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:

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# CONDENSED REVIEWED RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

## FINANCIAL SUMMARY

| | 30 June 2019 Reviewed ZWL | 30 June 2018 Unaudited ZWL | 31 December 2018 Audited ZWL |
|---|---|---|---|
| Total income | 104 329 370 | 33 934 191 | 74 740 671 |
| Net operating profit before impairment (losses)/reversal | 73 508 993 | 13 178 672 | 31 155 227 |
| Total comprehensive income | 61 425 194 | 9 086 483 | 21 267 632 |
| Headline earnings | 14 176 918 | 8 742 525 | 18 746 055 |
| Basic earnings per share (cents) | 14.55 | 2.34 | 5.43 |
| Headline earnings per share (cents) | 3.59 | 2.25 | 4.80 |
| Total deposits | 480 292 497 | 364 580 517 | 434 957 949 |
| Total gross loans and advances | 263 435 295 | 236 393 815 | 262 335 026 |
| Total shareholders' funds and shareholders' liabilities | 170 548 579 | 67 691 347 | 79 962 313 |

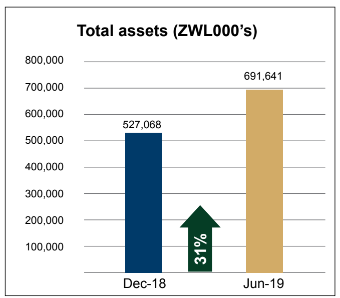
## CHAIRMAN'S STATEMENT

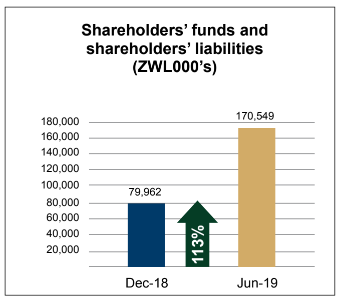
### INTRODUCTION

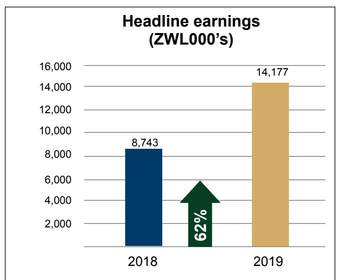
The operating environment in 2019 was characterised by a multiplicity of monetary and economic reforms which significantly impacted the economic environment in which the Group operated in. The challenges experienced in 2018 persisted into the first half of 2019 largely characterised by a contraction of business operations throughout the economy, inflationary pressures and foreign currency shortages. On 22 February 2019, the Monetary Authorities introduced the interbank foreign exchange trading. The initial trades were at US$/RTGS$ 1:2.5 and subsequently, the interbank foreign exchange trading has been going through further refinements which have seen the interbank market being liberalized with more leeway being given to banks in the determination of the trading margin. As a result of these changes, the interbank trading has recorded significant increases in the volume of foreign currency traded and the rate has moved in tandem with these volumes ending at USD/ZWL 1:7 on 30 June 2019.

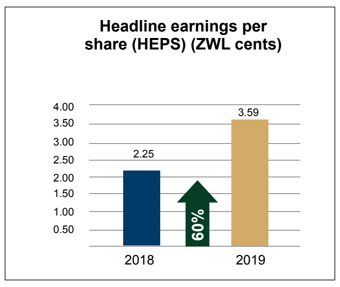
The underlying financial results (headline earnings) were largely driven by the banking subsidiary's continued expansion into the broader market segment, a revision of lending interest rates and fees, a reduction in non-performing loans and cost containment measures. There were however, a number of fair value and translation adjustments which further improved the reported results: properties fair value adjustments and gains arising from the translation of foreign currency balances due to the change in functional currency from USD to ZWL. It must be noted that whilst all other foreign currency assets and liabilities were translated at the rate of USD/ZWL1:7 at 30 June 2019, legacy debts of USD18 049 918 due to various line of credit providers, suppliers and service providers were translated at a rate of USD/ZWL1:1. These legacy debts which are in arrears have been registered with the Central Bank and the ZWL equivalent will be remitted by the due date of 31 August 2019. We are guided by the Central Bank who have indicated that they will make the foreign currency available at USD/ZWL 1:1 to settle these obligations. We continue to accrue the applicable current interest on these foreign credit lines.

The key financial highlights of the Group as at 30 June 2019, which are highly notable in the current difficult operating environment are shown below with the applicable closing rate for 2018 being at USD/ZWL 1:1 and 2019 at USD/ZWL 1:7.0:




**GROUP RESULTS**

**Financial performance**

The profit before taxation was ZWL74 452 137 (June 2018 – ZWL 11 757 594) during the period under review and this gave rise to total comprehensive income of ZWL61 425 194 (June 2018 – ZWL 9 086 483). The Group achieved a basic earnings per share of 14.55 cents (June 2018 – 2.34 cents) and this translated into the headline earnings per share rising to 3.59 cents (June 2018 – 2.25 cents). The significant differential between the basic and headline earnings per share is largely due to investment properties fair value adjustments and gains arising from the translation of foreign currency balances due to the change in functional and reporting currency from USD to the new local currency (ZWL).

Operating expenses amounted to ZWL23 929 991 and these were up 42% from ZWL16 820 851 recorded during the six months ended 30 June 2018. The increased costs, which were contained below the general inflation rate of 176% for 30 June 2019, were due to higher transaction processing and operational costs arising from the bank's digital drive and continued expansion into the broader market segments as well as general inflationary pressures.

The Group recorded an expected credit loss reversal on financial assets measured at amortised cost amounting to ZWL943 144 compared to an impairment charge of ZWL1 421 078 during the six months ended 30 June 2018 due to increased collection efforts on the banking subsidiary's non-performing loans.

The Bank has continued with its drive to reduce non-performing loans (NPLs) and this saw the NPL ratio reduce from 7.43% as at 31 December 2018 to 3.38% as at 30 June 2019. The drop in the NPL ratio is largely due to aggressive collections and stricter credit underwriting standards.

**Financial position**

The Group's total assets increased by 31% from ZWL527 067 596 as at 31 December 2018 to ZWL691 641 122 as at 30 June 2019 mainly due to a 182% increase in property and equipment, a 228% increase in investment properties and a 68% increase in cash and cash equivalents.

Investment properties increased from ZWL20 950 606 as at 31 December 2018 to ZWL68 619 531 as at 30 June 2019 whilst property and equipment increased from ZWL17 844 069 at 31 December 2018 to ZWL50 265 775 as at 30 June 2019 mainly due to the significant increase in property values in ZWL terms in line with market changes, coupled with the initial recognition of Right-of-Use Assets arising from the adoption of IFRS 16, *Leases,* on 1 January 2019.

Gross loans and advances increased by 0.4% from ZWL262 335 026 as at 31 December 2018 to ZWL263 435 295 as at 30 June 2019 mainly due to a slowdown in advances during the period under review in view of the prevailing economic conditions.

Cash and cash equivalents increased from ZWL112 440 912 as at 31 December 2018 to ZWL189 429 195 at 30 June 2019 mainly due to the conversion to ZWL of the Group's foreign denominated liquid assets.

Total deposits increased by 10% from ZWL434 957 949 at 31 December 2018 to ZWL480 292 497 as at 30 June 2019 as a result of deposit mobilisation strategies and the translation of foreign denominated deposits to the local currency.

The Bank maintained a sound liquidity position with a liquidity ratio of 34.11% and this was above the statutory minimum of 30%.

**Capital**

The banking subsidiary maintained adequate capital levels to cover all risks as reflected by a capital adequacy ratio of 32.11% as at 30 June 2019 (31 December 2018 – 23.25%). The ratio was well above the regulatory minimum of 12%.

The Group's shareholders' funds and shareholders' liabilities increased by 113% from ZWL79 962 313 as at 31 December 2018 to ZWL170 548 579 as at 30 June 2019 as a result of the current period's total comprehensive income, as well as the Functional Currency Translation Reserve (FCTR) which arose due to the change in the Group's functional currency on 22 February 2019.

The Bank's regulatory capital as at 30 June 2019 was ZWL101 178 738 and was above the minimum regulatory capital of ZWL25 million. The Bank has already achieved the revised capital level required by 2020 of ZWL100 million.

**DIVIDEND**

The Board has resolved not to declare an interim dividend in order to fund the growth initiatives being pursued by the Group as well as buttress the regulatory capital position of the Group's banking subsidiary.

**DIRECTORATE**

Mr Erik Sanderson (non-executive director) resigned from both NMBZ Holdings Limited and NMB Bank Limited boards with effect from 24 January 2019. I wish to thank him for his invaluable contributions to the Group during his tenure as a Director and wish him well in his future endeavours. Mr Erik Sanderson was replaced by Ms Christine Glover, who was appointed to the NMBZ Holdings Limited and NMB Bank Limited boards on 26 June 2019 and she brings in a wealth of experience and diversity to the Group attained over an illustrious career spanning over 30 years in the South African financial services sector. I would like to welcome Ms Glover to the boards and wish her a fruitful tenure.

The other 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 James de la Fargue (Non-Executive Director), Ms Jean Maguranyanga (Independent Non-Executive Director), Mr Julius Tichelaar (Non Executive Director) and Ms Sabinah Chitehwe (Independent Non-Executive Director).

**FUNCTIONAL CURRENCY**

Further to my announcement in the Group's financial statements for the year ended 31 December 2018, we continued to closely monitor the developments in the economic and monetary landscape. 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 formalize the buying and selling of foreign currency through the Banks and Bureaux de change. To operationalize this, the RBZ denominated the existing RTGS balances as RTGS dollars and initial trades between the RTGS dollar and the US$ were pegged at USD/RTGS$1:2.5. On the same date, Statutory Instrument 33 (SI 33) of 2019 was also issued and it specified that all assets and liabilities that were in USD immediately before 22 February 2019 were deemed to have been valued in RTGS$ at a rate of USD/RTGS$1:1.

On 24 June 2019, through Statutory Instrument 142 (SI 142) of 2019, the Government of Zimbabwe discontinued the multicurrency regime which had been in place since February 2009 and also introduced the Zimbabwe Dollar (ZWL), which was designated as the country's sole legal tender to be used for all local transactions and other purposes.

The Directors, having assessed all these developments, concluded that the Group's functional currency changed from USD to RTGS dollars on 22 February 2019, which subsequently changed to Zimbabwe Dollars (ZWL) following the issuance of SI 142 of 2019 on 24 June 2019.

The opening balances at 1 January 2019 are carried at USD/RTGS$1:1 in compliance with Statutory Instrument 33 (SI 33) of 2019. The Group used this fixed exchange rate at 1 January 2019 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. The financial statements were restated using the interbank mid-rate on 22 February 2019 of USD/RTGS$1:2.5, giving rise to the Functional Currency Translation Reserve of ZWL30 176 593.

**LEGACY DEBTS**

The banking subsidiary owed USD18 049 918 to various line of credit providers, suppliers and service providers at 30 June 2019. The Bank registered these foreign debts with the Reserve Bank of Zimbabwe (RBZ) as required by the regulatory directives. Subsequent to period end, the Bank transferred to the RBZ the ZWL equivalent of the foreign debts at a rate of USD/ZWL1:1. The Group used this parity rate of the USD and the ZWL dollar to account for the foreign debts at 30 June 2019 as doing otherwise would be in contravention of the Exchange Control Directives on the matter. This treatment is not in compliance with IAS21. If the closing exchange rate of USD/ZWL1:7 had been used to translate the legacy debts at 30 June 2019, a net monetary loss of ZWL80 412 385 would be booked, being a gross ZWL108 299 508 being accounted for under "net foreign exchange losses" and a deferred tax credit of ZWL27 887 123 under the "taxation" charge.

In light of the adverse opinion on the 2018 financial statements and the failure to fully comply with the requirements of IAS 21 in the current period, the Group's independent auditors, Ernst & Young, have issued an adverse review conclusion on the financial statements for the half year ended 30 June 2019.

**CORPORATE SOCIAL INVESTMENTS**

The social investment thrust of the Group during the period under review was directed towards education, environmental and conservation causes as well as the support of disadvantaged and vulnerable groups.

The Group donated food stuffs, blankets and clothes to the Manicaland and Masvingo Provinces following the Cyclone Idai disaster which occurred in March 2019. Donations were also made to KidzCan for the treatment of children living with cancer, Emerald Hill School for the Deaf fish farming project and Emerald Hill Children's home.

The Group also invested in the promotion of sports and extra curriculum activities in schools through donations in support of career fairs, Inter School Derby and quizzes. We also partnered during the period with Friends of Hwange Trust, an organization that raises awareness of conservation of the environment and wildlife in Hwange National Park.

**CORPORATE DEVELOPMENTS**

The Bank continued with its financial inclusion drive and this has seen the opening of a number of low cost accounts via our NMBLite product. We continued to invest in digital channels to support a cashless society and in this regard, we have intensified our drive to roll out our low-cost Point of Sale devices, KaGwenya, aimed at supporting SMEs and sole traders.

The Bank is developing a branch in the resort town of Victoria Falls for the convenience of the tourist town's residents and visitors. The new branch is envisaged to open its doors to the public in the third quarter of 2019. The construction of our new Head Office along Borrowdale Road is progressing well and the new building should be ready for occupation in the last quarter of 2019.

**OUTLOOK AND STRATEGY**

The Bank will continue to accelerate the deployment of POS machines throughout the country and enhance all the e-channels for the convenience of our transacting customers. The Group will also continue to broaden its target market by widening its catchment area to include segments of the mass market previously not catered for, thereby contributing to the financial inclusion agenda.

We remain cognisant of the forecast that the remainder of the year will likely be challenging in view of the high month-on-month inflation, currency fluctuations, electricity deficits, fuel shortages and shortages of foreign currency and all these will adversely impact the Group's revenues and operating costs. We will continue to work with the Reserve Bank of Zimbabwe on our foreign currency denominated legacy debts.

**APPRECIATION**

I remain sincerely grateful to our valued clients, depositors, shareholders, stakeholders and regulatory authorities who have stood by the Group in the midst of a myriad of challenges experienced in the difficult operating environment. To my fellow board members, management and staff, I extend my heartfelt gratitude for their continued diligence, dedication and relentless efforts which have culminated in the achievement of these commendable results.

**B. A. CHIKWANHA**
**CHAIRMAN**
**21 August 2019**

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## REVIEWER'S STATEMENT

These abridged financial statements have been reviewed by Ernst & Young Chartered Accountants (Zimbabwe) and an adverse review conclusion issued thereon due to non-compliance with International Accounting Standard 21, *"The Effects of Changes in Foreign Exchange Rates"*. The reviewer's report is available for inspection at the Holding Company's registered office. The engagement partner for this review is Mr David Marange (PAAB Practicing Number 0436).

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 30 June 2019

| | Note | 30 June 2019 ZWL Reviewed | 30 June 2018 ZWL Unaudited |
|---|---|---|---|
| Interest income | 4 | 23 200 282 | 18 562 906 |
| Interest expense | | (6 890 386) | (3 934 668) |
| **Net interest income** | | **16 309 896** | **14 628 238** |
| Fee and commission income | 5.1 | 18 569 148 | 12 773 587 |
| Net foreign exchange gains | 5.2 | 32 664 282 | 1 109 447 |
| **Revenue** | | **67 543 326** | **28 511 272** |
| Other income | 5.3 | 29 895 658 | 1 488 251 |
| **Operating income** | | **97 438 984** | **29 999 523** |
| Operating expenditure | 6 | (23 929 991) | (16 820 851) |
| **Net operating income before impairment reversal/(losses)** | | **73 508 993** | **13 178 672** |
| Impairment reversal/ (losses) on financial assets measured at amortised cost | | 943 144 | (1 421 078) |
| **Profit before taxation** | | **74 452 137** | **11 757 594** |
| Taxation | 7 | (17 013 168) | (2 671 111) |
| **Profit for the period** | | **57 438 969** | **9 086 483** |
| **Other comprehensive income** | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Revaluation of land and buildings, net of tax | 5.4 | 3 986 225 | - |
| **Total comprehensive income for the period** | | **61 425 194** | **9 086 483** |
| Earnings per share (ZWL cents) | | | |
| - Basic | 9 | 14.55 | 2.34 |
| - Diluted | 9 | 13.42 | 2.18 |
| - Headline | 9 | 3.59 | 2.25 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2019

| | Note | 30 June 2019 ZWL Reviewed | 31 December 2018 ZWL Audited |
|---|---|---|---|
| SHAREHOLDERS' FUNDS | | | |
| Share capital | 10.2.1 | 84 116 | 80 975 |
| Capital reserves | | 19 184 170 | 16 526 297 |
| Revaluation reserve | | 4 122 966 | 136 741 |
| Functional currency translation reserve | | 30 176 593 | - |
| Retained earnings | | 101 043 999 | 47 377 400 |
| **Total equity** | | **154 611 844** | **64 121 413** |
| Subordinated term loan | 12 | 1 601 484 | 1 505 647 |
| Redeemable ordinary shares | 11 | 14 335 253 | 14 335 253 |
| **Total shareholders' funds and shareholders' liabilities** | | **170 548 581** | **79 962 313** |
| **LIABILITIES** | | | |
| Deposits and other liabilities | 13 | 492 442 635 | 447 105 283 |
| Lease liability | 19 | 2 519 658 | - |
| Current tax liabilities | | 1 519 150 | - |
| Deferred taxation | | 24 611 098 | - |
| **Total shareholders' funds and liabilities** | | **691 641 122** | **527 067 596** |
| **ASSETS** | | | |
| Cash and cash equivalents | 15 | 189 429 195 | 112 440 912 |
| Current tax assets | | - | 285 822 |
| Investment securities | 14 | 108 222 499 | 117 249 434 |
| Advances and other assets | 16 | 272 559 074 | 254 202 945 |
| Non current assets held for sale | | - | 36 000 |
| Trade investments | | 787 506 | 112 501 |
| Investment properties | | 68 619 531 | 20 950 606 |
| Intangible assets | 17 | 1 757 540 | 2 036 775 |
| Property & equipment | 18 | 50 265 777 | 17 844 069 |
| Deferred taxation | | - | 1 908 532 |
| **Total assets** | | **691 641 122** | **527 067 596** |



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2019

| | Share Capital ZWL | Share Premium ZWL | Share Option Reserve ZWL | Functional Currency Translation Reserve* ZWL | Revaluation Reserve ZWL | Retained Earnings ZWL | Total ZWL |
|---|---|---|---|---|---|---|---|
| | ← Capital Reserves → | | | | | | |
| Balance at 1 January 2018 | 78 751 | 15 759 282 | 62 563 | - | 90 310 | 27 542 109 | 43 533 015 |
| Total comprehensive income for the period | - | - | - | - | - | 9 086 483 | 9 086 483 |
| Dividend paid | - | - | - | - | - | (1 385 910) | (1 385 910) |
| Share issue – Scrip dividend | 2 224 | 704 452 | - | - | - | - | 706 676 |
| **Balances at 30 June 2018** | **80 975** | **16 463 734** | **62 563** | **-** | **90 310** | **35 242 682** | **51 940 264** |
| Total comprehensive income for the period | - | - | - | - | - | 12 134 718 | 12 134 718 |
| Other Comprehensive Income | - | - | - | - | 46 431 | - | 46 431 |
| **Balances at 31 December 2018** | **80 975** | **16 463 734** | **62 563** | **-** | **136 741** | **47 377 400** | **64 121 413** |
| Total comprehensive income for the period | - | - | - | - | 3 986 225 | 57 438 969 | 61 425 194 |
| Change in Functional Currency | - | - | - | 30 176 593 | - | - | 30 176 593 |
| Share issue – Scrip dividend | 3 141 | 2 657 873 | - | - | - | - | 2 661 014 |
| Dividend paid | - | - | - | - | - | (3 772 370) | (3 772 370) |
| **Balances at 30 June 2019** | **84 116** | **19 121 607** | **62 563** | **30 176 593** | **4 122 966** | **101 043 999** | **154 611 844** |

*The Functional Currency Translation Reserve arose on 22 February 2019 due to the change in the Group's functional currency as explained in note 2.5.9.

## CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended 30 June 2019

| | 30 June 2019 ZWL Reviewed | 30 June 2018 ZWL Unaudited |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Profit before taxation | 74 452 137 | 11 757 594 |
| **Non-cash items:** | | |
| - Profit on disposal of investment property | - | (461 965) |
| - Investment properties fair value adjustment | (27 991 540) | - |
| - Amortisation of intangible assets | 373 555 | 471 720 |
| - Depreciation of property & equipment (excluding right-of-use assets) | 988 561 | 629 227 |
| - Depreciation of right-of-use assets | 537 067 | - |
| - Unrealised exchange gain on net monetary assets | (29 598 834) | (16 352) |
| - Trade investments fair value adjustments | (506 254) | - |
| - Interest capitalised on subordinated term loan | 275 887 | 81 666 |
| - Loss on disposal of quoted investments | - | 15 074 |
| - Impairment (reversal)/losses on financial assets measured at amortised cost | (943 144) | 1 421 078 |
| Operating cash flows before changes in operating assets & liabilities | 17 587 435 | 13 898 042 |
| **Changes in operating assets and liabilities** | | |
| (Decrease)/increase in deposits and other liabilities (net of unrealized foreign exchange gains) | (26 719 258) | 16 957 423 |
| Increase in loans, advances and other assets (net of unrealised foreign exchange gains) | (9 734 285) | (27 710 645) |
| Net cash (utilised)/generated from operations | (18 866 108) | 3 144 820 |
| **Taxation** | | |
| Corporate tax paid | (1 219 677) | (1 330 459) |
| Witholding tax on dividends paid | (247 740) | (97 294) |
| Net cash (outflow)/inflow from operating activities | (20 333 525) | 1 717 067 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisition of intangible assets | (94 320) | (389 956) |
| Acquisition of property and equipment | (9 806 241) | (3 034 981) |
| Acquisition of investment properties | (338 276) | (3 897 104) |
| Disposal/(acquisition) of investment securities | 9 026 936 | (7 501 751) |
| Proceeds on disposal of investment properties | - | 4 430 127 |
| Net cash outflow from investing activities | (1 211 901) | (10 393 665) |
| Net cash outflow before financing activities | (21 545 426) | (8 676 598) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Payment of interest on subordinated term loan | (180 050) | (81 740) |
| Payment of lease liability | (559 029) | - |
| Dividends paid | (832 659) | (573 719) |
| Share issue costs capitalised – scrip dividend | (30 958) | (8 221) |
| Net cash outflow from financing activities | (1 602 696) | (663 680) |
| Net decrease in cash and cash equivalents | (23 148 122) | (9 340 278) |
| Net foreign exchange differences on cash and cash equivalents | 100 136 405 | - |
| Cash and cash equivalents at the beginning of the period | 112 440 912 | 89 553 202 |
| Cash and cash equivalents at the end of the period (note15) | 189 429 195 | 80 212 924 |

MR. B. A. CHIKWANHA

MR. B. P. WASHAYA

Directors

21 August 2019

MISS. S. PASHAPA
Company Secretary

21 August 2019

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the six months ended 30 June 2019

**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**

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2018. These condensed consolidated interim financial statements do not include all the information required for the full annual financial statements prepared in accordance with International Financial Reporting Standards. The financial statements show the impact of the first time adoption of IFRS 16, *Leases*, which was adopted by the Group effective 1 January 2019. The detailed impact of this adoption is disclosed on note 3.12 *(Changes in accounting policy)*. The condensed interim financial statements did not achieve full compliance with IAS 21 as doing so would have been in contravention with SI 33 of 2019.

These condensed consolidated interim financial statements were approved by the Board of Directors on 21 August 2019.

**2.1 Basis of preparation**

The condensed consolidated interim financial statements have been prepared under the historical cost convention except for quoted and other investments, investment properties and financial instruments which are carried at fair value and land and buildings which are stated at revalued amount. These condensed consolidated interim financial statements are reported in Zimbabwe dollars (ZWL) and rounded to the nearest dollar.

**2.2 Functional and presentation currency**

For the purpose of the consolidated financial statements, the results and financial position of the Group are expressed in Zimbabwe Dollars (ZWL) which is the functional currency of the Group, and the presentation currency for the consolidated financial statements. Note 2.5.9 provides further information on the determination of the Group's functional currency.

**2.3 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 the 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.

**2.4 Comparative financial information**

The interim financial statements comprise consolidated statements of financial position, comprehensive income, changes in equity and cash flows. The comparative information covers a period of six months. Further information on the Group's comparative information is provided in note 2.5.9.

**2.5 Use of estimates and judgements**

The preparation of the interim financial statements requires Directors to make judgements, 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 recognized prospectively.

In the process of applying the Group's accounting policies, the Directors have made the following judgements which have the most significant effect on the amounts recognised in the consolidated financial statements:

**2.5.1 Deferred tax**

Provision for 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.

**2.5.2 Land and buildings**

The properties were valued by an independent property 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 changes in functional currency hence comparable values are also not readily available. Furthermore, the multi-currency regime was discontinued on 24 June 2019 through Statutory Instrument 142 (SI142) of 2019, only six days before the period end on 30 June 2019 and as such there had not been many ZWL property sale transactions in that period and the property valuer had to benchmark the property values in US dollars and applied market related exchange rates for recent property transactions.

**2.5.3 Investment properties**

Investment properties were valued by an independent property valuer. The property valuer considered comparable market evidence of recent sale transactions and those transactions where firm offers had been made but awaiting acceptance. In addition, the property market is currently not stable due to liquidity constraints and changes in the functional currency hence comparable values are also not readily available. Furthermore, the multi-currency regime was discontinued on 24 June 2019 through Statutory Instrument 142 (SI142) of 2019, only six days before the period end on 30 June 2019 and as such there had not been many ZWL property sale transactions in that period and the property valuer had to benchmark the property values in US dollars and applied market related exchange rates for recent property transactions.

**2.5.4 Property and equipment**

The Directors exercised their judgment in determining the residual values of the other property and equipment which have been determined as nil. If the residual value of an asset increases by an amount equal to or greater than the asset's carrying amount, then depreciation of the asset ceases. Depreciation will only resume when the residual value decreases to an amount below the asset's carrying amount.

**2.5.5 Investment securities**

The Group has Treasury Bills for which there is currently no market information to facilitate the application of fair value principles, in determining fair value disclosures.

However, in terms of IFRS 9, investment securities measured at amortised cost do not require fair value adjustments. As such none of the Group's investment securities required the application of fair value measurement principles to determine their carrying amounts.

**2.5.6 Intangible assets**

Intangible assets are initially recognised at cost. Subsequently the assets are measured at cost less accumulated amortisation and any impairment loss.

**2.5.7 Impairment losses on financial instruments**

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.

**2.5.8 Non-current assets held for sale**

Non-current assets or disposal group are held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. These are measured at the lower of carrying amount and fair value less costs to sell and they are not depreciated.

Non-current assets held for sale, where applicable are valued by the directors who consider comparable market evidence of recent sale transactions and those transactions where firm offers had been made but waiting acceptance. The determined fair value of non - current assets held for sale would be most sensitive to significant unobservable inputs. In addition, the property market is currently not stable due to liquidity constraints and hence comparable values are not stable.

**2.5.9 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.

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 respectively. 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 with the USD.

On 24 June 2019, the Monetary Authorities announced that the multi-currency regime, which the country was operating under since February 2009 had been discontinued and the country had adopted a mono-currency regime meaning that the sole legal tender would be the Zimbabwe Dollar (ZWL). In light of the developments summarised above, the Directors concluded that the Group's functional currency changed from US$ to ZWL with effect from 22 February 2019.

The opening balances at 1 January 2019 are carried at USD/RTGS$1:1 in compliance with Statutory Instrument 33 (SI 33) of 2019. The Group used this fixed exchange rate at 1 January 2019 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. The financial statements were restated using the first available interbank mid-rate on 22 February 2019 of USD/RTGS$1:2.5, giving rise to the Functional Currency Translation Reserve of ZWL30 176 593. The International Financial Reporting Standards (IFRS) do not prescribe clear guidance on the treatment of the movements arising on the translation of foreign currencies on the date of change in functional currency. As such, the Directors had to apply their judgement on the treatment of these translation gains and losses in a manner that most faithfully represents the substance of the event and related transactions.

The Directors had to apply judgement in determining the rates at which the comparative information for the six months ended 30 June 2018 would be restated. The currency conversion challenge emanates from the existence of a 3-tier pricing structure during the comparative period depending on mode of settlement and the challenge was compounded by the fact that the official exchange rate between USD and the bond note/electronic balances was pegged at 1:1 and there was no orderly, functional market where foreign currency transactions were being conducted in order to establish credible foreign currency conversion rates. On that basis, the Directors have restated the comparative information at the official rate of USD/RTGS$(ZWL)1:1 as the cost and effort of restating the comparative information using any other rate outweighs the benefits that may arise from the exercise and would contravene the country's laws and regulations.

**2.6.0 Lease arrangements**

The Group adopted IFRS 16, *Leases*, on 1 January 2019. As permitted by the IFRS 16 transitional provisions, the Group elected not to restate comparative figures. The Directors exercised significant judgement on determining whether the various contractual relationships which the Group is party to, contain lease arrangements which fall into the scope of IFRS 16. Significant judgement was also exercised in determining whether the Group is reasonably certain that it will exercise extension options present in lease contracts as well as the determination of incremental borrowing rates applied in determining the lease liability.

**2.6.1 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 consolidated financial statements on a going concern basis is still appropriate.

**2.6.2 Hyperinflation**

The Directors assessed the impact of IAS 29, "*Financial Reporting in Hyper-inflationary Economies*", given the increasing inflation in the economy and noted that a number of conditions required to apply IAS 29 appear to have materialised in the Group's operating environment. However, the key underlying factor under IAS 29 is that it requires economy-wide consensus as well as the application of similar indices for all entities operating in the same environment. This consensus was not in place at the reporting date. Furthermore, the Zimbabwean economy rebased on 22 February 2019 following the introduction of the RTGS dollar and as such, the annual inflation figures may be misleading as the comparison in prices would be between prices quoted in the current ZWL regime versus the USD regime which was ruling in the previous years.

The Minister of Finance and Economic Development, in his 2019 mid-term budget review also alluded to the fact that there was need for additional data which can only be obtained through the passage of time for the national Zimbabwe Statistical Office to be able to objectively compute annual inflation following the afore-mentioned 22 February 2019 rebasing. It is the Directors' view that there is no substantial basis on which to objectively conclude that the Group is operating in an economic environment which meets the definition of a hyper-inflationary economy. On that basis, the Directors resolved not to apply IAS 29.

**2.6.3 Legacy debts**

Following the issuance of the Reserve Bank of Zimbabwe (RBZ) Exchange Control directive RU 28 of 2019 wherein the RBZ requested entities with legacy debts that were due and payable on 22 February 2019 to register these with the Central Bank for an orderly expunging of the debts, the Directors made an assessment of the Group's foreign liabilities which fell under that category and subsequently registered these with the RBZ in terms of the directive. These legacy debts were translated at a rate of USD/ZWL 1:1 on the date of change of the functional currency with no subsequent remeasurement. This treatment was in contravention of IAS 21.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the six months ended 30 June 2019

**3. ACCOUNTING POLICIES**

The selected principal accounting policies applied in the preparation of these condensed 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 stated at fair value. Gains and losses arising from a change in fair value of investment properties are recognised in the profit or loss statement. The fair value is determined at the end of each reporting period by a 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. The revaluation model is used for the Group's land and buildings with the fair values determined by an independent professional valuer using significant unobservable market inputs. 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 amortisation and any accumulated impairment losses.

**3.6 Shareholders' funds and shareholders' liabilities**

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

**3.7 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.

**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 Bank 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 Bank 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 Bank 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.

**3.8 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.

**3.9 Revenue from contracts with customers**

Revenue is recognised to the extent that it is probable that the Group has satisfactorily performed the performance obligations set out in the underlying contracts with its customers and that 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.

**3.10 Interest income**

For all financial instruments measured at 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.

**3.11 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.

**3.12 Changes in accounting policy**

On 1 January 2019, the Group adopted IFRS 16, *"Leases"* as issued by the International Accounting Standards Board (IASB) in January 2016 with a date of transition of 1 January 2019, which resulted in changes in accounting policy and adjustments to the amounts previously recognised in the financial statements.

As permitted by the transitional provisions of IFRS 16, the Group elected not to restate comparative figures. The Group changed its accounting policy for leases where the Group is the lessee.

Prior to the change in accounting policy leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the six months ended 30 June 2019

**3.12 Changes in accounting policy (continued)**

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the statement of financial position based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

Upon adoption of IFRS 16, *Leases*, on 1 January 2019, the Group did not restate comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17, *Leases*. On date of adoption, these liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 12.35%.

The Group has also elected not to reassess whether other contracts not previously classified as leases are, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made by applying IAS 17, *Leases*, and Interpretation 4, *Determining whether an Arrangement contains a Lease.*

*Measurement of right-of-use assets*

The associated right-of-use assets for property leases were measured on a prospective basis. The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018.

*Adjustments recognised in the statement of financial position on 1 January 2019*

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:
- Right-of-Use assets – Increased by ZWL3 078 687.
- Lease liabilities – Increased by ZWL3 078 687.
- There was no impact on Retained earnings on 1 January 2019.

The impact of the first time adoption of IFRS 16 on 1 January 2019 is shown below:

| Statement of financial position (extract) | IAS 17 ZWL | Change ZWL | IFRS 16 ZWL |
|---|---|---|---|
| Right-of-use assets | - | 3 078 687 | 3 078 687 |
| **Total assets impact** | **-** | **3 078 687** | **3 078 687** |
| **Liabilities** | | | |
| Lease liabilities | - | 3 078 687 | 3 078 687 |
| **Total liabilities impact** | **-** | **3 078 687** | **3 087 687** |
| Retained earnings | - | - | - |

**Reconciliation of IAS 17 Operating Lease commitments to IFRS 16 Lease liability**

| | ZWL |
|---|---|
| Lease commitments (up to 1 year) at 31 December 2018 | 1 343 715 |
| Add extension period lease costs | 2 769 694 |
| Total IAS 17 undiscounted lease commitments | 4 113 409 |
| Discounting at Group's incremental borrowing rate | (1 034 722) |
| IFRS 16 Lease liability at 1 January 2019 | 3 078 687 |

The adoption of IFRS 16 has resulted in changes in the Group's accounting policies for recognition, classification and measurement of lease arrangements in which the Group is a party.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. In circumstances where the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. The Group revalues its land and buildings that are presented within property and equipment and it has elected not to do so for the right-of-use buildings held by the Group.

*Lessor accounting*
The Group did not need to make any adjustments to the accounting for lease contracts in which the Group is the lessor under operating leases as a result of the adoption of IFRS 16.

**3.13 Financial Instruments**

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.

**3.13.1 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 Banking subsidiary'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 principal 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

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS
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**3.13.1 Financial Instruments (continued)**

**3.13.1 Financial Assets (continued)**

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 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:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event;
(c) 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;
(d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) 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.

IN PURSUIT OF EXCELLENCE

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the six months ended 30 June 2019

**3.13 Financial Instruments (continued)**

**3.13.1 Financial Assets (continued)**

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 and cure**

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.

It is the Bank's policy to consider a financial instrument as 'cured' and subsequently reclassified out of Stage 3 when none of the above mentioned default criteria have been present for at least six consecutive months. The decision whether to classify a financial asset as Stage 1 or Stage 2 once cured depends on the updated credit grade at the time of the cure and whether this indicates that there has been a significant increase in credit risk compared to initial recognition.

**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.

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

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the six months ended 30 June 2019

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the six months ended 30 June 2019

**3.13 Financial Instruments (continued)**

**3.13.1 Financial Assets (continued)**

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 and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Bank retains a subordinated residual interest.

**3.13.2 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).

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.

**3.13.3 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.

**3.13.4 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. The Directors also need to exercise judgement in applying the Bank's accounting policies.

Note 2.5 *(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.

**3.13.5 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.

**3.13 Financial Instruments (continued)**

**3.13.5 Measurement of the expected credit loss allowance (continued)**

**Exposure at Default (EAD) (continued)**

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 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.

**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.

**4. INTEREST INCOME**

| | 30 June 2019 ZWL | 30 June 2018 ZWL |
|---|---|---|
| Loans and advances to banks | 282 764 | 239 723 |
| Loans and advances to customers | 17 884 227 | 13 689 900 |
| Investment securities | 5 033 291 | 4 633 283 |
| | 23 200 282 | 18 562 906 |

**5. NON-INTEREST INCOME**

**5.1 FEE AND COMMISSION INCOME**

| | 30 June 2019 ZWL | 30 June 2018 ZWL |
|---|---|---|
| Retail banking customer fees | 6 619 725 | 4 839 982 |
| Corporate banking credit-related fees | 2 754 380 | 1 332 111 |
| Financial guarantee fees | 79 114 | 128 889 |
| International banking commissions | 598 868 | 232 241 |
| Digital banking fees | 8 517 061 | 6 240 364 |
| | 18 569 148 | 12 773 587 |

**5.2 NET FOREIGN EXCHANGE GAINS**

| | 30 June 2019 ZWL | 30 June 2018 ZWL |
|---|---|---|
| Unrealised translation gains on net monetary assets | 29 598 834 | 16 352 |
| Net foreign exchange gains from trading activities | 3 065 448 | 1 093 095 |
| | 32 664 282 | 1 109 447 |

**5.3 OTHER INCOME**

| | 30 June 2019 ZWL | 30 June 2018 ZWL |
|---|---|---|
| Loss on disposal of quoted investments | - | (15 074) |
| Trade investments fair value adjustments | 506 254 | - |
| Profit on disposal of investment property | - | 461 965 |
| Fair value adjustments on investment properties | 27 991 540 | - |
| Bad debts recovered | 1 131 780 | 505 756 |
| Rental income | 194 895 | 192 820 |
| Other operating income | 71 189 | 342 784 |
| | 29 895 658 | 1 488 251 |

**5.4 OTHER COMPREHENSIVE INCOME**

| | 30 June 2019 ZWL | 30 June 2018 ZWL |
|---|---|---|
| Revaluation gain on land and buildings | 5 368 653 | - |
| Tax thereon | (1 382 428) | - |
| | 3 986 225 | - |

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the six months ended 30 June 2019

### 6. OPERATING EXPENDITURE

| | 30 June 2019 ZWL | 30 June 2018 ZWL |
|---|---|---|
| The operating profit is after charging the following: | | |
| Administration costs | 11 501 078 | 7 679 632 |
| Amortisation of intangible assets | 373 555 | 471 720 |
| Depreciation of property & equipment (excluding right-of-use assets) | 988 561 | 629 227 |
| Depreciation of right-of-use assets | 537 067 | - |
| Reversal of impairment on land and buildings | (40 600) | - |
| Staff costs – salaries, allowances and related costs | 10 570 330 | 8 040 272 |
| | --------------- | ---------------- |
| | 23 929 991 | 16 820 851 |
| | ========= | ========= |

### 7. TAXATION

| | 30 June 2019 ZWL | 30 June 2018 ZWL |
|---|---|---|
| Income tax expense | | |
| Current taxation | 1 859 155 | 1 706 712 |
| Aids levy | 61 580 | 51 201 |
| Deferred tax | 15 092 433 | 913 198 |
| | ---------------- | -------------- |
| | 17 013 168 | 2 671 111 |
| | ========= | ======== |

### 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 IFRS 9*, 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.

### 9. EARNINGS PER SHARE

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

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 dilute 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**

| | 30 June 2019 ZWL | 30 June 2018 ZWL |
|---|---|---|
| Profit for the period | 57 438 969 | 9 086 483 |
| Headline earnings for the period (refer to note 9.2.3) | 14 176 918 | 8 742 525 |

**9.2 Number of shares**

| | 30 June 2019 | 30 June 2018 |
|---|---|---|
| **9.2.1 Basic and headline earnings per share** | | |
| Weighted average number of ordinary shares for basic and headline earnings per share | 394 824 611 | 388 946 301 |
| **9.2.2 Diluted earnings per share** | | |
| Number of shares at 1 January | 392 955 196 | 384 974 542 |
| Shares issued – scrip dividend | 11 216 493 | 7 943 318 |
| Effect of dilution: | | |
| Share options granted but not issued | - | - |
| Share options approved but not granted | 23 942 639 | 23 942 639 |
| | ------------------ | ----------------- |
| | 428 114 328 | 416 860 499 |
| | ========== | ========= |

**9.2.3 Headline earnings**

| | 30 June 2019 ZWL | 30 June 2018 ZWL |
|---|---|---|
| Profit for the period | 57 438 969 | 9 086 483 |
| Add/(deduct) non-recurring items: | | |
| Loss on disposal of quoted investments | - | 15 074 |
| Trade investments fair value adjustments | (506 254) | - |
| Profit on disposal of investment properties | - | (461 965) |
| Fair value adjustments on investment properties | (27 991 540) | - |
| Unrealised translation gains on net monetary assets | (27 598 834) | (16 352) |
| Tax thereon | 12 834 577 | 119 285 |
| | ----------------- | --------------- |
| | 14 176 918 | 8 742 525 |
| | ========== | ========= |

This is calculated in accordance with the Statement of Investment Practice No. 1 issued by the former Institute of Investment Management and Research (now called the Chartered Financial Analysts (CFA) Society of the UK).


## NOTES TO THE CONDENSED FINANCIAL STATEMENTS
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**9.3 Earnings per share (ZWL cents)**

| | 30 June 2019 | 30 June 2018 |
|---|---|---|
| Basic | 14.55 | 2.34 |
| Diluted | 13.42 | 2.18 |
| Headline | 3.59 | 2.25 |

### 10. SHARE CAPITAL

**10.1 Authorised**

| | 30 June 2019 Shares (million) | 31 December 2018 Shares (million) | 30 June 2019 ZWL | 31 December 2018 ZWL |
|---|---|---|---|---|
| Ordinary shares of ZWL0.00028 each | 600 | 600 | 168 000 | 168 000 |
| | ===== | ===== | ====== | ======= |

**10.2 Issued and fully paid**

**10.2.1 Ordinary shares**

| | 30 June 2019 Shares (million) | 31 December 2018 Shares (million) | 30 June 2019 ZWL | 31 December 2018 ZWL |
|---|---|---|---|---|
| Ordinary shares | 301 | 290 | 84 116 | 80 975 |
| | ===== | ===== | ====== | ======= |

**10.2.2 Redeemable ordinary shares**

| | 30 June 2019 Shares (million) | 31 December 2018 Shares (million) | 30 June 2019 ZWL | 31 December 2018 ZWL |
|---|---|---|---|---|
| Redeemable ordinary shares | 104 | 104 | 29 040 | 29 040 |
| | ===== | ===== | ====== | ======= |

A total of 11 216 493 ordinary shares were issued to existing shareholders in June 2019 as scrip dividend. Of the unissued ordinary shares of 196 million shares (2018 – 207 million), options which may be granted in terms of the 2012 ESOS amount to 23 942 639. No share options were exercised from the scheme as at 30 June 2019.

Subject to the provisions of section 183 of the Companies Act (Chapter 24:03), the unissued shares are under the control of the Directors.

### 11. REDEEMABLE ORDINARY SHARES

| | 30 June 2019 ZWL | 31 December 2018 ZWL |
|---|---|---|
| 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 Company received USD14 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 of 103 714 287) for individually investing USD4 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 ZWL100 million by 31 December 2020. FMO and Norfund combined 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 detailed in the share buy-back agreement. The 5th anniversary, which is the initial exercisable date of the share buy-back agreement was reached on 30 June 2018. 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 as shareholders' liabilities.

The potential financial liability as at 30 June 2019 amounted to ZWL1 178 738 being the amount of the regulatory capital of ZWL101 178 738 against the minimum required by 31 December 2020 of ZWL100 million.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the six months ended 30 June 2019

### 12. SUBORDINATED TERM LOAN

| | 30 June 2019 ZWL | 31 December 2018 ZWL |
|---|---|---|
| At 1 January | 1 505 647 | 1 415 904 |
| Interest capitalised | 275 887 | 171 483 |
| Interest paid | (180 050) | (81 740) |
| | 1 601 484 | 1 505 647 |

In 2013, the Bank received a subordinated term loan amounting to USD1.4 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 has not had any defaults of the interest with respect to this subordinated loan during the six months period ended 30 June 2019. However, the Group defaulted on the principal repayments during the six months ended 30 June 2019 due to the foreign currency challenges prevailing in the economy.

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. The RBZ pegged the initial trades at US$/RTGS$1:2.5. In order to manage the transition, the RBZ also advised on the same date that all foreign liabilities or legacy debts due to suppliers and service providers, declared dividends e.t.c would be treated separately after registering such debts with the RBZ Exchange Control Department for an orderly expunging of these debts.

Consequently, the Group registered its legacy debts, which included the subordinated term loan and offshore lines of credit and transferred the ZWL equivalent of these debts at a rate of US$/ZWL1:1 to the RBZ in terms of the RBZ directive subsequent to the reporting date of 30 June 2019. As such, in terms of SI 33 of 2019 and the RBZ directive, these legacy debts have been maintained at the rate of US$/ZWL1:1 in the Group's financial statements.

Translating the subordinated term loan at 30 June 2019 at the closing rate of USD/ZWL1:7 would increase the liability in ZWL terms to ZWL11 210 388 and a translation loss of ZWL9 608 904 would be accounted for under "net foreign exchange gains" in the profit or loss statement and the respective deferred tax credit of ZWL 2 474 293 being accounted for in the "taxation" charge in the profit or loss statement. The Group did not adopt this treatment as doing so would contravene compliance with the Regulatory Directives.

### 13. DEPOSITS AND OTHER LIABILITIES

#### 13.1 Deposits and other liabilities

| | 30 June 2019 ZWL | 31 December 2018 ZWL |
|---|---|---|
| Deposits from banks and other financial institutions** | 70 151 221 | 74 110 527 |
| Current and deposit accounts* | 410 141 276 | 360 847 422 |
| Total deposits | 480 292 497 | 434 957 949 |
| Trade and other payables*** | 12 150 138 | 12 147 334 |
| | 492 442 635 | 447 105 283 |

*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 line of credit balances of USD8 244 148 and USD4 196 264, due to Nederlandse Financierings-Maatschappij Voor Ontiwikkelingslanden (FMO) and Swedfund respectively. Both the FMO and Swedfund facilities will mature on 16 October 2020. The loan balances are part of the Group's legacy debts which were registered with the Reserve Bank of Zimbabwe (RBZ) for an orderly expunging of the debts. Subsequent to the period end, the Group transferred the ZWL equivalent of the legacy debts at a rate of US$/ZWL1:1 to the RBZ as per requirement of the Exchange Control directive RU 28 of 2019.

There were no breaches to the financial covenants. However, the Group defaulted on the principal repayments on the FMO and Swedfund facilities during the six months ended 30 June 2019 due to the nostro-funding challenges that were prevailing in the economy and subsequent to period end, the above mentioned lines of credit balances have since been transferred to the RBZ for an orderly expunging of the debts. The Bank has been communicating with the lenders regarding these developments.

Translating the line of credit balances at 30 June 2019 at the closing rate of USD/ZWL1:7 would increase the liability in ZWL terms to ZWL87 082 884 and a translation loss of ZWL74 642 472 would be accounted for under "net foreign exchange gains" in the profit or loss statement and the respective deferred tax credit of ZWL19 220 437 being accounted for in the "taxation" charge in the profit or loss statement. The Group did not adopt this treatment as doing so would contravene compliance with the Regulatory Directives.

***Included in trade and other payables are foreign denominated liabilities amounting to USD3 660 510 which have been designated as legacy debts in terms of the RBZ directive. Translating these payables at the closing rate of USD/ZWL1:7 would increase the liability in ZWL terms to ZWL25 623 569 and a translation loss of ZWL21 963 059 would be accounted for under "net foreign exchange gains" in the profit or loss statement and the respective deferred tax credit of ZWL5 655 488 being accounted for in the "taxation" charge in the profit or loss statement.

#### 13.2 Maturity analysis

| | 30 June 2019 ZWL | 31 December 2018 ZWL |
|---|---|---|
| Less than 1 month | 428 030 577 | 374 121 777 |
| 1 to 3 months | 16 897 967 | 25 835 037 |
| 3 to 6 months | 5 118 958 | 7 515 300 |
| 6 months to 1 year | 15 748 117 | 11 781 062 |
| 1 to 5 years | 14 305 048 | 15 512 943 |
| Over 5 years | 191 830 | 191 830 |
| | 480 292 497 | 434 957 949 |

### 13. DEPOSITS AND OTHER LIABILITIES (continued)

#### 13.3 Sectoral analysis of deposits

| | 30 June 2019 ZWL | % | 31 December 2018 ZWL | % |
|---|---|---|---|---|
| Banks and other financial institutions | 70 151 221 | 15 | 74 110 527 | 17 |
| Transport & telecommunications companies | 25 338 833 | 5 | 14 437 062 | 3 |
| Agriculture | 12 407 147 | 3 | 11 005 126 | 2 |
| Mining companies | 9 902 451 | 2 | 9 077 53 | 2 |
| Manufacturing | 73 348 432 | 15 | 69 798 745 | 16 |
| Distribution | 50 150 241 | 10 | 42 030 992 | 10 |
| Services | 100 796 864 | 21 | 98 028 025 | 23 |
| Individuals | 40 033 515 | 8 | 27 742 789 | 6 |
| Other deposits | 71 098 151 | 15 | 59 781 285 | 14 |
| Municipalities and parastatals | 27 065 642 | 6 | 28 945 864 | 7 |
| | 480 292 497 | 100 | 434 957 949 | 100 |

### 14. FINANCIAL INSTRUMENTS

#### 14.1 Investment securities

| | 30 June 2019 ZWL | 31 December 2018 ZWL |
|---|---|---|
| Measured at amortised cost | 108 222 499 | 117 249 434 |
| | 108 222 499 | 117 249 434 |

The Group holds Treasury Bills and Government Bonds totalling ZWL108 222 499 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 ZWL108 222 499, a total of ZWL72 967 161 had been pledged as security against interbank borrowings at 30 June 2019.

#### 14.2 Maturity analysis of investment securities measured at amortised cost

| | 30 June 2019 ZWL | 31 December 2018 ZWL |
|---|---|---|
| Less than 1 month | 15 420 480 | - |
| 1 to 3 months | 29 780 376 | 142 245 |
| 3 to 6 months | - | 6 133 977 |
| 6 months to 1 year | 18 535 000 | 43 004 020 |
| 1 to 5 years | 33 496 351 | 57 031 351 |
| Over 5 years | 11 382 231 | 11 382 231 |
| | 108 614 438 | 117 693 824 |
| Expected Credit Loss allowance – Stage 1 | (391 939) | (444 390) |
| ECL at 1 January 2019 | (444 391) | (374 082) |
| ECL reversal/(charge) through profit or loss | 52 452 | (70 308) |
| | 108 222 499 | 117 249 434 |

#### 14.3 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.

##### 14.3.1 Financial instruments measured at fair value – fair value hierarchy

| | 30 June 2019 ZWL | Level 1 ZWL | Level 2 ZWL | Level 3 ZWL |
|---|---|---|---|---|
| Trade investments | 787 506 | - | - | 787 506 |
| | 787 506 | - | - | 787 506 |

During the reporting period ended 30 June 2019 and 31 December 2018, 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.

| | 31 Dec 2018 ZWL | Level 1 ZWL | Level 2 ZWL | Level 3 ZWL |
|---|---|---|---|---|
| Trade investments | 112 501 | - | - | 112 501 |
| | 112 501 | - | - | 112 501 |

**Level 3 fair value measurements**

**Reconciliation of trade investments**

| | 30 June 2019 ZWL | 31 December 2018 ZWL |
|---|---|---|
| Opening balance | 112 501 | 102 347 |
| Gain recognised in profit or loss | 506 254 | 10 154 |
| Translation gain on change in functional currency | 168 751 | - |
| Closing balance | 787 506 | 112 501 |

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS
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**14 FINANCIAL INSTRUMENTS (continued)**

**14.3.2 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.

| **30 June 2019** | **Total carrying Amount ZWL** |
|---|---|
| **Assets** | |
| Cash and cash equivalents | 189 429 195 |
| Loans, advances and other assets | 272 559 076 |
| Investment securities | 108 222 499 |
| Total | 570 210 770 |
| **Liabilities** | |
| Deposits and other liabilities | 492 442 635 |
| Lease liability | 2 519 657 |
| | 494 962 292 |

| **31 Dec 2018** | **Total carrying Amount ZWL** |
|---|---|
| **Assets** | |
| Cash and cash equivalents | 112 440 912 |
| Loans, advances and other assets | 254 202 945 |
| Investment securities | 117 249 434 |
| Total | 483 893 291 |
| **Liabilities** | |
| Deposits and other liabilities | 447 105 283 |
| | 447 105 283 |

**15. CASH AND CASH EQUIVALENTS**

| | **30 June 2019 ZWL** | **31 December 2018 ZWL** |
|---|---|---|
| Balances with the Central Bank | 50 115 883 | 89 081 480 |
| Current, nostro accounts* and cash | 103 554 255 | 13 426 360 |
| Interbank placements (see below) | 36 000 000 | 10 000 000 |
| | 189 670 138 | 112 507 840 |
| Expected Credit Loss allowance (see below) | (240 943) | (66 928) |
| | 189 429 195 | 112 440 912 |

**Interbank placements**

| | **30 June 2019 ZWL** | **31 December 2018 ZWL** |
|---|---|---|
| Interbank placements | 36 000 000 | 10 000 000 |
| Expected Credit Loss allowance – Stage 1 | (240 943) | (66 928) |
| - ECL at 1 January | (66 928) | (26 770) |
| - ECL charged through profit or loss | (174 015) | (40 158) |
| | 35 759 057 | 9 933 072 |

*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.

**16. LOANS, ADVANCES AND OTHER ASSETS**

**16. 1 Total loans, advances and other assets**

| **16.1.1 Advances** | **30 June 2019 ZWL** | **31 December 2018 ZWL** |
|---|---|---|
| Fixed term loans - Corporate | 78 678 829 | 58 036 580 |
| Fixed term loans – Retail | 59 437 473 | 77 580 291 |
| Mortgages | 65 229 731 | 61 390 107 |
| Overdrafts | 47 637 724 | 50 946 710 |
| | 250 983 757 | 247 953 688 |
| Other assets | 21 575 317 | 6 249 257 |
| | 272 559 074 | 254 202 945 |

| **16.1.2 Maturity analysis** | | |
|---|---|---|
| Less than one month | 88 073 843 | 67 413 196 |
| 1 to three months | 8 460 110 | 19 263 549 |
| 3 to 6 months | 6 364 012 | 6 828 594 |
| 6 months to 1 year | 13 816 797 | 24 887 015 |
| 1 to 5 years | 87 048 166 | 94 242 902 |
| Over 5 years | 59 672 366 | 49 699 770 |
| Total advances | 263 435 294 | 262 335 026 |
| Allowance for impairment losses | | |
| on financial assets measured at amortised cost | (12 145 323) | (13 300 688) |
| - IAS 39 impairment loss allowance at 1 January 2018 | - | (5 445 968) |
| - ECL at 1 January 2019 | (13 300 688) | - |
| - ECL recognized through retained earnings | - | (8 175 135) |
| - ECL reversal/(losses) through profit or loss | 1 064 707 | (3 901 487) |
| Bad debts written off | 90 658 | 4 221 902 |
| Suspended interest on credit-impaired financial assets | (306 214) | (1 080 650) |
| | 250 983 757 | 247 953 688 |
| Other assets | 21 575 317 | 6 249 257 |
| | 272 559 074 | 254 202 945 |

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS
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**16 LOANS, ADVANCES AND OTHER ASSETS (continued)**

**16.2 Sectoral analysis of utilisations**

| | **30 June 2019 ZWL** | **%** | **31 December 2018 ZWL** | **2018 %** |
|---|---|---|---|---|
| Agriculture and horticulture | 41 178 865 | 16 | 37 386 857 | 14 |
| Conglomerates | 8 378 692 | 3 | 10 692 402 | 4 |
| Distribution | 27 344 713 | 11 | 28 902 108 | 11 |
| Food and beverages | 8 542 119 | 3 | 6 304 863 | 3 |
| Individuals | 92 365 036 | 35 | 100 512 291 | 38 |
| Manufacturing | 19 529 582 | 7 | 8 731 095 | 3 |
| Mining | 1 267 280 | - | 703 294 | - |
| Services | 64 829 008 | 25 | 69 102 116 | 27 |
| | 263 435 295 | 100 | 262 335 026 | 100 |

The material concentration of loans and advances are to individuals at 35% (2018 – 38%) and the services sector at 25% (2018 - 27%).

**16.3 Gross Carrying amounts analysis**

| 30 June 2019 | **12 Month ECL** | **Lifetime ECL Not Credit Impaired** | **Lifetime ECL Credit Impaired** | **Total** |
|---|---|---|---|---|
| Gross carrying amount on 1 Jan 2019 | 382 262 040 | 15 117 934 | 19 479 550 | 416 859 524 |
| Transfers | (3 284 523) | 10 871 094 | (7 586 571) | - |
| Transfers to 12 month ECL | 2 016 439 | (1 948 561) | (67 878) | - |
| Transfers to lifetime ECL not credit impaired | (4 494 944) | 13 225 197 | (8 730 253) | - |
| Transfers to lifetime ECL credit-impaired | (806 018) | (405 542) | 1 211 560 | - |
| Net movement in financial assets | 6 043 819 | (666 087) | (2 997 625) | 2 380 107 |
| **Balance as at 30 June 2019** | **385 021 336** | **25 322 941** | **8 895 354** | **419 239 631** |
| **Loss allowance analysis** | | | | |
| ECL on 1 Jan 2019 | 7 749 444 | 853 372 | 5 209 190 | 13 812 006 |
| Transfers | (445 156) | 601 629 | (156 473) | - |
| Transfers to 12 month ECL | 78 247 | (76 909) | (1 338) | - |
| Transfers to lifetime ECL not credit impaired | (299 287) | 802 298 | (503 011) | - |
| Transfers to lifetime ECL credit impaired | (224 116) | (123 760) | 347 876 | - |
| Net increase/(decrease) in loss allowance | 1 204 818 | (189 875) | (2 048 744) | (1 033 801) |
| **Balance as at 30 June 2019** | **8 509 106** | **1 265 126** | **3 003 973** | **12 778 205** |
| ECL on loans and advances | 7 876 224 | 1 265 126 | 3 003 973 | 12 145 323 |
| ECL on investment securities | 391 939 | - | - | 391 939 |
| ECL on interbank placements | 240 943 | - | - | 240 943 |
| | **8 509 106** | **1 265 126** | **3 003 973** | **12 778 205** |

**Gross Carrying amounts analysis**

| 31 December 2018 | **12 Month ECL** | **Lifetime ECL Not Credit Impaired** | **Lifetime ECL Credit Impaired** | **Total** |
|---|---|---|---|---|
| Gross carrying amount on 1 Jan 2018 | 307 212 628 | 19 328 471 | 16 848 747 | 343 389 846 |
| Transfers | (9 071 715) | (2 794 360) | 11 866 075 | - |
| Transfers to 12 month ECL | 1 422 126 | 1 096 550) | 25 576) | - |
| Transfers to lifetime ECL not credit impaired | (9 561 225) | 10 357 548 | (796 323) | - |
| Transfers 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** | | | | |
| ECL on 1 Jan 2018 | 9 075 323 | 1 335 253 | 3 611 380 | 14 021 956 |
| ECL on loans and advances | 8 674 470 | 1 335 253 | 3 611 380 | 13 621 103 |
| ECL on Investment securities | 374 082 | - | - | 374 082 |
| ECL on Interbank placements | 26 771 | - | - | 26 771 |
| Transfers | (445 983) | (3 253 424) | 3 699 407 | - |
| Transfers to 12 month ECL | 30 024 | (18 951) | (11 073) | - |
| Transfers to lifetime ECL not credit impaired | (219 448) | 356 161 | (136 713 | - |
| Transfers to lifetime ECL credit impaired | (256 559) | (3 590 634) | 3 847 193 | - |
| Net (decrease)/increase 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** |

**16.4 Credit-impaired financial assets**

| | **30 June 2019 ZWL** | **31 December 2018 ZWL** |
|---|---|---|
| Total credit-impaired financial assets | 8 895 354 | 19 479 550 |
| Expected Credit Losses on credit-impaired financial assets | (3 003 973) | (5 209 190) |
| Retail loans insurance | (499 057) | (499 057) |
| Suspended interest on credit-impaired financial assets | (306 214) | (1 080 650) |
| Net credit-impaired financial assets | 5 086 110 | 12 690 653 |

The net credit-impaired financial assets represent recoverable portions covered by realisable security, which includes guarantees, cession of debtors, mortgages over properties, equities and promissory notes all fair valued at ZWL8 335 250 (2018 – ZWL9 212 125).

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

| | **30 June 2019 ZWL** | **31 December 2018 ZWL** |
|---|---|---|
| Executive directors | 39 885 | 90 036 |
| Officers | 13 195 323 | 12 115 488 |
| Officers' companies | - | - |
| | 13 235 208 | 12 205 524 |
| Expected Credit Loss | (173 360) | (160 529) |
| | 13 061 848 | 12 044 995 |

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS
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NOTES TO THE CONDENSED FINANCIAL STATEMENTS
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### 17. INTANGIBLE ASSETS

| | Work in Progress ZWL | Computer software ZWL | Total ZWL |
|---|---|---|---|
| **Cost** | | | |
| 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 |
| Acquisitions | - | 94 320 | 94 320 |
| Balance at 30 June 2019 | - | 5 469 725 | 5 469 725 |
| **Accumulated amortisation** | | | |
| 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 |
| Amortisation for the period | - | 373 555 | 373 555 |
| Balance at 30 June 2019 | - | 3 712 185 | 3 712 185 |
| **Carrying amount** | | | |
| **At 30 June 2019** | **-** | **1 757 540** | **1 757 540** |
| **At 31 December 2018** | **-** | **2 036 775** | **2 036 775** |

### 18. PROPERTY AND EQUIPMENT

| | Capital Work in progress ZWL | Computers ZWL | Motor vehicles ZWL | Furniture and equipment ZWL | Right of Use Assets ZWL | Freehold land & buildings ZWL | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Balance at 1 January 2018 | 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 |
| Disposal | - | - | (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** |
| Additions | 8 215 592 | 1 190 065 | 206 348 | 194 236 | - | - | 9 806 241 |
| Initial recognition – Right-of-Use Assets | - | - | - | - | 3 078 687 | - | 3 078 687 |
| Capitalisations | (724 281) | 610 000 | - | 114 281 | - | - | - |
| Translation gains on change in functional currency | 10 424 608 | - | - | - | - | 5 228 547 | 15 653 155 |
| Revaluations | - | - | - | - | - | 5 368 653 | 5 368 653 |
| Reversal of impairment | - | - | - | - | - | 40 600 | 40 600 |
| **Balance at 30 June 2019** | **27 379 913** | **9 213 416** | **1 476 118** | **4 786 740** | **3 078 687** | **14 490 798** | **60 425 672** |
| **Accumulated depreciation** | | | | | | | |
| At 1 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) |
| **Balance at 31 December 2018** | **-** | **3 607 903** | **1 008 26** | **3 626 458** | **-** | **391 644** | **8 634 267** |
| Charge for the period excluding right-of-use assets | - | 668 028 | 111 865 | 173 702 | - | 34 966 | 988 561 |
| Charge for the period – Right-of-Use Assets | - | - | - | - | 537 067 | - | 537 067 |
| **Balance at 30 June 2019** | **-** | **4 275 931** | **1 120 127** | **3 800 160** | **537 067** | **426 610** | **10 159 895** |
| **Carrying amount at 30 June 2019** | **27 379 913** | **4 937 485** | **355 991** | **986 580** | **2 541 620** | **14 064 188** | **50 265 777** |
| **Carrying amount at 31 December 2018** | **9 463 994** | **3 805 448** | **261 509** | **851 764** | **-** | **3 461 354** | **17 844 069** |

### 19. LEASES

This note provides information for leases where the Group is a lessee.

**Amounts recognised in the Statement of Financial Position**
The Statement of Financial Position shows the following amounts relating to leases:

**Rights-of-use assets**

| | 30 June 2019 ZWL | 31 December 2018 ZWL |
|---|---|---|
| At initial recognition on 1 January 2019 | 3 078 687 | - |
| Less: accumulated depreciation | (537 067) | - |
| Balance at 30 June | 2 541 620 | - |
| **Lease liabilities** | | |
| At initial recognition on 1 January 2019 | 3 078 687 | - |
| Repayment of lease liability | (559 029) | - |
| Balance at 30 June | 2 519 658 | - |

In the previous year, the Group did not recognise any lease assets and lease liabilities under IAS 17, *Leases*. For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to note 3.12.

**Amounts recognised in the Statement of Profit or Loss.**

The statement of profit or loss shows the following amounts relating to leases:

| | 2019 ZWL | 2018 ZWL |
|---|---|---|
| Depreciation charge on right-of-use assets – buildings | 537 067 | - |
| Finance cost on lease liability | 190 132 | - |
| | 727 199 | - |

The total cash outflow for leases in 2019 was ZWL749 161.

**The Group's leasing activities**

The Group leases various buildings for the furtherance of its trade. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until 31 December 2018, in terms of IAS 17, leases of property and equipment were classified as either finance leases or operating leases. From 1 January 2019, the Group's leases are recognised as a right-of-use asset and a corresponding liability is also recognised in the Statement of Financial Position at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a leasing arrangement are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments, less any lease incentives receivable;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and;
- payments of penalties for terminating the lease, if it is provided in the leasing agreement.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The Right-of-Use Assets represent the Group's rights to occupy land and buildings in various lease arrangements in which the Group is a lessee. The Right-of-Use Assets are depreciated over the shorter of the lease term including extension options where the Group is certain to exercise such and the useful life of the underlying asset

The lease payments are discounted using the Group's incremental borrowing rate.

### 20. CAPITAL COMMITMENTS

| | 30 June 2019 ZWL | 31 December 2018 ZWL |
|---|---|---|
| Capital expenditure contracted for | 2 051 150 | 2 931 385 |
| Capital expenditure authorised but not yet contracted for | 11 534 326 | 9 092 999 |
| | 13 585 476 | 12 024 384 |

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

### 21. CONTINGENT LIABILITIES

| | 30 June 2019 ZWL | 31 December 2018 ZWL |
|---|---|---|
| Guarantees | 5 147 751 | 6 159 566 |
| Facilities approved but not drawn down | 6 042 147 | 20 671 107 |
| Expected Credit losses on facilities approved but not drawn down | (625 144) | (1 520 945) |
| Expected credit losses on guarantees | (182 405) | (553 538) |
| | 10 382 349 | 24 756 190 |

### 22. EXCHANGE RATES

The following exchange rates have been used to translate the foreign currency balances to Zimbabwean dollars (ZWL) at period end:-

| | | Mid-rate 30 June 2019 (ZWL) | Mid-rate 31 Dec 2018 US$ |
|---|---|---|---|
| United States Dollar | USD | 7.0000 | 1.0000 |
| British Pound Sterling | GBP | 8.8760 | 1.2785 |
| South African Rand | ZAR | 0.4956 | 14.2254 |
| European Euro | EUR | 7.9695 | 1.1490 |
| Botswana Pula | BWP | 0.6594 | 10.7296 |

The translation of foreign currency denominated Profit or loss items was done using the various spot rates which applied on the respective transaction dates and these range from USD/ZWL1:1 for the period 1 January 2019 to 21 February 2019; and USD/ZWL1:2.5 to USD/ZWL1:7 between 22 February 2019 and 30 June 2019.

# NMB BANK LIMITED

Registered Commercial Bank
A Member of the Deposit Protection Scheme



## STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 30 June 2019

| | Note | 30 June 2019 ZWL Reviewed | 30 June 2018 ZWL Unaudited |
|---|---|---|---|
| Interest income | | 23 200 282 | 18 562 906 |
| Interest expense | | (6 890 386) | (3 934 668) |
| **Net interest income** | | **16 309 896** | **14 628 238** |
| Fee and commission income | | 18 569 148 | 12 773 587 |
| Net foreign exchange gains | | 32 664 282 | 1 109 447 |
| **Revenue** | | **67 543 326** | **28 511 272** |
| Other income | a | 29 895 658 | 1 503 325 |
| Operating income | | 97 438 984 | 30 014 597 |
| Operating expenditure | b | (23 917 567) | (16 813 134) |
| **Net operating income before impairment reversal/(loss)** | | **73 521 417** | **13 201 463** |
| Impairment reversal/(losses) on financial assets measured at amortised cost | | 943 144 | (1 421 078) |
| **Profit before taxation** | | **74 464 561** | **11 780 385** |
| Taxation | | (17 022 320) | (2 672 422) |
| **Profit for the period** | | **57 442 241** | **9 107 963** |
| **Other comprehensive income** | | | |
| Revaluations of land and buildings net of tax | | 3 986 225 | - |
| **Total comprehensive income for the period** | | **61 428 466** | **9 107 963** |
| Earnings per share (ZWL cents) | | | |
| -Basic | c | 348.01 | 55.18 |
| -Headline | c | 85.91 | 53.00 |

## STATEMENT OF FINANCIAL POSITION
as at 30 June 2019

| | Note | 30 June 2019 ZWL Reviewed | 31 December 2018 ZWL Audited |
|---|---|---|---|
| **SHAREHOLDER'S FUNDS** | | | |
| Share capital | d | 16 506 | 16 506 |
| Share premium | | 31 474 502 | 31 474 502 |
| Functional currency translation reserve | | 30 176 593 | - |
| Revaluation reserve | | 4 122 966 | 136 741 |
| Retained earnings | | 100 936 901 | 47 267 030 |
| **Total shareholder's funds** | | **166 727 468** | **78 894 779** |
| **LIABILITIES** | | | |
| Deposits and other liabilities | | 492 410 307 | 447 138 216 |
| Current tax liabilities | | 1 226 503 | - |
| Lease liability | | 2 519 658 | - |
| Amount owing to Holding company | | 2 184 087 | - |
| Deferred taxation | | 24 624 597 | - |
| Subordinated term loan | | 1 601 484 | 1 505 647 |
| **Total liabilities** | | **524 566 636** | **448 643 863** |
| **Total shareholder's funds and liabilities** | | **691 294 104** | **527 538 642** |
| **ASSETS** | | | |
| Cash and cash equivalents | e | 189 429 195 | 112 440 912 |
| Current tax assets | | - | 210 302 |
| Investment securities | | 108 222 499 | 117 249 434 |
| Amount owing from Holding company | | - | 558 303 |
| Loans, advance and other assets | | 272 212 056 | 254 195 558 |
| Non - current assets held for sale | g | - | 36 000 |
| Trade investments | | 787 506 | 112 501 |
| Investment properties | f | 68 619 531 | 20 950 606 |
| Intangible assets | | 1 757 540 | 2 036 775 |
| Property and equipment | | 50 265 777 | 17 844 069 |
| Deferred taxation | | - | 1 904 182 |
| **Total assets** | | **691 294 104** | **527 538 642** |

## STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2019

| | | ← Capital Reserves | → | | | |
|---|---|---|---|---|---|---|
| | Share Capital ZWL | Share Premium ZWL | Revaluation Reserve ZWL | FCTR* ZWL | Retained Earnings ZWL | Total ZWL |
| Balances at 1 January 2018 | 16 506 | 31 474 502 | 90 310 | - | 26 772 073 | 58 353 391 |
| Total comprehensive income for the period | - | - | - | - | 9 107 963 | 9 107 963 |
| Dividends | - | - | - | - | (747 724) | (747 724) |
| **Balances as at 30 June 2018** | **16 506** | **31 474 502** | **90 310** | **-** | **35 132 312** | **66 713 630** |
| Total comprehensive income for the period | - | - | - | - | 12 134 718 | 12 134 718 |
| Other comprehensive income for the period | - | - | 46 431 | - | - | 46 431 |
| **Balances at 31 December 2018** | **16 506** | **31 474 502** | **136 741** | **-** | **47 267 030** | **78 894 779** |
| Change in functional currency | - | - | - | 30 176 593 | - | 30 176 593 |
| Total comprehensive income for the period | - | - | 3 986 225 | - | 57 442 241 | 61 428 466 |
| Dividends | - | - | - | - | (3 772 370) | (3 772 370) |
| **Balances at 30 June 2019** | **16 506** | **31 474 502** | **4 122 966** | **30 176 593** | **100 936 901** | **166 727 468** |

* FCTR - Functional Currency Translation Reserve arose due to the change in functional currency on 22 February 2019 as explained on note 2.5.9

## STATEMENT OF CASH FLOWS
for the six months ended 30 June 2019

| | 30 June 2019 ZWL Reviewed | 30 June 2018 ZWL Unaudited |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Profit before taxation | 74 464 561 | 11 780 385 |
| **Non-cash items** | | |
| - Profit on disposal of investment property | - | (461 965) |
| - Fair value gain on investment properties | (27 991 540) | - |
| - Trade investments fair value adjustments | (506 254) | - |
| - Amortisation of intangible assets | 373 555 | 471 720 |
| - Depreciation of property and equipment (excluding right-of-use assets) | 988 561 | 629 227 |
| - Depreciation of right-of-use assets | 537 067 | - |
| - Unrealised exchange gains on net monetary assets | (29 598 834) | (16 352) |
| - Interest capitalised on surbodinated term loan | 275 887 | 81 666 |
| - Impairment (reversal)/losses on financial assets measured at amortised cost | (943 144) | 1 421 078 |
| Operating cash flows before changes in operating assets and liabilities | 17 599 859 | 13 905 759 |
| ***Changes in operating assets and liabilities*** | | |
| (Decrease)/increase in deposits and other liabilities (net of unrealised foreign exchange gains) | (27 152 693) | 16 957 887 |
| Increase in loans, advances and other assets (net of unrealised foreign exchange gains) | (9 394 652) | (27 711 110) |
| Net cash (utilised)/generated from operations | (18 947 486) | 3 152 536 |
| ***Taxation*** | | |
| Corporate tax paid | (1 219 677) | (1 330 459) |
| Net cash (outflow)/inflow from operating activities | (20 167 163) | 1 822 077 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of property and equipment | (9 806 241) | (3 034 981) |
| Acquisition of intangible assets | (94 320) | (389 956) |
| Acquisition of investment properties | (338 276) | (3 897 104) |
| Disposal/(acquisition) of investment securities | 9 026 936 | (7 501 751) |
| Proceeds on disposal of investment properties | - | 4 430 127 |
| Decrease in amount owing from Holding company | 558 303 | 60 774 |
| Increase in amount owing to Holding company | 2 184 087 | - |
| **Net cash inflow/(outflow) from investing activities** | **1 530 489** | **(10 332 891)** |
| **Net cash outflow before financing activities** | **(18 636 674)** | **(8 510 814)** |
| **CASHFLOWS FROM FINANCING ACTIVITIES** | | |
| Payment of interest on subordinated term loan | (180 050) | (81 740) |
| Repayment of lease liability | (559 029) | - |
| Dividend paid | (3 772 370) | (747 724) |
| **Net cash outflow from financing activities** | **(4 511 449)** | **(829 464)** |
| Net decrease in cash and cash equivalents | (23 148 123) | (9 340 278) |
| Net foreign exchange differences on cash and cash equivalents | 100 136 406 | - |
| Cash and cash equivalents at the beginning of period | 112 440 912 | 89 553 202 |
| **Cash and cash equivalents at the end of the period (note e)** | **189 429 195** | **80 212 924** |

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the six months ended 30 June 2019

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**

| | 30 June 2019 ZWL | 30 June 2018 ZWL |
|---|---|---|
| Trade investments fair value adjustments | 506 254 | - |
| Profit on disposal of investment property | - | 461 965 |
| Fair value adjustment on investment properties | 27 991 540 | - |
| Bad debts recovered | 1 131 780 | 505 756 |
| Rental income | 194 895 | 192 820 |
| Other net operating income | 71 189 | 342 784 |
| | 29 895 658 | 1 503 325 |

**b. OPERATING EXPENDITURE**

| | 30 June 2019 ZWL | 30 June 2018 ZWL |
|---|---|---|
| The operating profit is after recognizing the following: | | |
| Administration costs | 11 488 654 | 7 671 915 |
| Amortisation of intangible assets | 373 555 | 471 720 |
| Depreciation of property and equipment (excluding right-of-use assets) | 988 561 | 629 227 |
| Depreciation of right of use assets | 537 067 | - |
| Impairment reversal on land and buildings* | (40 600) | - |
| Staff costs -salaries, allowances and related costs | 10 570 330 | 8 040 272 |
| | 23 917 567 | 16 813 134 |

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

**c. EARNINGS PER SHARE**

The calculation of earnings per share is based on the following figures:

| | | 30 June 2019 ZWL | 30 June 2018 ZWL |
|---|---|---|---|
| c.1 | **Earnings** | | |
| | Basic | 57 442 241 | 9 107 963 |
| | Headline (refer to note c3) | 14 180 190 | 8 748 602 |
| c.2 | **Number of shares** | | |
| | Weighted average shares in issue | 16 506 050 | 16 506 050 |



IN PURSUIT OF EXCELLENCE

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the six months ended 30 June 2019

**c. EARNINGS PER SHARE (continued)**

**c.3 Headline earnings**

| | 30 June 2019 ZWL | 30 June 2018 ZWL |
|---|---|---|
| Profit for the period | 57 442 241 | 9 107 963 |
| Add/(deduct) non-recurring items: | | |
| Trade investments fair value adjustments | (506 254) | - |
| Profit on disposal of investment properties | - | (461 965) |
| Fair value adjustments on investment properties | (27 991 540) | - |
| Unrealised translation gains on net monetary assets | (27 598 834) | (16 352) |
| Tax thereon | 12 834 577 | 118 956 |
| | ---------------- | ---------------- |
| | 14 180 190 | 8 748 602 |
| | ========== | ========= |

**c.4 Earnings per share (ZWL cents)**

| | 30 June 2019 | 30 June 2018 |
|---|---|---|
| Basic | 348.01 | 55.18 |
| Headline | 85.91 | 53.00 |

**d. SHARE CAPITAL**

**d.1 Authorised**
The authorised ordinary share capital at 30 June 2019 is at the historical cost figure of ZWL25 000 (2018 - ZWL25 000) comprising 25 million ordinary shares of ZWL0.001 each.

**d.2 Issued and fully paid**
The issued share capital at 30 June 2019 is at the historical cost figure of ZWL16 506 (2018 - ZWL16 506) comprising 16 506 050 (2018 - 16 506 050) ordinary shares of ZWL0.001 each.

**e. CASH AND CASH EQUIVALENTS**

| | 30 June 2019 ZWL | 31 December 2018 ZWL |
|---|---|---|
| Balances with the Central Bank | 50 115 883 | 89 081 480 |
| Current, nostro accounts and cash | 103 554 255 | 13 426 360 |
| Placements with other Banks (see below) | 36 000 000 | 10 000 000 |
| | ---------------- | ---------------- |
| Total cash and cash equivalents | 189 670 138 | 112 507 840 |
| Expected Credit Loss allowance (see below) | (240 943) | (66 928) |
| | ---------------- | ---------------- |
| Total | 189 429 195 | 112 440 912 |
| | ========== | ========== |

**Interbank Placements**

| | 30 June 2019 ZWL | 31 December 2018 ZWL |
|---|---|---|
| Placement with other Banks | 36 000 000 | 10 000 000 |
| Less: Expected Credit loss allowance | (240 943) | (66 928) |
| ECL at 1 January | (66 928) | (26 770) |
| ECL Charge through profit or loss | (174 015) | (40 158) |
| | --------------- | -------------- |
| | 35 759 057 | 9 933 072 |
| | ========= | ======== |

**f. INVESTMENT PROPERTIES**

| | 30 June 2019 ZWL | 31 December 2018 ZWL |
|---|---|---|
| Opening balance | 20 950 606 | 18 977 000 |
| Additions | 338 276 | 6 082 924 |
| Translation gain on change in functional currency | 19 303 109 | - |
| Fair value adjustments | 27 991 540 | 2 551 436 |
| Disposals | - | (4 360 754) |
| Reclassification to property and equipment | - | (2 300 000) |
| Reclassification from non-current assets held for sale | 36 000 | - |
| | --------------- | ---------------- |
| Closing balance | 68 619 531 | 20 950 606 |
| | ========= | ========= |

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

Rental income amounting to ZWL194 895 (2018 - ZWL192 820) 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 measured at ZWL8 997 286 as at 30 June 2019 which were acquired as part of the foreclosure process with marketability restrictions. 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**

The fair value of the Bank's investment properties as at 30 June 2019 was 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.

**Fair value hierarchy**

**Level 2**

The fair value for investment properties of ZWL59 622 245 has been categorised under Level 2 in fair value hierarchy based on the inputs used for the valuation technique highlighted above.

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the six months ended 30 June 2019

**f. INVESTMENT PROPERTIES (continued)**

**Fair value hierarchy (continued)**

**Level 2 (continued)**

| | 30 June 2019 ZWL | 31 December 2018 ZWL |
|---|---|---|
| At 1 January | 12 594 944 | 8 722 000 |
| Acquisitions | - | 3 247 175 |
| Transfer from Level 3 | - | 1 644 000 |
| Translation gain on change in functional currency | 19 303 109 | - |
| Fair value adjustments | 27 688 192 | 1 281 769 |
| Reclassification to property and equipment | - | (2 300 000) |
| Reclassification from non-current assets held for sale | 36 000 | - |
| | -------------- | ------------- |
| Balance at 31 December | 59 622 245 | 12 594 944 |
| | ========= | ======== |

**Level 3**

The fair value for investment properties of ZWL8 997 286 has been categorised under Level 3 in the fair value hierarchy based on the inputs used for the valuation technique highlighted above.

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

| | 30 June 2019 ZWL | 31 December 2018 ZWL |
|---|---|---|
| At 1 January | 8 355 662 | 10 255 000 |
| Acquisitions | 338 276 | 2 835 749 |
| Transfer to Level 2 | - | (1 644 000) |
| Disposals | - | (4 360 754) |
| Fair value adjustments | 303 348 | 1 269 667 |
| | ------------- | ------------- |
| Balance at 31 December | 8 997 286 | 8 355 662 |
| | ======== | ======== |

The values were arrived at by applying yield rates of 5% on rental values of between ZWL8 – ZWL17.50 per square metre. Some of the properties are leased out under operating leases 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.<br><br>The **direct comparison method** was applied on all residential properties. | • Weighted average expected market rental growth (5%);<br>• Void period (average 3 months after the end of each lease);<br>• Occupancy rate (55%); and<br>• Average market yield of 10%. | The estimated fair value would increase /(decrease) if:<br>• expected market rental growth were higher/ (lower);<br>• void periods were shorter/(longer);<br>• the occupancy rates were higher /(lower); and<br>• the risk adjusted discount rates were lower/ (higher). |

Below is an indication of the sensitivity analysis at different rates;

| Change in rate | Change in fair value |
|---|---|
| +5% | 695 000 |
| +3% | 417 000 |
| +1% | 139 000 |
| -1% | -139 000 |
| -3% | -417 000 |
| -5% | -695 000 |

**g. NON-CURRENT ASSETS HELD FOR SALE**

| | 30 June 2019 ZWL | 31 December 2018 ZWL |
|---|---|---|
| Carrying amount as at 1 January | 36 000 | 36 000 |
| Reclassification to investment properties* | (36 000) | - |
| | ------------ | ------------- |
| | - | 36 000 |
| | ======= | ======== |

*The Directors reclassified investment property that had been classified as non-current asset held for sale as the intended sale transaction did not materialize during the period under review as initially envisaged. Accordingly, the underlying asset has been reclassified to investment properties.

**h. CORPORATE GOVERNANCE AND RISK MANAGEMENT**

**1. RESPONSIBILITY**

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

**2. CORPORATE GOVERNANCE**

The Bank adheres to some principles of corporate governance derived from the King IV Report, the United Kingdom Combined Code and RBZ 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.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the six months ended 30 June 2019

**h. CORPORATE GOVERNANCE AND RISK MANAGEMENT (continued)**

**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 at NMB Bank Limited Board meetings**

| | Board of Directors | | Audit Committee | | Risk Management | | Asset and Liability Management (ALCO) & Finance Committee | | Loans Review Committee | | Human Resources, Remuneration and Nominations Committee | | Credit Committee | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Mr. B. A. Chikwanha | 2 | 2 | | | 2 | 2 | | | | | 2 | 2 | 2 | 2 |
| Mr. B. P. Washaya | 2 | 2 | | | | | 2 | 2 | | | | | 2 | 2 |
| Mr. J. de la Fargue | 2 | 2 | | | 2 | 2 | 2 | 2 | | | 2 | 2 | 2 | 2 |
| Mr. C. Chikaura | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | | | 2 | 2 | 2 | 2 |
| Mr. J. Tichelaar | 2 | 2 | | | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | | |
| Mr. B. Ndachena | 2 | 2 | | | | | 2 | 2 | | | | | | |
| Ms. S. Chitehwe | 2 | 2 | 2 | 2 | | | 2 | 2 | 2 | 2 | | | | |
| Ms. J. Maguranyanga | 2 | 2 | 2 | 2 | | | | | 2 | 2 | 2 | 2 | | |

Meetings planned    Meetings attended

**4. RISK MANAGEMENT**

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Board Asset and Liability Management Committee (ALCO) and Board Risk and Compliance Committee, which are responsible for defining the Group's risk universe, developing policies and monitoring implementation.
Risk management is linked logically from the level of individual transactions to the Bank level. Risk management activities broadly take place simultaneously at the following different hierarchy levels:

a) Strategic Level: This involves risk management functions performed by senior management and the board of directors. It includes the definition of risk, ascertaining the Bank'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.
b) Macro Level: It encompasses risk management within a business area or across business lines. These risk management functions are performed by middle management.
c) 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 organization 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:

a) adequate board and senior management oversight;
b) adequate strategy, policies, procedures and limits;
c) adequate risk identification, measurement, monitoring and information systems; and
d) 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 Bank'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 independence 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 Bank has in place a Board Loans Review Committee responsible for reviewing the quality of the loan book and adequacy or loan loss provisions.

The Bank has 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 Bank's move into the mass market, retail credit has become a key area of focus. The Bank has put in place robust personal loan monitoring systems and structures to mitigate retail loan delinquencies.

**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 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 Bank 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 Bank 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 Bank, if appropriate (e.g. in relation to deteriorated credits).
- Monitors the on-going development and enhancement of credit risk management across the Bank.
- Reviews the Internal Credit Rating System.
- On-going championing of the Basel II methodologies across the Bank.
- 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.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the six months ended 30 June 2019

**h. CORPORATE GOVERNANCE AND RISK MANAGEMENT (continued)**

**4 RISK MANAGEMENT (continued)**

**4.1 Credit Risk (continued)**

**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 Bank maximizes recoveries from Non-Performing Loans (NPLs).

**4.2 Market risk**
This is the exposure of the Bank'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 Bank has in place a Management Asset and Liability Committee (ALCO) which monitors market risk and recommends the appropriate levels to which the Bank 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 Bank's ability to withstand stressed market conditions. On foreign exchange risk, the bank monitors currency mismatches and makes adjustments depending on exchange rate movement forecast. The mismatches per currency are contained within 5% of the Bank's capital position.

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 Bank to fund asset increases or meet obligations as they fall due without incurring unacceptable costs or losses. The Bank 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 Bank also actively monitors its loans to deposit ratio against a set threshold in a bid to monitor and limit funding risk. The Bank 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 meeting. This is augmented by a monthly management ALCO and a quarterly board ALCO.

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. The Bank monitors its liquidity ratio in compliance with Banking Regulations to ensure that it is not less than 30% of the liabilities to the public. Liquid assets consist of cash and cash equivalents, short term bank deposits and unencumbered liquid investment securities available for immediate sale.

**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 Bank utilises monthly Key Risk Indicators to monitor operational risk in all units. Further to this, the Bank has an elaborate Operational Loss reporting system in which all incidents with a material impact on the well-being of the Bank are reported to risk management. The risk department conducts periodic risk assessments on all the units within the Bank 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 minimized. The 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 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 Bank has an independent compliance function which is responsible for identifying and monitoring all compliance issues and ensures the Bank 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 Bank conducts its business. To manage this risk, the Bank 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 Bank 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 Bank'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 Bank 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 Bank in the last quarter of 2016 and detailed below were the final ratings.

| CAMELS Component | Latest RBS** Ratings 24/11/2016 | Latest RBS Ratings 30/06/2013 | Previous RAS Ratings 31/01/2008 |
|---|---|---|---|
| Capital Adequacy | 2 | 2 | 4 |
| Asset Quality | 3 | 4 | 2 |
| Management | 3 | 3 | 3 |
| Earnings2 | 2 | 3 | |
| Liquidity 3 | 2 | 3 | |
| Sensitivity to Market Risk | 2 | 2 | 3 |
| Composite Rating | 3 | 3 | 3 |

*CAMELS is an acronym for **C**apital Adequacy, **A**sset quality, **M**anagement, **E**arnings, **L**iquidity and **S**ensitivity 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.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the six months ended 30 June 2019

**4. RISK MANAGEMENT(continued)**

**4.8 Risk Ratings (continued)**

**4.8.1.2 Summary RAS ratings**

| RAS Component | Latest RBS*** Ratings 24/11/2016 | Latest 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 Risk Assessment System

**4.8.1.3 Summary risk matrix -24 November 2016 on – site examination**

| 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 |
| Operational Risk | Moderate | Acceptable | Moderate | Stable |
| Legal & Compliance | Moderate | Acceptable | Moderate | Stable |
| Reputation | Moderate | Acceptable | Moderate | Stable |
| Strategic Risk | 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 recognized and are being addressed. Management information systems are generally adequate.

**Strong** – management effectively identifies and controls all types of risk posed by the relevant functional areas or per inherent risk. The board and senior management are active participants in managing risk and ensure appropriate policies and limits are put in place. The policies comprehensively define 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 organization.

**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 were no instances of regulatory non-compliance in the period under review. The Bank remains committed to complying with and adhering to all regulatory requirements.

**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) and other equity reserves.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the six months ended 30 June 2019

**5. CAPITAL MANAGEMENT (continued)**

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 30 June 2019 was as follows:

| | 30 June 2019 ZWL | 31 December 2018 ZWL |
|---|---|---|
| Share capital | 16 506 | 16 506 |
| Share premium | 31 474 502 | 31 474 502 |
| Retained earnings | 100 936 902 | 47 267 030 |
| Fair value gain on investment properties | (31 249 171) | (3 257 631) |
| | ---------------- | ---------------- |
| Total | 101 178 739 | 75 500 407 |
| Less: capital allocated for market and operational risk | (10 579 886) | (3 886 799) |
| Credit to insiders | - | - |
| | ---------------- | ---------------- |
| Tier 1 capital | 90 598 853 | 71 613 608 |
| Tier 2 capital (subject to limit as per Banking regulations) | 72 522 762 | 8 197 298 |
| Revaluation reserve – Investment Properties | 31 249 171 | 3 257 631 |
| Revaluation reserve – Property and equipment | 4 122 966 | 136 741 |
| Functional currency translation reserve | 30 176 593 | - |
| Subordinated debt | 212 041 | 302 152 |
| Stage 1 & 2 ECL provisions (limited to 1.25% of risk weighed assets) | 6 761 991 | 4 500 774 |
| | ---------------- | ---------------- |
| Total Tier 1 & 2 capital | 163 121 615 | 79 810 906 |
| Tier 3 capital (sum of market and operational risk capital) | 10 579 886 | 3 886 799 |
| | ---------------- | ---------------- |
| Total capital base | 173 701 501 | 83 697 705 |
| | ========= | ========= |
| Total risk weighted assets | 540 959 272 | 360 061 931 |
| | ========= | ========= |
| Tier 1 ratio | 16.75% | 19.89% |
| Tier 2 ratio | 13.41% | 2.28% |
| Tier 3 ratio | 1.95% | 1.08% |
| Total capital adequacy ratio | 32.11% | 23.25% |
| RBZ minimum required capital adequacy ratio | 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 2019 and 2018.

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

| | Retail Banking ZWL | Corporate Banking ZWL | Treasury ZWL | International Banking ZWL | Digital Banking ZWL | Unallocated ZWL | Total ZWL |
|---|---|---|---|---|---|---|---|
| **Income** | | | | | | | |
| Third party | 18 265 634 | 13 491 844 | 8 535 568 | 598 868 | 8 525 223 | 54 912 233 | 104 329 370 |
| Interest & similar expense | (639 505) | (2 694 947) | (3 555 934) | - | - | - | (6 890 386) |
| | ------------- | ------------- | ------------- | ------------- | ------------- | ------------- | ------------- |
| **Net operating income** | **17 626 129** | **10 796 897** | **4 979 634** | **598 868** | **8 525 223** | **54 912 233** | **97 438 984** |
| | ------------- | ------------- | ------------- | ------------- | ------------- | ------------- | ------------- |
| **Other material non-cash items** | | | | | | | |
| Impairment (losses)/reversal on financial assets measured at amortised cost | (368 514) | 1 311 658 | - | - | - | - | 943 144 |
| Depreciation of property & equipment (excluding right-of-use assets) | 244 091 | 24 097 | 7 806 | 2 156 | 446 524 | 263 887 | 988 561 |
| Depreciation of right-of-use assets | - | - | - | - | - | 537 067 | 537 067 |
| Amortisation of intangible assets | - | - | - | - | - | 373 555 | 373 555 |
| **Segment profit (loss)** | **6 450 807** | **9 783 584** | **4 176 244** | **(1 875 083)** | **5 652 381** | **54 262 853** | **78 450 786** |
| Income tax expense | - | - | - | - | - | (17 022 320) | (17 022 320) |
| | ------------- | ------------- | ------------- | ------------- | ------------- | ------------- | ------------- |
| **Profit/(loss) for the period** | **6 450 807** | **9 783 584** | **4 176 244** | **(1 875 083)** | **5 652 381** | **37 240 533** | **61 428 466** |
| | ======== | ======== | ======== | ========= | ======== | ========= | ========= |
| As at 30 June 2019 | | | | | | | |
| **Assets and liabilities** | | | | | | | |
| Capital expenditure | 1 747 807 | 4 267 | - | 12 437 | 186 410 | 7 949 640 | 9 900 561 |
| **Total assets** | **169 722 786** | **199 551 382** | **192 994 548** | **4 165 199** | **20 536 721** | **104 323 467** | **691 294 104** |
| **Total liabilities** | **173 422 981** | **155 491 128** | **150 361 701** | **13 078 391** | **-** | **42 212 434** | **534 566 635** |

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the six months ended 30 June 2019

### 6. SEGMENT INFORMATION (continued)

The following table presents income, profit and certain asset and liability information regarding the Bank's operating segments and service units:
**For the six months ended 30 June 2018**

| | Retail Banking | Corporate Banking | Treasury | International Banking | Digital Banking | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| **Income** | | | | | | | |
| Third party | 11 042 858 | 8 951 893 | 5 905 068 | 232 241 | 6 313 881 | 1 503 324 | 33 949 265 |
| Interest and similar expense | (728 955) | (1 252 450) | (1 953 263) | - | - | - | (3 934 668) |
| **Net operating income** | **10 313 903** | **7 699 443** | **3 951 805** | **232 241** | **6 313 881** | **1 503 324** | **30 014 597** |
| **Other material non-cash items** | | | | | | | |
| Impairment losses on financial assets measured at amortised cost | 393 553 | 850 930 | 176 595 | - | - | - | 1 421 078 |
| Depreciation of property and equipment | 204 418 | 14 666 | 1 756 | 2 620 | 179 170 | 226 597 | 629 227 |
| Amortisation of intangible assets | - | - | - | - | - | 471 720 | 471 720 |
| **Segment profit** | **2 670 536** | **2 665 999** | **2 107 650** | **134 148** | **2 698 728** | **1 503 324** | **11 780 385** |
| Income tax expense | - | - | - | - | - | (2 672 422) | (2 672 422) |
| **Profit/(loss) for the period** | **2 670 536** | **2 665 999** | **2 107 650** | **134 148** | **2 698 728** | **(1 169 098)** | **9 107 963** |
| **As at 31 December 2018** | | | | | | | |
| **Assets and liabilities** | | | | | | | |
| Capital expenditure | 162 917 | 98 427 | - | - | 302 422 | 2 857 371 | 3 421 137 |
| **Total assets** | **100 998 573** | **157 788 029** | **160 181 794** | **3 722 839** | **5 652 611** | **99 194 796** | **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 six months ended 30 June 2019

### 7. GEOGRAPHICAL INFORMATION

The Bank operates in one geographical market, Zimbabwe.

| | |
|---|---|
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| **Transfer Secretaries** | |
| In Zimbabwe<br>First Transfer Secretaries<br>1 Armagh Avenue<br>(Off Enterprise Road)<br>Eastlea<br>P O Box 11<br>Harare<br>**Zimbabwe** | In UK<br>Computershare Services PLC<br>The Pavilions<br>Bridgewater Road<br>Bristol<br>BS 999 ZZ<br>**United Kingdom** |