NMBZ HOLDINGS LIMITED

Holding Company of **NMB BANK LIMITED**
(Registered Commercial Bank)
Dually listed on the London Stock Exchange (LSE) and Zimbabwe Stock Exchange (ZSE)

Enquiries:

NMBZ HOLDINGS LIMITED

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CONDENSED AUDITED CONSOLIDATED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

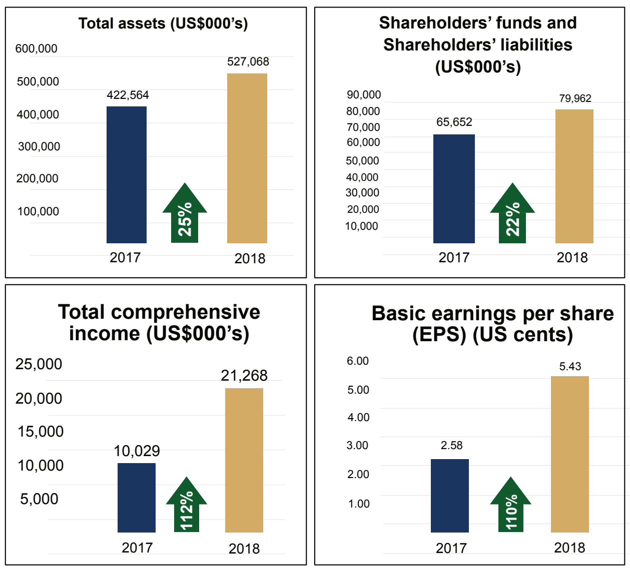
FINANCIAL SUMMARY	31 December 2018 US$	31 December 2017 US$
Total income (US$)	74 740 671	53 606 281
Operating profit before impairment charge (US$)	31 155 227	16 870 839
Total comprehensive income (US$)	21 267 632	10 029 136
Basic earnings per share (US cents)	5.43	2.58
Dividend per share (US cents)	0.96	0.36
Total deposits (US$)	434 957 949	348 956 385
Total gross loans and advances (US$)	262 335 026	211 005 418
Total shareholders' funds and shareholders' liabilities (US$)	79 962 313	65 651 843

CHAIRMAN'S STATEMENT

INTRODUCTION

The Group has continued in the pursuit of its short and medium term goals and the accompanying results are testimony to the considerable progress towards our stated strategy. The financial results continue to be largely driven by the Bank's continued diversification into the broader market segments, enhanced use of the bank's digital offerings, stricter credit underwriting standards and containment of non-performing loans. The bank witnessed a slowdown in business activity during the last quarter of 2018 as businesses adjusted to the new policy measures outlined in the Transitional Stabilisation Programme presented in August 2018 soon after the national elections. Notwithstanding the slowdown, the group's financial performance was well above prior year.

The key financial highlights of the Group as at 31 December 2018 are depicted below:



GROUP RESULTS

Financial performance

The profit before taxation was US$27 143 275 (2017 – US$13 017 690) during the period under review and this gave rise to total comprehensive income of US$21 267 632 (2017 – US$10 029 136). The Group achieved a basic earnings per share of 5.43 cents (2017 - 2.58 cents).

Operating expenses amounted to US$34 720 428 and these were up 26% from a prior year amount of US$27 578 347. The increase in operating expenses was due to increased transaction processing and operational costs arising from the Bank's digital drive, continued expansion into the broader market segments and general inflationary pressures largely driven by foreign currency shortages.

Impairment losses on financial assets measured at amortised cost amounted to US$4 011 952 for the current period from a prior year amount of US$3 853 149 and the increase was mainly due to the adoption of IFRS 9 with effect from 1 January 2018. The bank has continued with its drive to reduce non-performing loans (NPLs) and the ratio stood at 7.43% as at 31 December 2018. This was lower than the 31 December 2017 ratio of 7.98%. The decrease in the NPL ratio was largely due to aggressive collections and stricter credit underwriting standards.

Financial position

The Group's total assets increased by 25% from US$422 564 352 as at 31 December 2017 to US$527 067 596 as at 31 December 2018 mainly due to a 27% increase in investment securities, a 21% increase in loans, advances and other assets, a 10% increase in investment properties, an increase of 26% in cash and cash equivalents and a 143% increase in property and equipment.

The bank continued with its intermediation role and support for the productive sectors as reflected by a 24% increase in gross loans and advances from US$211 005 418 as at 31 December 2017 to US$262 335 026 as at 31 December 2018.

Investment securities (Treasury Bills and Bonds) increased by 27% from US$92 245 425 as at 31 December 2017 to US$117 249 434 as at 31 December 2018 mainly due to some purchases from both the primary and secondary bond markets. The bank has set maximum limits for investment securities to ensure most of our funds are channeled towards loans and advances.

Total deposits increased by 25% from US$348 956 385 as at 31 December 2017 to US$434 957 949 as at 31 December 2018 as a result of strong deposit mobilisation strategies coupled with a significant improvement in market liquidity. The Bank's liquidity ratio closed the period at 41.62% (2017 – 47.53%) and this was above the statutory requirement of 30%.

Capital

The banking subsidiary's capital adequacy ratio stood at 23.25% as at 31 December 2018 (31 December 2017 - 24.26%). The ratio was well above the statutory minimum of 12%. Our capitalisation level is adequate to cover all risks and supports the underwriting of new business.

Capital (continued)

The Group's shareholders' funds and shareholders' liabilities have increased by 22% from US$65 651 843 as at 31 December 2017 to US$79 962 313 as at 31 December 2018 as a result of the current year's total comprehensive income.

The Bank's regulatory capital as at 31 December 2018 was US$74 927 487 and is above the minimum required regulatory capital of US$25 million. Furthermore, the bank is on course to meet the required US$100 million capitalisation by 2020.

FUNCTIONAL CURRENCY AND AUDIT OPINION

Between 2014 and 2016, the Zimbabwean economy experienced a massive liquidity crisis which eventually prompted the Monetary Authorities to introduce the bond notes in November 2016 whilst encouraging the public to continue using the other currencies in the multi-currency basket. The bond notes were introduced at an official fixed exchange rate of 1:1 with the USD and the Monetary Authorities specifically directed financial institutions not to open separate vault and cash accounts for the USD and the bond notes.

In October 2018, the Monetary Authorities instructed financial institutions to separate bond notes and USD accounts and indicated that corporates and individuals could proceed to open Nostro Foreign Currency Accounts (FCA), for foreign currency holdings, which were now being exclusively distinguished from the existing RTGS based accounts. However, it should be noted that at the time of this policy pronouncement, the Monetary Authorities did not state that they had introduced a new currency for Zimbabwe, which actually meant that the USD remained as the currency of reference. By 31 December 2018, there had been no pronouncement by the Monetary Authorities to the effect that there had been a new currency introduced, which could be considered as the country's functional currency. On 22 February 2019, the Reserve Bank of Zimbabwe (RBZ) issued an Exchange Control Directive, RU 28 of 2019 which established an interbank foreign exchange market to formalise the buying and selling of foreign currency through the Banks and Bureaux de change. In order to establish an exchange rate between the current monetary balances and foreign currency, the Monetary Authorities denominated the existing RTGS balances in circulation as RTGS Dollars. Initial trades on 22 February 2019 were at USD1: RTGS$2.5. On the same date, Statutory Instrument 33 (SI 33) of 2019 was also issued and it specified that for accounting and other purposes, all assets and liabilities that were in USD immediately before the 22nd of February 2019 were deemed to have been valued in RTGS Dollars at a rate of US$1: RTGS$1.

The fixed exchange rate of US$1: RTGS$1 for the period prior to the effective date of 22 February 2019 is not in compliance with IAS 21. In terms of IAS 21, foreign currency monetary items shall be translated using the closing rate, non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was measured. Foreign currency transactions shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. The Group used a fixed exchange rate of US$1: RTGS$1 for the year ended 31 December 2018 and thus did not comply with the requirements of International Accounting Standard 21 (IAS 21) *"The Effects of Changes in Foreign Exchange Rates"*, as doing so would have been in contravention of SI 33 of 2019. However, the Directors performed a sensitivity analysis on note 23.1 to illustrate the impact on the Group's statement of financial position as at 31 December 2018 had the financial statements been restated using the first available interbank mid-rate on 22 February 2019 of USD1:RTGS$2.5. A further analysis of the impact on the statement of financial position has also been performed using the rates of USD1:RTGS$3 and USD1:RTGS$4.

In light of the failure to fully comply with the requirements of IAS 21, the Group's independent auditors, Ernst & Young, have issued an adverse opinion on the financial statements for the year ended 31 December 2018.

DIVIDEND

In view of the significantly improved financial performance recorded by the Group in the year under review and the sound capital ratio, the Board proposes to declare a final scrip dividend alternative to the cash dividend of 0.96 RTGS cents per share. The scrip dividend option was arrived at after taking into account shareholders' expectations, value preservation and the need to ensure sustainable organic growth in view of the banking subsidiary's regulatory capitalisation requirements.

DIRECTORATE

There were no changes to the directorate during the period under review. The directors of both NMBZ Holdings Limited and NMB Bank Limited boards remain as follows: Mr Benedict A. Chikwanha (Board Chairman), Mr Benefit P. Washaya (Chief Executive Officer), Mr Benson Ndachena (Chief Finance Officer), Mr Charles Chikaura (Independent Non-Executive Director), Mr Erik Sandersen (Non-Executive Director) Mr James de la Fargue (Non-Executive Director), Ms Jean Maguranyanga (Independent Non-Executive Director), Mr Julius Ticheelar (Non-Executive Director) and Ms Sabinah Chitehwe (Independent Non-Executive Director).

Subsequent to year end, Mr Erik Sandersen resigned from the Boards of NMBZ Holdings Limited and NMB Bank Limited on 24 January 2019. I would like to thank Erik for his contributions to NMBZ Holdings Limited and NMB Bank Limited and the Boards over the years and wish him success in his new endeavours.

CORPORATE SOCIAL INVESTMENTS

During the period under review, the Group channeled its social investments efforts into the country's educational system, enhancement of youth entrepreneurial skills through partnerships, support for the disadvantaged and vulnerable groups as well as environmental protection and conservation causes.

The Group donated to the Glen View community following an outbreak of the cholera epidemic in September 2018. In addition to donations to social causes, donations were made to the Albino Trust of Zimbabwe, commemorations of World Kidney Day and to Friends of Dzikwa, a charity organisation which operates in the Dzivarasekwa community.

In line with promotion of sports, the Group partnered several schools in their sporting activities and the highlight of these were the ZiMwana Trust Street Athletics and Friends of Dzikwa Trust 16th Annual Sports Day for Orphans whose thrust was the promotion of an inclusive society through sports. Partnerships with groups and organisations that promote the conservation of the environment and wildlife were maintained during the period under review, with BirdLife Zimbabwe and Friends of Hwange being some of the partner organisations.

CORPORATE DEVELOPMENTS

In line with our strategy to reach the broader market segments, the Bank opened two service centres in Bindura and Chitungwiza in May 2018 and December 2018 respectively. We continue to establish representation in areas where the Bank is currently not represented and plans to open a service centre in Victoria Falls are at an advanced stage.

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IN PURSUIT OF EXCELLENCE

CHAIRMAN'S STATEMENT (continued)

CORPORATE DEVELOPMENTS (continued)

The Group undertook the construction of its new Head Office along Borrowdale Road in April 2018 and the new building should be ready for occupation in the last quarter of 2019. The new Head Office reinforces the Group's commitment to the country and its foreseeable future.

OUTLOOK AND STRATEGY

In line with the Bank's financial inclusion drive, we have intensified efforts to open low cost accounts. Further investment is continuously being directed towards the digital channels to enhance service delivery as well as accommodate the increased transactional volumes created by the broadened customer base as the Bank continues to increase its footprint. The Bank has intensified its efforts in rolling out the low-cost Point of Sale devices (mPOS) in order to support our growing SMEs and sole traders' clientele base.

The year 2019 is likely to be a period in which inflation, currency fluctuations and a shortage of foreign currency play a pivotal role in determining the impact on revenue generation and operating costs. The combination will require a steady guiding hand from the relevant authorities as well as management and Board focus. Early indications point to a tough operating environment for the banking sector.

APPRECIATION

I would like to express my profound appreciation to our valued clients, shareholders, regulatory authorities and other valued stakeholders for their continued support in this difficult operating environment. To my fellow Board members, management and staff, I extend my sincere gratitude for their hard work, diligence, commitment and resilience which has underpinned the achievement of these commendable results.

MR. B. A. CHIKWANHA
CHAIRMAN
17 April 2019

DIRECTORS' REPORT
for the year ended 31 December 2018

1. **RESPONSIBILITY**

The Directors of the Group are mandated by the Companies Act (Chapter 24:03) of Zimbabwe to maintain adequate accounting records and to prepare consolidated and separate financial statements that present a true and fair view of the state of affairs of the Group and Company at the end of each financial year. The information contained in these consolidated and separate financial statements has been prepared on a going concern basis and is in accordance with the provisions of the Companies Act (Chapter 24:03) of Zimbabwe, the Banking Act (Chapter 24:20) of Zimbabwe and International Financial Reporting Standards (IFRSs).

2. **INTERNAL FINANCIAL CONTROLS**

The board is responsible for ensuring that effective internal control systems are implemented within the Group. The Group maintains internal controls and systems designed to provide reasonable assurance of the integrity and reliability of its records, safeguard the assets of the Group and prevent and detect fraud and errors. The Audit Committee in conjunction with the external and internal auditors of the Group reviews and assesses the internal control systems of the Group in key risk areas.

3. **GOING CONCERN**

The Directors have assessed the ability of the Group and its subsidiary to continue operating as a going concern and believe that the preparation of these financial statements on a going concern basis is still appropriate.

4. **STATEMENT OF COMPLIANCE**

The condensed consolidated financial statements are prepared with the aim of complying fully with International Financial Reporting Standards (IFRSs) and have been prepared in the manner required by the Companies Act (Chapter 24:03) of Zimbabwe and the Banking Act (Chapter 24:20) of Zimbabwe. The financial statements show the impact of the first time adoption of IFRS 9 which was adopted by the Group effective 1 January 2018. The detailed impact of this adoption is disclosed in the section on significant accounting policies (Changes in accounting policy Note 3.12).

The Directors have been able to achieve full compliance with IFRSs in previous reporting periods. However, the 31 December 2018 financial reporting could only achieve partial compliance to the IFRS reporting framework due to developments detailed below.

The IFRS Conceptual Framework states that to achieve fair presentation to the financial statements, companies should consider the underlying economic substance of the transaction over and above the legal form. International Accounting Standard (IAS 21) "The Effects of Changes in Foreign Exchange Rates" requires the Directors to determine the functional currency of the reporting entity in preparing the entity's financial statements. In arriving at this conclusion, the entity is required to apply certain parameters which the Directors duly applied in their judgement. Furthermore, IAS 21 also requires the reporting entity to make certain judgements in determining the appropriate exchange rates to apply for certain transactions conducted in currencies other than the functional currency of the reporting entity.

As explained in Note 2.4.7, "Determination of the functional currency", it is our opinion that following the Monetary Policy pronouncements of 1 October 2018 and 20 February 2019, as well as the issuance of Exchange Control Directive RU 28 of 2019 on 22 February 2019, the country's functional currency appeared to have changed from the United States Dollar in terms of the IAS 21 considerations. However, the Government of Zimbabwe issued Statutory Instrument 33 (SI 33) of 2019 on 22 February 2019, which prescribes the rate of USD1:RTGS$1 in accounting for all transactions and events before the effective date of the Statutory Instrument.

Furthermore, it is our interpretation that the SI 33 of 2019 issued in terms of the Presidential Powers Temporary Measures Act [Chapter 10:20], ranks supreme to any contrary legislation including quasi-legislations, which therefore implies that in preparing the financial statements, we sought to comply with the provisions of SI 33 of 2019 ahead of the IAS 21 requirements.

This, in our opinion resulted in non-compliance with IAS 21 and that non-compliance had a significant impact on the true and fair presentation of the Group's financial position and would therefore urge users of the financial statements to exercise due caution. To provide users with additional information, note 23 of the Consolidated Financial Statements provides a detailed analysis of the impact on the Group's Statement of Financial Position had the aforementioned events after the reporting period been treated as adjusting events at reporting date.

The consolidated and separate financial statements were approved by the Board of Directors on 17 April 2019.

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MR B. A. CHIKWANHA
CHAIRMAN

17 April 2019

MR B. P. WASHAYA
CHIEF EXECUTIVE OFFICER

17 April 2019

AUDITOR'S STATEMENT

These financial results should be read in conjunction with the complete set of financial statements for the year ended 31 December 2018, which have been audited by Ernst & Young Chartered Accountants (Zimbabwe) and an adverse opinion issued thereon due to non-compliance with International Accounting Standard 21 (The Effects of Foreign Exchange Rates) as explained in the Directors' Report. The auditor's report, is available for inspection at the Holding Company's registered office. There are no key audit matters communicated in the auditor's report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2018

	Note	31 December 2018 US$	31 December 2017 US$
Interest income	4	39 333 178	32 061 931
Interest expense		(8 865 016)	(9 157 095)
Net interest income		**30 468 162**	**22 904 836**
Fee and commission income	5.1	28 539 376	18 832 185
Net foreign exchange gains		1 899 670	1 583 164
Revenue		**60 907 208**	**43 320 185**
Other income	5.2	4 968 447	1 129 001
Operating income		**65 875 655**	**44 449 186**
Operating expenditure	6	(34 720 428)	(27 578 347)
Operating income before impairment charge		**31 155 227**	**16 870 839**
Impairment losses on financial assets			
measured at amortised cost	16.3	(4 011 952)	-
Impairment losses on loans and advances	16.3	-	(3 853 149)
Profit before taxation		**27 143 275**	**13 017 690**
Taxation charge	7	(5 922 074)	(3 078 864)
Profit for the period		**21 221 201**	**9 938 826**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluations, net of tax		46 431	90 310
Total comprehensive income for the year		**21 267 632**	**10 029 136**
Earnings per share (US cents)			
-Basic	9.3	5.43	2.58
-Diluted	9.3	5.09	2.43

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2018

	Note	31 December 2018 US$	31 December 2017 US$
SHAREHOLDERS' FUNDS			
Share capital	10.2.1	80 975	78 751
Capital reserves		16 526 297	18 119 337
Revaluation reserves		136 741	90 310
Retained earnings		47 377 400	31 612 288
Total equity		**64 121 413**	**49 900 686**
Redeemable ordinary shares	11	14 335 253	14 335 253
Subordinated term loan	12	1 505 647	1 415 904
Total shareholders' funds and shareholders' liabilities		**79 962 313**	**65 651 843**
LIABILITIES			
Deposits and other liabilities	13.1	447 105 283	356 912 509
Total shareholders' funds and liabilities		**527 067 596**	**422 564 352**
ASSETS			
Cash and cash equivalents	15	112 440 912	89 553 202
Current tax assets		285 822	231 007
Loans, advances and other assets	16.1.1	254 202 945	210 483 221
Investment securities	14.1	117 249 434	92 245 425
Non-current assets held for sale	17	36 000	36 000
Trade and other investments	14.5.1	112 501	117 880
Investment properties		20 950 606	18 977 000
Intangible assets	18	2 036 775	2 380 180
Property and equipment	19	17 844 069	7 335 988
Deferred tax assets		1 908 532	1 204 449
Total assets		**527 067 596**	**422 564 352**

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018

	Share Capital US$	Share Premium US$	Share option Reserve US$	Regulatory Reserve US$	Revaluation Reserve US$	Retained Earnings US$	Total US$
Balances at 1 January 2017	**78 598**	**15 737 548**	**62 563**	**1 785 136**	**-**	**22 185 818**	**39 849 663**
Profit for the year	-	-	-	-	-	9 938 826	9 938 826
Other comprehensive income	-	-	-	-	90 310	-	90 310
Share based payments – share options exercised	153	21 734	-	-	-	-	21 887
Transfer to regulatory reserve	-	-	-	512 356	-	(512 356)	-
Balances at 31 December 2017	**78 751**	**15 759 282**	**62 563**	**2 297 492**	**90 310**	**31 612 288**	**49 900 686**
IFRS 9 adjustments – 1 January 2018							
Transfer from regulatory reserve	-	-	-	(2 297 492)	-	2 297 492	-
Expected credit loss (ECL) adjustment - 1 January 2018	-	-	-	-	-	(8 575 988)	(8 575 988)
Deferred tax on ECL adjustment - 1 January 2018	-	-	-	-	-	2 208 317	2 208 317
Restated balances at 1 January 2018	**78 751**	**15 759 282**	**62 563**	**-**	**90 310**	**27 542 109**	**43 533 015**
Share issue – scrip dividend	2 224	704 452	-	-	-	-	706 676
Profit for the year	-	-	-	-	-	21 221 201	21 221 201
Other comprehensive income	-	-	-	-	46 431	-	46 431
Dividend paid	-	-	-	-	-	(1 385 910)	(1 385 910)
Balances at 31 December 2018	**80 975**	**16 463 734**	**62 563**	**-**	**136 741**	**47 377 400**	**64 121 413**

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2018

	31 December 2018 US$	31 December 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	27 143 275	13 017 690
Non-cash items:		
-Depreciation	1 370 312	1 136 810
-Amortisation of intangible assets	879 376	832 567
-Impairment losses on financial assets measured at amortised cost	4 011 952	3 853 149
-Investment properties fair value adjustment	(2 551 436)	(302 255)
-Trade and other investments fair value adjustment	(10 154)	(35 176)
-(Profit)/loss on disposal of property and equipment	(22 396)	56 637
-Loss on disposal of non-current asset held for sale	-	75 300
-Profit on disposal of investment properties	(567 032)	(12 951)
-Loss on disposal of trade and other investments	15 074	-
-Interest capitalised on subordinated loan	171 483	165 345
-Impairment reversal on land and buildings	(76 661)	(89 660)
-Unrealised foreign exchange loss/(gain)	20 689	(16 555)
Operating cash flows before changes in operating assets and liabilities	30 384 482	18 680 901
Changes in operating assets and liabilities		
Increase in deposits and other liabilities	90 105 608	91 525 302
Increase in loans, advances and other assets	(56 133 883)	(14 719 275)
Net cash generated from operations	64 356 207	95 486 928
Taxation		
Corporate tax paid	(4 488 757)	(1 757 028)
Capital gains tax paid	-	(155 265)
Tax on dividends paid	(97 294)	-
Net cash from operating activities	59 770 156	93 574 634
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of intangible assets	(535 971)	(1 565 713)
Acquisition of investment securities	(25 004 005)	(67 500 670)
Proceeds on disposal of property and equipment	22 396	1 076
Acquisition of property and equipment	(9 490 840)	(2 038 933)
Proceeds on disposal of investment properties	4 801 846	332 951
Acquisition of investment properties	(6 082 924)	(4 792 476)
Proceeds on disposal of non-current asset held for sale	-	2 150 000
Proceeds on disposal of trade and other investments	458	94 877
Net cash used in investing activities	(36 289 040)	(73 318 888)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of interest on subordinated term loan	(81 740)	(164 931)
Proceeds from share based payments – share option exercised	-	21 887
Cash dividend paid	(573 719)	-
Share issue costs – scrip dividend	(8 221)	-
Net cash used in financing activities	(663 680)	(143 044)
Net increase in cash and cash equivalents	22 817 436	20 112 703
Net foreign exchange differences on cash and cash equivalents	70 274	19 242
Cash and cash equivalents at beginning of the year	89 553 202	69 421 257
Cash and cash equivalents at the end of the year (Note 15)	112 440 912	89 553 202

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the year ended 31 December 2018

1. REPORTING ENTITY

The Holding Company is incorporated and domiciled in Zimbabwe and is an investment holding company. Its registered office address is 64 Kwame Nkrumah Avenue, Harare. Its principal operating subsidiary is engaged in commercial and retail banking. NMB Bank Limited is a registered commercial bank and was incorporated in Zimbabwe on 16 October 1992 and commenced trading on 1 June 1993. The Bank operated as an Accepting House until 6 December 1999 when the licence was converted to that of a Commercial Bank. The Bank is exposed to the following risks in its operations: liquidity risk, credit risk, market risk, operational risk, foreign currency exchange rate risk and interest rate risk.

2. ACCOUNTING CONVENTION

Statement of compliance

The condensed consolidated financial statements are prepared and presented on the basis that they reflect the information necessary to be a fair summary of the annual financial statements from which they are derived. This includes financial results that agree with or can be recalculated from the related information in the audited consolidated financial statements and that contain the information necessary so as not to be

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the year ended 31 December 2018

2. ACCOUNTING CONVENTION (continued)

Statement of compliance (continued)

misleading in the circumstances. The information contained in these consolidated financial results does not contain all the disclosures required by International Financial Reporting Standards, the Companies Act (Chapter 24:03) of Zimbabwe and the Banking Act (Chapter 24:20) of Zimbabwe, which are disclosed in the full consolidated annual financial statements from which this set of condensed financial statements were derived. For a better understanding of the Group`s financial position, its financial performance and cash flows for the year, these condensed financial statements should be read in conjunction with the audited consolidated annual financial statements.

2.1 Basis of preparation

The condensed consolidated financial statements have been prepared under the historical cost convention except for quoted and other investments, investment properties and non-current assets held for sale which are carried at fair value and land and buildings which are stated at revalued carrying amount. These condensed consolidated financial statements are reported in United States of America dollars and rounded to the nearest dollar.

2.2 Basis of consolidation

The Group financial results incorporate the financial results of the Company and its subsidiaries. Subsidiaries are investees controlled by the Group. The Group controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until date when control ceases. The financial results of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, income and expenses; profits and losses resulting from intra-group transactions that are recognised in assets and liabilities are eliminated in full. When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

2.3 Comparative financial information

The comparative information covers a period of twelve months.

2.4 Use of estimates and judgements

In preparation of the Group financial statements, Directors have made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2018 is included in the following notes:

2.4.1 Deferred tax

Deferred taxation is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences arising out of the initial recognition of assets or liabilities and temporary differences on initial recognition of business combinations that affect neither accounting nor taxable profit are not recognised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

2.4.2 Land and buildings

The properties were valued by an independent professional valuer. The determined fair value of land and buildings is most sensitive to significant unobservable inputs. In addition, the property market is currently not stable due to liquidity constraints and hence comparable values are also not readily available.

2.4.3 Investment properties

Investment property were valued by an independent professional valuer. In addition, the property market is currently not stable due to liquidity constraints and hence comparable values are also not readily available.

2.4.4 Investment securities

The Group has treasury bills and government bonds for which there is currently no market information to facilitate the application of fair value principles in determining fair value disclosures. Directors have made a significant judgment in determining that the carrying amount approximates fair value. (refer to note 14.1).

2.4.5 Impairment losses on financial assets measured at amortised cost

The Bank adopted IFRS 9 with effect from 1 January 2018. As permitted by the IFRS 9 transitional provisions, the Bank elected not to restate comparative figures.

The Bank recognises loss allowances for Expected Credit Losses (ECLs) on the following financial instruments that are not measured at Fair Value through Profit or Loss (FVTPL):

- loans and advances to banks;
- loans and advances to customers;
- debt investment securities;
- lease receivables;
- loan commitments issued; and
- financial guarantee contracts issued.

No impairment loss is recognised on equity investments.
With the exception of purchased or originated credit-impaired (POCI) financial assets (which are considered separately below), ECLs are measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

The impairment loss on financial assets measured at amortised cost is disclosed in more detail under note 8 and note 16.3.

2.4.6 Non-current assets held for sale

Non-current assets were valued by an independent professional valuer. All non-current assets held for sale are measured at their fair values. The determined fair value of non-current assets held for sale is most sensitive to significant unobservable inputs. In addition, the property market is currently not stable due to liquidity constraints and hence comparable values are also not stable.

2.4.7 Determination of functional currency

The Government of Zimbabwe adopted a multi-currency regime in 2009. The British Pound, Euro, United States Dollar (USD), South African Rand (ZAR) and Botswana Pula were adopted as the multi-currency basket in February 2009. In January 2014, the Reserve Bank of Zimbabwe (RBZ) issued a Monetary Policy Statement which added the Chinese Yuan, Australian Dollar, Indian Rupee, Japanese Yen into the basket of multi-currencies. At the onset, the USD and the ZAR were the commonly used currencies, with the USD eventually gaining prominence resulting in it being designated as the functional and presentation currency by the transacting public and the Monetary Authorities, including the Group.

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2.4.7 Determination of functional currency (continued)

Between 2014 and 2016, the Zimbabwean economy experienced a massive liquidity crisis which eventually prompted the Monetary Authorities to introduce the bond notes in November 2016 whilst encouraging the public to continue using the other currencies in the multi-currency basket. The bond notes were introduced at an official fixed exchange rate of 1:1 with the USD and the Monetary Authorities specifically directed financial institutions not to open separate vault and cash accounts for the USD and the bond notes. The introduction of the bond notes gave rise to a three (3) tier pricing system wherein sellers and service providers would quote three (3) separate prices (USD, bond notes and RTGS/electronic transfers) for their merchandise and services. Significant discounts were being offered for USD payments whilst a premium would be added for prices quoted in bond notes or electronic settlement via the Real Time Gross Settlement System (RTGS). These developments triggered a debate around the functional currency of Zimbabwe. It should be noted that the Group never participated in the three tier pricing and none of its products had multiple prices during the same period.

In October 2018, the Monetary Authorities instructed financial institutions to separate bond notes and USD accounts and indicated that corporates and individuals could proceed to open Nostro Foreign Currency Accounts (FCA), for foreign currency holdings, which were now being exclusively distinguished from the existing RTGS based accounts. However, it should be noted that at the time of this policy pronouncement, the Monetary Authorities did not state that they had introduced a new currency for Zimbabwe, which actually meant that the USD remained as the currency of reference. By 31 December 2018, there had been no pronouncement by the Monetary Authorities to the effect that there had been a new currency introduced, which could be considered as the country's functional currency.

On 22 February 2019, the Reserve Bank of Zimbabwe (RBZ) issued an Exchange Control Directive, RU 28 of 2019 which established an interbank foreign exchange market to formalise the buying and selling of foreign currency through the Banks and Bureaux de change. In order to establish an exchange rate between the current monetary balances and foreign currency, the Monetary Authorities denominated the existing RTGS balances in circulation as RTGS Dollars. Initial trades on 22 February 2019 were at USD1: RTGS$2.5.

On the same date, Statutory Instrument 33 of 2019 was also issued and it specified that for accounting and other purposes, all assets and liabilities that were in USD immediately before the 22nd of February 2019 were deemed to have been valued in RTGS Dollars at a rate of 1:1.

In light of the developments summarised above, the directors are of the opinion that the USD was the Group's functional and presentation currency due to the following factors:

- There was no alternative currency at reporting date as the Monetary Authorities only introduced the RTGS Dollars on 22 February 2019; and
- SI 33 of 2019 specified that for accounting and other purposes, all assets and liabilities that were in USD immediately before the 22nd of February 2019 were deemed to have been valued in RTGS Dollars at a rate of 1:1.
- Furthermore, the official rate between the USD and bond notes as well as RTGS/electronic balances was pegged at 1:1 on 31 December 2018 and no reliance could be placed on the unofficial rates which were being quoted i.e. the parallel market rate and the Old Mutual Implied Rate, both of which have significant legal limitations.
- Neither the Group nor its subsidiary ever had a three tier pricing system on any of its products and services during the period under review.
- Furthermore, neither the Group nor its subsidiary ever sourced foreign currency using either of the two unofficial rates from the time the rates emerged until the introduction of the official interbank foreign exchange market by the Monetary Authorities on 22 February 2019.

2.4.8 Going concern

The Directors have assessed the ability of the Group to continue operating as a going concern and believe that the preparation of these condensed consolidated financial statements on a going concern basis is still appropriate.

3. ACCOUNTING POLICIES

The selected principal accounting policies applied in the preparation of these condensed consolidated financial statements are set out below. These policies have been consistently applied unless otherwise stated.

3.1 Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

3.2 Investment properties

Investment properties are measured at fair value. Gains and losses arising from a change in fair value of investment properties are recognised in the statement of comprehensive income. The fair value is determined at the end of each reporting period, by a registered professional valuer.

3.3 Share based payments

The Group issues share options to certain employees in terms of the Employee Share Option Scheme. Share options are measured at fair value at the date of grant. The fair value determined at the date of grant of the options is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured using the Black-Scholes option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and other behavioural considerations.

3.4 Property and equipment

The residual value and the useful life of property and equipment are reviewed at least each financial year-end. If the residual value of an asset increases by an amount equal to or greater than the asset's carrying amount, then the depreciation of the asset ceases. Depreciation will resume only when the residual value decreases to an amount below the asset's carrying amount.

3.5 Intangible assets

Intangible assets are initially recognised at cost. Subsequently, the assets are measured at cost less accumulated armotisation and any accumulated impairment losses.

3.6 Taxation

Income tax

Income tax expenses comprise current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current
Current tax comprises expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using rates enacted or substantively enacted at the reporting date in the country where the Bank operates and generates taxable income and any adjustment to tax payable in respect of previous years.

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities.

3.6 Taxation (continued)

Deferred taxation

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Group has not rebutted this presumption.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Additional taxes that arise from the distribution of dividends by the Group are recognised at the same time as the liability to pay the related dividend is recognised. These amounts are generally recognised in profit or loss because they generally relate to income arising from transactions that were originally recognised in profit or loss.

3.7 Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances, and short term highly liquid investments with maturities of three months or less when purchased. Cash and cash equivalents are measured at amortised cost in the statement of financial position.

3.8 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The specific recognition criteria described below must also be met before revenue is recognised.

3.9 Interest income

For all financial instruments measured amortised cost and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income includes income arising out of the banking activities of lending and investing.

3.10 Interest expense

Interest expense arises from deposit taking. The expense is recognised in profit or loss as it accrues, taking into account the effective interest cost of the liability.

3.11 Shareholders' funds and shareholders' liabilities

Shareholders' funds and shareholders' liabilities refer to the investment made by the shareholders in the Group and it consists of share capital, share premium, share options reserve, retained earnings, revaluation reserve, redeemable ordinary shares and subordinated term loans.

3.12 Changes in accounting policy

The Bank has adopted IFRS 9 as issued by the International Accounting Standards Board (IASB) in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures.

Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in the Bank's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 Financial Instruments: Disclosures.

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

a) Classification and measurement of financial instruments

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

	IAS 39		IFRS 9	
	Measurement Category	**Carrying Amount US$**	**Measurement Category**	**Carrying Amount US$**
Financial Assets				
Cash and cash equivalents	Amortised cost (Loans and advances)	89 553 202	Amortised cost	89 526 431
Loans and advances	Amortised cost (Loans and advances)	210 483 221	Amortised cost	202 308 086
Investment securities	Amortised cost (Loans and advances)	92 245 425	Amortised cost	91 871 343
Trade and other investments	FVPL (Held for trading)	117 880	FVPL	117 880
Total		**392 399 728**		**383 823 740**
Financial Liabilities				
Total deposits and other liabilities	**Amortised cost**	**356 912 509**	**Amortised cost**	**356 912 509**

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3.12 Changes in accounting policy (continued)

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

The Bank performed a detailed analysis of its business models for managing financial assets and an analysis of their cash flow characteristics to determine how the instruments shall be measured.

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

	Carrying Amount 1 January 2018 US$
Armotised cost	
Cash and cash equivalents	
Opening balance – IAS 39	89 553 202
Additional IFRS 9 impairment allowance – Expected Credit Loss (ECL)	(26 771)
Closing balance – IFRS 9	**89 526 431**
Loans and advances	
Opening balance – IAS 39	210 483 221
Additional IFRS 9 impairment allowance – (ECL)	(8 175 135)
Less reclassifications	-
Closing balance – IFRS 9	**202 308 086**
Investment securities	
Opening balance – IAS 39	92 245 425
Additional IFRS 9 impairment allowance	(374 082)
Less reclassifications	-
Closing balance – IFRS 9	**91 871 343**
Total financial assets measured at amortised cost	**383 705 860**
Fair value through profit or loss	-
Trade and other investments	117 880
Total financial assets	**383 823 740**

The Directors concluded that there were no measurement difference between IAS 39 and IFRS 9 for the Bank's liabilities on 1 January 2019.

(c) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new expected credit loss allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

	IAS 39 Impairment loss allowance balance US$	Remeasurement US$	IFRS 9 Impairment loss allowance balance US$
Measurement Category			
Interbank placements	-	26 771	26 771
Investment securities	-	374 082	374 082
	5 445 968	8 175 135	13 621 103
Loans and advances	5 445 968	6 162 469	11 608 437
Loan commitments	-	1 551 975	1 551 975
Financial guarantees	-	460 691	460 691
Total	**5 445 968**	**8 575 988**	**14 021 956**

3.12.1 Financial Instruments

Measurement methods

Armotised cost and effective interest rates

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, an adjustment for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired at initial recognition - the Bank calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Interest Income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

a) Purchased or originated credit-impaired (POCI) financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.
b) Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e net of the expected credit loss provision).

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss; transaction costs that are incremental and directly attributable to the acquisition or issuance of the financial asset or financial liability respectively, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which

3.12.1 Financial Instruments (continued)

Initial recognition and measurement (continued)

results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

3.12.1.1 Financial Assets

(i) Classification and subsequent measurement

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

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

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

- the Bank's business model for managing the asset; and
- the cash flow characteristics of the asset.

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:
Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance. Interest income from these financial assets is included in interest and similar income using the effective interest rate method.

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

Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net Trading Income" in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net Investment Income'. Interest income from these financial assets is included in "Interest income" using the effective interest rate method.

Business model: the business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the 'other' business model and measured at FVPL.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether financial instruments' cash flows represent solely payments of principal and interest (the "SPPI" test). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

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

The Bank subsequently measures all equity investments at fair value through profit or loss, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Bank policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the 'Other Income' line in the statement of profit or loss.

(ii) Impairment

The Bank recognises loss allowances for Expected Credit Losses (ECLs) on the following financial instruments that are not measured at Fair Value through Profit or Loss (FVTPL):

- loans and advances to banks;
- loans and advances to customers;
- debt investment securities;
- lease receivables;
- loan commitments issued; and
- financial guarantee contracts issued.

No impairment loss is recognised on equity investments.
With the exception of POCI financial assets (which are considered separately below), ECLs are measured

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3.12.1 Financial Instruments (continued)

3.12.1.1 Financial Assets (continued)

***(ii) Impairment* (continued)**

through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

Expected Credit Losses

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

For undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the commitment draws down the loan and the cash flows that the Bank expects to receive if the loan is drawn down; and

For financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Bank expects to receive from the holder, the debtor or any other party.

The Bank measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event — instead, the combined effect of several events may have caused financial assets to become credit-impaired.

Purchased or originated credit-impaired (POCI) financial assets

For POCI the Bank only recognises the cumulative changes in lifetime expected credit losses since initial recognition. At each reporting date, the Bank recognises in profit or loss the amount of the change in lifetime expected credit losses as an impairment gain or loss. The Bank recognises favourable changes in lifetime expected credit losses as an impairment gain, even if the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows on initial recognition.

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

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

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. The Bank keeps track of the changes in the loss allowance for financial assets separately from those for loan commitments and financial guarantee contracts. However, if a financial instrument includes both a loan (i.e. financial asset) and an undrawn commitment (i.e. loan commitment) component and the Bank does not separately identify the expected credit losses on the loan commitment component from those on the financial asset component, the expected credit losses on the loan commitment is recognised together with the loss allowance for the financial asset. To the extent that the combined expected credit losses exceed the gross carrying amount of the financial asset, the expected credit losses is recognised as a provision.

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Bank considers the following as constituting an event of default:

The borrower is past due more than 90 days on any material credit obligation to the Bank or; The borrower is unlikely to pay its credit obligations to the Bank in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Bank uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

Significant increase in credit risk

The Bank monitors all financial assets, undrawn loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL. The Bank's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result the Bank monitors all financial assets, undrawn loan commitments and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Bank considers both quantitative and qualitative information

that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Bank's historical experience and expert credit assessment including forward-looking information.

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3.12 Changes in accounting policy (continued)

3.12.1 Financial Instruments (continued)

3.12.1.1 Financial Assets (continued)

Significant increase in credit risk (continued)

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

For corporate lending, forward-looking information includes the future prospects of the industries in which the Bank's lenders operate, obtained from economic expert reports, financial analysts, governmental bodies and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For the retail portfolio, forward looking information includes the same economic forecasts as the corporate portfolio with additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behaviour. The Bank allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- The remaining lifetime PD at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The PDs used are forward looking and the Bank uses the same methodologies and data used to measure the loss allowance for ECL.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Bank still considers separately additional qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on the Bank's 'watch list' and for the retail portfolio the Bank considers the expectation of forbearance and payment holidays, credit scores and any other changes in the borrower's circumstances which are likely to adversely affect one's ability to meet contractual obligations.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

The Bank assumes that when an asset becomes 30 days past due, the Bank considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

(iii) Modification of loans

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty. Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates the new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

(iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either:

- the Bank transfers substantially all the risks and rewards of ownership,
- or the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank enters into transactions where it retains the contractual rights to receive cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
ii) Is prohibited from selling or pledging the assets; and
iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Bank retains substantially all the risks.

3.12.1.3 Financial liabilities

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Bank recognises any expense incurred on the financial liability.

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the year ended 31 December 2018

3.12 Change in accounting policy (continued)

3.12.1 Financial Instruments (continued)

3.12.1.2 Financial Liabilities (continued)

(ii) *Derecognition* (continued)

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

3.12.1.3 Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Bank are measured as the amount of the loss allowance. The Bank has not provided any commitment to provide loans at below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Bank cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

3.12.1.4 Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Bank's accounting policies.

Note 2.4 *(Use of estimates and judgements)* provides an overview of the areas that involve a higher degree of judgement or complexity, and major sources of estimation uncertainty that have

a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

3.12.1.5 Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

The Bank evaluates ECLs for 7 portfolios of audited corporates with overdraft limits, audited corporates without overdraft limits, unaudited corporates with overdraft limits, unaudited corporates without overdraft limits, SMEs with limits, SMEs without limits and Retail loans.

The guiding principle of the Expected Credit Loss evaluation is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments and allocate commensurate loss provisions. Under the general approach, there are two measurement bases:

- 12-month ECLs (Stage 1 ECLs) that is evaluated for all financial instruments with no significant deterioration in credit quality since initial recognition.
- Lifetime ECLs (Stages 2 and 3 ECLs) that is evaluated for financial instruments for which significant increase in credit risk or default has occurred on an individual or collective basis.

Probability of Default (PD)

The Bank defines Probability of Default as the likelihood that a borrower will fail to meet their contractual obligations in the future. The Bank's PD models have been built using historical credit default experience, present credit information as well as forward looking factors which affect the capacity of borrowers to meet their contractual obligations. The Bank used the logistic regression approach to construct PD models for Corporate, SME, Retail and Treasury Bills portfolios while the Merton model was adopted for Interbank Placements. The PD models are used at entity level to evaluate 12-month PDs for Day 1 losses and for financial instruments with no significant deterioration in credit risk since initial recognition, whilst lifetime PD is used for financial instruments for which significant increase in credit risk or default has occurred. 12-month PDs are derived using borrower present risk characteristics while lifetime PDs are derived using a combination of 12-month PDs, present borrower behaviour and forward looking macroeconomic factors.

Exposure at Default (EAD)

The Bank defines Exposure at Default as an estimation of the extent to which the Bank will be exposed to a counterparty in the event of a default. The Bank's EAD models have been built using historical experience of debt instruments that defaulted. The Bank used the linear regression approach to construct EAD models for Corporate, SME and Retail portfolios. For TBs and Interbank Placements, the Bank took a conservative approach of considering the full outstanding balance as the EAD at any given point in the lifetime of an instrument. The Bank's EAD models that use Credit Conversion Factors (CCFs) are applied on fully drawn down instruments while models that use Loan Equivalents (LEQs) are applied on partly drawn instruments. The EAD models are used at entity level to evaluate the proportion of the exposure that will be outstanding at the point of default.

Loss Given Default (LGD)

The Bank defines Loss Given Default as an estimate of the ultimate credit loss in the event of a default. The Bank's LGD models were built using historical experience of defaulted debt instruments and observed recoveries. The Bank used the linear regression approach to construct LGD models for Corporate, SME and Retail portfolios. For Treasury Bills and Interbank Placements, the Bank took a conservative approach of taking a fixed 100% as the LGD at any given point in the lifetime of an instrument. The LGD models are used at portfolio level to evaluate 12-month LGDs for financial instruments with no significant increase in credit risk since initial recognition and lifetime is applied LGDs for financial instruments for which significant increase in credit risk has occurred. 12-month LGDs were derived as historical loss rates while lifetime LGDs were derived using a combination of 12-month LGDs and forward looking macroeconomic factors such as GDP and Inflation.

The Bank's ECL model combines the output of the PD, EAD and LGD and computes an Expected Credit Loss

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the year ended 31 December 2018

3.12 Changes in accounting policy (continued)

3.12.1 Financial Instruments (continued)

3.12.1.5 Measurement of the expected credit loss allowance (continued)

that takes into account time value of money using the Effective Interest Rates (EIR) and time to maturity of the debt instruments.

The final ECL is a probability-weighted amount that is determined by evaluating three (3) possible outcomes of Best Case ECL, Baseline Case ECL, and Worst Case ECL. The Bank has modelled these three cases in such a way that the Best Case represents scenario of lower than market average default rates, the Base Case represents scenarios of comparable market average default rates and the Worst Case represent scenarios of higher than market average default rates.

3.12.2 Regulatory guidelines and International Financial Reporting Standards requirements in respect of the Bank's activities

Renegotiated loans and advances
Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been re-negotiated, any impairment is measured using the original effective interest rate (EIR) as calculated before the modification of terms and the loan is no longer considered past due. Management continuously renews re-negotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loans original EIR.

Collateral valuation
The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's quarterly reporting schedule, however, some collateral, for example, cash or securities relating to margining requirements, is valued daily. To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources.

Collateral repossessed
The Bank's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets that are determined better to be sold are immediately transferred to assets held for sale at their fair value at the repossession date in line with the Bank's policy.

		31 December 2018 US$	31 December 2017 US$
4.	**INTEREST INCOME**		
	Loans and advances to banks	793 220	1 139 233
	Loans and advances to customers	28 570 221	25 986 567
	Investment securities	9 969 737	4 936 131
		39 333 178	32 061 931
5.	**NON-INTEREST INCOME**		
5.1	**FEE AND COMMISSION INCOME**		
	Retail banking customer fees	11 107 290	5 718 711
	Corporate banking credit related fees	2 621 449	1 463 126
	Financial guarantee fees	148 518	222 187
	International banking commissions	491 279	546 651
	Digital banking fees	14 170 840	10 881 510
		28 539 376	18 832 185
5.2	**OTHER INCOME**		
	Trade and other investments fair value adjustments	10 154	35 176
	Loss of disposal of quoted investments	(15 074)	-
	Fair value adjustment on investment properties	2 551 436	302 255
	Profit on disposal of investment properties	567 032	12 951
	Profit on disposal of property and equipment	22 396	-
	Rental income	365 269	135 900
	Bad debts recovered	1 295 428	580 295
	Loss on disposal of non-current asset held for sale	-	(75 300)
	Other net operating income	171 806	137 724
		4 968 447	1 129 001
6.	**OPERATING EXPENDITURE**		
	The operating profit is after recognising the following:		
	Administration costs	15 963 308	11 866 111
	Audit fees:		
	- Current year	98 991	35 938
	- Prior year	111 406	95 456
	Impairment reversal on land and buildings*	(76 661)	(89 660)
	Depreciation	1 370 312	1 136 810
	Amortisation of intangible assets	879 376	832 567
	Directors' remuneration	971 121	719 318
	- Fees	219 246	233 102
	- Expenses	17 364	9 393
	- Services rendered	734 511	476 823
	Staff costs - salaries, allowances and related costs	15 402 575	12 981 807
		34 720 428	27 578 347

*The impairment reversal on land and buildings arose due to fair value changes on the Group's land and buildings measured using the revaluation model.

		31 December 2018 US$	31December 2017 US$
7.	**TAXATION** **Income tax expense**		
	Current tax	4 433 942	1 930 812
	Deferred tax	1 488 132	1 029 133
	Capital gains tax	-	118 919
		5 922 074	3 078 864

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the year ended 31 December 2018

8. IMPAIRMENT LOSSES ON FINANCIAL ASSETS MEASURED AT AMORTISED COST

Impairment losses are calculated by estimating the expected credit losses for all financial assets (including loan commitments and guarantees) measured at amortised cost or fair value through OCI (FVOCI). ECLs arising from financial assets measured at armotised cost and at FVOCI are recognized in profit or loss. However, the loss allowance in respect of assets measured at FVOCI shall not reduce the carrying amount of the financial asset in the Statement of Financial Position but will be accumulated in a reserve through OCI. The aggregate impairment losses which are made during the year are dealt with as per paragraph 8.3.

8.1 Lifetime expected credit losses

Lifetime ECLs are recognized where the Bank's counterparty to a financial asset has been classified as default as defined in the Bank's accounting and credit policies. Financial assets are written off against lifetime ECL provisions once the probability of recovering any significant amounts becomes remote.

8.2 Twelve month expected credit losses

The 12-Month ECL relates to the day 1 impairment provisions on financial assets as well as financial assets which are considered not to have had a significant increase in credit risk as defined in the Bank's accounting and credit policies.

8.3 Regulatory guidelines and International Financial Reporting Standards requirements

The Banking Regulations 2000 gives guidance on provisioning for doubtful debts and stipulates certain minimum percentages to be applied to the respective categories of the loan book.

IFRS 9, *Financial Instruments*, prescribes the provisioning for impairment losses based on the expected credit losses from the expected cash flows from financial assets held by the bank, including guarantees and loan commitments.

The two prescriptions are likely to give different results. The Group has taken the view that where the IFRS 9 charge is less than the amount provided for in the Banking Regulations, the difference is recognised directly in equity as a transfer from retained earnings to a regulatory reserve and where it is more, the full amount will be charged to the profit or loss.

8.4 Suspended interest

Interest on loans and advances is accrued to income until such time as reasonable doubt exists about its collectability, thereafter and until all or part of the loan is written off, interest continues to accrue on customers' accounts, but is not included in income. Such suspended interest is deducted from loans and advances in the statement of financial position. This policy meets the requirements of the Banking Regulations 2000 issued by the RBZ. Impairment losses are applied to write off loans and advances in part or in whole when they are considered partly or wholly irrecoverable. The aggregate impairment losses which are made during the year are dealt with as per paragraph 8.3.

9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of NMBZ Holdings Limited by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the profit attributable to ordinary equity holders of NMBZ Holdings Limited adjusted for the after tax effect of: (a) any dividends or other items related to dilutive potential ordinary shares deducted in arriving at profit or loss attributable to ordinary equity holders of the parent entity; (b) any interest recognised in the period related to dilutive potential ordinary shares; (c) any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares; by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

9.1 Earnings	**31 December 2018 US$**	**31 December 2017 US$**
Profit for the year	21 221 201	9 938 826

9. Number of shares	**31 December 2018 US$**	**31 December 2017 US$**
9.2.1 Basic earnings per share		
Weighted avarage number of ordinary shares for basic earnings per share	390 959 988	384 746 646
9.2.2 Diluted earnings per share		
Number of shares beginning of period	384 974 542	384 427 351
Effect of dilution:	-	547 191
Share options exercised	7 980 654	-
	392 955 196	384 974 542
Shares options approved but not granted	23 942 639	23 942 639
	416 897 835	408 917 181

9.3 Earnings per share (US cents)	**31 December 2018**	**31 December 2017**
Basic	5.43	2.58
Diluted	5.09	2.43

10. SHARE CAPITAL

10.1 Authorised

	31 December 2018 Shares million	**31 December 2017 Shares million**	**31 December 2018 US$**	**31 December 2017 US$**
Ordinary shares of US$0.00028 each	600	600	168 000	168 000

10.2 Issued and fully paid

10.2.1 Ordinary shares

	31 December 2018 Shares million	**31 December 2017 Shares million**	**31 December 2018 US$**	**31 December 2017 US$**
Ordinary shares	290	282	80 975	78 751

10.2.2 Redeemable ordinary shares

	31 December 2018 Shares million	**31 December 2017 Shares millivon**	**31 December 2018 US$**	**31 December 2017 US$**
Redeemable ordinary shares	104	104	29 040	29 040

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the year ended 31 December 2018

10. SHARE CAPITAL (continued)

A total of 7 943 318 ordinary shares were issued to existing shareholders in March 2018 as scrip dividend. Of the unissued ordinary shares of 206 million shares (2017 - 214 million), options which may be granted in terms of the 2012 ESOS amount to 23 942 639 (2017 – 23 942 639). No share options were exercised from the Scheme as at 31 December 2018. The share option scheme expires in 2022. Subject to the provisions of section 183 of the Companies Act (Chapter 24:03) of Zimbabwe, the unissued shares are under the control of the directors.

11 REDEEMABLE ORDINARY SHARES	**31 December 2018 US$**	**31 December 2017 US$**
Nominal value (note 10.2.2)	29 040	29 040
Share premium	14 306 213	14 306 213
	14 335 253	14 335 253

On 30 June 2013, the Group received US$14 831 145 capital from Nederlandse Financierings-Maatschappij Voor Ontiwikkelingslanden N.V. (FMO), Norwegian Investment Fund for Developing Countries (Norfund) and AfricInvest Financial Sector Holdings (AfricInvest) who were allocated 34 571 429 shares each (total 103 714 287) for individually investing US$4 943 715. This amount, net of share issue expenses, was used to recapitalise the Bank in order to contribute towards the minimum capital requirements set by the Reserve Bank of Zimbabwe of US$100 million by 31 December 2020. FMO and Norfund came together with Rabobank to form ARISE which is a development finance institution primarily focusing on investing in African financial institutions to support and enhance financial service delivery in Africa.

NMBZ Holdings Limited (NMBZ) entered into a share buy-back agreement with Norfund, FMO and AfricInvest, where these three strategic investors have a right at their own discretion at any time after the 5th anniversary (30 June 2018) but before the 9th anniversary (30 June 2022) of its first subscription date, to request NMBZ to buy back all or part of its NMBZ shares at a price to be determined using the agreed terms as entailed in the share buy-back agreement. It is a condition precedent that at any point when the share buy-back is being considered, the proceeds used to finance the buy-back should come from the distributable reserves which are over and above the minimum regulatory capital requirements. Further, no buy-back option can be exercised by any investor after the 9th anniversary (30 June 2022) of the effective date.

The share buy-back agreement creates a potential obligation for NMBZ Holdings Limited to purchase its own instruments. The shares issued gave rise to a potential financial liability and are classified as redeemable ordinary shares.

12. SUBORDINATED TERM LOAN

	31 December 2018 US$	**31 December 2017 US$**
At 1 January	1 415 904	1 415 490
Interest capitalised	171 483	165 345
Interest paid	(81 740)	(164 931)
	1 505 647	1 415 904

In 2013, the Group received a subordinated term loan amounting to US$1.4 million from a Development Financial Institution which attracts an interest rate of LIBOR plus 10% and has a seven year maturity date (13 June 2020) from the first disbursement date.

The above liability would, in the event of the winding up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer. The Group defaulted on a principal repayments with respect to this subordinated loan during the year ended 31 December 2018 as a result of the prevailing nostro funding challenges affecting the economy. However, there were no defaults on interest payments. There was a breach to the financial covenant regarding to the aggregate large exposure ratio which stood at 25.12% instead of a maximum of 25%. The Group will apply for a waiver of the non-compliant ratio by 31 March 2019.

13. DEPOSITS AND OTHER LIABILITIES

13.1 Deposits and other liabilities

	31 December 2018 US$	**31 December 2017 US$**
Deposits from banks and other financial institutions**	74 110 527	17 213 617
Current and deposit accounts from customers*	360 847 422	331 742 768
Total deposits	434 957 949	348 956 385
Trade and other payables	12 147 334	7 956 124
	447 105 283	356 912 509

*The carrying amounts of current and deposit accounts and trade and other payables approximate the related fair values due to their short term nature.

**Included in deposits from banks and other financial institutions are loan balances of US$8 244 147,US$4 129 484 and US$1 043 957 due to Nederlandse Financierings-Maatschappij Voor Ontiwikkelingslanden (FMO), Swedfund and Societie de Promotion de Paticipation Pour la Cooperation Economique SA (Proparco) respectively. The carrying amounts of deposits from other banks and other financial institutions approximate the related fair values. The Group has not had any defaults on the principal and interest with respect to these loans during the period ended 31 December 2018. However, there were breaches to the financial covenants with respect to the following ratios :-

- Non-performing loans ratio – 7.43% (instead of a maximum of 7%); and
- Aggregate large exposure ratio – 25.12% instead of a maximum of 25%.

13.2 Maturity analysis of deposits

	31 December 2018 US$	**31 December 2017 US$**
Less than 1 month	374 121 777	279 698 410
1 to 3 months	25 835 037	37 746 638
3 to 6 months	7 515 300	2 472 911
6 months to 1 year	11 781 062	11 751 881
1 to 5 years	15 512 943	17 094 715
	191 830	191 830
	434 957 949	348 956 385

NMBZ HOLDINGS LIMITED

Holding Company of **NMB BANK LIMITED**
(Registered Commercial Bank)
Dually listed on the London Stock Exchange (LSE) and Zimbabwe Stock Exchange (ZSE)

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for the year ended 31 December 2018

13. DEPOSITS AND OTHER LIABILITIES (continued)

13.3 Sectoral analysis of deposits

	31 December 2018 US$	%	31 December 2017 US$	%
Agriculture	11 005 126	2	10 034 242	3
Banks and other financial institutions	74 110 527	17	17 213 617	5
Distrubution	42 030 992	10	38 540 570	11
Individuals	27 742 789	6	29 133 379	8
Manufacturing	69 798 745	16	62 426 525	18
Mining companies	9 077 534	2	8 086 319	2
Municipalities and parastatals	28 945 864	7	25 633 695	7
Other deposits	59 781 285	14	57 598 053	17
Services	98 028 025	23	87 501 920	25
Transport and telecommunications	14 437 062	3	12 788 065	4
	434 957 949	100	348 956 385	100

14. FINANCIAL INSTRUMENTS

14.1 Investment securities

	31 December 2018 US$	31 December 2017 US$
Held to maturity	-	13 744 715
Loans and receivables	-	78 500 710
Armotised cost- Gross	117 693 824	-
Impairment allowance	(444 390)	-
- ECL at 1 January 2018	(374 082)	-
- ECL charged through profit and loss	(70 308)	-
	117 249 434	92 245 425

The Group holds Treasury Bills and Government Bonds amounting to US$117 693 825 with interest rates ranging from 2% to 10%. The Treasury Bills are measured at amortised cost in line with the Bank's business model to collect contractual cashflows and the contractual terms are such that the financial assets give rise to cashflows that are solely payments of principal and interest. Of the total Treasury Bills balance of US$117 693 825, a total of US$85 415 837 had been pledged as security against interbank borrowings

14.2 Maturity analysis of investment securities - amortised cost

	31 December 2018 US$	31 December 2017 US$
Less than 1 month	-	-
1 to 3 months	142 245	-
3 to 6 months	6 133 977	-
6 months to 1 year	43 004 020	-
1 year to 5 years	57 031 351	-
Over 5 years	11 382 231	-
	117 693 824	-
Expected credit loss allowance	(444 390)	-
	117 249 434	-

14.3 Maturity analysis of investment securities – held to maturity

	31 December 2018 US$	31 December 2017 US$
less than 1 month	-	-
1 to 3 months	-	-
3 to 6 months	-	-
6 months to 1 year	-	2 424 461
1 year to 5 years	-	-
Over 5 years	-	11 320 254
	-	
	-	13 744 715

14.4 Maturity analysis of investment securities – loans and receivables

	31 December 2018 US$	31 December 2017 US$
Less than 1 month	-	6 150 000
1 to 3 months	-	142 246
3 to 6 months	-	722 972
6 months to 1 year	-	6 138 889
1 year to 5 years	-	65 346 603
	-	78 500 710

14.5 Fair values of financial instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation models

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the year ended 31 December 2018

14. FINANCIAL INSTRUMENTS (continued)

14.5.1 Financial instruments measured at fair value - fair value hierarchy

	Dec 2018 US$	Level 1 US$	Level 2	Level 3 US$
Trade investments	112 501	-	-	112 501
Quoted investments	-	-	-	-
	112 501	-	-	112 501

14.5.1 Financial instruments measured at fair value - fair value hierarchy

	Dec 2017 US$	Level 1 US$	Level 2	Level 3 US$
Trade investments	102 347	-	-	102 347
Quoted investments	15 533	15 533	-	-
	117 880	15 533	-	102 347

During the reporting periods ended 31 December 2018 and 31 December 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Level 3 fair value measurements

Reconciliation

31 December 2018

	Trade investments US$
Balance at 1 January	102 347
Gain recognised in profit or loss	10 154
Balance at 31 December	112 501

31 December 2017

	Trade investments US$
Balance at 1 January	88 930
Gain recognised in profit or loss	13 417
Balance at 31 December	102 347

14.5.2 Financial instruments not measured at fair value

Below is a list of the Group's financial investments not measured at fair value, but whose carrying amounts approximate fair value.

31 December 2018

Assets	Total carrying amount US$
Cash and cash equivalents	112 440 912
Loans, advances and other accounts	254 202 945
Investment securities	117 249 434
	483 893 291
Liabilities	
Deposits and other liabilities	447 105 283
	447 105 283

31 December 2017

Assets	Total carrying amount US$
Cash and cash equivalents	89 553 202
Loans, advances and other accounts	210 483 221
Investment securities	92 245 425
	392 281 848
Liabilities	
Deposits and other liabilities	356 912 509
	356 912 509

The carrying amount of financial assets and liabilities not measured at fair approximate fair value.

15. CASH AND CASH EQUIVALENTS

	31 December 2018 US$	31 December 2017 US$
Balances with the Central Bank	89 081 480	79 876 937
Current, nostro accounts* and cash	13 426 360	6 676 265
Interbank placements (see below)	10 000 000	3 000 000
	112 507 840	89 553 202
Expected Credit loss allowance (see below)	(66 928)	-
	112 440 912	89 553 202

15.1 Interbank placements

	31 December 2018 US$	31 December 2017 US$
Interbank placements	10 000 000	3 000 000
Expected Credit Loss allowance	(66 928)	-
-ECL charged at 1 January 2018	(26 770)	-
-ECL charged through profit and loss	(40 158)	-
	9 933 072	3 000 000

*Nostro accounts are foreign domiciled bank accounts operated by the Bank for the facilitation of offshore transactions on behalf of clients.

Balances with the Central Bank, other banks and cash are used to facilitate customer transactions which include payments and cash withdrawals. During the year the Central Bank through Exchange Control Operational Guide 8 (ECOGAD8) introduced prioritisation criteria which have to be followed when making foreign payments on behalf of customers. After prioritisation, foreign payments are then made subject to availability of bank balances with foreign correspondent banks, resulting in possible delay of payment of telegraphic transfers. However, no delay is expected in the settlement of local transactions through the Real Time Gross Settlement (RTGS) system. Of the cash and cash equivalents balance an amount of US$526 316 was pledged to Proparco as collateral for offshore lines of credit.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the year ended 31 December 2018

16. LOANS, ADVANCES AND OTHER ASSETS

16.1. Total loan, advances & other assets

16.1.1 Loans, advances & other assets	31 December 2018 US$	31 December 2017 US$
Fixed term loans - Corporate	58 036 580	54 435 318
Fixed term loans – Retail	77 580 291	65 227 917
Mortgages	61 390 107	37 295 987
Overdrafts	50 946 710	47 374 705
	247 953 688	204 333 927
Other assets	6 249 257	6 149 294
	254 202 945	210 483 221

16.1.2 Maturity analysis

	31 December 2018 US$	31 December 2017 US$
Less than one month	67 413 196	71 137 746
1 to three months	19 263 549	10 680 845
3 to 6 months	6 828 594	2 954 340
6 months to 1 year	24 887 015	11 024 220
1 to 5 years	94 242 902	80 804 577
Over 5 years	49 699 770	34 403 690
Total advances	262 335 026	211 005 418
Allowances for impairment losses on loans and advances	(13 300 688)	(5 445 968)
-IAS 39 impairment loss allowance at 1 January	(5 445 968)	(8 305 117)
-ECL recognized through retained earnings	(8 175 135)	-
-ECL charged through profit and loss	(3 901 487)	-
-IAS 39 charge through profit and loss	-	(3 853 149)
Bad debts written off	4 221 902	6 712 298
Suspended interest on credit impaired financial assets	(1 080 650)	(1 225 523)
	247 953 688	204 333 927
Other assets	6 249 257	6 149 294
	254 202 945	210 483 221

16.2 Sectoral anaalysis of utilisations

	31 December 2018 US$	%	31 December 2017 US$	%
Agriculture and horticulture	37 386 857	14	28 531 460	14
Conglomerates	10 692 402	4	9 210 926	4
Distribution	28 902 108	11	28 737 726	14
Food & beverages	6 304 863	3	10 417 745	5
Individuals	100 512 291	38	82 589 355	39
Manufacturing	8 731 095	3	8 565 178	4
Mining	703 294	-	736 466	-
Services	69 102 116	27	42 216 562	20
	262 335 026	100	211 005 418	100

The material concentration of loans and advances is with individuals at 38% (2017 - 39%) and services sector at 27% (2017 - 20%).

16.3 Impairment analysis of financial assets measured at amortised cost

31 December 2018

	Stage 1 US$	Stage 2 US$	Stage 3 US$	Total US$
Gross carrying amount at 1 January 2018	307 212 628	19 328 471	16 848 747	343 389 846
Transfers	**(9 071 715)**	**(2 794 360)**	**11 866 075**	**-**
- to 12 month ECL	1 422 126	(1 096 550)	(325 576)	-
- to lifetime ECL not credited-impaired	(9 561 225)	10 357 548	(796 323)	-
- to lifetime ECL credit-impaired	(932 616)	(12 055 358)	12 987 974	-
Net movement in financial assets	74 121 127	8 583 823	(9 235 272)	73 469 678
Balance as at 31 December 2018	**372 262 040**	**25 117 934**	**19 479 550**	**416 859 524**
Loss allowance analysis				
At 1 January 2018 (IAS 39 Provisions)	-	-	-	5 445 968
Adjustment on initial application of IFRS 9*	-	-	-	8 575 988
ECL on 1 January 2018	9 075 323	1 335 253	3 611 380	14 021 956
-ECL – loans and advances	8 674 470	1 335 253	3 611 380	-
-ECL – Investment securities	374 082	-	-	-
-ECL – Interbank placements	26 771	-	-	-
Transfers	**(445 983)**	**(3 253 424)**	**3 699 407**	**-**
- to 12 month ECL	30 024	(18 951)	(11 073)	-
- to lifetime ECL not credited-impaired	(219 448)	356 161	(136 713)	-
- to lifetime ECL credit-impaired	(256 559)	(3 590 634)	3 847 193	-
Net increase/(decrease) in ECL	(879 896)	2 771 543	2 120 305	4 011 952
Bad debts written off	-	-	(4 221 902)	(4 221 902)
Balance as at 31 December 2018	**7 749 444**	**853 372**	**5 209 190**	**13 812 006**
Loans and advances	7 238 126	853 372	5 209 190	13 300 688
Investment securities	444 390	-	-	444 390
Interbank placements	66 928	-	-	66 928
	7 749 444	**853 372**	**5 209 190**	**13 812 006**

*The Bank adopted IFRS 9 effective 1 January 2018 and the resultant increase in impairment allowance on the effective date was recognized through retained earnings as the Bank did not elect retrospective application of the Standard.

31 December 2017

	Specific US$	Portfolio US$	Total US$
At 1 January	6 207 672	2 097 445	8 305 117
Charge against profits	3 334 133	519 016	3 853 149
Bad debts written off	(6 712 298)	-	(6 712 298)
	2 829 507	2 616 461	5 445 968

16.4 Credit- impaired financial assets

	31 December 2018 US$	31 December 2017 US$
Total credit impaired financial assets	19 479 550	16 848 747
Expected credit losses on credit impaired financial assets	(5 209 190)	-
Allowance for impairment loss on loans and advances	-	(2 829 507)
Retail loans insurance	(499 057)	(1 457 059)
Suspended interest on credit-impaired financial assets	(1 080 650)	(1 225 523)
Net credit impaired financial assets	12 690 653	11 336 658

16.4 Credit- impaired financial assets (continued)

The net credit impaired financial assets represents recoverable portions covered by realisable security, which includes guarantees, cessation of debtors, mortgages over properties, equities and promissory notes all fair valued at US$9 212 125 (2017 - US$15 483 487).

16.5 Loans to related parties (included under loans, advances and other assets)

	31 December 2018 US$	31 December 2017 US$
Executive directors	90 036	201 084
Officers	12 115 488	7 566 669
Officers' companies	-	-
	12 205 524	7 767 753
Fair value adjustments	-	(276 695)
ECL on staff loans	(160 529)	
	12 044 995	7 491 058

17. Non-current assets held for sale

	31 December 2018 US$	31 December 2017 US$
At 1 January	36 000	2 261 300
Fair value adjustment	-	-
Disposals	-	(2 225 300)
	36 000	36 000

18. INTANGIBLE ASSETS

	Work in Progress US$	Computer Software US$	Total US$
Cost			
Balance at 1 January 2017	228 595	3 045 126	3 273 721
Acquisitions	-	1 565 713	1 565 713
Balance at 1 January 2018	228 595	4 610 839	4 839 434
Acquisitions	-	535 971	535 971
Capitalisations	(228 595)	228 595	
Balance at 31 December 2018	-	5 375 405	5 375 405
Accumulated amortisation			
Balance at 1 January 2017	-	1 626 687	1 626 687
Amortisation for the year	-	832 567	832 567
Balance at 1 January 2018	-	2 459 254	2 459 254
Amortisation for the year	-	879 376	879 376
Balance at 31 December 2018	-	3 338 630	3 338 630
Carrying amount			
At 31 December 2018	-	2 036 775	2 036 775
At 1 January 2018	228 595	2 151 585	2 380 180
At 1 January 2017	228 595	1 418 439	1 647 034

19. PROPERTY AND EQUIPMENT

	Capital work in progress US$	Computers US$	Motor vehicles US$	Furniture & equipment US$	*Free-hold land & buildings US$	Total US$
Cost/Revaluation amount						
At 1 January 2017	188 947	3 677 901	1 283 448	3 913 914	3 498 454	12 562 664
Additions	268 310	1 598 813	52 454	115 296	4 060	2 038 933
Capitalisations	(163 541)	163 541	-	-	-	-
Revaluation gain	-	-	-	-	211 290	211 290
Disposals	-	(4 930)	(80 000)	-	-	(84 930)
At 31 December 2017	**293 716**	**5 435 325**	**1 255 902**	**4 029 210**	**3 713 804**	**14 727 957**
Additions	7 179 544	1 978 026	123 267	210 003	-	9 490 840
Capitalisations	(309 266)	-	-	257 626	-	(51 640)
Revaluation gain	-	-	-	-	139 194	139 194
Disposals	-	-	(109 399)	(18 616)	-	(128 015)
Reclassification from investment properties	2 300 000	-	-	-	-	2 300 000
At 31 December 2018	**9 463 994**	**7 413 351**	**1 269 770**	**4 478 223**	**3 852 998**	**26 478 336**
Accumulated depreciation						
At 1 January 2017	-	2 203 125	772 201	3 044 870	262 183	6 282 379
Charge for the year	-	563 658	191 573	316 222	65 357	1 136 810
Disposals	-	(2 219)	(25 000)	-	-	(27 219)
At January 2018	**-**	**2 764 564**	**938 774**	**3 361 092**	**327 540**	**7 391 970**
Charge for the year	-	843 339	178 887	283 982	64 104	1 370 312
Disposals	-	-	(109 399)	(18 616)	-	(128 015)
At 31 December 2018	**-**	**3 607 903**	**1 008 262**	**3 626 458**	**391 644**	**8 634 267**
Carrying amount						
At 31 December 2018	**9 463 994**	**3 805 448**	**261 509**	**851 764**	**3 461 354**	**17 844 069**
At 1 January 2018	**293 716**	**2 670 761**	**317 129**	**668 118**	**3 386 264**	**7 335 988**
At 1 January 2017	**188 947**	**1 474 776**	**511 248**	**896 044**	**3 236 271**	**6 280 286**

*Assets are measured using the revaluation model.

Measurement of fair value

Fair value hierarchy
Immovable properties were revalued as at 31 December 2018 on the basis of valuations carried out by independent professional valuers, PMA Real Estate (Private) Limited. The valuation which conforms to International Valuation Standards, was in terms of the policy as set out in the accounting policies section. All movable assets are measured at their carrying amounts which are arrived at by the application of a depreciation charge on their cost values over the useful lives of the assets.

The valuation of land and buildings was arrived by applying yield rates of 10% on rental levels of between US$3 - US$7 per square metre.

Level 3

The fair value of immovable properties of US$3 461 354 (2017 - US$3 386 264) has been categorised under level 3 in the fair value hierarchy based on the inputs used for the valuation technique described below.

The following shows reconciliation between the opening and closing balances for level 3 fair values:

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the year ended 31 December 2018

19. PROPERTY AND EQUIPMENT (continued)

Measurement of fair value (continued)

Fair value hierarchy (continued)

Level 3 (continued)	**31 December 2018 US$**	**31 December 2017 US$**
At 1 January	3 386 264	3 236 271
Additions	-	4 060
Transfers from work in progress	-	-
Revaluation gain	62 533	121 630
Impairment reversal	76 661	89 660
Depreciation	(64 104)	(65 357)
Balance at 31 December	3 461 354	3 386 264

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of immovable properties, as well as the significant unobservable inputs used.

Valuation Technique	Significant Unobservable Inputs	Inter-relationship between key unobservable inputs and fair value measurement
The Direct Comparison Method was applied on all residential properties	• Weighted average expected market rental growth (5%); and • Average market yield of 10%.	The estimated fair value would increase /(decrease) if: • expected market rental growth were higher/ (lower); and • the risk adjusted discount rates were lower/ (higher). Below is an indication of the sensitivity analysis at different discount rates:-

Change in rate	Change in fair value
+5%	139 000
+3%	83 400
+1%	27 800
-1%	-27 800
-3%	-83 400
-5%	-139 000

20. Capital commitments

	31 December 2018 US$	**31 December 2017 US$**
Capital expenditure contracted for	2 931 385	607 736
Capital expenditure authorised but not yet contracted for	9 092 999	10 502 287
	12 024 384	11 110 023

The capital expenditure will be funded from the Group's own resources.

21. Contingent liabilities

	31 December 2018 US$	**31 December 2017 US$**
Guarantees	6 159 566	8 195 056
Facilities approved but not drawn down	20 671 107	28 943 947
Expected credit losses on facilities approved but not drawdown	(1 520 945)	-
Expected credit losses on guarantees	(553 538)	-
	24 756 190	37 139 003

22. EXCHANGE RATES

The following exchange rates have been used to translate the foreign currency balances to United States dollars at year end:

		31 December 2018 Mid - rate	**31 December 2017 Mid - rate**
British Sterling	GBP	1.2785	1.3525
South African Rand	ZAR	14.2254	12.3250
European Euro	EUR	1.1490	1.1994
Botswana Pula	BWP	10.7296	9.8232

23. EVENTS AFTER THE REPORTING PERIOD

On 20 February 2019, the Reserve Bank of Zimbabwe (RBZ) announced in its Monetary Policy Statement (MPS) that the Monetary Authorities had established an interbank foreign exchange market to formalise the buying and selling of foreign currency through the Banks and Bureaux de change. The Monetary Policy statement was followed by the issuance of Statutory Instrument 33 of 2019 (SI 33) on 22 February 2019.

The Statutory Instrument introduced RTGS dollars as a legal tender in Zimbabwe and advised that the RTGS dollars at a rate of 1:1 to the USD would be used by all entities and individuals in Zimbabwe for the purposes of pricing goods and services, record debts, accounting and settlement of domestic transactions with effect from 20 February 2019. All foreign liabilities or legacy debts due to suppliers and service providers, declared dividends e.t.c shall be treated separately after registering such debts with the RBZ Exchange Control Department for the purposes of providing the Reserve Bank of Zimbabwe with sufficient information to determine an orderly expunging of these legacy debts.

The Directors, based on their analysis of IFRSs, had considered the MPS of 20 February 2019 and the subsequent emergence of the USD interbank exchange rate to be an adjusting post balance sheet event in terms of International Accounting Standard 10 (IAS 10) *"Events After the Reporting Period"* as the developments were reflective of underlying conditions that existed at reporting date. The introduction of the RTGS$ as a currency and initial trades on 22 February 2019 at USD1: RTGS$2.5, was in the opinion of the Directors, a confirmation of a market wide practice which had recognised and accepted RTGS$ as a form of currency which was different from the United States Dollars. However, due to the limitations provided by SI 33 of 2019, these events after the reporting period have not been adjusted for doing so would result in non-compliance with local laws and regulations.

The Directors performed a sensitivity analysis on note 23.1 to illustrate the impact on the Group's statement of financial position as at 31 December 2018 had the financial statements been restated using the first available interbank mid-rate on 22 February 2019 of USD1:RTGS$2.5. A further analysis of the impact on the statement of financial position has also been performed using the rates of USD1:RTGS$3 and USD1:RTGS$4.

Assumptions

In coming up with the sensitivity analysis of the Group's Statement of Financial Position as at 31 December 2018, the Directors based the analysis on the assumptions of parity and interchangeability between the USD and RTGS balances. Furthermore, the figures on the sensitivity analysis are not reflective of the opening balances for future periods.

Foreign liabilities or legacy debts, which are being registered with the RBZ for them to determine an orderly expunging of the debts, have been restated at the assumed interbank mid-rates above pending a determination by the Reserve Bank of Zimbabwe.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the year ended 31 December 2018

23. EVENTS AFTER THE REPORTING PERIOD (continued)

23.1 Sensitivity analysis for events after the reporting period

	Components of reported amounts				Sensitivity Analysis			
	Monetary Assets/ Liabilities Nostro FCA USD	**Monetary Assets/ Liabilities RTGS$**	**Non Monetary Assets/ Liabilities USD**	**Non Monetary Assets/ Liabilities RTGS$**	**Total USD @1.1**	**Total RTGS$ @1:2.5**	**Total RTGS$ @1:3**	**Total RTGS$ @1:4**
Shareholders' funds								
Share capital	-	80 975	-	-	80 975	80 975	80 975	80 975
Capital reserves		16 526 297	-	-	16 526 297	16 526 297	16 526 297	16 526 297
Revaluation reserve	-	-	136 741	-	136 741	341 853	410 223	546 964
Foreign currency translation reserve	-	-	-	-	-	9 019 802	12 026 402	18 039 603
Retained earnings	-	47 377 400	-	-	47 377 400	47 377 400	47 377 400	47 377 400
Total equity	**-**	**63 984 672**	**136 741**	**-**	**64 121 413**	**73 346 327**	**76 421 297**	**82 571 239**
Redeemable ordinary shares	-	14 335 253	-	-	14 335 253	14 335 253	14 335 253	14 335 253
Subordinated term loan	1 505 647	-	-	-	1 505 647	3 764 118	4 516 941	6 022 588
Total shareholders' funds and shareholders' liabilities	**1 505 647**	**78 319 925**	**136 741**	**-**	**79 962 313**	**91 445 698**	**95 273 491**	**102 929 080**
Liabilities								
Deposits and other accounts	28 953 975	418 151 308	-	-	447 105 283	490 536 246	505 013 233	533 967 208
Deferred taxation	-	-		-	-	1 219 546	2 262 240	4 347 626
Total liabilities	**28 953 975**	**418 151 308**	**-**	**-**	**447 105 283**	**491 755 792**	**507 275 473**	**538 314 834**
Total shareholders' funds and liabilities	**30 459 622**	**496 471 233**	**136 741**	**-**	**527 067 596**	**583 201 490**	**602 548 964**	**641 243 914**
Assets								
Cash and cash equivalents	12 692 524	99 748 388	-	-	112 440 912	131 479 698	137 825 960	150 518 484
Current tax assets	-	285 822	-	-	285 822	285 822	285 822	285 822
Investment securities	-	117 249 434	-	-	117 249 434	117 249 434	117 249 434	117 249 434
Loans, advances and other accounts	4 081	254 198 864	-	-	254 202 945	254 209 067	254 211 107	254 215 188
Non current assets held for sale	-	-	36 000	-	36 000	90 000	108 000	144 000
Trade and other investments	112 501	-	-	-	112 501	281 253	337 503	450 004
Investment properties	-	-	13 838 490	7 112 116	20 950 606	41 708 341	48 627 586	62 466 076
Intangible assets	-	-	-	2 036 775	2 036 775	2 036 775	2 036 775	2 036 775
Property and equipment		-	12 011 354	5 832 715	17 844 069	35 861 100	41 866 777	53 878 131
Deferred taxation	-	1 908 532	-	-	1 908 532	-	-	-
Total assets	**12 809 106**	**473 391 040**	**25 885 844**	**14 981 606**	**527 067 596**	**583 201 490**	**602 548 964**	**641 243 914**

DIVIDEND DECLARATION NOTICE

Notice is hereby given that the board declared a scrip dividend alternative to the cash dividend of 0.96 RTGS cents per share for the year ended 31 December 2018 payable in respect of all the ordinary shares of the Company. The ratio of allotment for the scrip dividend shall be one (1) for every twenty five (25) shares held. The conversion price of the scrip dividend is 24 RTGS cents which was the market price as at 17th April 2019, being the date the directors approved the dividend. This dividend will be payable in full to all Shareholders of the Company registered at the close of business on 10 May 2019.

The payment of the dividend will take place on or about 11 June 2019. The applicable shareholders' tax will be deducted from the Gross Dividends. The shares of the Company will be traded cum-dividend on the Zimbabwe Stock Exchange up to the market day of 7 May 2019 and ex-dividend as from 8 May 2019. The forms of election with the full details and terms of the scrip/cash dividend offer will be mailed to shareholders on 17 May 2019 and the last date of receiving the forms of election is 7 June 2019.

Shareholders are requested to submit/update their mailing and banking details to the Transfer Secretaries and also immediately contact the Transfer Secretary should they not have received their dividend election forms by 24 May 2019 on the following contacts.

First Transfer Secretaries (Pvt) Ltd
1 Armagh Avenue
Eastlea
Harare

Telephone: +263 242 782869/72 or 776628/49/59/69/74

Email: info@fts-net.com

By order of the Board

S. PASHAPA
Company Secretary

17 April 2019

NMB BANK LIMITED

NMB Bank Limited. Registered Commercial Bank.

A Member of The Deposit Protection Scheme

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2018

	Note	31 December 2018 US$	31 December 2017 US$
Interest income		39 333 178	32 061 931
Interest expense		(8 865 016)	(9 157 095)
Net interest income		**30 468 162**	**22 904 836**
Fee and commissions income		28 539 376	18 832 185
Net foreign exchange gains		1 899 670	1 583 164
Revenue		**60 907 208**	**43 320 185**
Other income	a	4 983 521	1 107 241
Operating income		**65 890 729**	**44 427 426**
Operating expenditure	b	(34 712 711)	(27 578 347)
Operating income before impairment charge		**31 178 018**	**16 849 079**
Impairment losses on financial assets measured at amortised cost		(4 011 952)	-
Impairment losses on loans and advances		-	(3 853 149)
Profit before taxation		**27 166 066**	**12 995 930**
Taxation		(5 923 385)	(3 078 579)
Profit for the period		**21 242 681**	**9 917 351**
Other comprehensive income			
Revaluations, net of tax	c	46 431	90 310
Total comprehensive income for the period		**21 289 112**	**10 007 661**
Earnings per share (US cents)			
-Basic	d	128.70	60.08

STATEMENT OF FINANCIAL POSITION
as at 31 December 2018

	Note	31 December 2018 US$	31 December 2017 US$
SHAREHOLDER'S FUNDS			
Share capital	e	16 506	16 506
Share premium		31 474 502	31 474 502
Regulatory reserve		-	2 297 492
Revaluation reserve		136 741	90 310
Retained earnings		47 267 030	30 842 252
Total shareholder's funds		**78 894 779**	**64 721 062**
LIABILITIES			
Deposits and other liabilities		447 138 216	356 977 472
Subordinated term loan		1 505 647	1 415 904
Total liabilities		**448 643 863**	**358 393 376**
Total shareholder's funds and liabilities		**527 538 642**	**423 114 438**
ASSETS			
Cash and cash equivalents	f	112 440 912	89 553 202
Current tax assets		210 302	155 488
Loans, advances and other assets		254 195 558	210 475 836
Investment securities		117 249 434	92 245 425
Amount owing from Holding Company		558 303	651 564
Non - current assets held for sale		36 000	36 000
Unquoted investments		112 501	102 347
Investment properties	g	20 950 606	18 977 000
Intangible assets		2 036 775	2 380 180
Property and equipment		17 844 069	7 335 988
Deferred tax assets		1 904 182	1 201 408
Total assets		**527 538 642**	**423 114 438**

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018

	Share Capital US$	Share Premium US$	Revaluation Reserve US$	Regulatory Reserve US$	Retained Earnings US$	Total US$
Balances at 1 January 2017	**16 506**	**31 474 502**	**-**	**1 785 136**	**21 437 257**	**54 713 401**
Profit for the year	-	-	-	-	9 917 351	9 917 351
Other comprehensive income	-	-	90 310	-	-	90 310
Transfer from retained earnings	-	-	-	512 356	(512 356)	-
Balances at 31 December 2017	**16 506**	**31 474 502**	**90 310**	**2 297 492**	**30 842 252**	**64 721 062**
IFRS 9 adjustments – 1 January 2018						
Transfer from regulatory reserve	-	-	-	(2 297 492)	2 297 492	-
Expected credit loss (ECL) adjustment 1 January 2018	-	-	-	-	(8 575 988)	(8 575 988)
Deferred tax on ECL adjustment 1 January 2018	-	-	-	-	2 208 317	2 208 317
Restated balances at 1 January 2018	**16 506**	**31 474 502**	**90 310**	**-**	**26 772 073**	**58 353 391**
Profit for the year	-	-	-	-	21 242 681	21 242 681
Other comprehensive income	-	-	46 431	-	-	46 431
Dividend paid	-	-	-	-	(747 724)	(747 724)
Balances at 31 December 2018	**16 506**	**31 474 502**	**136 741**	**-**	**47 267 030**	**78 894 779**

STATEMENT OF CASH FLOWS
for the year ended 31 December 2018

	31 December 2018 US$	31 December 2017 US$
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	27 166 066	12 995 930
Non-cash items		
- Impairment losses on financial assets measured at armotised cost	4 011 952	3 853 149
- Investment properties fair value adjustment	(2 551 436)	(302 255)
- Profit on disposal of property and equipment	(22 396)	-
- Loss on disposal of property and equipment (included in staff costs)	-	56 637
- Loss on disposal of non current asset held for sale	-	75 300
- Profit on disposal of investment properties	(567 032)	(12 951)
- Unquoted investments fair value adjustment	(10 154)	(13 417)
- Impairment reversal on land and buildings	(76 661)	(89 660)
- Depreciation	1 370 312	1 136 810
- Interest capitalised on subordinated term loan	171 483	165 345
- Amortisation of intangible assets	879 376	832 567
- Unrealised foreign exchange loss/(gain)	20 689	(16 555)
Operating cash flows before changes in operating assets and liabilities	30 392 199	18 680 900
Changes in operating assets and liabilities		
Increase in deposits and other liabilities	90 073 581	91 620 178
Increase in loans, advances and other assets	(56 133 878)	(14 656 426)
Net cash generated from operations	64 331 902	95 644 652
Taxation		
Capital gains tax paid	-	(155 265)
Corporate tax paid	(4 488 757)	(1 757 028)
Net cash inflow from operating activities	59 843 145	93 732 359
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on disposal of property and equipment	22 396	1 076
Acquisition of intangible assets	(535 971)	(1 565 713)
Acquisition of property and equipment	(9 490 840)	(2 038 933)
Acquisition of investment properties	(6 082 924)	(4 792 475)
Proceeds or disposal of non-current asset held for sale	-	2 150 000
Acquisition of investment securities	(25 004 013)	(67 500 670)
Decrease/(Increase) in amount owing from Holding Company	93 261	(40 961)
Proceeds on disposal of investment properties	4 801 846	332 951
Net cash outflow from investing activities	(36 196 245)	(73 454 725)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(747 724)	-
Payment of interest on subordinated term loan	(81 740)	(164 931)
Net cash inflow from financing activities	(829 464)	(164 931)
Net increase in cash and cash equivalents	22 817 436	20 112 702
Net foreign exchange differences on cash and cash equivalents	70 274	19 242
Cash and cash equivalents at beginning of the year	89 553 202	69 421 257
Cash and cash equivalents at the end of the year (note f)	112 440 912	89 553 202

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the year ended 31 December 2018

There are no material differences between the Bank and the Holding company as the Bank is the principal operating subsidiary of the Group. The notes to the financial statements under NMBZ Holdings Limited are therefore the same as those of the Bank in every material respect where applicable.

a. OTHER INCOME

	31 December 2018 US$	31 December 2017 US$
Loss on disposal of non-current assets held for sale	-	(75 300)
Unquoted investments fair value adjustments	10 154	13 416
Profit on disposal of investment properties	567 032	12 951
Profit on disposal of property and equipment	22 396	-
Fair value adjustment on investment properties	2 551 436	302 255
Rental income	365 269	135 900
Bad debts recovered	1 295 428	580 295
Other operating income	171 806	137 724
	4 983 521	1 107 241

b. OPERATING EXPENDITURE

	31 December 2018 US$	31 December 2017 US$
The operating profit is after recognising the following:		
Administration costs	15 955 591	11 866 111
Audit fees:		
- Current year	98 991	35 938
- Prior year	111 406	95 456
Impairment reversal on land and buildings*	(76 660)	(89 660)
Depreciation	1 370 312	1 136 810
Amortisation of intangible assets	879 376	832 567
Directors' remuneration	971 121	719 318
- Fees for services as directors	219 246	233 102
- Expenses	17 364	9 393
- Services rendered	734 511	476 823
Staff costs - salaries, allowances and related costs	15 402 574	12 981 807
	34 712 711	27 578 347

*The impairment reversal on land and building arose due to fair value changes on the Group's land and buildings measured using the revaluation model.

c. Other comprehensive income

	31 December 2018 US$	31 December 2017 US$
Revaluation gain on land and buildings	62 533	121 630
Tax effect	(16 102)	(31 320)
	46 431	90 310

d. EARNINGS PER SHARE

		31 December 2018 US$	31 December 2017 US$
	The calculation of earnings per share is based on the following figures:		
d.1	**Earnings**		
	Profit for the year	21 242 681	9 917 351
d.2	**Number of shares**		
	Weighted average shares in issue	16 506 050	16 506 050
d.3	**Earnings per share (US cents)**		
	Basic	128.70	60.08

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the year ended 31 December 2018

e. SHARE CAPITAL

e.1 Authorised
The authorised ordinary share capital at 31 December 2018 is at the historical cost figure of US$25 000 (2017 - US$25 000) comprising 25 million ordinary shares of US$0.001 each.

e.2 Issued and fully paid
The issued share capital at 31 December 2018 is at the historical cost figure of US$16 506 (2017 - US$16 506) comprising 16 506 050 (2017 – 16 506 050) ordinary shares of US$0.001 each

f. CASH AND CASH EQUIVALENTS

	31 December 2018 US$	31 December 2017 US$
Balances with the Central Bank	89 081 480	79 876 937
Current, nostro accounts and cash	13 426 360	6 676 265
Interbank placements (see below)	10 000 000	3 000 000
	112 507 840	89 553 202
Expected Credit loss allowance (see below)	(66 928)	-
	112 440 912	89 553 202
Interbank placements		
Interbank placements	10 000 000	3 000 000
Expected Loss allowance	(66 928)	-
-ECL at 1 January 2018	(26 770)	-
-ECL charge through profit or loss	(40 158)	-
	9 933 072	3 000 000

G. INVESTMENT PROPERTIES

	31 December 2018 US$	31 December 2017 US$
At 1 January	18 977 000	14 202 270
Acquisitions	6 082 924	4 792 475
Disposals	(4 360 754)	(320 000)
Fair value adjustments	2 551 436	302 255
Reclassification to property and equipment	(2 300 000)	-
At 31 December	20 950 606	18 977 000

Investment properties comprise a commercial property and residential properties that are leased out to third parties and land held for future development. No properties were encumbered.

Rental income amounting to US$365 269 (2017 - US$135 900) was received and no operating expenses were incurred on the investment properties in the current year due to the net leasing arrangement on the properties.

Included in investment properties are properties which were acquired as part of the foreclosure process with marketability restrictions measured at US$8 355 662 as at 31 December 2018. The Bank has no restrictions on the realisability of all the remaining investment properties and no contractual obligations to purchase, construct or develop the investment properties or for repairs, maintenance and enhancements.

Measurement of fair value

Fair value hierarchy

The fair value of the Bank's investment properties as at 31 December 2018 has been arrived at on the basis of valuations carried out by independent professional valuers, PMA Real Estate (Private) Limited. The valuation which conforms to International Valuation Standards, was in terms of the policy as set out in the accounting policies section and was derived with reference to market information close to the date of the valuation.

Level 2

The fair value for investment properties of US$12 594 944 (2017 - US$8 722 000) has been categorised under level 2 in the fair value hierarchy based on the inputs used for the valuation technique described below.

The following shows reconciliation between the opening and closing balances for level 2 fair values:

	31 December 2018 US$	31 December 2017 US$
At 1 January	8 722 000	7 382 270
Acquisitions	3 247 175	1 740 158
Disposals	-	(320 000)
Fair value adjustments	1 281 769	(80 428)
Transfers from Level 3	1 644 000	-
Reclassification to property and equipment	(2 300 000)	-
Balance at 31 December	12 594 944	8 722 000

Level 3

The fair value for investment properties of US$8 355 662 (2017 - US$10 255 000) has been categorised under level 3 in the fair value hierarchy based on the inputs used for the valuation technique described below.

The following shows reconciliation between the opening and closing balances for level 3 fair values:

	31 December 2018 US$	31 December 2017 US$
At 1 January	10 255 000	6 820 000
Acquisitions	2 835 749	3 052 317
Disposals	(4 360 754)	-
Fair value adjustments	1 269 667	382 683
Transfers to Level 2	(1 644 000)	-
Balance at 31 December	8 355 662	10 255 000

MEASUREMENT OF FAIR VALUE

The values were arrived at by applying yield rates of 5% on rental values of between US$4 - US$7 per square metre. The properties are leased out under operating lease to various tenants.

Valuation technique and significant unobservable inputs
The following table shows the valuation technique used in measuring the fair value of investment properties, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	inter-relationship between key unobservable inputs and fair value measurement
The **investment method** Discounted cash flows was used to value all income producing properties. **The direct comparison method** was applied on all residential properties.	• Weighted average expected market rental growth (5%); • Void period (average 3 months after the end of each lease); • Occupancy rate (55%); and Average market yield of 10%. • Marketability restrictions for level 3 items due to underlyine cotractual agreements with third parties	• The estimated fair value would increase /(decrease) if: • expected market rental growth were higher/ (lower); • void periods were shorter/(longer); • the occupancy rates were higher /(lower); and • the risk adjusted discount rates were lower/ (higher).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
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Below is an indication of the sensitivity analysis at different discount rates:-

Change in rate	Change in fair value
+5%	1 165 911
+3%	699 546
+1%	233 182
-1%	-233 182
-3%	-699 546
-5%	-1 165 911

h. CORPORATE GOVERNANCE AND RISK MANAGEMENT

1. RESPONSIBILITY

These financial statements are the responsibility of the directors. This responsibility includes the setting up of internal controls and risk management processes, which are monitored independently. The information contained in these financial statements has been prepared on the going concern basis and is in accordance with the provisions of the Companies Act (Chapter 24:03) of Zimbabwe, the Banking Act (Chapter 24:20) of Zimbabwe and International Financial Reporting Standards.

2. CORPORATE GOVERNANCE

The Bank adheres to principles of corporate governance derived from the National Code on Corporate Governance Zimbabwe, King IV Report, the United Kingdom Combined Code and Reserve Bank of Zimbabwe corporate governance guidelines. The Bank is cognisant of its duty to conduct business with due care and in good faith in order to safeguard all stakeholders' interests.
Board and Director evaluations are carried out an annual basis, wherein the effectiveness of the Board is reviewed, including its gender and skills mix. Furthermore, the independence of Independent Non-Executive Directors is reviewed on an annual basis.
The Bank has in place an Ethics Charter ("Code of Ethics") that all Board and staff members are required to adhere to. Also the Bank adheres to its Environmental and Social Risk Management Framework, wherein its main objectives are to:

- Identify and assess environmental and social risks and opportunities associated with a Client's activities and its sphere of influence;
- Promote improved social and environmental performance of a Client's companies; and
- Avoid, or where avoidance is not possible, minimize, mitigate, or compensate for adverse impacts on workers, affected communities, and the environment.

3. BOARD OF DIRECTORS

Board appointments are made to ensure a variety of skills and expertise on the Board. Non-executive directors are of such calibre as to provide independence to the Board. The Chairman of the Board is an independent non-executive director. The Board is supported by mandatory committees in executing its responsibilities. The Board meets at least quarterly to assess risk, review performance and provide guidance to management on both operational and policy issues.

The Board conducts an annual peer based evaluation on the effectiveness of its activities. The process involves the members evaluating each other collectively as a board and individually as members. The evaluation, as prescribed by the RBZ, takes into account the structure of the board, effectiveness of committees, strategic leadership, corporate social responsibility, attendance and participation of members and weaknesses noted. Remedial plans are invoked to address identified weaknesses with a view to continually improve the performance and effectiveness of the Board and its members.

3.1 Directors' attendance (NMB Bank Limited Board is the same as the NMBZ Holdings Limited Board)

	Board of Directors		Audit Committee		Risk Management		Asset and Liability Management Committee (ALCO) & Finance Committee		Loans Review Committee		Human Resources, Remuneration and Nominations Committee		Credit Committee	
Mr. B. A. Chikwanha	4	3			4	3					4	3	4	3
Mr. B. Ndachena (E)	4	4					4	4						
Mr. E. Sandersen	4	4			4	4	4	4	4	4				
Mr. B. P. Washaya (E)	4	4					4	4			4	4	4	4
Ms. S. Chitehwe	4	4	10	10			4	4	4	4				
Mr. J. Tichelaar	4	4					4	4	4	4	4	4		
Mr. J. de la Fargue	4	4			4	4	4	4			4	4	4	4
Ms. J. Maguranyanga	4	4	10	9					4	4	4	4		
Mr. C. Chikaura	4	4	10	10	4	4	4	4			4	4	4	4

KEY
Meetings planned | Meetings attended
(E) Executive.

4. RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Board Asset and Liability Management Committee (ALCO) and the Board Risk and Compliance Committee, which are responsible for defining the Group's risk universe, developing policies and monitoring implementation. The Board also has the Board Credit Committee (BCC) which is responsible for sanctioning credits and the Board Loans Review Committee (LRC), which is responsible for monitoring asset quality and adherence to the credit risk management policy.

Risk management is linked logically from the level of individual transactions to the Group level. Risk management activities broadly take place simultaneously at the following different hierarchy levels:

- Strategic Level: This involves risk management functions performed by senior management and the board of directors. It includes the definition of risk, ascertaining the Group's risk appetite, formulating strategy and policy for managing risk and establishes adequate systems and controls to ensure overall risk remains within acceptable levels and is adequately compensated.
- Macro Level: It encompasses risk management within a business area or across business lines. These risk management functions are performed by middle management.
- Micro Level: This involves "On-the-line" risk management where risks are actually created. These are the risk management activities performed by individuals who assume risk on behalf of the organisation such as Treasury Front Office, Corporate Banking, Retail banking etc. The risk management in these areas is confined to operational procedures set by management.

Risk management is premised on four (4) mutually reinforcing pillars, namely:

- adequate board and senior management oversight;
- adequate strategy, policies, procedures and limits;
- adequate risk identification, measurement, monitoring and information systems; and
- comprehensive internal controls and independent reviews.

4.1 Credit risk
Credit risk is the risk that a financial contract will not be honoured according to the original set of terms. The risk arises when borrowers or counterparties to a financial instrument fail to meet their contractual obligations. The Group's general credit strategies centre on sound credit granting process, diligent credit monitoring and strong loan collection and recovery. There is a separation between loan collection and recovery. There is a separation between loan granting and credit monitoring to ensure independency and effective management of the loan portfolio. The Board has put in place sanctioning committees with specific credit approval limits. The Credit Management department does the initial review of all applications before recommending them to the Executive Credit Committee and finally the Board Credit Committee depending on the loan amount. The Group has in place a Board Loans Review Committee responsible for reviewing the quality of the loan book and adequacy of loan loss provisions.

The Group has an automated credit processes from loan origination, appraisal, monitoring and collections. The system has a robust loan monitoring and reporting module which is critical in managing credit risk. In view of the group's move into the mass market, retail credit has become a key area of focus. The group has put in place robust personal loan monitoring systems and structures to mitigate retail loan delinquencies. This includes a rigorous scheme assessment and a dedicated pre-delinquency team and a separate recoveries team.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the year ended 31 December 2018

Credit Management

- Responsible for evaluating & approving credit proposals from the business units.
- Together with business units, has primary responsibility on the quality of the loan book.
- Reviewing credit policy for approval by the Board Credit Committee.
- Reviewing business unit level credit portfolios to ascertain changes in the credit quality of individual

4. RISK MANAGEMENT (continued)

- Customers or other counterparties as well as the overall portfolio and detect unusual developments.
- Approve initial customer internal credit grades or recommend to the Credit Committees for approval.
- Setting the credit risk appetite parameters.
- Ensure the Group adheres to limits, mandates and its credit policy.
- Ensure adherence to facility covenants and conditions of sanction e.g. annual audits, gearing levels, management accounts.
- Manage trends in asset and portfolio composition, quality and growth and non-performing loans.
- Manage concentration risk both in terms of single borrowers or group as well as sector concentrations and the review of such limits.

Credit Monitoring and Financial Modelling
- Independent credit risk management.
- Independent on-going monitoring of individual credit and portfolios.
- Triggers remedial actions to protect the interests of the Group, if appropriate (e.g. in relation to deteriorated credits).
- Monitors the on-going development and enhancement of credit risk management across the Group.
- Reviews the Internal Credit Rating System.
- On-going championing of the Basel II methodologies across the Group.
- Ensures consistency in the rating processes and performs independent review of credit grades to ensure they conform to the rating standards.
- Confirm the appropriateness of the credit risk strategy and policy or recommends necessary revisions in response to changes/trends identified.
- Credit Administration
- Prepares and keeps custody of all facility letters.
- Security registration.
- Safe custody of security documents.
- Ensures all conditions of sanction are fulfilled before allowing drawdown or limit marking.
- Review of credit files for documentation compliance e.g. call reports, management accounts.

Recoveries
The recoveries unit is responsible for all collections and ensures that the Group maximises recoveries from Non-Performing Loans (NPLs) and loans and advances written off.

4.2 Market risk
This is the exposure of the Group's on and off balance sheet positions to adverse movement in market prices resulting in a loss in earnings and capital. The market prices will range from money market (interest rate risk), foreign exchange and equity markets in which the bank operates. The Group has in place a Management Asset and Liability Committee (ALCO) which monitors market risk and recommends the appropriate levels to which the Group should be exposed at any time. Net Interest Margin is the primary measure of interest rate risk, supported by periodic stress tests to assess the Group's ability to withstand stressed market conditions. On foreign exchange risk, the bank monitors currency mismatches and make adjustments depending on exchange rate movement forecast.The mismatches per currency are contained within 5% of the Group's capital position.

Management ALCO meets on a monthly basis and operates within the prudential guidelines and policies established by the Board ALCO. The Board ALCO is responsible for setting exposure thresholds and limits, and meets on a quarterly basis.

4.3 Liquidity risk
Liquidity risk is the risk of financial loss arising from the inability of the Group to fund asset increases or meet obligations as they fall due without incurring unacceptable costs or losses. The Group identifies this risk through maturity profiling of assets and liabilities and assessment of expected cash flows and the availability of collateral which could be used if additional funding is required.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Board ALCO.

The key measure used by the bank for managing liquidity risk is the ratio of net liquid assets to deposits to customers. The Group also actively monitors its loans to deposit ratio against a set threshold in a bid to monitor and limit funding risk. The group monitors funding concentration risk by reviewing the ratio of top 20 depositors to the total funding. Funding mix is also monitored by monitoring the contribution of wholesale and demand deposits to the total funding for the bank. Liquidity risk is monitored through a daily liquidity reports produced by the Risk Management department. This is augmented by a monthly management ALCO and a quarterly board ALCO meetings.

4.4 Operational risk

This risk is inherent in all business activities and is the risk of loss arising from inadequate or failed internal processes, people, systems or from external events. The Group utilises monthly Key Risk Indicators to monitor operational risk in all units. Further to this, the Group has an elaborate Operational Loss reporting system in which all incidents with a material impact on the well-being of the Group are reported to risk management. The risk department conducts periodic risk assessments on all the units within the Group aimed at identifying the top risks and ways to minimise their impact. There is a Board Risk and Compliance Committee whose function is to ensure that this risk is minimised. The Risk Committee with the assistance of the internal audit function and the Risk Management department assesses the adequacy of the internal controls and makes the necessary recommendations to the Board.

4.5 Legal and compliance risk

Legal risk is the risk from uncertainty due to legal actions or uncertainty in the applicability or interpretation of contracts, laws or regulations. Legal risk may entail such issues as contract formation, capacity and contract frustration. Compliance risk is the risk arising from non – compliance with laws and regulations. To manage this risk, permanent relationships are maintained with firms of legal practitioners and access to legal advice is readily available to all departments. The Group has an independent compliance function which is responsible for identifying and monitoring all compliance issues and ensures the Group complies with all regulatory and statutory requirements.

4.6 Reputational risk

Reputation risk is the risk of loss of business as a result of negative publicity or negative perceptions by the market with regards to the way the Group conducts its business. To manage this risk, the Group strictly monitors customers' complaints, continuously train staff at all levels, conducts market surveys
and periodic reviews of business practices through its Internal Audit department. The directors are satisfied with the risk management processes in the Group as these have contributed to the minimisation of losses arising from risky exposures.

4.7 Strategic risk
This refers to current and prospective impact on a Group's earnings and capital arising from adverse business decisions or implementing strategies that are not consistent with the internal and external environment. To manage this risk, the Group always has a strategic plan that is adopted by the Board of Directors. Further, attainment of strategic objectives by the various departments is monitored periodically at management level.

4.8 Risk Ratings

4.8.1 Reserve Bank of Zimbabwe Ratings

The Reserve Bank of Zimbabwe conducted an onsite inspection on the Group's banking subsidiary on 24 November 2016. Below are the final ratings from the onsite examination.

IN PURSUIT OF EXCELLENCE

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the year ended 31 December 2018

4. RISK MANAGEMENT (continued)

4.8.1.1 CAMELS* Ratings

CAMELS Component	Latest RBS** Ratings 24/11/2016	Previous RBS Ratings 30/06/2013	Previous RBS Ratings 31/01/2008
Capital Adequacy	2	2	4
Asset Quality	3	4	2
Management	3	3	3
Earnings	2	2	3
Liquidity	3	2	3
Sensitivity to Market Risk	2	2	3
Composite Rating	3	3	3

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.

4.8.1.2 Summary RAS ratings

CAMELS Component	Latest RBS** Ratings 24/11/2016	Previous RBS Ratings 30/06/2013	Previous RAS Ratings 31/01/2008
Overall Inherent Risk	High	Moderate	Moderate
Overall Risk Management Systems	Acceptable	Acceptable	Acceptable
Overall Composite Risk	Moderate	Moderate	Moderate
Direction of Overall Composite Risk	**Stable**	**Stable**	**Stable**

***RAS stands for **R**isk **A**ssessment **S**ystem.

Type of Risk	Level of Inherent Risk	Adequacy of Risk Management Systems	Overall Composite Risk	Direction of Overall Composite Risk
Credit	High	Acceptable	High	Stable
Liquidity	High	Acceptable	High	Stable
Interest Rate	Moderate	Acceptable	Moderate	Stable
Foreign Exchange	Low	Acceptable	Low	Stable
Strategic Risk	Moderate	Acceptable	Moderate	Stable
Operational Risk	Moderate	Acceptable	Moderate	Stable
Legal & Compliance	Moderate	Acceptable	Moderate	Stable
Reputation	High	Acceptable	Moderate	Stable
Overall	**Moderate**	**Acceptable**	**Moderate**	**Stable**

KEY
Level of Inherent Risk

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

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 recognised 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 the bank's risk tolerance, responsibilities and accountabilities are effectively communicated.

Overall Composite Risk

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 much of the risk.

Moderate – risk management systems appropriately mitigates inherent risk. For a given low risk area, significant weaknesses 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 organisation.

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 Composite Risk

Increasing – based on the current information, risk is expected to increase in the next 12 months.
Decreasing – based on 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.

4.8.2 External Credit Ratings

The external credit ratings were given by Global Credit Rating (GCR), a credit rating agency accredited with the Reserve Bank of Zimbabwe.

Security class	2018	2017
Long term	BBB-	BB+

The current rating expires in August 2019.

4.9 Regulatory Compliance

There was no regulatory breach resulting in penalties during the period under review. The Bank is committed to comply with and adhere to all regulatory requirements.

NMB BANK LIMITED

NMB Bank Limited. Registered Commercial Bank.

A Member of The Deposit Protection Scheme

5. CAPITAL MANAGEMENT

The primary objective of the Bank's capital management is to ensure that the Bank complies with the RBZ requirements. In implementing the current capital requirements, the RBZ requires the Banking subsidiary to maintain a prescribed ratio of total capital to total risk weighted assets.
Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings (including current year profit), statutory reserve and other equity reserves.

The other component of regulatory capital is Tier 2 capital, which includes subordinated term debt, revaluation reserves and portfolio provisions.

Tier 3 capital relates to an allocation of capital to market and operational risk.

Various limits are applied to elements of the capital base. The core capital (Tier 1) shall comprise not less than 50% of the capital base and the regulatory reserves and portfolio provisions are limited to 1.25% of total risk weighted assets.

The Bank's regulatory capital position at 31 December was as follows:

	December 2018 US$	December 2017 US$
Share capital	16 506	16 506
Share premium	31 474 502	31 474 502
Retained earnings	47 267 030	30 842 252
Fair value gain on investment properties	(3 257 631)	(1 197 871)
	75 500 407	61 135 389
Less: capital allocated for market and operational risk	(3 886 799)	(2 918 935)
Credit to insiders	-	-
Tier 1 capital	71 613 608	58 216 454
Tier 2 capital (subject to limit as per Banking Regulations)	8 197 298	5 183 773
Revaluation reserve	3 257 631	1 197 871
Revaluation of property and equipment	136 741	90 310
Subordinated debt	302 152	477 782
Regulatory reserve (limited to 1.25% of risk weighted assets)	-	2 297 492
Stage 1 & 2 ECL provisions – (limited to 1,25% of risk weighted assets)	4 500 774	-
Portfolio provisions (limited to 1.25% of risk weighted assets)	-	1 120 318
Tier 1 & 2 capital	79 810 906	63 400 227
Tier 3 capital (sum of market and operational risk capital)	3 886 799	2 918 935
Total capital base	83 697 705	66 319 162
Total risk weighted assets	360 061 931	273 424 840
Tier 1 ratio	19.89%	21.29%
Tier 2 ratio	2.28%	1.90%
Tier 3 ratio	1.08%	1.07%
Total capital adequacy ratio	23.25%	24.26%
RBZ minimum required	12%	12.00%

6. SEGMENT INFORMATION

For management purposes, the Bank is organised into five operating segments based on products and services as follows:

Retail Banking - Individual customer's deposits and consumer overdrafts, credit card facilities and funds transfer facilities.

Corporate Banking - Loans and other credit facilities and deposit and current accounts for corporate and institutional customers.

Treasury- Money market investment, securities trading, accepting and discounting of instruments and foreign currency trading.

International Banking - Handles the Bank's foreign currency denominated banking business and manages relationships with correspondent.

Digital Banking - Handles the Bank's Digital Banking products including Card and POS Services.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. Income taxes are managed on a bank wide basis and are not allocated to operating segments.

Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not the gross income and expense.

Transfer prices between operating segments are on arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2018 and 2017.

The following table presents income and profit and certain asset and liability information regarding the bank's operating segments and service units:

For the year ended 31 December 2018	Retail Banking US$	Corporate Banking US$	Treasury Banking US$	International Banking US$	Digital Banking US$	Other US$	Total US$
Third party income	24 477 869	17 934 170	12 662 627	491 279	14 206 279	4 983 521	74 755 745
Interest and similar expense	(1 555 990)	(3 049 358)	(4 259 668)	-	-		(8 865 016)
Net operating income	**22 921 879**	**14 884 812**	**8 402 959**	**491 279**	**14 206 279**	**4 983 521**	**65 890 729**
Other material non-cash items							
Impairment losses on financial assets measured at amortised cost	1 263 783	2 637 704	110 465	-	-	-	4 011 952
Depreciation of property and equipment	404 593	38 933	2 842	4 471	413 438	506 035	1 370 312
Amortisation of intangible assets	-	-	-	-	-	879 376	879 376
Segment profit/(loss)	**10 610 669**	**6 478 395**	**7 135 831**	**(262 253)**	**9 658 564**	**(6 455 140)**	**27 166 066**
Income tax charge	-	-	-	-	-	(5 923 385)	(5 923 385)
Other comprehensive income	-	-	-	-	-	46 431	46 431
Profit/(loss) for the year	**10 610 669**	**6 478 395**	**7 135 831**	**(262 253)**	**9 658 564**	**(12 322 094)**	**21 289 112**
At 31 December 2018							
Assets and liabilities							
Capital expenditure	709 351	232 845	1 731	3 236	4 254 017	4 680 032	9 881 214
Total assets	**100 998 573**	**157 788 029**	**160 181 794**	**3 722 839**	**5 652 611**	**99 052 400**	**527 538 642**
Total liabilities	**123 421 353**	**159 912 290**	**135 168 359**	**15 654 293**	**-**	**14 487 568**	**448 643 863**

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the year ended 31 December 2018

The following table presents income and profit and certain asset and liability information regarding the bank's operating segments and service units:

For the year ended 31 December 2017	Retail Banking US$	Corporate Banking US$	Treasury Banking US$	International Banking US$	Digital Banking US$	Other US$	Total US$
Third party income	18 806 390	14 340 614	7 658 528	546 651	10 914 710	1 317 628	53 584 521
Interest and similar expense	(1 950 582)	(3 392 090)	(3 814 423)	-	-		(9 157 095)
Net operating income	**16 855 808**	**10 948 524**	**3 844 105**	**546 651**	**10 914 710**	**1 317 628**	**44 427 426**
Other material non-cash items:							
Impairment losses on loans and advances	1 599 035	2 254 114	-	-	-	-	3 853 149
Depreciation of property and equipment	476 499	15 069	9 566	6 127	486 916	142 633	1 136 810
Amortisation of intangible assets	-	-	-	-	-	832 567	832 567
Segment profit/(loss)	**2 946 565**	**3 372 984**	**2 774 647**	**(91 733)**	**2 675 839**	**1 317 628**	**12 995 930**
Income tax charge	-	-	-	-	-	(3 078 579)	(3 078 579)
Other comprehensive income	-	-	-	-	-	90 310	90 310
Profit/(loss) for the year	**2 946 565**	**3 372 984**	**2 774 647**	**(91 733)**	**2 675 839**	**(1 670 641)**	**10 007 661**
At 31 December 2017							
Assets and liabilities							
Capital expenditure	325 455	2 388	1 958	2 873	1 060 815	2 211 157	3 604 646
Total assets	**103 344 444**	**152 311 200**	**118 870 271**	**3 612 619**	**5 312 423**	**39 663 481**	**423 114 438**
Total liabilities	**109 755 085**	**128 928 542**	**96 952 318**	**15 052 401**	**-**	**7 705 030**	**358 393 376**

7. EVENTS AFTER REPORTING PERIOD

Sensitivity analysis for events after the reporting period

	Components of reported amounts					Sensitivity Analysis		
	Monetary Assets/ Liabilities Nostro FCA USD	Monetary Assets /Liabilities RTGS$	Non Monetary Assets/ Liabilities USD	Non Monetary Assets/ Liabilities RTGS$	Total USD @1.1	Total RTGS$ @1:2.5	Total RTGS$ @1:3	Total RTGS$ @1:4
Shareholder's funds								
Share capital	-	16 506	-	-	16 506	16 506	16 506	16 506
Share premium	-	31 474 502	-	-	31 474 502	31 474 502	31 474 502	31 474 502
Revaluation reserve	-	-	136 741	-	136 741	341 853	410 223	546 964
Foreign currency translation reserve	-	-	-	-	-	9 019 801	12 026 401	18 039 601
Retained earnings	-	47 267 030	-	-	47 267 030	47 267 030	47 267 030	47 267 030
Total shareholder's funds	**-**	**78 758 038**	**136 741**	**-**	**78 894 779**	**88 119 692**	**91 194 662**	**97 344 603**
Liabilities								
Deposits and other accounts	28 953 975	418 184 241	-	-	447 138 216	490 569 179	505 046 166	534 000 141
Subordinated term loan	1 505 647	-	-	-	1 505 647	3 764 118	4 516 941	6 022 588
Deferred tax liability	-	-	-	-	-	1 223 898	2 266 591	4 351 978
Total liabilities	**30 459 622**	**418 184 241**	**-**	**-**	**448 643 863**	**495 557 195**	**511 829 698**	**544 374 707**
Total shareholder's funds and liabilities	**30 459 622**	**496 942 279**	**136 741**	**-**	**527 538 642**	**583 676 887**	**603 024 360**	**641 719 310**
Assets								
Cash and cash equivalents	12 692 524	99 748 388	-	-	112 440 912	131 479 698	137 825 960	150 518 484
Current tax assets	-	210 302	-	-	210 302	210 302	210 302	210 302
Investment securities	-	117 249 434	-	-	117 249 434	117 249 434	117 249 434	117 249 434
Amount owing from Holding Company	-	558 303	-	-	558 303	558 303	558 303	558 303
Loans, advances and other accounts	4 081	254 191 477	-	-	254 195 558	254 201 681	254 203 720	254 207 801
Non current assets held for sale	-	-	36 000	-	36 000	90 000	108 000	144 000
Unquoted investments	112 501	-	-	-	112 501	281 253	337 503	450 004
Investment properties	-	-	13 838 490	7 112 116	20 950 606	41 708 341	48 627 586	62 466 076
Intangible assets	-	-	-	2 036 775	2 036 775	2 036 775	2 036 775	2 036 775
Property and equipment	-	-	12 011 354	5 832 715	17 844 069	35 861 100	41 866 777	53 878 131
Deferred tax asset	-	1 904 182	-	-	1 904 182	-	-	-
Total assets	**12 809 106**	**473 862 086**	**25 885 844**	**14 981 606**	**527 538 642**	**583 676 887**	**603 024 360**	**641 719 310**

8. GEOGRAPHICAL INFORMATION

The Bank operates in one geographical market, Zimbabwe.

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WorldRemit

USD Cash Guaranteed.

Collect your money at any NMB Bank Branch.

NMB BANK LIMITED
NMB Bank Limited. Registered Commercial Bank.
A Member of The Deposit Protection Scheme

IN PURSUIT OF EXCELLENCE
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Independent Auditor's Report

To the Shareholders of NMBZ Holdings Limited

Report on the Audit of the Consolidated and Separate Financial Statements

Adverse Opinion

We have audited the consolidated and separate financial statements of NMBZ Holdings Limited and its subsidiaries (the Group), which comprise the consolidated and separate statement of financial position as at 31 December 2018, and the consolidated and separate statement of comprehensive income, consolidated and separate statement of changes in equity and consolidated and separate statement of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the accompanying consolidated and separate financial statements do not present fairly the consolidated and separate financial position of the Group as at 31 December 2018, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Adverse Opinion

As explained in note 2.4.7 the functional currency applied by management is the United States Dollar (US$) and the financial statements are presented in US$ on the basis that the official exchange rate as at 31 December 2018 between the RTGS Dollar (RTGS$) and the United States Dollar (US$) is 1:1.

Zimbabwe witnessed significant monetary and exchange control policy changes in 2016 and increasingly through to 2019 The Reserve Bank of Zimbabwe (RBZ) together with the Ministry of Finance and Economic Development promulgated a series of exchange control operational guidelines and compliance frameworks during this period. Specifically, there was a requirement for banks to separate out FCA RTGS Accounts from the FCA Nostro USD Accounts during October 2018. Although the rate was legally pegged at 1:1, multiple pricing practices and other transactions observed and reported publicly indicated exchange rates other than 1:1 between RTGS and the USD amounts. Finally, in February 2019 there was a Monetary Policy statement which introduced the RTGS Dollar and the interbank foreign exchange market.

These events triggered the need for reporting entities to assess whether there was a change in functional currency (from US$ to RTGS$) and the 1:1 RTGS$:US$ exchange rate as at and prior to the 31 December 2018 year end.

Based on International Financial Reporting Standards IAS 21 *The Effects of Changes in Foreign Exchange Rates* ("IAS 21") the functional currency of an entity is *the currency of the primary economic environment in which the entity operates* and *reflects the underlying transactions, events and conditions that are relevant to it*. In addition, paragraph 2.12 of the *Conceptual Framework for Financial Reporting* ("the Conceptual Framework") prescribes that for financial information to be useful, it "*must not only represent relevant phenomena, but it must also faithfully represent the substance of the phenomena that it purports to represent. In many circumstances, the substance of an economic phenomenon and its legal form are the same. If they are not the same, providing information only about the legal form would not faithfully represent the economic phenomenon.*" International Accounting Standard 10 *Events after the Reporting Period* ("IAS 10") also requires an entity to adjust the amounts recognised in its financial statements to reflect events after the reporting period that provide evidence of conditions that existed at the end of the reporting period.

We believe that events in the market and subsequent promulgation of the RTGS$ as a formal currency supports that there was a change in functional currency from US$ to RTGS$ and that transactions in the market indicated a different rate between the two currencies despite the legal 1:1 RTGS$:US$ exchange rate and that this occurred prior to the 31 December 2018 year end. This impacts the basis for measuring transactions that occurred between 01 October and 31 December 2018, the valuation of assets and liabilities at yearend as well as the accounting for foreign exchange differences. We believe that the consolidated and separate financial statements are required to be adjusted for these changes and that it is inappropriate to provide note disclosures as a proxy for adjusting the financial statements as this is not in conformity with IAS 10.

The financial statements of the group include balances and transactions denominated in RTGS$ that were not converted to US$ at a RTGS$:US$ exchange rate that reflects the economic substance of its value as required by International Financial Reporting Standards ("IFRS"). This is because management applied the legal rate of 1:1 as pronounced by Statutory instrument 133 of 2016, Statutory Instrument 33 of 2019 and the Monetary Policy Statements of the 22nd of February 2018, 1st of October 2018 and 20th of February 2019. Management have provided more information on their approach in Note 2.4.7 to the financial statements.

In terms of IAS 21, foreign currency monetary items shall be translated using the closing rate, non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was measured. Foreign currency transactions shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

Therefore, had RTGS$ been designated as the functional currency and a different RTGS$: USD$ currency rate been determined and applied by management, most of the account balances and the information provided by way of notes to, the accompanying financial statements, would have been materially different.

Specifically, the line items impacted in Statement of Financial Position include all assets and liabilities (except Unquoted and other investments, Revaluation reserve and Subordinated term loan,) and all line items on the Statement of Profit or Loss and Other Comprehensive Income.
The effects of the above departure from IFRS are therefore pervasive to the financial statements, however the effects have not been quantified

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Zimbabwe, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Key Audit Matters

Except for the matter described in the Basis for Adverse Opinion section, we have determined that there are no other key audit matters to communicate in our report.

Other information

The directors are responsible for the other information. The other information comprises the Chairman's statement, report of the directors, statement of director's responsibility, financial summary, group profile, dividend notice, historical five-year summary, notice to members, shareholders analysis and shareholders information and was obtained prior to the date of this report. Other information does not include the consolidated and separate financial statements and our auditors report thereon.

Our opinion on the (consolidated and separate) financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the (consolidated and separate) financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the Basis for Adverse Opinion section above, the Group did not comply with the requirements of IAS 21 - Effects of Changes in Foreign Exchange Rates. We have concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the Directors' Report affected by the failure to comply with the referred standard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act (Chapter 24:03), and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements
In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the accompanying consolidated and separate financial statements have not in all material respects, been properly prepared in compliance with the disclosure requirements of and in the manner required by the Companies Act (Chapter 24:03).

The engagement partner on the audit resulting in this independent auditor's report is David Marange (PAAB Practising Certificate Number 0436)

Ernst & Young

Ernst & Young
Chartered Accountants (Zimbabwe)
Registered Public Audit

Harare
16 April 2019