AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

CHAIRMAN'S STATEMENT

It gives me great pleasure to present to you the financial results of Stanbic Bank Zimbabwe Limited ("the Bank" or "Stanbic Bank Zimbabwe") for the year ended 31 December 2016.

Operating environment in the country

The state of the operating environment throughout 2016 was highly challenging, underpinned by the following:

- Worsening foreign currency shortages, which were exacerbated by weak international commodity prices resulting in a reduced average level of nostro balances;
- Waning business confidence and company closures;
- Regulatory interventions which had downside effects on financial institutions;
- Deterioration in credit risk, though the commencement of ZAMCO operations reduced the outstanding non-performing loans held by banks; and
- Sluggish economic growth, with the International Monetary Fund ("IMF") projecting an economic contraction of 0.6% in 2016 and a further decline of 2.5% for 2017.

Growth impediments are resulting from erratic weather conditions, weak international commodity prices, foreign currency shortages, policy inconsistencies and low effective internal demand.

Results

The Bank posted a profit after tax of USD21.2 million for the year ended 31 December 2016 having declined by 11% from the prior period's USD23.9 million. This reduced performance was largely due to the decline in volumes of cash transactions and outgoing foreign customer payments given the deepening cash and foreign currency shortages which obtained in the market throughout the year. Furthermore, regulatory directives on bank charges weighed down the Bank's fee and commission income in comparison to the prior period.

Capital

As at 31 December 2016, the Bank had surpassed the USD100 million minimum capital threshold set for 2020 as its qualifying core capital stood at USD106.6 million (2015:USD84.9 million) against the required regulatory minimum of USD25 million.

Outlook

In the outlook period the foreign currency challenges are likely to persist due to limited policy measures by the Government to address the same. We remain confident that the Bank will achieve its 2017 targets despite the challenges being faced by the economy.

Corporate governance

The Bank continues to maintain high standards of corporate governance, ensuring that its conduct is above reproach. It complies with regulatory and corporate governance requirements, and is committed to advancing the principles and practice of sustainable development and adherence to the laws of the country.

During the period under review, the Bank complied with all regulatory requirements and RBZ directives, in all material respects.

The Board of Directors

The Board meets a minimum of four times per year, and the record of attendance of each director is as follows for the year ended 31 December 2016:

DIRECTOR'S NAME	MAIN BOARD	AUDIT	L R	CREDIT	HR	NOM	RISK
Sternford Moyo *(Chairman)*	4	**	8	**	**	1	**
Joshua Tapambgwa *(Chief Executive)*	4	**	**	**	**	**	**
Cathrine Chitiyo	4	**	**	6	1	**	4
Gregory Sebborn	4	4	**	6	**	**	4
David Ellman-Brown	4	4	8	**	**	**	**
Emmanuel Jinda	3	**	7	**	1	1	**
Malcolm Lowe*	3	**	**	6	**	**	4
Weston Makwara *(Executive)*	4	**	**	**	**	**	**
Linda Masterson	4	4	**	6	0	0	4
Solomon Nyanhongo *(Executive)*	4	**	**	**	**	**	**
Paul Smith*	4	**	**	**	**	**	4
Pindie Nyandoro*	4	**	**	**	**	1	**

*South African based members
** Not a member

HR - Human Resources and Remuneration Committee
NOM - Board Nominations Committee
LR - Board Loans Review Committee

As at 31 December 2016, the Board comprised twelve directors, three of whom are executive directors. The Board has an appropriate level of independence for deliberations and objectivity, and has the right mix of competencies and experience. The Board is responsible for the overall corporate governance of the Bank, ensuring that appropriate controls, systems and practices are in place.

Board Committees

The Board Audit Committee

The committee meets at least four times a year. During the year ended 31 December 2016 the committee held four meetings.

As at 31 December 2016, the committee comprised three independent non-executive directors. The role of the committee is to provide an independent evaluation of the adequacy and efficiency of the Bank's internal control systems, accounting practices, and auditing processes.

Communication between the Board, executive management, compliance, internal audit, and external audit is encouraged. The committee liaises with the external and internal auditors on accounting procedures and on the adequacy of controls and reviews the financial statements, considers loss reports on major defalcations, and the effectiveness of Bank's compliance plan.

Board Loans Review Committee

The committee meets at least four times annually and may convene more often as and when necessary. During the year ended 31 December 2016, the committee held eight meetings.

The Loans Review Committee reviews customer facilities and the level of doubtful debt provisioning.

The committee comprises three independent non-executive directors, inclusive of the Chairman of the Board.

Board Credit Committee

This committee meets at least four times a year. During the year ended 31 December 2016, the committee held six meetings.

The Board Credit Committee is tasked with the overall review of the Bank's lending policies. During each meeting, the committee deliberates and considers credit applications beyond the mandate of the Credit Risk Management Committee.

The Board Credit Committee comprises four non-executive directors, two of whom are independent.

Board Human Resources and Remuneration Committee

In terms of the mandate, the committee meets twice a year however during the year ended 31 December 2016, the committee held one meeting. The committee is composed of two members who are both non-executive directors.

The committee considers all human resources issues including recruitment policy, industrial relations, succession planning, safety and health and remuneration terms and packages for management and staff.

Summary of the remuneration policies for directors and senior management

Remuneration for directors and senior management is set taking into account compensation trends at comparable organisations in the Zimbabwean market, the performance of the Bank, affordability to the Bank, Standard Bank Group policies and advice from independent human resources consultants.

Board Risk Committee

The committee meets four times a year. During the year ended 31 December 2016, the committee held four meetings.

As at 31 December 2016 the committee comprised five non-executive directors. The committee reviews and assesses the integrity of the risk control systems, information systems and ensures that risk policies and strategies are effectively identified, managed and monitored in order to contribute to a climate of discipline and control, which will reduce the opportunity of risk, including fraud, in all areas of operations.

Board Nominations Committee

The committee meets twice a year and its mandate is to oversee matters of Corporate Governance, including nominations of candidates for the appointment to the Board. During the year ended 31 December 2016, the committee held one meeting.

As at 31 December 2016 the committee comprised three non-executive directors.

Asset and Liability Committee

Though not a Board committee, the Asset and Liability Committee is a key management committee that meets a minimum of ten times a year. During the year ended 31 December 2016, the committee held fourteen meetings.

The committee is responsible for monitoring compliance with policies and for implementing strategies in respect of liquidity, interest rates, foreign exchange and market risk. It is also responsible for setting policies on the deployment of capital resources of the Bank.

The Asset and Liability Committee strives to achieve the following objectives:

- optimise net interest margins and exchange earnings;
- achieve a deposit, lending and investment profile consistent with the Bank's budgetary and strategic targets;
- manage risks within levels which comply with group and/or regulatory limits;
- establish appropriate pricing levels and rates within laid down limits to achieve objectives; and
- grow statement of financial position size and profits for the period in line with budget.

Stanbic Nominees (Private) Limited

Stanbic Nominees (Private) Limited is a wholly owned subsidiary of Stanbic Bank Zimbabwe. It is the nominee company for investments made by Stanbic Bank Zimbabwe clients on the money and equity markets (the Bank's custodial business). The Board for Stanbic Nominees (Private) Limited comprises two executive directors and three non-executive directors, who meet on a quarterly basis to review the operations of the company and the risks associated with the custody business. The assets and income arising thereon have been disclosed in note 14.

Description of the process by which the Bank assesses the effectiveness of individual Board members and the Board as a whole

The Bank holds an annual Board and Director evaluation process as required by the Reserve Bank of Zimbabwe. Weaknesses and areas of concern are identified through this process. The areas of concern are discussed in the Board meetings with a view to rectifying the identified weaknesses.

Corporate Social Responsibility

Stanbic Bank Zimbabwe believes in investing in and developing our surrounding communities without whom we would not have a business to operate. We will continue to foster strong relationships with our clients by supporting their social needs, using the resources available to us. We are a part of all these communities, therefore we will always be proud and ready to offer a hand whenever we can to help make a significant difference.

Acknowledgements and farewell

I would like to pay tribute to our valued clients, the shareholder and other stakeholders for their continued support during this challenging period and into the future. I would like to thank the entire Board for the diligent service and support it has rendered throughout the year. I remain grateful to the management and staff for their unwavering support and dedication which has made the achievement of these results possible in a deteriorating operating environment.

I also take this opportunity to thank and congratulate three of my fellow non-executive board members who, along with me, are retiring on 31 March 2017 and will not be seeking re-election. These directors are Emmanuel Jinda, Cathrine Chitiyo and David Ellman-Brown. Over periods in excess of 10 years, these board members have led the Bank through many challenges, and the results of their knowledge and efforts are there to see as they leave the Bank as a solid financial institution with a strong brand and market share in this country, underpinned by consistent growth in profitability. Congratulations are in order as they can look back at their service to the Bank with pride.

Furthermore, Weston Makwara stepped down from the board on 31 December 2016 and took up another role in the Bank where he will no doubt make excellent use of his talent and energy. I also thank him for his service to the board and the Bank, and wish him continued success in his new role.

Lastly, I bid farewell to the board and staff of the Bank as I shall also be retiring from the board after 15 years of service. I am proud of what we have achieved in my time as a board member despite the challenging times. This has been an extremely fulfilling experience and I urge the remaining board members and staff of the Bank to maintain and improve on the successes that we have recorded to date. I have no doubt that I am leaving the Bank in extremely capable hands, and will continue to wish it well in its future.

Sternford Moyo
Chairman

28 March 2017

CHIEF EXECUTIVE'S REPORT

Overview of business results for 2016

The economy continued to perform sluggishly characterised by worsening cash and foreign currency shortages. This increasingly fragile economic environment had a negative impact on the Bank's financial performance.

The Bank closed the year with a profit of USD21.2 million which was 11% behind the USD23.9 million recorded for the 2015 year.

Net interest income grew by 10% to USD47.2 million from USD42.8 million in the comparative period spurred mainly by the growth in our lending book as new interest earning assets were written, compounded by the acquisition of additional short term investments.

Fee and commission income declined by 7% to USD33.5 million from USD36.1 million achieved in the comparative period largely because of the depressed volumes of cash transactions and outward foreign customer payments as the foreign currency shortages in the country continued to deepen, compounded by the regulatory directives to reduce bank charges in an effort to promote the use of electronic banking services.

The Bank's operating expenses grew by 18% to USD59.5 million from USD50.4 million in 2015 primarily due to the impact of business expansion as the Bank successfully ended its core banking transformation journey with the rollout of a new system which enhanced its digital banking channels in an effort to make banking easier for its customers.

The Bank's customer deposit base grew by 48% from USD474 million in 2015 to USD701 million driven by the increase in customer deposits given the obtaining foreign currency shortages which saw customers moving their funds from one bank to another in search of nostro allocations. In turn, the 2016 loan to deposit ratio deteriorated from 57% to 43% as the rapid growth in customer deposits could not be matched to asset creation given the increasingly tough operating environment which was characterised by increased default risk.

Compliance and money laundering control function

Monitoring of compliance risk is carried out by an independent compliance function within the risk management framework. The compliance function seeks to ensure that the Bank meets all requirements of the regulators and the Standard Bank Group (the Bank's ultimate parent).

The Bank remains supportive of international efforts to combat money laundering and terrorism financing, and continues to abide by the requirements of the Money Laundering and Proceeds of Crime Act. The Bank continues to adhere to the required standards of Anti- Money Laundering and Know Your Customer practices.

The Compliance function has a framework in place that ensures that the Bank complies with all regulatory requirements and the Reserve Bank of Zimbabwe ("RBZ") directives, in all material respects.

Statement on corporate social investment ("CSI") responsibilities

The Bank continues to engage and support our communities in their different areas of need. Our CSI is mainly focused on Health and Sanitation, Sports Development, Education and Nature conservation.

Under Health and Sanitation, we provided support in cash and kind to KidzCan, Cancer Association of Zimbabwe and the Albino Charity Organization of Zimbabwe. The availability of water is crucial in ensuring good health and sanitation in every community. We donated boreholes to St. Alberts Referral Mission and Mpilo General Hospitals.

In Sports Development, nurturing future talent, unlocking potential and imparting skills in sport at grassroots level is a part of the Bank's objectives over the past 10 years through the sponsorship of the Stragglers Junior Cricket initiative.

In Education, the Bank empowered two hearing impaired ladies at the Deaf Zimbabwe Trust to undergo teacher training in sign language which will enable them to teach the same to deaf children after completion. We continue to finance fees for less fortunate children from Primary education through to Tertiary level.

Under Nature and Conservation, the Bank continues to sponsor the 3 day Matobo Hills World Heritage challenge to support preservation of the environment.

Our people

Given the extremely tough year that we have endured, I am humbled by the discipline and attitude maintained by the Stanbic team throughout the year which allowed the Bank to achieve its 2016 targets as the team continued to effectively manage the Bank's operations in a deteriorating economy.

Our customers

In an effort to improve our customer service experience, the Bank increased its POS footprint to facilitate convenient purchase of goods and services. The Bank also invested in a robust core banking system that provides customers with capability to transact "24/7/ 365" on Online and Mobile Banking platforms for all customer segments – Personal and Businesses. These platforms allow our customers to transact conveniently with ease.

Points of representation

The Bank opened a bigger Private Banking suite in Bulawayo and is currently refurbishing its Harare Private Banking suite and the Southerton branch. These refurbishments will help the Bank to successfully serve its customers in future.

Vote of thanks

I take this opportunity to thank our valued customers and shareholder for their continued support. My appreciation goes to the Chairman and the Board for their counsel and guidance throughout the year. I am humbled by the Stanbic team for its outstanding commitment and contribution in an increasingly challenging operating environment.

I would like to pay tribute to our outgoing Board Chairman, Sternford Moyo and three Board members, namely Emmanuel Jinda, Cathrine Chitiyo and David Ellman-Brown, who will be retiring from the Board after serving the Bank for over 10 years each. I thank them for their support and invaluable contributions during their tenure, and wish them well in their future endeavours.

Joshua Tapambgwa
Chief Executive

28 March 2017

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	Note	31 December 2016 USD'000	31 December 2015 USD'000
ASSETS			
Cash and cash equivalents	1	404 700	235 867
Derivative assets	2.1	120	1 254
Financial assets available for sale	3	82 945	68 679
Loans and advances to customers	4.1	273 486	254 272
Other assets		6 933	2 879
Intangible assets		26 469	1 332
Investment property		5 964	3 590
Property and equipment		40 168	24 459
Deferred tax assets		4 739	2 608
Total assets		845 524	594 940
EQUITY AND LIABILITIES			
Shareholder's equity		109 719	88 009
Ordinary share capital	5.2	260	260
Ordinary share premium	6.1	10 790	10 790
Reserves	6.2	98 669	76 959
Liabilities			
Derivative liabilities	2.2	11	1 250
Deposits and current accounts	7	702 225	484 050
Deposits from other banks		1 478	10 384
Deposits from customers		700 747	473 666
Current income tax liabilities		1 032	642
Other liabilities		32 537	20 989
Total liabilities		735 805	506 931
Total equity and liabilities		845 524	594 940

STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2016

	31 December 2016 USD'000	31 December 2015 USD'000
Net interest income	47 249	42 753
Non interest income	48 686	45 252
Fees and commission income	33 475	36 099
Trading income	15 020	9 001
Other income	191	152
Total income	95 935	88 005
Credit impairment charges	(8 364)	(6 830)
Income after credit impairment charges	87 571	81 175
Operating expenses	(57 495)	(48 536)
Staff costs	(29 384)	(24 354)
Other operating expenses	(28 111)	(24 182)
Net income before indirect tax	30 076	32 639
Indirect tax	(1 968)	(1 838)
Profit before direct tax	28 108	30 801
Direct tax	(6 870)	(6 870)
Profit for the year	21 238	23 931

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

	31 December 2016 USD'000	31 December 2015 USD'000
Profit for the year	21 238	23 931
Items that will not be reclassified to profit or loss:		
Loss on revaluation of land and buildings	-	(1)
Items that may be subsequently reclassified to profit or loss:		
Changes in fair value of available-for-sale financial assets	405	(147)
Related tax	(104)	38
Total comprehensive income for the year attributable to the ordinary shareholder	21 539	23 821

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

	Ordinary share capital USD'000	Ordinary share premium USD'000	Non-distributable reserve USD'000	Revaluation reserve USD'000	Available for sale reserves USD'000	Statutory credit impairment reserve USD'000	Share-based payment reserve USD'000	Retained earnings USD'000	Ordinary shareholder's equity USD'000
Year ended 31 December 2016									
Balance as at 1 January 2016	260	10 790	1 207	1 942	(104)	818	242	72 854	88 009
Profit for the year	-	-	-	-	-	-	-	21 238	21 238
Other comprehensive income									
Changes in fair value of available for sale financial assets	-	-	-	-	405	-	-	-	405
Related tax	-	-	-	-	(104)	-	-	-	(104)
Total comprehensive income for the year	-	-	-	-	301	-	-	21 238	21 539
Equity-settled share based payments	-	-	-	-	-	-	119	52	171
Total transactions with the owner of the Bank recognised directly in equity	-	-	-	-	-	-	119	52	171
Balance as at 31 December 2016	260	10 790	1 207	1 942	197	818	361	94 144	109 719

	Ordinary share capital USD'000	Ordinary share premium USD'000	Non-distributable reserve USD'000	Revaluation reserve USD'000	Available for sale reserve USD '000	Statutory credit impairment reserve USD'000	Share-based payment reserve USD'000	Retained earnings USD'000	Ordinary shareholder's equity USD'000
Year ended 31 December 2015									
Balance as at 1 January 2015	260	10 790	1 207	1 943	5	818	289	66 355	81 667
Profit for the year	-	-	-	-	-	-	-	23 931	23 931
Other comprehensive income									
Revaluation of property and equipment	-	-	-	(1)	-	-	-	-	(1)
Deferred taxation charge	-	-	-	-	-	-	-	-	-
Changes in fair value of available-for-sale financial assets	-	-	-	-	(147)	-	-	-	(147)
Related tax	-	-	-	-	38	-	-	-	38
Total comprehensive income for the year	-	-	-	(1)	(109)	-	-	23 931	23 821
Equity-settled share based payments	-	-	-	-	-	-	(47)	68	21
Dividend declared and paid	-	-	-	-	-	-	-	(17 500)	(17 500)
Total transactions with the owner of the Bank recognised directly in equity	-	-	-	-	-	-	(47)	(17 432)	(17 479)
Balance as at 31 December 2015	260	10 790	1 207	1 942	(104)	818	242	72 854	88 009

STATEMENT OF CASH FLOWS
For the year ended 31 December 2016

	Note	31 December 2016 USD'000	31 December 2015 USD'000
Cash generated from operations			
Net income before indirect and direct tax		30 076	32 639
Adjusted for:			
Credit impairment charges on loans and advances		8 364	6 830
Amortisation of intangible assets		998	235
Depreciation of property and equipment		3 235	2 919
Equity-settled share-based payments		171	21
Indirect tax paid		(1 968)	(1 838)
Loss on sale of property and equipment		76	27
Decrease in fair value of investment property		-	180
Impairment loss on property		-	453
Movement in working capital			
Decrease in derivative assets		1 134	3 483
Increase in loans and advances		(27 578)	(26 679)
Increase in financial assets available for sale		(3 836)	(2 271)
Increase in other assets		(4 054)	(785)
Decrease in derivative liabilities		(1 239)	(3 480)
Increase in deposits and current accounts		218 175	34 366
Increase/(decrease) in other liabilities		11 548	(2 124)
Direct tax paid		(8 715)	(8 650)
Net cash from operating activities		226 387	35 326
Cash used in investment activities			
Purchase of financial assets available for sale		(45 984)	(66 993)
Proceeds from financial assets available for sale		35 959	28 541
Capital expenditure on:			
- intangible assets		(26 158)	(1 124)
- property and equipment		(21 388)	(4 425)
Proceeds from:			
- sale of property and equipment		17	66
Net cash used in investing activities		(57 554)	(43 935)
Cash used in financing activities			
Dividends paid		-	(17 500)
Net cash used in financing activities		-	(17 500)
Net increase/(decrease) in cash and cash equivalents		168 833	(26 109)
Cash and cash equivalents at the beginning of the year		235 867	261 976
Cash and cash equivalents at the end of the year	1	404 700	235 867

ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below. These accounting policies have been consistently applied to all the years presented unless otherwise stated.

AUDITOR'S STATEMENT

The financial results should be read in conjunction with the complete set of financial statements for the year ended 31 December 2016 which have been audited by KPMG (Zimbabwe) and an unqualified audit opinion thereon. The auditor's report on the financial statements which forms the basis of these financial results is available at the Bank's registered office.

BASIS OF PREPARATION

Statement of compliance

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and in the manner required by the Zimbabwe Companies Act (Chapter 24:03), the Zimbabwe Banking Act (Chapter 24:20). The financial statements are based on statutory records that are maintained under the historical cost basis except for the following material items in the statement of financial position: owner occupied property measured at fair value less accumulated depreciation; investment property, financial assets available for sale and derivative assets and liabilities measured at fair value. The financial statements were authorised for issue by the Bank's Board of Directors on 28 March 2017.

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements are presented in United States of America dollars ("USD"), which is the functional currency of Stanbic Bank Zimbabwe Limited. All amounts are stated in thousands of United States of America dollars (USD'000), unless indicated otherwise.

RISK MANAGEMENT AND CONTROL

Overview

Effective risk management is fundamental to the business activities of Stanbic Bank Zimbabwe Limited (the "Bank" or "Stanbic Bank Zimbabwe"). Whilst we remain committed to the objective of increasing shareholder value by developing and growing our business in a way that is consistent with our Board's determined risk appetite, we are also cognisant of the need to balance this objective with the interests of both our depositors and regulators. We seek to achieve an appropriate balance between risk and reward in our business, and continue to build and enhance the risk management capabilities that assist in delivering our growth plans in a controlled manner.

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Risk management is at the core of the operating structures of the Bank. The Bank seeks to limit adverse variations in earnings and equity by managing the risk exposures and capital within agreed levels of risk appetite. Managing and controlling risks, minimising undue concentrations of exposure and limiting potential losses from stress events are all essential elements of the Bank's risk management and control framework. This framework ultimately leads to the protection of the Bank's reputation.

Responsibility and accountability for risk management resides at all levels within the Bank, from the executive down through the organisation to each business manager. The Bank uses the three lines of defence model:

- The first line of defence is the business units. Corporate and Investment Banking ("CIB") and Personal Business Banking ("PBB") management are primarily responsible for risk management. The assessment, evaluation and measurement of risk is an ongoing process that is integrated into the day-to-day activities of the business. This process includes implementing the Bank's risk management framework, identifying issues and taking remedial action where required. Business unit management is also accountable for reporting to the governance bodies within the Bank;
- The second line of defence consists of the risk management function which is appropriately independent of business management. The Bank's risk management function is primarily accountable for setting the Bank's risk management framework and policy, providing oversight and independent reporting to executive management through the various risk management committees e.g. Credit Risk Management Committee ("CRMC"), Assets and Liabilities Committee ("ALCO"). The Risk Management Committee reports to the Board Risk Committee. The risk management function implements the Bank's risk management framework and policy in the business units, approving risks within specific mandates and providing an independent overview of the effectiveness of risk management by the first line of defence; and
- The third line of defence consists of an internal audit function which provides an independent assessment of the adequacy and effectiveness of the overall risk management framework and risk governance structures, and reports to management on a regular basis and to the Board through the Board Audit Committee ("BAC").

Key components of risk management are the risk standards that have been developed for each risk type and which set out the principles for the identification, measurement, management, control and reporting of each risk type. Each standard is approved by the Board Risk Committee and is supported by the Bank and business unit risk policies and procedures.

Risks are controlled at the level of individual exposures and at portfolio level, as well as in aggregate across all business units and risk types. An objective view of risk taking activities is taken, in particular to balance the short and long term interests of the Bank.

Risk appetite

Risk appetite is an expression of the maximum level of residual risk that the Bank is prepared to accept to deliver its business objectives. Risk appetite is implemented in terms of various limits, economic capital usage and the risk adjusted performance measures ("RAPM") expected to be achieved, recognising a range of possible outcomes.

The Board establishes the Bank's parameters for risk appetite by:

- providing strategic leadership and guidance;
- reviewing and approving annual budgets and forecasts for the Bank and business units; and
- regularly reviewing and monitoring the Bank's performance in relation to risk through quarterly Board reports.

Risk categories

The principal risks to which the Bank is exposed and which it manages are defined as follows:

Credit risk

Credit risk is the risk of loss arising out of the failure of counterparties to meet their financial or contractual obligations when due. Credit risk comprises counterparty risk, settlement risk and concentration risk. These risk types are defined as follows:

- ***Counterparty risk:*** The risk of credit loss to the Bank as a result of the failure by a counterparty to meet its financial and/or contractual obligations to the Bank.
- ***Settlement risk:*** The risk of loss to the Bank from settling a transaction where value is exchanged, but where the Bank may not receive all or part of the security or cash value.
- ***Credit concentration risk:*** The risk of loss to the Bank as a result of excessive build-up of exposure to a specific counterparty or counterparty bank, an industry, market, product, financial instrument or type of security, a country or geography, or a maturity. This concentration typically exists where a number of counterparties are engaged in similar activities and have similar characteristics, which could result in their ability to meet contractual obligations being similarly affected by changes in economic or other conditions.

Market risk

This is the risk of a change in the actual or effective market value or earnings or future cash flows of a portfolio of financial instruments caused by movements in market variables such as equity, bond and commodity prices, currency exchange rates and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of the above.

Liquidity risk

Liquidity risk arises when the Bank is unable to maintain or generate sufficient cash resources to meet its payment obligations as they fall due, or can only do so on materially disadvantageous terms.
This inability to maintain or generate sufficient cash resources occurs when counterparties who provide the Bank with funding withdraw or do not roll over that funding, or as a result of a general disruption in asset markets that renders normally liquid assets illiquid.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Business risk

Business risk is the risk of loss due to operating revenues not covering operating costs and is usually caused by the following:

- inflexible cost structure;
- market-driven pressures, such as decreased demand, increased competition or cost increases and;
- Bank-specific causes, such as a poor choice of strategy, reputational damage or the decision to absorb costs or losses to preserve reputation.

Reputational risk

Reputational risk results from damage to the Bank's image which may impair its ability to retain and generate business. Such damage may result from a breakdown of trust, confidence or business relationships.

Credit risk

Definition

Credit risk is the risk of loss arising out of the failure of counterparties to meet their financial or contractual obligations when due.

Framework and governance

Credit risk is the Bank's most material risk. It is managed in accordance with the Bank's comprehensive risk management control framework.

The Head of Credit has functional responsibility for credit risk across the Bank and reports to the Chief Executive. Furthermore, the credit function is monitored closely by the Standard Bank Africa Credit function, providing an additional layer of review.

The Board Loans Review Committee and the Board Credit Committee have an oversight role over the credit risk management process.

Each borrower (counterparty) is assigned a risk grade using an appropriate rating model. Rating models are used to achieve objectivity, comparability, transparency and consistency in the rating assignment process.

Most of the models take into account quantitative factors, financial statements and qualitative factors. These are combined to produce a stand-alone rating.

The Bank makes use of an internationally comparable rating scale for counterparties. Each performing risk grade is mapped to a probability of default (credit quality) that is used to quantify the credit risk for each borrower. The mappings are shown in the following table:

Rating	Grading	Credit Quality
A-C	Investment grade	Normal monitoring
D	Sub-investment grade	Close monitoring
E	Default	Default

Absolute default probabilities are assigned to risk grades so that the long-run average default rate predicted by a model is the best estimate of the population default rate over the economic cycle.

Credit risk mitigation and hedging

Collateral and guarantees are used by the Bank to mitigate credit risk. The amount and type of credit risk mitigation depends on the circumstances of each counterparty. Credit risk mitigation policies and procedures ensure that credit risk mitigation techniques are used consistently, are acceptable types of mitigation, are valued appropriately and regularly, and meet operational management risk requirements for legal, practical and timely enforceability. These are supported by detailed processes and procedures for the management of each type of mitigation used.

The main types of collateral taken are mortgage bonds over residential, commercial and industrial properties, cession of book debts, bonds over plant and equipment and, for leases and instalment sales, the underlying moveable assets financed.

Guarantees and related legal contracts are often required particularly in support of credit extension to groups of companies and weaker counterparties. Guarantor counterparties include banks, parent companies, shareholders and associated counterparties. Creditworthiness is established for the guarantor as for other counterparty credit approvals.

Analysis of exposure to credit risk

Loans and advances are analysed and categorised based on credit quality using the following definitions:

Performing loans

Neither past due nor specifically impaired loans are loans that are current and fully compliant with all contractual terms and conditions. Normal monitoring loans within this category are generally rated A-C, and close monitoring loans are generally rated D using the Bank's master rating scale. Early arrears but not specifically impaired loans include those loans where the counterparty has failed to make contractual payments and payments are less than 90 days past due, but it is expected that the full carrying value will be recovered when considering future cash flows, including collateral. Ultimate loss is not expected but could occur if the adverse conditions persist.

Non-performing loans

Non-performing loans are those loans for which:

- the Bank has identified objective evidence of default, such as a breach of a material loan covenant or condition, or
- instalments are due and unpaid for 90 days or more.

Non-performing but not specifically impaired loans are not specifically impaired due to the expected recoverability of the full carrying value when considering the recoverability of discontinued future cash flows, including collateral.

Non-performing specifically impaired loans are those loans that are regarded as non-performing and for which there has been a measurable decrease in estimated future cash flows. Specifically impaired loans are further analysed into the following categories:

- Sub-standard: Items that show underlying well-defined weaknesses and are considered to be specifically impaired.
- Doubtful: Items that are not yet considered final losses due to some pending factors that may strengthen the quality of the items.
- Loss: Items that are considered to be uncollectible in whole or in part. The Bank provides fully for its anticipated loss, after taking collateral into account.

The Bank's exposures in terms of creditworthiness, varying from normal monitoring to close monitoring as determined by the internal models and as defined in terms of the Bank's rating scale as at 31 December 2016 are set out in the table below:

Exposure to credit risk by credit quality as at 31 December 2016 (USD'000)

	Non-performing loans						Performing loans					
	Gross loans and advances	Sub-Standard	Doubtful	Loss	Total non-performing loans	Balance sheet impairment for non performing loans	Nominal Monitoring	Close Monitoring	Total "Neither past due nor Impaired"	Past due but not impaired	Total performing loans	Balance sheet impairment for performing loans
Personal and Business Banking-("PBB")												
Home loans	7 058	83	74	-	157	69	6 890	-	6 890	11	6 901	229
Finance leases	13 486	-	97	512	609	360	10 293	2 241	12 534	343	12 877	428
Personal unsecured lending	60 480	619	907	689	2 215	2 199	56 369	1 062	57 431	834	58 265	1 043
Business term loans and overdrafts	82 206	565	636	4 810	6 011	1 895	71 914	313	72 227	3 968	76 195	2 482
Total loans PBB	163 230	1 267	1 714	6 011	8 992	4 523	145 466	3 616	149 082	5 156	154 238	4 182
Corporate and Investment Banking-("CIB")-Corporate loans	134 331	1 431	1 325	1 922	4 678	4 859	128 981	-	128 981	672	129 653	10 511
Total	297 561	2 698	3 039	7 933	13 670	9 382	274 447	3 616	278 063	5 828	283 891	14 693
Less impairments for loans and advances	(24 075)											
Net loans and advances	273 486											

Collateral obtained by the Bank

It is the Bank's policy to dispose of repossessed assets in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. The collateral obtained by the Bank for 2016 amounted to USD129.6 million (2015:USD124 million).

Exposure to credit risk by credit quality as at 31 December 2015 (USD'000)

	Non-performing loans						Performing loans					
	Gross loans and advances	Sub-Standard	Doubtful	Loss	Total non-performing loans	Balance sheet impairment for non performing loans	Nominal Monitoring	Close Monitoring	Total "Neither past due nor Impaired"	Past due but not impaired	Total performing loans	Balance sheet impairment for performing loans
Personal and Business Banking-("PBB")												
Home loans	1 930	-	-	-	-	-	1 930	-	1 930	-	1 930	53
Finance leases	10 456	12	382	166	560	308	8 568	-	8 568	1 328	9 896	270
Personal unsecured lending	63 549	1 251	631	187	2 069	2 017	60 748	-	60 748	732	61 480	1 180
Business term loans and overdrafts	72 911	1 777	894	3 292	5 963	2 229	61 834	4 283	66 117	831	66 948	1 821
Total loans PBB	148 846	3 040	1 907	3 645	8 592	4 554	133 080	4 283	137 363	2 891	140 254	3 324
Corporate and Investment Banking-("CIB")-Corporate loans	123 376	3 563	191	-	3 754	1 196	106 863	8 262	115 125	4 497	119 622	8 876
Total	272 222	6 603	2 098	3 645	12 346	5 750	239 943	12 545	252 488	7 388	259 876	12 200
Less impairments for loans and advances	(17 950)											
Net loans and advances	254 272											

Liquidity risk

Definition

Liquidity risk arises when the Bank is unable to maintain or generate sufficient cash resources to meet its payment obligations as they fall due or can only do so on materially disadvantageous terms. This may be caused by the Bank's inability to liquidate assets or to obtain funding to meet its liquidity needs.

Framework and governance

The Board sets and reviews the liquidity risk governance standard annually in accordance with regulatory requirements, international best practice and the Bank's stated risk appetite. This ensures that a comprehensive and consistent governance framework for liquidity risk management is followed. The Bank has an Asset and Liability Committee ("ALCO") responsible for ensuring compliance with liquidity risk policies. Under the delegated authority of the Board of Directors, ALCO sets liquidity risk standards in accordance with regulatory requirements and international best practice. This ensures that a comprehensive and consistent governance framework for liquidity risk management is followed across the Bank. Furthermore, the Bank's ultimate parent company, The Standard Bank Group Limited runs a Group ALCO function that monitors the various indicators in each country where its subsidiaries operate, thus ensuring a double layer of coverage for ALCO purposes

The tables below analyse the Bank's exposure to interest rate and structural liquidity risks:

31 December 2016 Liquidity gap analysis (USD'000)	Redeemable on demand	Up to 1 month	1-3 months	3-12 months	1 to 5 years	Insensitive portion	Total
Assets							
Cash and cash equivalents	346 700	15 000	43 000	-	-	-	404 700
Derivative assets	-	120	-	-	-	-	120
Financial assets available for sale	-	-	44 706	37 973	-	266	82 945
Loans and advances to customers	170 930	3 888	19 363	41 365	62 015	(24 075)	273 486
Other assets	2 772	3 750	-	-	-	77 751	84 273
Total	520 402	22 758	107 069	79 338	62 015	53 942	845 524
Equity and liabilities							
Derivative liabilities	-	11	-	-	-	-	11
Deposits from customers and other banks	701 817	-	-	-	408	-	702 225
Other liabilities	-	14 867	10 485	3 512	3 512	1 193	33 569
Equity	-	-	-	-	-	109 719	109 719
Total	701 817	14 878	10 485	3 512	3 920	110 912	845 524
Liquidity gap	(181 415)	7 880	96 584	75 826	58 095	(56 970)	
Cumulative liquidity gap	(181 415)	(173 535)	(76 951)	(1 125)	56 970	-	
Off-balance sheet exposures							
Letters of credit	(1 277)	(149)	(250)	(924)	-	-	
Financial guarantees	(103)	-	(10 544)	(3 958)	(838)	-	
Total liquidity gap (on-and off balance sheet)	(182 795)	(173 684)	(87 745)	(6 007)	56 132	-	
Total cumulative liquidity gap	(182 795)	(175 064)	(89 274)	(18 330)	38 927	-	

Other assets include intangible assets, deferred tax assets, investment property and plant and equipment.
Other liabilities include current tax liabilities.

Maturity analysis of assets and liabilities:

The tables below set out the remaining undiscounted contractual maturities of the Bank's assets and liabilities.

31 December 2015 Liquidity gap analysis (USD'000)	Redeemable on demand	Up to 1 month	1-3 months	3-12 months	1 to 5 years	Insensitive portion	Total
Assets							
Cash and cash equivalents	187 910	16 957	31 000	-	-	-	235 867
Derivative assets	-	531	723	-	-	-	1 254
Financial assets available for sale	2 271	17 296	6 452	17 797	24 863	-	68 679
Loans and advances to customers	136 493	23 719	3 080	28 943	79 987	(17 950)	254 272
Other assets	557	637	-	-	-	33 674	34 868
Total	327 231	59 140	41 255	46 740	104 850	15 724	594 940
Equity and liabilities							
Derivative liabilities	-	529	721	-	-	-	1 250
Deposits from customers and other banks	475 963	7 007	897	38	145	-	484 050
Other liabilities	-	7 505	8 650	3 709	1 564	203	21 631
Equity	-	-	-	-	-	88 009	88 009
Total	475 963	15 041	10 268	3 747	1 709	88 212	594 940
Liquidity gap	(148 732)	44 099	30 987	42 993	103 141	(72 488)	
Cumulative on-balance sheet gap	(148 732)	(104 633)	(73 646)	(30 653)	72 488	-	
Off- balance sheet exposures							
Letters of credit	(4 485)	(2 553)	(6 427)	(3 584)	-	-	
Financial guarantees	(1 220)	(1 002)	(2 598)	(6 140)	(1 096)	-	
Total liquidity gap (on-and off balance sheet)	(154 437)	(108 188)	(82 671)	(40 377)	71 392	-	
Total cumulative liquidity gap	(154 437)	(113 893)	(91 931)	(58 662)	43 383	-	

Other assets include intangible assets, deferred tax assets, investment property and plant and equipment.
Other liabilities include current tax liabilities.

Foreign currency liquidity management

A number of parameters are observed in order to monitor changes in either market liquidity or exchange rates. The use of the USD as the primary functional currency in Zimbabwe means that significant foreign currencies to the Bank are the South African Rand ("ZAR"), the Euro and the Pound sterling. These three foreign currencies (and other minor ones) contribute 3% (2015:2%) of the overall balance sheet size as depicted below and thus do not pose a significant forex liquidity risk to the Bank:

Statement of financial position by currency as at 31 December 2016	Total USD'000	USD USD'000	ZAR USD'000	EURO USD'000	GBP USD'000	Other USD'000
Assets						
Cash and cash equivalents	404 700	384 135	17 976	1 521	586	482
Derivative assets	120	120	-	-	-	-
Financial assets available for sale	82 945	82 945	-	-	-	-
Loans and advances to customers	273 486	273 483	3	-	-	-
Deferred tax	4 739	4 739	-	-	-	-
Other assets	6 933	6 480	142	57	6	248
Intangible assets	26 469	26 469	-	-	-	-
Investment property	5 964	5 964	-	-	-	-
Property and equipment	40 168	40 168	-	-	-	-
Total assets	845 524	824 503	18 121	1 578	592	730
Equity and liabilities						
Equity	109 719	109 719	-	-	-	-
Ordinary share capital	260	260	-	-	-	-
Ordinary share premium	10 790	10 790	-	-	-	-
Reserves	98 669	98 669	-	-	-	-
Liabilities	735 805	710 984	21 335	1 670	644	1 172
Derivative liabilities	11	11	-	-	-	-
Total deposits	702 225	679 721	19 377	1 508	537	1 082
Deposits from other banks	1 478	605	-	-	-	873
Deposits from customers	700 747	679 116	19 377	1 508	537	209
Current income tax liabilities	1 032	1 032	-	-	-	-
Other liabilities	32 537	30 220	1 958	162	107	90
Total equity and liabilities	845 524	820 703	21 335	1 670	644	1 172
Currency gap	-	3 800	(3 214)	(92)	(52)	(442)
Currency size as % of overall statement of financial position	100%	97%	3%	0%	0%	0%

Statement of financial position by currency as at 31 December 2015	Total USD'000	USD USD'000	ZAR USD'000	EURO USD'000	GBP USD'000	Other USD'000
Assets						
Cash and cash equivalents	235 867	224 837	6 908	2 719	998	405
Derivative assets	1 254	1 254	-	-	-	-
Financial assets available for sale	68 679	68 679	-	-	-	-
Loans and advances to customers	254 272	254 268	4	-	-	-
Deferred tax	2 608	2 608	-	-	-	-
Other assets	2 879	2 875	4	-	-	-
Intangible assets	1 332	1 332	-	-	-	-
Investment property	3 590	3 590	-	-	-	-
Property and equipment	24 459	24 459	-	-	-	-
Total assets	594 940	583 902	6 916	2 719	998	405
Equity and liabilities						
Equity	88 009	88 009	-	-	-	-
Ordinary share capital	260	260	-	-	-	-
Ordinary share premium	10 790	10 790	-	-	-	-
Reserves	76 959	76 959	-	-	-	-
Liabilities	506 931	495 508	7 731	2 694	823	175
Derivative liabilities	1 250	1 250	-	-	-	-
Total deposits	484 050	472 979	7 494	2 625	784	168
Deposits from other banks	10 384	8 522	819	879	83	81
Deposits from customers	473 666	464 457	6 675	1 746	701	87
Current income tax liabilities	642	642	-	-	-	-
Other liabilities	20 989	20 637	237	69	39	7
Total equity and liabilities	594 940	583 517	7 731	2 694	823	175
Currency gap	-	385	(815)	25	175	230
Currency size as % of overall statement of financial position	100%	98%	1%	1%	0%	0%

Market risk

The identification, measurement, control and reporting of market risk is categorised as follows:

Trading market risk

These risks arise in trading activities where the Bank acts as a principal with clients in the market. The Bank's policy is that all trading activities are contained in the Bank's trading operations.

Banking book interest rate risk

These risks arise from the structural interest rate risk caused by the differing repricing characteristics of banking assets and liabilities.

Interest rate risk measurement

The analytical techniques used to quantify banking book interest rate risk include both earnings and valuation-based measures. Results are monitored on at least a monthly basis by ALCO. The analysis takes cognisance of embedded optionality such as loan prepayments and accounts where the account behaviour differs from the contractual position. Desired changes to a particular interest rate risk profile are achieved through the restructuring of on-balance sheet repricing and/or maturity profiles and, where appropriate, the use of derivative instruments.

Interest rate risk limits

Interest rate risk limits are set with respect to changes in forecast banking book earnings (net interest income and banking book mark-to-market profit or loss) and the economic value of equity. All assets, liabilities and derivative instruments are allocated to time bands based on either their repricing or maturity characteristics. Assets and liabilities for which no identifiable contractual repricing or maturity dates exist are allocated to time bands based on behavioural profiling (obtained through statistical analysis and, if required, expert judgement).

Annual net interest income at risk

Assuming no management intervention, a downward 75bps parallel rate shock on all yield curves would decrease the forecast net interest income based on balances as at 31 December 2016 by 8.33% (2015:1.47%). The table below indicates the USD equivalent sensitivity of the Bank's banking book earnings (net interest income and banking book mark-to-market profit or loss) and OCI in response to a parallel yield curve shock, before tax.

Interest rate sensitivity analysis

	USD'000
2016	
Increase in basis points	75
Sensitivity of annual net interest income	2 374
Sensitivity of OCI	-
Decrease in basis points	75
Sensitivity of annual net interest income	(2 927)
Sensitivity of OCI	-
2015	
Increase in basis points	75
Sensitivity of annual net interest income	880
Sensitivity of OCI	-
Decrease in basis points	75
Sensitivity of annual net interest income	(554)
Sensitivity of OCI	-

31 December 2016 Interest rate repricing gap analysis (USD'000)	Redeemable on demand	Up to 1 month	1-3 months	3-12 months	>1 year	Non-interest bearing	Total
Assets							
Cash and cash equivalents	-	42 831	43 000	-	-	318 869	404 700
Derivative assets	-	-	-	-	-	120	120
Financial investments	-	38 971	3 099	35 669	-	5 206	82 945
Loans and advances to customers	-	282 655	456	2 618	-	(12 243)	273 486
Other assets	-	-	-	-	-	84 273	84 273
Total	-	364 457	46 555	38 287	-	396 225	845 524
Equity and liabilities							
Derivative liabilities	-	-	-	-	-	11	11
Deposits from customers and other banks	-	171 974	-	541	-	529 710	702 225
Other liabilities	-	-	-	-	-	33 569	33 569
Equity	-	-	-	-	-	109 719	109 719
Total	-	171 974	-	541	-	673 009	845 524
Interest rate repricing gap	-	192 483	46 555	37 746	-	(276 784)	
Cumulative interest rate repricing gap	-	192 483	239 038	276 784	276 784	-	

Other assets include intangible assets, deferred tax assets, investment property and plant and equipment.
Other liabilities include current tax liabilities.

The tables below analyse the Bank's exposure to interest rate and structural liquidity risks:

31 December 2015 Interest rate repricing gap analysis (USD'000)	Redeemable on demand	Up to 1 month	1-3 months	3-12 months	>1 year	Non-interest bearing	Total
Assets							
Cash and cash equivalents	18 255	16 956	31 000	-	-	169 656	235 867
Derivative assets	-	-	-	-	-	1 254	1 254
Financial assets available for sale	-	17 296	6 452	17 797	24 863	2 271	68 679
Loans and advances to customers	121 997	107 388	1 072	3 800	25 619	(5 604)	254 272
Other assets	-	-	-	-	-	34 868	34 868
Total	140 252	141 640	38 524	21 597	50 482	202 445	594 940
Equity and liabilities							
Derivative liability	-	-	-	-	-	1 250	1 250
Deposits from customers and other banks	172 089	7 014	897	38	145	303 867	484 050
Other liabilities	-	-	-	-	-	21 631	21 631
Equity	-	-	-	-	-	88 009	88 009
Total	172 089	7 014	897	38	145	414 757	594 940
Interest rate repricing gap	(31 837)	134 626	37 627	21 559	50 337	(212 312)	
Cumulative interest rate repricing gap	(31 837)	102 789	140 416	161 975	212 312	-	

Other assets include intangible assets, deferred tax assets, investment property and plant and equipment.
Other liabilities include current tax liabilities

Market risk measurement

The techniques used to measure and control market risk include:

- Daily value-at-risk ("VaR"); and
- Stress tests.

Daily VaR

The Bank uses the historical VaR approach to derive quantitative measures, specifically for market risk under normal conditions. Normal VaR is based on a holding period of one day and a confidence interval of 95%. The use of historical VaR has limitations as it is based on historical correlations and volatilities in market prices and assumes that future prices will follow the observed historical distribution.

The Bank back-tests its VaR models to verify the predictive ability of the VaR calculations, thereby ensuring the appropriateness of models. Back-testing compares the daily hypothetical profits or losses under the one-day buy and hold assumption to the prior day's VaR.

Stress tests

Stress testing provides an indication of the potential losses that could occur in extreme market conditions. The stress tests carried out by the Bank include individual market risk factor testing and combinations of market factors per trading desk and combinations of trading desks. Stress tests include a combination of historical and hypothetical simulations.

Other market risk measures

Other market risk measures specific to individual business units include permissible instruments, concentration of exposures, gap limits, maximum tenor and stop loss triggers. In addition, all approved products that can be independently priced and properly processed are permitted to be traded. All VaR limits are approved by both in-country and The Standard Bank Group Limited ALCOs.

The Risk Department independently validates and documents new pricing models and performs an annual review of existing models to ensure they are still relevant and behaving within expectations. In addition, the Risk Department assesses the liquid closing price inputs used to value instruments daily and performs at least a monthly review of less liquid prices from a reasonableness perspective. Where differences are significant, mark-to-market adjustments are made.

Foreign currency risk

The Bank's primary exposures to foreign currency risk arise as a result of cash exposures in currencies other than the functional currency. These exposures mainly arise from the proprietary currency trading business undertaken by the Bank's Global Markets Department and are measured using the value-at-risk approach. Market risk is managed in accordance with the comprehensive risk governance standard, with oversight from the Bank's ALCO.

Foreign currency value at risk for December 2016

	Maximum possible loss in December 2016 USD'000	Minimum possible loss in December 2016 USD'000	Average possible loss USD'000	Possible loss at 31 December 2016 USD'000	Maximum acceptable VaR loss USD'000
Normal VaR	2.08	0.79	1.4	1.45	23
Stress VaR	6.44	0.56	3.76	4.96	119

As depicted in the table above, historical trading data for the foreign currency business indicates that the maximum possible loss for any one day's trading in 2016 was USD2 080 (2015:USD2 980), and the minimum possible loss was USD790 (2015:USD1 350), with an average possible loss of USD1 400 (2015:USD2 030) in comparison to the maximum acceptable possible loss of USD23 000 (2015:USD12 000).

Interest rate risk limits

Interest rate risk limits are set with respect to changes in forecast banking book earnings (net interest income and banking book mark-to-market profit or loss) and the economic value of equity. All assets, liabilities and derivative instruments are allocated to time bands based on either their repricing or maturity characteristics. Assets and liabilities for which no identifiable contractual repricing or maturity dates exist are allocated to time bands based on behavioural profiling (obtained through statistical analysis and, if required, expert judgement).

Operational risk

Approach and responsibility for operational risk management and oversight

The Bank's Operational Risk Management ("ORM") framework is articulated in the Bank's compliance manuals which define a common framework for the management of all operational risks. The Bank's ORM framework is designed to be fit-for-purpose. In developing the framework, the Bank has embraced principles that meet and often exceed regulatory requirements. The framework, together with policies and methodologies, ensures a consistent approach to the identification, assessment and monitoring of operational risk across the Bank. In addition, the Board considers operational risk at every meeting, either as a specific agenda item or through the review of the minutes of lower-level operational risk committee.

An independent review of the Bank's ORM framework is also performed by the Internal Audit Department to ensure that operational risk practices are embedded as ORM matures.

Compliance risk

Approach to compliance risk management

The Bank's approach to managing compliance risk exposures is proactive and premised on internationally accepted principles of risk management and aligned with the methodologies used by the Bank's other risk assurance functions. Bank Compliance provides leadership on compliance with money laundering and terrorist financing control, occupational health and safety and emerging legislative developments. In line with international best practice, responsibility for compliance remains with executive management. To support the Bank's approach to compliance risk management, ongoing monitoring takes place to ensure adherence to the Bank compliance policy and standards.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

		31 December 2016 USD'000	31 December 2015 USD'000
1	**Cash and cash equivalents**		
	Bank notes	10 886	23 002
	Balances with the Central Bank	302 727	146 653
	Balances with other banks	91 087	66 212
		404 700	235 867
	Current	404 700	235 867

Balances with the Central Bank and foreign banks are used to facilitate customer transactions which include payments and cash withdrawals. During the year the Central Bank through Exchange Control Operational Guide 8 ("ECOGAD8") introduced prioritisation criteria which has to be followed when making foreign payments for customers. After prioritisation foreign payments are then made subject to availability of bank balances with foreign correspondent banks, resulting in a possible delay of payment of telegraphic transfers. However, no such delay is experienced in the settlement of local transactions through the Real Time Gross Settlement system.

2 Derivative instruments

The Bank's derivatives are classified as held for trading.

Fair values

The fair value of a derivative financial instrument represents for quoted instruments the quoted market price and for unquoted instruments the present value of the positive or negative cash flows, which would have occurred if the rights and obligations arising from that instrument were closed out in an orderly market place transaction at year end.

Use and measurement

The Bank entered into derivative transactions for trading purposes during the years ended 31 December 2016 and 31 December 2015. The derivatives used by the Bank are foreign exchange contracts. Foreign exchange contracts are contractual obligations to buy or sell financial instruments on a future date at a specified price.

The Bank trades derivative instruments on behalf of customers and for its own positions. The Bank transacts derivative contracts to address customer demand both as market maker in the wholesale markets and in structuring tailored derivatives for customers.

		Fair value of assets 31 December 2016 USD'000	Fair value of assets 31 December 2015 USD'000
2.1	**Derivative assets**		
	Derivatives held for trading		
	Foreign exchange contracts	120	1 254
	Maturity analysis of net fair value		
	Up to 1 month	120	531
	More than 1 month but within 1 year	-	723
		120	1 254

		Fair value of liabilities 31 December 2016 USD'000	Fair value of liabilities 31 December 2015 USD'000
2.2	**Derivative liabilities**		
	Derivatives held for trading		
	Foreign exchange contracts	(11)	(1 250)
	Maturity analysis of net fair value		
	Up to 1 month	(11)	(529)
	More than 1 month but within 1 year	-	(721)
		(11)	(1 250)

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

		31 December 2016 USD'000	31 December 2015 USD'000
3	**Financial assets available for sale**		
	Balance at the beginning of the year	68 679	28 103
	Additions	45 984	66 993
	Accrued interest	3 836	2 271
	Total disposals	(35 959)	(28 541)
	Disposals	(35 094)	(27 788)
	Interest received	(865)	(753)
	Gain/(loss) from changes in fair value	405	(147)
	Balance at the end of the year	82 945	68 679
	Current	82 945	43 816
	Non-current	-	24 863
		82 945	68 679

Available for sale financial assets include treasury bills and AFTRADE bonds. None of these financial assets are past due or impaired.

		31 December 2016 USD'000	31 December 2015 USD'000
4	**Loans and advances**		
4.1	**Loans and advances net of impairment**		
	Loans and advances to customers		
	Gross loans and advances to customers net of interest in suspense	297 561	272 222
	Finance leases (note 4.2)	22 924	15 941
	Overdrafts and other demand lending	150 515	129 900
	Term lending	117 064	124 451
	Home loans	7 058	1 930
	Credit impairments for loans and advances (note 4.3)	(24 075)	(17 950)
	Specific impairment allowances	(9 382)	(5 750)
	Portfolio impairment allowances	(14 693)	(12 200)
	Net loans and advances	273 486	254 272
	Comprising:		
	Gross loans and advances	297 561	272 222
	Less: credit impairment allowances	(24 075)	(17 950)
		273 486	254 272
	Current	235 546	192 235
	Non-current	37 940	62 037
		273 486	254 272
	Maturity analysis:		
	The maturities represent periods to contractual redemption of the loans and advances recorded:		
	Maturing within 1 year	235 546	192 235
	Maturing after 1 year but within 5 years	35 603	65 133
	Maturing over 5 years	26 412	14 854
		297 561	272 222

	31 December 2016 USD'000	31 December 2016 %	31 December 2015 USD'000	31 December 2015 %
Sectoral analysis-industry				
Individuals	70 562	24%	68 422	25%
Agriculture	56 481	19%	51 127	19%
Other services	40 966	14%	22 816	8%
Manufacturing	37 577	13%	34 808	13%
Wholesale distribution	33 982	11%	30 758	11%
Mining	28 839	10%	34 642	13%
Communications	12 689	4%	16 915	6%
Construction	12 099	4%	7 611	3%
Transport	3 360	1%	4 420	2%
Finance	1 006	0%	703	0%
	297 561	100%	272 222	100%

		31 December 2016 USD'000	31 December 2015 USD'000
4.2	**Finance leases**		
	Gross investment in instalment sale and finance leases	25 644	17 215
	Receivable within 1 month	3 241	2 609
	Receivable after 1 month but within 6 months	6 813	5 582
	Received after 6 months but within 12 months	4 379	4 312
	Receivable between 1 - 5 years	11 211	4 712
	Unearned finance charges	(2 720)	(1 274)
	Net investment in finance leases	22 924	15 941
	1 year	12 882	11 619
	1 - 5 years	10 042	4 322
		22 924	15 941

4.3 Credit impairments for loans and advances to customers

A reconciliation of the allowance for impairment losses for loans and advances to customers by class:

	Home loans USD'000	Finance leases USD'000	Overdrafts USD'000	Medium term loans USD'000	Total USD'000
Year ended 31 December 2016					
Non-performing loans					
Balance as at the beginning of the year	-	307	3 478	1 965	5 750
Impaired loans written off	-	(145)	(450)	(1 644)	(2 239)
Net impairment charge for the year	69	197	3 804	1 801	5 871
Balance as at end of the year	69	359	6 832	2 122	9 382
Performing loans					
Balance as at the beginning of the year	53	730	7 434	3 983	12 200
Net impairment charge for the year	176	502	1 282	533	2 493
Balance as at end of the year	229	1 232	8 716	4 516	14 693
Total (performing and non-performing loans)	298	1 591	15 548	6 638	24 075
Year ended 31 December 2015					
Non-performing loans					
Balance as at the beginning of the year	-	301	5 962	2 846	9 109
Impaired loans written off	-	(117)	(3 521)	(2 554)	(6 192)
Net impairment charge	-	123	1 037	1 673	2 833
Balance as at end of the year	-	307	3 478	1 965	5 750
Performing loans					
Balance as at the beginning of the year	-	225	4 441	3 537	8 203
Net impairment charge for the year	53	505	2 993	446	3 997
Balance at the end of the year	53	730	7 434	3 983	12 200
Total (performing and non-performing loans)	53	1 037	10 912	5 948	17 950

	31 December 2016 USD'000	31 December 2015 USD'000
Sectoral analysis of impairment for non-performing loans – industry		
Agriculture	73	1 044
Manufacturing	2 597	597
Individual	2 462	2 018
Transport	225	169
Other services	733	791
Mining	1 334	9
Distribution	688	1 122
Communication	1 268	-
Construction	2	-
	9 382	5 750

		31 December 2016 USD'000	31 December 2015 USD'000
5	**Share capital**		
5.1	**Authorised share capital**		
	500 000 ordinary shares with a nominal value of USD1 each	500	500
5.2	**Issued share capital**		
	260 000 ordinary shares with a nominal value of USD1 each	260	260
	Unissued shares		
	240 000 (2015:240 000) ordinary shares with a nominal value of USD1 each of which 240 000 (2015:240 000) are under the general authority of the directors.		
6	**Share premium and reserves**		
6.1	**Share premium**		
	Share premium on issue of shares	10 790	10 790
6.2	**Reserves**		
	Non-distributable reserve	3 149	3 149
	Statutory credit impairment reserve	818	818
	Available for sale reserve	197	(104)
	Share-based payments reserve	361	242
	Retained earnings	94 144	72 854
		98 669	76 959
7	**Deposits and current accounts**		
	Deposits from other banks	1 478	10 384
	Deposits from customers	700 747	473 666
	Current accounts	580 279	303 640
	Call deposits	108 370	147 768
	Term deposits	649	1 610
	Savings accounts	11 449	20 648
	Deposits and current accounts	702 225	484 050
	Current	701 818	483 905
	Non-current	407	145
		702 225	484 050

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8 CLASSIFICATION OF FINANCIAL INSTRUMENTS

	Held for trading USD'000	At fair value through profit or loss USD'000	Held to maturity USD'000	Loans and receivables USD'000	Available-for-sale USD'000	Financial instruments measured at amortised costs USD'000	Total carrying amount USD'000	Fair value USD'000
31 December 2016								
Financial assets								
Cash and cash equivalents	-	-	-	-	-	404 700	404 700	404 700
Derivative assets	120	-	-	-	-	-	120	120
Financial assets available for sale	-	-	-	-	82 945	-	82 945	82 945
Loans and advances to customers	-	-	-	273 486	-	-	273 486	273 486
Other assets	-	-	-	6 522	-	-	6 522	6 522
	120	-	-	280 008	82 945	404 700	767 773	767 773
Financial liabilities								
Derivative liabilities	11	-	-	-	-		11	11
Deposits from other banks	-	-	-	-	-	1 478	1 478	1 478
Deposits from customers	-	-	-	-	-	700 747	700 747	700 747
Other liabilities	-	-	-	-	-	23 463	23 463	23 463
	11	-	-	-	-	725 688	725 699	725 699

Other assets excludes prepayments and stationery as this analysis is only required for financial instruments.
Other liability excludes current income tax liabilities.

	Held for trading USD'000	At fair value through profit or loss USD'000	Held to maturity USD'000	Loans and receivables USD'000	Available-for-sale USD'000	Financial instruments measured at amortised costs USD'000	Total carrying amount USD'000	Fair value USD'000
31 December 2015								
Financial assets								
Cash and cash equivalents	-	-	-	-	-	235 867	235 867	235 867
Derivative assets	1 254	-	-	-	-	-	1 254	1 254
Financial assets available for sale	-	-	-	-	68 679	-	68 679	68 679
Loans and advances to customers	-	-	-	254 272	-	-	254 272	254 272
Other assets	-	-	-	2 354	-	-	2 354	2 354
	1 254	-	-	256 626	68 679	235 867	562 426	562 426
Financial liabilities								
Derivative liabilities	1 250	-	-	-	-	-	1 250	1 250
Deposits from other banks	-	-	-	-	-	10 384	10 384	10 384
Deposits from customers	-	-	-	-	-	473 666	473 666	473 666
Other liabilities	-	-	-		-	12 015	12 015	12 015
	1 250	-	-	-	-	496 065	497 315	497 315

Other assets excludes prepayments and stationery as this analysis is only required for financial instruments.
Other liability excludes current income tax liabilities.

9 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Bank's assets and liabilities that are measured at fair value at 31 December 2016.

Assets	Note	Fair values USD'000	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Valuation techniques and inputs
Financial assets held for trading						
Derivative assets						
– Foreign exchange contracts	2	120	-	120	-	Exchange rate
Available-for-sale financial assets						
Financial assets available for sale	3	82 945	-	-	82 945	Discounted cash flows
Investment property		5 964	-	-	5 964	Sales comparison method, market rentals and yields
Freehold property		17 247	-	-	17 247	Sales comparison method, market rentals and yields
Total assets		106 276	-	120	106 156	
Liabilities						
Financial liabilities held for trading						
Derivative liabilities						
– Foreign exchange contracts	2	11	-	11	-	Exchange rate
Total liabilities		11	-	11	-	

The following table presents the Bank's assets and liabilities that are measured at fair value at 31 December 2015.

Assets	Note	Fair values USD'000	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Valuation techniques and inputs
Financial assets held for trading						
Derivative assets						
– Foreign exchange contracts	2	1 254	-	1 254	-	Exchange rate
Available-for-sale financial assets						
Financial assets available for sale	3	68 679	-	-	68 679	Discounted cash flows
Investment property		3 590	-	-	3 590	Sales comparison method, market rentals and yields
Freehold property		15 982	-	-	15 982	Sales comparison method, market rentals and yields
Total assets		89 505	-	1 254	88 251	
Liabilities						
Financial liabilities held for trading						
Derivative liabilities						
– Foreign exchange contracts	2	1 250	-	1 250	-	Exchange rate
Total liabilities		1 250	-	1 250	-	

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in level 3 of the fair value hierarchy:

Reconciliation of level 3 items	2016 Investment property USD'000	2016 Freehold property USD'000	2016 Total assets USD'000	2015 Investment property USD'000	2015 Freehold property USD'000	2015 Total assets USD'000
Balance at 1 January	3 590	15 982	19 572	3 770	16 196	19 966
Additions	3 034	467	3 501	-	857	857
Transfers into level 3	-	798	798	-	257	257
Transfers out of level 3	(660)	-	(660)	-	-	-
Gains or losses for the period						
Included in profit or loss	-	-	-	(180)	(453)	(633)
Recognised in other comprehensive income	-	-	-	-	(875)	(875)
Balance at 31 December	5 964	17 247	23 211	3 590	15 982	19 572

Reconciliation of level 3 items	2016	2015
Financial assets available for sale		
Balance at 1 January	68 679	28 103
Additions	45 984	66 993
Transfers into level 3	-	-
Transfers out of level 3	(35 959)	(28 541)
Gains or losses for the period		
Included in profit or loss	3 836	2 271
Recognised in other comprehensive income	405	(147)
Balance at 31 December	82 945	68 679

The table below shows the fair value of financial instruments not measured at fair value as at 31 December 2016:

	Note	Fair values USD'000	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000
Assets					
Financial assets measured at amortised cost					
Cash and cash equivalents	1	404 700	404 700	-	-
Loans and advances to customers	4.1	273 486	-	-	273 486
Other assets		6 522	-	-	6 522
Total assets		684 708	404 700	-	280 008
Liabilities					
Financial liabilities measured at amortised cost					
Deposits from other banks	7	1 478	-	1 478	-
Deposits from customers	7	700 747	700 667	-	80
Other liabilities		23 463	-	-	23 463
Total liabilities		725 688	700 667	1 478	23 543

The table below shows the fair value of financial instruments not measured at fair value as at 31 December 2015:

	Note	Fair values USD'000	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000
Assets					
Financial assets measured at amortised cost					
Cash and cash equivalents	1	235 867	235 867	-	-
Loans and advances to customers	4.1	254 272	-	-	254 272
Other assets		2 354	-	-	2 354
Total assets		492 493	235 867	-	256 626
Liabilities					
Financial liabilities measured at amortised cost					
Deposits from other banks	7	10 384	-	10 384	-
Deposits from customers	7	473 666	472 058	-	1 608
Other liabilities		12 015	-	-	12 015
Total liabilities		496 065	472 058	10 384	13 623

10.2 Commitments

10 Contingent liabilities and commitments

10.1 The Bank had written letters of credit and guarantees amounting to USD18 million as at 31 December 2016 (2015:USD29.1 million). The amount of these letters of credit and guarantees represents the Bank's maximum exposure and no material losses are anticipated from these transactions.

		31 December 2016 USD'000	31 December 2015 USD'000
10.2	**Commitments**		
	As at 31 December 2016 the contractual amounts of the Bank's commitments that commits it to engage in capital expenditure or to extend credit to its customers were as follows:		
10.2.1	**Capital commitments**		
	Capital expenditure authorised but not yet contracted	13 470	12 608
	Capital expenditure authorised and contracted	-	25 016
		13 470	37 624
	The expenditure will be funded from internal resources.		
10.2.2	**Loan commitments**	51 561	45 083
11	**Directors' emoluments and key management compensation**		
	Non-executive directors' emoluments		
	Emoluments of directors in respect of services rendered (included in operating expenses):		
	As directors of the company	252	315
	Key management compensation		
	Key management includes executive directors and other members of the Bank's executive committee- included in staff costs		
	Short term employee benefits	4 081	3 846
	Other long term benefits	-	-
	Post employment benefits	234	221
		4 315	4 067

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12 Related party disclosures

12.1 Controlling entity

The Bank is a wholly owned subsidiary of The Standard Bank Group Limited. The Standard Bank Group Limited is also a shareholder in various banks outside Zimbabwe. Stanbic Bank Zimbabwe Limited does banking business with banks in The Standard Bank Group, all of which are undertaken on arms length.

	31 December 2016 USD'000	31 December 2015 USD'000
12.1.1 Amounts due from related parties:		
12.1.1.(a) Related through common shareholding		
Stanbic Bank Botswana Limited	205	28
Stanbic Bank Malawi	1	2
Stanbic Bank Kenya Limited	1	1
Stanbic Bank Zambia Limited	2	2
Standard Bank South Africa Limited	8 527	3 265
	8 736	3 298

The above list of financial institutions are related parties to Stanbic Bank Zimbabwe because they are subsidiaries of The Standard Bank Group, the parent company of the Bank. The above transactions are entered into in the normal course of business, under terms that are no more favourable than those arranged with customers. The balances are unsecured and no guarantees have been received and cash consideration is not provided in settlement.

	31 December 2016 USD'000	31 December 2015 USD'000
12.1.1.(b) Related through shareholding in the parent company		
Industrial and Commercial Bank of China	26	32
12.1.2 Transactions		
Interest income from:		
Standard Bank South Africa Limited	17	16
12.1.3 Group recharges	4 836	2 346
12.2 Loans and advances and deposits and loans with related parties-related through common directorship		
Loans and advances		
Total	1 424	1 725
Deposits		
Total	3 937	4 451

13 Capital management

The Bank's capital management framework is designed to ensure that the Bank is capitalised in a manner consistent with the Bank's risk profile, regulatory standards and economic capital standards. The Bank holds capital in excess of the minimum requirements to achieve the target capital adequacy ratios set by management and regulators.

The Bank's objectives when managing capital are to:

- comply with the capital requirements set by the banking regulators
- safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits to customers and other stakeholders, and;
- maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on guidelines developed by the Basel Committee as implemented by the Reserve Bank of Zimbabwe for supervisory purposes. The Reserve Bank of Zimbabwe requires each bank to maintain a minimum capital adequacy ratio of 12%. The table below summarises the composition of regulatory capital and the Bank's capital adequacy ratio:

Capital adequacy	31 December 2016 USD'000	31 December 2015 USD'000
Ordinary paid up share capital	260	260
Share premium	10 790	10 790
Retained earnings	94 144	72 854
Market and operational risk	(5 970)	(5 812)
Reserves	2 583	2 163
Tier 1 capital	101 807	80 255
Revaluation reserve	1 942	1 942
General provisions (limited to 1.25% of risk weighted assets)	6 108	5 071
Tier 2 capital	8 050	7 013
Market risk	390	535
Operational risk	5 580	5 277
Tier 3 capital	5 970	5 812
Total Tier 1 and 2 capital	109 857	87 268
Tier 3	5 970	5 812
Total capital base	115 827	93 080
Risk weighted assets ("RWAs")	414 015	332 998
Operational risk equivalent assets	69 752	65 960
Market risk equivalent assets	4 872	6 691
Total risk weighted assets ("RWAs")	488 639	405 649
Tier 1 capital ratio	21%	20%
Tier 1 and 2 capital ratio	22%	22%
Tier 1, 2 and Tier 3 capital ratio	24%	23%
Capital adequacy ratio excluding market and operational risk weighted assets	24%	23%

14 Custodial services

The Bank provides custodial trust services to individuals and institutions by holding assets (mainly share certificates) on behalf of customers. As at 31 December 2016, funds under custody amounted to USD1.1 billion (2015: USD818 million) and fee income amounting to USD2.1 million (2015: USD 2.1 million) had been received in return for these services.

15 Dividend declaration

In view of the expected negative impact of the IFRS 9 Financial Instruments financial reporting standard which will be effective on 1 January 2018, no dividend has been proposed for the year ended 31 December 2016.

16 External Credit Ratings

The Bank's external credit ratings as determined by the Global Credit Rating Company ("GCR") for the past five years are summarised below:

Rating scale	2016	2015	2014	2013	2012
Long term	AA-	AA-	AA-	AA-	AA-

17 CAMELS RATINGS

The Reserve Bank of Zimbabwe ("RBZ") conducted a full scope onsite examination from 28 July to 20 August 2014 and the Bank achieved the highest possible rating i.e. a CAMELS rating of 1. The CAMELS rating uses a rating scale of 1-5 where 1 is strong, 2 is satisfactory, 3 is fair, 4 is weak and 5 is critical. Hence according to these results, the Bank maintained its strong position as measured by the CAMELS rating.

18 RISK ASSESSMENT SYSTEM ("RAS")

The most recent RAS ratings risk matrix assigned by the Reserve Bank of Zimbabwe is summarised in the table below:

SUMMARY RAS – RATINGS

RAS COMPONENT	JULY 2014
Overall Inherent Risk	Low
Overall Risk Management System	Strong
Overall Composite Risk	Low
Direction of Overall Composite Risk	Stable

18.1 SUMMARY RISK MATRIX FORMAT

Type of Risk	Level of inherent risk	Adequacy of risk management systems	Overall composite risk	Direction of overall composite risk
Credit	Moderate	Acceptable	Moderate	Stable
Liquidity	Low	Strong	Low	Stable
Interest Rate	Low	Strong	Low	Stable
Foreign exchange	Low	Strong	Low	Stable
Operational risk	Moderate	Strong	Moderate	Stable
Legal & Compliance	Moderate	Acceptable	Moderate	Stable
Strategic risk	Low	Strong	Low	Stable
Reputation	Low	Strong	Low	Stable
Overall	Acceptable	Acceptable	Moderate	Stable

18.2 KEY

Low -reflects a lower than average probability of an adverse impact on a banking institution's capital and earnings. Losses in afunctional 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 risk profile of the banking institution. Institution's risk management systems are lacking in important ways and therefore a cause of more than normal supervisory attention. The internal control systems will be lacking in important aspects particularly as indicated by continued control exceptions or by the failure to adhere to written policies and procedures.

Acceptable – management of risk is largely effective but lacking to some modest degree. While the institution might be having some minor risk management weaknesses, these have been recognised and are being addressed. Management information systems are generally adequate.

Strong – management effectively identifies and controls all types of risk posed by the relevant functional areas or per inherent risk. The board and senior management are active participants in managing risk and ensure appropriate polices and limits are put in place. The policies comprehensively define the bank's risk tolerance, responsibilities and accountabilities are effectively communicated.

Overall Composite Risk

Low – would be assigned to low inherent risk areas. Moderate risk areas may be assigned a low composite risk where internal controls and risk management systems are strong and effectively mitigate much of the risk.

Moderate – risk management systems appropriately mitigates inherent risk. For a given low risk area, significant weaknesses in the risk management systems may result in a moderate composite risk assessment. On the other hand, a strong risk management system may reduce the risk so that any potential financial loss from the activity would have only a moderate negative impact on the financial condition of the organisation.

High – risk management systems do not significantly mitigate the high inherent risk. Thus, the activity could potentially result in a financial loss that would have a significant impact on the bank's overall condition.

Direction of Overall Composite risk

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