per share (US cents)			
Basic		**1.06**	**0.66**
Diluted		**1.06**	**0.66**

Consolidated Statement of Financial Position
As at 30 June 2012

	Note	Unaudited 30 June 2012 US$	Audited 31 December 2011 US$
ASSETS			
Balances with banks and cash	4	49 655 503	50 359 054
Loans and receivables			
- Loans and advances to customers	5.1	180 370 507	121 333 026
- Trade and other receivables including insurance receivables	5.2	26 155 131	23 173 709
Financial assets at fair value through profit or loss	6	2 520 235	2 123 239
Inventory	7	21 677 745	17 290 873
Prepayments and other assets	8	6 783 171	5 708 773
Deferred income tax assets		1 128 754	1 292 080
Investment property		25 000	25 000
Property, plant and equipment	9	57 962 400	58 286 956
Total assets		**346 278 446**	**279 592 710**
EQUITY AND LIABILITIES			
Liabilities			
Deposits from other banks and customers	10	222 502 229	161 409 251
Insurance liabilities	11	11 892 276	8 380 408
Trade and other payables	12	20 665 095	21 866 385
Current income tax liabilities		1 948 710	4 843 420
Deferred income tax liabilities		9 677 669	8 874 414
Total liabilities		**266 685 979**	**205 373 878**
Equity			
Capital and reserves attributable to equity holders of the parent entity			
Share capital and share premium	13	7 681 908	7 681 908
Other reserves	14	34 717 863	34 750 923
Retained profits		17 423 276	13 106 111
		59 823 047	55 538 942
Non controlling interest in equity		19 769 420	18 679 890
Total equity		79 592 467	74 218 832
Total equity and liabilities		**346 278 446**	**279 592 710**

FBC Holdings Limited

strength • diversity • service

Unaudited Interim Results

For the six months ended 30 June 2012

Consolidated Statement of Changes in Equity
For the six months ended 30 June 2012

	Share Capital US$	Share Premium US$	Retained Profit US$	Share option Reserve US$	Treasury Shares US$	Non distributable Reserve US$	Revaluation Reserve US$	Regulatory Provisions US$	Changes in Ownership US$	Total US$	Non controlling Interest US$	Total Equity US$
Half year ended 30 June 2012												
Balance at 1 January 2012	**5 918**	**7 675 990**	**13 106 111**	**110 716**	**(2 686 644)**	**33 659 224**	**3 191 743**	**690 650**	**(214 766)**	**55 538 942**	**18 679 890**	**74 218 832**
Profit for the period	-	-	5 636 385	-	-	-	-	-	-	5 636 385	1 303 400	6 939 785
Other comprehensive income												
Regulatory impairment allowance	-	-	33 060	-	-	-	-	(33 060)	-	-	-	-
Total other comprehensive income	**-**	**-**	**33 060**	**-**	**-**	**-**	**-**	**(33 060)**	**-**	**-**	**-**	**-**
Total comprehensive income	**-**	**-**	**5 669 445**	**-**	**-**	**-**	**-**	**(33 060)**	**-**	**5 636 385**	**1 303 400**	**6 939 785**
Transactions with owners												
Dividend	-	-	(1 352 280)	-	-	-	-	-	-	(1 352 280)	(213 870)	(1 566 150)
Shareholders' equity at 30 June 2012	**5 918**	**7 675 990**	**17 423 276**	**110 716**	**(2 686 644)**	**33 659 224**	**3 191 743**	**657 590**	**(214 766)**	**59 823 047**	**19 769 420**	**79 592 467**
Half year ended 30 June 2011												
Balance as at 1 January 2011	**5 907**	**7 675 990**	**4 382 388**	**82 926**	**(1 124 059)**	**33 659 224**	**1 099 074**	**709 223**	**8 358**	**46 499 031**	**15 228 427**	**61 727 458**
Profit for the period	-	-	3 919 270	-	-	-	-	-	-	3 919 270	1 021 165	4 940 435
Other comprehensive income												
Regulatory impairment allowance	-	-	(190 065)	-	-	-	-	190 065	-	-	-	-
Total other comprehensive income	**-**	**-**	**(190 065)**	**-**	**-**	**-**	**-**	**190 065**	**-**	**-**	**-**	**-**
Total comprehensive income	**-**	**-**	**3 729 205**	**-**	**-**	**-**	**-**	**190 065**	**-**	**3 919 270**	**1 021 165**	**4 940 435**
Transactions with owners												
Share issue	11	-	-	-	-	-	-	-	-	11	-	11
Dividend	-	-	-	-	-	-	-	-	-	-	(355 522)	(355 522)
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-	-	99 185	99 185
Shareholders' equity as at 30 June 2011	**5 918**	**7 675 990**	**8 111 593**	**82 926**	**(1 124 059)**	**33 659 224**	**1 099 074**	**899 288**	**8 358**	**50 418 312**	**15 993 255**	**66 411 567**

Consolidated Statement of Cash Flows
For the six months ended 30 June 2012

	Note	Unaudited 30 June 2012 US$	Unaudited 30 June 2011 US$
Cash flow from operating activities			
Profit for the period		9 158 735	6 426 081
Adjustments for:			
Depreciation	9	2 163 780	1 694 088
Impairment loss on loans and advances	5.3	1 368 383	809 137
Loss from disposal of property and equipment	20	803	(286)
Share of loss of associate		-	32 924
Fair value adjustment on financial assets at fair value through profit or loss		183 795	(223 554)
Remeasurement loss		-	474 003
Gain on acquisation of subsidiary		-	(429 420)
Net Cash generated before changes in operating assets and liabilities		**12 875 496**	**8 782 973**
Increase in loans and advances		(51 317 023)	(19 419 637)
Increase in trade and other receivables		(3 034 518)	(2 413 344)
(Increase)/ decrease in statutory reserves		-	10 450
Increase in financial assets at fair value through profit or loss		(396 996)	(1 727 929)
Increase in inventory		(4 386 871)	(7 486 468)
Increase in prepayments and other assets		(1 230 657)	(7 635 054)
Increase in deposits from other banks and customers		61 820 229	6 761 110
Increase/ (decrease) in insurance liabilities		3 511 868	3 690 740
Increase/ (decrease) in trade and other payables		(1 201 289)	4 955 152
		16 640 239	**(14 482 007)**
Income tax expense paid		(3 950 515)	(1 744 825)
Net cash (used in)/generated from operating activities		**12 689 724**	**(16 226 832)**
Cash flows from investing activities			
Acquisition of a subsidiary, net of cash acquired		-	(1 126 987)
Purchase of property, plant and equipment	9	(1 843 910)	(3 588 605)
Proceeds from sale of property, plant and equipment		3 803	266
Net cash (used in)/generated from investing activities		**(1 814 107)**	**(4 715 326)**
Net cash flows before financing activities		10 849 617	(20 942 158)
Cash flows from financing activities			
Repayments of borrowings		(719 821)	8 627 770
Dividend paid to non-controlling interest		(213 870)	(355 522)
Dividend paid to company's shareholders		(1 352 280)	-
Proceeds form issuance of share options by subsidiary to employees		-	11
Net cash generated from financing activities		**(2 285 971)**	**8 272 259**
Net (decrease)/increase in cash and cash equivalents		8 563 646	(12 669 899)
Cash and cash equivalents at beginning of the period		41 091 857	60 237 928
Cash and cash equivalents at the end of period	4.1	**49 655 503**	**47 568 029**

Notes to the Financial Results
For the six months ended 30 June 2012

1 GENERAL INFORMATION

FBC Holdings Limited ("the Company") and its subsidiaries (together "the Group") provide a wide range of commercial banking, mortgage finance, stockbroking, reinsurance, insurance and other related financial services. The Group also manufactures pipes and roofing sheets. No significant or material changes occurred that altered the nature of these activities during the half year ended 30 June 2012.

The Company is a limited liability company, which is listed on the Zimbabwe Stock Exchange and is incorporated and domiciled in Zimbabwe together with its subsidiaries.

These condensed interim consolidated financial statements have been approved for issue by the Board of Directors on 23 August 2012.

2 BASIS OF PREPARATION

The Group's condensed interim consolidated financial statements for the half year ended 30 June 2012 have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), and in the manner required by the Zimbabwe Companies Act (Chapter 24:03), the relevant Statutory Instruments ("SI") SI 62/96 and SI 33/99, the Zimbabwe Banking Act (Chapter 24:20), the Insurance Act (Chapter 24:07), the Building Societies Act (Chapter 24:02) and the Zimbabwe Securities Act (Chapter 24:25). These condensed interim financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2011.

3 ACCOUNTING POLICIES

The accounting policies applied in the preparation of these interim consolidated financial statements are consistent with those of the annual consolidated financial statements for the year ended 31 December 2011.

The condensed interim consolidated financial statements have been prepared under the historical cost convention and are presented in the United States dollars ("US$") and are rounded to the nearest dollar.

4 BALANCES WITH BANKS AND CASH

	Unaudited 30 June 2012 US$	Audited 31 December 2011 US$
Balances with Reserve Bank of Zimbabwe		
Statutory reserves	-	9 035 745
Current account balances	26 344 607	12 654 910
	26 344 607	21 690 655
Balances with other banks and cash		
Notes and coins	9 801 138	16 086 163
Other bank balances	13 509 758	12 582 236
Balances with banks and cash	**49 655 503**	**50 359 054**
Current	49 655 503	50 359 054
Non-current	-	-
Total	**49 655 503**	**50 359 054**

4.1 For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances:

	Unaudited 30 June 2012 US$	Unaudited 30 June 2011 US$
Balances with other banks, cash and current account balances at RBZ	49 655 503	47 568 029
Total cash and cash equivalents - statement of cash flows	**49 655 503**	**47 568 029**

5 LOANS AND RECEIVABLES

	Unaudited 30 June 2012 US$	Audited 31 December 2011 US$
5.1 Loans and advances to customers		
Loans and advances maturities		
Maturing within 1 year	150 786 875	102 743 469
Maturing after 1 year	34 929 046	22 619 684
Gross carrying amount	**185 715 921**	**125 363 153**
Impairment allowance	(5 345 414)	(4 030 127)
	180 370 507	**121 333 026**
Current	145 857 169	99 236 924
Non-current	34 513 338	22 096 102
Total	**180 370 507**	**121 333 026**
5.2 Trade and other receivables		
Retail trade receivables	16 483 047	16 116 973
Insurance receivables		
- Due by insurance companies	3 496 299	3 124 743
-Due by reinsurers	6 553 676	4 256 788
Gross carrying amount	**26 533 022**	**23 498 504**
Impairment allowance	(377 891)	(324 795)
	26 155 131	**23 173 709**
Current	26 155 131	23 173 709
Non-current	-	-
Total	**26 155 131**	**23 173 709**
5.3 Allowance for impairment		
Balance at 01 January	4 354 922	1 499 101
Impairment allowance through statement of comprehensive income	1 368 383	3 717 144
Reversal of impairment	-	(78 756)
Amounts written off during the year as uncollectible	-	(782 567)
Balance at end of period	**5 723 305**	**4 354 922**
5.4 Exposure to credit risk		
5.4.1 Loans and advances		
Past due and impaired		
Grade C: Impaired	12 821 970	7 167 209
Grade D: Impaired	3 030 371	1 679 551
Grade E: Impaired	1 245 823	965 261
Gross amount	17 098 164	9 812 021
Allowance for impairment	(3 125 131)	(2 895 075)
Carrying amount	**13 973 033**	**6 916 946**
Past due but not impaired	17 042 733	7 214 601
Niether past due nor impaired		
Grade A:	151 575 024	108 336 531
Gross amount	168 617 757	115 551 132
Allowance for impairment	(2 220 283)	(1 135 052)
Carrying amount	166 397 474	114 416 080
Total carrying amount	**180 370 507**	**121 333 026**
5.4.2 Trade and other receivables		
Past due and impaired	6 533 964	4 019 681
Allowance for impairment	(377 891)	(324 795)
Carrying amount	6 156 073	3 694 886
Past due but not impaired	5 202 735	2 382 719
Niether past due nor impaired		
Grade A:	14 796 323	17 096 104
Gross amount	19 999 058	19 478 823
Allowance for impairment	-	-
Carrying amount	19 999 058	19 478 823
Total carrying amount	**26 155 131**	**23 173 709**

5.5 Sectoral analysis of utilisations - loans and advances

	Unaudited 30 June 2012 US$	Unaudited 30 June 2012 %	Audited 31 December 2011 US$	Audited 31 December 2011 %
Mining	10 965 256	6%	6 874 711	5%
Manufacturing	41 711 662	22%	31 291 082	25%
Mortgage	8 750 575	5%	7 094 052	6%
Wholesale	6 387 566	3%	12 641 786	10%
Distribution	23 184 053	12%	-	0%
Individuals	41 568 883	22%	31 883 909	25%
Agriculture	10 951 471	6%	13 087 043	10%
Communication	1 047 319	1%	1 335 104	1%
Construction	8 050 453	4%	4 935 627	4%
Local Authorities	18 818 427	10%	7 152 689	6%
Other services	14 280 256	8%	9 067 150	7%
Gross loans and advances	185 715 921	100%	125 363 153	100%
Less impairment allowance	(5 345 414)		(4 030 127)	
Carrying amount	**180 370 507**		**121 333 026**	

FBC Holdings Limited

strength • diversity • service

Unaudited Interim Results

For the six months ended 30 June 2012

6	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	Unaudited 30 June 2012 US$	Audited 31 December 2011 US$
	Listed securities at market value	2 520 235	2 123 239
	Current	1 599 819	2 123 239
	Non-current	920 416	-
	Total	**2 520 235**	**2 123 239**
7	INVENTORY		
	Consumables	1 229 870	1 439 729
	Raw materials	4 625 233	6 443 529
	Work in progress	3 248 402	2 349 729
	Finished goods	12 574 240	7 057 886
		21 677 745	**17 290 873**

8	PREPAYMENTS AND OTHER ASSETS	Unaudited 30 June 2012 US$	Audited 31 December 2011 US$
	Prepayments	3 882 161	1 011 507
	Other	2 901 010	4 697 266
		6 783 171	**5 708 773**
	Current	5 089 321	5 708 773
	Non-current	1 693 850	-
	Total	**6 783 171**	**5 708 773**

9 PROPERTY, PLANT AND EQUIPMENT

Half year ended 30 June 2012	Freehold premises US$	Plant and machinery US$	Computer equipment US$	Furniture and Office equipment US$	Motor vehicles US$	Total US$
Opening net book amount	28 545 237	22 758 317	2 693 239	2 973 783	1 316 380	58 286 956
Additions	-	359 626	537 586	219 951	221 317	1 338 480
Capital work in progress	-	505 430	-	-	-	505 430
Disposals	-	-	(2 186)	-	(2 500)	(4 686)
Depreciation	(283 417)	(956 527)	(521 081)	(197 172)	(205 583)	(2 163 780)
Closing net book amount	**28 261 820**	**22 666 846**	**2 707 558**	**2 996 562**	**1 329 614**	**57 962 400**

10	DEPOSITS FROM OTHER BANKS AND CUSTOMERS	Unaudited 30 June 2012 US$	Audited 31 December 2011 US$
10.1	DEPOSITS FROM CUSTOMERS		
	Demand deposits	73 728 333	59 564 521
	Promissory notes	14 563 523	1 532 925
	Other time deposits	14 591 841	9 692 845
		102 883 697	**70 790 291**
10.2	DEPOSITS FROM OTHER BANKS		
	Money market deposits	65 531 003	54 114 334
	Bank borrowings and lines of credit	54 087 529	36 504 626
		119 618 532	90 618 960
	TOTAL DEPOSITS	**222 502 229**	**161 409 251**
	Current	222 502 229	161 409 251
	Non-current	-	-
	Total	**222 502 229**	**161 409 251**

10.3 Deposits concentration	30 June 2012 US$	30 June 2012 %	31 December 2011 US$	31 December 2011 %
Agriculture	3 635 530	2%	2 427 028	2%
Construction	1 225 460	1%	1 923 578	1%
Wholesale and retail trade	49 249 996	22%	10 975 722	7%
Public sector	29 661 920	13%	19 335 840	12%
Manufacturing	3 472 136	2%	1 735 285	1%
Telecommunication	1 429 703	1%	546 209	0%
Transport	6 740 028	3%	7 134 496	4%
Individuals	26 619 124	12%	18 220 129	11%
Financial services	84 167 249	38%	90 618 960	56%
Mining	3 676 378	2%	3 051 222	2%
Other	12 624 705	6%	5 440 782	3%
	222 502 229	**100%**	**161 409 251**	**100%**

11	INSURANCE LIABILITIES	Unaudited 30 June 2012 US$	Audited 31 December 2011 US$
	Gross outstanding claims	7 524 016	5 918 568
	Provisions for unearned premium	4 368 260	2 461 840
		11 892 276	**8 380 408**
	Current	11 892 276	8 380 408
	Non-current	-	-
	Total	**11 892 276**	**8 380 408**
12	TRADE AND OTHER PAYABLES		
	Trade and other payables	18 498 680	19 924 015
	Deferred income	1 855 099	1 739 934
	Other liabilities	311 316	202 436
		20 665 095	**21 866 385**
	Current	20 665 095	21 866 385
	Non-current	-	-
	Total	**20 665 095**	**21 866 385**
13	SHARE CAPITAL AND SHARE PREMIUM		
	Authorised		
	Number of ordinary shares	800 000 000	800 000 000
	Par value of shares US$	0.00001	0.00001
	Issued and fully paid		
	Number of ordinary shares	591 850 127	591 850 127

	Number of Shares	Share Capital US$	Share Premium US$	Total US$
As at 1 January 2012	591 850 127	5 918	7 675 990	7 681 908
Movement	-	-	-	-
As at 30 June 2012	**591 850 127**	**5 918**	**7 675 990**	**7 681 908**

14	OTHER RESERVES	Unaudited 30 June 2012 US$	Audited 31 December 2011 US$
	Share option reserves	110 716	110 716
	Revaluation reserve	3 191 743	3 191 743
	Non distributable reserve	33 659 224	33 659 224
	Regulatory provisions	657 590	690 650
	Treasury reserves	(2 686 644)	(2 686 644)
	Changes in ownership	(214 766)	(214 766)
		34 717 863	**34 750 923**

15	INTEREST INCOME	Unaudited 30 June 2012 US$	Unaudited 30 June 2011 US$
	Cash and cash equivalents	653 822	65 922
	Loans and advances to other banks	349 180	1 247 514
	Loans and advances to customers	13 953 143	7 765 948
	Investment securities	3 322 319	2 980 135
	Other interest income	315 670	-
		18 594 134	**12 059 519**
16	INTEREST EXPENSE		
	Deposit from other banks	3 231 516	255 100
	Demand deposits	3 098 476	1 528 397
	Afreximbank and PTA Bank	2 159 222	1 355 531
	Time deposits	705 564	2 959 405
		9 194 778	**6 098 433**
17	FEE AND COMMISSION INCOME		
	Retail service fees	7 907 250	6 798 538
	Credit related fees	3 147 257	1 619 225
	Investment banking fees	55 735	154 543
	Brokerage	92 228	111 372
	Other	86 180	190 172
		11 288 650	**8 873 850**
18.1	REVENUE		
	Local manufacturing sales	17 239 382	22 009 746
	Export manufacturing sales	1 285 233	168 852
	Property Sales	4 278 000	1 621 675
		22 802 615	**23 800 273**
18.2	COST OF SALES		
	Depreciation of property, plant and equipment	941 331	609 601
	Raw materials	10 186 470	10 664 146
	Staff Costs	2 843 509	3 126 929
	Property development	2 781 099	1 076 198
	Other	(1 394 379)	1 205 696
		15 358 030	**16 682 570**
19	NET EARNED INSURANCE PREMIUM		
	Earned Premium (note 19.1)	7 647 325	4 435 928
	Incurred losses (note 19.2)	(3 244 937)	(1 580 258)
	Net Commissions Paid (note 19.3)	(1 867 270)	(1 132 922)
		2 535 118	**1 722 748**
19.1	Earned Premium		
	Gross Premium Written	12 676 142	6 374 116
	Premium Ceded	(3 122 397)	(1 456 073)
	Change in Unearned Premium Reserve	(1 906 420)	(482 115)
		7 647 325	**4 435 928**
19.2	Incurred losses		
	Claims Paid	2 536 917	1 059 640
	Change in Technical Provisions	708 020	520 618
		3 244 937	**1 580 258**
19.3	Net Commissions Paid		
	Commissions Paid	2 348 248	1 257 547
	Change in technical provisions	(480 978)	(124 625)
		1 867 270	**1 132 922**
20	OTHER OPERATING INCOME		
	Fair value adjustment to investment properties	-	-
	Excess fair value over cost of acquisition	1 140	-
	Rental income	149 898	85 694
	Profit disposal of property, plant and equipment	(803)	286
	Sundry income	236 156	159 479
		386 391	**245 459**
21	OPERATING EXPENDITURE		
	Administration expenses	8 282 737	6 853 716
	Staff costs	10 754 530	8 266 364
	Directors' remuneration	290 149	203 251
	Audit fees:		
	- current year fees	284 532	211 206
	-prior year fees	17 754	-
	- other services	-	-
	Depreciation	1 096 817	1 084 486
	Operating lease payment	378 947	503 529
		21 105 466	**17 122 552**
22	INCOME TAX EXPENSE		
	Current income tax	1 833 090	1 619 141
	Deferred tax	30 146	(160 587)
	Other	355 714	27 092
		2 218 950	**1 485 646**

23	CAPITAL COMMITTEMENTS	Unaudited 30 June 2012 US$	Audited 31 December 2011 US$
	Capital expenditure authorized but not yet contracted for	5 116 449	7 845 445
24	CONTINGENT LIABILITIES		
	Guarantees and letters of credit	2 190 659	7 859 645

25 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 seven business segments i.e. commercial banking, microlending, mortgage financing, short term reinsurance, insurance, stockbroking and manufacturing.

Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group Executive Committee.

30 June 2012	Commercial banking US$	Microlending US$	Mortgage financing US$	Short term reinsurance US$	Insurance US$	Stockbroking US$	Manufacturing US$	Consolidated US$
Total segment revenue								
Interest income	16 234 265	813 601	2 235 665	308 936	6 734	15 174	1 329	18 594 134
Interest expense	(8 169 978)	(127 528)	(664 574)	-	(51 441)	-	(1 202 827)	(9 194 778)
Net interest income	8 064 287	686 073	1 571 091	308 936	(44 707)	15 174	(1 201 498)	9 399 356
Turnover	-	-	4 278 000	-	-	-	18 524 615	22 802 615
Cost of sales	-	-	(2 781 099)	-	-	-	(12 576 931)	(15 358 030)
Gross profit	-	-	1 496 901	-	-	-	5 947 684	7 444 585
Net earned insurance premium	-	-	-	1 283 474	1 251 644	-	-	2 535 118
Net fee and commission income	9 060 424	130 481	2 020 627	-	-	92 228	-	11 288 650
Net trading income and other income	697 149	40 846	48 632	49 769	40 945	-	45 821	964 875
	17 821 860	857 400	5 137 251	1 642 179	1 247 882	107 402	4 792 008	31 632 584
Intersegment revenue	(742 858)	-	(16 823)	(308 936)	-	-	-	(1 068 618)
Intersegment interest expense and commission	220 202	-	137 494	13 646	51 441	1 464	644 370	1 068 618
Revenue from external customers	**17 299 204**	**857 400**	**5 257 922**	**1 346 889**	**1 299 323**	**108 866**	**5 436 378**	**31 632 584**
Segment profit before income tax	**3 838 341**	**412 544**	**2 321 848**	**618 854**	**302 146**	**(97 274)**	**1 276 001**	**9 158 735**
Impairment losses on financial assets	826 014	323 314	154 916	53 099	-	-	-	1 368 383
Depeciation and amortisation	776 165	281	81 024	39 901	54 876	11 018	1 200 516	2 163 780
Segment assets	**240 013 753**	**7 233 205**	**41 182 583**	**17 973 442**	**5 263 879**	**1 957 622**	**66 363 385**	**346 278 446**
Total assets includes :								
Additions to non-current assets	724 894	1 020	84 902	40 882	71 007	43 449	877 754	1 843 910
Investment in associates	-	-	-	491 139	-	-	-	491 139
Segment liabilities	**209 798 989**	**6 508 419**	**24 979 354**	**11 991 388**	**3 355 819**	**1 825 241**	**37 013 782**	**266 685 979**

30 June 2011	Commercial banking US$	Microlending US$	Mortgage financing US$	Short term reinsurance US$	Insurance US$	Stockbroking US$	Manufacturing US$	Consolidated US$
Total segment revenue								
Interest income	10 691 115	-	1 365 407	-	-	2 559	439	12 059 520
Interest expense	(4 914 426)	-	(440 266)	-	(14 985)	-	(728 757)	(6 098 433)
Net interest income	5 776 689	-	925 141	-	(14 985)	2 559	(728 318)	5 961 086
Turnover	-	-	1 621 675	-	-	-	22 178 598	23 800 273
Cost of sales	-	-	(1 076 198)	-	-	-	(15 606 372)	(16 682 570)
Gross profit	-	-	545 477	-	-	-	6 572 226	7 117 703
Net earned insurance premium	-	-	-	1 317 060	405 688	-	-	1 722 748
Net fee and commission income	7 132 263	-	1 637 357	-	-	104 230	-	8 873 850
Net trading income and other income	531 174	-	28 732	388 667	30 530	15 629	99 929	715 308
	13 440 126	-	3 136 708	1 705 727	421 233	122 418	5 943 837	24 390 695
Intersegment revenue	(30 604)	-	-	-	-	-	-	(30 604)
Intersegment interest expense and commission	-	-	23 462	-	-	7 142	-	30 604
Revenue from external customers	**13 409 522**	**-**	**3 160 170**	**1 705 727**	**421 233**	**129 560**	**5 943 837**	**24 390 695**
Segment profit before income tax	**2 833 082**	**-**	**1 047 833**	**785 828**	**(51 626)**	**(66 324)**	**1 954 794**	**6 426 082**
Impairment losses on financial assets	699 827	-	109 310	-	-	-	-	809 137
Depeciation and amortisation	687 239	-	83 788	28 733	48 600	2 013	843 341	1 694 088
Segment assets	**184 164 014**	**-**	**26 253 171**	**15 088 074**	**6 145 556**	**1 825 448**	**57 837 657**	**264 748 307**
Total assets includes :								
Additions to non-current assets	499 087	-	42 318	15 198	5 875	11 098	3 015 029	3 032 002
Investment in associates	-	-	-	-	-	-	-	-
Segment liabilities	**158 597 622**	**-**	**13 541 823**	**9 411 752**	**3 038 037**	**1 555 790**	**32 018 862**	**198 336 740**

26 RISK MANAGEMENT

Overview

The Group continued to maintain a strong risk management culture in response to the dynamic operating environment in order to achieve an appropriate balance between risk and reward. The Group has a clear risk strategy and clear risk preferences. This has guided the business strategy and planning processes for the business units and the Group. The principal risks to which the Group is exposed to and which it continues to manage are detailed below.

Risk categories

26.1 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.

26.2 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.

26.3 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.

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, trade receivables, 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 Board of Directors and strictly implemented by management. Credit risk limits include delegated approval and write-off limits to advance 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 in place a stress testing framework that guides the Group in conducting credit stress tests.

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 or classified 8, 9 and 10 under the Basel II ten tier grading system.

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 is in the process of implementing Credit Risk Basel II standards in line with the regulatory authorities' approach. Internal processes have been revamped in an effort to comply with the requirements. Policies and procedure manuals are also being aligned to comply with the minimum requirements of Basel II.

26.4 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 and Board Risk and Compliance 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 Group 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.

26.5 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.

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.

Unaudited Interim Results

For the six months ended 30 June 2012

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.

26.6 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 the 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.

26.7 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.

26.8 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), the Zimbabwe Companies Act (Chapter 24:03), the relevant Statutory Instruments ("SI") SI 62/96 and SI 33/99, the Insurance Act (Chapter 24:07), the Building Societies Act (Chapter 24:02) and the Zimbabwe Securities Act (Chapter 24:25).

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.

26.9 Dividend

In view of the new minimum regulatory capital requirements announced by the Reserve Bank of Zimbabwe on 31 July 2012, the Board of Directors have thought it prudent not to declare a dividend until the new capital levels have been achieved.

26.10 International credit ratings

The banking and reinsurance subsidiaries have their credit ratings reviewed annually by an international credit rating agency, Global Credit Rating. All subsidiaries have maintained their investor grade ratings as illustrated below.

Subsidiary	2012	2011	2010	2009
FBC Bank Limited	Pending	A-	A-	A-
Reinsurance	Pending	A-	A-	A-
Building Society	Pending	BBB-	BBB-	BBB-

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		Board Audit		Board HR		Board Finance and Strategy		Board Risk and Compliance		Board Marketing and PR	
	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2
Godfrey G Nhemachena	✓	✓	✓	✓	N/A	N/A	N/A	N/A	✓	✓	N/A	N/A
Kenzias Chibota	✓	✓	N/A	N/A	N/A	N/A	✓	✓	✓	✓	N/A	N/A
Stanley Kudenga, resigned	x	N/A	N/A	N/A	N/A	N/A	x	N/A	x	N/A	x	N/A
Philip M Chiradza	✓	✓	✓	✓	✓	✓	N/A	N/A	✓	✓	N/A	N/A
K Chiketsani	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
C Mtasa	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
John Mushayavanhu	✓	✓	N/A	N/A	✓	✓	✓	✓	✓	✓	✓	✓
Webster Rusere	✓	✓	N/A	N/A	N/A	N/A	✓	✓	✓	✓	✓	✓
Felix Gwandekwande	✓	✓	N/A	N/A	N/A	N/A	✓	✓	✓	✓	✓	✓
Gertrude S Chikwava	✓	✓	N/A	N/A	N/A	N/A	✓	✓	N/A	N/A	✓	✓
Trynos Kufazvei	✓	✓	N/A	N/A	N/A	N/A	✓	x	N/A	N/A	N/A	N/A
James M Matiza	✓	✓	N/A	N/A	N/A	N/A	✓	x	N/A	N/A	✓	✓
Johnson R Mawere	✓	✓	✓	✓	✓	✓	N/A	N/A	N/A	N/A	N/A	N/A
Herbert Nkala	✓	✓	N/A	N/A	✓	✓	N/A	N/A	N/A	N/A	N/A	N/A
Canada Malunga	x	✓	✓	✓	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Legend
Not a member - N/A   Attended - ✓   Apologies - x   Quarter - Q

By order of the Board

Tichaona K. Mabeza
GROUP COMPANY SECRETARY

23 August 2012