STANBIC BANK ZIMBABWE

Annual report 2018

Standard Bank Moving Forward™

Contents

Who we are

An African-focused, client centric, digitally enabled universal financial services organisation.

DIVERSIFIED UNIVERSAL FINANCIAL SERVICES OFFERING PROVIDING CLIENT SOLUTIONS

Personal & Business Banking

Banking and other financial services to individual clients and small- to medium-sized enterprises

Corporate & Investment Banking

Corporate and Investment banking services to clients including, governments, parastatals, larger corporates, financial institutions and multinational corporates.

Corporate Functions

Our support functions ensure efficiencies in processes to enhance the client experience thereby providing customer satisfaction.

19 Branches

32 ATMs

670 Employees

Mobile Banking

Online Banking

2018 Awards & Recognition

Best Bank in Zimbabwe
EMEA Finance African Banking Awards

Our strategy

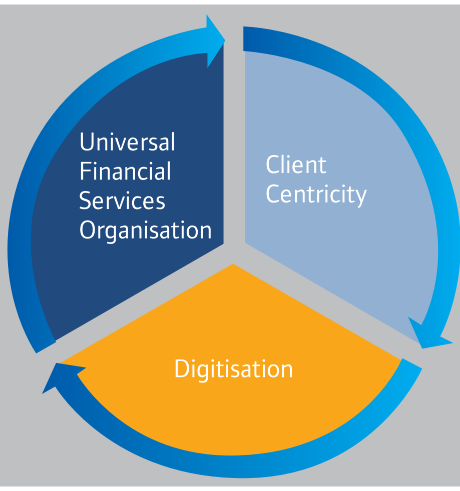
OUR PURPOSE

Africa is our home,
we drive her growth

OUR VISION

To be the leading financial services organisation in, for and across Africa, delivering exceptional client experiences and superior value

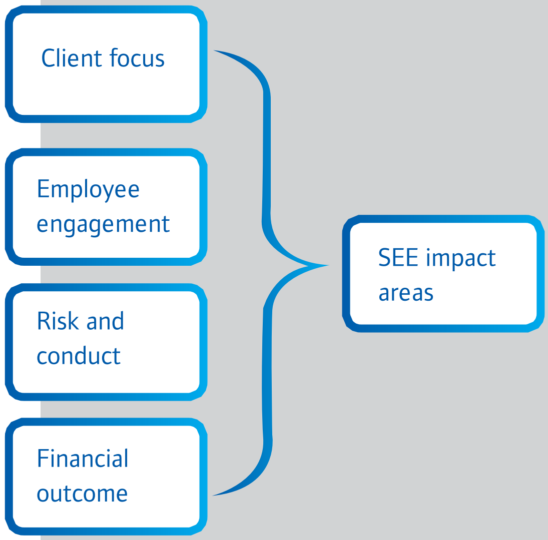
OUR KEY FOCUS AREAS



OUR VALUES

- Being proactive
- Growing our people
- Constantly raising the bar
- Working in teams
- Delivering to our stakeholders
- Respecting each other
- Serving our clients
- Upholding the highest levels of integrity

OUR STRATEGIC VALUE DRIVERS



Financial review

Our Key performance indicators ("KPIs")

USD39.2m

2017: **USD27.6m**

Profit

26%

2017: **22%**

Return on equity

52%

2017: **59%**

Cost to income

0.2%

2017: **0.6%**

Credit loss

Financial highlights

Although the first half of the year had shown signs of a positive economic trajectory manifested by improved tobacco, gold and platinum output, the last quarter of the year was characterised by pronounced economic challenges.

Following the introduction of new monetary and fiscal measures on 1 October 2018 which included among others the 2% tax on electronic transactions and the separation of nostro FCA accounts from nostro RTGS accounts, the economy was plagued by unrelenting crises during the last quarter of the year which was marred by intensifying foreign currency shortages, widening price increases, shortage of basic commodities and fuel, currency volatilities and galloping inflation as the market responded to the new measures which were announced by the fiscal and monetary authorities. The Bank's operations were not spared from this massive economic turbulence which saw consumers adjusting their expenditure patterns as disposable incomes continued to be eroded.

Income statement analysis

Net interest income

A 26% growth was recorded in the Bank's net interest income, growing from USD55.1 million in the prior year to USD69.7 million. The better interest income recorded during the period was largely reinforced by the pleasant growth in the Bank's interest earning assets from USD667 million as at the end of December 2017 to USD897 million as additional short-term investments were acquired combined with new lending assets which were written.

Non-interest revenue

The Bank's non-interest revenue ended the period at USD67.7 million exceeding prior period revenue by 26% buttressed largely by increasing volumes of transactions which were passing through digital platforms given the unbearable cash shortages in the market combined with enhanced digital capabilities as the Bank continued to increase its digital footprint.

Credit impairment charges

The implementation of IFRS 9 Financial Instruments on 1 January 2018 caused an increase in credit impairment charges arising mainly from the following financial assets on which expected credit loss allowances are now being recognised: treasury bills, bonds, placements, letters of credit, guarantees and loan commitments.

The Bank's 2018 credit loss allowances grew by 166% from USD2.1 million to USD5.6 million largely because of the implementation of IFRS 9 compounded by the increase in interest earning assets. The increase in the 2018 credit loss allowances was partially offset by an improvement in recoveries on impaired facilities during the period.

The Bank's net NPL ratio improved from 2.58% in 2017 to 1.43% largely supported by heightened collection efforts on non-performing loans combined with an improvement in the quality of our lending book.

Operating expenses

Staff costs - grew by 6% from USD31.4 million in the comparative period to USD33.4 million on the back of business expansion as the Bank continued to strengthen its digital infrastructure.

Operating expenses - up by 16% from USD32.7 million in 2017 to USD37.9 million largely because of the increase in expense lines such as deposit protection insurance which was driven by the growth in our customer deposit base. Notable costs were also incurred as the Bank's premises underwent renovations in

Financial review

an effort to uplift their ambience. Furthermore, we experienced an increase in our data requirements following the rollout of additional digital platforms as we continued with our digitisation journey. Inflation, which closed the year at a staggering 42%, also had an adverse impact on the Bank's operating expenses.

Cost to income ratio -improved from 59% in 2017 to 53% in 2018 spurred mainly by the remarkable growth in the Bank's total income which ended the year 26% ahead of prior period underpinned by solid non-funded income performance coupled with better interest income which was partially offset by the 12% growth in our operating expenses.

Balance sheet analysis

Financial investments

In an effort to enhance its balance sheet efficiencies in a tough operating environment beset by deepening foreign currency shortages, the Bank increased its uptake of short term investments growing by 38% from USD237 million in 2017 to USD327 million. The growth in our financial investments was partially offset by the expected credit loss allowances which are now being recognised on these financial assets following IFRS 9 implementation.

Loans and advances

The Bank's net lending book grew by 17% from USD330.4 million in 2017 to USD387.3 million despite the crippling foreign currency shortages as new lending assets were written for those customers that had appetite for local funding.

Deposits and current accounts

The 2018 customer deposit base increased by 26% from USD1.2 billion in the comparative period to USD1.5 billion as the country continued to grapple with foreign currency shortages which saw depositors failing to utilise their funds for the settlement of foreign obligations.

Capital

The Bank closed the period with a qualifying core capital of USD162.2 million after taking into consideration the impact of IFRS 9 which became effective on 1 January 2018. The 2018 core capital has remained ahead of the USD100 million minimum threshold set for the year 2020.

Financial review

Income Statement	CAGR %	2018 USD'000	2017 USD'000	2016 USD'000	2015 USD'000	2014 USD'000
Interest income	15%	70 134	55 527	47 823	43 481	39 425
Interest expense	-13%	(479)	(438)	(574)	(728)	(849)
Net Interest Income	16%	69 655	55 089	47 249	42 753	38 576
Net fee and commission revenue	3%	38 669	32 569	33 475	36 099	34 533
Trading income	25%	27 020	19 687	15 020	9 001	11 092
Other income	70%	2 048	1 611	191	152	244
Total Income	13%	137 392	108 956	95 935	88 005	84 445
Credit impairment charges	-4%	(5 618)	(2 109)	(8 364)	(6 830)	(6 739)
Staff costs	8%	(33 386)	(31 435)	(29 384)	(24 354)	(24 199)
Other operating expenses	12%	(37 874)	(32 694)	(28 111)	(24 182)	(24 454)
Profit before tax	21%	60 514	42 718	30 076	32 639	29 053
Indirect tax	12%	(2 929)	(2 177)	(1 968)	(1 838)	(1 854)
Direct tax	30%	(18 427)	(12 915)	(6 870)	(6 870)	(6 498)
Profit for the year	17%	39 158	27 626	21 238	23 931	20 701

Statement of financial position	CAGR %	2018 USD'000	2017 USD'000	2016 USD'000	2015 USD'000	2014 USD'000
ASSETS						
Cash and cash equivalents	40%	932 554	729 667	404 700	235 867	261 976
Derivative assets	-46%	17	101	120	1 254	4 737
Financial investments	96%	326 981	237 403	82 945	68 679	28 103
Investment securities		2 264	516	516	-	-
Loans and advances to customers	9%	387 343	330 409	273 486	254 272	234 423
Other assets	63%	5 876	13 950	6 417	2 879	2 094
Intangible assets	164%	28 293	29 233	26 469	1 332	527
Investment property	40%	26 963	21 128	5 964	3 590	3 770
Property and equipment	17%	38 939	36 896	40 168	24 459	23 416
Deferred and current tax assets		-	3 810	4 739	2 608	1 909
Total assets	31%	1 769 230	1 403 113	845 524	594 940	560 955
EQUITY AND LIABILITIES						
Equity	20%	165 775	137 665	109 719	88 009	81 667
Liabilities						
Derivative liabilities	-73%	7	6	11	1 250	4 730
Deposits and current accounts	33%	1 511 618	1 207 768	702 225	484 050	449 684
Deposits from other banks	33%	3 565	12 626	1 478	10 384	2 706
Deposits from customers	33%	1 508 053	1 195 142	700 747	473 666	446 978
Current tax liabilities	-100%	2 070	-	1 032	642	1 761
Deferred tax liabilities	-100%	141	-	-	-	-
Other liabilities	33%	89 619	57 674	32 537	20 989	23 113
Total equity and liabilities	31%	1 769 230	1 403 113	845 524	594 940	560 955

CAGR - Compound annual growth rate

Chairman's statement

I take great pleasure in presenting the financial results of Stanbic Bank Zimbabwe Limited ("the bank" or "Stanbic Bank Zimbabwe") for the year ended 31 December 2018.

Operating environment in the country

The first half of the year recorded positive economic performance which unfortunately tailed off into a negative third quarter characterised by various challenges including the following:

- Rising inflationary pressures, with annual inflation reaching 42% in December 2018;
- Acute shortage of foreign currency and other imported commodities such as fuels, industrial raw materials and other consumables;
- Low productivity levels and waning internal business confidence; and
- Depressed international commodity prices for key exports.

Though the Government has announced various policy measures that are meant to stabilise the economy, the economy has not responded well to these measures and key challenges remain around:

- Containment and reduction of the fiscal deficit
- Resolution of the currency and exchange rate framework.
- Resolution of the fuel crisis which has crippled economic activity.
- Resolving remuneration issues after incomes have been eroded by the spike in inflation and the dislocation in the exchange rate environment, and
- Attracting meaningful foreign direct investments.

Results

Notwithstanding this myriad of challenges suffocating the economy, the Bank registered a commendable profit after tax of USD39.2 million for the year ended 31 December 2018.

Capital

The Bank ended the year with a qualifying core capital of USD162.2 million (2017: USD134.3 million) against the regulatory minimum of USD25 million and has remained well ahead of the 2020 minimum capital threshold of USD100 million after taking into account the effect of the new accounting standard IFRS 9 Financial instruments which became effective on 1 January 2018.

Outlook

Economic growth prospects for 2019 remain weak as the current challenges described earlier that are being faced by the economy are showing no signs of being contained in the near future. The situation is further exacerbated by the erratic rains during the 2018/19 agricultural season.

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.

Chairman's statement

The Board of Directors

The Board and its sub-committees meet at regular intervals during the year, and the record of attendance of each director is as follows for the year ended 31 December 2018:

DIRECTOR'S NAME	MAIN BOARD	AUDIT	LOANS REVIEW	CREDIT	RISK
Gregory Sebborn *(Chairman)*	7	**	**	5	**
Joshua Tapambgwa *(Chief Executive)*	7	**	**	**	**
Malcolm Lowe*>	-	**	**	1>	1
Linda Masterson	6	4	7	**	4
Solomon Nyanhongo *(Executive)*	7	**	**	**	**
Paul Smith*<	4	3	**	**	3
Pindie Nyandoro*	6	**	**	**	3***
Kingston Kamba	6	**	7	**	4
Muchakanakirwa Mkanganwi	7	4	8	**	**
Valentine Mushayakarara	7	4	***	4***	**
Nellie Tiyago	7	**	**	5	**
Rhett Groves *(Executive)*	6	**	**	**	**
Jonathan Wood #	-	**	**	**	**

* South African based members

** Not a member

*** Only became a member on the 6th of April 2018

> Ceased to be a member on the 27th of March 2018

< Ceased to be a member on the 30th of September 2018

Became a member with effect from the 28th of November 2018

As at 31 December 2018, the Board comprised eleven directors, three of whom are executive directors. While Messrs Paul Smith and Malcolm Lowe resigned during the course of the year, the Board continues to have an appropriate level of independence and diversity for deliberations and objectivity and has the right mix of competencies and experience. To ensure continued competence, the members undergo an annual board evaluation process. The Board is responsible for the overall corporate governance of the Bank, including matters of Board remuneration and nominations, 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 2018, the committee held four meetings.

As at 31 December 2018 the committee comprised of three 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, information systems and auditing processes.

There is extensive communication between the Board, executive management, compliance, internal audit and external audit in order to ensure that the Board Audit Committee mandate is effectively discharged. The committee liaises with the external and internal auditors on accounting procedures and on the adequacy of controls and information systems, and reviews the financial statements, considers loss reports, and the effectiveness of the Bank's compliance plan using a risk based approach.

Chairman's statement

Board Loans Review Committee

In terms of the mandate, the committee shall meet at least four times annually and may convene meetings more often as and when necessary. During the year ended 31 December 2018, the committee held eight meetings.

The Loans Review Committee reviews customer facilities and the level of doubtful debt provisioning. It also considers other risk issues in relation to the structure of the Bank's balance sheet as a result of changes in the operating environment.

The committee comprises three independent non-executive directors.

Board Credit Committee

This committee meets at least four times a year, with additional meetings being convened when necessary. During the year ended 31 December 2018, the committee held five 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 three non-executive directors, including the Board Chairman.

Board Risk Committee

The committee is expected to meet at least four times a year and during the year ended 31 December 2018, the committee held four meetings.

As at 31 December 2018 the committee comprised three non-executive directors, two of whom are independent. The committee reviews and assesses the integrity of the risk control 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 operation in line with the requirements of the Banking Act as amended. This committee has authority for overseeing matters of Information Technology risk, human capital and consumer protection issues.

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. The membership is comprised of seven strategic members of executive management. During the year ended 31 December 2018, the committee held twenty five 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
- achieve the budgeted financial position and performance.

Stanbic Bank Nominees (Private) Limited

Stanbic Nominees (Private) Limited is a wholly owned subsidiary of Stanbic Bank. It is the nominee company which holds the securities for investments made by Stanbic Bank clients on the money and equity markets (the Bank's custodial business), for the purposes of segregating clients' assets from those belonging to the Bank. The Board for Stanbic Nominees comprises two executive directors and three independent non-executive directors, who meet on a quarterly basis to review the operations and the risks associated with the custody business. The assets and income arising from the Investor Services, which includes the custody business, have been disclosed in note 29.

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

We are dedicated to increasing the impact of our Corporate Social Investment agenda throughout all the Provinces of Zimbabwe. As a Bank, we place great importance on supporting our government and communities through partnerships that speak to the needs of

Chairman's statement

the people and respond to the pertinent issues surrounding the wellbeing of our country. Our values continue to guide our triple bottom-line approach to delivering value to all our stakeholders.

Acknowledgements

My appreciation goes to our valued clients, stakeholders and the shareholder for their steadfast support and commitment in an increasingly challenging environment. I am grateful to the Board for its leadership and wise counsel demonstrated during the period. I remain humbled by the hard work and commitment from our management and staff members towards the achievement of these outstanding results.

I would like to thank my two fellow board members namely Messrs Paul Smith and Malcolm Lowe who retired from the Board during the year. These members have greatly contributed to the success of this Bank through their vast knowledge in the banking business. In the same vein, I would like to welcome Mr Jonathan Wood to the Stanbic Bank board of directors and wish him success in his new role.

Gregory Sebborn
Chairman

26 April 2019

Chief Executive's report

Overview of business results for 2018

In what was a challenging year, the Bank managed to close with a profit after tax of USD39.2 million.

The Bank registered a 26% growth in its net interest income from USD55.1 million in the comparative period and ending at USD69.7 million supported largely by the commendable growth in our interest earning assets with short term investments remaining the prime driver of the uplift in this line.

The 2018 net fee and commission income ended at USD38.7 million up from USD32.6 million achieved in the prior period largely driven by the upsurge in transaction volumes passing through our digital channels compounded by the strong growth in the value of our assets under custody.

The Bank's 2018 expected credit loss allowances of USD5.6 million were ahead of 2017 impairments by 166% mainly because of the implementation of IFRS 9, *Financial Instruments*, on 1 January 2018 which has seen credit loss allowances being recognised on other financial assets such as treasury bills, placements, loan commitments, letters of credit and guarantees which was not the case under the old IAS 39 standard.

Total operating expenses for 2018 increased by 12% from USD66.3 million in the prior period to USD74.2 million mainly because of the impact of business expansion as we continued to strengthen our digital banking capabilities compounded by the impact of inflation on our expenditure in the last half of the year.

The Bank's net lending book grew by 17% from USD330.4 million in 2017 to USD387 million reinforced mainly by new lending assets which were created in the period combined with an improvement in facility utilisation by some borrowing clients.

The worsening foreign currency shortages in the market saw the Bank's customer deposit base growing from USD1.2 billion as at the end of 2017 to USD1.5 billion. Our depositors were unable to access their funds for the settlement of foreign obligations due to the scarcity of foreign currency, hence the growth in deposits.

Compliance and money laundering control function

Stanbic Bank is cognisant of the ever changing regulatory environment and strives to maintain high standards of compliance. 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. It is against this background that the Bank continues to place great emphasis on compliance and has invested significantly in robust compliance management infrastructure in collaboration with reputable vendors. This will go a long way in improving transaction monitoring, surveillance and adoption of international best practice.

The Compliance function has a framework in place that ensures that the Bank complies with all regulatory requirements in all material respects.

Statement on corporate social investment ("CSI") responsibilities

People are at the heart of our operations as Stanbic Bank Zimbabwe. Our aim is to always be more than a bank and to reach out to all Zimbabweans as we go about our day to day business. We value our stakeholders and strive to deliver our business to the people in a responsible manner, because we are indeed a part of them and intend to remain rooted within the communities.

Our 2018 CSI activities were, as always, guided by our CSI policy which gives us the mandate to focus on health, education and sanitation related issues.

While organizations like the Albino Charity Organization of Zimbabwe, Cancer Association of Zimbabwe and Stragglers Cricket Club have been constant partners year after year, it is our aim to also impact more livelihoods from diverse walks of life. Following the Cholera epidemic that struck our nation in September 2018, we are humbled to have been a part of the many stakeholders who worked in solidarity with the Ministry of Health and Child Care ("MoHCC") to assist in curbing its further spread.

Partnerships help increase the impact of any undertaking, and we took the opportunity to partner the Rotary club in constructing a bridge over Shevanhowe river in Murehwa to guard against further incidents of school children drowning while trying to make their way to school during the rainy season.

Chief Executive's report

Central Hospitals are always on our radar and we reached out to Mpilo Central Hospital to help alleviate water challenges by sinking a borehole, in line with our sanitation commitment.

Education remains a key component necessary for economic growth and we have been steadily increasing our support towards school fees for high performing students from underprivileged backgrounds. Our focus has broadened to include distribution of reusable and disposable sanitary wear to girls in rural areas.

Our biggest project for 2018 is the construction of the Nyamuzuwe Waiting Mothers Home at Nyamuzuwe Rural Hospital in Mutoko, in partnership with Plan International Zimbabwe, an initiative set to benefit the district by reducing the maternal and infant mortality rates.

Our people

I remain indebted to the Stanbic team for its untiring support and contributions in a tough operating environment as we strive to meet our clients' evolving demands.

Our customers

Customer centricity is one of our key pillars as a service provider because they are the reason for our existence. We continue to perpetuate a customer-centric culture in our innovations, leading to the development of user friendly and convenient technologies for our valued customers. Our banking applications, Online and Mobile Banking platforms are under continuous improvement to give the customer more control of their finances. Above all, more security measures continue to be put in place to protect customers from criminal activities such as card fraud, through features that allow customers to deactivate their debit cards and report any suspicious activity immediately. Empowering our customers is indeed an important factor in our operations and we remain compliant with regulators as we serve our customers through our various operations.

Vote of thanks

I thank the Board for its priceless support during the year as we navigated yet another difficult operating environment. I always cherish the Stanbic team for its commitment towards providing unparalleled customer experience and the support shown by the achievement of this pleasing set of financial results.

Joshua Tapambgwa
Chief Executive

26 April 2019

Corporate governance statement

The Standard Bank Group Limited – overview

The Standard Bank Group Limited (the "Group"), the Bank's ultimate parent, traces its roots back to 1862 and has a primary listing on the Johannesburg Securities Exchange ("JSE"), South Africa, with a secondary listing on the Namibian Stock Exchange ("NSX"). It is a registered bank holding company and its main operating subsidiary is the Standard Bank of South Africa Limited.

The Group remains committed to the practice of good corporate governance in all aspects of its operations and the establishment of subsidiaries within the Group is carefully managed to ensure compliance with both domestic and international regulatory requirements.

The Board of Directors of the Standard Bank Group Limited is responsible for the overall corporate governance of the Group, ensuring that appropriate practices are in place. A number of committees have been established that assist the Board in fulfilling its stated objectives. The committees' roles and responsibilities are set out in terms of agreed mandates, which are reviewed regularly to ensure they remain relevant.

Stanbic Bank Zimbabwe Limited

Codes and regulations

The Bank complies with applicable legislation and regulations including the Banking Act and Regulations, Securities and Exchange Act and Reserve Bank Act. Other standards, directives and codes from the various regulators are also adhered to, with the Board continually monitoring regulatory compliance.

Governance

The Bank operates in a highly regulated industry and is committed to complying with legislation, regulation, and codes of best practice and seeks to maintain the highest standards of corporate governance, including transparency and accountability. Whilst we continue to nurture a strong culture of corporate governance and responsible risk management in line with the Group's risk appetite and governance framework, we are constantly monitoring our practices to ensure that they are the best fit for the Bank and serve to enhance business and community objectives.

Board of Directors

The Board of Directors is responsible for the overall corporate governance of the Bank, ensuring that appropriate controls, systems and practices are in place. The Bank continues to advocate for an integrated approach to corporate governance as evidenced by the governance framework. An effective and independent Board provides strategic direction and has ultimate responsibility for the functioning of the Bank.

The Board comprises eleven directors, three of whom are executive directors:

Gregory Sebborn (Chairman)	(appointed 3 October 2014)
Joshua Tapambgwa (Chief Executive)	(appointed 1 February 2004)
Linda Masterson	(appointed 12 March 2009)
Solomon Nyanhongo (Executive)	(appointed 17 April 2009)
Pindie Nyandoro	(appointed 15 September 2014)
Nellie Tiyago	(appointed 12 April 2017)
Kingston Kamba	(appointed 12 April 2017)
Valentine Mushayakarara	(appointed 12 April 2017)
Muchakanakirwa Mkanganwi	(appointed 12 April 2017)
Rhett Groves (Executive)	(appointed 29 May 2017)
Jonathan Wood	(appointed 28 November 2018)

Strategy

The Board is accountable to the Group for the Bank's overall strategy and direction. At an annual meeting with management, the Board considers and approves the Bank's strategy and its plans on how to achieve the agreed objectives, which are in line with the Group's overall objectives. The Board monitors performance against strategies and agreed budgets on a quarterly basis.

Delegation of authority and effective control

The Board retains effective control over its mandate and has established committees to assist in providing detailed attention to specific areas of expertise. Authority has been delegated to the Chief Executive to manage the business on a day to day basis. Board delegated authorities are reviewed regularly.

Board effectiveness and evaluation

The Board is led by a majority of non-executive Board members, the majority being independent who, by their skills and diversity, contribute to the efficient running of the Bank. The Board is

Corporate governance statement

focused on continued improvements to its effectiveness and corporate governance performance.

During the year under review, the Board conducted a self-assessment evaluation, which was divided into structure, process and effectiveness. A special meeting was convened to discuss the outcome and address any areas of concern. The results were used to further improve Board processes and effectiveness.

Directors' appointments, induction and training

The appointment of directors is made in terms of formal and transparent procedures, which are in compliance with regulatory requirements as well as the Standard Bank Group Limited's policy for Board and executive management appointments. The Board Nominations Committee is tasked with ensuring that the appointment of the directors is in line with the needs of the business.

The directors bring skills, knowledge and experience from their own respective fields to the Board. They receive detailed orientation on the Bank's operations, senior management and the business environment. There are currently three executive directors and nine non-executive directors. The Board has the appropriate mix of competencies and experience, with members undergoing constant training in development areas affecting the business.

Board meetings

The Board schedules quarterly meetings during the year. Additional meetings may be held where necessary.

Board Committees

Board committees have clearly defined and written terms of reference setting out their roles and functions, responsibilities, scope of authority and procedures for reporting to the Board. The committees fulfil an essential role in assisting the Board in the performance of its duties.

Risk management

The Board has ultimate responsibility for risk management, which includes evaluating key risk areas and ensuring the process for risk management and systems of internal control are implemented. To assist in fulfilling this duty, the Board has established various committees.

Risk Oversight Committee

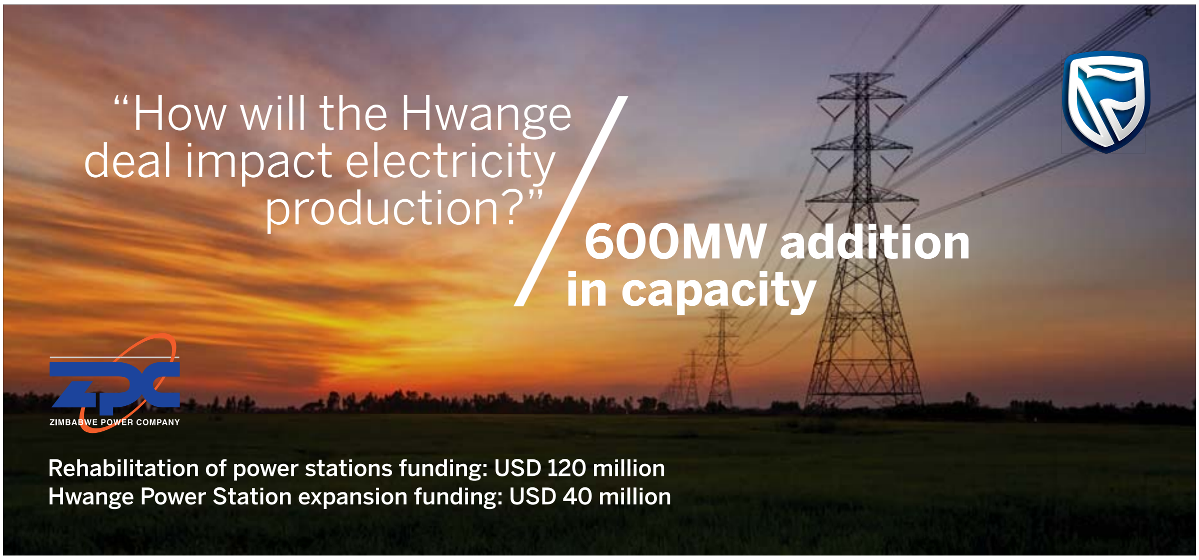
This is a management committee which reports to the Chief Executive. The committee is responsible for monitoring the risks pertaining to the Bank's custodial services operation and ensuring that the unit is operating profitably with the appropriate resources in place.

Going concern

The directors have assessed the ability of the Bank to continue operating as a going concern and believe that the preparation of these financial statements on a going concern basis is appropriate.

Sustainability and social investment

A sustainability report accompanies this annual report.



Directors' report

Your directors have pleasure in submitting the directors' report and the audited financial statements for the year ended 31 December 2018.

1 ACTIVITIES AND INCORPORATION

The Bank, which is incorporated and domiciled in Zimbabwe and whose registered office is 59 Samora Machel Avenue, Harare, is a wholly owned subsidiary of the Standard Bank Group Limited, and provides a wide range of commercial banking and related financial services.

	Year ended 31 December 2018 USD'000	Year ended 31 December 2017 USD'000
2 RESULTS		
Profit after tax for the year	39 158	27 626

3 DIVIDEND DECLARATION

On account of the intensifying foreign currency shortages in the market coupled with the adverse impact of the IFRS 9, *Financial Instruments*, financial reporting standard which became effective on 1 January 2018, no dividend has been proposed for the year ended 31 December 2018.

4 DIRECTORATE

Directors: Gregory Sebborn* (Chairman)
Joshua Tapambgwa (Chief Executive)
Pindie Nyandoro*
Valentine Mushayakarara
Nellie Tiyago
Linda Masterson
Solomon Nyanhongo (Executive)
Kingston Kamba
Muchakanakirwa Mkanganwi
Rhett Groves (Executive)
Jonathan Wood*

*These directors are due to retire by rotation and being eligible, offer themselves for re-election at the Bank's next Annual General Meeting.

Linda Masterson will retire in 2019 and therefore will not offer herself for re-election at the Bank's next Annual General Meeting.

5 INDEPENDENT AUDITOR

Messrs. KPMG Chartered Accountants (Zimbabwe) has expressed their willingness to continue in office and the shareholder will be asked to confirm their re-appointment at the next Annual General Meeting and determine their remuneration for the past year

By order of the Board

…………………………………………

AISHA TSIMBA
SECRETARY

26 April 2019

Directors' statement of responsibility

To the members of Stanbic Bank Zimbabwe Limited

The directors are responsible for the preparation and integrity of financial statements that fairly present the state of the affairs of the Bank at the end of the financial year, income statement and the statements of comprehensive income, changes in equity and cash flows for the year and other information contained in this report in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act of Zimbabwe (Chapter 24:03) and the Banking Act of Zimbabwe (Chapter 24:20).

The Companies Act of Zimbabwe (Chapter 24:03) requires the directors to prepare financial statements for each financial year. The financial statements are required by law and IFRS to present fairly the financial position and performance of the Bank for the year.

In preparing the Bank's financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable, relevant and reliable;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate or proper accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that its financial statements comply with the Companies Act of Zimbabwe (Chapter 24:03) and Banking Act of Zimbabwe (Chapter 24:20). They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Bank's website.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank; and
- we consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Bank's position and performance, business model and strategy.

Accounting convention

The financial statements on pages 21 to 116 have been prepared under the historical cost convention as modified for investment property, financial assets available for sale and freehold property which are stated at fair value and are in agreement with the underlying records.

Preparation of annual report

This annual report has been prepared under the supervision of Solomon Nyanhongo CA (Z) PAAB Registered Accountant number 03078.

Directors' statement of responsibility

Compliance with IFRS and laws and regulations

The financial statements have been prepared in accordance with IFRS and requirements of the Companies Act of Zimbabwe (Chapter 24:03) and Banking Act of Zimbabwe (Chapter 24:20).

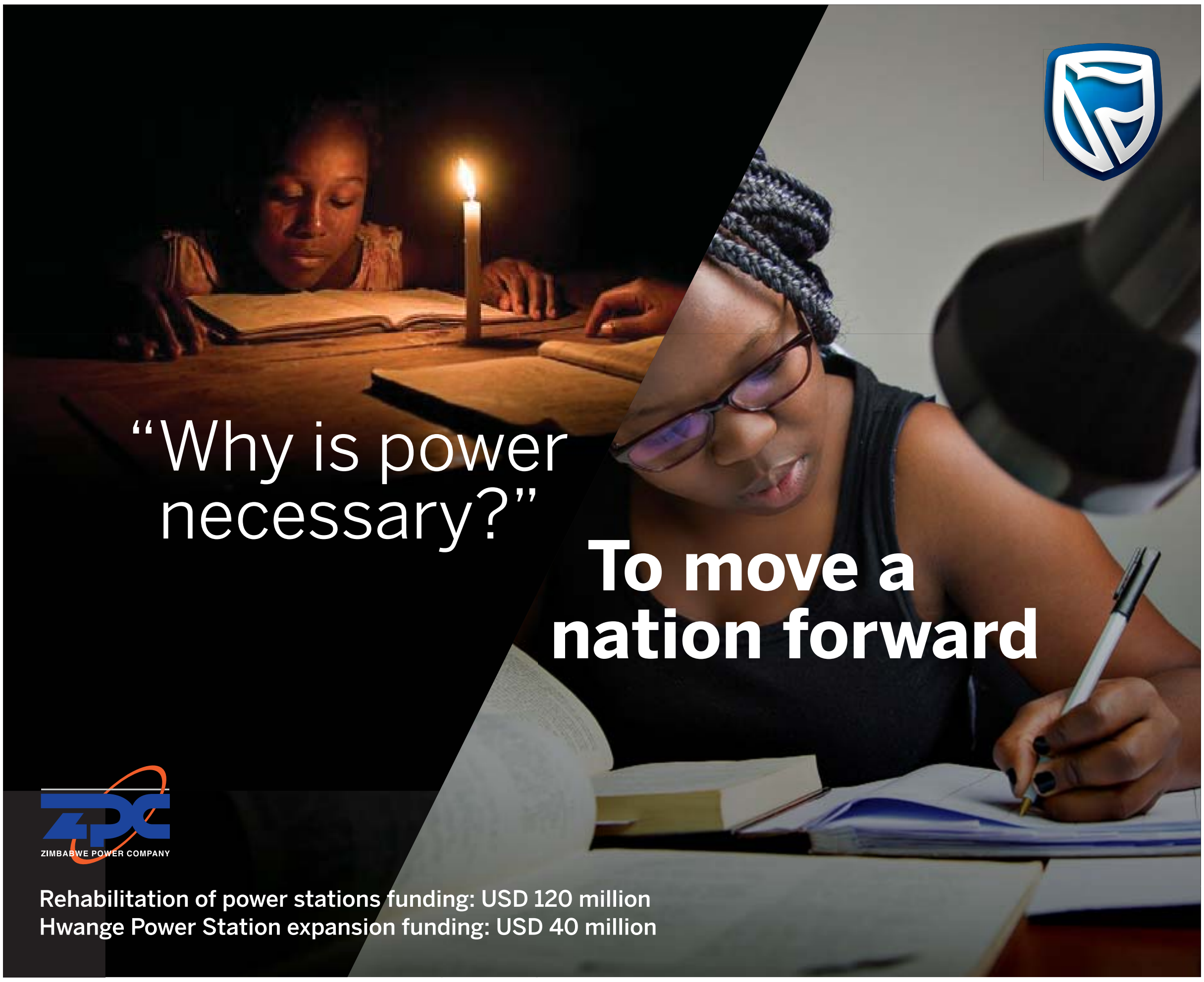
Approval

The financial statements for the year ended 31 December 2018 have been approved by the Board of Directors and are signed on its behalf by the Chairman and the Chief Executive.

_________________________________ Chairman

_________________________________ Chief Executive

26 April 2019



KPMG

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Independent Auditors' Report
To the member of Stanbic Bank Zimbabwe Limited

Adverse Opinion

We have audited the financial statements of Stanbic Bank Zimbabwe Limited ("the Bank"), set out on pages 21 to 116, which comprise the statement of financial position as at 31 December 2018, the statement of profit and loss, statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, accounting policies and notes to the financial statements.

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the financial statements do not present fairly, the financial position of Stanbic Bank Zimbabwe Limited as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and in a manner required by the Companies Act (Chapter 24:03) of Zimbabwe and the Banking Act (Chapter 24:20) of Zimbabwe.

Basis for Adverse Opinion

As described in note 2.15, the Bank carried out an assessment of its functional currency as at 31 December 2018, in terms of IAS 21, *The Effects of Changes in Foreign Exchange Rates* (IAS 21), and concluded that the currency of the primary economic environment had changed from United States Dollar (USD) and thus the functional currency had also changed from the USD to RTGS with effect from 1 October 2018. The change in functional currency was necessitated by the acute shortage of USD which resulted in an increase in the use of different modes of payment for goods and services in the economy such as settlement through the RTGS system overseen by the Reserve Bank of Zimbabwe (RBZ), point of sale and mobile money platforms.

The note further explains that during the year there was a significant divergence in the market of the relative values between the USD, and the bond note, bond coin, mobile money platforms and RTGS, collectively referred to as "local currency". Although RTGS and mobile money platforms were not legally recognised as currency during the year ended 31 December 2018, the substance of the economic phenomenon suggested that it was currency.

Despite the general economic conditions described in the preceding paragraphs, the Bank continued to pursue initiatives to generate foreign currency in order to continue to offer products and services in USD and meet its USD expenditure on a 1:1 basis. These efforts by the Bank generated foreign currency albeit at a reduced level in comparison to the business volumes in RTGS. Note 2.15 further describes that the Bank was able to access limited quantities of USD from its operations which would then enable it to facilitate foreign payments at the official rate of 1:1 based on the priority list set out by the RBZ.

In February 2019, an electronic currency called the RTGS Dollar was introduced through Statutory Instrument 33 of 2019. (S.I 33) with an effective date of 22 February 2019 and the currency commenced trading at a rate of 2.5 to the USD. In addition, S.I. 33 fixed the exchange rate between the RTGS Dollar and the USD at a rate of 1:1 for periods before the effective date. The rate of 1:1 is consistent with the rate mandated by the Reserve Bank of Zimbabwe (RBZ) at the time it issued the bond notes as currency.

Although the directors acknowledge that there was a functional currency change in terms of IAS 21, they have maintained the functional currency as the USD and have presented the financial statements in USD using an exchange rate of 1:1, in line with S.I 33. This constitutes a departure from the requirements of IAS 21.

The directors have performed a sensitivity analysis of how different exchange rates between the USD and local currency would impact the Bank's statement of financial position as set out in note 31 to the financial statements. However, the amounts presented may not reflect the opening balances in RTGS Dollars going forward. This confirms that had the local currency been translated to USD in accordance with IAS 21, many elements in the statement of financial position would have been materially affected and therefore the departure from the requirements of IAS 21 is considered to be pervasive. The effects of this departure from IAS 21 on the Bank's financial statements have not been determined, as there were no credible alternative sources of market exchange rates between the USD and local currency.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and which are not materially impacted by the matter described in the *Basis for Adverse Opinion* section. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our adverse opinion thereon, and we do not provide a separate opinion on these matters. Except for the matter described in the *Basis for Adverse Opinion* section, we have determined there are no other key audit matters to be communicated in our report.

Other Information

The Directors are responsible for the other information. The other information comprises all information included in the Annual Report, excluding the financial statements and our auditors' report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *Basis for Adverse Opinion* section above, the Bank could not comply with IAS 21. We have concluded that the other information is materially misstated for the same reason with respect to the amounts affected by the failure to translate the local currency transactions and balances using a rate which complies with the requirements of IAS 21.

Responsibilities of the Directors for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and in the requirements of the Companies Act (Chapter 24:03) of Zimbabwe and the Banking Act (Chapter24:20) of Zimbabwe, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

KPMG

KPMG Zimbabwe

Registered Accountants and Auditors
Chartered Accountants (Zimbabwe)

Per: **Themba Mudidi**
Partner
Registered Public Auditor
PAAB Practicing Certificate Number 0437

26 April 2019

For and on behalf of, **KPMG Chartered Accountants (Zimbabwe), Reporting Auditors**
100 The Chase (West)
Emerald Hill, Harare
Zimbabwe

Statement of financial position

As at 31 December 2018

	Note	31 December 2018 USD'000	31 December 2017 USD'000
ASSETS			
Cash and cash equivalents	4	932 554	729 667
Derivative assets	5.1	17	101
Financial investments	6	326 981	237 403
Investment securities	6.2	2 264	516
Loans and advances to customers	7.1	387 343	330 409
Other assets	8	25 876	13 950
Intangible assets	9	28 293	29 233
Investment property	10	26 963	21 128
Property and equipment	11	38 939	36 896
Deferred and current tax assets	15	-	3 810
Total assets		1 769 230	1 403 113
EQUITY AND LIABILITIES			
Shareholder's equity		165 775	137 665
Ordinary share capital	12.2	260	260
Ordinary share premium	13.1	10 790	10 790
Reserves	13.2	154 725	126 615
Liabilities			
Derivative liabilities	5.1	7	6
Current income and deferred tax liabilities	15	2 211	-
Deposits and current accounts	14	1 511 618	1 207 768
Deposits from other banks		3 565	12 626
Deposits from customers		1 508 053	1 195 142
Other liabilities	16	89 619	57 674
Total liabilities		1 603 455	1 265 448
Total equity and liabilities		1 769 230	1 403 113

_______________________________________ Chairman

_______________________________________ Chief Executive

_______________________________________ Chief Finance Officer

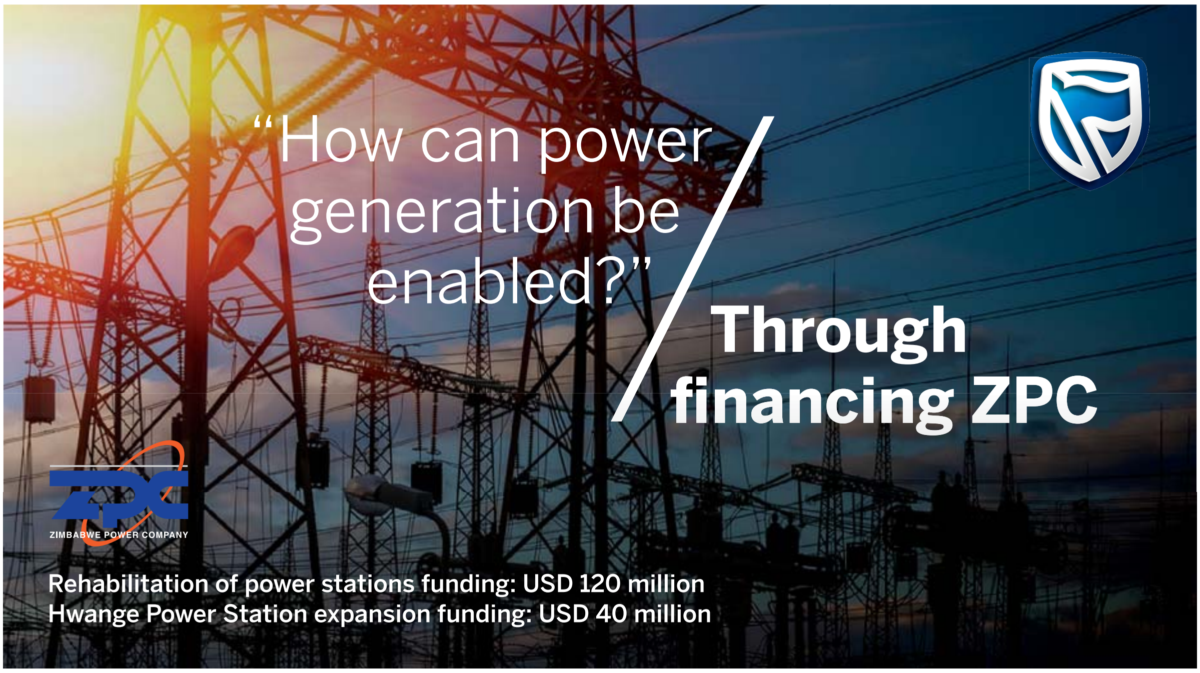
_______________________________________ Company Secretary

26 April 2019

Statement of profit or loss

For the year ended 31 December 2018

	Note	31 December 2018 USD'000	31 December 2017 USD'000
Net interest income		69 655	55 089
Interest income	23.1	70 134	55 527
Interest expense	23.2	(479)	(438)
Non interest income		67 737	53 867
Net fee and commission revenue		38 669	32 569
Fee and commission revenue	23.3	43 310	35 352
Fee and commission expense	23.3	(4 641)	(2 783)
Trading income	23.4	27 020	19 687
Other income	23.5	2 048	1 611
Total income		137 392	108 956
Total expected credit losses	23.6	(5 618)	(2 109)
Total expected credit losses on balance sheet exposures		(5 670)	(2 109)
Total expected credit losses on off - balance sheet exposures		52	-
Income after credit impairment charges		131 774	106 847
Operating expenses		(71 260)	(64 129)
Staff costs	23.7	(33 386)	(31 435)
Other operating expenses	23.8	(37 874)	(32 694)
Net income before indirect tax		60 514	42 718
Indirect tax	25.1	(2 929)	(2 177)
Profit before direct tax		57 585	40 541
Direct tax	25.2	(18 427)	(12 915)
Profit for the year		39 158	27 626



Statement of comprehensive income

For the year ended 31 December 2018

	31 December 2017 USD'000	31 December 2016 USD'000
Profit for the year	39 158	27 626
Items that will not be reclassified to profit or loss:		
Gain on revaluation of land and buildings (net of tax)	-	205
Net change in fair value of equity investment (net of tax)	864	-
Items that may be subsequently reclassified to profit or loss:		
Changes in fair value of available-for-sale financial assets net of tax	-	(56)
Total comprehensive income for the year attributable to the ordinary shareholder	40 022	27 775

Statement of changes in equity

For the year ended 31 December 2018

	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	Fair value through other comprehensive income 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 2018										
Balance as previously reported at 31 December 2017	260	10 790	1 207	2 147	141	-	818	510	121 792	137 665
Transitional adjustment IFRS 9	-	-	-	-	(141)	361	(818)	-	(11 485)	(12 083)
Adjusted opening balance 1 January 2018	260	10 790	1 207	2 147	-	361	-	510	110 307	125 582
Profit for the year	-	-	-	-	-	-	-	-	39 158	39 158
Other comprehensive income										
Net change in fair value of equity investment	-	-	-	-	-	864	-	-	-	864
Total comprehensive income for the year	-	-	-	-	-	864	-	-	39 158	40 022
Equity-settled share based payments	-	-	-	-	-	-	-	171	-	171
Total transactions with the owner of the Bank recognised directly in equity	-	-	-	-	-	-	-	171	-	171
Balance as at 31 December 2018	260	10 790	1 207	2 147	-	1 225	-	681	149 465	165 775

Statement of changes in equity

For the year ended 31 December 2018

	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 2017									
Balance as at 1 January 2017	260	10 790	1 207	1 942	197	818	361	94 144	109 719
Profit for the year	-	-	-	-	-	-	-	27 626	27 626
Other comprehensive income									
Gain on revaluation of land and buildings	-	-	-	276	-	-	-	-	276
Related tax	-	-	-	(71)	-	-	-	-	(71)
Changes in fair value of available-for-sale financial assets	-	-	-	-	(76)	-	-	-	(76)
Related tax	-	-	-	-	20	-	-	-	20
Total comprehensive income for the year	-	-	-	205	(56)	-	-	27 626	27 775
Equity-settled share based payments	-	-	-	-	-	-	149	22	171
Total transactions with the owner of the Bank recognised directly in equity	-	-	-	-	-	-	149	22	171
Balance as at 31 December 2017	260	10 790	1 207	2 147	141	818	510	121 792	137 665

Statement of cash flows

For the year ended 31 December 2018

	Note	31 December 2018 USD'000	31 December 2017 USD'000
Cash generated from operations			
Net income before indirect and direct tax		60 514	42 718
Adjusted for:			
Expected credit loss (on and off-balance sheet)	23.6	5 618	2 109
Amortisation of intangible assets	9	3 323	2 265
Depreciation of property and equipment	11	4 372	3 768
Equity-settled share-based payments		171	171
Indirect tax paid	25.1	(2 929)	(2 177)
Loss/(gain) on sale of property and equipment		201	(188)
Increase in fair value of investment property	10	-	(25)
Impairment loss on property		-	1 220
Movement in working capital			
Decrease in derivative assets		84	19
Increase in loans and advances	26.1	(65 857)	(59 032)
Increase in accrued interest on financial investments	6	(15 748)	(7 546)
Purchase of financial investments	6	(192 964)	(234 991)
Proceeds from sale of financial investments	6	107 876	88 003
Purchase of equity investment	6.2	(99)	-
Increase in other assets		(11 926)	(7 533)
Increase/(decrease) in derivative liabilities		1	(5)
Increase in deposits and current accounts		303 850	505 543
Increase in other liabilities	26.2	31 408	25 137
Direct tax paid		(8 514)	(13 069)
Net cash from operating activities	26.3	219 381	346 387
Cash used in investment activities			
Capital expenditure on:			
- intangible assets	9	(2 383)	(5 077)
- property and equipment	11	(6 882)	(6 896)
- investment property	10	(5 835)	(9 732)
Proceeds from:			
- sale of property and equipment		263	285
Net cash used in investing activities		(14 837)	(21 420)
Net increase in cash and cash equivalents		204 544	324 967
Cash and cash equivalents at the beginning of the year		729 667	404 700
Cash and cash equivalents at the end of the year	4	934 211	729 667

Accounting policies

For the year ended 31 December 2018

ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below. The accounting policies are consistent with those reported in the previous year except as required in terms of the adoption of the accounting standards mentioned below. The standards and interpretations that are effective for the current year, have been adopted with no material impact on the Bank.

REPORTING ENTITY

Stanbic Bank Zimbabwe Limited ("the Bank") is incorporated and domiciled in Zimbabwe and its registered office is 59 Samora Machel Avenue, Harare. It is a wholly owned subsidiary of the Standard Bank Group Limited, and provides a wide range of commercial banking and related financial services.

BASIS OF ACCOUNTING

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 Companies Act of Zimbabwe (Chapter 24:03), the Banking Act of Zimbabwe (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, investment securities measured at fair value. The financial statements were authorised for issue by the Bank's Board of Directors on 26 April 2019.

The 2018 financial statements partially comply with IFRS conceptual framework on account of non compliance with IAS 21 The effects of changes in foreign exchange rates. IAS 21 requires an entity to determine its functional currency by making certain judgements around the appropriate exchange rates to be applied between currencies where a formal foreign exchange rate market is not available. Statutory Instrument 33 of 2019 was issued on 22 February 2019, introducing an electronic currency called Real Time Gross Settlement system (RTGS dollar or RTGS$). It specified, among other things, that for accounting and other purposes, all assets and liabilities that were immediately before the effective date valued in United States Dollars shall on and after the effective date be deemed to be values in RTGS$ at a rate of one-to-one to the United States Dollar.

In our opinion, the need to comply with SI 33 of 2019 has created variations with IAS 21 as well as principles included in the IFRS conceptual framework as such the directors and management have been unable to produce true and fair financial statements.

Adoption of new and amended standards effective for the current financial period

Standard ("IAS")/ interpretation	Content	Applicable for financial years beginning on/after
IFRS 9	Financial Instruments	Annual periods beginning on or after 1 January 2018
IFRS 15	Revenue from Contracts with Customers	Annual periods beginning on or after 1 January 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	Annual periods beginning on or after 1 January 2018

IFRS 9, with effect from 1 January 2018, replaced IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 introduced new requirements which included an expected credit loss (ECL) impairment model and new requirements for the classification and measurement of financial assets. IFRS 9, adopted on 1 January 2018, impacted the Bank's results upon transition. The impact to the Bank's reserves on transition to IFRS 9 materially relates to IFRS 9's ECL impairment requirements. IFRS 9's classification and measurement requirements resulted in an immaterial impact to the Bank on transition. Refer to the IFRS 9 transition disclosure for more detail.

Accounting policies

For the year ended 31 December 2018

IFRS 15, Revenue from Contracts with Customers, with effect from 1 January 2018, replaces the existing revenue standards and the related interpretations. The standard sets out the requirements for recognising revenue that applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts or financial instruments). The core principle of the standard is that revenue recognised reflects the consideration to which the company expects to be entitled in exchange for the transfer of promised goods or services to the customer. The standard incorporates a five step analysis to determine the amount and timing of revenue recognition. The group adopted IFRS 15 on 1 January 2018 and, as permitted by IFRS 15, did not restate its comparative financial results. The standard does not apply to revenue associated with financial instruments, and therefore does not impact the Bank's revenue.

IFRIC 22 Foreign Currency Transactions and Advance Consideration, provides guidance on how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

The above mentioned standards and interpretation to the IFRS standards, adopted on 1 January 2018, did not affect the Bank's previously reported financial results, disclosures or accounting policies and did not impact the Bank's results upon transition.

New standards, amendments and interpretations, not effective for accounting periods beginning on 1 January 2018 and not early adopted by the Bank.

Standard ("IAS")/ interpretation	Content	Applicable for financial years beginning on/after
IAS 19 amendment	Employee Benefits	1 January 2019
IFRS 16	Leases	Annual periods beginning on or after 1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2021

IAS 19 amendment - Employee benefits- the amendments require a company to use the updated assumptions when a change to a plan either an amendment, curtailment or settlement, takes place to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Until now, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. The amendment will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.

IFRS 16 - Leases, will replace the existing standard IAS 17, Leases, as well as the related interpretations and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, being the lessee (customer) and the lessor (supplier).

The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on balance sheet. The most significant change pertaining to the accounting treatment of operating leases is from the lessees' perspective. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and introduces a single lessee accounting model, where a right of use ("ROU") asset together with a liability for the future payments is to be recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The lessor accounting requirements in IAS 17 has not changed substantially in terms of this standard, as a result a lessor continues to classify its leases as operating leases or finance leases and accounts for these as is currently done in terms of IAS 17.

In addition, the standard requires the lessor to provide enhanced disclosures about its leasing activities and in particular about its exposure to residual value risk and how it is managed.

The standard will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.

Accounting policies

For the year ended 31 December 2018

IFRIC 23 Uncertainty over Income Tax Treatments - This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (taxable loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation. This Interpretation addresses: whether an entity considers uncertain tax treatments separately; the assumptions an entity makes about the examination of tax treatments by taxation authorities; how an entity determines taxable profit (taxable loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances. The IFRIC will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.

Functional and presentation currency

These financial statements are presented in United States Dollars ("USD") which is the Bank's functional currency. Please refer to the use of estimates and judgements paragraph below which details the considerations made in determining the Bank's functional currency.

Foreign currency translations

Transactions and balances

Foreign currency transactions are translated into the Bank's functional currency at spot exchange rates prevailing at the date of the transactions. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end, are recognised in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the transaction date, and those measured at fair value are translated at the exchange rate at the date that the fair value was determined. Exchange differences on non-monetary items are accounted for based on the classification of the underlying items.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date.

Financial instruments

Initial recognition and measurement (IFRS 9 and IAS 39)

Financial instruments include cash and cash equivalents, loans and advances to customers, financial assets available for sale, derivative assets and liabilities, deposits and current accounts. All financial instruments are initially recognised at fair value plus directly attributable transaction costs, except those carried at fair value through profit or loss where transaction costs are recognised immediately in profit or loss. Financial instruments are recognised on the date the Bank commits to purchase the instruments ("trade date accounting").

IFRS 9 - accounting policies for financial instruments

Financial assets

Below are the financial assets categories under IFRS 9:

Amortised cost

A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss):

- held within a business model whose objective is to hold the debt instrument (financial asset) in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are not considered de minimis and are inconsistent with a basic lending arrangement, the financial asset is classified as fair value through profit or loss - default.

Fair value through OCI

Includes:

A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss):

- Held within a business model in which the debt instrument (financial asset) is managed to both collect contractual cash flows and sell financial assets; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

This assessment includes determining the objective of holding the asset and whether the contractual cashflows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are not considered de minimis and are inconsistent with a basic lending arrangement, the financial asset is classified as fair value through profit or loss - default.

Equity financial assets which are not held for trading and are irrevocably elected (on an instrument-byinstrument basis) to be presented at fair value through OCI.

Accounting policies

For the year ended 31 December 2018

Held for trading

These are financial assets acquired principally for the purpose of selling in the near term (including all derivative financial assets) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

Included are commodities that are acquired principally for the purpose of selling in the near future or generating a profit from fluctuations in price or broker-trader margin.

Designated at fair value through profit or loss

These are financial assets that are designated to be measured at fair value to eliminate or significantly reduce an accounting mismatch that would otherwise arise.

Fair value through profit or loss – default

These are financial assets that are not classified into one of the above mentioned financial asset categories.

Subsequent measurement

Subsequent to initial measurement, financial assets are classified in their respective categories and measured at either amortisedcost or fair value as follows:

Amortised cost

Amortised cost using the effective interest method with interest recognised in interest income, less any expected credit impairment losses which are recognised as part of credit impairment charges. Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate.

Fair value through OCI

Debt instrument: Fair value, with gains and losses recognised directly in the fair value through OCI reserve. When a debt financial asset is disposed of, the cumulative fair value adjustments, previously recognised in OCI, are reclassified to the other gains and losses on financial instruments within non interest revenue. Interest income on a debt financial asset is recognised in interest income in terms of the effective interest rate method. Dividends received are recognised in interest income within profit or loss.

Equity instrument: Fair value, with gains and losses recognised directly in the fair value through OCI reserve. When equity financial assets are disposed of, the cumulative fair value adjustments in OCI are reclassified within reserves to retained income. Dividends received on equity instruments are recognised in other revenue within non-interest income.

Held for trading

Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.

Designated at fair value through profit or loss

Fair value gains and losses (including interest and dividends) on the financial asset are recognised in the income statement as part of other gains and losses on financial instruments within non-interest revenue.

Fair value through profit or loss - default

Fair value gains and losses (including interest and dividends) on the financial asset are recognised in the income statement as part of other gains and losses on financial instruments within non-interest revenue.

Impairment

Expected credit losses (“ECL”) is recognised on debt financial assets classified as at either amortised cost or fair value through OCI, financial guarantee contracts that are not designated at fair value through profit or loss as well as loan commitments that are neither measured at fair value through profit or loss nor are used to provide a loan at a below market interest rate. The measurement basis of the ECL of a financial asset includes assessing whether there has been a significant increase in credit risk (“SICR”) at the reporting date which includes forward-looking information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The measurement basis of the ECL, which is set out in the table that follows, is measured as the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and forward-looking information.

Stage 1

A 12-month ECL is calculated for financial assets which are neither credit-impaired on origination nor for which there has been a SICR.

Stage 2

A lifetime ECL allowance is calculated for financial assets that are assessed to have displayed a SICR since origination and are not considered low credit risk.

Accounting policies

For the year ended 31 December 2018

Stage 3 (credit impaired assets)

A lifetime ECL is calculated for financial assets that are assessed to be credit impaired. The following criteria are used in determining whether the financial asset is impaired:

- Default,
- significant financial difficulty of borrower and/or modification,
- probability of bankruptcy or financial reorganisation, and
- disappearance of an active market due to financial difficulties.

The key components of the impairment methodology are described as follows:

Significant increase in credit risk (“SICR)

At each reporting date the Bank assesses whether the credit risk of its exposures has increased significantly since initial recognition by considering the change in the risk of default occurring over the expected life of the financial asset. Credit risk of exposures which are overdue for more than 30 days are also considered to have increased significantly.

Low credit risk

Exposures are generally considered to have a low credit risk where there is a low risk of default, the exposure has a strong capacity to meet its contractual cash flow obligations and adverse changes in economic and business conditions may not necessarily reduce the exposure’s ability to fulfil its contractual obligations.

Default

The Bank’s definition of default has been aligned to its internal credit risk management definitions and approaches. A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or groups of financial assets:

- significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower),
- a breach of contract, such as default or delinquency in interest and/or principal payments,
- disappearance of active market due to financial difficulties, and
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation where the Bank, for economic or legal reasons relating to the borrower’s financial difficulty, grants the borrower a concession that the Bank would not otherwise consider.

Exposures which are overdue for more than 90 days are also considered to be in default.

Forward-looking information

Forward-looking information is incorporated into the Bank’s impairment methodology calculations and in the Bank’s assessment of SICR. The Bank includes all forward looking information which is reasonable and available without undue cost or effort. The information will typically include expected macro-economic conditions and factors that are expected to impact portfolios or individual counterparty exposures.

Write-off

Financial assets are written off when there is no reasonable expectation of recovery. Financial assets which are written off may still be subject to enforcement activities.

ECLs are recognised within the statement of financial position as follows:

Financial assets measured at amortised cost (including loan commitments)
Recognised as a deduction from the gross carrying amount of the asset (group of assets). Where the impairment allowance exceeds the gross carrying amount of the asset (group of assets), the excess is recognised as a provision within other liabilities.

Off-balance sheet exposures (excluding loan commitments)
Recognised as a provision within other liabilities.

Financial assets measured at fair value through OCI
Recognised in the fair value reserve within equity. The carrying value of the financial asset is recognised in the statement of financial position at fair value.

Reclassification

Reclassifications of debt financial assets are permitted when, and only when, the Bank changes its business model of managing financial assets, in which case all affected financial assets are reclassified. Reclassifications are accounted for prospectively from the date of reclassification as follows:

- Financial assets that are reclassified from amortised cost to fair value are measured at fair value at the date of reclassification with any difference in measurement basis being recognised in other gains and losses on financial instruments.
- The fair value of a financial asset that is reclassified from fair value to amortised cost becomes the financial asset’s new carrying value.

Accounting policies

For the year ended 31 December 2018

- Financial assets that are reclassified from amortised cost to fair value through OCI are measured at fair value at the date of reclassification with any difference in measurement basis being recognised in OCI.
- The fair value of a financial asset that is reclassified from fair value through OCI to amortised cost becomes the financial asset's new carrying value with the cumulative fair value adjustment recognised in OCI being recognised against the new carrying value.
- The carrying value of financial assets that are reclassified from fair value through profit or loss to fair value through OCI remains at fair value.
- The carrying value of financial assets that are reclassified from fair value through OCI to fair value through profit or loss remains at fair value, with the cumulative fair value adjustment in OCI being recognised in the income statement at the date of reclassification.

Financial liabilities

Held-for-trading

Held for trading liabilities are those financial liabilities incurred principally for the purpose of repurchasing in the near term (including all derivative financial liabilities) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

Designated at fair value through profit or loss

Financial liabilities are designated to be measured at fair value in the following instances:

- to eliminate or significantly reduce an accounting mismatch that would otherwise arise where the financial liabilities are managed and their performance evaluated and reported on a fair value basis where the financial liability contains one or more embedded derivatives that significantly modify the financial liabilty's cash flows.

Amortised cost

All other financial liabilities not included in the above categories.

Subsequent measurement

Subsequent to initial measurement, financial liabilities are classified in their respective categories and measured at either amortised cost or fair value as follows:

Held for trading

Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.

Designated at fair value through profit or loss

Fair value, with gains and losses arising from changes in fair value (including interest and dividends but excluding fair value gains and losses attributable to own credit risk) are recognised in other gains and losses on financial instruments as part of non-interest revenue.

Fair value gains and losses attributable to changes in own credit risk are recognised within OCI, unless this would create or enlarge an accounting mismatch in which case the own credit risk changes are recognised within trading revenue.

Amortised cost

Amortised cost using the effective interest method recognised in interest expense.

Derecognition and modification of financial assets and liabilities

Financial assets and liabilities are derecognised in the following instances:

Financial assets

Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the Bank has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in the transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets, recognised in its statement of financial position, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with the retention of all or substantially all risks and rewards include securities lending and repurchase agreements.

Accounting policies

For the year ended 31 December 2018

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions. In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate.

In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Modification

Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability at fair value, including calculating a new effective interest rate, with the difference in the respective carrying amounts being recognised in other gains and losses on financial instruments within non-interest revenue. The date of recognition of a new asset is consequently considered to be the date of initial recognition for impairment calculation purposes. If the terms are not substantially different for financial assets or financial liabilities, the Bank recalculates the new gross carrying amount by discounting the modified cash flows of the financial asset or financial liability using the original effective interest rate. The difference between the new gross carrying amount and the original gross carrying amount is recognised as a modification gain or loss within credit impairments (for distressed financial asset modifications) or in other gains and losses on financial instruments within non interest revenue (for all other modifications).

Financial liabilities

Financial liabilities are derecognised when the financial liabilities' obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the Bank (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Financial guarantee contracts (that are not designated at fair value through profit or loss) are subsequently measured at the higher of the:

- ECL calculated for the financial guarantee
- unamortised premium.

IAS 39 - Accounting Policies for financial instruments

Financial assets

Nature

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities that management has both the positive intent and ability to hold-to-maturity.

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified as at fair value through profit or loss or available-for-sale.

Held-for-trading

Those financial assets acquired principally for the purpose of selling in the near term (including all derivative financial assets), those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Included are commodities that are acquired principally for the purpose of selling in the near future or generating a profit from fluctuations in price or broker-traders' margin.

Designated at fair value through profit or loss

Financial assets are designated to be measured at fair value in the following instances:

- to eliminate or significantly reduce an accounting mismatch that would otherwise arise
- where the financial assets are managed and their performance evaluated and reported on a fair value basis
- where the financial asset contains one or more embedded derivatives that significantly modify the financial asset's cash flows.

Available-for-sale

Financial assets that are not classified into one of the abovementioned financial asset categories.

Accounting policies

For the year ended 31 December 2018

Subsequent measurement

Subsequent to initial measurement, financial assets are classified in their respective categories and measured at either amortised cost or fair value as follows:

Held-to-maturity and loans and receivables

Amortised cost using the effective interest method with interest recognised in interest income, less any impairment losses which are recognised as part of credit impairment charges. Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate.

Available-for-sale

Fair value, with gains and losses recognised directly in the available-for-sale reserve until the financial asset is derecognised or impaired. Interest income on debt financial assets is recognised in interest income in terms of the effective interest rate method. Dividends received on debt (equity) available-for-sale financial assets are recognised in interest income (other revenue) within profit or loss.

When debt (equity) available-for-sale financial assets are disposed of, the cumulative fair value adjustments in OCI are reclassified to interest income (other revenue).

Held-for-trading

Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.

Designated at fair value through profit or loss

Fair value, with gains and losses recognised in interest income/ (other revenue) for all debt/ (equity) financial assets.

Impairment

A financial asset is impaired if objective evidence indicates that a loss event has occurred after initial recognition which has a negative effect on the estimated future cash flows of the financial asset that can be estimated reliably. The group assesses at each reporting date whether there is objective evidence that a financial asset which is either carried at amortised cost or classified as available-for-sale is impaired as follows:

Held-to-maturity and loans and receivables ('amortised cost')

The following criteria are used in determining whether there is objective evidence of impairment for loans or groups of loans:

- known cash flow difficulties experienced by the borrower
- a breach of contract, such as default or delinquency in interest and/or principal payments
- breaches of loan covenants or conditions
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation
- where the Bank, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the group would not otherwise consider.

The Bank first assesses whether there is objective evidence of impairment individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. Non-performing loans include those loans for which there is identified objective evidence of impairment, such as a breach of a material loan covenant or condition, as well as those loans for which instalments are due and unpaid for 90 days or more. The impairment of non-performing loans takes into account past loss experience adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic losses. When a loan carried at amortised cost has been identified as specifically impaired, the carrying amount of the loan is reduced to an amount equal to the present value of its estimated future cash flows, including the recoverable amount of any collateral, discounted at the financial asset's original effective interest rate. The carrying amount of the loan is reduced through the use of a specific credit impairment account and the loss is recognised as a credit impairment charge in profit or loss. Increases in loan impairments and any subsequent reversals thereof, or recoveries of amounts previously impaired (including loans that have been written off), are reflected within credit impairment charges in profit or loss. Subsequent to impairment, the effects of discounting unwind over time as interest income.

The calculation of the present value of the estimated future cash flows of collateralised financial assets recognised on an amortised cost basis includes cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable.If the Bank determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of financial loans with similar credit risk characteristics and collectively assesses for impairment.

Accounting policies

For the year ended 31 December 2018

Loans that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment for impairment. Impairment of groups of loans that are assessed collectively is recognised where there is objective evidence that a loss event has occurred after the initial recognition of the group of loans but before the reporting date. In order to provide for latent losses in a group of loans that have not yet been identified as specifically impaired, a credit impairment for incurred but not reported losses is recognised based on historic loss patterns and estimated emergence periods (time period between the loss event and the date on which the Bank identifies the losses). Groups of loans are also impaired when adverse economic conditions develop after initial recognition, which may impact future cash flows. The carrying amount of groups of loans is reduced through the use of a portfolio credit impairment account and the loss is recognised as a credit impairment charge in profit or loss. Previously impaired loans are written off once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts.

Available-for-sale

Available-for-sale debt instruments are impaired when there has been a significant or prolonged decline in the fair value of the instrument below its cost and for equity instruments where there is information about significant changes with an adverse effect on the environment in which the issuer operates that indicates that the cost of the investment in the equity instrument may not be recovered. When an available-for-sale asset has been identified as impaired, the cumulative loss, measured as the difference between the acquisition price and the current fair value, less any previously recognised impairment losses on that financial asset, is reclassified from OCI to profit or loss, within interest income (other revenue) for debt (equity) instruments. If, in a subsequent period, the amount relating to an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through interest income for available-for-sale debt instruments. Any reversal of an impairment loss in respect of an available-for-sale equity instrument is recognised directly in OCI.

Reclassification of financial assets are permitted only in the following instances:

Reclassifications are made at fair value as of the reclassification date. Effective interest rates for financial assets reclassified to loans and receivables, held-to-maturity and available-for-sale categories are determined at the reclassification date. Subsequent changes in estimates of cash flows (other than credit impairment changes) adjust the financial asset's effective interest rates prospectively. On reclassification of a trading asset, all embedded derivatives are reassessed and, if necessary, accounted for separately.

Held-to-maturity

Where the Bank is to sell more than an insignificant amount of held-to-maturity investments, the entire category would be tainted and reclassified as available-for-sale assets with the difference between amortised cost and fair value being accounted for in OCI.

Available-for-sale

The Bank may choose to reclassify financial assets that would meet the definition of loans and receivables if the Bank, at the date of reclassification, has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Held-for-trading

The Bank may elect to reclassify non-derivative financial assets out of held-for-trading category in the following instances:if the financial asset is no longer held for the purpose of selling it in the near term and the financial asset would not otherwise have met the definition of loans and receivables, it is permitted to be reclassified only in rare circumstances if the financial asset is no longer held for the purpose of selling it in the near team and the financial asset would have met the definition of loans and receivables, it is permitted to be reclassified if the Bank, at the date of reclassification, has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Financial liabilities

Nature

Held-for-trading

Those financial liabilities incurred principally for the purpose of repurchasing in the near term (including all derivative financial liabilities) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

Accounting policies

For the year ended 31 December 2018

Designated at fair value through profit or loss

Financial liabilities are designated to be measured at fair value in the following instances:

- to eliminate or significantly reduce an accounting mismatch that would otherwise arise
- where the financial liabilities are managed and their performance evaluated and reported on a fair value basis
- where the financial liability contains one or more embedded derivatives that significantly modify the financial asset's cash flows.

At amortised cost

All other financial liabilities not included in the above categories.

Subsequent measurement

Subsequent to initial measurement, financial liabilities are classified in their respective categories and measured at either amortised cost or fair value as follows:

Held-for-trading

Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.

Designated at fair value through profit or loss

Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in interest expense.

Amortised cost

Amortised cost using the effective interest method with interest recognised in interest expense.

Derecognition and modification of financial assets and liabilities

Financial assets and liabilities are derecognised in the following instances:

Financial assets

Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the Bank has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in the transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets

are not derecognised. Transfers of assets with the retention of all or substantially all risks and rewards include securities lending and repurchase agreements.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions. In transactions where the group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate.

In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Modification

Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability, with the difference in the respective carrying amounts being recognised in profit or loss.

In all other instances, the renegotiated asset or liability's effective interest rate is redetermined at date of modification takinginto account the renegotiated terms.

Financial liabilities

Financial liabilities are derecognised when the financial liabilities' obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the Bank (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Accounting policies

For the year ended 31 December 2018

Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Financial guarantee contracts are subsequently measured at the higher of the:

- present value of any expected payment, when a payment under the guarantee has become probable
- unamortised premium.

Offsetting financial instruments (IFRS 9 and IAS 39)

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle the asset and the liability on a net basis, or to realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the counterparties to the transaction.

Derivative financial instruments (IFRS 9 and IAS 39)

Derivatives are initially recognised at fair value on the date on which the derivatives are entered into and subsequently remeasured at fair value as described under the heading "fair value" on page 36.

All derivative instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative, subject to offsetting principles as described under the heading "offsetting financial instruments".

Embedded derivatives included in hybrid instruments are treated and disclosed as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone
derivative and the combined contract is not measured at fair value through profit or loss. The host contracts are accounted for and measured applying the rules of the relevant financial instrument category.

The method of recognising fair value gains or losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if so, the nature of the hedge relationship. All gains or losses from changes in the fair value of derivatives that are classified as held for trading are recognised in profit or loss as trading income.

Sale and repurchase agreements and lending of securities (IFRS 9 and IAS 39)

Securities sold subject to linked repurchase agreements are reclassified in the statement of financial position as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. The liability to the counterparty is included under deposit and current accounts.

Securities purchased under agreements to resell are recorded as loans granted under resale agreements and included under loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest and amortised over the life of the repurchase agreement using the effective interest method.

Securities lent to counterparties are retained in the financial statements and are classified and measured in accordance with the appropriate measurement policy. Securities borrowed are not recognised in the financial statements unless sold to third parties. In these cases, the obligation to return the securities borrowed is recorded at fair value as a trading liability.
Income and expenses arising from the securities borrowing and lending business are recognised on an accrual basis over the period of the transactions.

Fair value

In terms of IFRS, the Bank is either required to or elects to measure a number of its financial assets and financial liabilities at fair value. Regardless of the measurement basis, the fair value is required to be disclosed, with some exceptions, for all financial assets and financial liabilities.

Fair value is the price that would be received to sell an asset or paid to settle a liability in an orderly transaction in the principal (or most advantageous) market between knowleagable market participants at the measurement date under current market conditions. Fair value is a market-based measurement and uses the assumptions that market participants would use when pricing an asset or liability under current market conditions. When determining fair value it is presumed that the entity is a going concern and is not an amount that represents a forced transaction, involuntary liquidation or a distressed sale. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability at the measurement date.

Accounting policies

For the year ended 31 December 2018

Fair value hierarchy

The Bank's financial instruments that are both carried at fair value and for which fair value is disclosed are categorised by level of fair value hierarchy. The different levels are based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement.

Hierarchy levels

The levels have been defined as follows:

Level 1

Fair value is based on quoted market prices (unadjusted) in active markets for an identical financial asset or liability. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2

Fair value is determined through valuation techniques based on observable inputs, either directly, such as quoted prices, or indirectly, such as those derived from quoted prices. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3

Fair value is determined through valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instrument being valued and the similar instrument.

Day one profit or loss

For financial instruments, where the fair value of the financial instrument differs from the transaction price, the difference is commonly referred to as day one profit or loss. Day one profit or loss is recognised in profit or loss immediately where the fair value of the financial instrument is either evidenced by comparison with other observable current market transactions in the same instrument, or is determined using valuation models with only observable market data as inputs. Day one profit or loss is deferred where the fair value of the financial instrument is not able to be evidenced by comparison with other observable current market transactions in the same instrument, or is determined using valuation models that utilise non-observable market data as inputs. The timing of the recognition of deferred day one profit or loss is determined individually depending on the nature of the instrument and availability of market observable inputs. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement, depending on the nature of the instrument and availability of market observable inputs.

The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, i.e. the fair value of the consideration paid or received, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument, without modification or repackaging, or based on valuation techniques such as discounted cash flow models and option pricing models whose variables include only data from observable markets. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability at measurement date.

Subsequent to initial recognition, the fair values of financial assets and liabilities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets. If the market for a financial asset is not active or the instrument is unlisted, the fair value is determined using applicable valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and valuation techniques commonly used by market participants.

Where discounted cash flow method is used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the reporting date for a financial asset with similar terms and conditions.

Where the fair value of investments in unquoted equity instruments and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are unable to be reliably determined, those instruments are measured at cost less impairment losses.

Accounting policies

For the year ended 31 December 2018

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Investment property

Property held to earn rental income or for capital appreciation or both that is not owner-occupied is classified as investment property. Investment property includes property under construction or development for future use as investment property.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value which represents market conditions at the reporting date with fair value changes recognised in profit or loss as fair value gain or loss on investment property.

Subsequent expenditure is included in the assets' carrying amount when it is probable that future economic benefits associated with the item will flow to the Bank and cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

The fair value of investment property is based on the nature, location and condition of the asset at the reporting date. If the valuation information cannot be reliably determined, the Bank uses alternative valuation methods such as discounted cash flow projections or recent prices on active markets.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Intangible assets

Computer software

Generally, costs associated with developing or maintaining computer software programmes and the acquisition of software licenses are recognised as an expense as incurred. However, direct computer software development costs that are clearly associated with an identifiable and unique system, which will be controlled by the Bank and have a probable future economic benefit beyond one year, are recognised as intangible assets. Capitalisation is further limited to development costs where the Bank is able to demonstrate its intention and ability to complete and use the software, the technical feasibility of the development, the availability of resources to complete the development, how the development will generate probable future economic benefits and the ability to reliably measure costs relating to the development. Direct costs include employee costs arising from software development and an appropriate portion of relevant overheads. Subsequent expenditure on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Direct computer software development costs recognised as intangible assets are amortised on the straight-line basis at rates appropriate to the expected useful lives of the assets (two to fifteen years), and are carried at cost less accumulated amortisation and accumulated impairment losses. The carrying amount of capitalised computer software is reviewed annually and is written down when impaired. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if necessary.

Property and equipment

Equipment and owner-occupied properties

Equipment, furniture, vehicles and other tangible assets are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Where significant parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. The carrying amount of the replaced part is derecognised.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Bank and the cost of the item can be measured reliably. Maintenance and repairs, which do not meet this criteria, are recognised in profit or loss as incurred. Depreciation, impairment losses and gains or losses on disposal of assets are included in profit or loss.

Accounting policies

For the year ended 31 December 2018

Owner-occupied buildings are held for use in the supply of services or for administrative purpose and comprise mainly branches and offices.

Owner-occupied properties are shown at fair value less any subsequent accumulated depreciation and accumulated impairment. Valuations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. The valuations are carried out by an independent professional valuer.

Property and equipment are depreciated on the straight-line basis over the estimated useful lives of the assets to their residual values. Land is not depreciated. Leasehold improvements are depreciated over the shorter of the lease term or its useful life.

The assets' residual values and useful lives and the depreciation method applied are reviewed, and adjusted if appropriate, at each financial year-end.

The estimated useful lives of tangible assets for the current financial year are as follows:

Property	-	40 years
Computer equipment	-	3 to 5 years
Motor vehicle	-	5 years
Office equipment	-	5 to 10 years
Furniture and fittings	-	13 years

There has been no change to the estimated useful lives from those applied in the previous financial year (2017- no change).

Derecognition of property and equipment

The carrying amount of an item of property and equipment shall be derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised. When the revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

Capitalisation of borrowing costs

Borrowing costs that relate to qualifying assets, i.e. assets that necessarily take a substantial period to get ready for their intended use are capitalised. All other borrowing costs are recognised in profit or loss.

Impairment of non-financial assets

Intangible assets that have an indefinite useful life and goodwill are tested annually for impairment. Intangible assets that are subject to amortisation and other non-financial assets are reviewed for impairment at each reporting date and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Fair value less costs to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash inflows from continuing use ("cash-generating units"). Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through income statement only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Leases

Bank as lessee

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. Leases, where the Bank assumes substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are separated using the interest rate implicit in

Accounting policies

For the year ended 31 December 2018

the lease to identify the finance cost, which is recognised in profit or loss over the lease period, and the capital repayment, which reduces the liability to the lessor.

Leases of assets are classified as operating leases if the lessor retains a significant portion of the risks and rewards of ownership. Payments made under operating leases, net of any incentives received from the lessor, are recognised in profit or loss on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Bank as lessor

Lease and instalment sale contracts are primarily financing transactions in banking activities, with rentals and instalments receivable, less unearned finance charges, being included in loans and advances in the statement of financial position.

Finance charges earned are computed using the effective interest method, which reflects a constant periodic rate of return on the investment in the finance lease. Initial direct costs and fees are capitalised to the value of the lease receivable and accounted for over the lease term as an adjustment to the effective rate of return. The tax benefits arising from investment allowances on assets leased to clients are accounted for in the direct tax line.

Leases of assets under which the Bank retains a significant portion of the risks and rewards of ownership are classified as operating leases. Operating lease income from properties held as investment properties, net of any incentives given to lessees, is recognised on the straight-line basis over the lease term. When an operating lease is terminated before the lease period has expired, any payment to be made by the lessee as a penalty is recognised as income in the period in which termination takes place.

Provisions and contingent liabilities

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

A provision for restructuring is recognised when the Bank has approved a detailed formal plan, and the restructuring either has commenced or has been announced publicly. Future operating costs or losses are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

Contingent liabilities include certain guarantees, other than financial guarantees, and letters of credit pledged as collateral security. These are not recognised in the financial statements but are disclosed in the notes to the financial statements unless they are not probable.

Employee benefits

Pension obligations

The Bank operates both a defined contribution and a defined benefit plan.

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Bank pays contributions to a privately administered pension plan on a mandatory and contractual basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Defined benefit plan

A defined benefit plan is a pension plan under which the Bank contribute to the cost of benefits taking into account the recommendation of actuaries.

Accounting policies

For the year ended 31 December 2018

The Bank provides post-employment medical benefits to former employees, with entitlement to these benefits generally limited to employees who retired from employment on or before 31 December 2017. The Bank contributes to the cost of the post employment medical benefits taking account of the recommendations of the actuaries. Actuarial valuations by independent qualified actuaries are required every three years using the present value method. The assets or liabilities recognised in the statement of financial position in respect of these benefits are measured at the present value of the estimated future cash outflows, using market interest rates with maturity dates that approximate the expected maturity of the obligations, less the fair value of plan assets, using the following assumptions: expected return on investment, pension increases and medical costs inflation. Past service costs, experience adjustments and the effect of changes in actuarial assumptions are recognised in profit or loss in the current year to the extent that they relate to vested benefits of retired employees or past service.

Termination benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits at the earlier of the following dates: (a) when the Bank can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37, "Provisions, contingent liabilities and contingent assets" and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Profit-share and bonus plans

The Bank recognises a liability and an expense for bonuses and profit-share, based on a formula that takes into consideration the profit attributable to the Bank's shareholders after certain adjustments. The Bank recognises a provision where contractually it is obliged or where there is a past practice that has created a constructive obligation.

Tax

Direct tax

Direct tax includes current and deferred income tax. Current tax and deferred income tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in other comprehensive income.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in Zimbabwe. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes liabilities where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current income tax represents the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred income tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax is not recognised for the following temporary differences:

- the initial recognition of goodwill; and
- the initial recognition of assets and liabilities in a transaction that is not a business combination, which affects neither accounting nor taxable profits or losses.

The amount of deferred income tax provided is based on the temporary differences arising between the tax bases of assets and the carrying amounts in the financial assets. Deferred income tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses and tax credits can be utilised. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

Indirect tax

Indirect taxes (mainly non-recoverable Value Added Tax ("VAT")) and other duties for banking activities are disclosed separately in profit or loss.

Accounting policies

For the year ended 31 December 2018

Equity

Share capital

Ordinary shares are classified as equity.

Share issue costs

Incremental external costs directly attributable to a transaction that increases or decreases equity are deducted from equity, net of related tax. All other share issue costs are expensed.

Dividends on ordinary shares

Dividends are recognised in equity in the period in which they are declared. Dividends declared after the reporting date are disclosed in the notes to the financial statements and are recognised in equity for the following year.

Equity-linked transactions

Equity compensation plans

The Bank operates an equity-settled share-based compensation plan based on shares of its ultimate parent, the Standard Bank Group Limited. The fair value of equity-settled share options is determined on the grant date and accounted for as staff costs over the vesting period of the share options, with a corresponding increase in the share-based payment reserve. Non-market vesting conditions are not considered in the valuation but are included in the estimate of the number of options expected to vest. At each reporting date, the estimate of the number of options expected to vest is reassessed and adjusted against income and equity over the remaining vesting period.

On exercise of equity-settled share options, proceeds received are credited to share capital and premium.

Share-based payments settled in cash are accounted for as liabilities at fair value until settled. The liability is recognised over the vesting period and is revalued at every reporting date and on settlement. Any changes in the liability are recognised in profit or loss.

Revenue and expenditure

Banking activities

Revenue is derived substantially from the business of banking and related activities and comprises interest income, fee and commission income and other non-interest income.

Interest income and Interest expense

Interest income and expense are recognised in profit or loss on an accrual basis using the effective interest method for all interest-bearing financial instruments. In terms of the effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities into the statement of financial position, are capitalised to the carrying amount of financial instruments that are not at fair value through profit or loss and amortised as interest income or expense over the life of the asset or liability as part of the effective interest rate.

Where the estimates or receipts on financial assets are subsequently revised, the carrying amount of the financial asset is adjusted to reflect actual and revised estimated cash flows. The carrying amount is calculated by computing the present value of the estimated cash flows at the financial asset's original effective interest rate. Any adjustment to the carrying value is recognised as interest income.

Where financial assets have been impaired, interest income continues to be recognised on the impaired value based on the original effective interest rate and original amount.

Fair value gains or losses on realised debt financial instruments, including amounts removed from other comprehensive income in respect of available-for-sale financial assets, and excluding those classified as held for trading, are included in interest income.

Non-interest income

Net fee and commission income

Fee and commission income, including transactional fees, account servicing fees, investment management fees, are recognised as the related services are performed. Loan commitment fees for loans that are not expected to be drawn down are recognised on a straight-line basis over the commitment period.

Fee and commission expense included in net fee and commission income are mainly transaction and service fees relating to financial instruments which are expensed as the services are received. Expenditure is recognised as fee and commission expense where the expenditure is linked to the production of fee and commission income.

Accounting policies

For the year ended 31 December 2018

The fair value of issued financial guarantee contracts on initial recognition is amortised as income over the term of the contract.

Trading income

Trading income comprises all gains and losses from changes in the fair value of trading assets and liabilities, together with related interest income, expense and dividends.

Other income

Other income includes rental income and profit from disposal of property and equipment, and any other income accruing to the Bank.

Segment reporting

An operating segment is a component of the Bank engaged in business activities, whose operating results are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker allocates resources to and assesses the performance of the operating segments of the Bank and has been identified as the Executive Committee. The Executive Committee reviews monthly the internal management reports of the operating segments. It allocates resources and assesses performance of operating segments. The Bank's segmental results are presented in note 1.1 and 1.2.

Fiduciary activities

The Bank commonly acts as a trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, post-employment benefit plans and other institutions. These assets and the income arising thereon have been disclosed in note 29.

Notes to the financial statements

For the year ended 31 December 2018

1.1 Segment reporting 31 December 2018

	Personal and Business Banking USD'000	Corporate and Investment Banking USD'000	Total USD'000
1.1.1 Statement of profit or loss			
Net interest income	26 403	43 252	69 655
Total non-interest income	35 679	32 058	67 737
Net fee and commission revenue	33 922	4 747	38 669
Fee and commission revenue	38 563	4 747	43 310
Fee and commission expense	(4 641)	-	(4 641)
Trading income	-	27 020	27 020
Other income	1 757	291	2 048
Total income	62 082	75 310	137 392
Total expected credit losses	(475)	(5 143)	(5 618)
Income after credit impairment charges	61 607	70 167	131 774
Total operating expenses	(41 835)	(29 425)	(71 260)
Staff costs	(21 361)	(12 025)	(33 386)
Other operating expenses	(20 474)	(17 400)	(37 874)
Net income before indirect tax	19 772	40 742	60 514
Indirect tax	(1 931)	(998)	(2 929)
Profit before direct tax	17 841	39 744	57 585
Direct tax	(6 158)	(12 269)	(18 427)
Profit for the year	11 683	27 475	39 158
1.1.2 Operating information			
Total assets	544 755	1 127 942	1 769 230
Total liabilities	(485 504)	(1 076 537)	(1 603 455)
Other information			
Depreciation	3 281	1 091	4 372
Amortisation	1 967	1 356	3 323
Property and equipment	29 544	9 395	38 939
Property and equipment additions	5 091	1 791	6 882
Investment property	18 405	8 558	26 963
Investment property additions	3 319	2 516	5 835
Intangible assets	20 596	7 697	28 293
Intangible assets additions	599	1 784	2 383
Deferred tax assets	70	71	141

Notes to the financial statements

For the year ended 31 December 2018

1.2 Segment reporting 31 December 2017

	Personal and Business Banking USD'000	Corporate and Investment Banking USD'000	Total USD'000
1.2.1 Statement of profit or loss			
Net interest income	22 729	32 360	55 089
Total non-interest income	29 421	24 446	53 867
Net fee and commission revenue	28 095	4 474	32 569
Fee and commission revenue	30 878	4 474	35 352
Fee and commission expense	(2 783)	-	(2 783)
Trading income	-	19 687	19 687
Other income	1 326	285	1 611
Total income	52 150	56 806	108 956
Total expected credit losses	(1 914)	(195)	(2 109)
Income after credit impairment charges	50 236	56 611	106 847
Total operating expenses	(37 871)	(26 258)	(64 129)
Staff costs	(19 986)	(11 449)	(31 435)
Other operating expenses	(17 885)	(14 809)	(32 694)
Net income before indirect tax	12 365	30 353	42 718
Indirect tax	(1 379)	(798)	(2 177)
Profit before direct tax	10 986	29 555	40 541
Direct tax	(3 493)	(9 422)	(12 915)
Profit for the year	7 493	20 133	27 626
1.2.2 Operating information			
Total assets	433 019	970 094	1 403 113
Total liabilities	(355 463)	(909 985)	(1 265 448)
Other information			
Depreciation	2 806	962	3 768
Amortisation	1 699	566	2 265
Property and equipment	28 108	8 788	36 896
Property and equipment additions	5 110	1 786	6 896
Investment property	14 435	6 693	21 128
Investment property additions	7 211	2 521	9 732
Intangible assets	18 939	10 294	29 233
Intangible assets additions	3 293	1 784	5 077
Deferred tax assets	164	447	611

Notes to the financial statements

For the year ended 31 December 2018

The principal business units for the Bank are as follows:

Business Unit	Scope of operations
Personal and Business Banking	Banking and other financial services to individual customers and small to medium sized enterprises. Transactional and lending products – transactions in products associated with the various points of contact channels such as POS acquiring, ATMs and branches. This includes deposit taking activities, electronic banking, cheque accounts and other lending products. Lending products – offered to both personal and business markets. Bancassurance – provides short-term insurance products, mainly through third parties. Trade Finance products which include letters of credit and guarantees.
Corporate and Investment Banking	Commercial and investment banking services to large corporates, financial institutions and international counterparties. Vehicle and asset finance – mainly financing of vehicles and equipment. Global markets – mainly comprised of foreign exchange trading and placement of funds available for investment. Transactional products and services – includes transactional banking and investor services. Investment banking – advisory services, project finance, structured finance, structured trade finance, corporate lending, and primary markets units.

No secondary segment information is disclosed because all business activities relate to Zimbabwe. Where reporting responsibility for individual departments within business units' changes, the segmental analysis is reclassified accordingly.

Management has determined the operating segments based on the reports reviewed by the Executive Committee (the "Chief operating decision maker"), which is responsible for allocating resources to the reportable segments and assessing their performance. Both operating segments used by the Bank meet the definition of a reportable segment under IFRS 8, Operating Segments. The Executive Committee assesses the performance of the operating segments based on a measure of profit or loss. The Executive Committee considers the business from a product perspective. From a product perspective management separately considers Corporate and Investment Banking and Personal and Business Banking. The scope of operations for the two business units are detailed above.

Revenue allocated to the segments is from external customers who are domiciled in Zimbabwe. Costs incurred by support functions are allocated to the two business segments on the basis of determined cost drivers. There was no revenue from transactions with a single external customer that amounted to 10% or more of the Bank's revenue. (2017:USD nil).

Entity wide information

Stanbic Bank Zimbabwe Limited's two business units carry out their operations in Zimbabwe and there is no reliance on any major customers and no one customer makes up a material portion of the revenue streams.

Operating expenses consist of both direct and indirect expenses. Indirect expenses are allocated to the two business units based on the underlying cost drivers.

Notes to the financial statements

For the year ended 31 December 2018

2 Key management estimates and judgements

In preparing the financial statements, estimates and assumptions are made that could affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on factors such as historical experience and current best estimates of future events. Post the implementation of IFRS 9 on 1 January 2018, unless otherwise stated, no material changes to assumptions have occurred during the year. The following represents the most material key management assumptions applied in preparing these financial statements.

2.1 Expected credit loss ("ECL") on financial assets - IFRS 9 drivers

For the purpose of determining the ECL:

- The PBB portfolios are based on the product categories or subsets of the product categories, with tailored ECL models per portfolio. To ensure consistency with market practice in South Africa, the IFRS 9 impairment provision calculation has been amended to exclude post write off recoveries ("PWOR") from the loss given default ("LGD") in calculating the expected credit loss impairments. This change in the modelling assumption and estimates have been applied prospectively.
- CIB exposures are calculated separately based on rating models for each of the asset classes.

ECL measurement period

PBB

- The ECL measurement period at a minimum, is equal to the 12-month ECL of the financial asset.
- A loss allowance for full lifetime ECL is required for a financial asset if the credit risk of that financial instrument has increased significantly since initial recognition.
- The impact of the lifetime loss given default (LGD) workout, being an increase in the lifetime period over which subsequent cures and re-defaults are considered.
- The IFRS 9 requirement to hold ECL on unutilised loan commitments, notably pertaining to PBB's card and other lending portfolios.

CIB

- The ECL measurement period at a minimum, is equal to the 12-month ECL of the financial asset.
- A loss allowance for full lifetime ECL is required for a financial asset if the credit risk of that financial instrument has increased significantly since initial recognition.
- The requirement to hold ECL on unutilised loan commitments has been included, where appropriate, within this classification.

Significant increase in credit risk ("SICR") and low credit risk

A lifetime ECL requirement for all exposures for which there has been SICR. This included the impact of the LGD work out, being an increase in the life time period over which subsequent cures and re-defaults are considered. The requirement to hold ECL on off-balance sheet exposures has been included where appropriate within this classification.

PBB

In accordance with IFRS 9, all exposures are assessed to determine whether there has been SICR at the reporting date, in which case an impairment provision equivalent to the lifetime expected loss is recognised. SICR thresholds, which are behaviour score based, are derived for each portfolio vintage of exposures with similar credit risk and are calibrated over time to determine which exposures reflect deterioration relative to the originated population and consequently reflect an increase in credit risk.

The Bank also determines an appropriate transfer rate of exposures from stage 1 to stage 2 by taking into account the expected levels of arrears status for similar exposures. The SICR thresholds are reviewed regularly to ensure that they are appropriately calibrated to identify SICR throughout the life of the exposure and consequently facilitate appropriate impairment coverage.

Notes to the financial statements

For the year ended 31 December 2018

Where behaviour scores are not available, historical levels of delinquency are applied in determining whether there has been SICR. For all exposures, IFRS 9's non-rebuttable presumption of 30 days past due as well as exposures classified as either debt review or as 'watch-list' are used to classify exposures within stage 2.

Forward looking economic expectations are included in the ECL by adjusting the probability of default (PD), LGD and SICR. Adjustments are made based on the Bank's macro-economic outlook, using models that correlate these parameters with macro-economic variables. Where modelled correlations are not viable or predictive, adjustments are based on expert judgement to predict the outcomes based on the Bank's macro-economic outlook expectations.

CIB (including certain PBB business banking exposures)

The Bank uses a 25-point master rating scale to quantify the credit risk for each exposure. On origination, each client is assigned a credit risk grade within the Bank's 25-point master rating scale. Ratings are mapped to PDs by means of calibration formulae that use historical default rates and other data for the applicable portfolio. These credit ratings are evaluated at least annually or more frequently as appropriate.

CIB exposures are evaluated for SICR by comparing the credit risk grade at the reporting date to the origination credit risk grade. Where the relative change in the credit risk grade exceeds certain pre-defined ratings' migration thresholds or, when a contractual payment becomes more than 30 days overdue (IFRS 9's rebuttable presumption), the exposure is classified within stage 2. These pre-defined ratings' migration thresholds have been determined based on historic default experience which indicate that higher rated risk exposures are more sensitive to SICR than lower risk exposures. Based on an analysis of historic default experience, exposures that are classified by the Bank's master rating scale as investment grade are assessed for SICR at each reporting date but are considered to be of a low credit risk for IFRS 9 purposes.

Forward looking economic expectations are incorporated in CIB's client ratings. The client rating thus reflects the expected client risk for the group's expectation of future economic and business conditions. Further adjustments, based on point-in-time market data, are made to the PDs assigned to each risk grade to produce PDs and ECL representative of existing market conditions.

Forward looking expectations

- The Group Economics Research team determines the macroeconomic outlook for each country and a group view of commodities over a planning horizon of at least three years. The outlook is provided to the Bank's Chief Financial Officer for review and asset and liability committee for approval.
- Macroeconomic outlooks take into account various variables such as gross domestic product, central bank policy interest rates, inflation, exchange rates and treasury bill rates.
- Narratives for each of the country economic outlooks, being bear, base and bull cases, are compiled and typically include consideration of the country's economic background, sovereign risk, foreign exchange risk, financial sector, liquidity and monetary policy stance.
- Probabilities are assigned to each of the bear, base and bull cases based on primary macroeconomic drivers and are reviewed monthly.
- The forward looking economic expectations are updated on a bi-annual basis or more regularly when deemed appropriate.

PBB

Adjustments to the PD and LGD, based on forward looking economic expectations at the reporting date, resulted in the requirement to hold higher credit impairments.

CIB

Negligible impact as CIB's client ratings, used for IAS 39 purposes, typically included forward looking expectations.

Notes to the financial statements

For the year ended 31 December 2018

Lifetime LGD work out

Increased lifetime period over which subsequent cures and re-defaults are considered resulted in higher credit impairments for credit-impaired financial assets.

Default

The Bank's definition of default has been aligned to its internal credit risk management definitions and approaches. Whilst the specific determination of default varies according to the nature of the product, it is generally determined (aligned to the Basel definition) as occurring at the earlier of:

- where, in the Bank's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as the realisation of security; or
- when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit).

The Bank will not rebut IFRS 9's 90 days past due rebuttable presumption.

Write off policy

An impaired loan is written off once all reasonable attempts at collection have been made and there is no economic benefit expected from attempting to recover the balance outstanding. The following criteria must be met before a financial asset can be written off:

- the financial asset has been in default for the period defined for the specific product (i.e. vehicle and asset finance, mortgage loans, etc.) which is deemed sufficient to determine whether the Bank is able to receive any further economic benefit from the impaired loan; and
- at the point of write-off, the financial asset is fully impaired (i.e. 100% allowance) with the expectation that the probability of recovery is nil and this probability is not expected to change in the future.

As an exception to the above requirements, where the exposure is secured (or for collateralised structures), the impaired loan can only be written off once the collateral has been realised. Post-realisation of the collateral, the shortfall amount can be written off if it meets the second requirement listed above. The shortfall amount does not need to meet the first requirement to be written off.

Curing

Continuous assessment is required to determine whether the conditions that led to a financial asset being considered to be credit impaired (i.e. stage 3) still exist. Financial assets that no longer qualify as credit impaired remain within stage 3 for a minimum period of six months (i.e. six full consecutive monthly payments per the terms and conditions). However, in the case of financial assets with quarterly or longer dated repayment terms, the classification of a financial asset out of stage 3 may be made subsequent to an evaluation by the Bank's Credit Governance Committee, such evaluation will take into account qualitative factors in addition to compliance with payment terms and conditions of the agreement. Qualitative factors include compliance with covenants and compliance with existing financial asset.

Where it has been determined that a financial asset no longer meets the criteria for significant increase in credit risk, when compared to the credit rating at initial recognition, the financial asset will be moved from stage 2 (lifetime expected credit loss model) back to stage 1 (12-month expected credit loss model) prospectively. In retail portfolios, a rehabilitation period of at least 6 months (subsequent to a customer repaying all outstanding facilities) would be needed for the customer's internal rating to decrease back to its rating scale at initial recognition and move from stage 2 to stage 1 accordingly.

Debt financial investments

In terms of IFRS 9, this impairment provision is calculated per exposure for the shorter of 12 months or the remaining lifetime of the exposure. Such exposures generally did not carry an impairment provision in terms of IAS 39's incurred loss impairment requirements.

Notes to the financial statements

For the year ended 31 December 2018

Off-balance sheet exposures – bankers acceptances, guarantees and letters of credit

The requirement to hold ECL on off-balance sheet financial instruments, such as guarantees and letters of credit, resulted in a requirement to hold additional credit impairment provisions which were not held in terms of IAS 39.

The Bank's forward-looking economic expectations were applied in the determination of the ECL at the reporting date:

A range of base, bearish and bullish forward looking economic expectations were determined, as at 31 December 2018, for inclusion in the Bank's forward-looking process and ECL calculation.

Zimbabwean economic expectation

- The base case for Zimbabwe is that the Government is willing to engage with the international and local partners. In addition, the country's major mineral exports will continue to suffer from international price volatility. Trade wars between US, Turkey & China if unresolved will also significantly impact on the demand for base metals such as Nickel. The country is likely to experience El Nino weather conditions during 2018/19 agricultural season which will negatively impact agricultural output. In addition,the fiscal issues facing the economy are not likely to be fully addressed in the short to medium term outlook.
- The bear case for Zimbabwe is that the Government adopts a hardliner stance in dealing with both internal and external stakeholders such that the international community close doors on any re-engagement efforts with Zimbabwe. In addition, sanctions on Zimbabwe will be elevated. In turn no meaningful international capital will be received in the next five years and fiscal imbalances worsen.
- There is a rather low probability on the bullish case in which significant international capital is expected to be received in the next five years, including an immediate advancement of significant credit lines and also the successful re-engagement with the international community, including potential relaxation of US sanctions.

Main Macroeconomic Factors

The following table shows the main macroeconomic factors used to estimate the allowances for credit losses on loans. For each scenario, namely, the base case, bullish and bearish scenario, the average values of the factors over the next 12 months and over the remaining forecast period are presented below.

Macroeconomic factors	Base scenario		Bearish scenario		Bullish scenario	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Zimbabwe						
Inflation (end period)	50.73%	18.96%	127.46%	36.42%	19.85%	5.95%
Real GDP growth (yoy%)	1.5%	4%	-5%	1.5%	3%	10%
Money supply (USD million)	13 386	17 062	15 232	20 469	12 903	16 557
Prime lending rates guideline	6-18%	6-18%	6-18%	6-18%	6-18%	6-18%

Sensitivity Analysis of PBB allowances for credit losses on non-impaired loans

The following table shows a comparison of the Bank's allowances for credit losses on non-impaired exposures under IFRS 9 as at 31 December 2018 based on the probability weightings of three scenarios with allowances for credit losses resulting from simulations of each scenario weighted at 100%.

Notes to the financial statements

For the year ended 31 December 2018

Forward looking impact on IFRS 9 provision	Allowances for credit losses (USD'000)
Scenarios	
100% Base	6 533
100% Bear	11 453
100% Bull	3 169

2.2 Income taxes

The Bank is subject to direct tax in Zimbabwe. The Bank recognises liabilities based on objective estimates of the quantum of taxes that may be due. Where the final tax determination is different from the amounts that were initially recorded, such differences will impact the current income and deferred tax expense in the year in which such determination is made.

2.3 Property and equipment

The Bank assesses the useful lives and residual values of property and equipment at each financial year end. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgements as to whether there is observable data indicating a measurable change in residual values.

2.4 Computer software

Direct computer software development costs that are clearly associated with an identifiable and unique system, which will be controlled by the Bank and have a highly probable future economic benefit beyond one year, are capitalised and disclosed as computer software intangible assets. Computer software intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. The assets are reviewed for impairment at each reporting date and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The determination of the recoverable amount of each asset requires judgement. The recoverable amount is based on the value in use and calculated by estimating future cash benefits that will result from each asset and discounting these cash benefits at an appropriate pre-tax discount rate. The carrying value of computer software intangible assets capitalised at 31 December 2018 amounted to USD28.3 million (2017: USD29.2 million).

2.5 Investment property

The fair value of investment property is based on a valuation which is reviewed annually and is written off when impaired. If the valuation information cannot be reliably determined, the Bank uses alternative valuation methods such as discounted cash flow projections or recent prices in active markets.

2.6 Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Management's judgement surrounding the probability and sufficiency of future taxable profits, future reversals of existing taxable differences and ongoing developments will determine the recognition of deferred tax. The most significant management assumption is the forecasts used to support the probability assessment that sufficient taxable profits will be generated by the Bank in order to utilise the deferred tax assets.

Note 15 summarises the details of the carrying amount of the deferred tax assets and liabilities.

Notes to the financial statements

For the year ended 31 December 2018

2.7 Share based payment

The Standard Bank Group has a number of cash and equity-settled share incentive schemes which are issued to qualifying employees based on the rules of the schemes. The Standard Bank Group uses the Black-Scholes option pricing model to determine the fair value of awards on grant date for its equity-settled share incentive schemes. The valuation of the obligation with respect to its cash-settled share incentive scheme obligations is determined with reference to the Standard Bank Group's share price, which is an observable market input. In determining the expense to be recognised for both the cash and equity-settled share schemes, the Bank estimates the expected future vesting of the awards by considering staff attrition levels. The Bank also makes estimates of the future vesting of awards that are subject to non-market vesting conditions by taking into account the probability of such conditions being met.

2.8 Provisions

The principal assumptions taken into account in determining the value at which provisions are recorded at, in the Bank's statement of financial position, include determining whether there is an obligation as well as assumptions about the probability of the outflow of resources and the estimate of the amount and timing for the settlement of the obligation. The probability of an event of a significant nature occurring will be assessed by management and, where applicable, consultation with the Bank's legal counsel. In determining the amount and timing of the obligation once it has been assessed to exist, management exercises its judgement by taking into account all available information, including that arising after the balance sheet date up to the date of the approval of the financial statements.

2.9 Fair value

In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability at measurement date.

2.10 Valuation of properties

The basis of value is "fair value" which is defined as the price that would be received at the measurement date under current market conditions (an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The following assumptions are made:

- a willing seller;
- that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as the date of valuation;
- that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- that both parties to the transaction had acted knowledgeably, prudently and without compulsion.

2.11 Operating lease commitments

The Bank has entered into property leases on some of its rented branches and offsite ATM locations. The Bank's management has determined that the Bank has not obtained substantially all the risks and rewards of ownership of these properties, the leases have been classified as operating leases and accounted for accordingly.

2.12 Fair value of unquoted assets and liabilities

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Where fair values cannot be reliably estimated, assets are measured at cost.

2.13 Impairment of available for sale financial assets

The Bank will impair its available for sale financial asset when a loss event has occurred and this loss event has a reliable measurable impact on future cash flows.

2.14 Defined benefit obligation

Significant estimates are made in valuing the Bank's defined benefit scheme. These include assessing the expected medical aid contributions for the life expectancy of the retirees and the expected effect of inflation on medical aid costs.

Notes to the financial statements

For the year ended 31 December 2018

2.15 Determination of the functional currency

In 2009, Zimbabwe adopted the multi-currency system to replace the sole use of the Zimbabwean dollar (ZW$). In turn, Stanbic Bank Zimbabwe adopted the USD as its functional currency. Significant monetary and exchange control policy changes were experienced in the country since 2016 due to foreign currency shortages in the market. To address the mounting foreign currency shortages, the RBZ introduced measures to alleviate these shortages, which included:

- Introduction of government directives to open the Real Time Gross Settlement System ("RTGS") to use other currencies (such as ZAR, GBP and EUR) and the requirement for entities to further adopt and embrace multi-currencies;
- Introduction of $200 million worth of bond notes in addition to the bond coins initially issued;
- The bond notes and coins were supported by the gazetting of Statutory Instrument 133 of 2016 which prescribed that the bond notes were legal tender and would be at par with the USD;
- Increased use of alternative transaction and money transfer platforms (e.g. mobile money, point of sale etc.); and
- Promulgation of new legislation in the form of statutory instruments 122A of 2017 that defines currency to include bond notes and coins only for the purposes of the regulations. Statutory Instrument 122A of 2017 was issued with the objective of curbing illegal dealings in currency and giving the police special powers to confiscate the currency notes.

In February 2018, further directives were issued which included the ring fencing of nostro foreign currency deposits by foreign exchange earners. In October 2018, banks were instructed to separate nostro FCA accounts from nostro RTGS accounts. The exchange rate remained fixed at 1:1 and the balances in the two types of accounts continued to be referred to as the United States Dollar (USD). This created clarity that within Zimbabwe both USD and RTGS were legal tender and that these different currencies were not interchangeable, even though the official exchange rate was 1:1. As a result, SBZ concluded that, per IAS 21, its functional currency changed from USD to RTGS on 1 October 2018 because the majority of SBZ's transactions were conducted in RTGS. However, in an effort to comply with statutory requirements (S.I.33), the Bank's 2018 financial statements were accordingly presented in USD at an exchange rate of 1:1 between the USD and the RTGS Dollar.

Although the exchange rate had remained fixed at 1:1, foreign exchange rate premiums on the alternative market in September 2018 ranged from 1USD:1.4 to 1USD:1.8. As stated above, SBZ did not participate in these alternative markets. The increasing volatility in foreign currency exchange rates in the country had a negative impact on inflation which grew from 5.4% in September 2018 to 42.09% in December 2018. The elevated turmoil in the macro economic environment saw retailers pricing their goods and services based on a multi-tier pricing system where a single product had different prices depending on the mode of payment that is USD cash, electronic payment, mobile money and bond notes. This pricing structure indicates that most of the transactions in the economy were now largely being conducted in electronic money and bond notes given the intensifying foreign currency shortages, at implied rates of around 3 to 3.5 to the USD.

The worsening foreign currency shortages in the market saw the settlement of goods and services being largely done using the RTGS balances and bond notes. In addition, the cost of labour, material and other costs associated with the provision of service was now being settled in RTGS balances although these services were denominated in USD. Financial investments were now being acquired using the readily available RTGS balances and lending products were mostly accessed in RTGS balances although denominated in USD as nostro receipts in the country remained depleted. Income generated from companies' operating activities, including SBZ, in 2018 was largely in RTGS balances. The level of transactions using local forms of payment in proportion to those in USD cash had significantly increased during the period.

The USD remained the primary driver of our product pricing and banking activities including lending throughout the period although our receivables and payables were being settled using the readily available RTGS balances. During the period, the Bank also generated its own foreign currency from banking activities although the greater part of our income was generated from RTGS earning assets and RTGS transaction charges. The foreign currency earned by the Bank was used for the settlement of foreign obligations at a rate of 1:1. Nostro allocations which were done by the RBZ for the benefit of our clients were processed at an exchange rate of 1:1. In addition, Statutory Instrument 33 of 2019 was issued on 22 February 2019, introducing an electronic currency called Real Time Gross Settlement system (RTGS dollar or RTGS$). It specified, among other things, that for accounting and other purposes, all RTGS assets and RTGS liabilities that were immediately before the effective date valued in United States Dollars shall on and after the effective date be deemed to be valued in RTGS$ at a rate of one-to-one to the United States Dollar. This led to the directors concluding that the appropriate exchange rate to use, in compliance with S.I.33, at the date of the change in functional currency and subsequent to the change in functional currency up until the end of the current reporting period is the official rate of 1:1.

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For the year ended 31 December 2018

3 IFRS 9 - transition

Background

With effect from 1 January 2018, IFRS 9 replaced IAS 39. IFRS 9 introduced new requirements which included an ECL impairment model and new requirements for the classification and measurement of financial assets as follows:

Expected credit losses ("ECL") impairment requirements	IFRS 9's ECL impairment model's requirements represented the most material IFRS 9 transition impact for the Bank. OCI, loan commitments when there is a present commitment to extend credit (unless these are measured at fair value through profit or loss (FVTPL)) and guarantees. ECL is, at a minimum, required to be measured through a loss allowance at an amount equal to the 12-month ECL. However, where the lifetime is less than 12 months, lifetime ECL will be measured for the financial asset. A loss allowance for full lifetime ECL is required for a financial asset if the credit risk of that financial instrument has increased significantly since initial recognition.
Classification and measurement	IFRS 9 requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The accounting for financial assets differs in various other areas to the IAS 39 requirements such as embedded derivatives and the recognition of fair value adjustments in OCI.

Adoption of IFRS 9

The Bank retrospectively adopted IFRS 9 on 1 January 2018 with an adjustment to the Bank's opening 1 January 2018 reserves and, as permitted by IFRS 9, did not restate its comparative financial results. Accordingly, the Bank's previously reported financial results up to 31 December 2017 are presented in accordance with the requirements of IAS 39 and for 2018, and future reporting periods, are presented in terms of IFRS 9.

IFRS 9's ECL requirements

The most material IFRS 9 transition impact for the Bank is that of IFRS 9's new ECL requirements which results in the earlier recognition of credit impairment provisions primarily as a result of the drivers outlined in the table below. This impact was solely as a result of the adoption of IFRS 9 and is not as a result of changes in the credit quality of the Bank's loan exposures.

12-month ECL for performing loans (stage 1)	IFRS 9 contains a minimum 12-month ECL for exposures for which there has not been a significant increase in credit risk (SICR), whereas IAS 39 required credit impairments to be recognised only following the identification of objective evidence of impairment.
Significant increase in credit risk (SICR) (stage 2)	A lifetime ECL is recognised for all exposures for which there has been a SICR, being a material change in the probability of default, since origination.
Off-balance sheet exposures	IFRS 9's scope includes off-balance sheet exposures, such as unutilised loan commitments (except those loan commitments at fair value through profit and loss), bankers acceptances, guarantees, and letters of credit.
Lifetime model work out requirement	In terms of determining ECL for stage 1 and 2 exposures where there is a probability of default, the potential loss from a lifetime perspective is considered, which would include the probability of recovery post default and subsequent re-default. For stage 3 exposures, being exposures that are either in default or where default is imminent, this would include consideration of cures and subsequent re-default.
Forward looking economic expectations	IFRS 9 requires an adjustment for forward looking economic expectations in the determination of SICR and in the measurement of the ECL.

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For the year ended 31 December 2018

3.1 IFRS 9 key financial impact

Table 1: Impact on the Bank's extracted statement of financial position on 1 January 2018

		IFRS 9 transition adjustment at 1 January 2018			
	IAS 39 at 31 December 2017 USD'000	IFRS 9 ECL USD'000	IFRS 9 classification and measurements USD'000	Total USD'000	IFRS 9 at 1 January 2018 USD'000
Assets					
Cash and cash equivalents	729 667	(2 090)	-	(2 090)	727 577
Loans and advances to customers	330 409	(7 932)	-	(7 932)	322 477
Financial investments	237 403	(5 955)	(191)	(6 146)	231 257
Investment securities	516	-	485	485	1 001
Deferred tax assets *	3 810	4 267	(76)	4 191	8 001
Total	1 301 805	(11 710)	218	(11 492)	1 290 313
Equity and liabilities					
Other liabilities**	57 674	593	-	593	58 267
Equity	137 665	(12 301)	218	(12 083)	125 582
Total	195 339	(11 708)	218	(11 490)	183 849

*materially relates to the recognition of additional deferred tax assets following the recognition of the IFRS 9 ECL transition adjustment.

** materially relates to the recognition of ECL on off balance sheet loan commitments, letters of credit and guarantees.

Table 2: Impact on the Bank's extracted statement of changes in equity on 1 January 2018

	IAS 39 at 31 Decmber 2017 USD'000	IFRS 9 transition adjustment at 1 January 2018 USD'000	IFRS 9 at 1 January 2018 USD'000
Equity			
Ordinary share capital and share premium	11 050	-	11 050
Retained earnings	121 792	(11 485)	110 307
Other	4 823	(598)	4 225
Total equity	137 665	(12 083)	125 582

The change in the retained earnings relates to IFRS ECL changes. Of the USD191 000 in the Bank's available for sale reserve as at 31 December 2017, the entire amount was reclassified to amortised cost. The Bank's equity investment which was previously measured at cost and is now measured at fair value through OCI. The FVOCI election was made as this is a strategic investment in Zimswitch Holdings and the intention is not to make a profit on trading it.

Notes to the financial statements

For the year ended 31 December 2018

Table 3: Impact on financial instrument classification (excluding impact of IFRS 9 ECL)

		IFRS 9 transition adjustments at 1 January 2018					
	IAS 39 at 31 December 2017 USD'000	Held for trading USD'000	Fair value through profit or loss default USD'000	Amortised cost USD'000	Fair value through OCI USD'000	IFRS 9 at 1 January 2018 USD'000	Transitional adjustment USD'000
Financial assets							
Held for trading	101	101	-	-	-	101	-
Loans and receivables	1 073 646	-	6 180	1 067 466	-	1 073 646	-
Available for sale	273 403	-	-	273 212	-	273 212	(191)
Equity investments	516	-	-	-	1 001	1 001	485
Total financial assets	1 347 666	101	6 180	1 340 678	1 001	1 347 960	(294)
Financial liabilities							
Held for trading	6	6	-	-	-	6	-
Other amortised cost	1 254 224	-	-	1 254 224	-	1 254 224	-
Total financial liabilities	1 254 230	6	-	1 254 224	-	1 254 230	-

Cash and balances with Central Bank was in terms of IAS 39 classified as loans and receivables . Coins and notes have been classified as at fair value through profit or loss- default as the contractual terms do not give rise on specified dates to cash flows that represent solely payments of principal and interest on the principal amount outstanding.

The Bank applied IFRS 9's classification and measurement requirements based on the facts and circumstances at 1 January 2018 in determining the transition adjustment. As at 1 January 2018 the Bank determined the classification of financial assets on the basis of the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. An assessment of the instrument's contractual terms was performed to determine whether the terms give rise on specified dates to cash flows that are solely payments of principal and interest of the principal amount outstanding (referred to as SPPI) and whether there is an accounting mismatch.

For debt financial assets that meet IFRS 9's business model (held to collect) and the SPPI tests and are to be classified as amortised cost or at fair value through OCI, the Bank assessed whether there is an accounting mismatch based on the facts and circumstances as at 1 January 2018.

Equity financial assets are assessed to be designated as at fair value through OCI based on the facts and circumstances as at 1 January 2018.

From a classification perspective, with the exception of what is noted below, both IAS 39 and IFRS 9 have the same requirements for the classification of financial liabilities. From a recognition of gains and losses perspective, the amount of the change in fair value that is attributable to changes in the credit risk of financial liabilities that have been designated at fair value through profit and loss shall, in terms of IFRS 9, be recognised in OCI with the remaining amount of the change in the fair value of the financial liability being presented in profit or loss. The gains and losses presented in OCI are not subsequently recognised in profit or loss. Where, however, presenting the changes in the fair value of the liability due to changes in credit risk in OCI would create or enlarge an accounting mismatch in profit or loss, IFRS 9 permits the gains and losses due to changes in the credit risk of that liability to be recognised in profit or loss. The Bank re-assessed its financial liabilities to be designated as at fair value through profit and loss based on the facts and circumstances at 1 January 2018. These financial liabilities are either continued to be designated as at fair value through profit and loss or were reclassified to amortised cost under IFRS 9.

Notes to the financial statements

For the year ended 31 December 2018

3.2 The transition from IAS 39 to IFRS 9's impairments by asset class

	Portfolio impairments IAS 39- 31 December 2017	Specific provisions IAS 39 – 31 December 2017	Total IAS 39 impairments	Stage 1- IFRS 9- 31 December 2017	Stage 2- IFRS 9- 31 December 2017	Stage 3- IFRS 9- 31 December 2017	Total IFRS 9 impairment provision	Transitional adjustment including tax
Statement of financial position								
Cash and cash equivalents	-	-	-	2 090	-	-	2 090	2 090
Financial investments	-	-	-	5 955	-	-	5 955	5 955
Loans and advances to customers	16 059	5 178	21 237	5 090	19 166	4 913	29 169	7 932
Off balance sheet	-	-	-	483	110	-	593	593
Total	16 059	5 178	21 237	13 618	19 276	4 913	37 807	16 570

	31 December 2018 USD'000	31 December 2017 USD'000
4 Cash and cash equivalents		
Bank notes and coins	11 492	6 180
Balances with the Central Bank	698 123	604 948
Balances with other banks	224 596	118 539
	934 211	729 667
Expected credit loss on balances with other banks	(1 657)	-
Current	932 554	729 667
A reconciliation of the allowances for expected credit losses on balances with other banks		
Stage 1		
Balance as at the beginning of the year	-	-
IFRS 9 transitional adjustment	(2 090)	-
Net movement	443	-
Originated impairments raise	443	-
Derecognised or write offs	-	-
Other movements	(10)	-
Balance at end of the year	(1 657)	-

Balances with the Central Bank and other banks (including foreign banks) are used to facilitate customer transactions which include payments and cash withdrawals. During the year ended 31 December 2016 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.

Notes to the financial statements

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Included in cash and cash equivalents are bond notes and coins which are bearer instruments that are pegged at 1:1 with the United States dollar.

Please also refer to note 2.15 above on the determination of functional currency.

5 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 2018 and 31 December 2017. 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 2018 USD'000	Fair value of assets 31 December 2017 USD'000
5.1 Derivative assets		
Derivatives held for trading		
Foreign exchange contracts	17	101
Maturity analysis of net fair value		
Up to 1 month	17	101
More than 1 month but within 1 year	-	-
	17	101
Derivative liabilities		
Derivatives held for trading		
Foreign exchange contracts	(7)	(6)
Maturity analysis of net fair value		
Up to 1 month	(7)	(6)
More than 1 month but within 1 year	-	-
	(7)	(6)

Notes to the financial statements

For the year ended 31 December 2018

		Note	31 December 2018 USD'000	31 December 2017 USD'000
6	**Financial investments**			
	Balance at the beginning of the year		237 403	82 945
	Less IFRS 9 transitional adjustment (note 3.1)		(6 146)	-
	Additions		192 964	234 991
	Interest accrued		15 748	7 546
	Total disposals		(107 876)	(88 003)
	Disposals		(104 554)	(84 167)
	Interest received		(3 322)	(3 836)
	Loss from changes in fair value	23.6	-	(76)
	Expected credit loss allowances		(5 112)	-
	Balance at the end of the year		326 981	237 403
	Current		326 981	107 032
	Non -current		-	130 371
			326 981	237 403
6.1	**Financial investments**			
	Other financial investments			
	Comprising:			
	Debt at available for sale		-	237 403
	Debt at amortised cost			
	Corporate & Investment Banking		326 981	-
	Sovereign (treasury bills and bonds)		189 497	-
	Bank (AFTRADE bond)		137 484	-
6.1.2	**Gross financial investments**			
	Sovereign		200 557	-
	Bank		137 491	-
	Expected credit loss			
	Stage 1	6.1.3	(11 067)	-
	Net debt financial investments		326 981	-
	Comprising			
	Gross debt financial investments		338 048	-
	Less: Expected credit loss		(11 067)	-
	Net debt financial investments		326 981	-

Notes to the financial statements

For the year ended 31 December 2018

	Note	Stage 1	Stage 2	Stage 3	Total
6.1.3 Expected credit loss for debt financial investments					
Sovereign		(11 060)	-	-	(11 060)
Bank		(7)	-	-	(7)
	6.1.2	(11 067)	-	-	(11 067)

6.1.4 A reconciliation of the expected credit losses for debt financial investments at amortised cost, by class:

	Sovereign	Bank	Total
Stage 1			
Balance at beginning of the year (IFRS 9 transitional adjustment)	5 879	76	5 955
Net movement (note 23.6)	5 181	(69)	5 112
Originated impairments raised	5 181	-	5 181
Subsequent decrease in expected credit loss	-	(69)	(69)
Derecognised including written off	-	-	-
Balance at the end of period	11 060	7	11 067

	31 December 2018 USD'000	31 December 2017 USD'000
Maturity analysis		
The maturities represent periods to contractual redemption of the financial investments recorded:		
Maturing within one year	326 981	107 032
Maturing after one year but within 5 years	-	130 371
	326 981	237 403
6.2 Investment securities		
Balance at the beginning of the period	516	516
IFRS 9 transitional adjustment (note 3.1)	485	-
Additions	99	-
Net change in fair value	1 164	-
Balance as at 31 December 2018	2 264	516

The Bank has a 15.97% shareholding in Zimswitch Holdings, an entity which provides central national switch for banks in Zimbabwe facilitating clearing and settlement of local payments and transfers. This is a strategic investment that the Bank has made and it is measured at fair value through other comprehensive income.

Notes to the financial statements

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		Note	31 December 2018 USD'000	31 December 2017 USD'000
7	**Loans and advances**			
	Personal & Business Banking: Loans and advances		221 434	197 182
	Mortgage loans		20 160	15 506
	Instalment sale and finance leases		22 741	16 836
	Personal unsecured lending		82 927	71 009
	Business lending and other		95 606	93 831
	Corporate & Investment Banking loans and advances			
	Corporate lending		196 499	154 464
	Expected credit loss (after 1 January 2018)			
	Stage 1		(2 938)	-
	Stage 2		(23 704)	-
	Stage 3		(3 948)	-
	Credit impairment allowances for loans and advances before January 2018			
	Specific impairment allowances		-	(5 178)
	Portfolio impairment allowances		-	(16 059)
	Net loans and advances		387 343	330 409
7.1	**Comprising:**			
	Gross loans and advances		417 933	351 646
	Expected credit loss	7.3	(30 590)	-
	Credit impairments before 1 January 2018		-	(21 237)
	Net loans and advances		387 343	330 409
	Maturity analysis			
	The maturity analysis is based on the remaining periods to contractual maturity from period end			
	Redeemable on demand		199 112	183 465
	Maturing within 1 month		7 949	6 619
	Maturing after 1 month but within 12 months		91 088	71 950
	Maturing after 12 months		119 784	89 612
	Gross loans and advances		417 933	351 646

Notes to the financial statements

For the year ended 31 December 2018

Sectoral analysis – industry	31 December 2018 USD'000	31 December 2018 %	31 December 2017 USD'000	31 December 2017 %
Wholesale distribution	56 386	13%	65 874	19%
Individuals	105 838	25%	83 536	24%
Agriculture	85 814	21%	78 744	22%
Manufacturing	34 161	8%	40 050	11%
Other services	79 391	19%	45 168	13%
Mining	23 128	6%	23 599	7%
Construction	21 583	6%	9 750	3%
Transport	10 179	2%	3 975	1%
Communications	1 453	0%	398	0%
Finance	-	0%	552	0%
	417 933	100%	351 646	100%

There are material concentrations of loans and advances to individuals 25% (2017:24%), agriculture 21% (2017:22%), other services 19% (2017:13%) distribution 13% (2017:19%).

Sectoral analysis - geographical area

The following table sets out the distribution of loans and advances to customers by geography:

	31 December 2018 USD'000	31 December 2018 %	31 December 2017 USD'000	31 December 2017 %
Harare and Chitungwiza	349 140	84%	300 792	86%
Bulawayo	27 866	7%	23 004	7%
Kwekwe	9 772	2%	7 308	2%
Victoria Falls and Hwange	9 730	2%	5 993	2%
Ngezi	5 153	1%	4 986	1%
Chegutu	3 897	1%	2 798	1%
Gweru	6 268	2%	2 726	1%
Mutare	4 160	1%	2 431	0%
Beitbridge	1 947	0%	1 608	0%
	417 933	100%	351 646	100%

Notes to the financial statements

For the year ended 31 December 2018

		31 December 2018 USD'000	31 December 2017 USD'000
7.2	**Finance leases**		
	Gross investment in instalment sale and finance leases	34 896	30 543
	Receivable within 1 month	6 517	4 027
	Receivable after 1 month but within 6 months	12 782	7 836
	Receivable after 6 months but within 12 months	6 792	5 956
	Receivable between 1 year- five years	8 805	12 724
	Unearned finance charges	(2 576)	(2 753)
	Net investment in finance leases	32 320	27 790
	Current (net of unearned finance charges)	24 138	16 165
	Non current (net of unearned finance)	8 182	11 625
		32 320	27 790
	Maturity analysis		
	Receivable within 1 month	6 455	3 952
	Receivable after 1 month but within 6 months	11 481	7 101
	Receivable after 6 months but within 12 months	6 202	5 112
	Receivable between 1 year – 5 years	8 182	11 625
		32 320	27 790

IFRS 9 stage 1 and 2 expected credit loss of USD2 392 000 (2017 IAS 39: USD1.4 million) was raised on the outstanding finance leases as at 31 December 2018.

Finance leases are included in the Bank's loans and advances to customers.Leases are entered into at market-related terms. Under the terms of the lease agreements, no contingent rentals are receivable. Moveable assets are leased or sold to customers under finance leases and instalment sale agreements for periods ranging from 12 and 36 months.

Notes to the financial statements

For the year ended 31 December 2018

7.3 Expected credit loss for loans and advances

The allowances for expected credit losses for loans and advances by class for the year ended 31 December 2018 is as follows:

	Stage 1 USD'000	Stage 2 USD'000	Stage 3 USD'000	Total USD'000
Total impairments				
Mortgage loans	78	1 112	159	1 349
Instalment sale and finance leases	302	2 089	714	3 105
Personal unsecured lending	327	3 705	1 243	5 275
Business lending and other	726	5 043	1 832	7 601
Corporate lending	1 505	11 755	-	13 260
Balance as at 31 December 2018 (note 7.1)	2 938	23 704	3 948	30 590

A reconciliation of the allowances for expected credit losses for loans and advances by class for the year ended 31 December 2018

	Mortgage loans USD'000	Instalment sale and finance leases USD'000	Personal unsecured Lending USD'000	Business lending and other USD'000	Corporate lending USD'000	Total USD'000
Stage 1						
Balance as at the beginning of the year	151	373	893	1 938	1 735	5 090
Net movement (note 23.6)	(73)	(71)	(566)	(1 258)	(230)	(2 198)
Originated impairments raised	46	67	567	1 099	947	2 726
Subsequent changes in expected credit loss	(174)	(127)	(1 113)	(1 911)	(918)	(4 243)
Transfers from stage 2	39	(3)	95	(59)	622	694
Transfers from stage 3	(6)	(5)	(36)	(237)	-	(284)
Derecognised including write offs	22	(3)	(79)	(150)	(881)	(1 091)
Other movements	-	-	-	46	-	46
Balance at the end of the year	78	302	327	726	1 505	2 938
Stage 2						
Balance as at the beginning of the year	395	2 001	1 186	6 532	9 052	19 166
Net movement (note 23.6)	717	88	2 519	(1 464)	2 703	4 563
Originated impairments raised	1	3	44	32	3 120	3 200
Subsequent changes in expected credit loss	755	84	2 577	(1 548)	(1 354)	514
Transfers from stage 1	(39)	3	(95)	59	(622)	(694)
Transfers from stage 3	-	(2)	(7)	(7)	1 684	1 668
Derecognised including write offs	-	-	-	-	(125)	(125)
Other movements	-	-	-	(25)	-	(25)
Balance at the end of the year	1 112	2 089	3 705	5 043	11 755	23 704
Stage 3						
Balance as at the beginning of the year	207	277	1 464	2 524	2 075	6 547
Net movement (note 23.6)	(46)	473	253	(74)	(1 970)	(1 364)
Originated impairments raised	-	-	-	-	-	-
Subsequent changes in expected credit loss	(52)	466	489	(88)	(262)	553
Transfers from stage 1	6	5	36	237	-	284
Transfers from stage 2	-	2	7	7	(1 684)	(1 668)
After write off recoveries	-	-	(279)	(230)	(24)	(533)
Write offs	(13)	(36)	(496)	(350)	24	(871)
Other movements	11	-	22	(268)	(129)	(364)
Balance at the end of the year	159	714	1 243	1 832	-	3 948

Notes to the financial statements

For the year ended 31 December 2018

7.4 Expected credit loss for loans and advances

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	Commercial property loans USD'000	Total USD'000
Year ended 31 December 2017						
Non-performing loans						
Balance as at the beginning of the year	69	359	6 832	2 122	-	9 382
Impaired loans written off	(12)	(207)	(2 587)	(2 141)	-	(4 947)
Net impairment charge for the year	136	124	(651)	1 134	-	743
Balance as at end of the year	193	276	3 594	1 115	-	5 178
Performing loans						
Balance as at the beginning of the year	229	1 232	8 716	4 516	-	14 693
Net impairment charge for the year	45	171	(631)	1 687	94	1 366
Balance as at end of the year	274	1 403	8 085	6 203	94	16 059
Total (performing and non-performing loans)	467	1 679	11 679	7 318	94	21 237

Notes to the financial statements

For the year ended 31 December 2018

7.5 Credit impairments

Sectoral analysis of impairment for non-performing loans – industry	31 December 2018 USD'000	31 December 2018 %	31 December 2017 USD'000	31 December 2017 %
Agriculture	63	2%	68	1%
Manufacturing	574	21%	2 087	40%
Individual	1 015	38%	1 730	33%
Transport	406	15%	129	3%
Other services	184	7%	212	4%
Mining	-	0%	263	5%
Distribution	369	14%	648	13%
Communication	-	0%	-	0%
Construction	67	3%	41	1%
	2 678	100%	5 178	100%

7.6 The net expected credit loss allowances for the year ended 31 December 2018 was USD 5 618 000 (2017: USD 2 109 000) as disclosed in note 23.6.

7.7 The table below shows modifications that did not result in derecognition for loans and advances measured at amortised cost

	Stage 2	
	Amortised cost before modification USD'000	Net modification loss USD'000
Personal lending unsecured lending	32	(3)

	31 December 2018 USD'000	31 December 2017 USD'000
8 Other assets		
Inventories	562	28
Prepayments	1 333	352
Amounts due from group companies	201	5
Other receivables	1 188	1 121
*Internal clearing accounts	22 592	12 444
	25 876	13 950
Current	25 876	13 950
Non-current	-	-
	25 876	13 950

*Internal clearing accounts include suspense accounts where transactions are held temporarily and are cleared daily to the appropriate ledger accounts.

Notes to the financial statements

For the year ended 31 December 2018

	Intangible assets USD'000	Work in progress USD'000	Total USD'000
9 Intangible assets - computer software			
Year ended 31 December 2018			
Opening net book amount 1 January 2018	28 213	1 020	29 233
Additions	1 063	1 320	2 383
Transfers	971	(971)	-
Derecognition	-	-	-
Amortization charge (note 23.8)	(3 323)	-	(3 323)
Closing book amount 31 December 2018	26 924	1 369	28 293
As at 31 December 2018			
Cost	36 666	1 369	38 035
Accumulated amortisation	(9 742)	-	(9 742)
Net book amount 31 December 2018	26 924	1 369	28 293
Year ended 31 December 2017			
Opening net book amount 1 January 2017	25 063	1 406	26 469
Additions	3 521	1 556	5 077
Transfers	1 894	(1 894)	-
Derecognition	-	(48)	(48)
Amortization charge (note 22.8)	(2 265)	-	(2 265)
Closing book amount 31 December 2017	28 213	1 020	29 233
As at 31 December 2017			
Cost	34 632	1 020	35 652
Accumulated amortization	(6 419)	-	(6 419)
Net book amount 31 December 2017	28 213	1 020	29 233

None of the intangible assets have restricted title or are pledged as security for liabilities.

Notes to the financial statements

For the year ended 31 December 2018

	31 December 2018 USD'000	31 December 2017 USD'000
10 Investment property		
Balance as at 1 January	21 128	5 964
Additions	5 835	9 732
Fair value gain	-	25
Transfers into investment property	-	6 457
Transfer out of investment property to owner occupied property	-	(1 050)
Balance as at 31 December	26 963	21 128

The fair values of the investment properties are determined by an appropriately qualified, experienced and independent valuer with appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The Bank's investment properties consist of buildings owned by the Bank that are being leased out under operating leases and also vacant buildings. Fair values are determined having regard to recent market transactions for similar properties in the same location as the Bank's investment property. The investment properties consist of commercial and residential properties with some of them are being leased to third parties under yearly operating lease agreements.

Valuation, impairments and title

The basis of value is "fair value" which is defined as the price that would be received at the measurement date under current market conditions (an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. The following assumptions are made:

- a willing seller;
- that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as the date of valuation;
- that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- that both parties to the transaction had acted knowledgeably, prudently and without compulsion.

Direct operating expenses (recognised in profit or loss) arising from investment properties that generated rental income was USD 658 877 (2017: USD183 644). Rental income on investment property recognised in profit or loss was USD1 087 444 (2017: USD552 703).

The last valuation exercise on investment properties was carried out on 8 September 2017 by an independent valuer, and the directors believe that the fair value of the properties has not significantly changed since 2017.

Notes to the financial statements

For the year ended 31 December 2018

	Freehold property USD'000	Leasehold property USD'000	Computer equipment USD'000	Motor vehicles USD'000	Office equipment USD'000	Furniture and fittings USD'000	Working in progress USD'000	Total USD'000
11 Property and equipment								
Year ended 31 December 2018								
Opening net book amount	24 540	439	4 262	2 039	3 006	1 003	1 607	36 896
Additions-cost	1 076	-	1 524	252	708	126	3 196	6 882
Disposals net book amount	-	-	(7)	(56)	(3)	(7)	(394)	(467)
Impairment loss	-	-	-	-	-	-	-	-
Reversal of depreciation	-	-	-	-	-	-	-	-
Transfers in/(out)	237	-	398	323	97	156	(1 211)	-
Depreciation charge (note 23.8)	(632)	(146)	(2 029)	(634)	(762)	(169)	-	(4 372)
Closing net book amount 31 December 2018	25 221	293	4 148	1 924	3 046	1 109	3 198	38 939
As at 31 December 2018								
Cost	26 045	1 289	14 522	4 153	7 378	2 223	3 198	58 808
Accumulated depreciation	(824)	(996)	(10 374)	(2 229)	(4 332)	(1 114)	-	(19 869)
Net book amount 31 December 2018	25 221	293	4 148	1 924	3 046	1 109	3 198	38 939

Notes to the financial statements

For the year ended 31 December 2018

	Freehold property USD'000	Leasehold property USD'000	Computer equipment USD'000	Motor vehicles USD'000	Office equipment USD'000	Furniture and fittings USD'000	Working in progress USD'000	Total USD'000
11 Property and equipment								
Year ended 31 December 2017								
Opening net book amount	16 796	580	3 577	811	3 256	903	14 245	40 168
Additions-cost	1 650	11	1 950	1 682	200	129	1 274	6 896
Disposals net book amount	-	-	(3)	(17)	(2)	(4)	(23)	(49)
Impairment loss	(1 813)	-	-	-	-	-	-	(1 813)
Reversal of depreciation	869	-	-	-	-	-	-	869
Transfers in/(out)	7 648	-	369	50	299	116	(13 889)	(5 407)
Depreciation charge (note 23.8)	(610)	(152)	(1 631)	(487)	(747)	(141)	-	(3 768)
Closing net book amount 31 December 2017	24 540	439	4 262	2 039	3 006	1 003	1 607	36 896
As at 31 December 2017								
Cost	24 732	1 289	12 852	4 134	6 591	1 975	1 607	53 180
Accumulated depreciation	(192)	(850)	(8 590)	(2 095)	(3 585)	(972)	-	(16 284)
Net book amount 31 December 2017	24 540	439	4 262	2 039	3 006	1 003	1 607	36 896

11.1 The last valuation exercise of freehold properties was carried out on 8 September 2017 by an independent valuer and the directors believe that the fair values of the properties has not significantly changed since 2017.

None of the property or equipment has restricted title or is pledged as security for liabilities.

12.2 Transfers reconciliation

	Property and equipment WIP USD'000	Intangible assets WIP USD'000	Property and equipment USD'000	Intangible assets USD'000	Investment property USD'000	Total USD'000
2018						
Transfers in/(out)	(1 211)	(971)	1 211	971	-	-
2017						
Transfers in/(out)	(13 889)	(1 894)	8 482	1 894	5 407	-

Notes to the financial statements

For the year ended 31 December 2018

		31 December 2018 USD'000	31 December 2017 USD'000
12	**Share capital**		
12.1	**Authorised share capital**		
	500 000 ordinary shares with a nominal value of USD1 each	500	500
12.2	**Issued share capital**		
	260 000 ordinary shares with a nominal value of USD1 each	260	260
	Unissued shares		
	240 000 (2017:240 000) ordinary shares with a nominal value of USD1 each of which 240 000 (2017:240 000) ordinary shares are under the general authority of the directors.		
13	**Share premium and reserves**		
13.1	**Share premium**		
	Share premium on issue of shares	10 790	10 790
13.2	**Reserves**		
	Non-distributable reserves	3 354	3 354
	Statutory credit impairment reserve	-	818
	Fair value through other comprehensive income	1 225	-
	Available for sale reserve	-	141
	Share-based payments reserve	681	510
	Retained earnings	149 465	121 792
		154 725	126 615

Non-distributable reserves

Included in the Bank's non distributable reserves is the revaluation surplus on owner occupied properties which are revalued by independent valuers after every three years.

Fair value through other comprehensive income

This is the fair value adjustments on the Bank's equity investment in Zimswitch Holdings which is valued using the discounted cash flow method.

Equity compensation plans

The Standard Bank Group Limited has two equity-settled schemes, namely the Group Share Incentive Scheme and the Equity Growth Scheme. The Group Share Incentive Scheme confers rights to employees to acquire ordinary shares at the value of the Standard Bank Group Limited share price at the date the option is granted. The Equity Growth Scheme was implemented in 2005 and represents appreciation rights allocated to employees. The eventual value of the right is effectively settled by the issue of shares equivalent in value to the value of the rights. There were beneficiaries in Stanbic Bank Zimbabwe Limited under the Equity Growth Scheme.

Notes to the financial statements

For the year ended 31 December 2018

13.2 Reserves (cont'd)

Equity compensation plans (cont'd)

The Group Share Incentive Scheme has five different sub-types of vesting categories as illustrated by the table below:

	Year	% vesting	Expiry
Type A	3,4,5	50,75,100	10 Years
Type B	5,6,7	50,75,100	10 Years
Type C	2,3,4	50,75,100	10 Years
Type D	2,3,4	33,67,100	10 Years
Type E	3,4,5	33,67,100	10 Years

A reconciliation of the movement of share options and appreciation rights is detailed below:

	Option price range (USD) 2018	Number of options 2018	Number of options 2017
Group share incentive scheme			
Options outstanding at 1 January		20 189	-
Net transfers		-	56 926
Transfers out		-	-
Exercised	4.33	(4 126)	(36 737)
Options outstanding at 31 December		16 063	20 189

The weighted average share price for the year was USD13.36 (2017:12.71).

The following options granted to employees, including executive directors, had not been exercised as at 31 December 2018:

Number of ordinary shares	Option price range (USD)	Weighted average price (USD)	Option expiry period
4 688	7.78	7.78	Year to 31 December 2020
11 375	6.86	6.86	Year to 31 December 2021
16 063			

Notes to the financial statements

For the year ended 31 December 2018

		31 December 2018 USD'000	31 December 2017 USD'000
14	**Deposits and current accounts**		
	Deposits from other banks	3 565	12 626
	Deposits from customers	1 508 053	1 195 142
	Current accounts	1 322 670	1 000 380
	Call deposits	175 868	183 515
	Term deposits	479	369
	Savings accounts	9 036	10 878
	Deposits and current accounts	1 511 618	1 207 768
	Current	1 511 364	1 207 551
	Non- current	254	217
		1 511 618	1 207 768
	Maturity analysis		
	Maturing within 1 year	1 511 364	1 207 551
	Maturing after 1 year	254	217
		1 511 618	1 207 768
15	**Deferred and current tax assets or liabilities**		
	Deferred and current tax (liabilities)/assets	(2 211)	3 810
15.1	**Deferred and current tax analysis**		
	Deferred establishment fees	-	1 259
	Capital gains tax on investment property	(23)	(23)
	Depreciation of property and equipment	(7 088)	(5 686)
	Available for sale reserve	-	(49)
	Fair value through other comprehensive income	(424)	-
	Pension benefit and medical aid provision	891	904
	Payroll related provisions	2 313	2 196
	Other temporary differences	(6 052)	(2 733)
	Current tax (liability)/asset	(2 070)	3 199
	Credit impairment allowance on loans and advances	10 987	5 488
	Revaluation of property	(745)	(745)
	Deferred and current tax (liabilities)/assets	(2 211)	3 810

Notes to the financial statements

For the year ended 31 December 2018

		31 December 2018 USD'000	31 December 2017 USD'000
15.2	**Deferred and current tax reconciliation**		
	Deferred tax asset at beginning of the year	3 810	4 739
	IFRS 9 transitional adjustment	4 191	-
	Various categories of originating/(reversing) temporary differences for the year recognised in profit or loss:	(4 644)	(4 077)
	Investment property revaluation (gain)/ loss	-	(1)
	Credit impairment allowance on loans and advances	1 232	(779)
	Pension benefit and medical aid provision	(13)	(596)
	Payroll related provisions	117	437
	Other temporary differences	(3 319)	(1 698)
	Property and equipment accelerated depreciation	(1 402)	(1 202)
	Deferred establishment fees	(1 259)	(238)
	Various categories of originating/reversing temporary differences recognised in the statement of changes in equity:		
	Available for sale reserve	-	20
	Fair value through other comprehensive income	(299)	-
	Revaluation of property	-	(71)
	Current tax (liability)/asset movement	(5 269)	3 199
		(2 211)	3 810

Other temporary differences include provisions raised for long outstanding entries in suspense accounts.

16	**Other liabilities**		
	Provisions (note 17)	8 451	8 153
	Post employment benefit obligation (note 18)	3 462	3 258
	Accrued expenses	19 196	11 583
	Amounts due to group companies	6 582	8 079
	*Internal clearing accounts	51 928	26 601
		89 619	57 674
	Current	83 657	52 579
	Non-current	5 962	5 095
		89 619	57 674

*Internal clearing accounts include suspense accounts where transactions are held temporarily and are cleared daily to the appropriate ledger accounts.

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	Legal claims USD'000	Performance and deferred bonus scheme USD'000	Leave pay provision USD'000	Total USD'000
17 Provisions				
Balance at 1 January 2018	517	6 800	836	8 153
Provisions recognised during the year	75	7 263	(144)	7 194
Provisions paid during the year	(32)	(6 658)	-	(6 690)
Provisions reversed during the year	-	(142)	(64)	(206)
Balance at 31 December 2018	560	7 263	628	8 451
Balance at 1 January 2017	517	5 864	752	7 133
Provisions recognised during the year	-	6 355	374	6 729
Provisions paid during the year	-	(5 419)	-	(5 419)
Provisions reversed during the year	-	-	(290)	(290)
Balance at 31 December 2017	517	6 800	836	8 153

	31 December 2018 USD'000	31 December 2017 USD'000
Analysis of provisions		
Current	8 153	7 133
Non-current	-	-
	8 153	7 133

Legal claims

This provision relates to outstanding legal claims against the Bank that can be measured reliably and are likely to result in an outflow of economic resources. The expected outflow of economic benefits is determined on a yearly basis by our Legal department taking into account whether it is probable that the Bank will lose the outstanding court cases.

Performance and deferred bonus scheme

This is the provision for the performance bonus which is raised on a yearly basis based on an approved percentage of profit before tax. The performance bonus provision is paid out in March each year.

Leave pay provision

This is the provision for outstanding leave days for the Bank's employees as at the end of the year. It is calculated based on approved basic salaries and leave days accrued by each employee. The provision for leave days is utilised as staff members take their annual leave.

18 Post – employment medical benefits

The Bank operates a post–employment medical benefit scheme for pensioners and currently active employees who will have retired on or before 31 December 2017. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes.

Notes to the financial statements

For the year ended 31 December 2018

	31 December 2018 USD'000	31 December 2017 USD'000
The amounts recognised in the statement of financial position were determined as follows:		
Present value of funded obligations	-	-
Fair value of plan assets	-	-
Deficit of the funded plans	-	-
Present value of unfunded obligations	3 462	3 258
Liability in the statement of financial position	3 462	3 258

18.1 The movement in the defined benefit obligation over the year is as follows:

	31 December 2018 USD'000	31 December 2017 USD'000
Balance as at 1 January 2018	3 258	3 212
Provision raised for the year	204	46
Balance as at 31 December 2018	3 462	3 258

The following table shows reconciliation from opening balances to the closing balances of the post-employment medical liability and its components.

	31 December 2018 USD'000	31 December 2017 USD'000
Balance at 1 January	3 258	3 212
Included in profit or loss		
Interest	89	92
New members	54	167
	143	259
Remeasurement loss:		
Actuarial loss arising from:		
Demographic assumptions	288	69
Experience adjustment	52	99
Medical Aid contribution increase	184	-
	524	168
Other		
Benefit paid	(264)	(265)
Exits	(199)	(116)
	(463)	(381)
Balance as at 31 December	3 462	3 258

Notes to the financial statements

For the year ended 31 December 2018

Historical information	31 December 2018 USD'000	31 December 2017 USD'000	31 December 2016 USD'000	31 December 2015 USD'000
Present value of unfunded obligations	3 462	3 258	3 212	1 618
Fair value of plan assets	-	-	-	-
Unfunded obligations	3 462	3 258	3 212	1 618
Post employment medical benefits	3 462	3 258	3 212	1 618
Included in statement of financial position	3 462	3 258	3 212	1 618
Comprising				
Post employment medical benefits	3 462	3 258	3 212	1 618

Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date:

	31 December 2018	31 December 2017
Investment return	8%	8%
Medical costs inflation	6%	5%
Mortality	A67-70 Ultimate standard AIDS loading	A67-70 Ultimate standard AIDS loading
Total actuarial liability (USD)	3 461 890	3 258 128

18.3 Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the post-employment medical benefit by the amounts shown below:

Assumptions	Existing	20% decrease investment return	20% increase medical inflation	20% decrease in mortality
Investment return	8%	6.40%	8%	8%
Medical Aid inflation	6%	6%	7.2%	6%
Mortality	A67-70 Ultimate standard AIDS loading	A67-70 Ultimate standard AIDS loading	A67-70 Ultimate standard AIDS loading	20% lower A67-70 Ultimate standard AIDS loading
Total Actuarial liability	3 461 890	4 060 521	3 897 586	3 760 407
% change in liability		17%	13%	9%

Notes to the financial statements

For the year ended 31 December 2018

	Note	Held for trading USD'000	At fair value through profit or loss default USD'000	Equity investments fair value through OCI USD'000	Amortised cost USD'000	Total carrying amount USD'000	Fair value USD'000
19 Classification of Financial instruments							
31 December 2018							
Financial assets							
Cash and cash equivalents	4	-	27 808	-	904 746	932 554	932 554
Derivative assets	5	17	-	-	-	17	17
Financial investments	6	-	-	-	326 981	326 981	326 981
Investment securities	6.2	-	-	2 264	-	2 264	2 264
Loans and advances to customers	7	-	-	-	387 343	387 343	387 343
Other assets	8	-	-	-	23 981	23 981	23 981
		17	27 808	2 264	1 643 051	1 673 140	1 673 140
Financial liabilities							
Derivative liabilities	5	7	-	-	-	7	7
Deposits from other banks	14	-	-	-	3 565	3 565	3 565
Deposits from customers	16	-	-	-	1 508 053	1 508 053	1 508 053
Other liabilities		-	-	-	56 044	56 044	56 044
		7	-	-	1 567 662	1 567 669	1 567 669

Other assets excludes prepayments and stationery as this analysis is only required for financial instruments.

Other liabilities excludes current income tax liabilities.

	Note	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	Equity investments USD'000	Financial instruments measured at amortised cost USD'000	Total carrying amount USD'000	Fair value USD'000
31 December 2017										
Financial assets										
Cash and cash equivalents	4	-	-	-	-	-	-	729 667	729 667	729 667
Derivative assets	5	101	-	-	-	-	-	-	101	101
Financial investments	6	-	-	-	-	237 403	-	-	237 403	237 403
Investment securities	6.2	-	-	-	-	-	516	-	516	516
Loans and advances to customers	7	-	-	-	330 409	-	-	-	330 409	330 409
Other assets	8	-	-	-	13 570	-	-	-	13 570	13 570
		101	-	-	343 979	237 403	516	729 667	1 311 666	1 311 666
Financial liabilities										
Derivative liabilities	5	6	-	-	-	-	-	-	6	6
Deposits from banks	14	-	-	-	-	-	-	12 626	12 626	12 626
Deposits from customers	14	-	-	-	-	-	-	1 195 142	1 195 142	1 195 142
Other liabilities	16	-	-	-	-	-	-	46 456	46 456	46 456
		6	-	-	-	-	-	1 254 224	1 254 230	1 254 230

20 Financial instruments at fair value

The carrying amount of financial instruments carried at amortised cost approximate their fair value in cases where there are short tenures.

21 Financial liabilities

The fair value movement of financial liabilities attributable to changes in credit risk cumulative to date is negligible for the Bank.

22 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).

Notes to the financial statements

For the year ended 31 December 2018

The following table presents the Bank's assets and liabilities that are measured at fair value at 31 December 2018.

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						
Derivatives assets						
– Foreign exchange contracts	5	17	-	17	-	Discounted cash flows
Investment securities	6.2	2 264	-	-	2 264	Discounted cash flows
Investment property	10	26 963	-	-	26 963	Sales comparison method, market rentals and yields
Freehold property	11	38 939	-	-	38 939	Sales comparison method, market rentals and yields
Total assets		68 183	-	17	68 166	
Liabilities						
Financial liabilities held for trading						
Derivatives liabilities						
– Foreign exchange contracts	5	7	-	7	-	Discounted cash flows
Total liabilities		7	-	7	-	

The following table presents the Bank's assets and liabilities that are measured at fair value at 31 December 2017.

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						
Derivatives assets						
– Foreign exchange contracts	5	101	-	101	-	Discounted cash flows
Available-for-sale financial assets						
Financial investments	6	237 403	-	-	237 403	Discounted cash flows
Investment property	10	21 128	-	-	21 128	Sales comparison method, market rentals and yields
Freehold property	11	24 732	-	-	24 732	Sales comparison method, market rentals and yields
Total assets		283 364	-	101	283 263	
Liabilities						
Financial liabilities held for trading						
Derivatives liabilities						
– Foreign exchange contracts	5	6	-	6	-	Discounted cash flows
Total liabilities		6	-	6	-	

For fair values of assets and liabilities in level 2 and 3, below are the valuation techniques and inputs

- Foreign exchange contracts fair values are based on exchange rate quotes obtained from Global Markets team and the Standard Bank Group.
- Financial investments are disclosed at fair values which are determined using the discounted cash flows method at risk adjusted interest rates. Discount rates ranging from 7% -15% were unobservable inputs which were used in measuring the fair values of financial investments
- For investment and freehold property the average office rentals per square metre ranges from USD6 to USD10 and a capitalisation rate of around 10% which is the rate at which the annual estimated potential income of a property is capitalised into perpetuity.

Notes to the financial statements

For the year ended 31 December 2018

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	2018 Investment property USD'000	2018 Freehold property USD'000	2018 Total assets USD'000	2017 Investment property USD'000	2017 Freehold property USD'000	2017 Total assets USD'000
Balance at 1 January	21 128	24 732	45 860	5 964	17 247	23 211
Additions	5 835	1 076	6 911	9 732	1 650	11 382
Transfers into level 3	-	237	237	6 457	7 648	14 105
Transfers out of level 3	-	-	-	(1 050)	-	(1 050)
Gains or losses for the period						
Included in profit or loss	-	-	-	25	(1 220)	(1 195)
Recognised in other comprehensive income	-	-	-	-	(593)	(593)
Balance at 31 December	26 963	26 045	53 008	21 128	24 732	45 860

Reconciliation of level 3 items	2018 Financial assets available for sale	2017 Financial assets available for sale	2018 Investment securities	2017 Investment securities
Balance at 1 January	-	82 945	1 001	516
Additions	-	234 991	99	-
Transfers into level 3	-	-	-	-
Transfers out of level 3	-	(88 003)	-	-
Gains or losses for the period				
Included in profit or loss	-	7 546	-	-
Recognised in other comprehensive income	-	(76)	1 164	-
Balance at 31 December	-	237 403	2 264	516

The table below shows the fair value of financial instruments not measured at fair value:

Assets	Note	Fair values USD'000	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000
Financial assets measured at amortised cost					
Cash and cash equivalents	4	932 554	932 554	-	-
Financial investments		341 620	-	-	341 620
Loans and advances to customers	7.1	387 343	-	-	387 343
Other assets	8	23 981	-	-	23 981
Total assets		1 685 498	932 554	-	752 944
Liabilities					
Financial liabilities measured at amortised cost					
Deposits from other banks	14	3 565	3 565	-	-
Deposits from customers	14	1 508 053	1 507 574	479	-
Other liabilities	16	56 044	-	-	56 044
Total liabilities		1 567 662	1 511 139	479	56 044

Notes to the financial statements

For the year ended 31 December 2018

The table below shows the fair value of financial instruments not measured at fair value as at 31 December 2017:

Assets	Note	Fair values USD'000	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000
Financial assets measured at amortised cost					
Cash and cash equivalents	4	729 667	729 667	-	-
Investment securities	6.2	516	-	-	516
Loans and advances to customers	7.1	330 409	-	-	330 409
Other assets	8	13 570	-	-	13 570
Total assets		1 074 162	729 667	-	344 495
Liabilities					
Financial liabilities measured at amortised cost					
Deposits from other banks	14	12 626	12 626	-	-
Deposits from customers	14	1 195 142	1 194 773	369	-
Other liabilities	16	46 456	-	-	46 456
Total liabilities		1 254 224	1 207 399	369	46 456

Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value;
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Financial instruments in level 3

Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the financial statements

For the year ended 31 December 2018

	31 December 2018 USD'000	31 December 2017 USD'000
23 INCOME STATEMENT INFORMATION		
23.1 Interest income		
Interest on loans and advances	45 860	38 760
Interest on investments	24 274	16 767
	70 134	55 527
Interest income reported above relates to financial assets not carried at fair value through profit or loss.		
23.2 Interest expense		
Current accounts	121	98
Savings and deposit accounts	358	340
	479	438
Interest expense reported above relates to financial liabilities not carried at fair value through profit or loss.		
23.3 Fees and commission revenue		
Transaction fees	6 858	4 019
Knowledge based fees and commission	365	395
Electronic banking fees	9 441	11 296
Other service fees	11 096	6 741
Documentation and administration fees	7 015	6 732
Card commission	8 535	6 169
	43 310	35 352
All fee and commission revenue reported above relates to financial assets or liabilities not carried at fair value through profit or loss		
23.3.1 Fee and commission expense		
Card based commission paid	4 641	2 783
23.4 Trading income		
Foreign exchange	27 020	19 687
Trading revenue encompasses income realised from the trading of currencies and the structuring of transactions for customers.		
23.5 Other income		
Operating lease income	684	605
Other	1 364	1 006
	2 048	1 611

Notes to the financial statements

For the year ended 31 December 2018

	31 December 2018 USD'000	31 December 2017 USD'000
23.6 Credit impairment charges for the year ended 31 December 2018:		
Credit impairment charges raised/ (recoveries) under IAS 39		
Specific impairments	-	6 371
Portfolio impairments	-	1 366
Net expected credit loss raised and released on financial investments (note 6.1.4)	5 112	-
Stage 1	5 112	-
Stage 2	-	-
Stage 3	-	-
Net expected credit loss raised and released on balances with other banks (note 4)	(443)	-
Stage 1	(443)	-
Stage 2	-	-
Stage 3	-	-
Net expected credit loss raised and released on loans and advances (note7.3)	6 888	-
Stage 1	(2 198)	-
Stage 2	4 563	-
Stage 3	4 523	-
Net expected credit loss raised and released on off- balance sheet exposures (note 28.3)	(52)	-
Stage 1	(155)	-
Stage 2	103	-
Stage 3	-	-
Recoveries on loans and advances	(5 887)	(5 628)
Total credit impairment charges (on and off balance sheet)	5 618	2 109
23.7 Staff costs		
Salaries and allowances	24 187	22 936
Bonus provision	7 378	6 762
Pension cost	1 650	1 566
Equity-settled share based payments	171	171
	33 386	31 435

Notes to the financial statements

For the year ended 31 December 2018

		31 December 2018 USD'000	31 December 2017 USD'000
23.8	**Other operating expenses**		
	Amortisation – intangible assets (note 9)	3 323	2 265
	Auditor's remuneration:		
	- Current year audit fees	155	150
	Communication expenses	1 792	1 772
	Depreciation (note 11)	4 372	3 768
	Information technology	3 732	2 900
	Impairment of property	-	1 220
	Inter-company expenses	6 864	5 138
	Operating lease charges – premises	706	883
	Premises	3 265	1 917
	Professional fees	290	430
	Insurance costs	3 481	2 597
	Processing costs	646	1 844
	Security expenses	1 527	1 430
	Travel and entertainment	1 346	1 356
	Stationery	470	555
	Marketing and advertising	1 028	1 013
	Other expenses	4 877	3 456
		37 874	32 694
24	**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 Bank	302	272
	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	3 881	3 839
	Other long term benefits	454	51
	Post-employment benefits	316	188
		4 651	4 078
24.1	**Transactions with key management personnel and directors**		
	Loans to key management personnel and directors		
	Balance at 1 January 2018	2 631	1 938
	Transfers in	210	104
	Transfers out	-	-
	Loans made during the year	910	856
	Repayments made during the year	(573)	(267)
	Outstanding balance as at 31 December 2018	3 178	2 631

Loans to key management personnel and directors are unsecured and bear interest at the Bank's normal lending rate to staff. These are included in loans and advances. No specific impairments have been raised on the outstanding balances. Compensation to key management is disclosed in note 24.

Notes to the financial statements

For the year ended 31 December 2018

	31 December 2018 USD'000	31 December 2017 USD'000
24.2 Share based payment scheme		
Balance at 1 January 2018	510	361
Expenses incurred during the year	171	171
Transfer to retained earnings	-	(22)
Payments made	-	-
Balance at 31 December 2018	681	510
25 Tax		
25.1 Indirect tax		
Value added tax	2 929	2 177
25.2 Direct tax		
Current income tax (note 26.3)	13 783	8 838
Deferred income tax (note 15.2)	4 644	4 077
	18 427	12 915
25.3 Tax charge reconciliation		
Accounting profit before tax	57 585	40 541
Income tax based on profit for the year at 25.75% (2017:25.75%)	14 828	10 439
Charge/(credit) resulting from permanent differences:		
Depreciation on motor vehicles above deemed costs	131	103
Entertainment expenses	4	19
Group share incentive scheme	44	44
Donations	26	3
Pension	53	48
Dividend received	(361)	(262)
Group recharges above 1% of operating expenses	1 651	1 438
Other	4 303	2 081
Non taxable interest income	(2 252)	(998)
Tax charge for the year	18 427	12 915
26 Net cash flows from operating activities		
26.1 Increase in loans and advances		
Increase in loans and advances	(56 934)	(56 923)
Credit impairments (IFRS 9 transitional adjustment note 3.1)	(7 932)	-
Impairment transfers (note 4)	10	-
Credit impairments (note 23.6)	(1 001)	(2 109)
Net expected credit loss raised on loans and advances	6 888	7 737
Recoveries on loans and advances	(5 887)	(5 628)
	(65 857)	(59 032)

Notes to the financial statements

For the year ended 31 December 2018

	31 December 2018 USD'000	31 December 2017 USD'000
26.2 Increase/(decrease) in provisions and other liabilities		
Provisions	298	1 020
Other liabilities	31 110	24 117
	31 408	25 137
26.3 Direct tax paid		
Current income tax asset/(liability) at beginning of the year	3 199	(1 032)
Income statement charge (note 25.2)	(13 783)	(8 838)
Current income tax liability/(asset) at the end of the year	2 070	(3 199)
	(8 514)	(13 069)

27 Related party disclosures

27.1 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 and insurance companies owned by the Standard Bank Group Limited, on an arm's length basis.

27.1.1 Balances with related parties:

	31 December 2018 USD'000	31 December 2017 USD'000
27.1.1(a) Related through common shareholding		
Stanbic Bank Botswana Limited	1 058	388
Stanbic Bank Malawi Limited	8	-
Stanbic Bank Kenya Limited	8	3
Stanbic Bank Zambia Limited	2	30
Standard Bank South Africa Limited	6 243	15 168
	7 319	15 589

The above lists of financial institutions are related parties to Stanbic Bank Zimbabwe because they are subsidiaries of the Standard Bank Group Limited, the parent company of the Bank or are shareholders in the parent company. 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 2018 USD'000	31 December 2017 USD'000
27.1.1 (b) Related through shareholding in the parent company		
Industrial and Commercial Bank of China	38	40

Notes to the financial statements

For the year ended 31 December 2018

	31 December 2018 USD'000	31 December 2017 USD'000
27.1.2 Transactions		
Interest income from:		
Standard Bank South Africa Limited	15	50
27.1.3 Group recharges	6 864	5 147
Group recharges include franchise fees and project expenses incurred by the Standard Bank Group on behalf of its subsidiaries		
27.2 Loans and advances and deposits with related parties-related through common directorship		
Total loans and advances	1 332	1 370
Total customer deposits	538	620

28 Contingent liabilities and commitments

The Bank had written letters of credit and guarantees amounting to USD52.4 million as at 31 December 2018 (31 December 2017: USD16 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.

28.1 Commitments

As at 31 December 2018 the contractual amounts of the Bank's commitments to capital expenditure or to extend credit to its customers were as follows:

	31 December 2018 USD'000	31 December 2017 USD'000
Capital commitments		
Capital expenditure authorised but not yet contracted	18 323	14 463
Capital expenditure authorised and contracted	-	-
Total	18 323	14 463
The expenditure will be funded from internal resources.		
28.2 Loan commitments	95 395	32 664

Notes to the financial statements

For the year ended 31 December 2018

28.3 IFRS 9 impairments on off balance sheet items

	Letters of credit USD'000	Guarantees USD'000	Loan commitments USD'000	Total USD'000
31 December 2018				
Stage 1				
Balance at the beginning of the year (IFRS 9 transitional adjustment)	32	90	361	483
Net movement	30	(20)	(165)	(155)
Originated impairments raised	28	40	136	204
Subsequent changes in expected credit losses	3	(66)	(111)	(174)
Transfer to stage 2	-	8	-	8
Derecognised including write offs	(1)	(2)	(190)	(193)
Balance at the end of the period	62	70	196	328
Stage 2				
Balance at the beginning of the year (IFRS 9 transitional adjustment)	3	10	97	110
Net movement	(2)	(2)	107	103
Originated impairments raised	1	5	77	83
Subsequent changes in expected credit losses	-	2	106	108
Transfer to stage 2	-	(8)	-	(8)
Derecognised including write offs	(3)	(1)	(76)	(80)
Balance at the end of the period	1	8	204	213
Total expected credit loss stage 1 and 2 (note 23.6)	28	(22)	(58)	(52)
Total transitional ECL stage 1 and 2 (note 3.1)	35	100	458	593
Total ECL balance at 31 December 2018	63	78	400	541

	31 December 2018 USD'000	31 December 2017 USD'000
28.4 Operating lease commitments		
The future minimum lease payments under non-cancellable operating leases are:		
Properties		
Within 1 year	591	620
Within 5 years	1 121	1 307
Equipment		
Within 1 year	744	556

These commitments comprise a number of separate operating leases in relation to property and equipment, none of which is individually significant to the Bank.

Notes to the financial statements

For the year ended 31 December 2018

29 Custodial services

The Bank provides custodial services to individuals and institutions by holding assets (mainly share certificates) on behalf of customers. As at 31 December 2018, funds under custody amounted to USD3.9 billion (2017: USD2.2 billion) and fee income amounting to USD4.5 million (2017:USD2.6 million) had been earned in return for these services.

30 Dividend declaration

On account of the intensifying foreign currency shortages in the market coupled with the adverse impact of the IFRS 9 Financial Instruments financial reporting standard which became effective on 1 January 2018, no dividend has been proposed for the year ended 31 December 2018.

31 Subsequent events

In the Monetary Policy Statement ("MPS") which was issued on 20 February 2019, the Reserve Bank of Zimbabwe ("RBZ") announced a new currency called the RTGS Dollar (RTGS$) which became part of the multi- currency system used in Zimbabwe. The existing RTGS balances, bond notes and coins in circulation were denominated as RTGS Dollar. The RTGS Dollars were to be used by all entities and individuals in Zimbabwe for the purposes of pricing of goods and services, record debts, accounting and settlement of domestic transactions. The use of RTGS Dollars for domestic transactions was expected to eliminate the existence of the multi-tier pricing system and charging of goods and services in foreign currency within the domestic economy. An Exchange Control Directive RU 28 of 2019 was issued on 22 February 2019 introducing an interbank foreign exchange market to formalise the trading of RTGS balances and bond notes with USD and other currencies on a willing-buyer willing-seller basis through banks and bureaux de change. The exchange rate between the RTGS$ and the USD initially traded at 1:2.5 from the previous rate of 1:1. On 22 February, Statutory Instrument ("SI") 33 of 2019 was introduced which, for accounting and other purposes, deemed all assets and liabilities that were valued in USD immediately before the 22nd of February 2019 to be valued in RTGS Dollars at a rate of 1:1.

The Bank has analysed the elements of the statement of financial position in three categories namely: Monetary Assets and Liabilities (Nostro FCA USD), Monetary Assets and Liabilities (RTGS Dollar) and Non-Monetary Assets and Liabilities (whose underlying values or amounts are denominated in USD). The below table shows the outcome of the sensitivity analysis of our statement of financial position using different hypothetical exchange rates between the RTGS$ and USD as at 31 December 2018.

As at the end of December 2018, the Bank had total assets of USD1.77 billion and 5% of these assets were in monetary nostro assets representing a total of USD86.4 million. The Bank also had non monetary assets denominated in USD of USD94.8 million which included intangible assets, property and equipment. These non monetary assets accounted for 5% of the Bank's total assets. Monetary assets in RTGS$ constituted 90% of the Bank's balance sheet size. This is a reflection of the fact that the Bank's functional currency had changed from USD to RTGS$ as the greater part of its assets were denominated in RTGS$.

The table below depicts the Bank's statement of financial position as reported using an exchange rate of 1:1 between the USD and RTGS$. In order to present a sensitivity analysis of the financial position, a range of exchange rates were then applied to the Bank's monetary nostro assets starting from the official exchange rate of 1USD:2.5 as at 22 February 2019 to a projected rate of 1USD:4 on the back of the growing demand for foreign currency which far outstrips supply. In the sensitivity analysis of our statement of financial position, the Bank's balance sheet size will continue to increase driven largely by the devaluation of the RTGS$ against USD which has an impact on monetary assets and liabilities.

Notes to the financial statements

For the year ended 31 December 2018

Element	Components of reported amounts: Monetary assets/ liabilities Nostro FCA USD'000	Monetary assets/ liabilities RTGS$'000	Non-Monetary assets/ liabilities USD'000	Sensitivity analysis: Total USD'000 @1:1	Total RTGS$'000 @1:2.5	Total RTGS$'000 @1:3	Total RTGS$'000 @1:4
Cash and cash equivalents	76 828	855 726	-	932 554	1 047 796	1 086 209	1 163 037
Derivative assets	17	-	-	17	43	51	68
Financial investments	-	326 981	-	326 981	326 981	326 981	326 981
Investment securities	-	2 264	-	2 264	2 264	2 264	2 264
Loans and advances to customers	-	387 343	-	387 343	387 343	387 343	387 343
Other assets	9 508	15 806	562	25 876	40 138	44 892	54 400
Intangible assets	-	-	28 293	28 293	70 733	84 879	113 172
Investment property	-	-	26 963	26 963	67 408	80 889	107 852
Property and equipment	-	-	38 939	38 939	97 348	116 817	155 756
Total assets	86 353	1 588 120	94 757	1 769 230	2 040 054	2 130 325	2 310 873
Shareholder's equity	-	-	-	165 775	271 056	306 146	376 333
Derivative liabilities	7	-	-	7	18	21	28
Current income and deferred tax liabilities	-	2 211	-	2 211	2 211	2 211	2 211
Deposits and current accounts	96 811	1 414 807	-	1 511 618	1 656 834	1 705 240	1 802 050
Other liabilities	13 544	76 075	-	89 619	109 935	116 707	130 251
Total equity and liabilities	110 362	1 493 093	-	1 769 230	2 040 054	2 130 325	2 310 873

The following key assumptions were made in the preparation of the above sensitivity analysis:
The interbank foreign currency exchange rate will continue to be a floating rate influenced by the forces of demand and supply of foreign currency in the market. As demand for foreign currency continues to increase and liquidity in the market remains constrained, the RTGS$ might weaken to 1USD:3 RTGS$ and further depreciate to 1USD:4RTGS$ in the medium-term period. The amounts presented in the above table might not reflect the opening balances in RTGS$ going forward.

32 External credit ratings

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

Rating scale	2017	2016	2015	2014
Long term	AA-	AA-	AA-	AA-

33 CAMELS RATINGS and Reserve Bank of Zimbabwe inspection

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.

34 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

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34.1 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

34.2 KEY

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.

Summary risk matrix key

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.

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34.2 KEY (continued)

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.

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.

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.

Specific information on risk and capital management integral to the audited annual financial statements can be found under the following sections of this risk and capital management report:

- risk categories, page 95;
- capital management, pages 96 - 97;
- credit risk, pages 97 - 103;
- liquidity risk, pages 104 - 108;
- market risk, pages 109 - 112 and
- foreign currency risk, page 112.

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The other risks can be found under the following sections of this risk and capital management report:

- operational risk, page 113;
- information risk, page 114;
- fraud risk, page 114;
- legal risk, page 115;
- tax risk, page 115;
- compliance risk, page 115 and
- reputational risk, page 116.

Risk management framework

Risk governance standards, policies and procedures

The Bank has developed a set of risk governance standards for each major risk type. The standards set out and ensure alignment and consistency in the manner in which the major risk types across the Bank are identified, measured, managed, controlled and reported.

All standards are applied consistently across the Bank and are approved by the Board. It is the responsibility of business unit management to ensure that the requirements of the risk governance standards, policies and procedures are implemented and independently monitored by the Risk Management Department.

Each standard is supported by Bank policies and procedures manuals as required.

Compliance with risk standards, policies and procedures is controlled through annual self- assessments by the business units and the risk Department, supported by the Internal Audit Department (the local internal audit function is augmented by visits and reviews by the Standard Bank Group internal audit).

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.

Stress testing

Stress testing involves identifying possible events or future changes in economic conditions that could have an unfavourable impact on the Bank. It is used to assess and manage the adequacy of regulatory and economic capital and is therefore an integral component of the Bank's internal capital adequacy assessment process. The Bank's stress testing framework guides the regular execution of stress tests at the portfolio, business unit and Bank levels.

Management reviews the outcome of stress tests and selects appropriate mitigating actions to minimise and manage the risks to the Bank at the various levels.

The impact and outcomes of stress scenarios are ultimately assessed against earnings and capital adequacy on a consolidated basis across all risk types and compared with the Bank's set risk appetite. Stress tests are also used to proactively manage the risk profile of the Bank, capital planning and management, strategic business planning and the setting of capital buffers.

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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; and
  - 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 and business relationships.

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Basel II

The Bank has made all the necessary preparations for the implementation of Basel II Capital Adequacy Framework ("Basel II") and awaits further instructions from the Reserve Bank of Zimbabwe for full switch-over.

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 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 2018 USD'000	31 December 2017 USD'000
Ordinary paid up share capital	260	260
Share premium	10 790	10 790
Retained earnings	149 465	121 792
Market and operational risk	(8 766)	(8 134)
Reserves	3 113	2 676
Tier 1 capital	154 862	127 384
Revaluation reserve	2 147	2 147
General provisions (limited to 1.25% of risk weighted assets)	8 929	7 252
Tier 2 capital	11 076	9 399
Market risk	1 419	2 106
Operational risk	7 346	6 028
Tier 3 capital	8 765	8 134
Total Tier 1 and 2 capital	165 938	136 784
Tier 3	8 765	8 134
	174 703	144 918
Risk weighted assets ("RWAs")	604 743	478 477
Operational risk equivalent assets	91 827	75 350
Market risk equivalent assets	17 742	26 320
Total risk weighted assets ("RWAs")	714 312	580 147
Tier 1 capital ratio	22%	22%
Tier 1 and 2 capital ratio	23%	24%
Tier 1, 2 and Tier 3 capital	24%	25%
Capital adequacy ratio excluding market and operational risk weighted assets	24%	25%

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Regulatory capital

During the period under review, the Bank complied with all externally imposed capital requirements, mainly, but not limited to, the relevant requirements of the Banking Act of Zimbabwe (Chapter 24:20) (which are broadly consistent with the Basel II guidelines issued by the Bank for International Settlements).

In addition to the requirements of the Zimbabwean regulators, the Bank also complies with the capital adequacy requirements in terms of South African banking regulations, required by it being a subsidiary of the Standard Bank Group Limited.

Regulatory capital adequacy is measured via two risk-based ratios, i.e. *Total Tier 1 and Total capital adequacy ratios.* Both measures of capital are stated as a percentage of risk-weighted assets.

Total Tier 1 (primary capital) represents the permanent forms of capital such as share capital, share premium, retained earnings and perpetual, non-cumulative preference shares whilst *total capital adequacy* also includes other items such as non distributable reserves and credit impairment reserves.

Risk-weighted assets are determined on a granular basis by using risk weights calculated from internally derived risk parameters. Both on and off-balance sheet exposures are included in the overall credit risk-weighted assets of the Bank. The risk-weighted assets for the market and operational risk components are determined using the risk drivers that impact on regulatory capital as inputs.

Capital adequacy ratios

Total Tier 1 capital is USD154.9 million as at 31 December 2018, whilst total capital for accounting purposes is USD166 million. The Bank's capital adequacy ratio of 24% at 31 December 2018 (31 December 2017:25%) was comfortably above the minimum ratio of 12% set by the RBZ.

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.

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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.

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Credit risk mitigation for portfolios under the standardised approach

	Total exposure USD'000	Unsecured exposures USD'000	Secured exposures USD'000	Netting agreements USD'000	Secured exposure after netting	Collateral coverage tangible greater than 0%-50%	50%-100%	Greater than 100%
2018								
Corporate and Investment Banking ("CIB")	196 499	164 786	31 713	-	31 713	19 640	4 584	7 489
Personal and Business Banking ("PBB")	221 434	115 888	105 546	-	105 546	22 505	41 583	41 458
Total	417 933	280 674	137 259	-	137 259	42 145	46 167	48 947
Add financial assets subject to credit risk	1 272 883							
Cash and cash equivalents	932 554							
Other financial assets	340 329							
Less impairments for financial assets	(42 044)							
Net exposure	1 648 772							

Credit risk mitigation for portfolios under the standardised approach

	Total exposure USD'000	Unsecured exposures USD'000	Secured exposures USD'000	Netting agreements USD'000	Secured exposure after netting	Collateral coverage tangible greater than 0%-50%	50%-100%	Greater than 100%
2017								
Corporate and Investment Banking ("CIB")	154 464	138 066	16 398	-	16 398	5 135	4 024	7 239
Personal and Business Banking ("PBB")	197 182	101 087	96 095	-	96 095	28 622	32 214	35 259
Total	351 646	239 153	112 493	-	112 493	33 757	36 238	42 498
Add financial assets subject to credit risk	967 687							
Cash and cash equivalents	729 667							
Other financial assets	238 020							
Less impairments for loans and advances	(21 237)							
Net exposure	1 298 096							

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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; and
- 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 2018 are set out in the table below:

Exposure to credit risk by credit quality as at 31 December 2018 (USD'000)

	Gross total (advances and financial investments)	Normal monitoring		Close monitoring		Special mention		← Stage 3 →			
		Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Sub standard	Doubtful	Loss	Balance sheet impairments (stage 3)
Personal and Business Banking-("PBB")											
Mortgage loans	20 160	18 014	-	-	-	-	1 805	80	52	209	(133)
Instalment sale and finance leases	22 741	18 272	-	-	-	-	3 457	144	403	465	(714)
Personal unsecured lending	82 927	76 440	-	-	-	-	5 068	186	270	963	(1 060)
Business lending and other	95 606	74 273	-	-	-	-	17 004	73	1 110	3 146	(771)
Total loans PBB	221 434	186 999	-	-	-	-	27 334	483	1 835	4 783	(2 678)
Corporate and Investment Banking- loans and advances-("CIB")											
Corporate lending (CIB)	196 499	168 036	-	-	9 234	3 430	15 799	-	-	-	-
Total gross loans and advances	417 933	355 035	-	-	9 234	3 430	43 133	483	1 835	4 783	(2 678)
Financial investments at amortised cost Corporate & Investment Banking											
Sovereign	200 557	200 557	-	-	-	-	-	-	-	-	-
Banking	137 491	137 491	-	-	-	-	-	-	-	-	-
Total financial investments	338 048	338 048	-	-	-	-	-	-	-	-	-
Expected credit loss for loans and advances and financial investments											
Stage 1	(14 005)										
Stage 2	(23 704)										
Stage 3	(2 678)										

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Exposure to credit risk by credit quality as at 31 December 2018 (USD'000) (continued)

	Gross total (advances and financial investments)	Normal monitoring Stage 1	Normal monitoring Stage 2	Close monitoring Stage 1	Close monitoring Stage 2	Special mention Stage 1	Special mention Stage 2	Stage 3 Sub standard	Stage 3 Doubtful	Stage 3 Loss	Stage 3 Balance sheet impairments (stage 3)
Net loans and advances and financial investments	715 594										
Off balance sheet exposures											
Letters of credit	10 191	9 764	-	-	227	200	-	-	-	-	-
Guarantees	11 030	10 395	-	-	182	103	350	-	-	-	-
Irrevocable unutilised facilities	55 517	48 486	-	-	5 697	318	1 016	-	-	-	-
Expected credit loss for off balance sheet exposures											
Stage 1	(329)										
Stage 2	(213)										
Add the following other banking activities exposures:											
Cash and balances with central bank	709 615										
Investment securities	2 264										
Derivative assets	17										
Other assets	23 981										
Total exposure to credit risk	1 527 667										

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 as at the financial year ended 31 December 2018 amounted to USD201 million (2017:USD136.6 million).

Exposure to credit risk by credit quality as at 31 December 2017 (USD'000)

	Gross loans and advances	Non-performing loans Sub-Standard	Non-performing loans Doubtful	Non-performing loans Loss	Non-performing loans Total non-performing loans	Non-performing loans Balance sheet impairment for non performing loans	Performing loans Normal Monitoring	Performing loans Close Monitoring	Performing loans Total "Neither past due nor Impaired"	Performing loans Past due but not impaired	Performing loans Total performing loans	Performing loans Balance sheet impairment for performing loans
Personal and Business Banking-("PBB")												
Home loans	15 506	278	92	179	549	193	9 485	-	9 485	5 472	14 957	368
Finance leases	16 836	3	23	501	527	277	9 448	-	9 448	6 861	16 309	299
Personal unsecured lending	71 009	251	695	556	1 502	1 302	62 506	-	62 506	7 001	69 507	592
Business term loans and overdrafts	93 831	34	506	3 261	3 801	1 195	69 386	7 018	76 404	13 626	90 030	1 636
Total loans PBB	197 182	566	1 316	4 497	6 379	2 967	150 825	7 018	157 843	32 960	190 803	2 895
Corporate and Investment Banking-("CIB")												
-Corporate loans	154 464	-	-	2 611	2 611	2 211	140 919	8 732	149 651	2 202	151 853	13 164
Total	351 646	566	1 316	7 108	8 990	5 178	291 744	15 750	307 494	35 162	342 656	16 059
Less impairments for loans and advances	(21 237)											
Net loans and advances	330 409											

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Exposure to credit risk by credit quality as at 31 December 2018 (USD'000)

impaired loans

	impaired loans						
	Sub-Standard	Doubtful	Loss	Total non-performing loans	Security and expected recoveries	Stage three impairments for non performing loans	Gross impairment coverage
Personal and Business Banking ("PBB")							
Loans to customers	483	1 835	4 783	7 101	(4 423)	(2 678)	38%
Corporate and Investment Banking ("CIB")							
Loans to customers	-	-	-	-	-	-	-
Total	483	1 835	4 783	7 101	(4 423)	(2 678)	38%

Ageing of loans and advances past due but not specifically impaired

	Performing (Early arrears)			Non-performing		
	Less than 31 days	31-60 days	61-89 days	90-180 days	More than 180 days	Total
Personal and Business Banking						
Mortgage loans	1 805	-	-	-	-	1 805
Instalment sale and finance leases	3 457	-	-	-	-	3 457
Business lending and other	5 068	-	-	-	-	5 068
Personal unsecured lending	17 004	-	-	-	-	17 004
Total loans PBB	27 334	-	-	-	-	27 334
Corporate and Investment Banking						
Term lending	15 799	-	-	-	-	15 799
Total	43 133	-	-	-	-	43 133

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Exposure to credit risk by credit quality as at 31 December 2017 (USD'000)

Non performing loans

	Non-performing loans						
	Sub-Standard	Doubtful	Loss	Total non-performing loans	Security and expected recoveries	Specific impairments for non performing loans	Gross impairment coverage
Personal and Business Banking ("PBB")							
Loans to customers	566	1 316	4 497	6 379	(3 413)	(2 967)	47%
Corporate and Investment Banking ("CIB")							
Loans to customers	-	-	2 611	2 611	(400)	(2 211)	85%
Total	566	1 316	7 108	8 990	(3 813)	(5 178)	58%

Ageing of loans and advances past due but not specifically impaired

	Performing (Early arrears)			Non-performing		
	Less than 31 days	31-60 days	61-89 days	90-180 days	More than 180 days	Total
Personal and Business Banking						
Mortgage loans	5 309	162	-	-	-	5 471
Instalment sale and finance leases	1 765	4 414	682	-	-	6 861
Business lending and other	11 665	1 231	730	-	-	13 626
Personal unsecured lending	6 749	214	38	-	-	7 001
Total loans PBB	25 488	6 021	1 450	-	-	32 959
Corporate and Investment Banking						
Term lending	2 202	-	-	-	-	2 202
Total	27 690	6 021	1 450	-	-	35 161

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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.

Liquidity and funding management

The Bank is substantially aligned to the Basel Committee's principles for sound liquidity management as applied to banks.

The Bank is required to incorporate the following elements in its liquidity management process:

- maintaining a sufficiently large liquidity buffer;
- ensuring a structurally sound statement of financial position;
- short-term and long-term cash flow management;
- foreign currency liquidity management;
- preserving a diversified funding base;
- undertaking regular liquidity stress testing and scenario analysis; and
- maintaining adequate contingency funding plans.

The cumulative impact of the above elements is monitored on a monthly basis by the ALCO and the process is underpinned by a system of extensive controls. These include the application of purpose built technology, documented processes and procedures, independent oversight and regular independent reviews and evaluations of the effectiveness of the system.

In periods of increased volatility, the frequency of ALCO meetings is increased significantly to facilitate appropriate management action.

Funding base

The primary sources of funding are deposits from retail and corporate clients.

Liquidity stress testing and scenario analysis

Stress testing and scenario analysis are based on hypothetical as well as historical events. These are conducted on the Bank's funding profiles and liquidity positions. The crisis impact is typically measured over a two-month period, as this is considered the most crucial time horizon for a liquidity event. This may however vary depending on the severity of the stress scenario.

Anticipated on and off-balance sheet cash flows are subjected to a variety of bank-specific and systemic stresses and scenarios to evaluate the impact of unlikely but plausible events on liquidity positions. Under each scenario, loan portfolios are assumed to roll over. However, the rollover of liabilities will be partially impaired resulting in a funding shortfall. The results are assessed against the liquidity buffer and contingency funding plans to provide assurance as to the Bank's ability to maintain sufficient liquidity under adverse conditions. The results also inform target liquidity buffer positions. The Bank's internal stress tests continue to be updated to align with Basel requirements and also reflect new reporting requirements and annual review amendments.

Notes to the financial statements

For the year ended 31 December 2018

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 2018 liquidity gap analysis (USD'000)	Redeemable on demand	Up to 1 month	1-3 months	3-12 months	Above 1 year	Insensitive portion	Total
Assets							
Cash and cash equivalents	793 624	64 269	76 318	-	-	(1 657)	932 554
Derivative assets	17	-	-	-	-	-	17
Financial investments	-	10 090	131 108	196 850	-	(11 067)	326 981
Investment securities	-	-	-	-	-	2 264	2 264
Loans and advances to customers	199 112	7 949	23 931	67 157	118 514	(29 320)	387 343
Other assets	7 184	16 797	-	-	-	96 090	120 071
Total	999 937	99 105	231 357	264 007	118 514	56 310	1 769 230
Equity and liabilities							
Derivative liabilities	7	-	-	-	-	-	7
Deposits from customers and other banks	1 511 189	-	-	175	254	-	1 511 618
Other liabilities	-	65 945	14 936	4 841	3 462	2 646	91 830
Equity	-	-	-	-	-	165 775	165 775
Total	1 511 196	65 945	14 936	5 016	3 716	168 421	1 769 230
Liquidity gap	(511 259)	33 160	216 421	258 991	114 798	(112 111)	
Cumulative liquidity gap	(511 259)	(478 099)	(261 678)	(2 687)	112 111	-	
Off-balance sheet exposures							
Letters of credit	(500)	(6 879)	(14 934)	(14 875)	-	-	
Financial guarantees	(134)	(2 797)	(7 223)	(5 054)	-	-	
Total liquidity gap (on-and off balance sheet)		(511 893)	(487 775)	(283 835)	(22 616)	112 111	-
Total cumulative liquidity gap	(511 893)	(488 409)	(294 145)	(55 083)	59 715	-	

Other assets include intangible assets, investment property and plant and equipment. Other liabilities include internal clearing accounts.

Notes to the financial statements

For the year ended 31 December 2018

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 2017 liquidity gap analysis (USD'000)	Redeemable on demand	Up to 1 month	1-3 months	3-12 months	Above 1 year	Insensitive portion	Total
Assets							
Cash and cash equivalents	654 667	19 000	56 000	-	-	-	729 667
Derivative assets	-	101	-	-	-	-	101
Financial assets available for sale	-	2 034	7 351	97 647	130 180	191	237 403
Investment securities	-	-	-	-	-	516	516
Loans and advances to customers	183 465	6 619	21 650	50 300	89 612	(21 237)	330 409
Other assets	8 217	5 351	-	-	-	91 449	105 017
Total	846 349	33 105	85 001	147 947	219 792	70 919	1 403 113
Equity and liabilities							
Derivative liabilities	-	6	-	-	-	-	6
Deposits from customers and other banks	1 207 547	4	-	-	217	-	1 207 768
Other liabilities	-	32 275	15 770	4 045	3 512	2 072	57 674
Equity	-	-	-	-	-	137 665	137 665
Total	1 207 547	32 285	15 770	4 045	3 729	139 737	1 403 113
Liquidity gap	(361 198)	820	69 231	143 902	216 063	(68 818)	
Cumulative on-balance sheet gap	(361 198)	(360 378)	(291 147)	(147 245)	68 818	-	
Off- balance sheet exposures							
Letters of credit	(6 882)	-	(878)	(1 298)	-	-	
Financial guarantees	(908)	(1 577)	(1 389)	(3 010)	(57)	-	
Total liquidity gap (on-and off balance sheet)	(368 988)	(361 955)	(293 414)	(151 553)	68 761	-	
Total cumulative liquidity gap	(368 988)	(369 745)	(302 781)	(163 187)	52 819	-	

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

Notes to the financial statements

For the year ended 31 December 2018

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 1% (2017:2%) of the overall balance sheet size as depicted below and thus do not pose a significant foreign currency liquidity risk to the Bank:

Statement of financial position by currency as at 31 December 2018	Total USD'000	USD USD'000	ZAR USD'000	EURO USD'000	GBP USD'000	Other USD'000
Assets						
Cash and cash equivalents	932 554	922 260	7 039	1 677	447	1 131
Derivative assets	17	17	-	-	-	-
Financial investments	326 981	326 981	-	-	-	-
Investment securities	2 264	2 264	-	-	-	-
Loans and advances to customers	387 343	387 343	-	-	-	-
Other assets	25 876	25 016	120	-	-	740
Intangible assets	28 293	28 293	-	-	-	-
Investment property	26 963	26 963	-	-	-	-
Property and equipment	38 939	38 939	-	-	-	-
Total assets	1 769 230	1 758 076	7 159	1 677	447	1 871
Equity and liabilities						
Equity	165 775	165 775	-	-	-	-
Ordinary share capital	260	260	-	-	-	-
Ordinary share premium	10 790	10 790	-	-	-	-
Reserves	154 725	154 725	-	-	-	-
Liabilities	1 603 455	1 586 634	9 549	4 463	710	2 099
Derivative liabilities	7	7	-	-	-	-
Total deposits	1 511 618	1 496 508	7 932	4 399	686	2 093
Deposits from other banks	3 565	2 410	-	-	-	1 155
Deposits from customers	1 508 053	1 494 098	7 932	4 399	686	938
Deferred and current tax liabilities	2 211	2 211	-	-	-	-
Other liabilities	89 619	87 908	1 617	64	24	6
Total equity and liabilities	1 769 230	1 752 409	9 549	4 463	710	2 099
Currency gap	-	5 667	(2 390)	(2 786)	(263)	(228)
Currency size as % of overall statement of financial position	100%	99%	1%	0%	0%	0%

Notes to the financial statements

For the year ended 31 December 2018

Statement of financial position by currency as at 31 December 2017	**Total USD'000**	**USD USD'000**	**ZAR USD'000**	**EURO USD'000**	**GBP USD'000**	**Other USD'000**
Assets						
Cash and cash equivalents	729 667	700 374	18 231	9 782	862	418
Derivative assets	101	101	-	-	-	-
Financial investments	237 403	237 403	-	-	-	-
Investment securities	516	516	-	-	-	-
Loans and advances to customers	330 409	330 405	-	-	4	-
Current tax	3 199	3 199	-	-	-	-
Deferred tax	611	611	-	-	-	-
Other assets	13 950	13 881	52	10	4	3
Intangible assets	29 233	29 233	-	-	-	-
Investment property	21 128	21 128	-	-	-	-
Property and equipment	36 896	36 896	-	-	-	-
Total assets	1 403 113	1 373 747	18 283	9 792	870	421
Equity and liabilities						
Equity	137 665	137 665	-	-	-	-
Ordinary share capital	260	260	-	-	-	-
Ordinary share premium	10 790	10 790	-	-	-	-
Reserves	126 615	126 615	-	-	-	-
Liabilities	1 265 448	1 236 301	18 270	9 390	878	609
Derivative liabilities	6	6	-	-	-	-
Total deposits	1 207 768	1 183 369	16 190	6 996	732	481
Deposits from other banks	12 626	8 216	-	4 164	-	246
Deposits from customers	1 195 142	1 175 153	16 190	2 832	732	235
Other liabilities	57 674	52 926	2 080	2 394	146	128
Total equity and liabilities	1 403 113	1 373 966	18 270	9 390	878	609
Currency gap	-	(219)	13	402	(8)	(188)
Currency size as % of overall statement of financial position	100%	98%	1%	1%	0%	0%

Notes to the financial statements

For the year ended 31 December 2018

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 100bps parallel rate shock on all yield curves would decrease the forecast net interest income based on balances as at 31 December 2018 by 7.56% (2017:8.97%). 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	2018 USD'000	2017 USD'000
Increase in basis points	100	100
Sensitivity of annual net interest income	2 649	2 217
Sensitivity of OCI	-	-
Decrease in basis points	100	100
Sensitivity of annual net interest income	(3 754)	(4 236)
Sensitivity of OCI	-	-

Notes to the financial statements

For the year ended 31 December 2018

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

31 December 2018 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	84 009	64 000	76 000	-	-	708 545	932 554
Derivative assets	-	-	-	-	-	17	17
Financial investments	-	9 620	125 000	187 680	-	4 681	326 981
Investment securities	-	-	-	-	-	2 264	2 264
Loans and advances to customers	407 745	450	705	2 399	1 427	(25 383)	387 343
Other assets	6 982	-	-	-	-	113 089	120 071
Total	498 736	74 070	201 705	190 079	1 427	803 213	1 769 230
Equity and liabilities							
Derivative liabilities	-	-	-	-	-	7	7
Deposits from customers and other banks	359 679	-	-	170	245	1 151 524	1 511 618
Other liabilities	-	-	-	-	-	91 830	91 830
Equity	-	-	-	-	-	165 775	165 775
Total	359 679	-	-	170	245	1 409 136	1 769 230
Interest rate repricing gap	139 057	74 070	201 705	189 909	1 182	(605 923)	
Cumulative interest rate repricing gap	139 057	213 127	414 832	604 741	605 923	-	

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

Notes to the financial statements

For the year ended 31 December 2018

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

31 December 2017 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	27 476	19 000	56 000	-	-	627 191	729 667
Derivative assets	-	-	-	-	-	101	101
Financial investments	-	1 969	7 116	94 527	125 061	8 730	237 403
Investment securities	-	-	-	-	-	516	516
Loans and advances to customers	324 730	1 365	426	1 637	16 557	(14 306)	330 409
Other assets	8 212	-	-	-	-	96 805	105 017
Total	360 418	22 334	63 542	96 164	141 618	719 037	1 403 113
Equity and liabilities							
Derivative liability	-	-	-	-	-	6	6
Deposits from customers and other banks	274 293	-	-	-	217	933 258	1 207 768
Other liabilities	-	-	-	-	-	57 674	57 674
Equity	-	-	-	-	-	137 665	137 665
Total	274 293	-	-	-	217	1 128 603	1 403 113
Interest rate repricing gap	86 125	22 334	63 542	96 164	141 401	(409 566)	
Cumulative interest rate repricing gap	86 125	108 459	172 001	268 165	409 566	-	

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

Notes to the financial statements

For the year ended 31 December 2018

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 2018

	Maximum possible loss in December 2018 USD'000	Minimum possible loss in December 2018 USD'000	Average possible loss USD'000	Possible loss at 31 December 2018 USD'000	Maximum acceptable VaR loss USD'000
Normal VaR	5.049	3.554	4.476	4.552	23.0
Stress VaR	15.195	10.358	13.568	13.824	119.0

Notes to the financial statements

For the year ended 31 December 2018

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 2018 was USD5 049 (2017:USD4 280), and the minimum possible loss was USD3 554 (2017:USD850), with an average possible loss of USD4 476 (2017:USD1 780) in comparison to the maximum acceptable possible loss of USD23 000 (2017:USD23 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.

The management and measurement of operational risk

Risk assessments are an integral part of the overall risk management process and cover the key components of identification, assessment and management of risk. The Bank's risk and control self-assessment ("RCSA") policy operationalises the need for business to perform self-assessments on an annual basis and initiate actions to mitigate risks or control deficiencies.

Risk assessments are supplemented with loss data experience. The Bank ensures the systematic tracking of operational risk losses and near miss events by business line via a centralised database ("Orbit"). The detailed loss data collection ("LDC") process occurs at a decentralised level within each functional area. The information is centralised by ORM who are responsible for defining the parameters, database fields and maintaining the integrity of the data. Line management in each functional area is responsible for driving the LDC process supported by the independent Risk Department.

The Bank uses key risk indicators ("KRIs") to monitor exposures to key risks identified in the RCSA process. The KRI process is an important component in the management of operational risk and contributes to the development of the Bank's operational risk profile.

The insurance requirements and processes are the responsibility of the Finance and Risk Management Departments who ensure that the Bank maintains adequate insurance to cover key operational and other risks. Insurance is not considered as an alternative to effective preventative and detective controls but as a compensatory control, providing protection from the consequences of control failure.

Operational risk appetite is determined by setting tolerance thresholds for both financial and non-financial impacts. These are used to guide escalation and mitigation strategies. In addition, tolerances are set through specific risk indicators although these are generally reliant on senior management's assessment of acceptable risk.

Notes to the financial statements

For the year ended 31 December 2018

Business units have developed materiality thresholds (financial and non-financial) for the immediate escalation of material incidents to the various business and risk management structures within the Bank. These materiality thresholds also determine which exposures need to be reported to the various management and Board Risk committees.

Operational risk reports are produced on a monthly and quarterly basis by the ORM function and highlight potential and actual exposures, material incidents and applicable action plans. These reports are circulated to management and the Board on a monthly and quarterly basis respectively.

Business continuity management

Business Continuity Management ("BCM") in the Bank has continued to improve the ability of all critical operations to manage any unexpected business disruptions and/or crises. The Bank continually enhances the process of assessing needs, identifying gaps and single points of failure, improving recovery strategies and keeping plans current by running regular exercises. The Bank has improved its resilience strategy by increasing the number of critical businesses operations utilising the dual site strategy. The Bank also embarked on an awareness campaign to raise awareness of business continuity and to ensure that employees know their roles in the event of a crisis.

The status of the Bank's BCM capability is continually monitored through various reporting structures with relevant information flowing through to the respective governance committees and the Board.

Information risk management

Information risk is defined as the risk of accidental or intentional unauthorised use, modification, disclosure or destruction of information resources, which compromises their confidentiality, integrity or availability.

Information has become indispensable to doing business. The growing dependence on information and the systems that handle it, coupled with the risks, benefits and opportunities these resources present, have made information risk an increasingly critical facet of overall risk management for the Bank.

Information Risk Management ("IRM") deals with all aspects of information whether spoken, written, printed, electronic or relegated to any other medium regardless of whether it is being created, viewed, transported, stored or destroyed.

Fraud risk management

The Bank takes a "Zero Tolerance" approach to fraud and corruption. In the case of any staff member being involved in fraud or corruption, disciplinary or civil or criminal action is taken. Employees found guilty of dishonesty through the Bank's disciplinary processes are listed on appropriate industry databases of dismissed staff.

Fraudulent activities against the banking industry are continuously monitored through the Bank's participation in industry bodies such as the Interbank Committee.

To enable the effective management of fraud risk, it is a requirement that each business unit identifies all inherent fraud risks and implement controls to mitigate these risks following the risk versus reward approach.

Greater emphasis is also being placed on risk factors that contribute to fraud, especially in business units where there are less effective controls to prevent fraud.

Notes to the financial statements

For the year ended 31 December 2018

Legal risk

Legal risk arises where:

- the Bank's businesses may not be conducted in accordance with applicable laws of Zimbabwe;
- incorrect application of regulatory requirements takes place;
- the Bank may be liable for damages to third parties; and
- contractual obligations may be enforced against the Bank in an adverse way, resulting in legal proceedings being instituted against it.

Although the Bank has processes and controls in place to manage legal risk, failure to do so effectively could result in legal proceedings that impact the Bank in both financial and reputational aspects.

Tax risk

Tax risk is the possibility of suffering unexpected loss, financial or otherwise, as a result of the application of tax systems, whether in legislative systems, rulings or practices, applicable to the entire spectrum of taxes and other fiscal imposts to which the Bank is subject.

In terms of the Bank's tax policy the Bank fulfils its responsibilities under tax laws whether in relation to compliance, planning or client service matters. Tax law includes all responsibilities which the Bank may have in relation to company taxes, employee taxes, capital gains taxes, indirect taxes and tax administration.

Compliance with this policy is aimed at ensuring that:

- the Bank pays neither more nor less tax than tax law requires;
- the Bank continually reviews its existing operations and planned operations in this regard; and
- the Bank ensures that, where clients participate in Bank products, these clients are either aware of the probable tax implications, or are advised to consult with independent professionals to assess these implications, or both.

The framework to achieve compliance with the Bank tax policy comprises four elements:

- tax risk - identification and management;
- human resources - an optimal mix of staffing and outsourcing;
- skills development - methods to maintain and improve managerial and technical competency; and
- communication - of information affecting tax within the Bank.

Good corporate governance in the tax context requires that each of these elements are in place as the absence of any one of the elements would seriously undermine the others.

The identification and management of tax risk is one of the key functions of the Bank's Finance Department. This objective is achieved by applying a tax risk matrix approach, which measures the fulfilment of tax responsibilities against the specific requirements of each category of tax to which the Bank is exposed, in the context of the various types of activity the Bank conducts.

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 2018

Framework and governance
Compliance Risk Management is an independent core risk management activity overseen by the Bank's Compliance Officer whose position is mandated and approved by the Reserve Bank of Zimbabwe. The Compliance Officer has unrestricted access to the Chief Executive and the Board Audit Chairman, and reports independently to the Board Audit Committee.

The compliance framework is based on the principles of effective compliance risk management issued by the requirements of the Banking Act of Zimbabwe (Chapter 24:20) and the Basel Committee on Banking Supervision. The Bank operates a centralised compliance risk management structure.

Executive management with the responsibility for all aspects of compliance risk management are subject to the appropriate corporate governance reporting structures. All business units are responsible for compliance with relevant legislation and are responsible for reporting on compliance matters to the Chief Compliance Officer.

Money laundering control
Legislation pertaining to money laundering and terrorist financing control imposes significant customer identification, record keeping and training requirements, as well as obligations to detect, prevent and report money laundering and terrorist financing. The Bank is committed to continually improving its control measures as the regulatory environment evolves. The Bank's minimum standards are regularly reviewed to ensure alignment with international best practice and the breadth and depth of money laundering surveillance systems across the Bank are continually expanded.

Occupational health and safety
The health and safety of employees, customers and other stakeholders is a priority and the Bank aims to identify and reduce the potential for accidents or injuries in all its operations. Training of health and safety officers and staff awareness is an ongoing endeavour. Standards to support health and safety requirements to a uniform level across all of our operations are being developed.

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. Safeguarding the Bank's reputation is of paramount importance to its continued success and is the responsibility of every member of staff.

Independent assurance- Internal audit
The Bank's Internal Audit ("IA") Department reports to and operates under a mandate from the Board Audit Committee ("BAC") and has the authority to independently determine the scope and extent of work to be performed. The IA Department's primary objective is the provision of assurance to the BAC. It assists executive management teams in meeting their business objectives by examining the Bank's activities, including risk management, control and governance processes, assessing the risks involved and evaluating the adequacy and effectiveness of processes, systems and controls to manage these risks. A risk based audit approach has been adopted. Material or significant control weaknesses and planned management remedial actions are reported to the BAC and to other Board committees. These issues are tracked to ensure that agreed remedial actions have been implemented. Overdue issues are reported to the BAC on a quarterly basis.

Stanbic Bank Zimbabwe
Report to society 2018

Value Derived from Diversity

Diversity is the creation of an organizational culture where the best people want to work, where everyone is treated with dignity and respect, where people are promoted on their merits and where opportunities for success are available to all. The Bank makes deliberate efforts to address and support personal characteristics of our staff. We strongly believe there is strength in diversity and we are committed to a culture of inclusion. Our Group-wide principles underscore our philosophy and actions every day. As the leading bank in Zimbabwe, putting diversity at the heart of our operations is but one of the many trends we are setting. Our business already caters for a diverse clientele base and we also make deliberate efforts to diversify the talent working in the Bank for the benefit of customers.

WE RECOGNISE

We Recognise that talent is diverse. If we want to hire the best people, we must be able to select from the widest talent pool and select the right mix of talent to understand our diverse customer base;

WE VALUE

We Value the diversity of our customers and their need for innovative and unique financial solutions;

WE COMMIT

We Commit to leveraging the unique diversity of our employees to the benefit of our customers; and

WE ASPIRE

We Aspire to build an inclusive culture, in which all our employees feel empowered and motivated to work together to create value for our customers, our shareholders and the societies in which we operate.

We can confidently confirm our support and acceptance of various age groups, religions, physical capabilities, family status, language, opinions, economic, societal, cultural, racial, geographic and political backgrounds of individuals. All individuals are respected for who they are.

Our Diversity Resume

Support of visually impaired staff

Support of visually impaired staff to access computer systems which they require to carry out their jobs as well as learning resources.

Generational diversity

Generational diversity - The age of our staff is reflective of the demographics of our country's citizens.

Upholding our core values

Upholding our core values, which include:

Respecting each other – we aim to ensure that all staff members respect customers as well as each other despite different opinions, races and political affiliation.

Being proactive – staff are encouraged to be proactive in order for them to showcase their talent and abilities.

Growing our people – learning and development of staff is encouraged to ensure that staff are developed to perform optimally and to have opportunities for growth within the larger Standard Bank Group.

Gender diversity

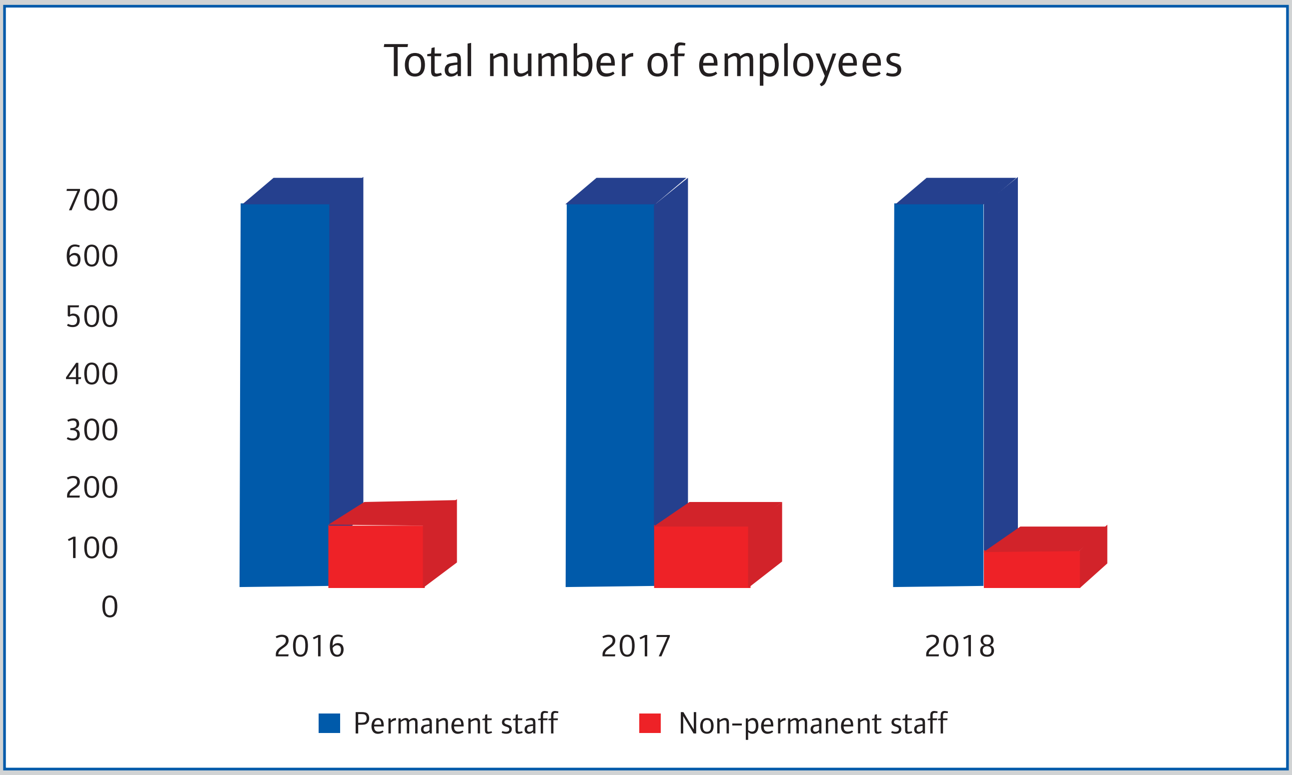
The gender balance of our workforce has grown over the years to align closer to the country's demographic, and we continue to focus on driving the number of skilled and competent women in senior roles.

Encouragement of open and honest communication

Encouragement of open and honest communication to ensure that the opinions of staff are heard and taken into consideration.

Our People

Our employees are at the heart of our operations. Employees are the Bank's most important asset and we value their physical, intellectual, spiritual and financial wellbeing.



Financial Inclusion

There are many segments of people who miss out on banking opportunities due to the lack of customization of the relevant products available on the market. Our strategy focuses on universal financial services, hence these people remain on our radar as we dissect the segments establishing their needs in order to build products and offerings that work for them.

Women Society Scheme (Dendere)

Women are a special segment in the economy and we are continuously tuning into their needs, and how we can partner them as they drive different sectors of the economy to profitability.

Dendere is an account targeting women as part of our financial inclusion strategy. The exclusion of women from financial services has been reported by a number of studies that have found that women are more excluded than men, both at firm and individual levels. Findings from the Finmark Trust Gender and Financial Inclusion survey of 2016 showed that a significant number of women do not have access to bank accounts, and 1 in 4 will use someone else's accounts to get by.

Dendere was strategically conceived through consultation with relevant groups of women, to provide banking services after they would have gone through the Bank's Incubator. The incubation process ensures that women are offered competency based training, business development support services, access to markets, access to mentors and access to funding.

After a successful incubation period, the women are given the opportunity to access loans from the bank under Women Empowerment Fund (WEF) which will be linked to the Dendere product.

The Finscope survey of 2016 also indicated that only a minority of business owners are women and yet women constitute 51% of the Zimbabwean population. The participation of the Zimbabwean women in the mainstream economy is critical in attaining sustainable economic growth and poverty reduction. It is against this background that we are embarking on strategies to enhance women's access to financial services.

Financial Literacy

As a commercial bank, we have engaged in educating our clients, enterprise leaders, high school and tertiary students on financial matters. In 2018, we held a total of 9 financial literacy sessions in the different provinces of the country, complemented by our social media financial literacy campaigns which run throughout the year.

Financial Literacy

From left to right Lincoln Mhlanga – Mutare Branch Manager; Tina Matewe – Regional Manager; Mollie Mashevedze – Manager Workplace Banking; Professor Furusa – Africa University Vice Chancellor

Africa University students following a session

Financial Literacy

Clients following proceedings at a literacy session

Digital

Omnichannel, seamless payments and transactional platforms speak to the digital journey we have been cruising on for years now. Throughout the year, we worked on initiatives meant to allow customer flexibility and control over their finances without having to visit physical branches. Digital banking serves both individuals and organizations in terms of saving on banking expenses and time, for improved productivity and allocation of resources to other pertinent tasks. We continue to make this possible by introducing more functionalities on our online and mobile banking applications, and through the deployment of the much-needed point of sale devices. Our branches remain an important channel, hence the move to automate more teller and consultant's functionalities, which allow our staff more time to focus on building relationships with the customers and onboarding more clients onto our digital platforms.

Power to the Nation

Corporate and Investment Banking is one of our strongest operating arms in Zimbabwe, propped by Standard Bank Group's over 156 years of experience across Africa.

Through one of our major clients, the Zimbabwe Power Company, we play a crucial role in improving the supply of energy on the local power grid which directly impacts sustainable growth of our economy. In 2016, Standard Bank Namibia, a regional development finance institution and Stanbic Bank Zimbabwe, enabled the rehabilitation of the Kariba South infrastructure, to the tune of USD120 million adding 300MW to the grid. In 2017, Stanbic Bank Zimbabwe partnered Standard Bank Namibia in the provision of USD40 million to help the Zimbabwe Power Company unlock an additional USD1 billion towards the construction of Hwange units 7 and 8 which will create an additional power generation capacity of 600MW, an increase in excess of 40% in terms of generation capacity a real game changer to the economy.

This is the country's biggest investment in the energy sector since independence in 1980. In the context of a Zimbabwe whose macro-economic prospects are looking brighter, Standard Bank Group is once again delivering on its promise of driving Africa's growth by staying true to its promise to a key client and supporting critical infrastructure development.

Through this deal, Zimbabwe can count on more power supply to households, less reliance on firewood for cooking and other household purposes, thus saving the environment from deforestation. It will also ensure uninterrupted power supply to industries which will contribute to increased production even for export purposes.

Renewable Solar Energy

The energy sector is continuously looking to develop other means of generating sustainable energy, and we are ready to assist in securing finance to boost these initiatives as our contribution to the big picture. In a R7 million project, we partnered Standards Association of Zimbabwe (SAZ) to facilitate the importation of solar panels, batteries and other key components.

The plant has a 190kw capacity. Generating electricity with solar power instead, can dramatically reduce greenhouse gas emissions, particularly carbon dioxide, which lead to rising global temperatures and climate change. It is a great opportunity to support our local pioneers.

Funding the agricultural sector

Paperhole Investments (Private) Limited

Stanbic Bank Zimbabwe financed Paperhole Investments (Private) Limited, with USD38 million to secure grain. The grain is used in the manufacturing of mealie-meal and stock-feeds which are critical to the Zimbabwean market, as mealie-meal is a staple food in Zimbabwe. Stock-feeds are critical for cattle and chicken feeds which contribute immensely to small to medium enterprise farming businesses, which are sustaining the majority of Zimbabweans at the present moment. The funding was also used to secure grain from the Grain Marketing Board (GMB), the local grain board of Zimbabwe which purchases the grain from local farmers who are critical resources in the supply chain. Agriculture is one of Zimbabwe's main economy drivers, which is why Stanbic Bank will continue to support its requirements.

The target is to have this facility at USD100 million by 2019 and supporting Paperhole's out-grower farmers, which will increase their income and elevate their livelihoods.

Southwoods Chickens P/L

Stanbic Bank Zimbabwe availed a facility of USD350 000 to an existing client Southwoods Chickens, to enable the expansion of their broiler business to include a breeder unit.

The client is contracted by Irvine's Zimbabwe (Pvt) Ltd (Zimbabwe's largest integrated poultry company) to produce 120 000 chickens every 6 weeks and Southwood Chickens is one of the top out-growers for Irvine's Zimbabwe (Pvt) Ltd. The contractor provides the day-old chicks' feed, transport, chemicals and technical support.

Southwoods Chickens commissioned a new division under Southwoods Breeders which will also be contracted to Irvine's Zimbabwe (Pvt) Ltd to supply fertile hatching eggs. The funding we provided allowed this new business to procure equipment and facilitate the construction of the breeder site.

This development has created not only an opportunity for Southwoods to expand their business, but has also created employment for the contractors who engineered and built the structures, with some of the labour being sourced from the local community.

Employment opportunities will be opened for the surrounding community with the commissioning of this business. The site will target to produce 5.5 million hatching eggs per year, which will support the country's import substitution initiatives and also provide an affordable source of protein.

Promoting Risk Averse Operations

Effective risk management is fundamental to the business activities of Stanbic Bank Zimbabwe, and 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 four lines of defence model:

- The first line of defence are the business units, Corporate and Investment Banking ("CIB"); and Personal Business Banking ("PBB") where management and staff 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 units. 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.
- 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")
- The fourth line of defence consists of the Board Risk Committee ("BRC") which reviews and assesses the integrity of the risk control 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 and manage risk within the approved risk appetite.

The philosophy is that Risks are first 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.

Zero Tolerance Towards Financial Crime

Card fraud has been identified as the fastest growing threat to the Banking industry. This realization is based on a risk analysis carried out by our Investigations and Fraud Risk (IFR) team, looking at trends in the industry and cases that were conclusively investigated. In order to mitigate fraud risk, we have increased card fraud awareness campaigns to our merchants and customers through various awareness techniques such as face to face training; SMS alerts; pamphlets and merchant catalogues. The Bank has also taken strides to have a robust system that protects customers against fraud through channels like online and mobile banking. Regular interaction with peers from other banks as well as law enforcement agents equips us with knowledge on new crime trends and how to mitigate risks associated with the identified trends.

Law Abiding Corporate Citizen

Due to the need to serve our customers in the most ethical and legal manner possible, inculcating a culture of Compliance has become vital to the effective functioning of banks. This stance helps financial institutions avoid breaching regulatory requirements which leaves them liable to heavy fines amongst other penalties. Banking Regulators locally and globally have increased their supervision of banks in a bid to ensure operations are within the confines of regulations. To mitigate risks associated with non- compliance, the bank invested and continues to invest in talent to man the Compliance functions. The Bank's Compliance function proactively supports senior management and business units through effective compliance risk management practices, to ensure that all business is conducted within statutory requirements, which in turn mitigates regulatory fines and safeguards the bank's reputation. The Bank has strengthened its compliance culture through investing significantly in automated compliance monitoring and training of staff on key regulatory requirements that impact the operations of the bank.

To raise awareness on key regulatory requirements all staff members complete their compliance training, which is done online and face to face for all to understand their roles in keeping the Bank on the right regulatory compliance track. Training is the foundation for better understanding and good service to our customers. A compliance culture is one of our strengths as we ensure that we always do the right business the right way.

Zimbabwe is our Home

Stanbic Bank Zimbabwe Limited is the Best Bank as rated by EMEA Finance (African Banking Awards 2018). For us, business is not only about making profits because we are not our own enabler. We salute all the stakeholders who have helped us for the past 25 plus years we have been operating in Zimbabwe. The people of Zimbabwe have invested in us in many ways, our customers trust us to be their financial partner and our employees are the key drivers of the bank, only to mention two of our stakeholders, but the list is endless. Our business is built on trust, integrity and social relevance.

We endeavour to know what is happening in our societies and how we can positively impact the lives of the communities around us. We have selected education, health, and water provision as the three core areas of focus in terms of Corporate Social Investment but our reach also extends to preserving the environment.

Education, Health & Sanitation

Our 2018 CSI activities were, as always, guided by our CSI policy which gives us the mandate to focus on health, education and sanitation related issues. While organizations like the Albino Charity Organization of Zimbabwe, Cancer Association of Zimbabwe and Stragglers Cricket Club have been constant partners year after year, it is our aim to also impact more livelihoods from diverse walks of life. Following the Cholera epidemic that struck our nation in September 2018, we are humbled to have been a part of the many stakeholders who worked in solidarity with the Ministry of Health and Child Care (MoHCC) to assist in curbing its further spread.

Education, Health & Sanitation

Partnerships help increase the impact of any undertaking, and we took the opportunity to partner the Rotary club in constructing a bridge over Shevanhowe river in Murehwa to curb further incidents of school children drowning while trying to make their way to school during the rainy season. Central Hospitals are always on our radar and we reached out to Mpilo Central Hospital to help alleviate water challenges by sinking a borehole, in line with our sanitation commitment.

Education remains a key component necessary for economic growth and we have been steadily increasing our support towards school fees for high performing students from underprivileged backgrounds. Our focus has broadened to include distribution of reusable and disposable sanitary wear to girls in rural areas, a campaign initiated by our female employees. Our biggest project for 2018 was the construction of the Nyamuzuwe Waiting Mothers Home at Nyamuzuwe Rural Hospital in Mutoko, in partnership with Plan International Zimbabwe, an initiative set to benefit the district by reducing the maternal and infant mortality rates.

Cholera Relief

We purchased an assortment of Non-Food Items (NFIs) worth over USD70 000 as we put our shoulder to the wheel in the fight against cholera which took 49 lives. We provided 5 000 litres of IV fluid; 5000 x 25 litre containers, 10 000 plastic aprons, 50 000 face masks, 10 000 latex gloves, 100 pairs of gumboots and water treatment tablets.

The NFIs were handed over to the Ministry of Health and Child Care at Beatrice Infectious Diseases Hospital. The plastic aprons, latex gloves, face masks and pairs of gumboots were meant for use by healthcare workers while the 25 litre containers and water treatment tablets were distributed to various households in affected areas.

Deputy Minister for Health & Child Care, Dr Mangwiro, (left) and the Principal Director Preventative Services, Dr Gibson Mhlanga (extreme right) accepted the Stanbic donations and led the delegation on a situation awareness tour.

Stanbic Bank staff at the official handover ceremony with the Honourable Deputy Minister of Health Dr. J. Mangwiro.

Education, Health & Sanitation

EDUCATION

Human capital investment through education is a major tool for sustainable development. Education is recognised as a fundamental human right and necessary for the development of people in any society and we have made efforts to significantly increase our bursary programmes. A considerable number of children do not get the opportunity to attain education, which is why we have extended our resources to underprivileged or orphaned boys and girls in various parts of the country for the purpose of attaining educational qualifications from primary, secondary to tertiary level.

Since 2015, our funding towards educating young boys and girls has increased by over 100%. Our aim is to take on a higher number of children from all provinces to school each year and we will continue to enhance our bursary programme.

Our sanitary wear donation campaign for 2018 was for girls in rural communities, to help keep them in school so that they get the same level of education as their male counterparts, and saw over 880 girls benefitting.

Stanbic Bank Chairman, Mr. Sebborn, handing over sanitary products contributed by staff and matched by the Bank in support of the initiative to help keep underpriviledged girls in school.

The sanitary wear drive saw girls from Masembure High School among the schools receiving assistance.

Education, Health & Sanitation

STANBIC BANK & ALBINO CHARITY ORGANIZATION OF ZIMBABWE (ALCOZ)

There are more than 70,000 people living with albinism in Zimbabwe and one of their biggest challenges is the sensitivity of their skin to the sun. Organizations such as ALCOZ work hard to obtain assistance for people living with albinism who cannot afford sun protection agents such as sunscreen lotions and we are privileged to be able to partner with them to make a difference in their lives. Since 2015, we have been working together and we look forward to many more years of making a difference.

This year we assisted the organization with 500 sunhats, 500 Dettol soaps, 500 sunscreen lip balms, 780 bottles of Dettol liquid and 500 Nivea sunscreen lotions. Our focus for the near future is to help raise awareness of this condition in both rural and urban communities.

Stanbic Bank Chief Executive, Mr. Tapambgwa, handing over the Bank's donation to ALCOZ Director, Mrs. Mainato.

Stanbic Bank Non-Executive Director, MrsTiyago also handing over the Bank's donation to ALCOZ Director, Mrs. Mainato.

NYAMUZUWE WAITING MOTHER'S HOME- OUR USD100 000.00 COMMITMENT

As we continue to look for means and ways to help different communities in line with our health focus, we are delighted to be in a position to build a Waiting Mothers' Home at Nyamuzuwe Rural Clinic in Mutoko. In partnership with our implementing partner, Plan International, our aim is to reduce the maternal and infant mortality rates in the Nyamuzuwe community.

Plan International Country Director, Mr Mutero breaking ground in May.

Stanbic Bank Chief Executive, Mr J. Tapambgwa participating in the Nyamuzuwe Waiting Mothers Home ground breaking ceremony.

Education, Health & Sanitation

We celebrate the new source of clean water added for the benefit of Mpilo Central Hospital patients, staff & surrounding community members.

Board and Staff of Mpilo Hospital and Stanbic Bank

STRAGGLERS JUNIOR CRICKET

It is always a great honour to support and uplift young talent. The Gentlemen's game in Zimbabwe has seen a lot of talent, most of which has been nurtured through the Stragglers Junior Cricket week.

As the mainsponsorof this annual event, we are pleased to note that over five hundred (500) boys attended the event from 27 - 31 August 2018, with quite a number of them coming from developmental communities such as Shamva, Zvishavane and Bindura, amongst others.

One of the developmental teams which participated this year

Friends of the Environment (FOTE) walkathon

Conservation of the environment remains key in running sustainable operations in any geography. Through our partnership with Friends of the Environment, we are playing our part in planting trees every year in different provinces of Zimbabwe. Friends of the Environment (FOTE), is a not-for-profit organization of environmentally like-minded individuals and corporate entities championing the re-greening of Zimbabwe through tree planting. The FOTE initiative was pioneered by Nyaradzo Group in July 2010 when they started planting a tree with every burial they undertook. This idea culminated in the registration of FOTE as a Trust in November 2010. FOTE is governed by a Board of Trustees and works with the Ministry of Environment, Water and Climate together with its affiliate organisations, Forestry Commission and Environment Management Agency (EMA). As Stanbic Bank we have been supporting FOTE through our annual tree planting walkathon since 2012, joining their mission to plant 500 million trees by 2026.

FOTE walkathon

“How did we enable availability of critical resources in Masvingo?”

By facilitating the completion of Tokwe Mukosi Dam.
US$6m financing

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