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STEWARD BANK 1681/ PAGE

UNAUDITED ABRIDGED FINANCIAL STATEMENTS for the half year ended 31 August 2016

HIGHLIGHTS



Strong growth in transactional based revenue in line with strategic intent



CHAIRMAN'S STATEMENT

It is an honour and privilege to present to you our Unaudited Financial Results for the 6 months ended 31 August 2016, the first since I took over as Chairman of the Board of Steward Bank Limited. Having turned a profit in the last financial year, I am pleased to announce that the bank has recorded a 4th consecutive quarter of strong growth, registering a 64% rise in Profit Before Tax to US\$4,3million compared to US\$2,6 million in the same period last year. In line with our transactional banking strategy, the bank realised a 44% growth in Non-Funded Income (NFI) from increased customer transactions, accelerated performance from pioneering channels such as Agent Banking as the public embraces the use of plastic and mobile money on the back of the increased awareness campaign by the Reserve Bank in response to the cash shortages currently being experienced in the country.

I attribute the growth to our bold strategy to pursue a new banking model anchored on transactional banking and a seamless integration with the Ecocash mobile money platform as a central pillar. Our strong brand presence has led to a surge in client growth, with over 120 000 new clients joining Steward Bank in the past six months. This positive movement is largely attributed to our Free Banking Account linked to various digital platforms which offers our retail and corporate customers digital alternatives to cash. The growth in our primary accounts demonstrates the strong bond we have created with our customers particularly those who were previously unbanked. We are on course to realize our mission of offering affordable financial services to every Zimbabwean no matter where they are.

Operating Environment – Rising above

The operating environment remains a major challenge. A liquidity crisis is affecting the whole banking industry and the economy at large in terms of both the availability of US dollars hard cash and balances in correspondent banks to effect offshore payments. Amidst these challenges, our positioning as an innovative, digital bank has yielded significant benefits to our clients. We have seen an increase in salary-based accounts as corporates look for solutions to pay their employees. The cash shortages have also resulted in an exponential growth in our Point Of Sale (POS) business with the bank now controlling a significant market share of local transactions, a result of our early decision to invest in over 10,000 POS devices in prior years.

Despite the challenging environment, we believe our business has the resilience to innovate through the turbulence and provide our customers with practical and relevant solutions to address the challenges we face. We must all look up – the future is bright.

Differentiation - Higher efficiency through digitization.

As part of our continuous performance improvement strategy, the bank implemented a "Shrinkto-Grow" Strategy, reducing the number of branches, rationalizing headcount and increasing our efficiency through the introduction of self-help banking to absorb the increase in number of customers. Whilst our operating expenses increased marginally by 6% to US\$9,7 million reflecting our growth, our cost to income ratio improved to 64% as at 31 August 2016, down from 73% in the same period last year. In FY 2016, the Bank aggressively adopted the "Universal Banking" Strategy to provide financial services to everyone regardless of who they bank with. Our target remains to become the largest financial services platform in the country using cutting edge technology as a key differentiator.

Key Metrics - Solid, compliant and consistently conservative

The bank's capital position remains strong with a core capital base of US\$37.6 million as at 31 August 2016. The Bank's liquidity position improved by 17% to close at 77% over the past six months. This is more than double the minimum regulatory requirement of 30%. The adverse macro-economic conditions require us to be cautious in our assessment of our clients' ability to repay advances. Under the prevailing economic circumstances, as a responsible lender, the bank has remained conservative in issuing new loans. Consequently, net interest income declined by 20% to US\$3,6 million whilst the bank's interest bearing assets reduced by 8% to US\$94 million as at 31 August 2016 from US\$102 million in same period last year.

Looking Ahead – A bright future

We remain optimistic of a promising future despite economic headwinds. Our competitive advantage will continue to be defined by our embedded culture of innovation and quick adaptation, making banking convenient, accessible and affordable to every Zimbabwean. The deteriorating macro-economic conditions mean that our customers will continue to seek value and better services from their bank. We believe the 320% increase in the number of new customers opening accounts with us for the period ended 31 August 2016 compared to last year reflects the confidence that the public has in our value promise.

Vote of Thanks – Your support is appreciated

On behalf of the Board, I wish to express my gratitude to our customers, our shareholders, the Board our regulators and our other key stakeholders for their continued commitment and



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CORPORATE GOVERNANCE STATEMENT (continued)

As at 31 August 2016, the Main Board held two (2) Board meetings during the period to assess risk, review performance and provide guidance to Management.

Board Committees

The Board has established and delegated specific roles and responsibilities to standing Committees, to assist it in discharging its mandate. Members of the Executive Committee and other Management attend meetings of the various committees by invitation. Each Committee acts within written terms of reference approved by the Board and reviewed annually or as necessary. All Board Committees are chaired by Independent, Non-executive Chairpersons.

To assist the Board in the discharge of its responsibilities, the following standing Committees have been established namely: i. Board Audit Committee;



US\$37.6m

More than double the minimum regulatory ratio of 30%



Our strong brand presence has led to a surge in client growth with over 120 000 new accounts opened support. I would also like to thank an extremely capable management team and all the Stewards who have worked tirelessly to deliver growth under challenging circumstances. Our staff are one of our most important stakeholders, our success depends on them.

Dividend

The board does not recommend the declaration of a dividend for the half year ended 31 August 2016.

On behalf of the Board

Bernard T.R Chidzero Chairman

29 September 2016

CORPORATE GOVERNANCE STATEMENT

THE BOARD OF DIRECTORS

The role of the Board includes, inter alia, the approval and adoption of the strategic and annual business plans, setting of objectives, review of key risk and performance areas, review of Management's performance against set criteria and objectives and determining the overall policies and processes to ensure the integrity of the institution's risk and internal control management.

Mr. Bernard Thomas Rugare Chidzero was appointed as Independent, Non-executive Director and Board Chairman effective 01 June 2016. As at 31 August 2016, the Bank's Board of Directors was comprised of ten directors, the majority of whom are Independent, Non-executive Directors. The Board has an appropriate balance of skills, experience and expertise.

The Board of Directors is committed to upholding the highest standards of corporate governance by ensuring that business is conducted in a transparent, responsible and accountable manner as enshrined in the international and local corporate governance frameworks. Steward Bank has adopted, and is implementing the National Corporate Governance Code for Zimbabwe.

- Board Risk, Compliance and Capital Management Committee;
- Board Asset and Liability Committee;
- iv. Board Credit Committee;
- v. Board Human Resources and Nominations Committee; and
- vi. Board ICT Committee.

iii

The Board established the Performance Review Committee which meets monthly to oversee and monitor the Bank's performance against the budget. This will include discussing and agreeing recommendations to the Board for corrective action.

Board Audit Committee

The role of the Audit Committee is to provide an independent evaluation of the adequacy and efficiency of the institution's internal control systems, accounting practices, information systems and auditing processes.

The Audit Committee meets at least 4 times a year or as necessary. As at 31 August 2016, the Committee had held 3 meetings.

Board Risk, Compliance and Capital Management Committee

The Committee's task is to ensure the quality, integrity and reliability of the Bank's risk management. The Committee reviews and assesses the integrity of the Bank's risk control systems and ensures that the risk policies and strategies are effectively managed. The Committee monitors adherence to the Bank's policy on Capital Management and allocation. It assists the Board of Directors in the discharge of its duties relating to corporate accountability and associated risks in terms of management, assurance and reporting in line with the requirements of the Banking Act as amended.

The Committee meets at least 4 times a year or as necessary. As at 31 August 2016, the Committee had held 2 meetings.

Board ICT Committee

The Board ICT Committee formulates policies and strategic issues relating to information and communication technology consistent with the Bank's complexity of operations. It monitors the implementation of the approved ICT strategy on procurement and maintenance

The Committee meets at least 4 times a year or as necessary. As at 31 August 2016, the Committee had held 2 meetings.



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UNAUDITED ABRIDGED FINANCIAL STATEMENTS for the half year ended 31 August 2016



CORPORATE GOVERNANCE STATEMENT (continued)

Board Credit Committee

The Board Credit Committee is tasked with the overall review of the Bank's lending policies. The Committee considers credit applications beyond the mandate of the Management Credit Committee

The Committee meets at least 4 times a year or as necessary. As at 31 August 2016, the Committee had held 2 meetings.

Board Asset and Liability Committee

The role of the Board Asset and Liability Committee is to oversee balance sheet management, to maximize profit whilst monitoring liquidity, interest rate, foreign currency

STATEMENT OF FINANCIAL POSITION

| | | 31 August | 29 February |
|-------------------------------------------------------|-------|--------------|--------------|
| | Notes | 2016 US\$ | 2016 US\$ |
| ASSETS | | | |
| Cash and cash equivalents | 10 | 45,846,240 | 24,553,452 |
| Financial assets at fair value through profit or | | | |
| loss | 11 | 245,530 | 279,755 |
| Loans and advances to customers | 12 | 51,024,760 | 56,324,976 |
| Loans and advances relating to furniture customers | 13 | 1,170,743 | 1,622,598 |
| Financial assets held-to-maturity | 14 | 42,556,576 | 45,834,053 |
| Other receivables | 15 | 17,438,236 | 13,444,894 |
| Investment property | 16 | 4,647,906 | 4,647,906 |
| Property and equipment | 17 | 5,590,382 | 4,866,821 |
| Intangible assets | 18 | 6,570,283 | 6,222,347 |
| Deferred tax asset | 26 | 9,135,164 | 10,896,184 |
| Total assets | | 184,225,820 | 168,692,986 |
| EQUITY AND LIABILITIES | | | |
| EQUITY | | | |
| Share capital | 19 | 4,077 | 4,077 |
| Share premium | 19 | 106,317,629 | 106,317,629 |
| Other reserves | 20 | 4,540,894 | 4,949,664 |
| Accumulated loss | | (39,403,723) | (42,379,882) |
| Total equity | | 71,458,877 | 68,891,488 |
| LIABILITIES | | | |
| Deposits due to banks and customers | 21 | 108,501,549 | 92,649,977 |
| Loans and borrowings | 22 | 1,465,679 | 3,565,302 |
| Provisions | 24 | 257,647 | 223,340 |
| Other liabilities | 25 | 2,542,068 | 3,362,879 |
| | | | |
| Total liabilities | | 112,766,943 | 99,801,498 |

STATEMENT OF CHANGES IN EQUITY

| For 1 | the | half | year | ended | 31 | August | 20 |
|-------|-----|------|------|-------|----|--------|----|
|-------|-----|------|------|-------|----|--------|----|

| For the half year ended 31 Au | ugust 201 | 6 | | | |
|---------------------------------------------|-----------|-------------|-----------|--------------|------------|
| | Share | Share | Other | Accumulated | |
| | capital | premium | reserves | loss | Total |
| | US\$ | US\$ | US\$ | US\$ | US\$ |
| Balance as at 1 March 2016 | 4,077 | 106,317,629 | 4,949,664 | (42,379,882) | 68,891,488 |
| Total comprehensive income | | - | - | 2,567,389 | 2,567,389 |
| Profit for the period | - | - | | 2,567,389 | 2,567,389 |
| Other comprehensive income | - | - | - | - | |
| Impairment allowance for loans and advances | - | - | (408,770) | 408,770 | - |
| Balance as at 31 August 2016 | 4,077 | 106,317,629 | 4,540,894 | (39,403,723) | 71,458,877 |
| Balance as at 1 March 2015 | 4,077 | 106,317,629 | 5,227,520 | (48,042,962) | 63,506,264 |
| Total comprehensive income | | - | - | 1,862,724 | 1,862,724 |
| Profit for the period | - | - | | 1,862,724 | 1,862,724 |
| Other comprehensive income | - | - | - | - | - |

NOTES TO THE ABRIDGED FINANCIAL STATEMENTS For the half year ended 31 August 2016

GENERAL INFORMATION

1

Steward Bank Limited ("the Bank") was incorporated according to the laws of Zimbabwe on 9 October 1970 and was registered as a commercial bank in March 2008. Its registered office and principal place of business is 101 Union Avenue Building, 101 Kwame Nkrumah Avenue, Harare. The Bank's ultimate holding company is Econet Wireless Zimbabwe Limited.

The principal business of the Bank is to provide retail and corporate banking services in the key economic centres of Zimbabwe.

Currency of Account

These financial results are presented in United States dollars ("US\$") being the functional and reporting currency of the primary economic environment in which the Bank operates.

BASIS OF PREPARATION 2

2.1 Statement of compliance

The Bank's unaudited financial results have been prepared in accordance with International Accounting Standards 34, ("IAS 34") "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB") and in a manner required by the Zimbabwe Companies Act (Chapter 24:03), the relevant Statutory Instrument ("SI") SI 62/96 and SI 33/99 and the Zimbabwe Banking Act, (Chapter 24:20).

Significant Accounting Judgements, Estimates and Assumptions 2.2

In applying the accounting policies, management made certain judgements, estimates and assumptions, which have a significant impact on the amounts recognised in the financial statements. These are consistent with those applied in the annual financial statements for the year ended 29 February 2016.

| | 31 August 2016 US\$ | 31 August 2015 US\$ |
|----------------------------------------------|---------------------------|---------------------------|
| INTEREST AND RELATED INCOME | | |
| Loans and advances to customers | 2,465,886 | 3,979,485 |
| Loans and advances relating to furniture cus | tomers 3,152 | 147,506 |
| Held-to-maturity investments | 1,472,150 | 1,293,952 |
| | 3,941,188 | 5,420,943 |
| INTEREST AND RELATED EXPENSE | | |
| Current accounts | 13,064 | 10,64 |
| Savings and term deposits | 310,370 | 830,61 |
| | 323,434 | 841,25 |
| NON-INTEREST INCOME | | |
| Fees and commission income | | |
| Dealing fee income | 567,678 | 176,84 |
| Net commissions | 9,838,850 | 7,842,43 |
| Other | 10,406,528 | 8,019,28 |
| Fair value adjustment on financial instrume | nts (34,225) | (245,740 |
| Recoveries on loans previously written off | 826,612 | 89,33 |
| Sundry income | 179,882 | 65,20 |
| Sundry income | 972,269 | (91,199 |
| | 11,378,797 | 7,928,08 |

Allowance for credit losses charge 1,009,143

768,674

and other market risks.

The Committee meets at least 4 times a year or as necessary. As at 31 August 2016, the Committee had held 2 meetings.

Board Remuneration and Nominations Committee

The Board Remuneration and Nominations Committee considers all human resources issues including industrial relations, the Bank's recruitment and retention policy and remuneration terms and packages for management and staff. The Committee reviews the structure, size and composition of the Board and makes recommendations to the Board with regard to any changes.

The Committee meets at least 4 times a year or as necessary. As at 31 August 2016, the Committee had held 2 meetings.

Director Training and Development

Training on the Board's Role in Financial Oversight, the Control Environment and Reporting was conducted.

STATEMENT OF COMPREHENSIVE INCOME

For the half year ended 31 August 2016

| | | | | Net cash generated from operations |
|-------------------------------------------|-------|--------------------------|---------------------------|--------------------------------------------|
| | Notes | 31 August 2016 USS | 31 August 2015 US\$ | Taxation paid |
| | | | | |
| Interest and related income | 3 | 3,941,188 | 5,420,943 | Net cash generated from operating activiti |
| Interest and related expense | 4 | (323,434) | (841,258) | |
| | | | | CASH FLOWS FROM INVESTING ACTIVITIES |
| Net interest income | | 3,617,754 | 4,579,685 | |
| | | | | Purchase of property and equipment |
| Non-interest income | 5 | 11,378,797 | 7,928,087 | Purchase of intangible assets |
| Allowance for credit losses charge | 6 | (1,009,143) | (768,674) | Net cash used in investing activities |
| Net operating income | | 13,987,408 | 11,739,098 | CASH FLOWS FROM FINANCING ACTIVITIE |
| Operating expenditure | 7 | (9,658,999) | (9,105,084) | Repayment of borrowings |
| Profit before tax | | 4,328,409 | 2,634,014 | Net cash used in financing activities |
| Income tax expense | 9 | (1,761,020) | (771,290) | Net increase in cash and cash equivalents |
| Profit for the period | | 2,567,389 | 1,862,724 | Cash and cash equivalents at the beginning |
| Other comprehensive income | | - | - | Cash and cash equivalents at the end of th |
| Total comprehensive income for the period | | 2,567,389 | 1,862,724 | |

| impairment anowance for loans | | | | |
|-------------------------------|---|---------------|-----------|--|
| and advances | - | - (1,259,513) | 1,259,513 | |
| | | | | |

Balance as at 31 August 2015 4,077 106,317,629 3,968,007 (44,920,725) 65,368,988

STATEMENT OF CASH FLOWS

For the half year ended 31 August 2016

| | 31 August 2016 US\$ | 31 August 2015 USŞ |
|----------------------------------------------------------|---------------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit before tax | 4,328,409 | 2,634,014 |
| Adjustments for: | | |
| Change in operating assets | 4,027,062 | (7,004,100) |
| Change in operating liabilities | 15,065,069 | 9,606,200 |
| Other non-cash items | 1,958,137 | 1,787,103 |
| Net cash generated from operations | 25,378,677 | 7,023,217 |
| Taxation paid | - | - |
| Net cash generated from operating activities | 25,378,677 | 7,023,217 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (1,463,563) | (536,452) |
| Purchase of intangible assets | (522,703) | (328,865) |
| Net cash used in investing activities | (1,986,266) | (865,317) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of borrowings | (2,099,623) | (3,264,464) |
| Net cash used in financing activities | (2,099,623) | (3,264,464) |
| Net increase in cash and cash equivalents | 21,292,788 | 2,893,436 |
| Cash and cash equivalents at the beginning of the period | 24,553,452 | 23,755,668 |
| Cash and cash equivalents at the end of the period | 45,846,240 | 26,649,104 |

| 7 | OPERATING EXPENDITURE | | |
|-----|---------------------------------------------------------------------------------|--------------|--------------|
| | | 31 August | 31 August |
| | | 2016 US\$ | 2015 US\$ |
| | Administration expenses | 3,613,267 | 3,001,077 |
| | Amortisation of intangible assets | 174,767 | 158,517 |
| | Audit fees | 110,933 | 110,711 |
| | Depreciation of property and equipment | 489,938 | 494,886 |
| | Impairment of equipment | 250,064 | 119,286 |
| | Directors' remuneration | 66,715 | 84,883 |
| | Occupancy costs | 626,793 | 892,902 |
| | Professional expenses | 668,117 | 236,254 |
| | Staff costs | 3,658,405 | 4,006,568 |
| | - Short term benefits | 3,574,191 | 3,910,033 |
| | - post - employment benefits | 84,214 | 96,535 |
| | - | 9,658,999 | 9,105,084 |
| | Impairment of loans and advances Operating profit relating to furniture loan | - | |
| | customers | 3,152 | 147,506 |
| 9 | ΙΝΟΟΜΕ ΤΑΧ | | |
| | The components of income tax expense are as | | |
| | follows: Deferred tax expense | (1,761,020) | (771,290 |
| 9.1 | Income tax reconciliation | | |
| | Accounting profit before income tax | 4,328,409 | 2,634,014 |
| | Taxation at normal rate of 25.75% | 1,114,565 | 678,259 |
| | Effect of non-deductible expenses | 646,455 | 93,031 |
| | - | 1,761,020 | 771,290 |
| | The effective income tax rate for the period is 40.69% (31 August 2015: 29.28%) | | |
| 10 | CASH AND CASH EQUIVALENTS | | |
| | | 21 August | 20 Februari |

| | 31 August | 29 February |
|--------------------------------------------|--------------|--------------|
| | 2016 US\$ | 2016 US\$ |
| Balances with the Reserve Bank of Zimbabwe | 42,323,517 | 21,215,408 |
| Balances with other banks | 1,941,037 | 651,009 |
| Cash balances | 1,581,686 | 2,687,035 |
| - | 45,846,240 | 24,553,452 |

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UNAUDITED ABRIDGED FINANCIAL STATEMENTS for the half year ended 31 August 2016

NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (continued) For the half year ended 31 August 2016

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS 11

| | 31 August 2016 USS | 29 February 2016 USS |
|---------------------|--------------------------|----------------------------|
| Listed equities: | | |
| Opening balance | 279,755 | 14,538,537 |
| Net fair value loss | (34,225) | (258,782) |
| Disposals | | (14,000,000) |
| Closing balance | 245,530 | 279,755 |

LOANS AND ADVANCES TO CUSTOMERS 12

| 12.1 Total loans and advand | ces |
|-----------------------------|-----|

12

12

| | 31 August 20 | | | 29 Fe | bruary 2 | 2016 |
|---|--------------------------------------|--------------------|--------|--------------------|----------|--------------------|
| 3 | Sectorial analysis of loans an | d advances to cust | tomers | | | |
| | Gross loans and advances | | 55,6 | 01,498 | 60,6 | 5 40,22 4 |
| | Over 5 years | | 1,8 | 854,075 | 1,8 | 301,470 |
| | 1 to 5 years | | , | 510,471 | , | 151,361 |
| | 6 months to 1 year | | | 325,478 | , | 265,208 |
| | 3 to 6 months | | , | 74,594 | | 598,924 |
| | Less than one month 1 to 3 months | | , | '92,032 544,848 | , | 363,276 359,985 |
| 2 | Maturity analysis | | | | | |
| | | | 51,0 | 024,760 | 56,3 | <u>324,976</u> |
| | Less: Suspended interest | | (1,4 | 67,346) | (2,0 | 29,972) |
| | Less: Allowance for impairment | nt | (3,1 | 09,392) | (2,2 | 85,276) |
| | | | 55,6 | 501,498 | 60, | 640,224 |
| | Consumer loans | | 21,0 |)37,528 | 19, | 235,686 |
| | Small-to-medium Enterprise le | oans | 1,0 | 047,293 | 2,4 | 492,097 |
| | Corporate loans | | 33,5 | 516,677 | 38, | 912,441 |
| 1 | lotal loans and advances | | | | | |

| 5 | OTHER | RECEI | VABLES |
|---|-------|-------|--------|

1

16

| | 31 August | 29 February |
|----------------------------------|--------------|--------------|
| | 2016 US\$ | 2016 US\$ |
| Sundry debtors | 9,689,721 | 3,342,805 |
| Amounts due from related parties | 7,748,515 | 10,102,089 |

17,438,236 13,444,894

INVESTMENT PROPERTY

| | 31 August 2016 US\$ | 29 February 2016 US\$ |
|------------------------------------|---------------------------|-----------------------------|
| Opening Balance | 4,647,906 | 3,430,267 |
| Transfer to property and equipment | - | (1,200,000) |
| Transfer from loans and advances | - | 2,100,000 |
| Fair value adjustments | - | 317,639 |
| Closing balance | 4,647,906 | 4,647,906 |

Investment property comprises buildings and undeveloped residential land.

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| | 31 August | 2016 |
|-----------------------------------------------------------------------------|------------------------------|-----------------------------|
| | Office properties US\$ | Residentia stands USS |
| Opening Balance | 860,000 | 3,787,906 |
| Transfer to property and equipment | - | - |
| Transfer from Loans and Advances | - | - |
| Remeasurement recognised in profit or loss | - | - |
| Closing Balance | 860,000 | 3,787,906 |
| | 29 Februar | v 2016 |
| Opening Balance | 1,749,114 | 1,681,153 |
| Transfer to property and equipment | (1,200,000) | - |
| Transfer from loans and advances Re-measurement recognised in profit and | - | 2,100,000 |
| loss | 310,886 | 6,753 |
| Closing Balance | 860,000 | 3,787,906 |

INTANGIBLE ASSETS 18

| | Computer software | Current work in progress | Total |
|----------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|-----------------------------------|-----------------------------------------------------------------|
| | US\$ | US\$ | US\$ |
| Cost: | | | |
| 28 February 2015 | 7,655,952 | 1,242,184 | 8,898,136 |
| Additions | 371,888 | 451,435 | 823,323 |
| Transfer from Work-in-Progress | 276,477 | (276,477) | |
| 29 February 2016 | 8,304,317 | 1,417,142 | 9,721,459 |
| Additions | 166,915 | 355,788 | 522,703 |
| 31 August 2016 | 8,471,232 | 1,772,930 | 10,244,162 |
| | | | |
| | | | |
| 28 February 2015 Amortisation charge for the year | 3,205,201 275,077 | - | |
| Amortisation charge for the year | 275,077 | - - 16 010 | 275,077 |
| Amortisation charge for the year Impairment | 275,077 2,824 | - - 16,010 16.010 | 275,077 18,834 |
| Amortisation charge for the year | 275,077 | 16,010 16,010 | 275,07 18,83 3,499,11 |
| Amortisation charge for the year Impairment 29 February 2016 | 275,077 2,824 3,483,102 | | 3,205,20 275,07 18,834 3,499,112 174,76 3,673,87 |
| Amortisation charge for the year Impairment 29 February 2016 Amortisation charge for the year 31 August 2016 | 275,077 2,824 3,483,102 174,767 | 16,010 | 275,077 18,834 3,499,112 174,767 |
| Amortisation charge for the year Impairment 29 February 2016 Amortisation charge for the year | 275,077 2,824 3,483,102 174,767 | 16,010 | 275,077 18,834 3,499,112 174,767 |

SHARE CAPITAL AND SHARE PREMIUM 19

| | No. of ordinary shares | No. of preference shares | Share capital US\$ | Share premium US\$ | Total US\$ |
|------------------|------------------------------|--------------------------------|--------------------------|--------------------------|---------------|
| 28 February 2015 | 471,707,887 | 4,030 | 4,077 | 106,317,629 | 106,321,706 |
| 29 February 2016 | 471,707,887 | 4.030 | 4.077 | 106.317.629 | 106.321.706 |
| 25105100192010 | 4/1,/07,007 | 4,000 | 4,077 | 100,517,025 | 100,521,700 |
| 31 August 2016 | 471,707,887 | 4,030 | 4,077 | 106,317,629 | 106,321,706 |

OTHER RESERVES 20

| | 55,601,498 | 100% | 60,640,224 | 100.0% |
|----------------------------|------------|-------|------------|--------|
| Individuals | 20,870,358 | 37.5% | 20,068,656 | 33.1% |
| Services and communication | 4,345,988 | 7.8% | 7,659,810 | 12.6% |
| Distribution | 1,435,506 | 2.6% | 829,015 | 1.4% |
| Agriculture | 2,256,465 | 4.1% | 2,823,439 | 4.7% |
| Manufacturing | 26,546,520 | 47.7% | 28,927,409 | 47.7% |
| Mining | 146,662 | 0.3% | 331,895 | 0.5% |

US\$

US\$

12.4 Allowance for impairment of loans and advances to customers

| | 31 August | 29 February |
|----------------------------------------------------------|------------------------|--------------------------|
| | 2016 US\$ | 2016 US\$ |
| Opening balance | 2,285,276 | 7,856,141 |
| Charge for the period Write-off of loans and advances | 1,009,143 (185,027) | 1,772,507 (7,343,372) |
| Closing balance | 3,109,392 | 2,285,276 |

LOANS AND ADVANCES RELATING TO FURNITURE CUSTOMERS 13

| Gross furniture loans | 1,170,743 | 1,622,598 |
|--------------------------------------------------------------------------|-----------|--------------|
| Allowance for credit losses | - | - |
| | | |
| Net loans | 1,170,743 | 1,622,598 |
| Reconciliation of loans and advances relating to Furniture Customers: | | |
| Opening balance | 1,622,598 | 3,292,051 |
| Gross furniture loans | | 18,752,538 |
| Allowance for credit losses | - | (15,460,487) |
| | | |
| Collections/recoveries | (451,855) | (1,192,560) |
| Allowance for credit losses | - | (476,893) |
| Write-off of loans and advances | - | (15,937,380) |
| Utilisation of provisions | - | 15,937,380 |
| Clasica balance | 1 170 742 | 1 (22 500 |
| Closing balance | 1,170,743 | |
| Gross furniture loans | 1,170,743 | 1,622,598 |
| Allowance for credit losses | - | - |
| | | |

FINANCIAL ASSETS HELD-TO-MATURITY 14

| | 31 August | 29 February |
|--------------------------------------------------------------------------------|--------------|--------------|
| | 2016 US\$ | 2016 US\$ |
| Reserve Bank of Zimbabwe Bonds, Money Market Placements and Treasury Bills: | | |

| 45,834,053 | 33,699,848 |
|-------------|-------------------------------|
| - | 25,500,000 |
| (5,628,906) | (16,005,662) |
| 2,351,429 | 2,639,867 |
| 42,556,576 | 45,834,053 |
| | - (5,628,906) 2,351,429 |

| | technique | inputs | average) |
|--------------------|---------------------|---------------------|------------|
| | Implicit investment | | |
| | approach (Refer | Comparable rentals | |
| Office properties | below) | per month, per sqm | \$5 - \$9 |
| | Market value of | | |
| | similar properties | Comparable rate per | |
| Residential stands | (Refer below) | sqm | \$20- \$26 |
| | | | |

Significant observable Range (weighted

Valuation

In arriving at the market value for property, the implicit investment approach was applied based on the capitalisation of income. This method is based on the principle that rentals and capital values are inter- related. Hence, given the income produced by a property, its capital value can be estimated. Comparable rentals inferred from properties within the locality of the property based on use, location, size and quality of finishes were used. The rentals were then adjusted per square meter to the lettable areas, being rentals achieved for comparable properties as at 29 February 2016. The rentals are then annualised and a capitalisation factor was applied to give a market value of the property also inferring on comparable promises which are in the same value of the property, also inferring on comparable premises which are in the same category as regards the building elements.

In assessing the market value of the residential stands, values of various properties that had been recently sold or which are currently on sale and situated in comparable residential areas was used. Market evidence from other Estate Agents and local press was also taken into consideration.

The Directors are of the opinion that the fair values of the investment property determined by an independent valuer at 29 February 2016 do not differ significantly from the fair values of the property at 31 August 2016. The fair values determined at 29 February 2016 have therefore been adopted as at 31 August 2016.

17 PROPERTY AND EQUIPMENT

| | Land and | Leasehold | Furniture | Office | Computer | Motor | Work in | Total |
|--------------------------------------|-------------|------------|--------------|-----------|-----------|----------|-----------|------------|
| | BuildingsIn | provements | and Fittings | Equipment | Equipment | Vehicles | Progress | |
| | US\$ | US\$ | US\$ | US\$ | US\$ | US\$ | US\$ | US\$ |
| At Cost or Valuation: | | | | | | | | |
| 28 February 2015 | - | 1,769,838 | 2,902,858 | 1,701,989 | 3,600,859 | 452,612 | 20,479 | 10,448,635 |
| Additions | 68,238 | 8,946 | 95,424 | 73,431 | 559,239 | - | 347,971 | 1,153,249 |
| Transfer from Investment Property | 1,200,000 | | | | - | - | - | 1,200,000 |
| Transfer from Work- in-Progress | 49,745 | 97,819 | - | - | 24,514 | - | (172,078) | |
| Revaluation | (79,169) | - | - | - | - | - | - | (79,169) |
| 29 February 2016 | 1,238,814 | 1,876,603 | 2,998,282 | 1,775,420 | 4,184,612 | 452,612 | 196,372 | 12,722,715 |
| Additions | 15,802 | - | 56,685 | 116,565 | 1,144,351 | - | 130,160 | 1,463,563 |
| 31 August 2016 | 1,254,616 | 1,876,603 | 3,054,967 | 1,891,985 | 5,328,963 | 452,612 | 326,532 | 14,186,278 |

Accumulated depreciation and impairment:

| 28 February 2015 | | 127,550 | 2,390,445 | 1,355,808 | 2,239,585 | 375,389 | - | 6,488,777 |
|-------------------------------------|--------|---------|-----------|-----------|-----------|---------|---|-----------|
| Depreciation charge for the year | 1,814 | 316,665 | 68,281 | 131,221 | 408,193 | 44,380 | - | 970,554 |
| Impairment | - | 119,286 | - | - | 277,277 | - | - | 396,563 |
| 29 February 2016 | 1,814 | 563,501 | 2,458,726 | 1,487,029 | 2,925,055 | 419,769 | - | 7,855,894 |
| Depreciation charge for the year | 13,031 | 168,315 | 38,385 | 51,347 | 202,926 | 15,934 | - | 489,938 |
| Impairment | - | - | - | - | 250,064 | - | - | 250,064 |
| 31 August 2016 | 14,845 | 731,816 | 2,497,111 | 1,538,376 | 3,378,045 | 435,703 | - | 8,595,896 |

| amount: | | | | | | | |
|------------------|-----------|-----------|---------|-------------------|--------|---------|-----------|
| 31 August 2016 | 1,239,771 | 1,144,787 | 557,856 | 353,609 1,950,918 | 16,909 | 326,532 | 5,590,382 |
| 29 February 2016 | 1,237,000 | 1,313,102 | 539,556 | 288,391 1,259,557 | 32,843 | 196,372 | 4,866,821 |

Property and equipment was assessed by the Bank's Directors and it was determined that the book values of the assets at 31 August 2016 approximate the assets' fair values.

| | Revaluation | Regulatory | |
|---------------------------------------------|-------------|------------|-----------|
| | surplus | reserve | Total |
| | US\$ | US\$ | US\$ |
| 28 February 2015 | 26,856 | 5,200,664 | 5,227,520 |
| Reversal owing to loss on revaluation | | | |
| of property | (26,856) | - | (26,856) |
| Impairment allowance for loans and | | | (|
| advances | - | (251,000) | (251,000) |
| 29 February 2016 | - | 4,949,664 | 4,949,664 |
| Impairment allowance for loans and advances | - | (408,770) | (408,770) |
| 31 August 2016 | - | 4,540,894 | 4,540,894 |
| | | | |

Revaluation surplus

This reserve represents the surplus arising from the revaluation of property.

Regulatory reserve

This reserve caters for excess credit loss provisions that result from calculation of impairments on loans and advances according to the expected loss model as required per Reserve Bank of Zimbabwe regulations.

21 **DEPOSITS DUE TO BANKS AND CUSTOMERS**

| | 31 August | 29 February | |
|-------------------------------|--------------|--------------|--|
| | 2016 US\$ | 2016 US\$ | |
| Due to customers | | | |
| Current accounts | 90,663,263 | 71,824,624 | |
| Term deposits | 17,838,286 | 20,825,353 | |
| | 108,501,549 | 92,649,977 | |
| Maturity analysis of deposits | | | |
| Less than one month | 94,360,550 | 78,128,644 | |
| 1 to 3 months | 14,140,999 | 14,521,333 | |
| | 108,501,549 | 92,649,977 | |

21.2 Sectorial analysis of deposits

21.

| | 31 August | 2016 | 29 Februar | y 2016 |
|----------------------------------|-------------|-------|------------|--------|
| | US\$ | % | US\$ | % |
| Financial | 5,729,946 | 5.3% | 353,198 | 0.4% |
| Transport and telecommunications | 71,898,702 | 66.3% | 73,702,449 | 79.5% |
| Mining | 45,776 | 0.0% | 48,803 | 0.1% |
| Manufacturing | 451,722 | 0.4% | 203,211 | 0.2% |
| Agriculture | 413,871 | 0.4% | 84,500 | 0.1% |
| Distribution | 699,517 | 0.6% | 310,145 | 0.3% |
| Services | 5,440,588 | 5.0% | 3,896,976 | 4.2% |
| Government and parastatals | 5,764,244 | 5.3% | 2,465,565 | 2.7% |
| Individuals | 16,823,125 | 15.5% | 10,983,686 | 11.9% |
| Other | 1,234,057 | 1.1% | 601,444 | 0.6% |
| | 108,501,549 | 100% | 92,649,977 | 100% |

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UNAUDITED ABRIDGED FINANCIAL STATEMENTS for the half year ended 31 August 2016

NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (continued) For the half year ended 31 August 2016

LOANS AND BORROWINGS 22

| | 31 August 2016 US\$ | 29 February 2016 US\$ |
|------------------------------------------|---------------------------|-----------------------------|
| Lines of credit | 1,465,679 | 3,565,302 |
| Maturity profile of loans and horrowings | | |

22 Maturity profile of loans and borrowings

| | 31 August | 29 February |
|---------------------|--------------|--------------|
| | 2016 US\$ | 2016 US\$ |
| Less than one month | 212,50 | 1,499,500 |
| 1 to 6 months | 131,739 | 682,623 |
| 6 months to 1 year | 1,121,440 | 1,203,092 |
| 1 to 5 years | | - 180,087 |
| | 1,465,67 | 3.565.302 |

FAIR VALUES MEASUREMENT 23

The following table provides the fair value measurement hierarchy of the Bank's assets and liabilities:

| | | | | | ent using: |
|--------------------------------|-------------------|---------------|---------------------------------------------------------------|----------------------------------------------------------|------------------------------------------------------------|
| Assets measured at fair value: | Date of Valuation | Total US\$ | Quoted prices in active markets (Level 1) US\$ | Significant observable inputs (Level 2) US\$ | Significant unobservable inputs (Level 3) US\$ |
| Absets medsured de lan value. | Dute of Valuation | | 000 | 000 | |
| Investment property (Note 16) | | | | | |
| Residential stands | 29 February 2016 | 3,787,906 | - | 3,787,906 | - |
| Office buildings | 29 February 2016 | 860,000 | - | 860,000 | - |
| Total Investment property | | 4,647,906 | - | 4,647,906 | - |
| | | | | | |
| Quoted equity shares (Note 11) | | | | | |
| Telecommunications sector | 31 August 2016 | 245,530 | 245,530 | - | - |

Telecommunications sector

There have been no transfers between Level 1 and Level 2 during the period.

Fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique; Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly Level 2: Techniques which use inputs which have a significant effect on the recorded fair value are observable, markets directly and the effect on the recorded fair value are not based on observable market data.

| | | | | | 3 | 1 August 2016 US\$ | | 31 August 2015 US\$ |
|-------|---------------------------------------|-------------------------------------|-----------------------------------|--------|------------------|--------------------------|------------|---------------------------|
| | Sundry credi | tors and accrua | ls | _ | 2, | 542,068 | | 3,362,879 |
| 26 | DEFERRED TA | AX ASSET | | | | | | |
| | | Accelerated wear and tear USS | Fair value adjustments US\$ | | sessed losses | Oth | ier S\$ | Total |
| | | 055 | 055 | | US\$ | 0 | 22 | US\$ |
| | February 2015 t)/ charge to | 1,981,567 | (197,700) | (7,02 | 8,047) | (6,443,13 | 34) | (11,687,314) |
| | for the period | (1,355,632) | 707,281 | (3,90 | 6,272) | 5,345,7 | 53 | 791,130 |
| | February 2016 t)/ charge to | 625,935 | 509,581 | (10,93 | 4,319) | (1,097,38 | 31) | (10,896,184) |
| | for the period | (485,955) | (131,769) | 2,13 | 3,473 | 245,2 | 71 | 1,761,020 |
| A+ 21 | August 2016 | 139,980 | 377,813 | (8,80 | 1 9/61 | (852,11 | 1) | (9,135,164) |

RELATED PARTY DISCLOSURES 27

OTHER LIABILITIES

| | 31 August 2016 US\$ | 31 August 2015 US\$ |
|-------------------------------------------------------|---------------------------|---------------------------|
| Compensation of key management personnel of the Bank: | | |
| Short-term benefits | 780,554 | 1,036,980 |
| Post - employment benefits | - | - |
| | 780,554 | 1,036,980 |

28 CORPORATE GOVERNANCE

The Board meets at least on a quarterly basis in order to assess risk, review performance and provide guidance to management on both operational and policy issues. The Board is supported by mandatory Committees in the execution of its responsibilities.

28.1 Main Board

| | Number of | Meetings | |
|--------------------------------------------|-----------|-----------|----------|
| | meetings | required | Meetings |
| Name of director | held | to attend | attended |
| * *B T R Chidzero | 2 | 1 | 1 |
| C Maswi | 2 | 2 | 1 |
| J Mungoshi | 2 | 2 | 2 |
| T Mpofu | 2 | 2 | 2 |
| J H Gould | 2 | 2 | 2 |
| K Akosah-Bempah | 2 | 2 | 2 |
| N N Chadehumbe | 2 | 2 | 2 |
| P M Mbizvo | 2 | 2 | 2 |
| K V Chirairo | 2 | 2 | 2 |
| L S Mambondiani | 2 | 2 | 2 |
| * Chairman ** Appointed on 01 June 2016 | | | |

28.7 Remuneration and Nominations Committee

| Name of director | Number of meetings held | Meetings required to attend | Meetings attended |
|--------------------------------------------------|-------------------------------|-----------------------------------|----------------------|
| *P M Mbizvo | 2 | 2 | 2 |
| J H Gould | 2 | 2 | 1 |
| J Mungoshi | 2 | 2 | 2 |
| **B T R Chidzero | 2 | 1 | 0 |
| * Chairman **Appointed effective 01 June 2016 | | | |

29 **RISK MANAGEMENT**

29.1 Credit Risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations.

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The following tables analyse credit risk exposure to loans and advances in details

| Neither past due nor impaired | | | | | |
|-------------------------------|-------------------|------------------|---------------------------------|--------------------------|-------|
| High grade | Standard grade | Sub- standard | Past due but not impaired | Individually impaired | Total |
| US\$ | US\$ | US\$ | US\$ | US\$ | US\$ |

At 31 August 2016:

| | 12,768,220 | 3,488,708 | 30,735,829 | 5,499,349 | 3,109,392 | 55,601,499 |
|---------------|------------|-----------|------------|-----------|-----------|------------|
| Services | 581,377 | 3,133,530 | 200,514 | - | 430,567 | 4,345,988 |
| Distribution | 677,673 | 85,123 | - | - | 672,710 | 1,435,506 |
| Agriculture | 267,033 | 50,085 | 1,432,234 | 58,752 | 448,361 | 2,256,465 |
| Manufacturing | 57,818 | 54,222 | 25,357,101 | 262,314 | 815,064 | 26,546,520 |
| Mining | 89,694 | 54,896 | - | - | 2,072 | 146,662 |
| Individuals | 11,094,625 | 110,852 | 3,745,980 | 5,178,283 | 740,618 | 20,870,358 |
| | | | | | | |

At 29 February 2016:

In

Μ Μ Ag Di Se

Currei USD

USD

USD USD USD USD

| ndividuals | 14,646,434 | 963 <i>,</i> 493 | 787,569 | 1,888,175 | 1,782,985 | 20,068,656 | |
|---------------|------------|------------------|------------|-----------|-----------|------------|--|
| lining | 248,755 | 14,773 | - | 68,367 | - | 331,895 | |
| lanufacturing | - | - | 28,831,958 | - | 95,451 | 28,927,409 | |
| griculture | 2,116,166 | 228,498 | - | 90,717 | 388,058 | 2,823,439 | |
| istribution | 532,412 | 96,480 | - | 185,582 | 14,541 | 829,015 | |
| ervices | 3,913,672 | - | 543,787 | 3,198,110 | 4,241 | 7,659,810 | |
| | | | | | | | |

FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents, loans and advances, deposits and other liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

- Long-term fixed-rate and variable-rate receivables / borrowings are evaluated by the Bank based on parameters such as interest rates, specific country risk factor's individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. As at 31 August 2016, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values.

- Fair value of quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities and obligations under finance leases are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. maturities

- Fair value of financial assets at fair value through profit or loss are derived from quoted market prices in active markets.

| | 31 August 2016 | | 29 Februar | ry 2016 | |
|-------------------------------------------------------|----------------|-------------|-------------|-------------|--|
| | Carrying | Fair | Carrying | Fair | |
| | amount | value | amount | value | |
| | US\$ | US\$ | US\$ | US\$ | |
| Financial assets | | | | | |
| Cash and cash equivalents | 45,846,240 | 45,846,240 | 24,553,452 | 24,553,452 | |
| Financial assets at fair value through profit or loss | 245,530 | 245,530 | 279,755 | 279,755 | |
| Loans and advances to customers | 51,024,760 | 51,024,760 | 56,324,976 | 56,324,976 | |
| Loans and advances relating to furniture customers | 1,170,743 | 1,170,743 | 1,622,598 | 1,622,598 | |
| Financial assets held to maturity | 42,556,576 | 42,556,576 | 45,834,053 | 45,834,053 | |
| Other receivables | 17,438,236 | 17,438,236 | 13,444,894 | 13,444,894 | |
| | 158,282,085 | 158,282,085 | 142,059,728 | 142,059,728 | |

Financial liabilities

| Other liabilities | 2,542,068 | 2,542,068 | 3,362,879 | 3,362,879 | |
|-------------------------------------|-------------|-------------|------------|------------|--|
| Loans and borrowings | 1,465,679 | 1,465,679 | 3,565,302 | 3,565,302 | |
| Deposits due to banks and customers | 108,501,549 | 108,501,549 | 92,649,977 | 92,649,977 | |

PROVISIONS 24

| | | 31 August | 29 February |
|-----------------------------|--------------------------------|--------------------------------|---------------|
| | | 2016 US\$ | 2016 US\$ |
| Provisions | _ | 257,647 | 223,340 |
| | Provision | | |
| | for demolition costs USS | Leave Pay Provision US\$ | Total US\$ |
| | · · · | | |
| Balance at 29 February 2016 | 67,630 | 155,710 | 223,340 |
| Current provision | - | 558,533 | 558,533 |
| Amount utilised | (25,773) | (498,453) | (524,226) |
| Balance at 31 August 2016 | 41,857 | 215,790 | 257,647 |

28.2 Risk. Compliance and Capital Management Committee

| | Number of meetings | Meetings required | Meetings |
|------------------|-----------------------|----------------------|----------|
| Name of director | held | to attend | attended |
| *N N Chadehumbe | 2 | 2 | 2 |
| T Mpofu | 2 | 2 | 1 |
| P M Mbizvo | 2 | 2 | 2 |
| | | | |
| * Chairman | | | |

28.3 Audit Committee

| | Number of | Meetings | |
|-------------------|-----------|-----------|----------|
| | meetings | required | Meetings |
| Name of director | held | to attend | attended |
| * K Akosah-Bempah | 3 | 3 | 3 |
| C Maswi | 3 | 3 | 2 |
| N N Chadehumbe | 3 | 3 | 3 |
| | | | |
| * Chairman | | | |

28.4 Credit Committee

| Name of director | Number of meetings held | Meetings required to attend | Meetings attended |
|--------------------------------------------------|-------------------------------|-----------------------------------|----------------------|
| *J Mungoshi | 2 | 2 | 2 |
| K V Chirairo | 2 | 2 | 2 |
| J H Gould | 2 | 2 | 2 |
| **B T R Chidzero | 2 | 1 | 1 |
| * Chairman **Appointed effective 01 June 2016 | | | |

28.5 Asset and Liability Committee

| | Number of meetings | Meetings required | Meetings |
|------------------|-----------------------|----------------------|----------|
| Name of director | held | to attend | attended |
| *C Maswi | 2 | 2 | 2 |
| T Mpofu | 2 | 2 | 2 |
| K Akosah-Bempah | 2 | 2 | 2 |
| P M Mbizvo | 2 | 2 | 2 |
| | | | |
| * Chairman | | | |

28.6 ICT Committee

| | | | 1 | 1 5 |
|------------------|-----------|-----------|----------|-----|
| | Number of | Meetings | | |
| | meetings | required | Meetings | |
| Name of director | held | to attend | attended | Ir |
| *J Mungoshi | 2 | 2 | 2 | |
| J H Gould | 2 | 2 | 1 | |
| N N Chadehumbe | 2 | 2 | 2 | C |
| | | | | |
| * Chairman | | | | |
| | | | | |

21,457,439 1,303,244 30,163,314 5,430,951 2,285,276 60,640,224

29.2 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established limits on the non-trading interest rate gaps for stipulated periods. The Bank's policy is to monitor positions on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's statement of comprehensive income

| | At 31 August 2016 | | | At 29 February 2016 | | | |
|-----|-------------------|-------------------------------|---------------------------|---------------------|----------------------------------|---------------------------|--|
| | | Sensitivity of profit or loss | Sensitivity of capital | | Sensitivity of profit or loss | Sensitivity of capital | |
| | | US\$ | US\$ | | US\$ | US\$ | |
| | | | | | | | |
| ncy | | | | | | | |
| | +6 | 3,891,624 | 3,891,624 | +6 | 2,389,437 | 2,389,437 | |
| | +4 | 2,594,416 | 2,594,416 | +4 | 1,592,958 | 1,592,958 | |
| | +2 | 1,297,208 | 1,297,208 | +2 | 796,479 | 796,479 | |
| | -2 | (1,297,208) | (1,297,208) | -2 | (796 <i>,</i> 479) | (796,479) | |
| | -4 | (2,594,416) | (2,594,416) | -4 | (1,592,958) | (1,592,958) | |
| | -6 | (3,891,624) | (3,891,624) | -6 | (2,389,437) | (2,389,437) | |
| | | | | | | | |

The table below summaries the Bank's interest rate risk exposure:

| TOTAL POSITION | Up to 1 | 1 month to | 3 months to | | Non-interest | |
|-------------------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|-------------|
| | month | 3 months | 1 year | 1 to 5 years | bearing | Total |
| At 31 August 2016 | US\$ | US\$ | US\$ | US\$ | US\$ | US\$ |
| Assets | | | | | | |
| Cash and cash equivalents | - | - | - | - | 45,846,240 | 45,846,240 |
| Financial assets at fair value through | | | | | | |
| profit or loss | - | - | - | - | 245,530 | 245,530 |
| Loans and advances to customers Loans and advances relating to | 3,215,294 | 1,644,848 | 2,800,072 | 43,364,546 | - | 51,024,760 |
| furniture customers | 138,039 | - | 1,032,704 | - | - | 1,170,743 |
| Financial assets held-to-maturity | 3,304,921 | 21,870,434 | 16,344,159 | 1,037,062 | - | 42,556,576 |
| Other receivables | - | - | - | - | 17,438,236 | 17,438,236 |
| Investment property | - | - | - | - | 4,647,906 | 4,647,906 |
| Property and equipment | - | - | - | - | 5,590,382 | 5,590,382 |
| Intangible assets | - | - | - | - | 6,570,283 | 6,570,283 |
| Deferred tax Asset | - | - | - | - | 9,135,164 | 9,135,164 |
| | 6,658,254 | 23,515,282 | 20,176,935 | 44,401,608 | 89,473,741 | 184,225,820 |
| Liabilities and equity | | | | | | |
| Deposits due to banks and customers | 94,360,550 | 14,140,999 | - | - | - | 108,501,549 |
| Loans and borrowings | 212,500 | 131,739 | 1,121,440 | - | - | 1,465,679 |
| Provisions | - | - | - | - | 257,647 | 257,647 |
| Other liabilities | - | - | - | - | 2,542,069 | 2,542,068 |
| Equity _ | - | - | - | - | 71,458,877 | 71,458,877 |
| | 94,573,050 | 14,272,738 | 1,121,440 | - | 74,258,593 | 184,225,820 |
| Interest rate repricing gap | (87,914,796) | 9,242,544 | 19,055,495 | 44,401,608 | 15,215,149 | |
| Cumulative gap | (87,914,796) | (78,672,252) | (59,616,757) | (15,215,149) | - | |

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UNAUDITED ABRIDGED FINANCIAL STATEMENTS for the half year ended 31 August 2016

NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (continued) For the half year ended 31 August 2016

RISK MANAGEMENT (Continued) 29

Interest rate risk (continued) 29.2

| TOTAL POSITION | Up to 1 | 1 month to | 3 months to | | Non-interest | |
|----------------------------------------|-----------|------------|-------------|--------------|--------------|-------------|
| | month | 3 months | 1 year | 1 to 5 years | bearing | Tota |
| At 29 February 2016 | US\$ | US\$ | US\$ | US\$ | USŞ | US\$ |
| Assets | | | | | | |
| Cash and cash equivalents | - | - | - | - | 24,553,452 | 24,553,452 |
| Financial assets at fair value through | | | | | | |
| profit or loss | | - | - | - | 279,755 | 279,755 |
| Loans and advances to customers | 2,363,276 | 1,359,985 | 12,964,132 | 37,836,114 | 1,801,469 | 56,324,976 |
| Loans and advances relating to | | | | | | |
| furniture loans | 1,622,598 | | | - | | 1,622,598 |
| Financial assets held to maturity | 3,304,921 | 10,588,507 | 27,562,383 | 4,378,242 | - | 45,834,053 |
| Other receivables | - | - | - | - | 13,444,894 | 13,444,894 |
| Investment properties | - | - | - | - | 4,647,906 | 4,647,906 |
| Property and equipment | - | - | - | - | 4,866,821 | 4,866,821 |
| Intangible assets | - | - | - | - | 6,222,347 | 6,222,347 |
| Deferred tax asset | - | - | - | | 10,896,184 | 10,896,184 |
| | 7,290,795 | 11,948,492 | 40,526,515 | 42,214,356 | 66,712,828 | 168,692,986 |

Liabilities and equity

| | 73,324,124 | 21,507,976 | 1,203,092 | 180,087 | 72,477,707 | 168,692,986 | |
|-------------------------------------|------------|------------|-----------|---------|------------|-------------|--|
| Equity | - | - | - | - | 68,891,488 | 68,891,488 | |
| Other liabilities | - | - | - | - | 3,362,879 | 3,362,879 | |
| Provisions | - | - | - | - | 223,340 | 223,340 | |
| Loans and borrowings | 1,499,500 | 682,623 | 1,203,092 | 180,087 | - | 3,565,302 | |
| Deposits due to banks and customers | 71,824,624 | 20,825,353 | - | - | - | 92,649,977 | |
| Liabilities and equity | | | | | | | |

Interest rate repricing gap (66,033,329) (9,559,484) 39,323,423 42,034,269 (5,764,879)

(66,033,329) (75,592,813) (36,269,390) 5,764,879

29.3 Liquidity risk

Cumulative gap

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

29.3.1 Liquidity ratios

| | At 31 August 2016 US\$ | At 29 February 2016 USS |
|-------------------------------------------------|------------------------------|-------------------------------|
| Loans to deposits ratio | 51% | 67% |
| Net liquid assets to customer liabilities ratio | 77% | 80% |

29.3.2 Contractual maturities of undiscounted cash flows of financial assets and liabilities

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history

29.3.3 Contractual maturities of undiscounted cash flows of financial assets and liabilities

| and liabilities | | | | | | |
|-----------------------------------------------------------------------------|-------------------|-------------------------------|-------------------------------|-------------------------|-------------------------|---------------|
| | On demand US\$ | Less than 3 months US\$ | 3 months to 1 year US\$ | 1 to 5 years US\$ | Over 5 years US\$ | Total US\$ |
| At 31 August 2016: | | | | | | |
| Financial assets: | | | | | | |
| Cash and cash equivalents | 45,846,240 | - | - | - | - | 45,846,240 |
| Financial assets at fair value through | | | | | | |
| profit or loss | 245,530 | - | - | - | - | 245,530 |
| Loans and advances to customers Loans and advances relating to furniture | 7,792,032 | 1,644,848 | 2,800,072 | 41,510,471 | 1,854,075 | 55,601,498 |

29.3.4 Commitments and guarantees

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank

The table below shows the Bank's maximum credit risk exposure for commitments and guarantees.

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank could have to pay if the guarantee is called upon. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment. In both cases, the maximum risk exposure is significantly greater than the amount recognised as a liability in the statement of financial position.

| | 31 August 2016 US\$ | 29 February 2016 USS |
|----------------------|---------------------------|----------------------------|
| | 035 | 035 |
| Financial guarantees | 10,000,000 | - |
| Commitments to lend | 10,000,000 | - |
| | 20,000,000 | - |

29.4 OTHER RISKS

29.4.1 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications. or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

29.4.2 Compliance risk

Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with, law, rules, regulations, prescribed practices, internal policies, and procedures, or ethical standards. This risk exposes the institution to fines and payment of damages. Compliance risk can lead to diminished reputation, limited business opportunities, reduced expansion potential, and an inability to enforce contracts. The Internal Audit and the Risk Department ensure that the Bank fully complies with all relevant laws and regulations.

29.4.3 Reputational risk

Reputational risk is the current and prospective impact on earnings and capital arising from negative publicity. This affects the institution's ability to establish new relationships or services or continue servicing existing relationships. This risk may expose the institution to litigation, financial loss, or a decline in its customer base. The Bank has a Corporate Affairs department whose mandate is to manage this risk.

Reserve Bank Ratings 29.5

The Reserve Bank of Zimbabwe conducted an onsite inspection of the Bank in November 2014 and the final ratings that were determined on the Entity are detailed below:

29.5.1 CAMELS* Ratings

| CAMELS Component | RBS** Ratings 30/11/2014 |
|----------------------------|--------------------------|
| Capital Adequacy | 1 - Strong |
| Asset Quality | 4 - Weak |
| Management | 2 - Satisfactory |
| Earnings | 4 - Weak |
| Liquidity | 2 - Satisfactory |
| Sensitivity to Market Risk | 2 - Satisfactory |
| Composite Rating | 3 - Fair |

*CAMELS is an acronym for Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity to Market Risk. The CAMELS rating system uses a scale of 1-5, where "1" is "Strong", "2" is "Satisfactory", "3" is "Fair", "4" is "Weak" and "5" is "Critical".

** RBS stands for Risk-Based Supervision

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 or 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 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 the current information, risk is expected to decrease in the next 12 months

Stable – based on the current information, risk is expected to be stable in the next 12 months.

CAPITAL MANAGEMENT 30

The objective of the Bank's capital management is to ensure that it complies with the Reserve Bank of Zimbabwe (RBZ) requirements. In implementing the current capital requirements, the RBZ requires the Bank to maintain a prescribed ratio of total capital to total risk weighted assets. Risk weighted assets are arrived at by applying the appropriate risk factor as determined by the RBZ to the monetary value of the various assets as they appear on the Bank's statement of financial position

Regulatory capital consists of:

- Tier 1 Capital ("the core capital"), which comprises of share capital, share premium, retained earnings (including the current year profit or loss), the statutory reserve and other equity reserves.

The core capital shall comprise not less than 50% of the capital base and portfolio provisions are limited to 1.25% of total risk weighted assets

- Tier 2 Capital ("supplementary capital"), which includes subordinated term debt, revaluation reserves and portfolio provisions.

- Tier 3 Capital ("tertiary capital") relates to an allocation of capital to meet market and operational risks.

The Bank's regulatory capital position was as follows:

| | 31 August 2016 | 29 February 2016 |
|---------------------------------------------------------|----------------|------------------|
| | US\$ | US\$ |
| | | |
| Share capital | 4,077 | 4,077 |
| Share premium | 106,317,629 | 106,317,629 |
| Accumulated loss | (39,403,723) | (42,379,882) |
| Deferred tax asset | (9,135,164) | (10,896,184) |
| | 57,782,819 | 53,045,640 |
| Less: Capital allocated for market and operational risk | (2,476,760) | (2,399,213) |

| customers | 138,039 | - | 1,032,704 | - | | 1,170,743 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|-------------------------------------------|------------------------------------|-----------------------------------|-------------------------------|-------------------------------------------------------------------------------|
| Financial assets held-to-maturity | 3,304,921 | 21,870,434 | 16,344,159 | 1,037,062 | - | 42,556,576 |
| Other receivables | 17,438,236 | - | - | - | - | 17,438,236 |
| Total undiscounted financial assets | 74,764,998 | 23,515,282 | 20,176,935 | 42,547,533 | 1,854,075 | 162,858,823 |
| | | | | | | |
| Financial liabilities: Deposits due to banks and customers | 04 260 550 | 14 140 000 | | | | 108,501,549 |
| Derivative financial liabilities | 94,360,550 | 14,140,999 | | - | | 108,501,549 |
| Loans and borrowings | 212,500 | 131,739 | 1,121,440 | - | | 1,465,679 |
| Total undiscounted financial liabilities | 94,573,050 | 14,272,738 | 1,121,8440 | - | - | 109,967,228 |
| Net undiscounted financial assets/ | | | | | | |
| (liabilities) | (19,808,052) | 9,242,544 | 19,055,495 | 42,547,533 | 1,854,075 | 52,891,596 |
| | | | | | | |
| | | | 3 months to | 1 to 5 | Over 5 | |
| | On demand | 3 months | 1 year | years | years | Tota |
| | US\$ | US\$ | US\$ | US\$ | US\$ | US\$ |
| | | | | | | |
| At 29 February 2016: | | | | | | |
| Financial assets: | | | | | | |
| Financial assets: Cash and cash equivalents | 24,553,452 | - | - | | | 24,553,452 |
| Financial assets: Cash and cash equivalents | 24,553,452 | - | - | - | - | 24,553,452 |
| Financial assets: Cash and cash equivalents | 24,553,452 279,755 | - | - | - | - | 24,553,452 - 279,755 |
| Financial assets: Cash and cash equivalents Financial assets at fair value through profit or loss Loans and advances to customers | | - - 1,359,985 | - - 12,964,132 | - - 42,151,361 | - - 1,801,470 | 279,755 |
| Financial assets: Cash and cash equivalents Financial assets at fair value through profit or loss Loans and advances to customers Loans and advances relating to furniture | 279,755 | - - 1,359,985 - | - 12,964,132 - | - - 42,151,361 - | - - 1,801,470 - | 279,755 60,640,224 |
| Financial assets: Cash and cash equivalents Financial assets at fair value through profit or loss Loans and advances to customers Loans and advances relating to furniture loans | 279,755 2,363,276 | - 1,359,985 - 10,588,507 | - 12,964,132 - 27,562,383 | - 42,151,361 - 4,378,242 | - 1,801,470 - - | 279,755 60,640,224 1,622,598 |
| Financial assets: Cash and cash equivalents Financial assets at fair value through profit or loss Loans and advances to customers Loans and advances relating to furniture loans | 279,755 2,363,276 1,622,598 | - | - | - | - 1,801,470 - - - | 279,755 60,640,224 1,622,598 45,834,053 |
| Loans and advances to customers Loans and advances relating to furniture loans Financial assets held-to-maturity | 279,755 2,363,276 1,622,598 3,304,921 | - | - | - 4,378,242 - | - | 279,755 60,640,224 1,622,598 45,834,053 13,444,894 |
| Financial assets: Cash and cash equivalents Financial assets at fair value through profit or loss Loans and advances to customers Loans and advances relating to furniture loans Financial assets held-to-maturity Other receivables Total undiscounted financial assets | 279,755 2,363,276 1,622,598 3,304,921 13,444,894 | - 10,588,507 - | - 27,562,383 | - 4,378,242 - | - | 279,755 60,640,224 1,622,598 45,834,053 13,444,894 |
| Financial assets: Cash and cash equivalents Financial assets at fair value through profit or loss Loans and advances to customers Loans and advances relating to furniture loans Financial assets held-to-maturity Other receivables Total undiscounted financial assets <i>Financial liabilities</i> : | 279,755 2,363,276 1,622,598 3,304,921 13,444,894 45,568,896 | - 10,588,507 - 11,948,492 | - 27,562,383 | - 4,378,242 - | - | 279,755 60,640,224 1,622,598 45,834,053 13,444,894 146,374,976 |
| Financial assets: Cash and cash equivalents Financial assets at fair value through profit or loss Loans and advances to customers Loans and advances relating to furniture loans Financial assets held-to-maturity Other receivables Total undiscounted financial assets | 279,755 2,363,276 1,622,598 3,304,921 13,444,894 | - 10,588,507 - | - 27,562,383 | - 4,378,242 - | - | - |

29.5.2 Summary risk matrix - 30 November 2014 onsite examination

| Type of Inherent Risk | Level of Inherent Risk | Adequacy of Risk Management Systems | Overall Composite Risk | Direction of Overall Composite Risk |
|-------------------------------|---------------------------|----------------------------------------------|---------------------------|----------------------------------------|
| Credit | High | Acceptable | High | Stable |
| Liquidity | Moderate | Acceptable | Moderate | Stable |
| Interest Rate | Low | Acceptable | Low | Stable |
| Foreign Exchange | Low | Acceptable | Low | Stable |
| Strategic Risk | Moderate | Acceptable | Moderate | Stable |
| Operational Risk | Moderate | Acceptable | Moderate | Stable |
| Legal & Compliance Risk | Moderate | Acceptable | Moderate | Stable |
| Reputational Risk | Moderate | 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 significant and harmful loss to the banking institution.

| | (_,,, | (_// |
|-------------------------------------------------------------|--------------|--------------|
| Advances to insiders | (7,748,515) | (12,003,802) |
| Guarantees to insiders | (10,000,000) | - |
| Tier 1 capital | 37,557,544 | 38,642,625 |
| | | |
| Tier 2 capital | | |
| Other reserves | - | - |
| General provisions | 4,540,894 | 4,949,664 |
| | 4,540,894 | 4,949,664 |
| | | |
| Total Tier 1 and 2 capital | 42,098,438 | 43,592,289 |
| | | |
| Tier 3 capital (sum of market and operational risk capital) | 2,476,760 | 2,399,213 |
| . , | | |
| Total Capital Base | 44,575,198 | 45,991,502 |
| | | |
| Total risk weighted assets | 121,666,531 | 124,996,437 |
| | | |
| Tier 1 ratio | 31% | 31% |
| Tier 2 ratio | 4% | 4% |
| Tier 3 ratio | 2% | 2% |
| Total capital adequacy ratio | 37% | 37% |
| RBZ minimum requirement | 12% | 12% |

EXTERNAL CREDIT RATINGS 31

| | Most recent | Previous | Previous |
|------------------------------------------------|-------------|-----------|----------|
| | rating: | rating: | rating: |
| | September | September | December |
| | 2016 | 2015 | 2013 |
| Rating agent: Global Credit Rating Co (GCR) | BBB- | BBB- | BBB- |





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