# idbz

Infrastructure Development Bank of Zimbabwe

# NATIONAL GROWTH AND TRANSFORMATION ENABLERS

# AUDITED FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

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MAWAZOBD

## FINANCIAL HIGHLIGHTS

| | | | |
|---|---|---|---|
| Revenue | 54% up | $13.3m | (FY17 : $8.6M) |
| Profit | 240% | $814k | (FY17 : -$581k) |
| Total Assets | 212% | $590m | (FY17 : $189M) |
| Equity | 281% | $204m | (FY17 : $53.6M) |

## CHAIRMAN'S STATEMENT

### Background

The Bank's operating environment in 2018 was characterised by macroeconomic instability which worsened towards the end of the year. As a result, GDP growth for 2018 was revised from 6.3% to 4.0% and is expected to slow down to 3.1% in 2019[1]. The downward revision of growth was attributable to persistent foreign currency shortages and high inflation which closed the year at 42.02%. The situation was exacerbated by very limited foreign direct investment, increasing sovereign debt, widening fiscal deficit and perceived high country risk. Added to that, inadequate economic and social infrastructure whose financing gap is estimated at US$ 26 billion continues to negatively affect investment across economic sectors, thus putting a drag on the country's competitiveness and growth[2].

### Contribution to Vision 2030

The Government of Zimbabwe launched a growth-oriented Transitional Stabilisation Programme Reforms Agenda (TSP 2018-2020) which is anchored on Governance; Macro-economic Stability and Re-engagement; Inclusive Growth; Infrastructure and Utilities; and Social Development. The Bank is pivotal to the realisation of these national aspirations. During the period under review, the Bank continued to deliver on its infrastructure development mandate, guided by its Medium-Term Strategy (MTS, 2016-2020) which places focus on key economic enablers.

Addressing infrastructure gaps will be key to economic growth and the attainment of Vision 2030. The emphasis of the TSP on value addition and beneficiation requires adequate investment in water and sanitation, energy generation and transport infrastructure. The country's development agenda also prioritises environmental protection and sustainable use of natural resources. In this regard, the Bank is actively involved in power generation projects to enable industrialisation, technological advancement and value addition. The Bank's focus on the transport sector seeks to provide seamless linkages to markets and reduction of transaction costs.

[1] MoFED, 2018. [2] TSP, 2018

In line with the TSP, the Bank works with local authorities and other Government Agencies in provision of water and sanitation services to ensure inclusive, sustainable socio-economic development. The Bank has embarked on a national programme to modernise teaching and learning facilities at universities and institutions of higher learning to promote human capital development.

### Bank Performance

I am pleased to report that the Bank continued to impact positively on the country's development outcomes during the period under review. Notable progress was made in the implementation of the Kariba Housing Development Project (KHDP), Empumalanga West Housing Project (EWHP), and the Bulawayo Student Accommodation Project (BSAC). The EWHP and KHDP projects are expected to significantly reduce the housing backlogs for the strategic towns of Kariba and Hwange whose economic activities are mainly premised on tourism and power generation. The Bank is working with respective municipalities and local authorities to upgrade and rehabilitate water and sewer systems across the country. This is demonstrated by its involvement in water, sanitation and hygiene (WASH) projects for the following local authorities:

- Chiredzi Town Council;
- Victoria Falls Municipality;
- Marondera Municipality; and
- Redcliff Municipality.

The following social infrastructure projects whose preparation has been on-going in 2018 are expected to be developed to bankability and some to be fully implemented during the period 2019 – 2021:

- Chinhoyi University of Technology (CUT) Student Accommodation;
- Catholic University in Zimbabwe Student Accommodation
- Women's University in Africa (WUA) Student Accommodation
- Harare Public Ablution Facilities (Rehabilitation and Construction);
- Doelfontein Housing (Gwanda);
- Spitzkop Housing (Gwanda);
- Gweru CBD Expansion;
- Mkoba 21 Housing;
- Victoria Ranch Housing;
- Zvishavane M'tonjeni Housing;
- Plumtree Low Density Housing;
- Willsgrove Park Housing
- Killarney Medical Staff Accommodation;
- Lupane Student & Medical Staff Accommodation;
- Pomona Medical Staff Accommodation;
- Christmas Pass Mixed Development; and
- Denver Housing Project.

The Bank in collaboration with relevant authorities is working on project preparation and development of the mass transport system programme which includes the Chitungwiza – Harare Rail Link Project and play advisory role in the development and implementation of Beitbridge–Harare–Chirundu Road Dualisation and Rehabilitation, and the Beitbridge Border Post Modernisation projects.

In addition to the above projects, the Bank is engaged as a Transaction Advisor to the Ministry of Primary and Secondary Education Schools Infrastructure Development Project which is targeting the construction of 2,056 new schools across the country.

In the year 2018, there was a marked increase in fiscal support to the Public Sector Investment Programme (PSIP), with funds channelled under the Bank's management recording a 300% increase from the previous year to reach $ 455.5 million.

The Bank has made significant progress towards accreditation to the Green Climate Fund (GCF) following its nomination by Government as a National Implementing Entity for the GCF in 2017. Successful accreditation will give the Bank eligibility to access GCF resources to support implementation of climate change mitigation and adaptation projects. Meanwhile, the Bank is working on attracting other climate finance sources for blending with the Bank's own capital and private sector resources.

In keeping with best practice, the Bank now puts environmental, social and gender considerations at the core of planning, development and implementation of infrastructure projects. This will ensure that projects undertaken by the Bank are sustainable and inclusive, whilst limiting negative impacts on communities.

### Outlook and Appreciation

Going forward, the Bank stands ready to collaborate and harness partnerships towards the provision and delivery of adequate, reliable, affordable and sustainable infrastructure and social services in support of economic growth. Let me take this opportunity to extend my appreciation to the Government through the Ministry of Finance and Economic Development and the Reserve Bank of Zimbabwe for availing an additional $152.9 million in early 2018 towards the Bank's recapitalisation. This support will go a long way in the fulfilment of the Bank's capitalization targets.

Support from all stakeholders; our valued customers, suppliers and business partners, is well cherished and we wish to continue together on this fruitful national developmental journey. The Bank managed to score successes in its developmental work. I am appreciative of my colleagues on the Board, Management and Staff who have worked tirelessly under the obtaining economic challenges.

**J. Mhakayakora**
Acting Chairman
Date : 20 March 2019

## CHIEF EXECUTIVE OFFICER'S STATEMENT

### Bank Operations

The Bank's Work Programme and Budget theme for 2018 was, "Harnessing Partnerships for Infrastructure Rehabilitation, Expansion and National Socio-economic Transformation." In line with this thrust, I am happy to report that the Bank has continued to actively prepare and develop projects in the housing, energy, transport, and water, irrigation and sanitation sectors. During the period under review, the Bank started work towards developing projects to bankability valued at more than $151 million across its sectors of focus.

Cumulatively, the Bank has raised a total of $127.3 million through the issuance of Infrastructure Development Bonds since the bond issuance programme commenced in 2012. During the reporting period the Bank raised $10.34 million towards project financing activities, and more could have been mobilised were it not for delays that were experienced in the procurement of regulatory approvals on some of the projects under development.

The key highlights for the reporting period include the following:

- The Kariba Housing Project (initially worth $14.8 million) was expanded to include the upgrade of the water supply system, thus bringing the total project cost to $16.8 million. Project progress is at 93% and is expected to be completed in the second quarter of 2019.
- Other projects under implementation are the Bulawayo Student Accommodation Complex ($14.2 million) and Empumalanga West Housing Project, Hwange ($6.9 million) where project progress is currently at 80% and project completion is targeted by the third quarter of 2019.
- Individual projects under the $34 million University Students and Staff Accommodation Programme are attracting prospective investors who are proposing to develop projects through an Engineering Procurement Construction and Financing (EPC+F) model.
- During 2018, the Bank intensified efforts in the planning processes of Chinhoyi University of Technology (CUT) Student Accommodation and Catholic University in Zimbabwe (CUZ) Student Accommodation projects. The project planning activities are now at advanced stages and subject to approval by the Bank's Board in the second quarter of 2019.
- Other projects which are in the planning phase are the CUT learning facilities ($5.4 million), Zimbabwe School of Mines Students Accommodation ($5 million), Women's University in Africa Student Accommodation and the Sumben Housing Project ($16 million).

The Bank has significantly intensified the monitoring of PSIP projects whose funds are being disbursed through the Bank. These included;

**Water and Sanitation:**

- Tugwi-Mukosi access road that provides a link between Ngundu-Tanganda Road and Tugwi-Mukosi Dam was completed in 2018.
- Marovanyati Dam started harvesting water in the 2018-2019 rain season. This will improve water supply and irrigation development for the semi-arid region of Murambinda.
- Causeway Dam is 65% complete and is expected to start impounding water in the 2019 – 2020 rain season.
- Gwayi-Shangani Dam is 36% complete and is expected to have a capacity of 691 million cubic metres.
- Semwa Dam, located in Mt Darwin, is 34% complete with a water holding capacity of 260 million cubic metres.
- Chivhu Dam is 16% complete and will have a water holding capacity of 25 million cubic metres.

**Transport**

- Harare-Mutare road dualization: Goromonzi Turnoff to Melfort Tollgate; and Bindura-Shamva Road were commissioned in 2018.
- Emergency Road Development and Rehabilitation Works in eight (8) provinces received over $233 million through the Bank in 2018. Funding was through the PSIP window.

**Housing and institutional accommodation**

- Parklands housing project in Bulawayo is 100% complete and was issued a certificate of compliance.
- Makonde and Nemanwa (Masvingo) housing stands development projects are at 80% and 85% completion, respectively, by end of 2018.
- The Nyanga District Registry project was completed and is critical in the decentralisation of registry documents provision.

The Bank is working on a recapitalisation programme in pursuit of its capitalisation targets of $500 million in the short-medium term and $1 billion in the long term. Apart from scaling up the Bank's underwriting capacity, the recapitalisation is intended to bring on board strategic institutional investors who are aligned to the Bank's developmental mandate and who will facilitate access to long-term capital suitable for infrastructure investment. In addition to its bond issuance programme, the Bank has developed a suitable funding model for the Bulawayo Students Accommodation Project which has resonated well with institutional investors and will be replicated on other similar projects. The Bank is also working on putting together an Alternative Investment Platform which seeks to pool capital from pension funds and other institutional investors for increased infrastructure investments.

In order to broaden funding sources and build the required critical mass, the Bank is accelerating its engagements with regional, continental and international development finance institutions (DFIs) and multilateral finance institutions (MFIs) to establish strategic partnerships which will facilitate collaboration in the preparation and financing of infrastructure projects. These engagements are viewed as long-term initiatives which will give the Bank the necessary platform to mobilise critical implementation financing for projects in cooperation with other development institutions.

Since 2016, an amount of $ 6.93 million was disbursed from the Project Preparation and Development Fund (PPDF) towards funding of project development activities for a number of infrastructure projects which include student accommodation, housing, transport and renewable energy.

The Bank is on a drive to align its human resource base with the thrust on climate finance, gender sensitivity, environmental and social sustainability, and inclusive investments. For the period under review the Bank continued on its transformational journey and retooling exercise aimed at deepening the Bank's skills set.

### Financial Performance

The Bank's revenue grew by 55% from $8.6 million in 2017 to $13.3 million in 2018. This was driven by strong performance in net interest income. The Bank received $152.9 million in capital in 2018 which boosted the Bank's income generating capacity. In addition, the Bank benefited immensely from increased money market placements as a result of increased liquidity. Fees and commission income also registered growth of 28% from a prior year figure of $2.7 million to $3.5 million in the current year. This was as a result of increased recoveries (monitoring fees) from disbursements on Road Maintenance and Development ($15 million) and disbursements on water projects ($14.4 million). Moreover, the Bank earned some advisory fees from its role as the transaction advisor on Government projects.

Fair value losses of $1 million were recorded on investment property due to depressed activity in the property market and low occupation levels, leading to low rates of return. However, the Bank made a profit of $0.8 million against a prior year restated loss of $ 0.6 million. The restatement was a result of Value Added Taxes (VAT) $1.2 million which were not recovered and remitted to ZIMRA on time. Total comprehensive loss for the year was $2.1 million against the prior year restated loss of $0.2 million.

Total assets grew by 213% from $189 million at the prior year-end to $591 million as at 31 December 2018. The growth was spurred by receipt of additional capital of $152.9 million from Government and growth in PSIP funds earmarked for public infrastructure projects. This resulted in increases in cash and bank balances, as well as increases in money market placements.

The loan portfolio continued to perform well. Resolution of non-performing exposures to Meikles and Easy Credit will bring the NPL ratio within the RBZ acceptable threshold of 5%. This is projected to be concluded by the end of the second quarter of 2019. The Bank continues to strengthen its credit appraisal, monitoring and recovery processes in order to maintain the NPL ratio within the acceptable threshold.

### Appreciation

I would like to express my sincere gratitude to the Government, the Ministry of Finance and Economic Development, the Reserve Bank of Zimbabwe and all other stakeholders for their unwavering support to the Bank's efforts in accelerating infrastructure development in the country. I am indebted to the guidance of the Board and contribution of Management and Staff for their efforts towards delivery of Bank's mandate.

**T. Zondo Sakala**
Chief Executive Officer
Date: 20 March 2019

## CORPORATE GOVERNANCE STATEMENT

### Introduction

The Infrastructure Development Bank of Zimbabwe ("the Bank") is a development finance institution charged with a mandate to champion infrastructure development and financing but primarily focusing on the key economic development enablers in the following sectors: Energy, Water and Sanitation, Transport, Information Technology Communications and Housing.

In the execution of its statutory mandate, the Bank ensures that all tenets of good corporate governance pervade and are embedded in all the business processes that are involved in ensuring effective and efficient product and service delivery that meet stakeholder expectations. Critical to ensuring that good corporate governance pervades all aspect of the Bank's operations is the compelling need to comply with legal and regulatory requirements and conformance to international best practice governance standards and guidelines.

Corporate governance in IDBZ is anchored on the principles of fairness, transparency, accountability, social responsibility and strict compliance with applicable statutes and regulations. These governance principles are the foundation upon which the Bank strives to build a profitable, socially responsible, economically viable and environmentally sustainable business that serves the interest of all stakeholders.

### Governance Framework

The IDBZ was established in 2005 as a successor organization to the Zimbabwe Development Bank ("ZDB") and is governed in terms of an Act of Parliament, the Infrastructure Development Bank of Zimbabwe Act [Chapter 24:14] ("the IDBZ Act"). The Bank is regulated by the Minister of Finance and Economic Development. This role is shared with the Reserve Bank of Zimbabwe through the Finance Act Number 3 of 2014 which amended the Banking Act [Chapter 24:20].

Whilst the IDBZ Act has been the anchor in the institutional governance matrix, a superior governance instrument has since been enacted to which the Bank, as a public entity, is required to comply with. The Public Entities Corporate Governance Act [Chapter 10:33] was promulgated in June 2018 and supersedes any other enactment or governance framework in all public entities and parastatals in Zimbabwe. To the extent that there are inconsistencies between the establishment act and the PECG, the latter takes precedence. This implies that the establishment acts must be amended to align them with the new governance framework. The Corporate Governance Unit (CGU) was set up by Government to supervise and monitor implementation of the PECG Act and regulations.

The Bank also embraces to the extent possible the principles of good corporate governance enshrined in other governance standards both locally and internationally, and in particular recognizes the various legal and regulatory provisions that state enterprises and parastatals in Zimbabwe are required to abide by as they discharge their statutory mandates. The National Code on Corporate Governance Zimbabwe (ZIMCODE) was given legal status in the PECG Act as the First Schedule.

### Corporate Governance Charter

The Bank has in place a Corporate Governance Charter (the "Charter") which essentially codifies the various governance standards and instruments that impact on the operations of the Bank into one document which serves as a reference point on corporate governance as well as legal and regulatory requirements and compliance. The Charter is a consolidation of relevant provisions of the IDBZ Act [Chapter 24:14], Public Entities Corporate Governance Act [Chapter 10:33], the Public Finance Management Act [Chapter 29:19], the Banking Act [Chapter 24:20], the Public Procurement and Disposal of Public Assets Act [Chapter 22:23] and the IDBZ Shareholder Regulations. The Charter is a live policy document that is subject to regular reviews in line with changes in the governance, legal and regulatory frameworks.

### Code of Conduct and Ethical Framework

As a development finance institution, the IDBZ has a statutory mandate to champion sustainable infrastructure development through: mobilisation of resources; capacity building; and knowledge generation and sharing in support of national efforts for inclusive socio-economic development. In conducting its business, the Bank has a special responsibility to ensure that all operations and activities are conducted on the highest ethical plane. The Bank endeavours to be at the forefront in promoting ethical business practices and processes that meet international best practice. To that end, IDBZ is constantly reviewing and strengthening policies and procedures that govern staff interactions with Government, suppliers, customers and other stakeholders. The Code of Ethics Policy provides a framework under which Directors, staff and people who interact with the Bank are expected to conduct themselves. The Code is designed to promote honest and ethical conduct and is founded on the Bank's core values of integrity, professionalism, innovation, service orientation, sustainability and knowledge generation and sharing.

### Board of Directors

Section 4 (2) of the IDBZ Act [Chapter 24:14], as amended, provides that the size of the IDBZ Board shall be a minimum of 7 and a maximum of 9 Directors. Up until November 2018, the IDBZ Board of Directors consisted of eight (8) directors, one of whom is an executive director. Following the enactment of the Public Entities Corporate Governance Act [Chapter 10:33], the following changes were effected on the IDBZ Board of Directors:

- Mr. Willard L Manungo resigned from the Board in compliance with Section 11(5)(ii) of the Public Entities Corporate Governance Act [Chapter10:33].
- Dr. SS Mlambo retired from the Board on health grounds.
- The Minister of Finance & Economic Development nominated Mr. P Kunaka to replace Mr. Manungo on the Board. The board duly accepted the nomination and appointed Mr. Kunaka to the Board with effect from 1 December 2018.

In line with Section 7 (2), two experts sit on two Board Committees; a Chartered Accountant sits on the Audit Committee whilst a Human Resources Specialist sits on the Human Resources Committee.

### Duties and Responsibilities of the Board

The duties and responsibilities of the Board are outlined in section 4A of the IDBZ Act [Chapter 24:14].

The Board is responsible for formulating and implementing policies and strategies necessary for the achievement of the Group's objectives. The Board supervises the overall activities engaged in by the IDBZ and ensures that the institution and its subsidiaries have adequate control systems to monitor and manage risk, and further that there is an efficient and economic use of the resources consistent with the principle of "achieving more with less".

As an overarching responsibility, section 4A (e) of the Act requires that the Board formulates and enforces rules of good corporate governance and ethical practices for observance by the IDBZ Directors, Management and Staff. To that end, the Corporate Governance Charter acts as a policy guide to the Board, Management and Staff on matters of corporate governance, legal and regulatory compliance.

To effectively discharge its oversight and stewardship role the Board meets regularly, at least once every quarter.

### Board Committees

For the effective discharge of its functions and in order to enhance oversight on the various areas of the Group's operations, the Board constituted and appointed five (5) Committees which operate under clearly defined areas of responsibility and terms of reference. These are:

- Investments Committee
- Audit Committee
- Finance, Risk Management and ICT Committee
- Human Resources Committee
- Corporate Governance & Ethics Committee

In the discharge of their respective terms of reference, the Board Committees ensure transparency, full reporting and disclosure of key decisions and recommendation of the Committees to the main Board. Section 7 (2) of the Act empowers the Board to appoint to a Board Committee any person(s) for their skill and/or expertise as professionals to become Committee Members even though such persons or professionals are not themselves directors of IDBZ. This provision is intended to enhance the effectiveness of Board Committee functions, particularly in areas requiring specialised skill and technical expertise that may not be available on the Board.

# NATIONAL GROWTH AND TRANSFORMATION ENABLERS

AUDITED FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

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## CORPORATE GOVERNANCE STATEMENT FOR 2018 (CONTINUED)

| NAME OF DIRECTOR/MEMBER | MAIN BOARD | | AUDIT COMMITTEE | | HUMAN RESOURCES COMMITTEE | | FINANCE & RISK MANAGEMENT COMMITTEE | | CORPORATE GOVERNANCE COMMITTEE | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Number Attended | Total | Number Attended | Total | Number Attended | Total | Number Attended | Total | Number Attended |
| Manungo WL (Chairman) (Resigned 12 Nov 2018) | 5 | 3 | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| **Sakala TZ** | **5** | **3** | **Ex-officio** | **Ex-officio** | **4** | **3** | **4** | **3** | **Ex-officio** | **Ex-officio** |
| Choga VH | 5 | 4 | 4 | 4 | n/a | n/a | n/a | n/a | 4 | 4 |
| Kudenga N | 5 | 5 | n/a | n/a | 4 | 4 | n/a | n/a | 4 | 4 |
| Mhakayakora J | 5 | 3 | 4 | 1 | 4 | 3 | 4 | 2 | n/a | n/a |
| Mlambo SS (Retired 1 Nov 2018) | 5 | 0 | 4 | 0 | n/a | n/a | n/a | n/a | 4 | 0 |
| Mukahanana-Sangarwe M* | 5 | 3 | n/a | n/a | 4 | 2 | 4 | 4 | 4 | 3 |
| Tawha CS* | 5 | 4 | 2 | 1 | n/a | n/a | 4 | 3 | 4 | 2 |
| P Kunaka** | 2 | 2 | 1 | 1 | n/a | n/a | 1 | 1 | n/a | n/a |
| | | | | | | | | | | |
| Chiromo NHC | n/a | n/a | 4 | 3 | n/a | n/a | n/a | n/a | n/a | n/a |
| Jinda E | n/a | n/a | n/a | n/a | 4 | 3 | n/a | n/a | n/a | n/a |

**NOTES:** 1. Messrs NHC Chiromo and E Jinda are not Directors and sit on the Audit Committee and Human Resources Committee respectively as independent expert. Their appointment is in terms of Section 7 (2) of the IDBZ Act [Chapter 24:14]
2. The CEO attends meetings of the Audit Committee and Corporate Governance Committee as ex-officio.
3. Dr. SS Mlambo suffered a stroke in 2016. The Board resolved to retire him effective 1 November 2018.
4. Following the retirement of Dr Mlambo in November 2018, the Board resolved to co-opt Mr. Tawha and Mrs. Sangarwe to the Audit Committee.
5. Mr. P Kunaka jointed the Board in December 2018. He was co-opted into the Audit Committee and Finance and Risk Management Committee.

## AUDITORS STATEMENT

These condensed financial results should be read in conjunction with the complete set of financial statements for the year ended 31 December 2018 which have been audited by Baker Tilly and an unmodified audit opinion issued thereon. This opinion, however, carries an Emphasis of Matter with respect to considerations on changes in functional currency within the economy. The auditor's report is available for inspection at the Bank's registered office.

## Development Finance Institutional Rating

The Bank is rated under the Prudential Standards, Guidelines and Rating System (PSGRS). The framework falls under the purview of the African Association of Development Finance Institutions (AADFI) and requires independent validation of the rating by an external auditor. The Bank's 2018 rating for the financial year ended 31 December 2017 was assigned a grade of "A" and validated by our then external auditors Deloitte and Touche. The rating scale evaluates three critical areas; governance, financial and operational standards. The risk assessment ratings are summarised below;

| PSGRS Standard | Weighted Score per Standard | Deloitte & Touche Validated Rating (2016) | Deloitte & Touche Validated Rating (2017) | Deloitte & Touche Validated Rating (2018) |
|---|---|---|---|---|
| Governance | 40% | 35.9% | 41.4% | 36.4% |
| Financial | 40% | 26.0% | 21.9% | 27.3% |
| Operational | 20% | 18.1% | 17.2% | 18.7% |
| Overall Score | | 80.0% | 80.5% | 82.4% |
| PSGRS | | A | A | A |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

| ASSETS | Note | 2018 US$ | 2017 US$ (Restated) |
|---|---|---|---|
| Cash and bank balances | 9 | 279 936 582 | 40 973 320 |
| Inventories | 16 | 23 757 254 | 16 094 871 |
| Other receivables and prepayments | 14 | 8 656 006 | 4 461 502 |
| Loans and advances to customers | 13 | 45 415 257 | 53 730 361 |
| Investment securities | 10 | 314 054 | 315 786 |
| Financial assets at fair value through other comprehensive income | 11 | 7 063 092 | 9 556 537 |
| Treasury bills and other financial assets | 12 | 197 196 876 | 42 452 817 |
| Investment in associates | 15.2 | 2 933 850 | 3 907 601 |
| Investment property | 17 | 15 830 000 | 13 393 573 |
| Intangible assets | 21 | 125 078 | 155 824 |
| Property and equipment | 20 | 9 006 013 | 3 928 173 |
| Deferred taxation | 18 | 31 879 | 12 915 |
| **Total assets** | | **590 265 941** | **188 983 280** |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **LIABILITIES** | | | |
| Deposits from customers | 25 | 35 166 771 | 45 918 559 |
| Local lines of credit and bonds | 26 | 337 501 690 | 84 211 738 |
| Other liabilities | 27 | 13 630 563 | 5 280 154 |
| **Total liabilities** | | **386 299 024** | **135 410 451** |
| | | | |
| **EQUITY** | | | |
| Share capital | 22 | 65 281 | 44 620 |
| Share premium | 22 | 31 785 732 | 8 934 396 |
| Non distributable reserve | 23 | ( 256 617) | ( 256 617) |
| Shareholders Funds Awaiting Allotment | | 130 000 000 | - |
| Preference share capital | 24 | 38 283 003 | 38 283 003 |
| Fair value reserve | | 631 474 | 3 578 461 |
| Accumulated losses | | ( 2 863 414) | ( 2 387 714) |
| | | | |
| **Equity attributable to equity owners of the Group** | | **197 645 459** | **48 196 149** |
| **Non-controlling interest in equity** | | 6 321 458 | 5 376 680 |
| | | | |
| **Total shareholders' equity** | | **203 966 917** | **53 572 829** |
| | | | |
| **Total equity and liabilities** | | **590 265 941** | **188 983 280** |

These financial statements were approved by the Board of Directors and signed on their behalf by:

**Joseph Mhakayakora**
(Acting Chairman of the Board)

**T. Zondo Sakala**
(Chief Executive Officer)

Date: 20 March 2019

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

| | Note | 2018 US$ | 2017 US$ (Restated) |
|---|---|---|---|
| Interest and related income | 28.1 | 13 756 036 | 10 130 403 |
| Interest and related expense | 28.2 | ( 5 813 599) | ( 6 613 388) |
| Net interest income | | **7 942 437** | **3 517 015** |
| Property sales | 29 | 4 700 032 | 6 104 829 |
| Cost of sales | | ( 2 933 106) | ( 3 795 529) |
| Gross profit | | 1 766 926 | 2 309 300 |
| Fee and commission income | 30 | 3 504 068 | 2 733 467 |
| Dividend income | 31 | 50 470 | 26 530 |
| **Revenue** | | **13 263 901** | **8 586 312** |
| Other income | 31 | 351 093 | 740 919 |
| Loan impairment charge | | 2 084 309 | ( 464 360) |
| Fair value (loss) / gain on investment property | 17 | ( 1 062 065) | 1 790 001 |
| Net (loss) / gain on financial assets at fair value through profit or loss | | ( 1 731) | 264 273 |
| Net foreign exchange gains | 32 | ( 9 367) | 53 505 |
| Operating expenses | 33 | ( 12 855 592) | ( 11 315 799) |
| Share of loss of associate | | ( 114 346) | ( 248 997) |
| Loss on disposal of associate | | ( 860 308) | - |
| **Profit / (Loss) for the year before taxation** | | **795 892** | **( 594 146)** |
| Income tax credit | 34 | 18 620 | 12 915 |
| **Profit / (Loss) for the year** | | **814 512** | **( 581 231)** |
| | | | |
| **Other comprehensive income** | | | |
| **Items that may be reclassified to profit and loss** | | | |
| Net fair value (loss) / gain on financial assets at fair value through other comprehensive income | 11 | ( 2 946 987) | 353 583 |
| Other comprehensive (loss) / income for the year net of tax | | ( 2 946 987) | 353 583 |
| **Total comprehensive (loss) / profit for the year** | | ( 2 132 475) | ( 227 648) |
| Profit / (Loss) for the year attributable to: | | | |
| Equity holders of the parent entity | | 861 734 | ( 564 918) |
| Non-controlling interest | | ( 47 222) | ( 16 313) |
| | | 814 512 | ( 581 231) |
| | | | |
| Total comprehensive (Loss) attributable to: | | | |
| Equity holders of the parent entity | | ( 2 085 253) | ( 211 335) |
| Non-controlling interest | | ( 47 222) | ( 16 313) |
| | | ( 2 132 475) | ( 227 648) |

## CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

| | Note | 2018 US$ | 2017 US$ (Restated) |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit / (loss) for the year | | 795 892 | ( 594 146) |
| **Adjustments for:** | | | |
| Depreciation | 20 | 439 359 | 223 856 |
| Amortisation | 21 | 43 028 | 23 492 |
| Loan impairment charge | | ( 2 084 309) | 464 360 |
| Provisions and accruals | | 249 524 | 1 293 546 |
| Sundry debtors impairment | | 12 110 | 85 012 |
| Net losses from translation of foreign currency balances | 32 | 9 367 | ( 53 505) |
| Profit on disposal of property and equipment | | - | 2 976 |
| Loss on disposal of investment in associate | | 860 308 | - |
| Unrealised fair value (gain)/ loss on investment property | 17 | 1 062 065 | ( 1 790 001) |
| Loss / (Gain) on financial assets measured at fair value | | | |
| through profit and loss | | 1 732 | ( 264 273) |
| Share of loss of associate | 15 | 114 346 | 248 997 |
| Bad debts recovered | | - | ( 343 407) |
| | | **1 503 422** | **( 733 093)** |
| **Changes in :** | | | |
| Loans and advances to customers | | 5 025 310 | 7 023 417 |
| Other receivables and prepayments | | ( 4 194 504) | 1 458 810 |
| Inventories | | ( 7 662 380) | ( 11 678 835) |
| Deposits from customers | | ( 10 751 788) | ( 1 085 583) |
| Other liabilities | | 8 350 409 | ( 345 894) |
| **Net cash used in operating activities** | | **( 7 729 531)** | **( 5 331 178)** |
| **Cash flow from investing activities** | | | |
| Acquisition of property and equipment | 20 | ( 5 517 989) | ( 647 264) |
| Proceeds from sale of property and equipment | | - | 2 182 |
| Acquisition of financial assets at fair value through other comprehensive income | | ( 453 542) | ( 1 684 463) |
| Proceeds from sale of investment property | | 27 000 | 21 078 |
| Acquisition of investment property | | ( 3 525 492) | ( 1 917 660) |
| **Net cash used in investing activities** | | **( 9 470 023)** | **( 4 226 127)** |
| **Cash flow from financing activities** | | | |
| Proceeds from issue of bonds | 26 | 16 330 429 | 26 897 648 |
| Repayment of bonds | 26 | ( 29 804 645) | ( 16 006 583) |
| Rights issue | 22 | 2 872 866 | - |
| Increase in local lines of credit | | 266 764 168 | 16 806 304 |
| | | - | - |
| **Net cash generated from financing activities** | | **256 162 818** | **27 697 369** |
| **Net increase in cash and cash equivalents** | | 238 963 264 | 18 140 064 |
| Cash and cash equivalents at the beginning of the year | | 40 973 320 | 22 833 256 |
| **Cash and cash equivalents at end of the year** | 9 | **279 936 582** | **40 973 320** |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

| | Ordinary share capital US$ | Share premium US$ | Amounts Awaiting allotment US$ | Non distributable reserve US$ | Preference share capital US$ | Fair value reserve US$ | Accumulated Losses US$ | Total before non-controlling interest US$ | Non controlling interest US$ | Total equity US$ |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2018 (Restated)** | **44 620** | **8 934 396** | **-** | **( 256 617)** | **38 283 003** | **3 578 460** | **( 2 387 714)** | **48 196 147** | **5 376 680** | **53 572 828** |
| | | | | | | | | - | | - |
| Changes on initial application of IFRS 9 | - | - | - | - | - | - | ( 435 047) | **( 435 047)** | - | **( 435 047)** |
| Non controlling interest from new subsidiaries | - | - | - | - | - | - | - | **-** | 992 000 | **992 000** |
| Acquisition of addition interest in joint operations | - | - | - | - | - | - | ( 902 387) | **( 902 387)** | - | **( 902 387)** |
| Profit for the year | - | - | - | - | - | - | 861 734 | **861 734** | ( 47 222) | **814 512** |
| Issue of shares | 20 661 | 22 851 336 | 130 000 000 | - | - | - | - | **152 871 997** | - | **152 871 997** |
| **Other comprehensive income:** | | | | | | | | | | |
| Net fair value loss on financial assets at FVOCI | - | - | - | - | - | ( 2 946 987) | - | **( 2 946 987)** | - | **( 2 946 987)** |
| **Balance as at 31 December 2018** | **65 281** | **31 785 732** | **130 000 000** | **( 256 617)** | **38 283 003** | **631 473** | **( 2 863 414)** | **197 645 460** | **6 321 458** | **203 966 917** |
| **Balance as at 1 January 2017** | **44 620** | **8 934 396** | **-** | **( 256 617)** | **38 283 003** | **3 224 878** | **( 1 822 797)** | **48 407 483** | **262 993** | **48 670 476** |
| Non controlling interest from new subsidiaries | - | - | - | - | - | - | - | - | 5 130 000 | **5 130 000** |
| Loss for the year (Restated) | - | - | - | - | - | - | ( 564 917) | **( 564 917)** | ( 16 313) | **( 581 230)** |
| Profit for the year as previously reported | - | - | - | - | - | - | 642 733 | **642 733** | ( 16 313) | **626 420** |
| Prior period error (Note 19) | - | - | - | - | - | - | ( 1 207 650) | **( 1 207 650)** | - | **( 1 207 650)** |
| Other comprehensive income: | | | | | | | | | | |
| Net fair value gain on financial assets at fair value | - | - | - | - | - | 353 582 | - | **353 582** | - | **353 582** |
| **Balance as at 31 December 2017 (Restated)** | **44 620** | **8 934 396** | **-** | **( 256 617)** | **38 283 003** | **3 578 460** | **( 2 387 714)** | **48 196 148** | **5 376 680** | **53 572 828** |

# NOTES: SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2018

## 1. INFRASTRUCTURE DEVELOPMENT BANK GROUP PROFILE AND PRINCIPAL ACTIVITIES

The Infrastructure Development Bank of Zimbabwe ("IDBZ"/ the "Bank"/the Group") is a development finance institution (DFI) which is incorporated and domiciled in Zimbabwe under the IDBZ Act (Chapter 24:14). The address of the Bank's registered office is IDBZ House, 99 Rotten Row, Harare, Zimbabwe. IDBZ and its subsidiaries (together the "Group") are primarily involved in mobilising and providing finance for infrastructure development activities and management of infrastructure development projects.

The consolidated financial statements were approved by the directors on 20 March 2019.

## 2. SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 Basis of preparation

These consolidated financial statements for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretation Committee ("IFRIC") interpretations and in the manner required by the Infrastructure Development Bank of Zimbabwe Act (Chapter 24:14) and the Banking Act (Chapter 24:20) and the Companies Act (Chapter 24:03)

**Functional currency**

The financial statements are expressed in United States of America dollars ("USD") which was both the functional and presentation currency of the group for the year ended 31 December 2018.

The continued scarcity of the USD in 2018 resulted in pricing and market distortions. The Real Time Gross Settlement (RTGS) balances and bond note appeared to have a different inflation rate compared to hard currency. This was particularly more observable in the last quarter of 2018 and resulted in a 3-tier pricing system mostly in the informal market. There were huge settlement discounts for market participants settling in USD. This initiated the debate on whether the USD remained as the functional currency of most entities. Despite all this, the official exchange rate between the Bond and USD remained at 1:1. The Monetary Policy Statement (MPS) of 20 February 2019, pointed out that the foreign exchange premiums on the parallel market ranged from 1.40 to 1.80 to the USD in September 2018 and increased to levels of between 3.0 to 4.0 in February 2019. The Bank is of the opinion that the functional and reporting currency of the Bank was USD for the entirety of 2018. Refer to note 39 for events occurring after the date of the statement of financial position. The determination of the functional currency was a matter of significant judgement accordingly, it was included under critical areas of judgement per note 5.

## 3. APPLICATION OF NEW AND REVISED STANDARDS (IFRS)

Except as noted below, the Bank did not adopt any new or revised accounting standards or interpretations. The accounting policies applied in the financial statements are consistent with prior years with the exception of those amended by the following accounting Standards:

### 3.1 Adoption of IFRS 9 (effective from 1 January 2018)

The Group adopted IFRS 9: Financial Instruments which replaced IAS 39- Financial Instruments-Recognition and Measurement with effect from 1 January 2018.The Standard introduced new requirements for the classification, measurement and impairment assessment of financial assets and financial liabilities.

The adoption of IFRS 9 has resulted in changes in the Bank's accounting policies for recognition, classification and measurement of financial assets and liabilities and the impairment assessment thereof.

The Bank has opted to recognise any effects of the changes of the financial assets and liabilities carrying amounts due to IFRS 9 in the opening retained earnings and other reserves as permitted by IFRS 9.

**Business Model Assessment**

The Bank's business model is assessed on the total financial instruments portfolio and is based on observable factors such as portfolio risk, performance, basis of compensation to management, frequency, value and timing of sales from the portfolio.

The assessment is based on reasonable expected scenarios without taking into account stress case scenarios

**Impairment of Financial Assets**

The adoption of IFRS 9 has replaced the Bank's Incurred Loss model under IAS 39 with the Expected Credit Loss (ECL) model. The Bank's new impairment model applies to financial assets, loans, loan commitment, financial guarantee contracts, cash and cash equivalent contract assets, debt investments at FVOCI and investment securities all measured at amortised cost, but not to investments in equity instruments.

The Bank will now be required to consider historic, current and forward-looking information (including macro-economic data) in the determination of credit losses. This will result in the earlier recognition of credit losses as it will no longer be appropriate for the Bank to wait for an incurred loss event to occur before credit losses are recognised.

Under IFRS9, loss allowances are measured on the following bases:

- 12 months ECLs that result from the possible default events within the next 12 months after the reporting date
- Life time ECLs that result from all possible default events over the expected life of a financial instrument.

The Bank has assumed that the credit risk on a financial asset has increased significantly if it is 30 days more than past due.

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

- **Stage 1** is where credit risk has not increased significantly since initial recognition. For financial assets in stage 1,entities are required to recognise 12 month ECL and recognise interest income on a gross basis – this means that interest will be calculated on the gross carrying amount of the financial asset before adjusting for ECL. Its credit risk is consciously monitored by the Bank and all repayments are current and within 30 days
- **Stage 2** is where credit risk has increased significantly since initial recognition. When a financial asset transfers to stage 2 entities are required to recognise lifetime ECL but interest income will continue to be recognised on a gross basis. Debt is past due for more than 30 days but less than 90 days as there is increased possibility of credit risk developing.
- **Stage 3** is where the financial asset is credit impaired. This is effectively the point at which there has been an incurred loss event under the IAS 39 model. For financial assets in stage 3, entities will continue to recognise lifetime ECL but they will now recognise interest income on a net basis. This means that interest income will be calculated based on the gross carrying amount of the financial asset less ECL. Debt is past due for more than 90 days and is credit impaired.

The table below summarises the general approach

| | Stage 1 Performing | Stage 2 Underperforming | Stage 3 Non-performing |
|---|---|---|---|
| Credit risk | Initial recognition | Significant increase in credit risk | Credit impaired assets |
| Recognition of ECL | 12 month ECL | Lifetime ECL | Lifetime ECL |
| Recognition of interest | EIR on gross carrying amount | EIR on gross carrying amount | EIR on net carrying amount |

**Classification and measurement of financial instruments**

The measurement category, classification and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows

| | Classification & Measurement | IAS 39 Carrying Amount as at 31-Dec-17 | Movement Remeasure-ments | IFRS9 Carrying Amount as at 1-Jan-18 |
|---|---|---|---|---|
| | | US$ | US$ | US$ |
| **FINANCIAL ASSETS** | | | | |
| Cash and cash equivalents on hand | Amortised cost | 206 396 | - | 206 396 |
| Balances with other bank and cash | Amortised cost | 40 766 924 | - | 40 766 924 |
| Total cash and cash equivalents | | 40 973 320 | - | 40 973 320 |
| **Treasury Bills** | | | | |
| Medium term treasury bills acquired from the market | Amortised cost | 5 440 352 | - | 5 440 352 |
| Debt substitution instruments (ZAMCO treasury bills) | Amortised cost | 15 940 516 | - | 15 940 516 |
| Capitalisation treasury bills | Amortised cost | 20 411 154 | - | 20 411 154 |
| Accrued interest | Amortised cost | 660 795 | - | 660 795 |
| | | 42 452 817 | - | 42 452 817 |
| **On Balance Sheet Loans and Advances** | | | | |
| Loans, overdraft and other advances | Amortised cost | 55 906 801 | - | 55 906 801 |
| Gross advances | | 55 906 801 | - | 55 906 801 |
| Allowances for loan impairment | | (2 176 440) | (435 047) | (2 611 487) |
| Net advances | | 53 730 361 | (435 047) | 53 295 314 |
| Loan commitments, guarantees and off-balance sheet exposures | Amortised cost | 38 591 | - | 38 591 |
| Gross contingencies | | 38 591 | - | 38 591 |
| **Investment securities** | | | | |
| Listed equity (outside the scope of IFRS 9 impairment) | FVTPL | 315 786 | - | 315 786 |
| Unlisted equities (outside the scope of IFRS 9 impairment) | FVTOCI | 9 556 537 | - | 9 556 537 |
| | | 9 872 323 | - | 9 872 323 |
| **Trade and other receivables** | | | | |
| Sundry receivables - Gross | Amortised cost | 3 258 859 | - | 3 258 859 |
| Allowances for impairment | | (197 956) | - | (197 956) |
| | | 3 060 903 | | 3 060 903 |
| *(These are day to day receivables assessed under the simplified approach with no material difference between IFRS 9 and IAS 39)* | | | | |
| **FINANCIAL LIABILITIES** | | | | |
| Deposits from customers | Amortised cost | 45 918 559 | - | 45 918 559 |
| Local lines of credit and bonds | Amortised cost | 84 211 738 | - | 84 211 738 |
| Trade and other payables | Amortised cost | 245 040 | - | 245 040 |
| | | 130 375 337 | | 130 375 337 |

The group has assessed its financial instruments which had previously been classified as FVTOCI instruments, instruments at amortised cost and others at FVTPL and concluded that these had been correctly classified and would not change under IFRS 9.

**Reconciliation of impairment allowance from IAS 39 to IFRS 9**

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

| Measurement Category | Loans loss allowance under IAS 39 as at 31 December 2017 | Remeasurement | Loss allowance under IFRS 9 as at 1 January 2018 |
|---|---|---|---|
| | US$ | US$ | US$ |
| Loans and receivables (IAS 39)/ Financial assets at amortised cost (IFRS 9) | 2 176 440 | 435 047 | 2 611 487 |
| Advances and other accounts Investment securities held at amortised cost | - | - | - |
| Loan commitments and financial guarantees | - | - | - |
| **TOTAL** | **2 176 440** | **435 047** | **2 611 487** |

**The impact of transition to IFRS 9 is as follows:**

| | US$ |
|---|---|
| **Changes in Retained Earnings** | |
| Closing balance under IAS 39 (31 December 2017) - Restated | (2 387 714) |
| Recognition of IFRS 9 Expected credit losses (ECL) | (2 611 487) |
| Prior year incurred loss IAS 39 | 2 176 440 |
| Opening balance after IFRS 9 adjustment (1 January 2018) | **(2 822 761)** |

### 3.2. Impairment of financial assets (Policy applicable from 1 January 2018)

#### 3.2.1. Overview of the ECL principles

The adoption of IFRS 9 has fundamentally changed the Bank's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

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

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL s and 12mECL s are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

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

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

- **Stage 1:** When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- **Stage 2:** When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- **Stage 3:** These are loans that are considered credit -impaired. The Bank records an allowance for the LTECLs.
- **POCI:** Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

#### 3.2.2. The calculation of ECLs

The Bank calculates ECL s based on probability -weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

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

When estimating the ECLs, the Bank considers four scenarios (a base case, an upside, a mild downside ('downside 1') and a more extreme downside ('downside 2')). Each of these is associated with different PDs, EADs and LGDs, as set out above. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of revolving facilities, for which the treatment is separate, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier. Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value IFRS 9.5.4.3

When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life.

The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the four scenarios.

The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within Provisions .

The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the four scenarios. The ECLs related to financial guarantee contracts are recognised within Provisions .

#### 3.2.3. Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

#### 3.2.4. Purchased or originated credit impaired financial assets (POCI)

For POCI financial assets, the Bank only recognises the cumulative changes in LTECL since initial recognition in the loss allowance.

#### 3.2.5. Forward looking information

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth
- Inflation

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.



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**3.2.6. Collateral valuation**

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/ guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same is it was under IAS 39. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed when market fundamentals change significantly. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

**3.2.7. Write-offs**

The Bank's accounting policy under IFRS 9 remain s the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

**3.2.8. Forborne and modified loans**

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral.

The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

From 1 January 2018, when the loan has been renegotiated or modified but not derecognised, the Bank also reassesses whether there has been a significant increase in credit risk. The Bank also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities has to be considered performing
- The probation period of two years has passed from the date the forborne contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contract that is more than 30 days past due

**3.3 IFRS 15 - Revenue from Contracts with Customers (effective from 1 January 2018)**

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are as follows:
> Identify the contract with the customer
> Identify the performance obligations in the contract
> Determine the transaction price
> Allocate the transaction price to the performance obligations in the contracts
> Recognise revenue when (or as) the entity satisfies a performance obligation

The Standard provides guidance on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced

## 4. Impact of other Standards and interpretations in issue but not yet effective

| Standard in Issue | Impact |
|---|---|
| IFRS 16 - Leases | IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. |
| *(Applicable to annual reporting periods beginning on or after 1 January 2019)* | The standard provides a single lessee accounting model, requiring lessees to recognise to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. |
| IFRIC 23 Uncertainty over Income Tax Treatments *(Applicable to annual reporting periods beginning on or after 1 January 2019)* | The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:<br>> Whether tax treatments should be considered collectively<br>> Assumptions for taxation authorities' examinations<br>> The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates<br>> The effect of changes in facts and circumstances |
| *(Amendments to IFRS9)* Prepayment features with Negative Compensation *(Annual periods beginning on or after 1 January 2019)* | Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. |
| *(Amendments to IAS 28)* Long-term interests in Associates and Joint Ventures *(Annual periods beginning on or after 1 January 2019)* | Clarifies that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. |
| Amendments to References to the Conceptual Framework in IFRS Standards *(Annual periods beginning on or after 1 January 2020)* | Together with the revised *Conceptual Framework* published in March 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework. |
| Definition of a Business (Amendments to IFRS 3) *(Business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020)* | The amendments in *Definition of a Business (Amendments to IFRS 3)* are changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only. They:<br>> clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;<br>> narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;<br>> add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;<br>> remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and<br>> add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. |

## 5. Critical accounting estimates and key sources of estimation uncertainty

The Group's financial position and its financial results are influenced by assumptions, estimates and management judgment, which necessarily have to be made in the course of the preparation of the financial statements. The Group makes estimates and assumptions concerning the future. The resulting estimates will, by definition seldom equal the related actual results. The estimates and assumptions that have a significant risk of carrying a material adjustment to the carrying amount of assets and liabilities within the next financial year are addressed below:

**5.1 Impairment on loans and advances**

**(a) Determination of impairment allowance**

The measurement of the expected credit loss allowance is an area of significant judgement. The process requires the interaction of complex LGD, EAD and PD models requires as well as the use of human judgement about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 2.9. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Determining criteria for default;

**(b) Significant increase in credit risk**

The Bank defines significant increase in credit risk as a significant increase in the probability of a default occurring since initial recognition. Credit risk would have increased significantly when contractual payments are more than 30 days past due. All accounts with significant material impact are placed on watch list from 15 days past due. This increase in credit risk is determined, on a continuous basis. In this case, the Bank performs the assessment on appropriate groups or portions of a portfolio of financial instruments. The Bank applies a rebuttable presumption that the credit risk has increased significantly when contractual payments are more than 30 days past due.

**(c) Default**

According to the Bank's policies, default arises when an obligor/ borrower fails to meet debt service obligations within 90 days of commitment either owing to lack of capacity or unwillingness to pay. This mirrors the 90 days past due rebuttable presumption contained in the Standard.

**5.2 Functional currency**

Owing to the continued scarcity of the USD in 2018 which resulted in a lot of pricing and market distortions, the determination of functional currency has become a matter of significant judgement. The Institute of Chartered Accountants of Zimbabwe (ICAZ) issued recommendations for entities to consider the possibility of a change in the functional currency. This assessment was to be entity specific. The Public Accountants and Auditors Board (PAAB) in consultation with the Reserve Bank Zimbabwe (RBZ) also deliberated on the matter. The PAAB issued some guidance on disclosures to address the matter. The disclosures intent to provide users with sensitivities of the amounts presented in the financial statements to the application of different deemed exchange rates between the USD and Real Time Gross Settlement (RTGS) balances. Refer to note 42.

RTGS balances and bond note appeared to have a different inflation rate compared to hard currency. This was particularly more observable in the last quarter of 2018 and resulted in a 3-tier pricing system mostly in the informal market. There were huge settlement discounts for market participants settling in USD. This initiated the debate on whether the USD is still the functional currency of most entities. Despite all this, the official exchange rate between the Bond and USD remained at 1:1. The Monetary Policy Statement (MPS) of 20 February 2019, pointed out that the foreign exchange premiums on the parallel market ranged from 1.40 to 1.80 to the USD in September 2018 and increased to levels of between 3.0 to 4.0 in February 2019. There are a number of arguments supporting the 1st of October 2018 as the effective date for a change in functional currency owing to the spontaneous rise in the bond dollar inflation during the last quarter of 2018. When the Bank's cost structure for the last quarter is analysed, the observed high inflation does not necessary hold true as a result of the contractual nature of IDBZ's expenditure. The Bank also managed to settle some transactions on a 1:1 basis. The Bank is of the opinion that the change in functional currency considerations are a post year end event pursuant to the MPS of 20 February 2019. Therefore, the functional and reporting currency of the Bank was USD for the entirety of 2018. Refer to note 39 for events occurring after the balance sheet date.

**5.3 Useful lives and residual values of property and equipment**

The Group's management determines the estimated useful lives, residual values and related depreciation charges of its property and equipment. The estimate is based on projected life cycles for these assets. Management will increase the depreciation charges where useful lives are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned.

**5.4 Fair value measurements and valuation processes**

Some of the Group's assets are measured at fair value for financial reporting purposes. In estimating the fair value of an asset, the Group uses market observable data to the extent that it is available. Where this is not available, the Group uses third party qualified valuators to perform the valuation.

The Group recognized Treasury Bills as capital for regulatory purposes at nominal value. For financial reporting purposes, valuation intricacies ensued due to:
a) the lack of an active market to use as a reference point from which to draw a "market value "or a "market discount rate" and,
b) the high level of sensitivity to interest parameters which one could possibly apply in a valuation model resulting in a wide dispersion in the possible fair values.

Treasury bills are valued using Time Value of Money basis by applying market discount rate to future cash-flows in order to determine the present value of cash flows. In the absence of a market, IFRS 13 allows for the development of a valuation model using inputs which can either be verifiable or are not verifiable with the extent of verifiability determining whether the valuation model belongs under Level 2 or Level 3 of the valuation input scale.

**5.5 Going concern**

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing the consolidated financial statements. Additional information on the going concern assumption is disclosed in Note 40.

## 6. RISK MANAGEMENT

**6.1 Risk Management Policies**

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including fair value interest rate risk, cash flow interest rate risk, foreign exchange risk, and price risk).

Risk management is a key function of management. The dynamism characterising the financial services sector has increased the importance of risk management. The Group has put in place a risk management framework to identify the type and areas of risk and to measure and assess all risks to enable management to make sound judgements and decisions and thereby limit losses.

The Board of Directors has overall responsibility for setting policies for risk management. The implementation and monitoring of the risk policies is through appropriate risk management structures with delegated authority from the Board. The Risk Management and Compliance Unit independently monitors risk throughout the Group according to set risk policies and provides advice and support on compliance matters. The Group manages risk within applicable laws. Each department is responsible for ensuring that its conduct complies with all the applicable laws and regulations.

In addition, the Group Internal Audit Unit is responsible for independent review of risk management and control environment; and the Group Legal Counsel provides advice and support on legal matters.

A Finance and Risk Management Committee has been set at Board level and it consists of non-executive directors to ensure the importance of this function is emphasized at a higher level.

**6.2 Credit risk**

Credit risk is the possibility of loss arising from the inability of a client or a counter party to meet its commitments to the Group. It is inherent in most banking products and activities. Credit risk management and control within the Group is guided by the Group's credit policy. The credit policy outlines procedures for accurate assessment, proper approval and consistent monitoring of credit risk.

The Group manages credit exposure to any entity through credit limits. A credit limit is set for each customer after assessment of the financial strength of the customer and assessment of other qualitative factors which influence the performance of the customer. The Group has in place a management credit committee that assesses credit proposals and exercise credit approval authority, up to a set limit. Approval of credit at higher levels requires the approval of the Board.

Individual loans are reviewed continuously through monthly reassessment of the credit grading so that problems can be detected and managed at an early stage. Periodic reassessment is also done based on management information received. Impairment allowances are adjusted monthly in line with the reassessed credit grades.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. The Group monitors the credit performance of customers on the utilised balances to minimise potential losses on the unutilised balances.

Maximum exposure to credit risk before collateral held or other credit enhancement

**Maximum exposure to credit risk before collateral held or other credit enhancement**

| Credit risk exposure relating to on-balance sheet assets are as follows: | **Maximum Exposure 31 Dec 2018 US$** | **Maximum Exposure (Restated) 31 Dec 2017 US$** |
|---|---|---|
| Cash and bank balances | 279 936 582 | 40 973 320 |
| Treasury bills and other financial assets | 191 044 009 | 42 452 817 |
| Gross loans and advances to customers | 48 721 491 | 55 906 801 |
| Assets pledged as collateral | 6 152 867 | - |
| Other receivables and prepayments | 9 779 594 | 4 461 502 |
| | 535 634 543 | 143 794 440 |
| Credit risk exposure relating to off-balance sheet assets are as follows: | | |
| Loan commitments | 992 837 | 38 591 |
| Maximum exposure to credit risk | 536 627 380 | 143 833 031 |

Financial guarantees. Financial guarantees principally represent guarantees that require the Group to make certain payments if guarantee holders fail to meet their financial obligations. There was no potential obligation resulting from these guarantees

There is no significant risk with respect to cash and cash equivalents as the Group holds bank accounts with large financial institutions with sound financial and capital cover. The fair value of cash and cash equivalents at the reporting date approximates the carrying amount.

| Loans and advances (including assets pledged as collateral) are summarised as follows: | **2018 US$ (IFRS 9)** | **2017 US$ (IAS39)** |
|---|---|---|
| Stage 1 | 39 760 398 | |
| Stage 2 | 866 549 | |
| Stage 3 | 8 094 544 | |
| **Gross** | **48 721 491** | **55 906 801** |
| Less: allowance for impairment | ( 3 306 234) | ( 2 176 440) |
| **Net** | **45 415 257** | **53 730 361** |

**6.3 Liquidity risk**

Liquidity risk is the possibility that the Group may fail to cover its financial obligations as they fall due. The risk arises as a result of mismatches between the maturities of assets and liabilities.

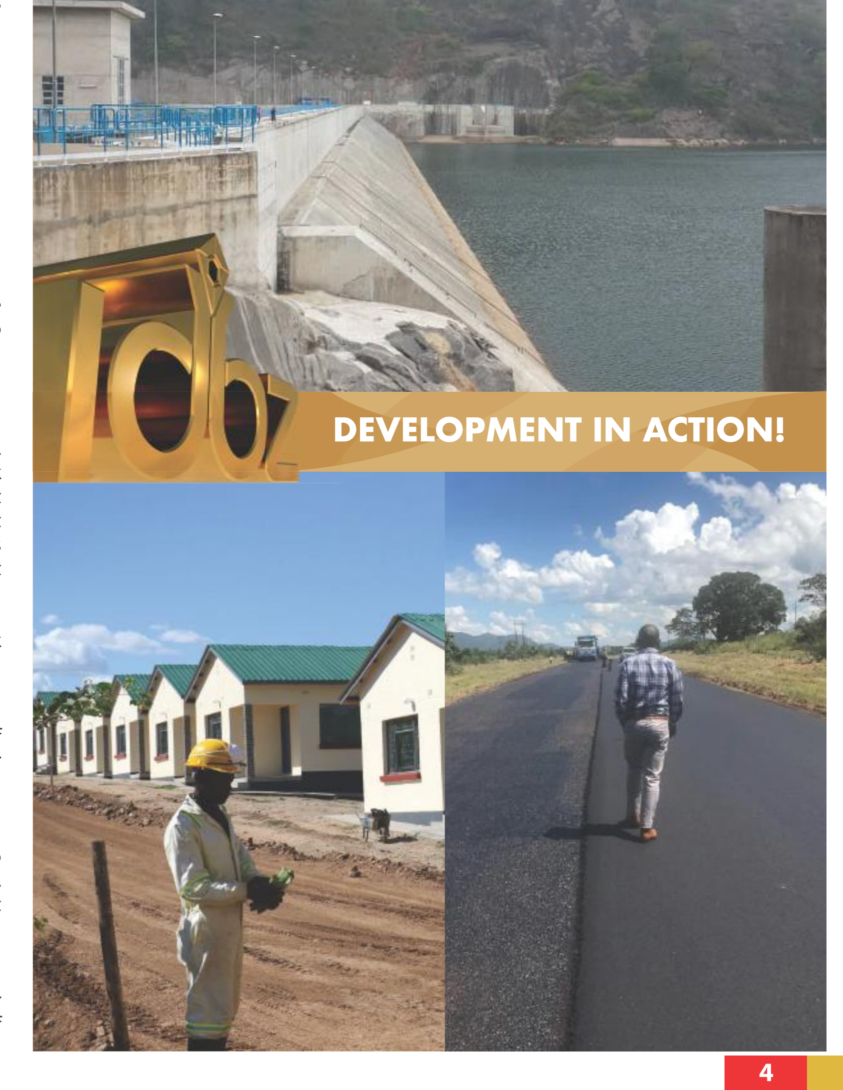
Management manages liquidity risk through cash flow and maturity mismatch management. They meet regularly to set and review the Group's strategies. The treasury department has the responsibility to implement and maintain a liquidity management strategy to ensure that the Group has sufficient liquidity to meet its daily liquidity obligations .

The Group has developed a comprehensive contingency liquidity plan to ensure that the Group does not get affected in case of a major market upset.

The Group uses the following strategies in its liquidity risk management:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers.
- Maintains a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow; - Monitoring the liquidity ratios of the statement of financial position against internal and regulatory requirements;
- Diversification of liabilities to achieve a stable funding base and avoid excessive reliance on any one counter party;
- Maturity mismatch limits for its cumulative funding positions; and
- Access to inter-bank markets.

Contract maturity analysis Sources of liquidity are regularly reviewed by a separate team in Treasury function to maintain a wide diversification by provider, product and term.



**Contract maturity analysis**

| As at 31 December 2018 | Up to 1 month US$ | 1 to 3 months US$ | 3 to 9 months US$ | 9 to 12 months US$ | over 12 months US$ | Total US$ |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and bank balances | 279 936 582 | - | - | - | - | 279 936 582 |
| Investment securities | 314 054 | - | - | - | - | 314 054 |
| Financial assets at fair value through other comprehensive income | - | - | - | - | 7 063 092 | 7 063 092 |
| Treasury Bills and other financial assets | - | 12 454 | 6 947 417 | - | 184 084 139 | 191 044 010 |
| Loans and advances to customers | 7 965 005 | 472 257 | - | 17 006 561 | 19 971 434 | 45 415 257 |
| **Total** | 288 215 641 | 484 711 | 6 947 417 | 17 006 561 | 211 118 665 | 523 772 995 |
| **Liabilities** | | | | | | |
| Deposits from customers | 24 486 515 | 10 599 282 | 80 974 | - | | 35 166 771 |
| Bonds | 1 240 357 | - | 12 972 563 | 10 124 205 | 17 825 571 | 42 162 696 |
| Local Lines of Credit | 295 338 993 | | | | | 295 338 993 |
| Other liabilities | - | 13 630 563 | - | - | - | 13 630 563 |
| **Total** | 321 065 865 | 24 229 845 | 13 053 537 | 10 124 205 | 17 825 571 | 386 299 023 |
| **Gap** | ( 32 850 224) | ( 23 745 134) | ( 6 106 120) | 6 882 356 | 193 293 094 | 137 473 972 |
| **Contingent liabilities:** | | | | | | |
| Loan commitments | 992 837 | - | - | - | - | 992 837 |
| **Total gap** | **( 33 843 061)** | **( 23 745 134)** | **( 6 106 120)** | **6 882 356** | **193 293 094** | **136 481 135** |
| **Total cumulative gap** | **( 33 843 061)** | **( 57 588 195)** | **( 63 694 315)** | **( 56 811 959)** | **136 481 135** | **-** |

| As at 31 December 2017 (Restated) | Up to 1 month | 1 to 3 months | 3 to 9 months | 9 to 12 months | over 12 months | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and bank balances | 40 973 320 | - | - | - | - | 40 973 320 |
| Investment securities | 315 786 | - | - | - | - | 315 786 |
| Financial assets at fair value through other comprehensive income | - | - | - | - | 9 556 537 | 9 556 537 |
| Treasury Bills and other financial assets | - | 27 685 | 6 745 160 | 904 648 | 34 775 325 | 42 452 818 |
| Loans and advances to customers | 7 116 301 | 306 608 | - | 16 934 970 | 29 372 481 | 53 730 360 |
| Assets pledged as collateral | - | - | - | - | - | - |
| Total | 48 405 407 | 334 293 | 6 745 160 | 17 839 618 | 73 704 343 | 147 028 821 |
| **Liabilities** | | | | | | |
| Deposits from customers | 18 082 950 | 27 348 308 | 89 358 | 397 943 | - | 45 918 559 |
| **Bonds** | 196 836 | 12 371 505 | 10 794 432 | 10 794 432 | 26 879 263 | 61 036 468 |
| Local Lines of Credit | 23 175 271 | | | | | 23 175 271 |
| Other liabilities | - | 4 072 505 | - | - | - | 4 072 505 |
| Total | 41 455 057 | 43 792 318 | 10 883 790 | 11 192 375 | 26 879 263 | 134 202 803 |
| **Gap** | 6 950 350 | ( 43 458 025) | ( 4 138 630) | 6 647 243 | 46 825 080 | 12 826 018 |
| **Contingent liabilities:** | | | | | | |
| Loan commitments | 38 591 | - | - | - | - | 38 591 |
| **Guarantees** | - | - | - | - | - | - |
| **Total gap** | **6 911 759** | **( 43 458 025)** | **( 4 138 630)** | **6 647 243** | **46 825 080** | **12 787 427** |
| **Total cumulative gap** | **6 911 759** | **( 36 546 266)** | **( 40 684 896)** | **( 34 037 653)** | **12 787 427** | **-** |

**6.4 Market risk**

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

Market risk is the possibility of loss in the realizable value of assets or increase in the value of liabilities arising from adverse movements in interest rates, foreign exchange rates and share prices.

Interest rate risk arises due to assets and liabilities maturing at different times and thereby necessitating the rollover and re-pricing of liabilities of reinvestment and re-pricing of assets.

The Group uses the following to measure interest rate risk:

- Gap analysis;
- Duration analysis to estimate the loss in market value of the asset portfolio if interest rates move; and
- Rate sensitivity analysis involving calculation of ratios of rate sensitive assets to rate sensitive liabilities, and net rate sensitive assets/liabilities to equity and total assets.

Exchange rate risk arises from foreign currency open positions. The Group manages the risk through limits on the total exposure and through dealer limits.

**6.4.1 Interest rate risk**

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored monthly by Management Asset Liability Committee ("MALCO").

The Group manages interest rate risk through Management Asset and Liability Committee and the strategies used include:
(a) Loan pricing, promotion and product structure;
(b) Deposit pricing, promotion and product structure;
(c) Use of alternative funding sources, including off-balance sheet alternatives to the extent such activity is authorised by the Board; and
(d) Security purchases and sales.

**6.4.2. Price risk**

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated statement of financial position as financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. The Group's quoted equity securities are publicly traded on the Zimbabwe Stock Exchange.

Below is a summary of the impact of increases/(decreases) of the equity index on the Group`s profit for the year and on equity. The analysis is based on the assumption that the equity index had increased/(decreased) by 5% with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the index.

**6.4.3 Interest rate risk**

The table below summarises the Group's exposure to interest rate risks. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

**Interest rate repricing gap analysis**

| AS AT 31 December 2018 | Up to 1 month US$ | 1 to 3 months US$ | 3 to 9 months US$ | 9 to 12 months US$ | over 12 months US$ | Non interest bearing US$ | Total US$ |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and bank balances | 279 936 582 | - | - | - | - | - | 279 936 582 |
| Investment securities | - | - | - | - | - | 314 054 | 314 054 |
| Loans and advances to customers | 7 965 005 | 472 257 | - | 17 006 561 | 19 971 434 | - | 45 415 257 |
| Financial assets at fair value through other comprehensive income | - | - | - | - | - | 7 063 092 | 7 063 092 |
| Treasury bills and other financial assets | - | 12 454 | 6 947 417 | - | 184 084 139 | - | 191 044 010 |
| **Total assets** | 287 901 587 | 484 711 | 6 947 417 | 17 006 561 | 204 055 573 | 7 377 146 | 523 772 995 |
| **Equity and liabilities** | | | | | | | |
| Deposits from customers | 25 995 665 | 10 599 282 | 80 974 | - | - | - | 36 675 921 |
| Bonds | 1 240 357 | - | 12 972 563 | 10 124 205 | 17 825 571 | - | 42 162 696 |
| Local lines of credit | 295 338 993 | | | | | | 295 338 993 |
| Other liabilities | - | - | - | - | - | 12 764 271 | 12 764 271 |
| **Total equity and liabilities** | 322 575 015 | 10 599 282 | 13 053 537 | 10 124 205 | 17 825 571 | 12 764 271 | 386 941 881 |
| Total interest repricing gap | ( 34 673 428) | ( 10 114 571) | ( 6 106 120) | 6 882 356 | 186 230 002 | ( 5 387 125) | 136 831 114 |
| **Total cumulative gap** | **( 34 673 428)** | **( 44 787 999)** | **( 50 894 119)** | **( 44 011 763)** | **142 218 239** | **136 831 114** | |

| As at 31 December 2017 (Restated) | Up to 1 month US$ | 1 to 3 months US$ | 3 to 9 months US$ | 9 to 12 months US$ | over 12 months US$ | Non interest bearing US$ | Total US$ |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and bank balances | 40 973 320 | - | - | - | - | - | 40 973 320 |
| Investment securities | - | - | - | - | - | 315 786 | 315 786 |
| Loans and advances to customers | 7 116 301 | 306 608 | - | 16 934 970 | 29 372 481 | - | 53 730 360 |
| Financial assets at fair value through other comprehensive income | - | - | - | - | - | 9 556 537 | 9 556 537 |
| Treasury bills and other financial assets | - | 27 685 | 6 745 160 | 904 648 | 34 775 325 | - | 42 452 818 |
| Non-current assets held for sale | - | - | - | - | - | - | - |
| Trading assets pledged as collateral | - | - | - | - | - | - | - |
| **Total assets** | **48 089 621** | **334 293** | **6 745 160** | **17 839 618** | **64 147 806** | **9 872 324** | **147 028 821** |
| Deposits from customers | 18 082 950 | 27 348 308 | 89 358 | 397 943 | - | - | 45 918 559 |
| Bonds | 196 836 | 12 371 505 | 10 794 432 | 10 794 432 | 26 879 263 | - | 61 036 468 |
| Local lines of credit | 23 175 271 | | | | | | 23 175 271 |
| Other liabilities | - | - | - | - | - | 4 072 504 | 4 072 504 |
| **Total equity and liabilities** | **41 455 057** | **39 719 813** | **10 883 790** | **11 192 375** | **26 879 263** | **4 072 504** | **134 202 801** |
| **Total interest repricing gap** | **6 634 564** | **( 39 385 520)** | **( 4 138 630)** | **6 647 243** | **37 268 543** | **5 799 819** | **12 826 019** |
| **Total cumulative gap** | **6 634 564** | **( 32 750 956)** | **( 36 889 586)** | **( 30 242 343)** | **7 026 200** | **12 826 019** | **-** |

**6.4.3 Interest risk sensitivity analysis**

The table below indicates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, and the impact on the Group's statement of comprehensive income. The rates used for the sensitivity are approved by the Management Assets and Liabilities Committee (MALCO).

| Interest rate change | Effect on profit for the year 2018 US$ | Effect on profit for the year 2017 US$ |
|---|---|---|
| 5% increase / (decrease) | 687 802 | 506 520 |
| 10% increase / (decrease) | 1 375 604 | 1 013 040 |

**6.4.4 Foreign exchange risk**

The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31 December.

Concentration of currency risk on off-balance sheet financial instruments as at 31 December was as follows:

| As at 31 December 2018 | US$ | ZAR US$ equivalent | BWP US$ equivalent | GBP US$ equivalent | EURO US$ equivalent | Other US$ equivalent | Total US$ |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and bank balances | 279 922 142 | 11 003 | 77 | 1 385 | 1 975 | - | 279 936 582 |
| Investment securities | 314 054 | - | - | - | - | - | 314 054 |
| Loans and advances to customers | 45 415 257 | - | - | - | - | - | 45 415 257 |
| Treasury bills and other financial assets | 191 044 009 | - | - | - | - | - | 191 044 009 |
| Financial assets at fair value through other comprehensive income | 7 063 092 | | | | | | 7 063 092 |
| Other receivables and prepayments | 8 656 006 | - | - | - | - | - | 8 656 006 |
| | 532 414 560 | 11 003 | 77 | 1 385 | 1 975 | - | 532 429 000 |
| **Equity and liabilities** | | | | | | | |
| Deposits from customers | 35 165 833 | 612 | 0 | 20 | 306 | - | 35 166 771 |
| Bonds | 42 162 697 | | | | | | 42 162 697 |
| Local lines of credit | 295 338 993 | - | - | - | - | - | 295 338 993 |
| Other liabilities | 13 630 563 | - | - | - | - | - | 13 630 563 |
| | 386 298 086 | 612 | 0 | 20 | 306 | - | 386 299 024 |
| Net foreign exchange position | 146 116 474 | 10 390 | 77 | 1 365 | 1 669 | - | 146 129 977 |

| As at 31 December 2017 (Restated) | US$ | ZAR US$ equivalent | BWP US$ equivalent | GBP US$ equivalent | EURO US$ equivalent | Other US$ equivalent | Total US$ |
|---|---|---|---|---|---|---|---|
| Assets | | | | | | | |
| Cash and bank balances | 40 936 638 | 23 942 | 84 | 1 379 | 11 276 | - | 40 973 320 |
| Investment securities | 315 786 | - | - | - | - | - | 315 786 |
| Loans and advances to customers | 53 730 361 | - | - | - | - | - | 53 730 361 |
| Treasury bills and other financial assets | 42 452 817 | - | - | - | - | - | 42 452 817 |
| Financial assets at fair value through other comprehensive income | 9 556 537 | | | | | | 9 556 537 |
| Trading assets pledged as collateral | - | - | - | - | - | - | - |
| Other receivables and prepayments | 4 461 502 | - | - | - | - | - | 4 461 502 |
| | **151 453 643** | **23 942** | **84** | **1 379** | **11 276** | **-** | **151 490 324** |
| **Equity and liabilities** | | | | | | | |
| Deposits from customers | 45 917 442 | 836 | 92 | 24 | 448 | (283) | 45 918 559 |
| Bonds | 61 036 468 | | | | | | 61 036 468 |
| Local lines of credit | 23 175 271 | - | - | - | - | - | 23 175 271 |
| Other liabilities | 4 072 504 | - | - | - | - | - | 4 072 504 |
| | 134 201 684 | 836 | 92 | 24 | 448 | ( 283) | 134 202 800 |
| Net foreign exchange position | 17 251 960 | 23 106 | 176 | 1 355 | 10 828 | ( 283) | 17 287 142 |

The Group had no off balance sheet foreign currency exposure as at 31 December 2018 (31 December 2017 - US$nil).

**Foreign exchange risk**
The table below indicates the extent to which the Group is exposed to foreign exchange risk as at 31 December 2018.

| Exchange rate change | Effect on profit for the year 2018 US$ | Effect on profit for the year (Restated) 2017 US$ |
|---|---|---|
| 5% appreciation/(depreciation) | 675 | ( 520) |
| 10% appreciation/(depreciation) | 1 350 | ( 1 039) |

## 7. CAPITAL MANAGEMENT

The Group's objective when managing capital are :

- To safe guard the Group's ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits for other stakeholders, and
- To maintain a strong capital base to support the development of its business

The allocation of capital between specific business operations is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The process of allocating capital to specific operations is undertaken independently of those responsible for the operations. The Management Assets and Liability Committee ("MALCO") sets the assets and liability management policies which determine the eventual asset allocation dependent on desired risk return profiles based on MALCO forecasts on the different markets the Group participates in and economic fundamentals. The Group Risk and Compliance Unit monitors and ensures adherence to these policies as well as continuously measure the efficacy of these policies through MALCO and various other credit committees.

Although maximisation of the return on risk adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision making. Account is also taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

The Group's capital is monitored using the dollar amount of the net shareholders' equity position, noting and explaining the causes of significant changes.

## 8 FAIR VALUE FINANCIAL ASSETS AND LIABILITIES

**8.1.1 Fair value estimation**

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:
**Level 1 -** Quoted prices (unadjusted) in active markets for identical assets or liabilities.
**Level 2 -** 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 3 -** Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

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

| At 31 December 2018 | Level 1 US$ | Level 2 US$ | Level 3 US$ |
|---|---|---|---|
| Investment securities | 314 054 | - | - |
| Financial assets at fair value through other comprehensive income | - | - | 7 063 092 |
| **Total assets** | 314 054 | - | 7 063 092 |
| **Total liabilities** | - | - | - |
| **At 31 December 2017** | | | |
| Investment securities | 315 786 | - | - |
| Financial assets at fair value through other comprehensive income | - | - | 9 556 537 |
| **Total assets** | 315 786 | - | 9 556 537 |
| | | | |
| **Total liabilities** | - | - | - |

**Capitalisation Treasury Bills**
Following a rights issue in the year ended 31 December 2018 to existing shareholders, the Bank received capitalisation treasury bills with a face value of $150 000 000. The treasury bills have a coupon 5% which equates to market coupons for similar instruments.

In prior years, the Bank received capitalisation treasury bills which mature on 27 May 2021 and 24 March 2022 with coupon rates below 5%. These treasury bills were classified under the amortised business model in terms of IFRS 9 Financial Instruments. Consequently, the assets are included in the statement of financial position at amortised cost, having been accounted for at fair value at initial recognition.

The determination of fair value at initial recognition was contentious owing to the lack of an established market for the instruments. The Bank used a rate of 5% to instruct the fair value of the financial instruments. The method applied falls into Level 3 of the fair value hierarchy in terms of IFRS 13:"Fair Value Measurement" due to the absence of a recognizable market in which similar instruments were traded. The table below shows the sensitivities if other rates had been applied;

| Valuation technique | Significant unobservable inputs | Inter-relationship between unobservable inputs and fair value measurement |
|---|---|---|
| The Discounted Cash-flow valuation technique was applied by identifying a risk adjusted discount rate for comparable risk profiles and applying this on the contractual cash-flows in order to determine the present value of the instrument. | A discount rate of 5% was applied. This was development principally from adding a supposed fair rate of return to the projected inflation profile over the term of the instrument which yielded a range of 3.93% to 5.5%. The supposed fair return was based on the US 10 year Bond. The rates above were corroborated by reference to:-<br><br>a) Rates applicable to similar loans to Government of Zimbabwe over the same term.<br><br>b) External loan rates to private sector players in Zimbabwe after adjustment for risk margins and charges. | The estimated fair value would increase / (decrease) if a different risk adjusted discount rate was applied.<br><br>Below is an indication of the sensitivity analysis at different rates:- |

| Rate | Basis | Increase decrease in capital |
|---|---|---|
| 3.93% | Minimum | 483 583 |
| 4.63% | Average | 926 093 |
| 5.0% | Rate Applied | 1 155 469 |
| 5.50% | Maximum | 1 460 576 |

**8.1.2 Financial instruments not measured at fair value**
The table below summarises the carrying amounts of those financial assets and liabilities presented in the Group's statement of financial position. The fair value of the financial instruments approximates carrying amount.

| | Carrying value 2018 US$ | Fair value 2018 US$ | Carrying value 2017 US$ | Fair value 2017 US$ |
|---|---|---|---|---|
| **Financial assets :** | | | | |
| Treasury bills and other financial assets | 191 044 009 | 191 044 009 | 42 452 817 | 42 452 817 |
| Loans and advances to customers | 44 989 757 | 44 989 757 | 53 730 361 | 53 730 361 |
| Assets pledged as collateral | 6 152 867 | 6 152 867 | - | - |
| **Financial liabilities:** | | | | |
| Deposits from customers | 36 675 921 | 36 675 921 | 45 918 559 | 45 918 559 |
| Bonds | 42 162 697 | 42 162 697 | 61 036 468 | 61 036 468 |
| Local Lines of credit: | 283 058 058 | 283 058 058 | 23 175 271 | 23 175 271 |

**(a) Loans and advances to customers**
Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. As the loans and advances are issued at variable rates, the carrying amount approximates fair value.

**(b) Deposits from customers**
The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. All deposits are in this category therefore the carrying amount approximates fair value.

**8.2 Credit loss expense**
The table below shows the ECL provisions on financial instruments

| 2018 | Note | Stage 1 Individual | Stage 1 Collective | Stage 2 Individual | Stage 2 Collective | Stage 3 | POCI | Total |
|---|---|---|---|---|---|---|---|---|
| Due from banks | 9 | - | - | - | - | - | - | - |
| Loans and advances to customers | 13 | 721 234 | | 37 750 | | 2 547 249 | | 3 306 234 |
| Treasury bills and other financial assets | 12 | - | - | - | - | - | - | - |
| Other receivables | 14 | - | - | - | - | - | | - |
| Loan commitments | 36 | - | - | - | - | - | - | - |
| **Total Impairment** | | **721 234** | **-** | **37 750** | **-** | **2 547 249** | **-** | **3 306 234** |

****For the year ended 31 December 2017, the Bank applied IAS 39 in determining its impairment allowances. The disclosures are included for the affected financial instruments especially loans and advances in note 13.

## 9. CASH AND BANK BALANCES

| | 2018 US$ | (Restated) 2017 US$ |
|---|---|---|
| Cash on hand | 107 081 | 206 396 |
| Balances with banks | 279 829 501 | 40 766 924 |
| | **279 936 582** | **40 973 320** |

| Due from banks | | |
|---|---|---|
| | 2018 | 2017 |
| Placements with other banks | 269 697 010 | 36 245 891 |
| Less: Allowance for impairment losses | - | - |
| **Net Placements due** | **269 697 010** | **36 245 891** |

**Impairment allowance for due from banks**
The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The Bank makes placements with local banks whose credit rating is assessed on a yearly basis by the Global Credit Rating Company (GCR). The amounts presented are gross of impairment allowances. To cover itself from risk, the Bank takes security in the form of treasury bills for placements made. Despite the security, there has been no history of loss on placements to inform a probability of default (PD). Moreover, the loss given default (LGD) will be nil because of the security.

| | 2018 US$ | | | | 2017 US$ |
|---|---|---|---|---|---|
| Internal rating grade | Stage 1 | Stage 2 | Stage 3 | Total | Total |
| Performing | | | | | |
| High grade | - | - | - | - | - |
| Standard grade | 269 697 010 | - | - | 269 697 010 | 36 245 891 |
| Sub-standard grade | - | - | - | - | - |
| Past due but not impaired | - | - | - | - | - |
| Non- performing | | | | - | |
| Individually impaired | - | - | - | - | - |
| **Total** | **269 697 010** | **-** | **-** | **269 697 010** | **36 245 891** |

## 10. INVESTMENT SECURITIES

| | 2018 US$ | 2017 US$ |
|---|---|---|
| At 1 January | 315 786 | 51 513 |
| Additions | - | - |
| Net gain through profit or loss | ( 1 732) | 264 273 |
| | | |
| **At 31 December** | **314 054** | **315 786** |

Changes in fair value of investment securities are presented as non-cash adjustments to cash flows from operating activities in the statement of cash flows. Changes in fair values of investment securities are recorded in statement of profit or loss and other comprehensive income. The fair value of all equity securities is based on their current bid prices in an active market, the Zimbabwe Stock Exchange ("ZSE").

## 11. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | 2018 US$ | (Restated) 2017 US$ |
|---|---|---|
| At 1 January | 9 556 537 | 7 518 492 |
| Additions | 453 542 | 1 684 462 |
| Net fair value gains on financial assets at fair value through other comprehensive income | ( 2 946 987) | 353 583 |
| At 31 December | 7 063 092 | 9 556 537 |

Financial assets at fair value through other comprehensive income include the following;

| | 2018 US$ | 2017 US$ |
|---|---|---|
| Unlisted securities: | | |
| Equity securities - Zimbabwe | 2 586 641 | 2 009 355 |
| Equity securities - Botswana | 4 476 451 | 7 547 182 |
| | 7 063 092 | 9 556 537 |

Net fair value gain on financial assets at fair value through other comprehensive income are all denominated in the US dollar.

## 12. TREASURY BILLS AND OTHER FINANCIAL ASSETS

| | 2018 US$ | 2017 US$ |
|---|---|---|
| Treasury bills as substitution for debt instruments | 22 697 405 | 15 940 516 |
| Capitalisation Treasury Bills | 162 987 440 | 20 411 154 |
| Treasury bills acquired from the market | 8 500 000 | 5 440 352 |
| Accrued Interest | 3 012 031 | 660 795 |
| | **197 196 876** | **42 452 817** |

It is the Group's intention to hold these treasury bills to maturity and use these financial assets as collateral in raising money market

**12.1 Assets pledged as collateral**
The nature and carrying amounts of the assets pledged as collateral are as follows:

| | Assets | | Related liability | |
|---|---|---|---|---|
| | 2018 US$ | 2017 US$ | 2018 US$ | 2017 US$ |
| Treasury bills | 6 152 867 | 27 902 450 | 22 494 305 | 22 494 305 |
| Current | 6 152 867 | 27 902 450 | 22 494 305 | 22 494 305 |

It is the Group's intention to hold these treasury bills to maturity and use these financial assets as collateral in raising money market deposits.

## 13 LOANS AND ADVANCES TO CUSTOMERS

| | 2018 US$ | (Restated) 2017 US$ |
|---|---|---|
| Individual | | |
| - term loans and mortgages | 15 638 348 | 5 993 776 |
| Corporate | | |
| - corporate customers | 33 083 143 | 49 913 025 |
| Gross loans and advances to customers | 48 721 491 | 55 906 801 |
| Less: allowance for impairment (Note 13.1) | ( 3 306 234) | ( 2 176 440) |
| Net loans and advances to customers | 45 415 257 | 53 730 361 |
| Current | 25 443 823 | 24 357 880 |
| Non-current | 19 971 434 | 29 372 481 |
| | 45 415 257 | 53 730 361 |

**13.1 Loan impairment charge**

| | | |
|---|---|---|
| Stage 1-12 Month Expected Credit Loss Allowance charge | 721 2345 | - |
| Stage 2- Lifetime Expected Credit loss Allowance not credit impaired | 37 750 | - |
| Stage 3- Lifetime Expected Credit Loss Allowance credit impaired | 2 547 249 | - |
| Net loan impairment loss | 3 306 234 | 2 176 440 |

**13.1.1 Maturity analysis of loans and advances to customers**

| | 2018 US$ | 2017 US$ |
|---|---|---|
| Up to one month | 7 965 005 | 7 116 301 |
| Up to three months | 472 257 | 306 608 |
| Up to one year | 17 006 561 | 16 934 970 |
| Up to 3 years | 4 373 997 | 24 456 666 |
| Up to 5 years | 10 160 642 | 2 083 198 |
| Later than 5 years | 5 436 795 | 2 832 618 |
| | **45 415 257** | **53 730 361** |

**13.1.2 Analysis of ECL in relation to loans and advances as at 31 December 2018**

| | 2018 | | | | 2017 |
|---|---|---|---|---|---|
| | Stage1 | Stage 2 | Stage 3 | Total | IAS 39 Total |
| Loans and advances subject to Stage 1:12 month ECL | 39 760 398 | - | - | 39 760 398 | |
| Loans and advances subject to Stage 2:Life ECL not credit impaired | | 866 549 | - | 866 549 | |
| Loans and advances subject to Stage 3:Life ECL credit impaired | | | 8 094 544 | 8 094 544 | |
| **Gross loans and advances** | **39 760 398** | **866 549** | **8 094 544** | **48 721 491** | **55 906 801** |
| Less Impairment allowances | | | | | ( 2 176 440) |
| Stage 1:12 month ECL | ( 721 235) | | | ( 721 235) | - |
| Stage 2:Life ECL not credit impaired | | ( 37 750) | | ( 37 750) | |
| Stage 3:Life ECL credit impaired | | | ( 2 547 249) | ( 2 547 249) | |
| **Net Loans and advances to client** | **39 039 164** | **828 799** | **5 547 295** | **45 415 257** | **53 730 361** |

**13.1.2 Sectorial analysis of loans and advances to customers**

| | Percentage (%) | 2018 US$ | Percentage (%) | 2017 US$ (Restated) |
|---|---|---|---|---|
| Manufacturing | 4% | 1 970 143 | 3% | 1 545 202 |
| Retail | 2% | 788 983 | 1% | 744 745 |
| Agro processing | 0% | 122 145 | 0% | 116 343 |
| Mining | 5% | 2 567 382 | 0% | 104 359 |
| Financial Services | 6% | 3 019 871 | 6% | 3 316 984 |
| Transport | 1% | 345 279 | 1% | 451 851 |
| Tourism and hospitality | 10% | 5 057 280 | 8% | 4 458 309 |
| Telecommunications | 1% | 432 982 | 1% | 1 494 486 |
| Construction | 1% | 839 762 | 1% | 700 000 |
| Energy | 31% | 15 107 239 | 54% | 30 211 036 |
| Mortgages | 13% | 6 340 898 | 9% | 4 952 778 |
| Individuals and other services | 25% | 12 129 527 | 14% | 7 810 708 |
| Gross value of loans and advances | 100% | 48 721 491 | 100% | 55 906 801 |
| Less allowance for impairment | | ( 3 306 234) | | ( 2 176 440) |
| | | 45 415 257 | | 53 730 361 |

## 14. OTHER RECEIVABLES AND PREPAYMENTS

| | 2018 US$ | (Restated) 2017 US$ |
|---|---|---|
| Receivables | 6 143 352 | 3 258 859 |
| Less: allowance for impairment | ( 197 956) | ( 197 956) |
| **Net receivables** | 5 945 396 | 3 060 903 |
| Pre-payments | 2 710 610 | 1 400 599 |
| | 8 656 006 | 4 461 502 |
| Current | 8 656 006 | 4 461 502 |

## 15. INVESTMENTS IN SUBSIDIARIES, JOINT OPERATION AND ASSOCIATES

The Group enters into business arrangements with various entities/parties noteably in the area of housing development. Judgement is applied in the assessment of the underlying agreements so as to determine whether the arrangements result in subsidiaries, joint operations, joint ventures or associates.

**15.1 Investment in subsidiaries**
Details of the Group's subsidiaries at the end of the reporting period are as follows.

| Name of subsidiary | Principal activity | Place of incorporation and operation | Proportion of ownership interest and voting power held by the Group | |
|---|---|---|---|---|
| | | | as at 31 Dec 2018 % | as at 31 Dec 2017 % |
| Waneka Properties (Private) Limited | Property development | Zimbabwe | 70 | 70 |
| Manellie Investments (Private) Limited | Agriculture | Zimbabwe | 100 | 100 |
| Norton Medical Investments (Private) Limited | Medical services | Zimbabwe | 60 | 60 |
| Hwange Empumalanga West Housing Project | Property development | Zimbabwe | 90 | 90 |
| Kariba Housing Development Project | Property development | Zimbabwe | 90 | 90 |
| Mazvel Investments (Private ) Limited | Property development | Zimbabwe | 51 | 51 |
| Samukele Lodges | Hospitality | Zimbabwe | 100 | - |
| Changamire Inkosi | Property Investment | Zimbabwe | 60 | - |
| **Special purpose entities** | | | | |
| Clipsham Views Housing Project | Joint Operation | Zimbabwe | 83 | 56 |

The Bank entered into a joint operation with Gorge Safaris (Private) Limited and Gorge Holdings (Private) Limited (the Developers) and formed an unincorporated vehicle Clipsham Views Housing Project to undertake a housing development project in Masvingo worth $4.4 million. IDBZ and the Developers agreed that the Parties shall, as members of the joint operation, jointly execute the development and construction of the roads, storm water drainage, water and electricity reticulation on Lot 2 of Clipsham Masvingo comprising approximately 691 units/stands of 1,500 square metres and 12 units/stands of 4,000square metres in extent and size, being a low density residential project. The project also includes 26 industrial stands, 3 hospitality, 24 institutional and 16 commercial stands with a total road network of approximately 23.7 kilometres.

Municipality of Kariba and IDBZ formed an unincorporated Project Vehicle named Kariba Housing Project for the sole purposes of carrying out the development and construction of offsite and onsite infrastructure of low, medium and high density suburbs in Kariba. The Bank is expected to inject US$14,8 million cash into the project which translates to 100% of the total project cost. The Bank shall however cede a 10% ownership in the Project Vehicle in favour of Municipality of Kariba through a notional loan of $1,48 million to the Municipality of Kariba. IDBZ will therefore hold 90% interest in the Project Vehicle while Municipality of Kariba will hold a 10% interest.

Hwange Local Board and IDBZ formed an unincorporated Project Vehicle, Empumalanga West Housing & Waste Water Treatment Plant Rehabilitation Project for the sole purposes of carrying out the development of housing stands.

The Bank is expected to inject US$5 800 000 cash into the project which translates to 100% of the total project cost. The Bank shall however cede a 10% ownership in the Project Vehicle in favour of Hwange Local Board through a notional loan of $842 083 and land worth $1 230 000. IDBZ will therefore hold 90% interest in the Project Vehicle while Hwange Local Board will hold a 10% interest.

Markaram Investments (Private )Limited and IDBZ formed an incorporated Project Vehicle, Mazvel Investment(Private) Limited for the sole purposes of carrying out the development of 119,2593 hectares of land.

Mazvel shall transfer 10 200 ordinary shares in Mazvel and the Bank is expected to inject US$4,1 million cash into the project which translates to 51% shareholding into Mazvel.

**Samukele Lodges**
The Bank owns a 100% stake in Samukele Lodges. The Bank is mandated by the Act to invest in all forms of infrastructure. Samukele is in the tourism sector and operates lodges in Bulawayo and Harare.

**Changamire Inkosi**
The Bank owns a 60% shareholding in Changamire Inkosi. Changamire Inkosi owns a property in Harare which is used as a healthcare facility. All subsidiaries have been consolidated in these financial statements.

All subsidiaries, joint operations and associates have been consolidated in these financial statements.

**15.2 Investment in associates**
Details of the Group's material investments in associates during the reporting period are as follows:

| | | | Proportion of ownership interest and voting power held by the Group | |
|---|---|---|---|---|
| | | Place of incorporation | as at 31 Dec 2018 % | as at 31 Dec 2017 % |
| Africom Continental (Private) Limited | Information Communication Technology | Zimbabwe | 7.16%*** | 33.31% |
| Mosi oa Tunya Development Company (Private) Limited | Tourism and Hospitality | Zimbabwe | 20.60% | 20.60% |

***On 31 October 2018, the Bank's shareholding was migrated from Africom Continental to Africom Holdings Limited (AFH). The migration was done at a swap ratio of 1 AFH share for approximately every 12.65172 shares held in Africom Continental. This resulted in the Bank owning 17 157 271 shares out of an issued share capital of 239 751 769.

The above associates are accounted for using the equity method in these consolidated financial statements.

**Share of losses of associates**

| Share of losses of associates | 2018 US$ | 2017 US$ |
|---|---|---|
| Balance as at 1 January | ( 1 783 637) | ( 1 621 184) |
| Loss for the year | ( 114 346) | ( 162 453) |
| **Balance as at 31 December** | **( 1 897 983)** | **( 1 783 637)** |

| Carrying amount of the Investments in Associates | 2018 US$ | 2017 US$ |
|---|---|---|
| Balance as at 1 January | 3 908 504 | 1 210 307 |
| Acquisition of associates | - | 2 947 193 |
| Disposal of Africom Continental | ( 860 308) | - |
| Share of loss from associates | ( 114 346) | ( 248 997) |
| **Balance as at 31 December** | **2 933 850** | **3 908 504** |

## 16. INVENTORIES

| | 2018 US$ | 2017 US$ |
|---|---|---|
| Inventory - housing units | 130 013 | 130 013 |
| Inventory - serviced stands | 12 094 492 | 3 978 495 |
| Work in progress | 11 432 289 | 11 942 811 |
| Consumables and materials | 100 460 | 43 552 |
| | 23 757 254 | 16 094 871 |

Included in work in progress are land development costs for stands situated in Kariba, Mt Pleasant and Hwange. These are qualifying costs for capitalisation in accordance with IAS 2.

## 17. INVESTMENT PROPERTY

| | 2018 US$ | 2017 US$ |
|---|---|---|
| Balance as at 1 January | 13 393 573 | 9 380 000 |
| Additions during the year | 3 525 492 | 2 244 649 |
| Disposals during the year | ( 27 000) | ( 21 077) |
| Net (loss)/gain from fair value adjustment : unrealised fair value loss | ( 1 062 065) | 1 790 001 |
| **Balance as at 31 December** | **15 830 000** | **13 393 573** |
| | | |
| **Analysis by nature** | | |
| Residential stands | 2 770 000 | 2 240 000 |
| Commercial and industrial properties | 13 060 000 | 11 153 573 |
| | **15 830 000** | **13 393 573** |

Included in Investment property is a property in Kadoma that the Bank does not have title to as the title transfers are still underway.

No investment properties are pledged as collateral security for fixed term deposits.

Included in the consolidated statement of profit or loss and other comprehensive income are the following amounts which relate to investment properties held by the Group.

| | | |
|---|---|---|
| Rental income | 348 660 | 372 182 |

Investment properties includes a number of commercial, industrial and residential properties that are leased to third parties. On average the leases contain a cancellable period of up to one year. Subsequent renewals are negotiated with the lessee.

The Group's investment properties were revalued as at 31 December 2017 by independent professionally qualified valuators who hold a recognised relevant professional qualification and have recent experience in the locations and categories of the investment properties valued.

In computing values for the properties, reliance was placed on principally two methods; the Comparison approach and the Discounted Cash Flow (DCF) approach.

In the Comparison approach entails using evidence of past sales of comparable properties, held under similar interest which are analysed on the basis of yield, rental return, voids and arrears. The obtained comparative statistics are then applied to the subject property being valued with adjustments made to cater for property specific peculiarities.

The Discounted Cash Flow (DCF) involves projecting rental income streams from the property into the future for a designated period which equates to the holding period of the asset. The future cash flows are then discounted to present day (valuation date) at an appropriate discount rate such as the cost of money, mortgage rate or yields of alternative but similar long-term investments such as bonds to give a 'net present value'. This method has the merit of calculating all cash flows on a common time basis. The rent was projected forward for a period of 10 years and then discounted to present value using average of mortgage rates and corporate bonds in the market.

## 18. DEFERRED TAX ASSET

| | 2018 US$ | 2017 US$ |
|---|---|---|
| The analysis of deferred tax asset is as follows: | | |
| Opening balance | 12 915 | - |
| Movement (Unutilised tax Loss) | 18 964 | 12 915 |
| Closing balance | 31 879 | 12 915 |

The deferred tax asset has arisen from the taxable operations of the Group's subsidiary, Mazvel Investments (Private) Limited.

## 19. PRIOR PERIOD ADJUSTMENT

Prior year figures were adjusted in respect of VAT liability on mostly management fees and rental income. The Bank was not recovering VAT on fees earned through monitoring government projects on the basis that these fees satisfied the definition of financial services which are exempt from VAT. Through liaison with the Zimbabwe Revenue Authority (ZIMRA), a determination was made that some of the Bank's transactions did not qualify for exemption for VAT since the Bank is administered under a separate Act, the IDBZ Act [Chapter 24:14]. As a consequence the Bank did not satisfy the definition of a bank as defined under the Finance Act . The Bank has since been included under the supervision purview of the Reserve Bank of Zimbabwe (RBZ) and now satisfies the definition of a bank per the Finance Act. The matter became known during the 2017 financial year however a provision for the amount was omitted in the 2017 financial statements. The final figure was determined and settled through an audit conducted by ZIMRA and concluded in 2018. The effect of the correction on the financial results for the year ended 31 December 2017 are as follows:

| | US$ |
|---|---|
| **Statement of profit or loss effect** | |
| Increase in expenses | 1 207 650 |
| Income Tax effect | - |
| Decrease in profit | 1 207 650 |
| | |
| **Statement of financial position impact** | |
| Increase in Payables and other liabilities | 1 207 650 |
| Decrease in net assets | - |
| | 1 207 650 |

## 20. PROPERTY AND EQUIPMENT

| Year ended | Land and buildings US$ | Computer and office equipment US$ | Motor vehicles US$ | Fixtures and fittings US$ | Capital work in progress US$ | Total US$ |
|---|---|---|---|---|---|---|
| **31 December 2018** | | | | | | |
| | | | | | | |
| Opening net book amount | 2 527 513 | 248 172 | 262 612 | 29 876 | 860 000 | 3 928 173 |
| Additions | 4 018 839 | 510 207 | 533 081 | 455 862 | - | 5 517 989 |
| Impairment Adjustment through profit/loss | - | | | | - | - |
| Disposals | - | ( 520) | - | ( 270) | - | ( 790) |
| Depreciation charge | ( 67 688) | ( 159 174) | ( 121 773) | ( 90 724) | - | ( 439 359) |
| | | | | | | |
| **Net book amount** | **6 478 664** | **598 685** | **673 920** | **394 744** | **860 000** | **9 006 013** |
| | | | | | | |
| **At 31 December 2018** | | | | | | |
| Cost | 6 971 370 | 1 801 547 | 1 253 618 | 1 041 222 | 1 400 000 | 12 467 757 |
| | | | | | | |
| Accumulated depreciation and impairment losses | ( 492 706) | ( 1 202 862) | ( 579 698) | ( 646 478) | ( 540 000) | ( 3 461 744) |
| | | | | | | |
| **Net book amount** | **6 478 664** | **598 685** | **673 922** | **394 744** | **860 000** | **9 006 013** |
| | | | | | | |
| | | | | | | |
| **Year ended** | | | | | | |
| **31 December 2017 (Restated)** | | | | | | |
| | | | | | | |
| Opening net book amount | 2 223 285 | 181 617 | 240 754 | 2 817 | 860 000 | 3 508 473 |
| Additions | 360 856 | 158 605 | 81 830 | 45 973 | - | 647 264 |
| Impairment Adjustment through profit/loss | - | | | | - | - |
| Disposals | - | ( 3 709) | - | - | - | ( 3 709) |
| Depreciation charge | ( 56 628) | ( 88 343) | ( 59 972) | ( 18 914) | - | ( 223 855) |
| | | | | | | |
| **Net book amount** | **2 527 513** | **248 172** | **262 612** | **29 876** | **860 000** | **3 928 173** |
| | | | | | | |
| At 31 December 2017 | | | | | | |
| Cost | 2 952 531 | 1 292 033 | 943 692 | 585 630 | 1 400 000 | 7 173 886 |
| | | | | | | |
| **Accumulated depreciation and impairment losses** | ( 425 018) | ( 1 043 861) | ( 681 080) | ( 555 754) | ( 540 000) | ( 3 245 713) |
| | | | | | | |
| **Net book amount** | **2 527 513** | **248 172** | **262 612** | **29 876** | **860 000** | **3 928 173** |

Property and equipment are subjected to impairment testing by comparing the carrying amounts at the reporting date, with the market prices quoted for similar assets and adjusted for different ages.

Depreciation expense of US$439 359 (2017: US$223 856) has been charged to operating expenses (Note 33).

## 21. INTANGIBLE ASSETS

| | 2018 US$ | (Restated) 2017 US$ |
|---|---|---|
| Computer Software | | |
| Carrying amounts at beginning of year | 155 824 | 14 105 |
| Additions at cost | 12 282 | 165 211 |
| Amortisation | ( 43 028) | ( 23 492) |
| | | |
| **Balance at year end** | 125 078 | 155 824 |
| | | |
| The following useful lives are used in the calculation of amortisation | | |
| Computer software | | 4 years |

## 22. SHARE CAPITAL AND SHARE PREMIUM

**Authorised share capital**
150 000 000 ordinary shares with a nominal value of US$0,01.

The directors are authorised to issue an unlimited number of preference shares as approved by shareholders.

| Issued share capital | Number of shares | Share capital US$ | Share premium US$ | Amounts Awaiting Allotment US$ | Total US$ |
|---|---|---|---|---|---|
| **At 1 January 2018** | 4 462 090 | 44 620 | 8 934 396 | - | 8 979 016 |
| Issue of shares | 2 066 100 | 20 661 | 22 851 336 | 130 000 000 | 152 871 997 |
| | | | | | |
| **At 31 December 2018** | **6 528 190** | **65 281** | **31 785 732** | **130 000 000** | **161 851 013** |
| | | | | | |
| | | | | | |
| **At 1 January 2017** | 4 462 090 | 44 620 | 8 934 396 | - | 8 979 016 |
| Issue of shares | - | - | - | - | - |
| | | | | | |
| **At 31 December 2017** | **4 462 090** | **44 620** | **8 934 396** | **-** | **8 979 016** |

**Rights Issue**
2 066 100 shares were issued pursuant to rights issue by the Group to ordinary shareholders during the year at a par value of $0.01 per share. The rights issue was with $ 2 872 886 cash and $ 150 000 000 worth of treasury bills.

Of the amount raised, $22 872 886 was allotted as at 31 December 2018 and $130 000 0000 remained in shareholders funds.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

## 23. NON-DISTRIBUTABLE RESERVE

The reserve arose from the net effect of restatement of assets and liabilities previously denominated in the Zimbabwe dollar to the United States dollars following the introduction of the multi-currency regime in the Zimbabwean economy on 1 January 2009. The reserve is negative because at the time of conversion, the Group's liabilities, fairly valued, exceeded that of its assets.

## 24. PREFERENCE SHARE CAPITAL

The preference shares are 5% non-cumulative, non-redeemable and paid up preference shares with a par value of US$100.00 per share. A dividend is payable at the discretion of Directors and is paid out of distributable profits.

No dividend has been declared during the financial year.

| Issued preference share capital | Number of shares | Preference Share capital US$ | Total US$ |
|---|---|---|---|
| **At 1 January 2018** | 382 830 | 38 283 003 | 38 283 003 |
| Issue of shares | - | - | - |
| **At 31 December 2018** | 382 830 | 38 283 003 | 38 283 003 |
| At 1 January 2017 | 382 830 | 38 283 003 | 38 283 003 |
| Issue of shares | | | |
| **At 31 December 2017** | 382 830 | 38 283 003 | 38 283 003 |

## 25. DEPOSITS FROM CUSTOMERS

Deposits from customers are primarily comprised of amounts payable on demand and term deposits.

| | 2018 US$ | (Restated) 2017 US$ |
|---|---|---|
| Large corporate customers | 32 527 560 | 42 289 050 |
| Retail customers | 2 639 211 | 3 629 509 |
| | 35 166 771 | 45 918 559 |

**25.1 Maturity analysis of deposits from customers**

| | | |
|---|---|---|
| Up to one month | 24 474 044 | 18 480 893 |
| Up to three months | 10 599 282 | 27 348 308 |
| Above six months | 93 445 | 89 358 |
| | 35 166 771 | 45 918 559 |

Deposits due to customers only include financial instruments classified as liabilities at amortised cost. The fair value of the deposits approximate the fair value due to their short tenure.

**25.2 Sectorial analysis of deposits from customers**

| | Percentage (%) | 2018 US$ | Percentage (%) | (Restated) 2017 US$ |
|---|---|---|---|---|
| Financial markets | 0% | - | 26% | 11 843 014 |
| Fund managers and pension funds | 0.4% | 151 857 | 21% | 9 530 244 |
| Individuals | 8% | 3 033 136 | 1% | 429 388 |
| Government and public sector institutions | 37% | 13 392 426 | 40% | 18 440 641 |
| Other services | 51% | 18 589 332 | 12% | 5 675 272 |
| | 100% | 35 166 771 | 100% | 45 918 559 |

## 26. LOCAL LINES OF CREDIT AND BONDS

| | 2018 US$ | (Restated) 2017 US$ |
|---|---|---|
| Bonds | 47 562 251 | 61 036 467 |
| Lines of credit | 289 939 439 | 23 175 271 |
| Total | 337 501 690 | 84 211 738 |
| Current | 24 337 126 | 21 785 700 |
| Non current | 313 164 564 | 62 426 038 |
| | 337 501 690 | 84 211 738 |

The movement in the balances during the year was as follows;

| | Bonds 2018 US$ | Lines of credit 2018 US$ | Bonds 2017 US$ | Lines of credit 2017 US$ |
|---|---|---|---|---|
| **At 1 January** | 61 036 467 | 23 175 271 | 50 499 337 | 6 368 967 |
| New issues/funding | 16 330 429 | 458 621 481 | 26 897 648 | 102 429 815 |
| Repayments/Disbursements | ( 29 804 645) | ( 191 857 313) | ( 16 360 518) | ( 85 623 511) |
| **At 31 December** | **47 562 251** | **289 939 439** | **61 036 467** | **23 175 271** |

Lines of credit and bonds are recognised initially at fair value, net of transaction costs incurred. Lines of credit and bonds are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

## 27. OTHER LIABILITIES

**27.1 Accruals**

| | 2018 US$ | 2017 US$ |
|---|---|---|
| Accruals | 3 386 037 | 2 956 255 |
| Provision for outstanding employee leave | 248 983 | 201 408 |
| Dividend payable | 245 040 | 245 040 |
| Value Added Tax Liability | 23 351 | 1 207 650 |
| Projects Accounts payable | 3 627 421 | - |
| Deferred income | 458 386 | 129 959 |
| Other | 5 641 345 | 539 842 |
| **Current** | **13 630 563** | **5 280 154** |

**27.2 Provision for outstanding employee leave**

Employee entitlements to annual leave are recognised when they accrue to employees. The provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the date of the reporting period and the charge is recognised in the statement of comprehensive income within "employee benefit costs" (Note 33.1 ).

| | 2018 | 2017 |
|---|---|---|
| Balance at 1 January | 201 408 | 170 904 |
| Net Reversals during the year | 47 575 | 30 504 |
| **Balance as at 31 December** | 248 983 | 201 408 |

## 28. NET INTEREST INCOME

**28.1 Interest and related income:**

| | 2018 US$ | 2017 US$ |
|---|---|---|
| **Interest and related income:** | | |
| Loans and advances to large corporates | 3 397 655 | 5 972 821 |
| Treasury bills and other financial assets | 5 089 135 | 2 732 548 |
| Placements with local banks | 756 852 | 543 923 |
| Mortgages | 591 208 | 358 057 |
| Cash and bank balances | 3 921 186 | 523 054 |
| | 13 756 036 | 10 130 403 |

**28.2 Interest and related expense:**

| | | |
|---|---|---|
| Deposits from large corporates | ( 1 429 456) | ( 1 971 902) |
| Deposits from individuals | - | ( 21 469) |
| Bonds | ( 4 384 143) | ( 4 620 017) |
| | ( 5 813 599) | ( 6 613 388) |

## 29. SALES

| | 2018 US$ | 2017 US$ |
|---|---|---|
| Property sales | 4 700 032 | 6 104 829 |
| Cost of construction of property | ( 2 933 106) | ( 3 795 529) |
| **Gross profit** | 1 766 926 | 2 309 300 |

Sales of housing stands were recorded on New Marimba medium density project and Clipsham Views Housing Project.

## 30. FEE AND COMMISSION INCOME

| | | |
|---|---|---|
| Advisory and management fees | 3 366 884 | 2 357 336 |
| Capital raising fees | - | - |
| Banking service fees | 131 683 | 148 211 |
| Credit related fees | 5 501 | 227 920 |
| | 3 504 068 | 2 733 467 |

## 31. OTHER INCOME

| | | |
|---|---|---|
| Rental income | 348 660 | 372 182 |
| Other operating income | 2 433 | 368 737 |
| Profit/(loss) on fixed assets disposal | - | ( 2 976) |
| Bad debts recovered | - | 343 407 |
| Sundry income | 2 433 | 28 306 |
| | | - |
| | 351 093 | 740 919 |
| Dividend Income | 50 470 | 26 530 |

## 32. NET FOREIGN EXCHANGE GAINS/(LOSSES)

| | | |
|---|---|---|
| Net realised gains from foreign currency trade | 428 | 53 170 |
| Net unrealised gains/( losses) from translation of foreign currency balances | ( 9 795) | 335 |
| | ( 9 367) | 53 505 |

## 33. OPERATING EXPENSES

| | 2018 US$ | 2017 US$ |
|---|---|---|
| Repairs and maintenance | 399 973 | 247 548 |
| Employee benefit costs (Note 33.1) | 8 196 867 | 6 283 222 |
| Telecommunication and postage | 60 731 | 34 806 |
| IT and software costs | 484 241 | 266 882 |
| Directors remuneration: | | |
| - for services as directors | 197 186 | 250 076 |
| Operating lease payments | 382 287 | 53 104 |
| Water, electricity and rates | 97 754 | 90 463 |
| Professional fees | 523 202 | 288 307 |
| Audit fees | 139 150 | 114 540 |
| Depreciation | 439 359 | 223 856 |
| Amortisation | 43 028 | 23 492 |
| Fuel and lubricants | 52 215 | 37 235 |
| VAT Charges Accrued (prior period error - Note 19) | - | 1 207 651 |
| Business Travel | 188 449 | 219 479 |
| Marketing and public relations | 384 013 | 345 194 |
| Insurance and security | 277 126 | 422 604 |
| Subscriptions | 220 752 | 89 650 |
| Printing and stationery | 118 231 | 77 928 |
| Bank charges | 92 006 | 66 979 |
| Impairment of fixed assets | - | - |
| Staff training | 66 321 | 71 867 |
| Refreshments | 41 656 | 27 169 |
| Other administrative costs | 451 045 | 873 747 |
| | 12 855 592 | 11 315 799 |

**33.1 Employee benefit costs**

| | | |
|---|---|---|
| Salaries and bonuses | 6 025 265 | 4 925 563 |
| Pension costs | 776 015 | 628 736 |
| Post employment medical benefits | 249 710 | 213 627 |
| Leave pay expense | 341 883 | 264 304 |
| Retrenchment expenses | - | 2 955 |
| Other staff expenses | 803 994 | 248 037 |
| | 8 196 867 | 6 283 222 |

**Post employment benefits**

**Pension Fund**
The Group operates a defined contribution plan for all permanent employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligation 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. Contributions are paid to a separately administered fund on a mandatory basis. Contributions to this fund are charged against income when incurred. The Group has no further obligations once the contributions have been paid.

| | | |
|---|---|---|
| Contributions for during the year | 672 697 | 542 658 |

**National Social Security Authority Scheme**

The Group and all its employees contribute to the National Social Security Authority Scheme, which was promulgated under the National Social Security Act (Chapter 17:04). The Group's obligations under the scheme are limited to specific contributions legislated from time to time.

| | | |
|---|---|---|
| Contributions for the year | 103 318 | 86 078 |

## 34. TAXATION

| **Income tax expense** | | |
|---|---|---|
| Current tax credit | ( 344) | - |
| Deferred tax | 18 964 | ( 12 915) |
| Tax Credit | 18 620 | ( 12 915) |

**Reconciliation of income tax credit**
Based on results for the period at a normal rate of 25.75%

| Arising due to: | | |
|---|---|---|
| **Accounting loss** | ( 72 629) | ( 50 341) |
| Tax Credit at 25.75% | ( 18 702) | ( 12 963) |
| Non-deductible expenses | 82 | 48 |
| Non-taxable income | - | - |
| Tax rate differential on capital gains | - | - |
| Tax Credit | ( 18 620) | ( 12 915) |

## 35. CONTINGENCIES

**a) Contingent liability on a litigation case**
The Group is involved in a case where Engen Petroleum Zimbabwe (Private) Limited made a claim against Wedzera Petroleum (Private) Limited as first defendant and Infrastructure Development Bank of Zimbabwe ("IDBZ" / "the Bank") as second defendant for payment of the sum of USD847,848 in respect of fuel supplied to Wedzera on the back of guarantee purportedly issued by IDBZ.

The bank guarantee was attained fraudulently hence it has no binding effect on the Bank. At the conclusion of the trial at the High Court of Zimbabwe, a judgment dated 15 April 2016 was entered against Wedzera Petroleum and IDBZ imputing joint and several liability on the Bank to pay USD847,848 per the purported guarantee. IDBZ appealed against the judgment of the High Court to the Supreme Court thus effectively staying execution of the High Court judgment. The Bank's appeal is on the basis that the guarantees relied upon by Engen were invalid by virtue of them having been fraudulently procured. The appeal hearing was held on 23 May 2017 and judgment was reserved.

**b) Contingent assets**
The Group, through its loan recovery efforts, foreclosed on agricultural farms in Matebeleland with an approximate fair value of US$1,050,000. However, there has been severe challenges in obtaining vacant possession of the agricultural farms due to circumstances beyond the Group's control, whether legal or otherwise.

As such, no economic benefits are yet to be derived from the agricultural farms and hence, the Group has not recognised these assets in the financial statements.

A contingent asset has been recognised in anticipation of receipt of compensation with respect to the loss of control of the land.

## 36. COMMITMENTS

**Loan commitments, guarantees and other financial facilities**

At 31 December 2018, the Group had contractual amounts for off-statement of financial position financial instruments that commit it to extend guarantees and loans as follows:

| | | |
|---|---|---|
| Loan commitments | 922 837 | 38 519 |

**Operating lease commitments**

The Group leases premises and lease terms are for five years which are renewable at the end of the lease period. The future aggregate minimum lease payments under non-cancellable leases are as follows:

| | | |
|---|---|---|
| No later than 1 year | 45 838 | 33 512 |

The lease rentals are renegotiated annually in January.

## 37. FUNDS UNDER MANAGEMENT

| | 2018 US$ | (Restated) 2017 US$ |
|---|---|---|
| **Government funds under management** | | |
| The Government of Zimbabwe disburses, through the Group, fiscal allocations to | | |
| parastatals and government infrastructure projects. The funds are being managed by | | |
| the Group for a fee and with no credit risk residual to the Group. | | |
| | | |
| **Held on behalf of:** | | |
| Government of Zimbabwe | 294 903 252 | 288 464 825 |
| | | |
| **Represented by:** | | |
| Sinking fund | - | - |
| Amounts awaiting disbursement | 294 903 252 | 35 706 757 |
| | | |
| | 294 903 252 | 288 464 825 |

## 38. RELATED PARTIES

Related party transactions are a normal feature of business and are disclosed in terms of IAS 24: Related Party Disclosures. Related party transactions may affect the assessment of operations, risk and opportunity facing the organisation.

**Identity of related parties**

The Bank has a related party relationship with its major shareholders, associates and key management personnel.

The following transactions were carried out with related parties:

A number of banking transactions are entered into with related parties in the normal course of business. For the year ended 31 December 2017, these included:

**a) Sales and purchases of goods and services**
There were no sales and purchases of goods and services with any related parties.

**b) Key management compensation**

Key management includes directors (executive and non-executive) and members of the Executive Committee. The compensation paid or payable to key management for employee services is shown below:

| | 2018 US$ | 2017 US$ |
|---|---|---|
| Salaries and other short-term employee benefits | 1 011 953 | 942 423 |
| Post-employment benefits | 47 658 | 45 311 |
| | | |
| Termination benefits | - | - |
| | | |
| Total | 1 059 611 | 987 734 |

**c) Loans and advances to related parties**

| | Directors and other key management personnel 2018 US$ | Associated companies 2018 US$ | Directors and other key management personnel 2017 US$ | Associated companies 2017 US$ |
|---|---|---|---|---|
| Loans outstanding at 31 December | 1 165 798 | - | 1 023 941 | - |
| | | | | |
| Interest income earned | 61 373 | - | 44 267 | - |

No allowance for impairment was required in 2018 (2017: US$ nil) for the loans made to key management personnel.

The loans issued to directors and other key management personnel are unsecured, carry fixed interest rates and are payable on reducing balance.

**d) Deposits from related parties**

| Deposits from related parties | Directors and other key management personnel 2018 US$ | Associated companies 2018 US$ | Directors and other key management personnel 2017 US$ | Associated companies 2017 US$ |
|---|---|---|---|---|
| | | | | |
| Deposits at 31 December | 1 019 | - | 869 | - |
| | | | | |
| Interest expense on deposits | - | - | - | - |

The above deposits are unsecured, carry fixed interest rates and are repayable on maturity date.

**e) Director's shareholdings**
As at 31 December 2018, the Directors did not hold directly and indirectly any shareholding in the Group.

## 39. EVENTS AFTER THE REPORTING DATE

The Governor of the Reserve Bank of Zimbabwe announced the introduction of an electronic currency in Zimbabwe called the RTGS Dollar on the 20th of February 2019. All Real Time Gross Settlement (RTGS) system balances previously denominated in the United States Dollar other than those held in Nostro FCA Accounts, foreign loans and obligation denominated in foreign currency were deemed to be opening balances in RTGS$ at par with the USD.

For accounting and other purposes all assets and liabilities that were valued in United States dollar were on 21 February 2019 deemed to be valued in RTGS dollars at a rate of one to one. Thereafter, any variance from the opening rate would be determined by the rate at which authorised dealers exchange RTGS Dollar for United States Dollar on a willing buyer willing seller basis. On 22 February 2019 the rate of United States Dollars to RTGSD was 1:2.5.

The Bank's management has been following the arguments presented in an ICAZ paper on considerations on the potential change in functional currency in 2018. The Bank also followed deliberations at PAAB level. Based on a number of technical assessments, market participants were considering a change in functional currency from the last quarter of 2018. Justification for the time frame is based on the significant parallel exchange rate volatility of the bond dollar which gave rise to significant inflation in bond dollar priced products. In the Bank's case there was no significant movement in expenditure in the last quarter owing to the contractual nature of the Bank's expenses.

As disclosed in note 2 and note 5, the Bank is of the opinion that the introduction of the RTGS dollar as a currency with an exchange rate to the USD is a material post year end event that requires disclosure. The Bank is of the opinion that it serves the users of the financial statements better to maintain the reporting and the functional currency of the Bank as the USD for the entire duration of 2018. The change in functional currency is therefore a post year end adjustment that has effect in 2019. Refer to note 42 for sensitivities of statement of financial position elements to the application of different deemed rates at 31 December 2018.

## 40. GOING CONCERN

The Group's operations have been significantly affected and may continue to be affected by the challenging environment particularly the lack of liquidity in the Zimbabwean economy. However, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

In the current year, the Group has made a profit of $0.8 million (2017: loss of US$0.6 million), which has resulted in an accumulated loss of US$2.9 million (2017: Accumulated loss (restated) of US$2.4 million).

In addition, section 32 of the Infrastructure Development Bank of Zimbabwe Act (Chapter 24:14), stipulates that the Bank cannot be wound up except by or under the authority of an Act of the Parliament of Zimbabwe.

The Directors have assessed the ability of the Group to continue operating as a going concern and believe that the preparation of these financial statements on a going concern basis is still appropriate. However, the Directors believe that under the current economic environment a continuous assessment of the ability of the Group to continue to operate as a going concern will need to be performed to determine the continued appropriateness of the going concern assumption that has been applied in the preparation of these financial statements.

## 41. THE BANK'S REGULATORY CAPITAL POSITION AS AT 31 DECEMBER

| | 2018 US$ | 2017 US$ |
|---|---|---|
| Issued and paid up share capital/share premium and preference shares | 200 134 016 | 47 262 019 |
| Retained earnings | (2 863 414) | (2 387 714) |
| Fair value gain on investment properties | (1 062 065) | 1 790 001 |
| | **196 208 537** | **46 664 306** |
| | | |
| Less: capital allocated for market and operational risk | 19 555 182 | 61 815 440 |
| Credit to insiders | 705 932 | 1 058 884 |
| | | |
| **Tier 1 capital** | **216 469 651** | **109 538 631** |
| | | |
| Tier 2 capital (subject to limit as per Banking Regulations) | 5 670 977 | 5 498 284 |
| Revaluation reserve | 374 857 | 3 321 844 |
| Regulatory reserve (limited to 1.25% of risk weighted assets) | 1 989 886 | - |
| Portfolio provisions - (limited to 1,25% of risk weighted assets) | 3 306 234 | 2 176 440 |
| | | |
| **Tier 1 & 2 capital** | **222 140 627** | **115 036 915** |
| | | |
| **Tier 3 capital (sum of market and operational risk capital)** | **(19 555 182)** | **(61 815 440)** |
| | | |
| **Total capital base** | **202 585 445** | **53 330 827** |
| | | |
| **Total risk weighted assets** | **216 997 729** | **84 330 827** |
| | | |
| Tier 1 ratio | 99.76% | 129.89% |
| Tier 2 ratio | 2.61% | 6.52% |
| Tier 3 ratio | -9.01% | -73.30% |
| Total capital adequacy ratio | 93.36% | 63.11% |
| RBZ minimum required | 12.00% | 12.00% |

## 42. Sensitivity of the statement of financial position to application of different exchange rates

As disclosed in note 2, note 5 and note 40, the functional currency of most reporting entities domiciled in Zimbabwe has become a matter of significant judgement. The Public Accountants and Auditors Board (PAAB) came up with recommended disclosures to provide the users of financial statements with more information assuming the application of different exchange rates to elements disclosed on the statement of financial position. The Bank has split its Nostro USD valued assets and liabilities from the assets and liabilities held/contracted in local RTGS balances.

**Assumptions:**

The Bank applied the following assumptions in coming up with this disclosure:

- Nostro refers to the international USD that is tradable on international markets
- An additional rate of RTGS$4/USD was applied in coming up with the sensitivity analysis. The rate is believed to be the parallel market rate prevailing at 31 December 2018.
- Although share capital is denominated in Nostro USD following adoption of USD in 2009, it is assumed to be in RTGS dollars. The same applies to all other reserves not withstanding that they were accumulated in a Nostro USD environment.
- The difference between net assets and the resultant equity at translation (the balancing figure) has been treated as a translation reserve in equity.
- Non-monetary assets are ordinarily translated at the spot rate at date of purchase. The assumed spot date is 31 December 2018
- Investment properties were valued strictly using nostro USD as a reference point. They have been treated as nostro USD assets.
- FVOCI assets are foreign domiciled and they are valued in nostro USD.

| Element | | Monetary Assets/ Liabilities Nostro USD | Monetary Assets/ Liabilities Nostro RTGS USD | Non-Monetary Assets/ Liabilities Nostro USD | Non-Monetary Assets/ Liabilities RTGS USD | Total USD @1:1 | Total Nostro USD @1:2.5 | Total Nostro USD @1:4 |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | Note | A | B | C | D | E[1] | F[2] | G[3] |
| Cash and bank balances | 9 | 24 098 | 279 912 484 | - | - | 279 936 582 | 111 989 092 | 70 002 219 |
| Inventories | 16 | - | - | - | 23 757 254 | 23 757 254 | 9 502 900 | 5 939 313 |
| Other receivables and prepayments | 14 | - | 8 656 006 | | | 8 656 006 | 3 462 403 | 2 164 002 |
| Loans and advances to customers | 13 | - | 45 415 257 | - | - | 45 415 257 | 18 166 103 | 11 353 814 |
| Investment securities | 10 | - | 314 054 | - | - | 314 054 | 125 622 | 78 514 |
| Financial assets at fair value through other comprehensive income | 11 | - | - | 7 063 092 | - | 7 063 092 | 5 511 107 | 5 123 111 |
| Treasury bills and other financial assets | 12 | - | 197 196 876 | - | - | 197 196 876 | 76 417 604 | 47 761 002 |
| Investment in associates | 15.2 | - | | - | 2 933 850 | 2 933 850 | 1 173 540 | 733 463 |
| Investment property | 17 | - | - | 15 830 000 | - | 15 830 000 | 15 830 000 | 15 830 000 |
| Intangible assets | 21 | - | - | - | 125 078 | 125 078 | 50 031 | 31 270 |
| Property and equipment | 20 | - | - | - | 9 006 013 | 9 006 013 | 3 602 405 | 2 251 503 |
| Deferred taxation | 18 | - | - | - | 31 879 | 31 879 | 12 751 | 7 970 |
| **Total assets** | | **24 098** | **531 494 677** | **22 893 092** | **35 854 074** | **590 265 941** | **248 304 706** | **162 814 397** |
| | | | | | | | | |
| **EQUITY AND LIABILITIES** | | | | | | | | |
| **LIABILITIES** | | | | | | | | |
| Deposits from customers | 25 | 1 597 | 35 165 174 | - | - | 35 166 771 | 14 067 667 | 8 792 891 |
| Local lines of credit and bonds | 26 | - | 337 501 690 | - | - | 337 501 690 | 135 000 676 | 84 375 422 |
| Other liabilities | 27 | - | 13 630 563 | - | - | 13 630 563 | 5 452 225 | 3 407 641 |
| **Total liabilities** | | **1 597** | **386 297 427** | **-** | **-** | **386 299 023** | **154 520 568** | **96 575 954** |
| | | | | | | | | |
| **EQUITY** | | | | | | | | |
| Share capital | 22 | - | - | - | 65 281 | 65 281 | 26 112 | 16 320 |
| Share premium | 22 | - | - | - | 31 785 732 | 31 785 732 | 12 714 293 | 7 946 433 |
| Non distributable reserve | 23 | - | - | - | ( 256 617) | ( 256 617) | (102 647) | (64 154) |
| Amounts Awaiting Allotment | 23 | - | - | - | 130 000 000 | 130 000 000 | 52 000 000 | 32 500 000 |
| Preference share capital | 24 | - | - | - | 38 283 003 | 38 283 003 | 15 313 201 | 9 570 751 |
| Fair value reserve | | - | - | - | 631 474 | 631 474 | 252 590 | 157 868 |
| Accumulated losses | | - | - | - | ( 2 863 414) | ( 2 863 414) | (1 145 366) | (715 853) |
| ***Foreign currency translation reserve - Balancing figure*** | | - | - | - | - | - | ***12 197 371*** | ***15 246 714*** |
| | | | | | | | | |
| **Equity attributable to equity owners of the Group** | | **-** | **-** | **-** | **197 645 459** | **197 645 459** | **91 255 555** | **64 658 079** |
| | | | | | | | | |
| **Non-controlling interest in equity** | | - | - | - | 6 321 458 | 6 321 458 | 2 528 583 | 1 580 364 |
| | | | | | | | | |
| **Total shareholders' equity** | | **-** | **-** | **-** | **203 966 917** | **203 966 917** | **93 784 138** | **66 238 443** |
| | | | | | | | | |
| **Total equity and liabilities** | | **1 597** | **386 297 427** | **-** | **203 966 917** | **590 265 941** | **248 304 706** | **162 814 397** |

*1. E= A+B+C+D | 2. F= A+B/2.5+C+D/2.5 | 3. G= A+B/4+C+D/4*