STEWARD | BANK

Everyday Banking For Everyday People

Member of the Deposit Protection Corporation

A Registered Commercial Bank

REVIEWED ABRIDGED FINANCIAL STATEMENTS
for the six months ended 31 August 2018

A subsidiary of ECONET Wireless

Superbrand

VISA

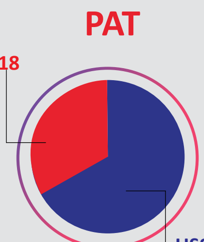
www.stewardbank.co.zw

H I G H L I G H T S

+103% Net Operating Income

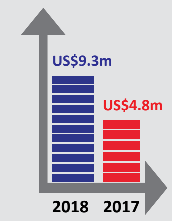
Strong growth in net interest income, as well as transactional-based revenue in line with strategic intent

PAT



123% Growth from Prior year

+72% NON-INTEREST INCOME



+93% NET INTEREST INCOME

82% LIQUIDITY RATIO

More than double the minimum regulatory ratio of 30%

COST TO INCOME RATIO **52%**

Tier 1 Capital US$75.5m

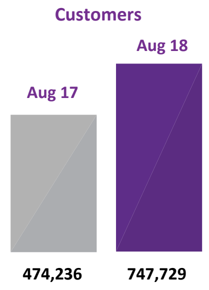
CHAIRMAN'S STATEMENT

Introduction

For the six months ended 31 August 2018, Steward Bank delivered another strong financial performance recording double digit growth under an extremely challenging environment. The Bank reported a Profit Before Tax of $27.1 million, which is 139% higher than the $11.3 million registered in the comparative period last year. This continuous growth trajectory consolidates our rapid transformation in the past years as a lean, agile and efficient digital bank offering affordable, convenient and relevant banking solutions to every Zimbabwean, including those previously excluded from access to financial services.

Steward Bank, now fully integrated as a part of Cassava SmartTech, has remained focused on building a digital bank of the future premised on an open, scalable and cost effective banking model capable of serving every Zimbabwean who needs a banking service. In the six months under review, we are pleased to have welcomed an additional 170 000 new customers to the "Purple Family", taking the total number of customers using our platform to over 740 000. The trust bestowed on us by our new and existing customers is a privilege we do not take for granted. We are committed to serving each and every one of our customers through relevant and innovative products and services that address their varied financial needs within the communities in which we serve. As part of its competitive advantage, the Bank will continue to leverage on synergies from Cassava SmartTech entities such as EcoCash, EcoSure, EcoFarmer, EduTech, HealthTech and Vaya, our ride hailing service.

Total Number of Customers



Operating Environment – Challenging the Headwinds

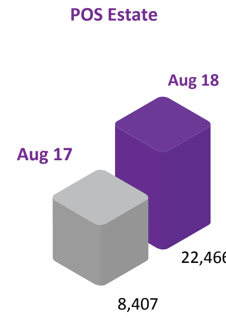
Zimbabwe's operating environment has been characterised by turbulence and unpredictability in the past few years. The economy faces liquidity and foreign currency constraints owing to the country's position as a net importer of goods and services. Inflation rose to 4.29% in July 2018, up from 2.91% reported in June 2018. Access to cash remained a challenge although this has resulted in a significant increase in electronic transactions which are now estimated to account for 96% of the total transactions in the country. Interest rates remained suppressed due to the high liquidity in the market and lending rates have remained static between 3% and 9.75%.

Despite these constraints, we have always believed that in these challenges lie some of our greatest opportunities. The strength of our innovative spirit has helped us deliver relevant solutions to the day-to-day problems experienced by our customers. We remain confident in our strategy and our ability to deliver value to the shareholder, whilst exploring new growth opportunities even in uncertain economic times.

Sustainable Growth Strategy in a Challenging Environment

During the period under review the Bank recorded a substantial growth in net operating income compared to the same period last year. Net operating income for the Half Year ending August 2018 grew by 103% to $53.6 million, up from $26.4 million registered in the same period last year. Our Total Assets and Cash and Cash equivalents grew by 76% and 226%, respectively from prior year largely driven by a 95% increase in customer deposits. Our Non-interest income grew to $41.7 million, up from $24.2 million, a 72% uplift from the comparable period last year. This is attributed to the substantial increase in the number of customers using our digital platforms and the growing strength of our transactional banking model.

POS Estate



Gross interest earning assets grew by 23% from prior year due to an increase in government instruments and the Bank's current strategy to increase lending in strategic areas. The prudential liquidity ratio grew by 14 percentage points from 68% in prior year to 82% in the period under review. Following a clean-up of our loan portfolio in the past few years, the Bank managed to reduce the Non-Performing Loans (NPL) ratio to 5% in the period under review, from 12% reported in the same period last year. This is one of the lowest NPL ratios in the industry.

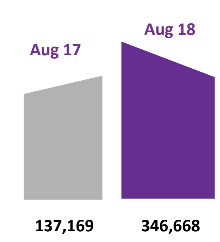
Social Impact – Changing Lives

In the period under review, the Bank made a strategic shift to increase intermediation and lending activities in previously underserviced areas such as housing, energy, healthcare, rural finance and SME support. The Bank is currently offering mortgages to Zimbabweans at home and abroad who wish to participate in the property market by buying or building new homes, or improving their existing homes. The Bank has also developed its own housing units in the Ruwa Fairview area for our non-resident customers who prefer to buy completed units. This first-of-a-kind scheme bundles mortgages with other Econet Group services such as a complete solar system by Distributed Power Africa (DPA), entertainment installation through Kwesé and internet capabilities through our partners, ZOL.

As part of our strategy to become a "Green Bank", Steward Bank has also taken a giant step in addressing Zimbabwe's power challenges. Together with DPA, the Bank has made a significant investment in funding and installing solar energy solutions for corporates who currently depend on the sometimes unreliable power grid solutions. Renewable energy is not only important in addressing climate change but crucial in relieving the foreign currency burden incurred in importing power.

The Bank has also launched a $100 million fund aimed at resuscitating the Country's ailing Healthcare sector, providing funding to healthcare practitioners who wish to retool and invest in the latest health-tech capabilities.

Mobile App Subscribers



The Bank partnered with SNV International to participate in a Food and Agriculture Organisation (FAO) Rural Finance Project to provide affordable financial services to rural households, improve agricultural productivity, increase incomes, improve food security and nutrition, and reduce poverty in rural Zimbabwe. With the ongoing liquidity challenges, 100,000 rural customers signed up for our low cost iSave accounts. Of these customers, 60,000 were registered for our "Kambudzi" mobile banking service, whilst 30,000 were registered for EcoSure mobile insurance.

Innovation – The Only Constant

One of our core values is Innovation. We remain committed to customer-driven innovation and co-creation to continuously improve our product and service delivery as well as offering solutions that are tailored to the day-to-day challenges facing our clients. We are enormously proud to be the market leader in delivering ground breaking innovations that change people's lives.

In the last six months, we introduced one of our signature products, "Kwenga", a payment solution that allows small businesses such as vendors, barbers, hairdressers and others to take card payments from their customers. The Kwenga phenomenon has transformed the merchant services business in the Country, complementing the progress already made through the EcoCash Merchant Services facility.

Steward Bank also became the first bank in the country to launch an 'Artificial Intelligence' Chatbot tool called "Batsi" to provide extra customer service support to our customers who wish to carry out financial and non-financial transactions on social media anytime, anywhere. This innovative solution has led to a reduction in the number of customer queries in branches as Batsi addresses these in real time on all our digital touchpoints where she is available.

Looking Forward

Whilst we are aware that the current economic challenges might persist in the short to medium term, the Bank intends to continue providing relevant products and services to the market as we position ourselves as the leading digital bank in the Country. Our emphasis is on simplifying banking and providing universal access to financial services through innovation. We aim to 'bank the world' by providing convenient and price-competitive products and services to all segments of our society.

The Board of Steward Bank will continue to place great emphasis on industry recapitalisation by focusing some of our resources towards funding sustainable energy, healthcare and education projects. As the nation rebuilds and industry retools, the Bank will continue to contribute to the development of these three sectors to support economic growth.

Special Appreciation to Our Staff and Customers - We Are Who We Are Because of You

I would like to thank the Staff and Management at Steward Bank for their dedication to the Bank and its transformation into one of the top five banks in the Country. We are truly blessed to have an energetic team of talented and motivated individuals who represent the organisation with passion and professionalism on a daily basis.

To all our customers; thank you for your support and for believing in our vision to serve you differently. "We are who we are because of you".

Dividend

The Board has declared an interim dividend of US$2 million for the six months ended 31 August 2018, after taking into account the performance of the Bank and the need to strengthen the Bank`s capital position.

Bernard T.R. Chidzero
Board Chairman

29 October 2018

Strategic Sustainable Business Pillars

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.

The Board regularly reviews its structures and policies to ensure continued adherence to the governing instruments and international best practice.

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 continues to work towards compliance with the National Corporate Governance Code for Zimbabwe. The Board Charter is also available to directors for reference regarding their duties and obligations. Directors are free to take independent professional advice at the Bank's expense in furtherance of their duties.

Board and peer evaluations are conducted annually.

As at 31 August 2018, the Main Board held two (2) meetings to assess risk, review performance and provide guidance to management.

Directorate

Mr. Jonah Mungoshi resigned as a non-Executive Director of the Bank effective 30th of April 2018 after serving for over eight (8) years. The Board acknowledges his immense contribution and extends its appreciation for the service rendered.

As at 31 August 2018, the Bank's Board comprised eight (8) non-Executive directors and two (2) Executive directors. The majority of the Board members are independent non-Executive Directors. The Board has an appropriate balance of skills, experience and expertise.

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 at least annually. 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;
ii. Board Risk, Compliance and Capital Management Committee;
iii. Board Asset and Liability Committee;
iv. Board Credit Committee;
v. Board Human Resources and Nominations Committee; and
vi. Board ICT Committee.

Compliance

The Bank complied with the applicable laws and regulations governing its activities throughout the reporting period.

The Bank's Liquidity Ratio stood at 82% as at 31 August 2018 against the minimum prescribed ratio of 30%.

Director Training and Development

The Bank has in place a comprehensive Induction Plan for new Directors. As part of continuing Director development, Board members attended IFRS 9 Training and the KPMG Audit Committee Forum. Training on Risk and IT Governance is scheduled for the second half of the current financial year, ending 28 February 2019.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Attendance

As at 31 August 2018, the Main Board and Board Committees held meetings and the record of attendance of each Director is as follows.

Main Board

Name of Director	Designation	Total Meetings Held	Total Meeting Attended
Bernard T.R. Chidzero*	Independent Non-Executive Chairman	2	2
Tracy Mpofu	Non-Executive Director	2	2
Peter M Mbizvo	Non-Executive Director	2	2
Christopher Maswi	Non-Executive Director	2	2
Kwaku Akosah-Bempah	Non-Executive Director	2	2
John H Gould	Non-Executive Director	2	2
Nancy N. Chadehumbe	Non-Executive Director	2	2
Krison V Chirairo	Non-Executive Director	2	2
Lance Mambondiani	Executive Director	2	2
Alfred Chaavure	Executive Director	2	2
* Chairman			

Board Audit Committee

Name of Director	Designation	Total Meetings Held	Total Meeting Attended
Kwaku Akosah-Bempah*	Non-Executive Chairman	2	2
Christopher Maswi	Non-Executive Director	2	2
Nancy Chadehumbe	Non-Executive Director	2	2
* Chairman			

Board Risk, Compliance And Capital Management Committee

Name of Director	Designation	Total Meetings Held	Total Meeting Attended
Nancy Chadehumbe*	Non-Executive Director	2	2
Tracy Mpofu	Non-Executive Director	2	2
Peter Mbizvo	Non-Executive Director	2	2
* Chairperson			

Board Assets and Liabilities Committee

Name of Director	Designation	Total Meetings Held	Total Meeting Attended
Christopher Maswi*	Non-Executive Director	2	2
Tracy Mpofu	Non-Executive Director	2	2
Kwaku Akosah-Bempah	Non-Executive Director	2	2
Peter Mbizvo	Non-Executive Director	2	2
* Chairman			

Board Credit Committee

Name of Director	Designation	Total Meetings Held	Total Meeting Attended
Bernard Chidzero*	Non-Executive Director	2	1
Krison Chirairo	Non-Executive Director	2	2
John Gould	Non-Executive Director	2	2
* Chairman			

Board Remuneration and Nominations Committee

Name of Director	Designation	Total Meetings Held	Total Meeting Attended
Peter M Mbizvo*	Non-Executive Director	2	2
Bernard Chidzero	Non-Executive Director	2	2
John Gould	Non-Executive Director	2	1
* Chairman			

Board Information Technology Committee

Name of Director	Designation	Total Meetings Held	Total Meeting Attended
Christopher Maswi*	Non-Executive Director	2	1
Krison Chirairo	Non-Executive Director	2	2
John Gould	Non-Executive Director	2	2
* Chairman			

Related Party Committee

Name of Director	Designation	Total Meetings Held	Total Meeting Attended
Kwaku Akosah-Bempah*	Non-Executive Director	1	1
Nancy Chadehumbe	Non-Executive Director	1	1
Christopher Maswi	Non-Executive Director	1	1
* Chairman			

AUDITOR'S STATEMENT

These abridged interim financial results for the six months ended 31 August 2018 have been reviewed by Deloitte & Touche and an unmodified review conclusion issued thereon. The review conclusion has been made available to management and those charged with governance of Steward Bank Limited.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the half-year ended 31 August 2018

	Notes	Reviewed 31 August 2018 US$	Reviewed 31 August 2017 US$
Interest and related income	4	10,242,018	5,008,612
Interest and related expense	5	(912,121)	(162,982)
Net interest income		9,329,897	4,845,630
Non-interest income	6	41,654,998	24,161,221
Impairment on financial assets reversal/(charge)			
Expected credit loss allowances	7	2,581,505	-
Incurred credit loss allowances	7	-	(2,647,946)
Net operating income		**53,566,400**	**26,358,905**
Operating expenditure	8	(26,464,591)	(15,032,556)
Profit before tax		**27,101,809**	**11,326,349**
Income tax	9	(8,085,078)	(2,798,252)
Profit for the period		**19,016,731**	**8,528,097**
Other comprehensive income		-	-
Total comprehensive income for the period		**19,016,731**	**8,528,097**

STATEMENT OF FINANCIAL POSITION
As at 31 August 2018

	Notes	Reviewed 31 August 2018 US$	Audited 28 February 2018 US$
ASSETS			
Cash and cash equivalents	10	378,093,160	116,073,355
Financial assets at fair value through profit or loss	11	3,738,476	852,284
Loans and advances to customers	12	32,091,136	32,824,221
Debt instruments measured at amortised cost	13	311,118,996	-
Financial assets held-to-maturity	14	-	250,276,433
Other receivables	15	53,365,303	36,753,817
Inventories	16	5,931,764	-
Non-current assets held for sale		-	130,000
Investment property	17	5,437,400	5,437,400
Property and equipment	18	12,200,975	11,656,981
Intangible assets	19	8,247,420	6,639,839
Deferred tax asset	27	131,090	65,879
Total assets		**810,355,720**	**460,710,209**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	20	4,077	4,077
Share premium	20	106,317,629	106,317,629
Other reserves	21	22,049	3,410,732
Accumulated profit/(loss)		3,319,990	(12,719,910)
Total equity		**109,663,745**	**97,012,528**
LIABILITIES			
Deposits due to banks and customers	22	677,202,182	348,164,949
Loans and borrowings	23	2,880,000	1,771,125
Provisions	25	1,132,342	1,389,741
Other liabilities	26	19,477,451	12,371,866
Total liabilities		**700,691,975**	**363,697,681**
Total equity and liabilities		**810,355,720**	**460,710,209**

STATEMENT OF CHANGES IN EQUITY
For the half-year ended 31 August 2018

	Share capital US$	Share premium US$	Other reserves US$	Retained earnings US$	Total US$
Balance at 28 February 2018, as previously reported	**4,077**	**106,317,629**	**3,410,732**	**(12,719,910)**	**97,012,528**
Adjustment on initial application of IFRS 9, net of tax	-	-	(3,388,683)	(2,976,831)	(6,365,514)
Restated balance as at 1 March 2018	**4,077**	**106,317,629**	**22,049**	**(15,696,741)**	**90,647,014**
Total comprehensive income			-	19,016,731	**19,016,731**
Profit for the period	-	-	-	19,016,731	**19,016,731**
Other comprehensive income	-	-	-	-	**-**
Balance as at 31 August 2018	**4,077**	**106,317,629**	**22,049**	**3,319,990**	**109,663,745**
Balance as at 1 March 2017	**4,077**	**106,317,629**	**3,899,036**	**(35,174,158)**	**75,046,584**
Total comprehensive income	-	-	-	8,528,097	8,528,097
Profit for the period	-	-	-	8,528,097	**8,528,097**
Other comprehensive income	-	-	-	-	**-**
Impairment allowance for loans and advances	-	-	(735,649)	735,649	-
Balance as at 31 August 2017	**4,077**	**106,317,629**	**3,163,387**	**(25,910,412)**	**83,574,681**

STATEMENT OF CASH FLOWS
For the half-year ended 31 August 2018

	Reviewed 31 August 2018 US$	Reviewed 31 August 2017 US$
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	27,101,809	11,326,349
Adjustments for:		
Change in operating assets	(88,719,155)	(28,246,911)
Change in operating liabilities	335,901,371	18,814,250
Other non-cash items	(3,654,207)	3,264,136
Net cash generated from operations	**270,629,818**	**5,157,824**
Taxation paid	(5,918,748)	-
Net cash inflow from operating activities	**264,711,070**	**5,157,824**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(2,038,351)	(1,619,144)
Purchase of intangible assets	(1,891,791)	(285,620)
Proceeds from disposal of non-current assets held for sale	130,000	-
Net cash outflow from investing activities	**(3,800,142)**	**(1,904,764)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in loans and borrowings	1,108,877	997,000
Net cash inflow from financing activities	**1,108,877**	**997,000**
Net increase in cash and cash equivalents	262,019,805	4,250,060
Cash and cash equivalents at the beginning of the period	116,073,355	63,954,579
Cash and cash equivalents at the end of the period	**378,093,160**	**68,204,639**

NOTES TO THE ABRIDGED FINANCIAL STATEMENTS
For the half-year ended 31 August 2018

1 GENERAL INFORMATION

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.

The Bank operates in an economy which is experiencing a shortage of foreign currency and consequently has exchange control regulations that impact the timing of payment of foreign payables among other matters. Given the context of the environment, management has assessed whether there has been a change in the functional currency used by the Bank. The assessment included consideration of whether the various modes of settlement may represent different forms of currency. It is observed that whether cash, bond notes, electronic money transfers or point of sale transactions, the unit of measure across all these payment modes remains United States Dollars. Management concluded that the United States Dollar is still the legal functional currency as presented in the prior year financial statements.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The Bank's reviewed, interim financial statements for the half year ended 31 August 2018 have been prepared in accordance with International Accounting Standard 34 ("Interim Financial Reporting"), the requirements of International Financial Reporting Standards (IFRS) and interpretations as issued by the International Accounting Standards Board, the Banking Act of Zimbabwe (Chapter 24:20), the Companies Act of Zimbabwe (Chapter 24:03) and the relevant Statutory Instruments ("SI"); SI 62/96 and SI 33/99.

The financial statements have been prepared on the going concern basis, which the Directors believe to be appropriate.

These financial statements have been prepared under the supervision of A. Chaavure (Associate Member of the Chartered Institute of Management Accountants), Chief Finance Officer of Steward Bank Limited.

2.2 Changes in accounting policies and disclosures

In the the preparation of these interim financial statements, the Bank has for the first time applied IFRS 9 Financial Instruments ("IFRS 9") and the updated IFRS 7 Financial Instruments: Disclosures ("IFRS 7R"), effective for annual periods beginning on or after 1 January 2018. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2.2.1 IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018. The Bank elected, as permitted by IFRS 9, not to restate comparative information for 28 February 2018 financial instruments in the scope of IFRS 9. Therefore, the comparative information is reported under IAS 39 and is not comparable to the information presented for the period ended 31 August 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 March 2018 and are disclosed in Note 3.

Changes to Classification and Measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets [at fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost] have been replaced by:
- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at fair value through profit or loss (FVPL)

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

Changes to the impairment calculation:

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or Lifetime ECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12-month ECL).

The 12-month ECL is the portion of Lifetime ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both Lifetime ECLs and 12-month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Significant increase in credit risk:

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12-month ECLs or Lifetime ECLs, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have significantly increased in credit risk through the evaluation of a combination of criteria, including days past due, the number of notch movements on the Bank's internal credit rating scale, as well as qualitative aspects such as early warning signals and a customer/facility moving onto the Bank's watch list.

Regardless of the change in credit grades, for the Bank's Retail and Corporate Banking portfolios, if contractual payments are more than 30 days past due, the Bank deems the credit risk on an exposure to have increased significantly since initial recognition. For the Treasury and Interbank investment portfolios, the Bank considers credit risk to have increased significantly if contractual payments are more than 2 days past due for "investment grade" exposures and more than 5 days past due for "non-investment" grade exposures.

The quantitative impact of applying IFRS 9 as at 1 March 2018 is disclosed in Note 3.

NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (CONTINUED)
For the half-year ended 31 August 2018

2 BASIS OF PREPARATION (CONTINUED)

2.2.1 IFRS 9 Financial Instruments (continued)

Definition of default:
The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases under its Retail and Corporate Banking portfolios when the borrower becomes 90 days past due on its contractual payments. The Bank considers Treasury and Interbank balances defaulted and takes immediate action when the required payments are not settled by the close of the 10th business day past the due date outlined in the individual agreements for "investment grade" exposures and by the close of the 5th business day past the due date outlined in the individual agreements for "non-investment grade" exposures.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2 and Stage 3, as described below:

- **Stage 1:** When loans are first recognised, the Bank recognises an allowance based on 12month ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- **Stage 2:** When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the Lifetime ECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- **Stage 3:** Loans considered credit-impaired. The bank records an allowance for the Lifetime ECLs.

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets

When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

The calculation of ECLs:
The Bank calculates ECLs based on probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the Effective Interest Rate (EIR). A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:
- **The Probability of Default (PD)** is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- **The Exposure at Default (EAD)** is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- **The Loss Given Default (LGD)** is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

When estimating the ECLs, the Bank considers three scenarios (a "base case", a "best case", and a "worst case"). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

2.2.2 IFRS 7 Financial Instruments: Disclosures
To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Bank has adopted it, together with IFRS 9, for the year beginning 1 March 2018. Changes include transition disclosures as shown in Note 3, as well as detailed qualitative and quantitative information about the ECL calculations and the assumptions and inputs used.

2.3 Significant accounting judgements, estimates and assumptions
The preparation of the Bank's financial statements requires Management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Apart from the judgements, estimates and assumptions related to the impairment on financial assets under IFRS 9 detailed below, the judgements applied by Management have been consistent with those applied in the annual financial statements for the year ended 28 February 2018.

2.3.1 Impairment on financial assets
The measurement of impairment under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

3 IFRS 9 Transitional Disclosures
The following information sets out the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

3.1 *A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 March 2018 is, as follows:*

	IAS 39 Measurement				IFRS 9 Measurement	
	Category	Amount (US$)	Reclassification	Remeasurement (ECL)	Amount (US$)	Category
Financial assets:						
Cash and cash equivalents	Loans and receivables	116,073,355	-	-	116,073,355	Amortised Cost
Financial assets at fair value through profit or loss	FVPL	852,284	-	-	852,284	FVPL
Loans and advances to customers	Loans and receivables	32,824,221	-	-	32,824,221	Amortised Cost
Debt instruments measured at amortised cost		-	250,276,433	-	250,276,433	Amortised Cost
Financial assets held-to-maturity	Held-to-Maturity	250,276,433	(250,276,433)	-	-	Amortised Cost
Other receivables	Loans and receivables	36,753,817			36,753,817	Amortised Cost

NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (CONTINUED)
For the half-year ended 31 August 2018

3 IFRS 9 Transitional Disclosures (continued)

3.1 *A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 March 2018 is, as follows:*

	IAS 39 Measurement				IFRS 9 Measurement	
	Category	Amount (US$)	Reclassification	Remeasurement (ECL)	Amount (US$)	Category
Financial liabilities:						
Deposits due to banks and customers	Amortised Cost	348,164,949	-	-	348,164,949	Amortised Cost
Loans and borrowings	Amortised Cost	1,771,125	-	-	1,771,125	Amortised Cost
Provisions	N/A	1,389,741	-	-	1,389,741	N/A
Other liabilities	N/A	12,371,866	-	-	12,371,866	N/A

3.2 *The impact of transition to IFRS 9 on Reserves and Retained Earnings is, as follows:*

	US$
Regulatory reserve	
Closing balance under IAS 39 (28 February 2018)	3,388,683
Reclassification adjustment in relation to adopting IFRS 9	(3,388,683)
Opening balance under IFRS 9 (1 March 2018)	-
Retained earnings	
Closing balance under IAS 39 (28 February 2018)	(12,719,910)
Recognition of IFRS 9 ECLs	(8,573,083)
Deferred tax in relation to the above	2,207,569
Reclassification from Regulatory Reserve	3,388,683
Opening balance under IFRS 9 (1 March 2018)	(15,696,741)
Total change in equity due to adopting IFRS 9	(6,365,514)

3.3 *A reconciliation of ending impairment allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts according to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to the ECL allowances under IFRS 9:*

	Loan loss provision under IAS 39/ IAS 37 at 28 February 2018 (US$)	Re-measurement (ECL)	ECLs under IFRS 9 at 1 March 2018 (US$)
Loans and advances to customers	3,797,839	101,569	**3,899,408**
Financial assets held-to-maturity/ Debt instruments measured at amortised cost	-	7,483,468	**7,483,468**
Other receivables	-	825,987	**825,987**
	3,797,839	8,411,025	**12,208,864**
Commitments to lend	-	160,736	**160,736**
Financial guarantees	-	1,322	**1,322**
	-	162,058	**162,058**
	3,797,839	**8,573,083**	**12,370,922**

		Reviewed 31 August 2018 US$	Reviewed 31 August 2017 US$
4	**INTEREST AND RELATED INCOME**		
	Loans and advances to customers	1,367,330	2,527,296
	Debt instruments at amotised cost	8,874,688	2,481,316
		10,242,018	**5,008,612**
5	**INTEREST AND RELATED EXPENSE**		
	Trading activities	**912,121**	**162,982**
6	**NON-INTEREST INCOME**		
6.1	**Fees and commission income**		
	Net dealing gains	940,258	700,135
	Net commissions	38,269,123	22,097,876
		39,209,381	**22,798,011**
6.2	**Other**		
	Fair value adjustment on financial instruments	860,697	432,156
	Sundry income	-	206,256
	Bad debts recovered	1,584,920	724,798
		2,445,617	1,363,210
		41,654,998	**24,161,221**
7	**IMPAIRMENT ON FINANCIAL ASSETS (REVERSAL)/ CHARGE**		
	Expected credit loss allowance (Refer to Note 7.1)	(2,581,505)	-
	Incurred credit loss allowance	-	2,647,946

7.1 *Breakdown of ECL (charges)/ reversals on financial instruments for the period recognised in Profit or Loss:*

	Stage 1		Stage 2		Stage 3	
	Individual (US$)	Collective (US$)	Individual (US$)	Collective (US$)	US$	Total (US$)
Loans and advances to customers	(371,122)	-	(375,339)	-	1,209,989	**463,528**
Debt instruments measured at amortised cost	(437,590)	-	2,595,223	-	-	**2,157,633**
Other receivables	-	-	143,294	-	-	**143,294**
Commitments to lend	(183,355)	-	-	-	-	**(183,355)**
Financial guarantees	405	-	-	-	-	**405**
	(991,662)	-	2,363,178	-	1,209,989	**2,581,505**

NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (CONTINUED)
For the half-year ended 31 August 2018

		Reviewed 31 August 2018 US$	Reviewed 31 August 2017 US$
8	**OPERATING EXPENDITURE**		
	Administration expenses	11,069,024	7,175,224
	Amortisation of intangible assets	284,210	214,559
	Audit fees	193,201	60,416
	Audit fees: Current year	133,201	60,416
	Audit fees : prior year overruns	60,000	-
	Depreciation of property and equipment	1,529,280	833,787
	Directors' remuneration	92,617	74,816
	- short-term benefits	92,617	74,816
	- other emoluments	-	-
	Occupancy expenses	883,324	729,681
	Professional expenses	2,208,677	1,416,359
	Staff costs	10,204,258	4,527,714
	- short term benefits	9,840,956	4,312,435
	- post - employment benefits	363,302	215,279
		26,464,591	**15,032,556**
9	**INCOME TAX**		
	The components of income tax expense are as follows:		
	Current tax expense	5,942,720	-
	Deferred tax expense	2,142,358	2,798,252
	Total income tax expense	**8,085,078**	**2,798,252**
9.1	**Income tax reconciliation**		
	Accounting profit before income tax	27,101,809	11,326,349
	Taxation at normal rate of 25.75%	6,978,716	2,916,535
	Origination and reversal of temporary differences	973,902	(118,283)
	Effect of non-deductible expenses:		
	- Donation expenses	132,460	-
		8,085,078	**2,798,252**

		Reviewed 31 August 2018 US$	Audited 28 February 2018 US$
10	**CASH AND CASH EQUIVALENTS**		
	Balances with the Reserve Bank of Zimbabwe	376,451,768	110,191,323
	Balances with other banks	940,218	4,038,231
	Cash balances	701,174	1,843,801
		378,093,160	**116,073,355**
11	**FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**		
	Listed equities:		
	Opening balance	852,284	173,607
	Additions	2,025,495	-
	Net fair value gain	860,697	678,677
	Closing balance	**3,738,476**	**852,284**
12	**LOANS AND ADVANCES TO CUSTOMERS**		
12.1	**Total loans and advances**		
	Corporate loans	6,138,664	9,756,752
	Small-to-medium Enterprise loans	191,177	1,022,151
	Consumer loans	30,676,690	27,605,264
		37,006,531	38,384,167
	Less: Allowance for Expected Credit Losses	(3,780,889)	-
	Less: Allowance for impairment	-	(3,797,839)
	Less: Suspended interest	(1,134,506)	(1,762,107)
		32,091,136	**32,824,221**
12.2	**Maturity analysis**		
	Less than one month	8,905,601	8,085,904
	1 to 3 months	459,061	549,990
	3 to 6 months	660,786	258,074
	6 months to 1 year	1,612,163	132,531
	1 to 5 years	10,013,937	11,234,605
	Over 5 years	15,354,983	18,123,063
	Gross loans and advances	**37,006,531**	**38,384,167**

12.3 **Sectorial analysis of utilisations**

	Reviewed: 31 August 2018		Audited: 28 February 2018	
	US$	%	US$	%
Mining	1,092	0.0%	25	0.0%
Manufacturing	1,382,014	3.7%	3,874,785	10.1%
Agriculture	549,910	1.5%	804,018	2.1%
Distribution	1,201,559	3.2%	1,697,065	4.4%
Services and comunication	2,022,886	5.5%	7,058,800	18.4%
Individuals	31,849,070	86.1%	24,949,474	65.0%
	37,006,531	**100.0%**	**38,384,167**	**100.0%**

NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (CONTINUED)
For the half-year ended 31 August 2018

12 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

12.4 ECL Allowance for impairment of loans and advances

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Loans and Advances is, as follows:

	Stage 1 US$	Stage 2 US$	Stage 3 US$	Total US$
Gross carrying amounts				
Gross carrying amount as at 1 March 2018	26,779,791	7,998,637	6,303,768	**41,082,196**
New loans and advances originated	3,618,317	4,145,883	-	**7,764,200**
Loans and advances derecognised or repaid (excluding write offs)	(444,223)	(482,465)	(2,060,636)	**(2,987,324)**
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(1,825,056)	**(1,825,056)**
Gross carrying amount as at 31 August 2018	29,953,885	11,662,055	2,418,076	**44,034,016**
ECL allowance				
ECL allowance as at 1 March 2018	753,511	487,741	2,820,215	**4,061,467**
New loans and advances originated	94,938	108,779	-	**203,717**
Loans and advances derecognised or repaid (excluding write offs)	(4,425)	(1,371)	(173,938)	**(179,734)**
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts writted off	-	-	(304,561)	**(304,561)**
ECL allowance as at 31 August 2018	844,024	595,149	2,341,716	**3,780,889**

12.5 Allowance for impairment on loans and advances

An analysis of the allowance for impairment under IAS 39 for loans and advances for the year to 28 February 2018 is, as follows:

	Audited 28 February 2018 US$
Opening balance	3,060,309
Net charge for the period	6,027,568
Loans and advances written off	(5,290,038)
Closing balance	**3,797,839**

13 DEBT INSTRUMENTS MEASURED AT AMORTISED COST

	Reviewed 31 August 2018 US$	Audited 28 February 2018 US$
Opening Balance	-	-
Reclassification from Financial Assets Held-to-Maturity at 1 March 2018	250,276,433	-
Additions	81,354,464	-
Repayments received on maturity	(17,500,000)	-
Accrued interest	2,313,934	-
	316,444,831	**-**
Less: Allowance for ECL	(5,325,835)	-
Closing balance	**311,118,996**	**-**

13.1 ECL Allowance for debt instruments measured at amortised cost

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to debt instruments at amortised cost is, as follows:

	Stage 1 US$	Stage 2 US$	Stage 3 US$	Total US$
Gross carrying amounts				
Gross carrying amount as at 1 March 2018	234,918,899	15,357,534	-	**250,276,433**
New assets purchased	244,546,760	-	-	**244,546,760**
Assets derecognised or matured (excluding write offs)	(165,539,161)	(12,839,201)	-	**(178,378,362)**
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Gross carrying amount as at 31 August 2018	313,926,498	2,518,333	-	**316,444,831**
ECL allowance				
ECL allowance as at 1 March 2018	4,379,208	3,104,260	-	**7,483,468**
New assets purchased	4,816,797	-	-	**4,816,797**
Assets derecognised or matured (excluding write offs)	(4,379,208)	(2,595,222)		**(6,974,430)**
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
ECL allowance as at 31 August 2018	4,816,797	509,038	-	**5,325,835**

NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (CONTINUED)
For the half-year ended 31 August 2018

14 FINANCIAL ASSETS HELD-TO-MATURITY

An analysis of financial assets held-to-maturity under IAS 39 for the year ended 28 February 2018 is, as follows:

	Reviewed 31 August 2018 US$	Audited 28 February 2018 US$
Opening Balance	250,276,433	54,505,121
Transfer to debt instruments at amotised cost	(250,276,433)	-
Additions	-	242,271,870
Repayments received on maturity	-	(49,793,963)
Accrued interest	-	3,293,405
Closing balance	**-**	**250,276,433**

15 OTHER RECEIVABLES

Sundry receivables	27,298,983	22,911,426
Amounts due from related parties	26,749,013	13,842,391
	54,047,996	36,753,817
Less: Allowance for ECL	(682,693)	-
	53,365,303	**36,753,817**

16 INVENTORIES

Opening balance	-	-
Additions	5,931,764	-
Closing balance	**5,931,764**	**-**

Inventories consists of housing units developed by the Bank for re-sale.

17 INVESTMENT PROPERTY

Opening balance	5,437,400	4,647,906
Fair value adjustments	-	789,494
Closing balance	**5,437,400**	**5,437,400**

Investment property consists of office buildings and undeveloped residential stands.

18 PROPERTY AND EQUIPMENT

	Land and Buildings US$	Leasehold Improvements US$	Furniture and Fittings US$	Office Equipment US$	Computer Equipment US$	Motor Vehicles US$	Work in Progress US$	Total US$
At Cost or Valuation:								
29 February 2017	**1,200,000**	**1,975,600**	**3,217,587**	**1,965,741**	**6,196,243**	**590,360**	**507,857**	**15,653,388**
Additions	-	-	737,525	-	6,302,716	55,892	457,244	**7,553,377**
Transfer from Work-in-Progress	-	-	114,521	-	-	102,787	(395,971)	**(178,663)**
28 February 2018	**1,200,000**	**1,975,600**	**4,069,633**	**1,965,741**	**12,498,959**	**749,039**	**569,130**	**23,028,102**
Additions	-	2,806	159,617	81,228	246,011	-	1,548,689	**2,038,351**
Transfers from Work-in-Progress	-	13,263	-	30,511	31,538	-	(40,389)	**34,923**
31 August 2018	**1,200,000**	**1,991,669**	**4,229,250**	**2,077,480**	**12,776,508**	**749,039**	**2,077,430**	**25,101,376**
Accumulated depreciation and impairment:								
28 February 2017	**-**	**904,477**	**2,544,591**	**1,594,277**	**3,815,602**	**447,498**	**-**	**9,306,445**
Depreciation charge for the year	29,696	427,503	151,557	149,532	1,296,681	39,403	-	**2,094,372**
Eliminated on revaluation	(29,696)	-	-	-	-	-	-	**(29,696)**
28 February 2018	**-**	**1,331,980**	**2,696,148**	**1,743,809**	**5,112,283**	**486,901**	**-**	**11,371,121**
Depreciation charge for the period	15,219	123,541	62,900	89,343	1,211,298	26,979	-	**1,529,280**
31 August 2018	**15,219**	**1,455,521**	**2,759,048**	**1,833,152**	**6,323,581**	**513,880**	**-**	**12,900,401**
Net carrying amount:								
At 31 August 2018	**1,184,781**	**536,148**	**1,470,202**	**244,328**	**6,452,927**	**235,159**	**2,077,430**	**12,200,975**
At 28 February 2018	**1,200,000**	**643,620**	**1,373,485**	**221,932**	**7,386,676**	**262,138**	**569,130**	**11,656,981**

19 INTANGIBLE ASSETS

	Computer software US$	Current work in progress US$	Total US$
Cost:			
29 February 2017	**8,709,091**	**1,212,169**	**9,921,260**
Additions	647,437	226,113	873,550
Transfer from Work in Progress	187,532	(8,869)	178,663
28 February 2018	**9,544,060**	**1,429,413**	**10,973,473**
Additions	82,855	1,808,936	1,891,791
Transfer from Work in Progress	204,579	(204,579)	-
31 August 2018	**9,831,494**	**3,033,770**	**12,865,264**
Accumulated amortisation and impairment:			
29 February 2017	**3,841,098**	16,010	**3,857,108**
Amortisation charge for the year	476,526	-	476,526
28 February 2018	**4,317,624**	**16,010**	**4,333,634**
Amortisation charge for the period	284,210	-	284,210
31 August 2018	**4,601,834**	**16,010**	**4,617,844**
Net carrying amount:			
At 31 August 2018	**5,229,660**	**3,017,760**	**8,247,420**
At 28 February 2018	**5,226,436**	**1,413,403**	**6,639,839**

Intangible assets pertain to computer software. The Bank uses the expected usage of the asset to determine the useful life of intangible assets.

NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (CONTINUED)
For the half-year ended 31 August 2018

20 SHARE CAPITAL AND SHARE PREMIUM

Share capital:

	31 August 2018 No. of Shares	28 February 2018 No. of Shares	31 August 2018 US$	28 February 2018 US$
Authorised				
Ordinary shares of $0.0000001 each	70,000,000,000	70,000,000,000	7,000	7,000
10% Irredeemable non-cumulative preference shares of US$1 each	10,000	10,000	10,000	10,000
			17,000	17,000
Issued				
Ordinary shares of $0.0000001 each	471,707,887	471,707,887	47	47
10% Irredeemable non-cumulative preference shares of US$1 each	4,030	4,030	4,030	4,030
			4,077	4,077

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

Movements in share capital and share premium:

	No. of ordinary shares	No. of preference shares	Share Capital US$	Share premium US$	Total US$
28 February 2017	**471,707,887**	**4,030**	**4,077**	**106,317,629**	**106,321,706**
28 February 2018	**471,707,887**	**4,030**	**4,077**	**106,317,629**	**106,321,706**
31 August 2018	**471,707,887**	**4,030**	**4,077**	**106,317,629**	**106,321,706**

21 OTHER RESERVES

	Revaluation surplus US$	Regulatory reserve US$	Total US$
28 February 2017	**-**	**3,899,036**	**3,899,036**
Gain on revaluation, net of tax	22,049	-	**22,049**
Impairment allowance for loans and advances	-	(510,353)	**(510,353)**
28 February 2018	**22,049**	**3,388,683**	**3,410,732**
Reclassification adjustment in relation to adopting IFRS 9	-	(3,388,683)	**(3,388,683)**
31 August 2018	**22,049**	**-**	**22,049**

Revaluation surplus
This reserve represents the surplus arising from the revaluation of owner occupied property.

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

22 DEPOSITS DUE TO BANKS AND CUSTOMERS

	Reviewed 31 August 2018 US$	Audited 28 February 2018 US$
Due to customers		
Current accounts	673,501,868	342,086,309
Term deposits	3,700,314	6,078,640
	677,202,182	**348,164,949**

At 31 August 2018, approximately $289.3 million or 42.7% of the Bank's deposits due to customers (At 28 February 2017: $190.5 million or 54.5%) represents balances owed to a related party entity in the telecommunications sector.
A concentration of risk therefore exists in the event that the business of the counterparty is adversely affected by changes in economic or other conditions. However, at 31 August 2018 the Bank's management was not aware of any economic or other conditions that may adversely affect the business of the counterparty.

There were no amounts under deposits due to banks and customers that were held as collateral for any commitments pledged.

22.1 Maturity analysis of deposits

	Reviewed 31 August 2018 US$	Audited 28 February 2018 US$
Less than one month	676,417,411	347,380,178
1 to 3 months	784,771	784,771
	677,202,182	**348,164,949**

22.2 Sectoral analysis of deposits

	Reviewed: 31 August 2018 US$	%	Audited: 28 February 2018 US$	%
Financial	4,893,355	0.7%	15,165,861	4.4%
Transport and telecommunications	582,122,919	86.0%	236,321,183	67.9%
Mining	663,328	0.1%	542,269	0.2%
Manufacturing	16,141,849	2.4%	8,407,777	2.4%
Agriculture	1,265,695	0.2%	820,820	0.2%
Distribution	5,589,345	0.8%	3,338,266	1.0%
Services	23,724,163	3.5%	13,588,773	3.9%
Government and parastatals	641,836	0.1%	2,085,295	0.6%
Individuals	36,130,311	5.3%	23,482,338	6.7%
Other	6,029,381	0.9%	44,412,367	12.8%
	677,202,182	**100.0%**	**348,164,949**	**100.0%**

STEWARD BANK
Everyday Banking For Everyday People
Member of the Deposit Protection Corporation   A Registered Commercial Bank

REVIEWED ABRIDGED FINANCIAL STATEMENTS
for the six months ended 31August 2018

4

Solar

Financing Renewable Energy until it becomes a readily available option for Zimbabweans

NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (CONTINUED)
For the half-year ended 31 August 2018

23 LOANS AND BORROWINGS

	Reviewed 31 August 2018 US$	Audited 28 February 2018 US$
Lines of credit	2,880,000	1,771,125
	2,880,000	**1,771,125**

23.1 Maturity profile of loans and borrowings

Less than one month	-	-
1 to 6 months	-	-
6 months to 1 year	2,880,000	1,771,125
1 to 5 years	-	-
	2,880,000	**1,771,125**

24 FAIR VALUE MEASUREMENT

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

Fair value measurement hierarchy for assets and liabilities as at 31 August 2018:

			Fair value measurement using		
			Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs
Assets measured at fair value:	Date of Valuation	Total US$	(Level 1) US$	(Level 2) US$	(Level 3) US$
Investment properties (Note 17)					
Residential stands	28 February 2018	**4,637,400**	-	4,637,400	-
Office buildings	28 February 2018	**800,000**	-	800,000	-
Total Investment property		**5,437,400**	**-**	**5,437,400**	**-**
Quoted equity shares (Note 11)					
Telecommunications sector	31 August 2018	**3,738,476**	3,738,476	-	-

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

Fair value hierarchy for financial instruments measured at fair value as at 28 February 2018

			Fair value measurement using		
			Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs
Assets measured at fair value:	Date of Valuation	Total US$	(Level 1) US$	(Level 2) US$	(Level 3) US$
Investment properties					
Residential stands	28 February 2018	**4,637,400**	-	4,637,400	-
Office buildings	28 February 2018	**800,000**	-	800,000	-
Total Investment property		**5,437,400**		**5,437,400**	
Quoted equity shares					
Telecommunications sector	28 February 2018	**852,284**	852,284	-	-

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 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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.
- Loans and advances excluding mortgages to staff approximate their carrying amounts largely due to the short-term maturities of these instruments. The fair value of mortgage facilities to employees is estimated considering (i) current or quoted prices for identical instruments in the financial services sector and (ii) a net present value calculated from the average market yield rates with similar maturities and credit risk factors.
- Long-term fixed-rate and variable-rate receivables / borrowings are evaluated by the Bank based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at 31 August 2018, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values.
- 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.
- Fair value of financial assets at fair value through profit or loss are derived from quoted market prices in active markets.

NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (CONTINUED)
For the half-year ended 31 August 2018

24 FAIR VALUE MEASUREMENT (CONTINUED)

	Reviewed: 31 August 2018		Audited: 28 February 2018	
	Carrying amount US$	Fair value US$	Carrying amount US$	Fair value US$
Financial assets				
Cash and cash equivalents	378,093,160	378,093,160	116,073,355	116,073,355
Financial assets at fair value through profit or loss	3,738,476	3,738,476	852,284	852,284
Loans and advances to customers	32,091,136	32,091,136	43,921,363	43,921,363
Debt instruments measured at amortised cost	311,118,996	311,118,996	-	-
Financial assets held to maturity	-	-	250,276,433	250,276,433
Other receivables	53,365,303	53,365,303	36,753,817	36,753,817
	778,407,071	**778,407,071**	**447,877,252**	**447,877,252**
Financial liabilities				
Deposits due to banks and customers	677,202,182	677,202,182	348,164,949	348,164,949
Loans and borrowings	2,880,000	2,880,000	1,771,125	1,771,125
	680,082,182	**680,082,182**	**349,936,074**	**349,936,074**

25 PROVISIONS

	Reviewed 31 August 2018 US$	Audited 28 February 2018 US$
Provisions	**1,132,342**	**1,389,741**

	Leave Pay and Provision for Demolition costs	Total US$
Balance at 28 February 2017	**1,389,741**	**1,389,741**
Current provision	416,917	416,917
Amount utilised	(674,316)	(674,316)
Balance at 31 August 2018	**1,132,342**	**1,132,342**

26 OTHER LIABILITIES

	Reviewed 31 August 2018 US$	Audited 28 February 2018 US$
Sundry creditors and accruals	**19,477,451**	**12,371,866**

27 DEFERRED TAX ASSET

	Accelerated wear and tear US$	Fair value adjustments US$	Assessed losses US$	Other US$	Total US$
At 28 February 2017	**1,456,371**	**682,587**	**-**	**(2,204,837)**	**(65,879)**
Deferred tax in relation to transition to IFRS 9	-	-	-	(2,207,569)	**(2,207,569)**
Charge to profit for the period	520,585	22,278	-	1,599,496	**2,142,358**
At 31 August 2018	**1,976,956**	**704,865**	**-**	**(2,812,910)**	**(131,090)**

28 RELATED PARTY DISCLOSURES

	Reviewed 31 August 2018 US$	Audited 28 February 2018 US$
Compensation of key management personnel of the Bank:		
Short-term benefits	3,483,307	1,571,626
Post-employment benefits	167,213	98,943
	3,583,307	**1,571,626**

29 RISK MANAGEMENT

Risk is inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk, strategic risk, reputational risk and market risk. It is also subject to country risk and various operating risks.

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 table below shows the credit quality of the Bank's financial instruments and the maximum exposure to credit risk based on the Bank's internal credit rating system and half-year stage classification.

NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (CONTINUED)
For the half-year ended 31 August 2018

29 RISK MANAGEMENT (CONTINUED)

29.1 Credit Risk (continued)

	High grade	Standard grade		Sub-standard	Past due but not impaired	Individually impaired	
	Stage 1 US$	Stage 1 US$	Stage 2 US$	Stage 2 US$	Stage 3 US$	Stage 3 US$	Total US$
At 31 August 2018:							
Loans and advances to customers:							
Retail portfolio - Consumer and Mortgage loans	22,850,877	-	9,117,955	1,334,757	842,722	83,087	**34,229,398**
Retail portfolio - Credit cards	67,749	-	30,565	32,992	66,541	356,649	**554,496**
Corporate and SME portfolio	7,103,008	-	1,214,835	-	209,168	746,089	**9,273,099**
	30,021,634	-	10,363,355	1,367,749	1,118,431	1,185,825	**44,056,993**
Debt instruments measured at amortised cost:							
Exposure to banks	35,070,825	15,186,539	-	2,518,333	-	-	**52,775,697**
Government debt securities	263,473,941	-	-	-	-	-	**263,473,941**
	298,544,766	15,186,539	-	2,518,333	-	-	**316,249,638**
Other receivables	-	-	4,298,302	-	-	-	**4,298,302**
Contingent liabilites, commitments							
Financial guarantees	4,625	-	-	-	-	-	**4,625**
Commitments to lend	2,166,650	-	-	-	-	-	**2,166,650**
	2,171,275	-	-	-	-	-	**2,171,275**
	330,737,675	**15,186,539**	**14,661,657**	**3,886,082**	**1,118,431**	**1,185,825**	**366,776,208**

The table below shows the credit quality of loan exposures by industrial sector as at 28 February 2018. The amounts presented are gross of impairment allowances.

	Neither past due nor impaired					
	Grade A high grade US$	Grade B standard grade US$	Grade C sub-standard US$	Past due but not impaired US$	Individually impaired US$	Total US$
At 28 February 2018:						
Individuals	15,231,101	1,594,344	5,699,466	492,228	1,932,335	**24,949,474**
Mining	-	-	-	-	25	**25**
Manufacturing	2,179,026	-	313,133	-	1,382,626	**3,874,785**
Agriculture	17,948	-	541,295	-	244,774	**804,017**
Distribution	120,887	-	911,109	481,047	184,023	**1,697,066**
Services	2,982,780	1,974,549	1,162,192	17,856	921,423	**7,058,800**
	20,531,742	**3,568,893**	**8,627,195**	**991,131**	**4,665,206**	**38,384,167**

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.

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

TOTAL POSITION	Up to 1 month US$	1 month to 3 months US$	3 months to 1 year US$	1 to 5 years US$	Over 5 years	Non-interest bearing US$	Total US$
At 31 August 2018							
Assets							
Cash and cash equivalents	-	-	-	-	-	378,093,160	**378,093,160**
Financial assets at fair value through profitr loss	-	-	-	-	-	3,738,476	**3,738,476**
Loans and advances to customers	6,368,263	399,209	2,003,618	8,846,835	14,473,211	-	**32,091,136**
Debt instruments measured at amortised cost	2,009,295	127,962,611	90,954,847	90,192,243	-	-	**311,118,996**
Other receivables	-	-	-	-	-	53,365,303	**53,365,303**
Inventories	-	-	-	-	-	5,931,764	**5,931,764**
Investment property	-	-	-	-	-	5,437,400	**5,437,400**
Property and equipment	-	-	-	-	-	12,200,975	**12,200,975**
Intangible assets	-	-	-	-	-	8,247,420	**8,247,420**
Deferred tax Asset	**-**	**-**	**-**	**-**	**-**	**131,090**	**131,090**
	8,377,558	**128,361,820**	**92,958,465**	**99,039,078**	**14,473,211**	**467,145,588**	**810,355,720**
Liabilities and equity							
Deposits due to banks and customers	676,417,411	784,771	-	-	-	-	**677,202,182**
Loans and borrowings	-	-	2,880,000	-	-	-	**2,880,000**
Provisions	-	-	-	-	-	1,132,342	**1,132,342**
Other liabilities	-	-	-	-	-	19,477,451	**19,477,451**
Equity	-	-	-	-	-	109,663,745	**109,663,745**
	676,417,411	**784,771**	**2,880,000**	**-**	**-**	**130,273,538**	**810,355,720**
Interest rate repricing gap	**(668,039,853)**	**127,577,049**	**90,078,465**	**99,039,078**	**14,473,211**	**336,872,050**	**-**
Cumulative gap	**(668,039,853)**	**(540,462,804)**	**(450,384,339)**	**(351,345,261)**	**(336,872,050)**	**-**	**-**

5

SME Banking

Promoting Financial Inclusion Through SME Financing and Innovation

NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (CONTINUED)
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29 RISK MANAGEMENT (CONTINUED)

29.2 Interest rate risk (continued)

TOTAL POSITION	Up to 1 month US$	1 month to 3 months US$	3 months to 1 year US$	1 to 5 years US$	Over 5 years	Non-interest bearing US$	Total US$
At 28 February 2018							
Assets							
Cash and cash equivalents	-	-	-	-	-	116,073,355	**116,073,355**
Financial assets at fair value through profit or loss	-	-	-	-	-	852,284	**852,284**
Loans and advances to customers	8,085,904	549,991	390,605	23,797,721	-	-	**32,824,221**
Financial assets held to maturity	18,985,880	62,761,627	94,206,800	74,322,126	-	-	**250,276,433**
Other receivables	-	-	-	-	-	36,753,817	**36,753,817**
Non-current assets held for sale	-	-	-	-	-	130,000	**130,000**
Investment property	-	-	-	-	-	5,437,400	**5,437,400**
Property and equipment	-	-	-	-	-	11,656,981	**11,656,981**
Intangible assets	-	-	-	-	-	6,639,839	**6,639,839**
Deferred tax asset	-	-	-	-	-	65,879	65,879
	27,071,784	63,311,618	94,597,405	98,119,847	-	177,609,555	460,710,209
Liabilities and equity							
Deposits due to banks and customers	347,380,178	784,771	-	-	-	-	**348,164,949**
Loans and borrowings	-	-	1,771,125	-	-	-	**1,771,125**
Provisions	-	-	-	-	-	1,389,741	**1,389,741**
Other liabilities	-	-	-	-	-	12,371,866	**12,371,866**
Equity	-	-	-	-	-	97,012,528	**97,012,528**
	347,380,178	784,771	1,771,125	-	-	110,774,135	460,710,209
Interest rate repricing gap	(320,308,394)	62,526,847	92,826,280	98,119,847	-	66,835,420	-
Cumulative gap	(320,308,394)	(257,781,547)	(164,955,267)	(66,835,420)	(66,835,420)	-	-

29.3 Liquidity risk
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

	Reviewed 31 August 2018	Audited 28 February 2018
Loans to deposits ratio	6%	11%
Net liquid assets to customer liabilities ratio	82%	70%

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.

	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 2018						
Financial assets:						
Cash and cash equivalents	378,093,160	-	-	-	-	**378,093,160**
Financial assets at fair value through profit or loss	3,738,476	-	-	-	-	**3,738,476**
Loans and advances to customers	8,905,601	459,061	2,272,949	10,013,937	15,354,983	**37,006,531**
Debt instruments measured at amortised cost	2,518,333	131,502,611	92,231,644	90,192,243	-	**316,444,831**
Other receivables	54,047,996	-	-	-	-	**54,047,996**
Total undiscounted financial assets	**447,303,566**	**131,961,672**	**94,504,593**	**100,206,180**	**15,354,983**	**789,330,994**
Financial liabilities:						
Deposits due to banks and customers	676,417,411	784,771	-	-	-	**677,202,182**
Loans and borrowings	-	-	2,880,000	-	-	**2,880,000**
Total undiscounted financial liabilities	**676,417,411**	**784,771**	**2,880,000**	**-**	**-**	**680,082,182**
Net undiscounted financial assets/(liabilities)	**(229,113,845)**	**131,176,901**	**91,624,593**	**100,206,180**	**15,354,983**	**109,248,812**
At 28 February 2018:						
Financial assets:						
Cash and cash equivalents	116,073,355	-	-	-	-	**116,073,355**
Financial assets at fair value through profit or loss	852,284	-	-	-	-	**852,284**
Loans and advances to customers	8,085,904	549,990	5,990,747	11,234,605	12,563,117	**38,424,363**
Financial assets held-to-maturity	18,985,880	62,761,627	94,206,800	74,322,126	-	**250,276,433**
Other receivables	36,753,817	-	-	-	-	**36,753,817**
Total undiscounted financial assets	**180,751,240**	**63,311,617**	**100,197,547**	**85,556,731**	**12,563,117**	**442,380,252**
Financial liabilities:						
Deposits due to banks and customers	347,380,178	784,771	-	-	-	**348,164,949**
Loans and borrowings	-	-	1,771,125	-	-	**1,771,125**
Total undiscounted financial liabilities	**347,380,178**	**784,771**	**1,771,125**	**-**	**-**	**108,295,641**
Net undiscounted financial assets/(liabilities)	**(166,628,938)**	**62,526,846**	**98,426,422**	**85,556,731**	**12,563,117**	**92,444,178**

NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (CONTINUED)
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29 RISK MANAGEMENT (CONTINUED)

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.

	Reviewed 31 August 2018 US$	Audited 28 February 2018 US$
Financial guarantees	4,625	30,000
Commitments to lend	2,166,650	6,115,684
	2,171,275	**6,145,684**

ECL Allowances on commitments and guarantees
An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Loans and Advances is, as follows:

	Stage 1 US$	Stage 2 US$	Stage 3 US$	Total US$
Gross carrying amounts				
Outstanding exposures as at 1 March 2018	916,254	-	-	**916,254**
New exposures	1,339,488	-	-	**1,339,488**
Exposures derecognised or matured/ lapsed (excluding write offs)	(84,467)	-	-	**(84,467)**
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts writted off	-	-	-	-
Gross carrying amount as at 31 August 2018	**2,171,275**	**-**	**-**	**2,171,275**
ECL allowance				
ECL allowance as at 1 March 2018	162,058	-	-	**162,058**
New exposures	183,355	-	-	**183,355**
Exposures derecognised or matured (excluding write offs)	(405)	-	-	**(405)**
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts writted off	-	-	-	-
ECL allowance as at 31 August 2018	**345,008**	**-**	**-**	**345,008**

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 public opinion. 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 Business Development department whose mandate is to manage this risk.

29.5 Reserve Bank Ratings
The Reserve Bank of Zimbabwe conducted an onsite inspection of the Bank in November 2014 and the final ratings that were determined on the Bank 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

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 and Compliance Risk	Moderate	Acceptable	Moderate	Stable
Reputational Risk	Moderate	Acceptable	Moderate	Stable
Overall	**Moderate**	**Acceptable**	**Moderate**	**Stable**

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29.5.2 Summary risk matrix – 30 November 2014 onsite examination (continued)

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.

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.

30 CAPITAL MANAGEMENT

The objective of the Bank's capital management is to cover risks inherent in its business and 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:

	Reviewed 31 August 2018 US$	Audited 28 February 2018 US$
Share capital	4,077	4,077
Share premium	106,317,629	106,317,629
Accumulated profit/(loss)	3,319,990	(12,719,910)
Deferred tax asset	(131,090)	(65,879)
	109,510,606	**93,535,917**
Less: Capital allocated for market and operational risk	(7,246,882)	(4,531,362)
Advances to insiders	(26,749,013)	(13,842,391)
Guarantees to insiders	-	(30,000)
Tier 1 capital	**75,514,711**	**75,132,164**
Tier 2 capital		
Other reserves	22,049	22,049
General provisions	-	3,388,683
	22,049	**3,410,732**
Total Tier 1 and 2 capital	**75,536,760**	**78,542,896**
Tier 3 capital (sum of market and operational risk capital)	7,246,882	4,531,362
Total Capital Base	**82,783,642**	**83,074,258**
Total risk weighted assets	**145,332,016**	**123,473,687**
Tier 1 ratio	52%	60%
Tier 2 ratio	0%	3%
Tier 3 ratio	5%	4%
Total capital adequacy ratio	**57%**	**67%**
RBZ minimum requirement	**12%**	**12%**

31 EXTERNAL CREDIT RATINGS

	Most recent rating: October 2017	Previous rating: September 2016	Previous rating: September 2015
Rating agent: Global Credit Rating Co (GCR)	BBB	BBB-	BBB-