



# RESILIENCE DIGITAL AND CLIENT FOCUS



## AUDITED CONDENSED FINANCIAL STATEMENTS

NEDBANK ZIMBABWE LIMITED

For The Year Ended 31 December 2019

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**NEDBANK**

A registered Commercial Bank & a member of the Deposit Protection Corporation

# AUDITED CONDENSED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019



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## WE ARE CLIENT OBSESSED

### CHAIRMAN'S STATEMENT

#### ECONOMIC OVERVIEW

The operating environment continued to deteriorate during the period under review. GDP growth remained depressed and it is projected to be -6.5% in 2019 partly due to a below normal rainfall season, resulting in the agricultural sector recording negative growth of 16.5% in 2019.

Electricity, fuel and foreign currency, the mainstay components in the production value chain were in critical short supply. Overall demand was suppressed by the inability of salaries to keep pace with inflation. Continued reliance on imports put pressure on balance of payments, which further weighed on the availability and price of foreign currency.

The move to a mono currency resulted in destruction of value for businesses which were owed in foreign currency prior to 22 February 2019, while minimum capital for banks which is largely in monetary assets was destroyed. As a consequence, the country is battling under the weight of legacy debts whose quantum is yet to be confirmed.

Government however, took some positive steps to improve the performance of the economy by re-establishing the Monetary Policy Committee, the acceptance of the IMF Staff Monitored Program and re-engagement with international financiers. Progress was made during the period under review to curtail reliance on issuance of Treasury Bills to finance the budget deficit.

The average month on month inflation rate for 2019 was 19.1% and the annual rate of inflation as at year-end was 521%. The introduction of hyper-inflation accounting as a consequence of the deterioration in the economy resulted in the destruction of value for entities operating in the country, particularly financial institutions that rely on money as trading commodity.

#### DEVELOPMENTS IN THE BANKING SECTOR

The sector continued to face cash shortages although the Central Bank dripped the market with some currency. The use of electronic banking channels was increasingly adopted by the market. In a bid to alleviate the negative impact of cash shortages, banks promoted the use of e-channels for payments.

Most banks in the country were well on the way to meeting the minimum capital requirement of ZWL\$200 million in the first half of 2019, when it was impacted by the introduction of statutory instruments directing cessation of the multi-currency system and introduction of the local currency as sole legal tender.

The conversion of foreign currency deposits and loans to local currency resulted in increased inability of banks to continue to support borrowing requirements of their clients in foreign currency. Banks were inundated by requests from importers to provide foreign currency while holders of the currency were not attracted to release it to the formal interbank market due to low exchange rates.

#### CAPITAL REQUIREMENTS

The Monetary Policy Committee revised the capitalisation levels for Tier 1 banks to ZWL\$ equivalent of US\$30 million and Tier 2 banks to US\$20 million by 31 December 2020. The bank is faced with this new challenge as it is currently operating below the target amount for Tier 1 banks under which the bank falls following the directive.

As Tier 1 Bank, we are required to hold capital of the equivalent of US\$30 million. In order to comply with this requirement, Nedbank Group as the major shareholder has confirmed that it is a long term investor in the Zimbabwe market and will ensure that the Bank complies with the regulatory requirements by 31 December 2020.

#### CORPORATE GOVERNANCE AND BOARD CHANGES

The Bank subscribes to the principles of international best practice in Corporate Governance as guided by, among others, the Banking Act (Chapter 24:20), the Banking Amendment Act No.12 of 2015, the Banking Supervision Division Corporate Governance Guidelines BSD 01/2004, the National Code on Corporate Governance, and the King IV report on Corporate Governance.

In the first half of 2019, the Bank bade farewell to the following directors, Mrs A R Chinamo (Acting Board Chairman) and Mr J P Murehwa who retired from the Board on 14 May 2019 and 3 February 2019 respectively. Ms R A Maunze also resigned from the board on 14 May 2019. The Board also bade farewell to Dr Charity C Jinya who retired as Managing Director of the Bank on 31 March 2020 after being at the helm for the past 10 years. During her tenure, she achieved positive and significant land marks which will be felt for many years to come. On behalf of the board, I would like to thank all four for their valuable contributions to the Bank during their tenure as directors.

The board welcomes Dr Sibongile P Moyo as Managing Director of the bank from 1 April 2020. Dr Moyo is a seasoned banker with extensive experience in the financial service sector having held executive level positions in Zimbabwe and Mozambique.

Mrs T M Madziro also joined the board on 1 November 2019 as an independent non-executive director, bringing extensive experience in business and financial management. We look forward to their invaluable insights and contributions to the affairs of the Board.

Mr A M Sorgdrager, joined the Board on 1 June 2019 as a non-executive director and resigned on 20 February 2020 due to the changes in his responsibilities at Nedbank Group.

#### OUTLOOK

Fiscal consolidation through containment of the fiscal deficit to sustainable levels has been the key stabilisation objective of the TSP and the 2019 National Budget. This commendable objective once sustained in its implementation, supported by positive outcomes from engagements with international financiers, will contribute to the growth of the economy.

Inflationary pressure however remains a cause for concern with its effects being felt in our operations through significant increase in the cost of doing business. Inflation is expected to slow down during the second half of 2020, on the back of fiscal consolidation measures and containment of money supply growth. However, threats of below normal rainfall, persistent power cuts, corruption and foreign currency shortages stifle growth prospects for 2020 and beyond.

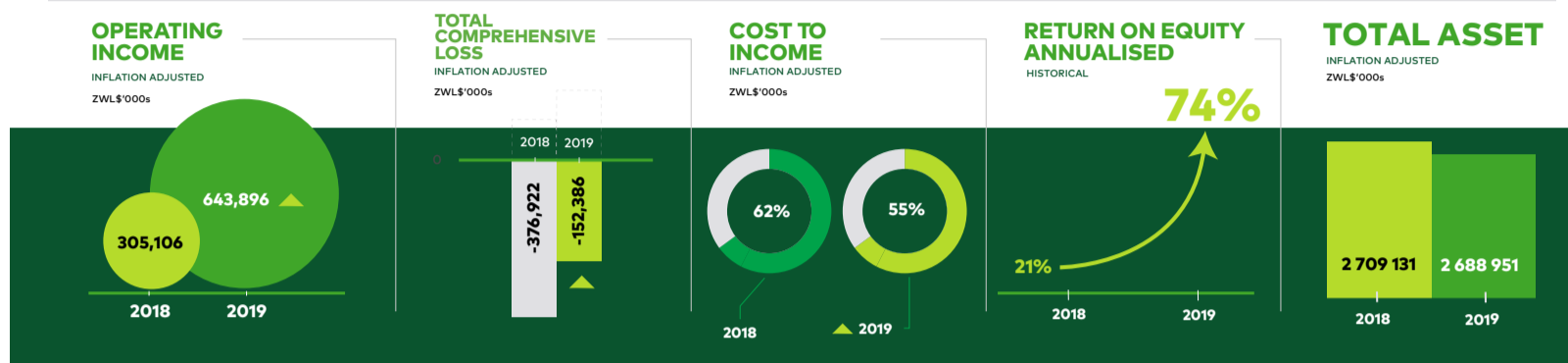
Our country, like the rest of the world, was hit by a COVID-19 pandemic in early March 2020. The President of Zimbabwe declared an initial lockdown for 21 days starting from mid night 29 March 2020 and this has been extended indefinitely with bi-monthly reviews. Following this, management have taken measures to ensure the bank's operations continue with minimum disruption.

#### APPRECIATION

I would like to thank my fellow Board members for the confidence they expressed by electing me as Board Chairman with effect from 14 May 2019. Furthermore, I express sincere gratitude to them for their wise counsel and concerted effort to steer the bank to safe shores in the midst of substantive headwinds. My profound appreciation goes to all Nedbank staff for their unwavering commitment to serving our clients diligently under very challenging conditions. The Board is also grateful for the support it received from the regulators and shareholders.

**S. SHONHIWA**  
CHAIRMAN  
20 May 2020

### SELECTED PERFORMANCE INDICATORS



### MANAGING DIRECTOR'S REPORT

#### PERFORMANCE OVERVIEW - INFLATION ADJUSTED FINANCIALS

In 2019 the Banking industry in Zimbabwe continued to carry out its business activities under difficult conditions. The year was characterized by a hostile macroeconomic environment due to slower GDP growth coupled with high levels of inflation driven by acute shortage of foreign currency, limited access to global financial markets and market distortions.

The Bank's assets are predominantly monetary in nature which has significantly impacted performance in the inflationary environment. The Bank therefore posted an inflation adjusted loss after tax of ZWL\$152.4 million from prior year loss of ZWL\$376.9 million largely due to a net monetary loss of ZWL\$399.3 million from the portfolio of monetary assets. Total operating revenue increased by 110% over prior year falling short of annual inflation of 521%. The lag in revenue performance was further exacerbated by frequent cost escalations by our suppliers whilst Bank product and service pricing adjustments are subject to a thirty-day notice period.

Investment in digital channels in the Bank spurred a notable growth in non-interest revenue from prior year complementing our strategic pivot to digital solutions and progressing our new digital focused relationship model. This included the introduction of our new innovative mobile banking application with an improved functional design facilitating self-registration, hot card, link accounts and new billers for value added service.

Total assets as at 31 December 2019 of ZWL\$2.693 billion increased marginally from ZWL\$2.687 billion inflation adjusted in the prior year. Cash and cash equivalents increased significantly to ZWL\$1.748 billion from ZWL\$499.6 million in 2018, reflecting the profile of clients who primarily hold foreign currency denominated balances. During the period under review net loans and advances to clients constituted 16.7% of the total assets, compared to 26% in 2018 whilst loans to deposit ratio declined from 32% to 22%. The continued devaluation of the ZWL during the year led to the Bank being constrained in supporting lending both in foreign currency and local currency particularly in the last quarter. Total deposits marginally reduced in inflation adjusted terms from ZWL\$2.135 billion to ZWL\$2.054 billion.

#### CLIENT FOCUS

Client obsession is at the core of our client experience value proposition and everything we do as a Bank. The Service Excellence Awards for 2019 hosted by the Contact Centre Association of Zimbabwe saw the Bank attaining first position in the Banking sector category. In its second year of operation, the Nedbank Contact Centre was selected to the top 6 out of 36 Contact Centres across industries. The Bank was also conferred 2nd Runner Up in the Customer Service Awards, and was in the top 10 of companies across all sectors in the National Customer Satisfaction Index Survey for 2019. All these recognitions are a testimony of the successful journey of the bank towards providing world class client experience to clients.

In the context of an ever-evolving digital world we have embraced various social media platforms to ensure real time engagement with our clients whilst enhancing our client experience. Our "Voice of Client" implementation under the Market Conduct and Culture Program launched in 2019 has established an enhanced client feedback platform for proactively soliciting client feedback across the channels and products that they use. This is further complemented by our 24/7 real time online feedback portal housed on our website as we progress on our journey towards client centrality. We also launched a Youth Account tailored for those between the ages of 0-24 years fostering the inclusion of unbanked sectors and a savings culture amongst the youth.

The bank expanded its physical footprint through opening a new branch in Victoria Falls. The new branch brings convenience to the Victoria Falls community and visitors to the tourist destination. The international VISA and Mastercard acquiring facility as part of the Nedbank Group facility, is at pilot stage and will bring convenience to our clients and this will be further enhanced when we launch international issuing capability.

#### ORGANISATIONAL CULTURE AND LEADERSHIP TRANSFORMATION

Our Nedbank culture is based on the values that we embrace and share as Nedbankers. It is critical for us to understand what motivates and engages our employees and how they perceive their work environment. We therefore encourage open and regular dialogue between line managers and their teams and conduct surveys whilst providing a framework for speak up opportunities to raise concerns and propose and initiate improvements. The Bank staff participated in the bi-annual organisational culture survey the results of which reflects our current culture and will assist us in becoming more client focused, more digital, more agile and more competitive. The leadership of the Bank continued on a transformation journey focused on behavioural changes and embodiment of leadership skills that bring about cultural and leadership shifts necessary to anticipate and respond positively to change and the complexities in the market while building high performance teams.

#### LEARNING AND DEVELOPMENT

We realize that our people are the center-piece for delivering great client experiences. As we adopt digital tools and new ways of working we also need to ensure that our employees are equipped with the right skills. To support this objective, we provide access to learning available through online platforms which covers an entire range of mandatory training to advanced professional development and programmes in our approach to nurture talent. We therefore continue to equip our staff with the right skills and knowledge to be client-obsessed in all their dealings as learning and development remains an important component in the Bank's strategy. Various staff development programmes were implemented notably, One Game Plan Strategy Training Programme, Executive Development Programme, Management Development Programme and Young Professionals Development Programme.

#### PERFORMANCE AND RECOGNITION

We have adopted a holistic approach to performance management which includes the provision of regular meaningful feedback and recognition for talent and talent management across the Nedbank Limited Group whilst holding people accountable and promoting continuous development. The Bank recognises and rewards high per-

forming staff through a differentiated integrated talent framework which includes an accelerated development programme aimed at enhancing the knowledge and skills which support the Bank's strategy to retain talent. Our staff also participate in the group wide top achievers programme with incentives and rewards and hosted by the Group CEO.

#### INDUSTRIAL RELATIONS

A business conducive Industrial Relations climate prevailed through constant engagement with staff and various initiatives to address staff concerns. Staff members were kept informed of important developments.

#### GRADUATE TRAINEE PROGRAMME

We remain committed to the strategic priority of hiring graduate trainees, as they contribute to change, building culture, promoting diversity and reflect our clients of the future with the generational nuances. In 2019 we engaged six graduate trainees in our cross functional graduate trainee programme.

#### EDUCATION FUND

The Bank continued to support talented children in the country to pursue educational studies ranging from primary school to first degree level through its Education Fund. Primary and Secondary school beneficiaries are for children of staff members whilst first degree beneficiaries are chosen from the public. The Bank has to date contributed towards school fees for eighteen talented children in primary and secondary schools and provided 25 full scholarships to children studying for first degrees at local Universities in 'STEM' (Science, Technology, Engineering or Mathematics) subjects. The children of staff across the bank also receive education support in line with the bank's remuneration practices.

#### COMPLIANCE

The Governance, Compliance and Ethics function promotes adherence to the Group's standards regulatory requirements, values of good conduct and ethical conduct, by setting standards, reporting in the interest of employees, customers, shareholders and the community as a whole. The function is responsible for all matters related to: Regulatory compliance; Financial Crime Compliance; Product governance and consumer protection; and Reputational Risk. Under the Bank's three lines of defense model the compliance function is an independent second line control function reporting directly and regularly to the board of directors through the Chief Governance and Compliance Officer.

The Bank remains committed to compliance with statutory provisions, our corporate governance rules, and with the principles of cooperation and transparency with the competent regulatory or supervisory institutions, with due consideration at all times for the guidelines laid down by our Compliance function. The Bank continues to roll out the Privacy, Anti-Money Laundering, Counter Financing of Terrorism and Sanctions compliance Regulatory Change Programmes ensuring the in-country legislative requirements and Nedbank Group Limited standards are attained.

Our commitment to the Privacy programme, Phase 2 of which was satisfactorily completed called on our stakeholders to inculcate a privacy culture in order to ensure the financial wellbeing of our clients and our reputation as a trusted financial services provider.

The global precepts of the global Financial Crime related regulation saw the Bank reviewing processes, optimising systems, introducing new surveillance and monitoring systems and issuing new methodologies incorporating a trade-based money laundering framework, policy guidelines and new money laundering and specialized training interventions

This has resulted in strengthened financial crime compliance management policies and internal regulations in collaboration with all stakeholders including our invaluable correspondent banking partners in line with best practice.

#### APPRECIATION

I take this opportunity to thank my predecessor, Dr Charity C Jinya for ably steering the bank over the last decade. I also thank our valued clients, shareholders, the Board and regulatory authorities for their continued support and guidance. My sincere and special thanks to our Nedbankers who have remained committed, focused and dedicated in the face of a challenging operating environment.

#### OUTLOOK

Following the declaration of the national lockdown by the President of Zimbabwe from 30 March 2020 to stop the spread of the COVID - 19 virus, the Bank invoked its Business Continuity Plan (BCP). In line with the same the Bank continues to offer essential banking services to customers and adhere to regulatory guidance and other stakeholder management. While the extent of challenges as a result of the COVID-19 pandemic is as yet unknown, it will undoubtedly impact the performance of the economy. We are unable to measure the potential impact of the pandemic on the Bank's performance suffice to say we anticipate a highly subdued performance in 2020 where the focus will be on resilience by optimizing operations and capital preservation.

The Bank will continue to leverage Group and local initiatives in order to provide enhanced and seamless quality service to our clients in the context of our local environment. The support of our existing and new clients will be key to our future growth as the country strives towards being a sustainable growth economy.

**S.P. MOYO (PHD)**  
MANAGING DIRECTOR  
20 May 2020

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**NEDBANK**

DIRECTORS: S. Shonhiwa (Chairman), Dr. S.P. Moyo (Managing Director), Dr. T.G. Sibiya, T. Madziro, P.C.W. Hibbit, S.Z. Kazhanje, A. Makonese (Chief Finance Officer), R. Moyo, H.M. Des Fontaine, M.G. Hillie \* Alternate Non Executive Director

# AUDITED CONDENSED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019



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## CORPORATE GOVERNANCE REPORT

Corporate governance is essentially the active interaction between people, structures, processes and traditions that support the exercise of legitimate authority. This is to ensure sound leadership, direction, oversight, and control of the institution in order to ensure that its purpose is achieved, and that there is proper accounting for the conduct of its affairs, the use of its resources, and the results of its activities.

For business governance to act as an enabler in a business, continuous monitoring of the governance structure is imperative to ensure optimum process flows and to prevent any possible transgressions in the institution. Business governance is therefore the system by which companies are directed and controlled. It essentially involves balancing the interests of a company's many stakeholders, such as shareholders, staff, customers, suppliers, financiers, government and the community.

The Bank has in place an established business governance structure. Committees are formed through a formal process in terms of the Schedule of Delegated Authority ("SODA") which defines each committee by Charter. Each Charter defines composition of each committee and its terms of reference. These charters are reviewed on an annual basis and approved by the Board of Directors.

It is essential to ensure that the fundamental pillars of business governance principles in the Bank are well established and the level of business governance culture is good and well-ensconced in management and staff members so that it becomes part of the ethics of the organisation. The Bank's risk management division promotes a business governance culture and awareness to ensure that the principles of good business governance remain centred in staff to make the right ethical choices. This assists in ensuring that staff adhere to, and executes all internal controls in compliance with risk management processes and procedures.

Business Unit Compliance Champions are in place and they provide an interface between Governance and Compliance unit and other departments. To further strengthen the compliance oversight role, the Bank ensures that Business Unit Compliance Champions work more closely together and are conscious of compliance issues by providing ongoing training and having regular meetings with the Bank's Chief Governance and Compliance Officer.

All policies and frameworks which are rolled out are aligned to the Nedbank Group standard and adapted for in-country legislative purposes. This ensures uniformity of standards across the Nedbank Group and adds credibility to the organisation. The policies provide a standard for conduct by staff members.

Training on policies is carried out periodically for each department in the Bank to enhance and maintain business governance awareness and encourage transparency and accountability. The conduct of committees and all practices demonstrates accountability, responsibility, discipline, fairness, social responsibility, transparency and independence.

### Enterprise Governance and Compliance framework

This framework covers both the corporate and business governance aspects of the entity. It refers to the good governance that is linked strategically with performance management, thereby enabling the Bank to focus on the key areas that move the business forward. Enterprise governance and compliance constitute part of the entire accountability framework of the Bank, and calls for a balance between accountability, assurance (conformance), value creation and resource utilisation (performance). The framework ensures that strategic goals are aligned and good management is achieved.

### Governance and Compliance

In 2019, the Bank continued to conform, in all material respects, with all laws and regulations governing its operations, including but not limited to, the Companies Act (Chapter 23:04); Income Tax Act (Chapter 23:02); Banking Act (Chapter 24:20); Banking Amendment Act No.12 of 2015; Banking Regulations, Statutory Instrument 205 of 2000; Exchange Control Act (Chapter 22:05); Bank Use Promotion and Suppression of Money Laundering Act (Chapter 24:24); National Payment Systems Act (Chapter 24:23) as well as all Reserve Bank of Zimbabwe (RBZ), and South African Reserve Bank (SARB) directives.

The Bank subscribes to and supports the provisions of the National Code of Corporate Governance Zimbabwe as well as King IV, the Cadbury Committee, and all provisions of the RBZ Guideline No. 01-2004/BSO on sound corporate governance.

### Board

The Board is responsible to the shareholders for setting the direction of the Bank through the establishment of strategies, objectives, key policies and management structures. It monitors the implementation of these strategies and policies through a structured approach to reporting and accountability and recognises that it is responsible for developing relationships with its various stakeholders and it actively manages those relationships.

### Governance Objectives

In line with best practice on corporate governance, the Board aligned to the Nedbank Group governance objectives for 2019 as detailed below:

**OBJECTIVE 1: The Board should set the tone and lead the Bank ethically and effectively. This means that in their decision making, individual board members should act with independence, inclusivity, competence, diligence, courage and with the necessary insight and information.**

#### Brief explanation of objective and how met

- There was no conflict of interest advised and the Board exercised diligence and courage in its leadership. The Board, working with Group, aligned the Credit Risk Appetite Framework of the Bank to the market it operates in so as to remain relevant and competitive. The Board approved the 3 year Strategy Plan and Budgets in November 2018 with quarterly tracking done at every Board meetings in 2019. The current Strategy Plan and Budgets were approved on 26 November 2019 and reviewed in January 2020 in line with market changes. The Board adheres to the Board Ethics Statement signed annually.

**OBJECTIVE 2: The Board should provide leadership that delivers ethical outcomes and a vision to the Bank that will ensure sustainable growth and appropriate corporate citizenship for the benefit of all stakeholders of the Bank.**

#### Brief explanation of objective and how met

- Through Board leadership, all Key Performance Indicators in 2019 in historical terms were within industry norms. The Bank witnessed an improvement in sustainable growth for earnings, liabilities and total assets in 2019.

- In 2019, the Bank continued to participate in corporate social investment activities by increasing its visibility in support of education, upkeep of the elderly in the society (old people's homes), and support of the underprivileged children in children's homes. The Bank also participated in programmes that included mentoring of young people.

**OBJECTIVE 3: The Board should ensure that there is a framework of prudent and effective controls that enables the effective assessment and management of risk and opportunity.**

#### Brief explanation of objective and how met

- The Board continued to operate based on the adopted and customised Group Enterprise-wide Risk Framework with 18 risk universes. Management and Board have an oversight on the effectiveness of the controls through quarterly reports submitted to the Enterprise-wide Risk Committee and the Board Risk, Compliance and Capital Management Committee respectively. The Board received updates from management on the effectiveness of the controls on a quarterly basis in 2019.
- All applicable Bank policies and risk management frameworks went through annual review and approval by the Board in 2019.

**Objective 4: The Board is ultimately responsible and accountable for the performance of the Bank and should support the Bank in setting its purpose and achieving its strategic objectives**

#### Brief explanation of objective and how met

- Through effective Board Committees, quarterly meetings, and regular interactions with the management team, the Board maintained its oversight on risks arising from the execution of Nedbank's business strategies, decision making practices and/or processes. In order to enhance its oversight on client experience, the Board received on a quarterly basis an update from management relating to the Client Value Proposition. The quarterly updates covered client interaction, product lifecycle relating to product design, targeting, distribution and after sales services that may be unfavourable to Nedbank clients, stakeholders, suppliers and market.
- The Board delegated certain of its functions via the Schedule of Delegated Authority to the Executive Management of the Bank led by the Managing Director. All key functions of the Bank are led by competent, skilled and experienced executives.
- There were no material changes in the operational structure of the Bank.
- Lending was scaled down in the last half of the year to comply with regulatory

capital adequacy limits that had been adversely impacted by the depreciating ZWL\$.

- Governing technology** – The Management ICT Committee was effective throughout 2019 and Chief Operating Officer, responsible for Technology, attends the Audit Committee and Risk, Compliance and Capital Management Committee by invitation to provide appropriate feedback on technology to both Committees.
- Governing information** – There has been an improved Management Information System (MIS) through reports generated from the core banking system. The Business Information Security Officer provided regular updates and awareness on ICT related information. The Bank also rolled out a project to improve staff awareness on privacy.
- Governing cybersecurity** – The Board, through the Risk, Compliance and Capital Management Committee has an oversight over cybersecurity risk and reviews progress thereon on a quarterly basis.
- The Bank ensured compliance with appropriate legislations, regulations, supervisory codes and appropriate best practices. There were no breaches recorded in 2019.
- The Board will continue making appropriate governing disclosures around board members' credentials, governance framework, and corporate citizenship and board objectives in the Annual Reports per best practice in the market.
- The Board's focus was on safeguarding the interests of all the Bank's stakeholders by ensuring fair, responsible and transparent people practices.
- The Board receives formal updates from the Executive Directors at least monthly (through the monthly Management Accounts) and quarterly (through formal Board and Board Committee reports).
- The revenue generated from digital platform averaged 19% of total non interest revenue in 2019 from below 33% in 2018.
- The Bank continued to offer developmental programmes to the identified talent pool. The talent pool continued to access benefits aligned to the talent retention strategies of the Bank.

### OBJECTIVE 5: The Board is responsible for the sound corporate governance in the Bank and the governance around the board and its performance

#### Brief explanation of objective and how met

- On a quarterly basis the Board, through the Remuneration, Directors' Affairs, Nomination, Employment Equity and Skills Retention Committee ("REMCO"), evaluate the effectiveness and composition of the Board and its Committees in order to improve their performance. Annual peer reviews are also done and feedback discussed in quarterly meetings to ensure successful resolution on any issues
- Directors and Executives disclose all outside interests or possible conflicts through the Company Secretary when Board is not sitting and, for directors, during Board sessions. All outside interests are recorded in the respective interest registers;
- Appropriate governance structures are in place to ensure effective discharging of responsibilities. These are reviewed annually by the respective Board Committees and as and when need arises; and
- The Board maintains an oversight role on ethics management and the implementation of human rights in business.

### Assessment of Independence of the Independent Non-Executive Directors

On an annual basis, Independent Non-Executive Directors submit an Independence Declaration Form which is used as a basis of the assessment. New developments that might affect the independence of directors are communicated through the Company Secretary when the Board is not sitting and appropriate action is taken by the Board. Such developments will then be tabled for noting at the next Board meeting.

### Board, Board Committees and Directors Evaluations

During the year, the directors performed evaluations for the entire Board, its Board Committee and individual directors' performance. Key issues arising from these evaluations were tabled at the REMCO, which is responsible for Directors' Affairs, and the Board. All issues raised in 2019 were addressed to the satisfaction of the Board members.

### Directors' Training

Three independent directors who joined the Board in early 2019 went through a two day induction programme during the year. The director who joined the Bank on 1 November 2019 had a similar induction programme in February 2020. The two non-executive directors who joined the Bank in 2019 did not go through the induction programme as they were already familiar with the Bank operations.

All the directors attended the Annual Refresher Course on Anti Money Laundering (AML) in November 2019.

The Board members attended the Bank Board Leadership programme facilitated by the Gordon Institute of Business Sciences ("GIBS") in March 2019. Plans are underway for the directors who did not go through the programme to attend in 2020.

### Board Meetings and Composition

The Board meets at least quarterly to evaluate performance, assess risks and hold additional meetings to shape the strategic direction of the Bank. Appointments to the Board are based on a required mix of skills and experience to ensure the on-going success of the Bank.

As at 31 December 2019, the Board comprised of two executive directors, two non-executive directors and six independent non-executive directors. Independent non-executive directors provide objectivity and independence to the Board.

The Board also appointed a lead independent non-executive director.

The Chairman of the Board is an independent non-executive director.

Directors are responsible for ensuring the maintenance of adequate accounting records, and the preparation and the integrity of the financial statements. This responsibility is supported by internal controls and risk management processes implemented and independently monitored for effectiveness.

Certain responsibilities and functions of the Board are delegated to various committees whose members are skilled and competent. However, the Board retains full accountability for decisions made. All committees have written terms of reference that are reviewed annually by the Board. All Committees are chaired by independent non-executive directors.

## BOARD ATTENDANCE

In 2019, the Board met in line with Bank's policy. The record of attendance by directors is shown below:

Mrs A. R. Chinamo (Acting Chairperson) retired on 14 May 2019 and Mr S. Shonhiwa assumed Chairmanship of the Board.

### NEDBANK ZIMBABWE LIMITED BOARD OF DIRECTORS

Name	Meetings held					
	1	2	3	4	5	6
1 Chinamo A. R. (Acting Chairperson)* Retired	✓	✓	✓			
2 Shonhiwa S.* (Chairman)	I	✓	✓	✓	✓	✓
3 Jinya C. C. Dr***	✓	✓	✓	✓	✓	✓
4 Des Fontaine H. M.*	✓	✓	✓	✓	✓	✓
5 Hibbit P. C. W.*	A	✓	✓	✓	✓	✓
6 Makonese A.***	✓	✓	✓	✓	✓	✓
7 Maunze R. A.*	✓	✓	A			
8 Kazhanje S. Z.*	✓	✓	✓	✓	✓	✓
9 Moyo R.*	✓	✓	✓	✓	✓	✓
10 Sibiya T. G.*	✓	✓	✓	✓	✓	✓
11 Sorgdrager A. M.*				✓	✓	✓
12 Madziro T. M.						✓
13 Hillie M. (Alternate)**	A	A	A	A	A	A

### DIRECTORATE CHANGES DURING THE YEAR:

Jinya C. C. Dr \_\_\_\_\_ Retired on 31 March 2020  
 Sibiya T. G. \_\_\_\_\_ Appointed on 1 January 2019  
 Moyo R. \_\_\_\_\_ Appointed on 1 January 2019  
 Kazhanje S. Z. \_\_\_\_\_ Appointed on 1 January 2019  
 Shonhiwa S. \_\_\_\_\_ Appointed on 1 February 2019

Chinamo A. R. \_\_\_\_\_ Retired on 14 May 2019  
 Maunze R. A. \_\_\_\_\_ Resigned on 14 May 2019  
 Sorgdrager A. M.\*\* \_\_\_\_\_ Appointed on 1 June 2019 and Resigned on 20 February 2020  
 Madziro T. M. \_\_\_\_\_ Appointed on 1 November 2019

KEY	
✓	Present
A	Leave of absence granted
*	Independent non-executive director
**	Non-executive director
***	Executive director
I	Attended by invitation

### AUDIT COMMITTEE

The Audit Committee consisted of three independent non-executive directors of the Bank during the year under review. The Committee's primary functions are to assist the Board in its evaluation and review of the adequacy and efficiency of the internal control systems, accounting practices, information systems and audit processes applied within the Bank in the day-to-day management of the business, and to introduce measures to enhance the credibility and objectivity of financial statements and reports prepared with reference to the affairs of the Bank.

The Audit Committee met seven times in 2019 and the record of attendance is shown below:

Name	Meetings held						
	1	2	3	4	5	6	7
1 Maunze R. A. (Chairperson) Resigned	✓	✓	✓	A			
2 Hibbit P. C. W. (Made chairman after resignation of Maunze R.A.)	✓	✓	A	✓	✓	✓	✓
3 Des Fontaine H. M.	✓	✓	✓	✓	✓	✓	✓
4 Madziro T. M.							✓

KEY	
✓	Present
A	Leave of absence granted

### RISK, COMPLIANCE AND CAPITAL MANAGEMENT COMMITTEE

The Risk, Compliance and Capital Management Committee, which comprises non-executive directors, sets policy guidelines for monitoring risks that are inherent within the Bank and reviews all risk reports generated by the Risk Division. The Committee also sets policy guidelines for ensuring and monitoring compliance with all regulatory laws and directives and internal policies and procedures.

The Risk, Compliance and Capital Management Committee met four times and the record of attendance is shown below:

Name	Meetings held			
	1	2	3	4
1 Moyo R. (Chairman)	✓	✓	✓	✓
2 Hibbit P. C. W.	✓	✓	✓	✓
3 Sibiya T. G.	✓	R	✓	✓

KEY	
✓	Present
R	Represented

### BOARD LENDING COMMITTEE

This Committee comprises non-executive directors and is mainly responsible for considering and approving credit facilities as mandated by the Board.

The Board Lending Committee met four times and the record of attendance is shown below:

Name	Meetings held			
	1	2	3	4
1 Hibbit P. C. W. (Chairman)	✓	✓	✓	✓
2 Maunze R. A.	✓	A		
3 Moyo R.	✓	✓	✓	✓
4 Sorgdrager A. M.			✓	A

KEY	
✓	Present
A	Leave of absence granted

### LOANS REVIEW COMMITTEE

This Committee, comprising independent non-executive directors, reviews the quality of the Bank's loan portfolio and sets and reviews policies for lending and adequacy of the impairment allowance of loans and advances.

The Loans Review Committee met four times and the record of attendance is shown below:

Name	Meetings held			
	1	2	3	4
1 Des Fontaine H. M. (Chairman)	✓	✓	✓	✓
2 Chinamo A. R.	✓	✓		
3 Kazhanje S. Z.	✓	✓	✓	✓
4 Shonhiwa S.	✓	✓	✓	✓

KEY	
✓	Present

### REMUNERATION COMMITTEE

This Committee, which comprises of independent non-executive directors and the Nedbank Africa Regions Managing Executive, meets quarterly and reviews guidelines for the salaries and benefits of the Bank's staff. The Committee also recommends the remuneration of the executive and non-executive directors.

The Remuneration Committee met five times in 2019 and the record of attendance is shown below:

Name	Meetings held				
	1	2	3	4	5
1 Kazhanje S. Z. (Chairman)	✓	✓	✓	✓	✓
2 Chinamo A. R.	✓	✓			
3 Sibiya T. G.	✓	✓	✓	✓	✓
4 Shonhiwa S.	✓	✓	✓	✓	✓

KEY	
✓	Present

### FARAI SITHOLE

COMPANY SECRETARY 20 May 2020

# AUDITED CONDENSED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

see money differently



## STATEMENT OF FINANCIAL POSITION

As At 31 December 2019

	Note	AUDITED INFLATION ADJUSTED		UNAUDITED HISTORICAL	
		2019 ZWL\$ '000	2018 ZWL\$ '000	2019 ZWL\$ '000	2018 ZWL\$ '000
<b>ASSETS</b>					
Cash and cash equivalents	19	1 642 161	499 629	1 642 161	80 456
Net loans and advances to customers	20	450 384	690 390	450 384	111 174
Investment securities at amortised cost	21	172 633	1 220 915	172 633	196 605
Investment securities designated at fair value	22	10 461	6 838	10 461	777
Other assets	23	276 473	175 192	275 198	27 887
Current tax asset		-	3 032	-	489
Intangible assets	24	-	-	597	161
Deferred tax asset	25	-	19 134	-	2 174
Property and equipment	26	110 990	94 001	75 517	12 926
Right of use asset	27	25 849	-	25 849	-
<b>TOTAL ASSETS</b>		<b>2 688 951</b>	<b>2 709 131</b>	<b>2 652 800</b>	<b>432 649</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	31.2	1 385	1 385	93	93
Share premium	31.2	266 962	266 962	17 785	17 785
Revaluation reserve	31.3	-	-	50 248	210
Regulatory reserve	31.4	-	-	-	684
Retained earnings		31 226	183 612	197 947	50 391
<b>Total equity</b>		<b>299 573</b>	<b>451 959</b>	<b>266 073</b>	<b>69 163</b>
<b>Non Current Liabilities</b>					
Deferred tax liability	25	32 418	-	29 767	-
Lease liability	30.2	12 540	-	12 540	-
Other liabilities	29	105 861	24 549	105 861	3 952
		<b>150 819</b>	<b>24 549</b>	<b>148 168</b>	<b>3 952</b>
<b>Current Liabilities</b>					
Deposits from customers	28	2 053 513	2 134 986	2 053 513	343 798
Current tax liability		9 385	-	9 385	-
Other liabilities	29	164 087	97 637	164 087	15 736
Lease Liability	30.2	11 574	-	11 574	-
		<b>2 239 559</b>	<b>2 232 623</b>	<b>2 238 559</b>	<b>359 534</b>
<b>Total liabilities</b>		<b>2 389 378</b>	<b>2 257 172</b>	<b>2 386 727</b>	<b>363 486</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2 688 951</b>	<b>2 709 131</b>	<b>2 652 800</b>	<b>432 649</b>

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For The Year Ended 31 December 2019

	Note	AUDITED INFLATION ADJUSTED		UNAUDITED HISTORICAL	
		2019 ZWL\$ '000	2018 ZWL\$ '000	2019 ZWL\$ '000	2018 ZWL\$ '000
Interest income	8	166 677	157 411	74 679	24 662
Interest expense	8	(31 234)	(13 930)	(13 454)	(2 160)
<b>Net interest income</b>		<b>135 443</b>	<b>143 481</b>	<b>61 225</b>	<b>22 502</b>
Fee and commission income	9	263 652	129 060	131 820	20 155
Net trading and dealing income	10	131 240	33 498	71 127	5 232
Foreign exchange gain/(loss)	11	113 561	(933)	95 960	(44)
<b>Total Non interest income</b>		<b>508 453</b>	<b>161 625</b>	<b>298 907</b>	<b>25 343</b>
<b>Revenue</b>		<b>643 896</b>	<b>305 106</b>	<b>360 132</b>	<b>47 845</b>
Net impairment (loss)/gain on financial assets	12	(26 248)	8 369	(5 457)	1 275
Employees and directors' costs	13	(141 331)	(104 539)	(63 431)	(16 819)
Operating expenses	14	(104 831)	(58 953)	(47 789)	(9 875)
Depreciation and amortisation expenses	15	(23 335)	(17 439)	(1 674)	(817)
Other expenses	16	(55 374)	(17 020)	(37 045)	(2 592)
Lease costs		(47)	-	(47)	-
Net monetary loss		(399 290)	(459 757)	-	-
<b>Total operating expenses</b>		<b>(750 456)</b>	<b>(649 339)</b>	<b>(155 443)</b>	<b>(28 828)</b>
<b>(Loss)/Profit before tax</b>		<b>(106 560)</b>	<b>(344 233)</b>	<b>204 689</b>	<b>19 017</b>
Taxation	17	(95 864)	(32 689)	(57 817)	(4 676)
<b>(Loss)/Profit for the year</b>		<b>(202 424)</b>	<b>(376 922)</b>	<b>146 872</b>	<b>14 341</b>
<b>Other comprehensive income</b>					
<b>Items that will never be classified to profit or loss</b>					
Gains on revaluation of land and buildings (net of tax)	18	50 038	-	50 038	-
<b>Total Comprehensive (Loss)/Income</b>		<b>(152 386)</b>	<b>(376 922)</b>	<b>196 910</b>	<b>14 341</b>

## STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 December 2019

	Share capital ZWL\$ '000	Share premium ZWL\$ '000	Revaluation reserve ZWL\$ '000	Regulator reserve ZWL\$ '000	Retained earnings ZWL\$ '000	Total
<b>Unaudited Historical</b>						
<b>Balance as at 01 January 2018</b>	91	17 785	210	1 236	37 205	56 527
Effects of adoption of IFRS 9 on 01 January 2018	-	-	-	-	(3 370)	(3 370)
Taxation effects of the adoption of IFRS 9 on 01 January 2018	-	-	-	-	868	868
Transfer from Regulatory Reserve	-	-	-	(1 236)	1 236	-
Transfer from Suspended interest	-	-	-	-	795	795
<b>Balance as at 01 January 2018 after adjusting for IFRS 9</b>	91	17 785	210	-	36 734	54 820
<b>Transaction with owners of equity</b>						
Issue of new shares	2	-	-	-	-	2
<b>Total transaction with owners of the company</b>	93	17 785	210	-	36 734	54 822
Profit for the year	-	-	-	-	14 341	14 341
Transfer from retained earnings	-	-	-	684	(684)	-
<b>Balance as at 31 December 2018</b>	93	17 785	210	684	50 391	69 163
<b>Balance as at 01 January 2019</b>	93	17 785	210	684	50 391	69 163
Transfer to retained earnings	-	-	-	(684)	684	-
Total comprehensive income	-	-	50 038	-	146 872	196 910
<b>Balance as at 31 December 2019</b>	93	17 785	50 248	-	197 947	266 073

## STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 December 2019

	Share capital ZWL\$ '000	Share premium ZWL\$ '000	Revaluation reserve ZWL\$ '000	Regulatory reserve ZWL\$ '000	Retained earnings ZWL\$ '000	Total
<b>Audited Inflation Adjusted</b>						
<b>Balance as at 01 January 2018</b>	221	42 980	298	1 752	89 914	135 165
Restatement of Owners equity on application of IAS 29	1 162	223 982	-	-	468 570	693 714
Issue of new shares	2	-	-	-	-	2
Elimination of reserves to retained earnings on application of IAS 29	-	-	(298)	(1 752)	2 050	-
Total comprehensive income	-	-	-	-	(376 922)	(376 922)
<b>Balance as at 31 December 2018</b>	31	1 385	266 962	-	183 612	451 959
<b>Balance as at 01 January 2019</b>	-	1 385	266 962	-	183 612	451 959
Total comprehensive income	-	-	-	-	(152 386)	(152 386)
<b>Balance as at 31 December 2019</b>	31	1 385	266 962	-	31 226	299 573

## STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	AUDITED INFLATION ADJUSTED		UNAUDITED HISTORICAL	
		2019 ZWL\$ '000	2018 ZWL\$ '000	2019 ZWL\$ '000	2018 ZWL\$ '000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
(Loss) / Profit before tax	Note	(106 560)	(344 233)	204 689	19 017
<b>Adjustments for non-cash items:</b>					
Net impairment gain / (charge) on financial assets	12	26 248	(8 369)	5 457	(1 275)
Net interest income		(135 443)	(143 481)	(61 225)	(22 502)
Depreciation and amortisation expense	15	23 335	17 439	1 674	817
Net monetary loss		399 290	459 797	-	-
<b>Operating cash inflow / (outflows) before changes in operating assets and liabilities</b>		<b>206 870</b>	<b>(18 847)</b>	<b>150 595</b>	<b>(3 943)</b>
<b>Changes in operating assets and liabilities</b>					
Increase in deposits and other liabilities		1 360 400	618 575	1 876 255	50 945
Decrease in gross advances and other assets		(388 419)	(1 217 962)	(398 052)	(146 716)
<b>Operating cash inflow / (outflow) after changes in operating assets and liabilities</b>		<b>1 178 851</b>	<b>(618 234)</b>	<b>1 628 898</b>	<b>(99 714)</b>
Income taxes paid		(41 031)	(28 560)	(22 309)	(4 592)
Interest received		166 677	157 411	74 679	24 662
Interest paid		(31 359)	(13 413)	(13 501)	(2 159)
<b>Net cash flows from operating activities</b>		<b>1 273 138</b>	<b>(512 796)</b>	<b>1 667 767</b>	<b>(81 803)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of property and equipment	26	(14 549)	(50 983)	(7 606)	(6 894)
<b>Cash used in investing activities</b>		<b>(14 549)</b>	<b>(50 983)</b>	<b>(7 606)</b>	<b>(6 894)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from issue of shares		-	12	-	2
Rental lease payments		(2 496)	-	(2 496)	-
<b>Net cash flow from financing activities</b>		<b>(2 496)</b>	<b>12</b>	<b>(2 496)</b>	<b>2</b>
<b>Net decrease in cash and cash equivalents</b>		<b>1 256 093</b>	<b>(553 767)</b>	<b>1 657 665</b>	<b>(88 695)</b>
Cash and cash equivalents at beginning of the year		499 629	1 052 463	80 456	169 207
Effect of exchange rate fluctuations on cash and cash equivalents held	11	(113 561)	933	(95 960)	44
<b>Cash and cash equivalent as at 31 December</b>		<b>1 642 161</b>	<b>499 629</b>	<b>1 642 161</b>	<b>80 456</b>
<b>Comprising</b>					
Balances with the Reserve Bank of Zimbabwe	19	523 047	318 482	523 047	51 185
Balances with banks and cash		1 119 114	181 147	1 119 114	29 271
		<b>1 642 161</b>	<b>499 629</b>	<b>1 642 161</b>	<b>80 456</b>

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## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 1. REPORTING ENTITY

Nedbank Zimbabwe Limited ("the Bank") is a company incorporated in Zimbabwe and is a registered commercial bank primarily involved in corporate banking, retail banking and treasury services which are its principal activities. Nedbank Limited is the holding company.

The address of its registered office and principal place of business is 14th floor, Old Mutual Centre, corner Jason Moyo Avenue and Third Street, Harare, Zimbabwe.

### 2. BASIS OF PREPARATION

#### 2.1 Basis of accounting

Other than the determination of functional currency, the Bank's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and in the manner required by the Companies and Other Business Entities Act (Chapter 24:31), the Banking Act (Chapter 24:20) and the Banking Amendment Act No. 12 of 2015.

The Bank presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 6.3.2

The financial statements are presented in Zimbabwean Dollar (ZWL\$), which is the Bank's functional currency. All financial information presented in ZWL\$ has been rounded to the nearest thousand (\$'000), unless otherwise indicated. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

#### Financial Reporting in Hyperinflationary Economies

On 11 October 2019, the Public Accountants and Auditors Board of Zimbabwe classified Zimbabwe as a hyperinflationary economy in accordance with the provisions of IAS 29 - Financial Reporting in Hyperinflationary Economies (IAS 29), applicable to entities operating in Zimbabwe with financial periods ending on or after 1 July 2019. Hyperinflationary accounting has therefore been applied by the Bank for the year ended 31 December 2019.

Although IAS 29 discourages the presentation of historical financial statements when inflation adjusted financial statements are presented, historical cost based financial information has been included as supplementary information.

The indices and conversion factors used were as follows:

Date	Indices	Conversion factor
31 December 2019	551.60	1
31 December 2018	88.8	6.22
31 October 2018	74.6	7.39

#### 2.1.1 Auditor's report

These condensed financial results should be read in conjunction with the complete set of financial statements as at and for the year ended 31 December 2019, which have been audited by KPMG Chartered Accountants (Zimbabwe) and an adverse opinion has been issued thereon. The auditor's report has an adverse opinion in respect of recognition and measurement of blocked funds and non-compliance with International Accounting Standard 21, The Effects of Changes in Foreign Exchange Rates (IAS 21) on both the current and prior year financial statements including the resultant effect on first time application of International Accounting Standard 29, Financial Reporting in Hyperinflationary Economies (IAS 29).

In addition, included in the basis of adverse opinion in the audit report, the auditors draw attention to the uncertainties around the ongoing Covid-19 pandemic as disclosed in the financial statements.

The opinion, which does not include any other key audit matters given the basis for adverse opinion, is available for inspection at the Bank's registered address.

#### 2.2 Basis of measurement

These financial statements have been prepared on the historical cost basis except for the following:

- Available for sale financial assets measured at fair value through other comprehensive income
- Land and buildings measured at revalued amount

#### 2.3 Determination of functional and presentation currency

In February 2009, the Government of Zimbabwe introduced the multi-currency system which had the US\$ as its base currency. As a result of foreign currency shortages on the market, there was an increase in the use of electronic settlement platforms namely, Real Time Gross Settlement ("RTGS") platforms. A monetary policy measure was introduced in October 2018 directing the separation of foreign currency accounts ("FCAs") into two categories, namely RTGS FCA and Nostro FCA at a parity rate of 1:1.

In February 2019, the Government, through another policy measure, issued a Statutory Instrument (SI 33 of 2019) which introduced the electronic RTGS dollar (ZWL\$) with physical denomination in the bond notes and coins at a base rate of USD1: ZWL\$2.5. The introduction of the currency and its addition to the multi-currency basket brought about the interbank market which was to function on a willing buyer, willing seller basis. The enacting instrument gave a legal requirement for the accounting treatment of local assets and liabilities denominated in US\$ to be converted to the ZWL\$ at parity. Following this enactment the Bank changed its functional currency to ZWL\$ on 22 February 2019

On 25 June 2019, the Government of Zimbabwe through the Statutory Instrument (SI 142 of 2019) introduced the ZWL\$ as the sole legal tender for all local transactions in Zimbabwe. In compliance with the law, items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates (the "functional currency"). The financial statements are presented in Zimbabwe Dollars ("ZWL\$"), which is the Bank's functional and presentation currency.

IAS 21 requires that transactions and balances denominated in foreign currency should be presented at market exchange rates. A market rate is one which is legal, observable and accessible.

From October 2018 to February 2019, the Bank maintained a rate of US\$1: ZWL\$1 as prescribed by the Government in compliance with the law (SI 33 of 2019) and as from March 2019, the Bank utilised rates available from the Reserve Bank of Zimbabwe ("RBZ") Interbank market. The rate from the RBZ is the legal rate and management has considered this rate to be appropriate for the purpose of requirements of IAS 21.

Consequently, the Bank has not complied with the requirements of IAS 21 as the Bank chose the country's laws regarding currency conversion which is in conflict with the requirements of IAS 21. The Government issued SI 41 of 2019 [Public Accountants and Auditors (Prescription of International Standards) Regulations], which directs entities to give precedence to the law over reporting standards in circumstances where there are inconsistencies between the two.

While the Bank prepares its Financial Statements to comply with International Financial Reporting Standards, full compliance with certain International Financial Reporting Standards was not possible due to the above factors. For the avoidance of doubt, the Bank did not fully comply with IAS 21 to the extent that is described above and, instead, complied with the requirements of the law.

#### 2.4 Adoption of new and amended standards and interpretations

##### IFRS 16 Leases

The accounting policies adopted are consistent with those of the previous financial year except that in the current financial year, the Bank has adopted all the new and amended standards which are relevant to the Bank and are effective for annual financial periods beginning on or after 1 January 2019. Except for the adoption of IFRS 16 Leases described below, the adoption of these standards did not have any material effect on the financial performance or position of the Bank.

IFRS 16 replaces existing leases guidance, including IAS 17- Leases, IFRIC 4-Determining whether an Arrangement contains a Lease, SIC-15-Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application as an adjustment to the opening balance of retained earnings. The Bank elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Bank applied the standard only to contracts that were previously identified as leases. There is however, no impact on the opening retained earnings as the Bank took the option where the right of use asset was equal to the lease liability due to the cost and effort required to do separate calculations.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable.
- Variable lease payment that are based on an index or rate, initially measured using the index or rate as at the commencement date.
- Amounts expected to be payable by the Bank under residual value guarantees.
- The exercise price of a purchase option if the Bank is reasonably certain to exercise that option and
- Payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. Lease term to be included in the determination of the assets and liabilities arising from a lease are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until 2018 financial year, leases of property and equipment either were classified as finance leases or operating leases, see note 3.2. From 1 January 2019, the Bank recognizes leases as a "right-of-use asset" and a corresponding liability at the date at which the leased asset is available for use.

Upon adoption of IFRS 16, the Bank applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Bank.

#### Leases previously classified as operating leases

The Bank recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for the leases were recognised based on the carrying amount as if the standard had always been applied, using the incremental borrowing rate at the date of initial application.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Bank, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The Bank also applied the available practical expedients wherein it:

- used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- applied the short-term leases exemption to leases with lease term that ends within 12 months of the date of initial application;
- excluded the initial direct costs from the measurement of the right of use asset at the date of initial application, and
- used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

Based on the above, as at 1 January 2019, the impact on transition and the resulting carrying amount is as follows:

- right-of-use assets of ZWL\$1 453 191 were recognized from previously nil and presented separately
- Lease liabilities of ZWL\$1 453 191 from previously nil was presented separately were recognised;
- An incremental borrowing rate of 4.5% was used
- No impact on deferred tax liability; and
- Net effect on retained earnings was nil.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

Right-of use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Bank is reasonably certain to exercise a purchase option, the right-of-use assets is depreciated over the underlying asset's useful life. While the Bank revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Bank.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### 3.1 IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

#### Classification and measurement of financial assets and financial liabilities

##### Classification and measurement - Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: "measured at amortised cost", "fair value through other comprehensive income (FVOCI)" and "fair value through profit or loss (FVTPL)". The standard removes the existing IAS 39 categories of "held to maturity", "loans and receivables" and "available for sale".

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment by investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminate or significantly reduces an accounting mismatch that would otherwise arise.

#### Subsequent measurement of financial assets

The following accounting policies apply to the subsequent measurement of financial assets.

Financial asset	Subsequent measurement
Financial assets at FVTPL	Fair value through other comprehensive income.
Financial assets at amortised cost	Amortised cost using the effective interest method.
Debt investments at FVOCI	Fair value through other comprehensive income.
Equity investments at FVOCI	Fair value through other comprehensive income.

#### Business model assessment

The Bank makes an assessment of the objective of the business model in which a financial asset is held at portfolio level because this best reflects the way the business is managed and information is provided to management. The information that will be considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- How the performance of the portfolio is evaluated and reported to the Bank's management;
- The risks that affect the performance of the business model (and the financial asset held within that business model) and how those risks are managed; and
- How managers of the business are compensated - i.e. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

#### Classification - Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39, all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Bank has not designated any financial liabilities at FVTPL and the Bank has no current intention to do so.

#### Impairment - Financial assets and contract assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments;
- Lease receivables; and
- Loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

Under IFRS 9, no impairment loss is recognised on equity investments.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12 - month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12 - months ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Bank will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12 month ECLs:

- Debt instruments securities that are determined to have low credit risk at the reporting date. The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment grade". Investment grade is a label assigned to a subset of credit ratings belonging to a Rating Scale which indicates that the Credit Risk associated with the rated entity (or product) is relatively low. The term is used primarily in the context of public ratings of corporate or sovereign bonds produced by credit rating agencies.
- Other financial instruments (other than lease receivable) for which credit risk has not increased significantly since initial recognition.

The impairment requirements for IFRS 9 are complex and require management judgement, estimates and assumptions, particularly in the following areas:



### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

- Assessing whether the credit risk of an instruments has increased significantly since initial recognition ; and
- Incorporating forward-looking information into the measurement of ECLs.

#### Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- Financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls - i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive;
- Financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments - the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flow that the Bank expects to receive.
- Financial guarantees contracts - the present value of expected payments to reimburse the holder less any amount that the Bank expects to recover.

#### Definition of default

Under IFRS 9, the Bank will consider financial assets to be in default when:

- The borrower is unlikely to pay its credit obligation to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- The borrower is more than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

This definition is largely consistent with the definition that will be used for regulatory purposes. In assessing whether a borrower is in default, the Bank will consider indicators that are:

- Qualitative e.g. breaches of covenant;
- Quantitative e.g. overdue status and non-payment of another obligation of the same issuer to the Bank; and
- Based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

#### Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Bank will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience, expert credit assessment and forward-looking information. Forward looking information used is expected interest rates, inflation data and any other expected macro and micro economic factors.

The Bank will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime probability of default (PD) as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. For certain revolving facilities (e.g. overdraft), the date when the facility was first entered into could be a long time ago. Modifying the contractual terms of a financial instrument may also affect this assessment.

#### Credit risk grades

The Bank will allocate each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experience credit judgment. The Bank will use these grades in identifying significant increase in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the expense and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates - e.g. the difference in the risk of default between credit risk grade 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure will be allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposure will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

#### Generating the term structure of PD

Credit risk grades will be a primary input into the determination of the term structure of PD for exposure. The Bank will collect performance and default information about its credit risk exposures analysed by jurisdiction, by type of product and borrower and by credit risk grading. For some portfolios, information purchased from external credit reference agencies may also be used.

The Bank will employ statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposure and how these are expected to change as result of the passage of time.

This analysis will include the identification and calibration of relationship between changes in default rates and changes in key macro-economic factors, as well as in-depth analysis of the impact of certain other factors on the risk of default. For most exposures, key macro-economic indicators are likely to include gross domestic growth, benchmark interest rates and unemployment data. For exposure to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

#### Determining whether credit risk has increased significantly

The Bank has established a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the Bank's internal credit risk management process. The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include a backstop based on delinquency.

The Bank will deem the credit risk of a particular exposure to have increased significantly since initial recognition if, based on the Bank's quantitative modelling, the remaining lifetime PD is determined to have increased by more than 10% (subject to a minimum in PD of 5 basis points per annum since initial recognition. In measuring increase in credit risk, remaining lifetime ECLs are adjusted for changes in maturity.

In certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis.

As a backstop, and as required by IFRS 9, the Bank will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Bank will determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Bank will monitor the effectiveness of the criteria used to identify significant increase in credit risk by regular reviews to confirm that:

- The criteria are capable of identifying significant increase in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes 30 days past due;
- The average time between the identification of a significant increase in credit risk and default appears reasonable;
- Exposure are not generally transferred directly from 12 month ECL measurement to credit impaired; and
- There is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

#### Inputs into measurement of ECLs

The key inputs in the measurement of ECLs are likely to be term structure of the following variables:

- PD
- Loss given default (LGD); and
- Exposure at default (EAD)

These parameters will be derived from internally developed statistical models and other historical data leverage regulatory models. They will be adjusted to reflect forward looking information

PD estimates are estimates at a certain date, which will be calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposure. These statistical models will be based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs will be estimated considering the contractual maturities of exposure and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Bank will estimate LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models will consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by physical property, loan to value (LTV) ratios are likely to be key parameters in determining LGD.

EAD represents the expected exposure in the event of a default. The Bank will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset will be the gross carrying amount at default. For lending commitments and financial guarantees, the EAD of a financial asset will be the gross carrying amount at default, as well as potential future amounts that may be drawn or repaid under the contract which will be estimated based on historical observation and forward looking forecasts. For some financial assets, the Bank will determine EAD by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

#### Circumstance under which contractual terms of financial assets will be modified.

All accounts which the Bank has a client specific Credit Grade. The Credit Grading methodology is based on the NGR Rating Scale which has been mapped to the Reserve Bank of Zimbabwe Supervisory Rating Scale (SRS) per Reserve Bank of Zimbabwe Guideline No: 1-2011/BSD "Technical Guidance on Basel II Implementation in Zimbabwe.

Each account is to be graded from time to time in line with the receipt of new information by the Account Manager, but in any event at least once annually.

Amendments take various forms, but it usually entails the amendment of finance conditions, the deferment of instalments, amendment of collateral arrangements or the extension of the expiry date.

All amendments to credit application details must be authorised by a person with a credit assessment mandate for new applications of equal value, except if other policy directives apply.

Once a potential troublesome exposure is identified, the risk rating of the counterparty is to be changed and responsibility for remedial management or recovery must, by a mandated official or credit committees and a formal transfer mechanism, be transferred to the Collections department if within Nedbank Zimbabwe Limited's mandate. If above this mandate, this

should be transferred to the Bank.

This permits a proactive approach, which is intended to result in the minimisation or complete avoidance of any possible loss. At this stage, a comprehensive assessment of the position is made to determine whether it is a lost cause, in which case the collection process must commence without delay, or whether there is a possibility that the operation may be rescued, through:

- active participation in any further lending and adherence to arrangements;
- improving the security position; and
- assisting the customer to restructure the operation.

The primary objective of remedial management is to restore the obligor to a financially healthy position and acceptability as a customer. If, in due course, it becomes apparent that this cannot be achieved, then an exit strategy designed to minimise or avoid loss must be commenced.

Distressed restructured credit exposures include any loan, advance or facility in respect of which the bank has granted a concession to the obligor owing to a deterioration in its financial condition, that is, owing to a financial distress situation of the relevant obligor.

A distressed restructure is recognised either where the borrower is in arrears (excluding technical arrears), or has defaulted and now requires a restructure or in instances where the terms and conditions were changed in order to prevent the obligor from going into arrears. If a loan has been in arrears at any point during the past 6 months prior to the restructure, the restructure should be regarded as a distressed restructure.

No business unit will re-negotiate, roll-over, refinance, renew or modify the terms of a loan in order to avoid an adverse classification or to technically cure a past-due status or other contract default. No business unit will grant a loan or otherwise advance additional funds to an obligor for the purpose of enabling the obligor to meet existing payment obligations to the bank without recording a default.

If the obligor has, in the opinion of the specialist unit and the line management, been restored to health, then the exposure should be re-rated and responsibility transferred back to the division's normal operations through once again a formal process.

#### De-recognition

A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

On de-recognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

#### Model Governance

The governance around modelling is such that Model development, verification and validation are all done independently before business adopts impairments numbers. Model validation is done annually and changes in inputs to the model are adjusted accordingly.

### 3.2 The Bank as a lessee

Prior to 1 January 2019 assets to which the Bank was a lessee, operating lease payments were being recognised in the profit or loss as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases were recognised as an expense in the period in which they are incurred.

The Bank recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for the leases were recognised based on the carrying amount as if the standard had always been applied, using the incremental borrowing rate at the date of initial application.

### 3.3 Foreign currencies

#### Transactions and balances

Foreign currency transactions that are denominated, or that require settlement, in a foreign currency, are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currency are translated at the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated at the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined. Foreign currency differences arising on translation are generally recognised in profit or loss.

### 3.4 Taxation

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

#### 3.4.1 Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

#### 3.4.2 Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is recognised for:

- Temporary difference on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary difference related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary difference arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary difference to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Bank has not rebutted this presumption.

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

### 3.5 Employee benefits

Employee benefits are all forms of consideration given by the Bank in exchange for services rendered by employees.

#### 3.5.1 Short-term benefits

Short-term benefits are employee benefits (other than termination benefits), that are to be settled wholly before twelve months after the year end of the period in which the employees render related services. When an employee has rendered services during an accounting period, the Bank recognises the undiscounted amount of the short-term employee benefits expected to be paid in exchange for that service.

#### 3.5.2 Post employment benefits

Post employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment. Employee benefits are provided for employees through the National Social Security Authority ("NSSA") and the Bank operates a pension scheme on a defined contribution basis providing benefits based on contributions made plus profits that are declared by the scheme's trustees from time to time. The assets of the scheme are held separately from those of the Bank. The scheme is financed by Bank and employee contributions. The Bank's contributions to the scheme are charged to the statement of profit or loss.

#### 3.5.3 Termination benefits

Termination benefits are employee benefits payable as a result of the Bank's decision to terminate employment before normal retirement date (or contractual date) or an employee's decision to accept voluntary redundancy in exchange for those benefits. The Bank recognises termination benefits at the earlier of when it can no longer withdraw the offer of those benefits and when it recognises costs for restricting that is within the scope of IAS 37: Provisions, Contingent Liabilities and Contingent Assets and involves the payment of termination benefits.

Termination benefits that are not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render services are discounted using market rates of interest. In case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

#### 3.5.4 Other long term employee benefits

The Bank's net obligations in respect of long term employee benefits is the amount of future benefits that employees have earned in return for their services in the current and prior periods. This benefit is expensed in the year it is paid to the employee.

### 3.6 Property and equipment

Land and buildings comprise buildings held for administrative purposes. All motor vehicles, furniture, fittings and equipment used by the Bank are stated at historical cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Land and buildings are shown at fair value, based on annual desktop valuations by external independent valuers, less subsequent depreciation and impairment for buildings. A full valuation is done after every 3 years. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. If an asset's carrying amount is increased as a result of a revaluation, the increase is recognised in other comprehensive income and accumulated in equity under revaluation reserve. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

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Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All repair and maintenance costs are charged to other operating expenses during the financial period in which they are incurred and recognised in profit or loss.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Buildings	up to 40 years;
- Leasehold improvements	up to 5 years;
- Furniture and fittings	up to 10 years;
- Motor vehicles	up to 5 years;
- Computer equipment	up to 5 years; and
- Computer hardware	up to 5 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property or equipment was impaired as at 31 December 2019. Gains and losses on disposal are determined by comparing proceeds with the carrying amount and are included in other operating expenses in the statement of profit or loss.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

### 3.7 Intangible assets

Intangible assets comprise separately identifiable expenditure arising from computer software acquisitions. Software acquisitions are recognised and capitalised on the basis of the costs incurred to acquire and bring to use the specific software, and subsequently amortised using the straight line method over their estimated useful economic life, generally not exceeding 5 years.

### 3.8 Regulatory allowance

The Reserve Bank of Zimbabwe requires the Bank to provide a regulatory allowance for impairments on financial assets. Where the regulatory provision is different from the IFRS 9: Financial Instruments, the difference is accounted for through the regulatory reserve in the Statement of Changes in Equity.

### 3.9 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the statement of profit or loss using the original effective interest rate method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments to either the gross carrying amount of the financial asset or amortised cost of the financial liability.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of impairment, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment.

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or liability. In calculating interest income and expense, the effective interest rate is applied on the gross carrying amount of the asset for financial assets that are in Stage 1 and 2, and on the amortised cost for financial assets in Stage 3. Any interest reversal recognised as a result of financial assets moving from Stage 3 to 2, is recognised in net impairment of financial assets.

### 3.10 Fees and commission income

Fees and commission income is recognised on an accrual basis when the service has been provided. Services provided by the Bank, giving rise to this income, include cash management and sale services. The recognition of revenue for financial service fees depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instruments.

#### 3.10.1 Other fees and commission

These are recognised as the related services are performed. Loan commitment fees are recognised on a straight line basis over the loan period.

### 3.11 Net trading and dealing income

Net trading and dealing income includes gains and losses arising from disposals and changes in the fair value of foreign currency dealing.

### 3.12 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with the Central Bank and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of change in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

### 3.13 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Bank has related party relationships with its parent company, subsidiaries, fellow subsidiaries and key management employees. Transactions and balances with related parties are shown in Note 32.

### 3.14 Financial guarantee and loan commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder of a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of the debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. These are accounted for as off balance sheet transactions.

### 3.15 Contingent liability

The Bank discloses a contingent liability when there is a possible obligation that is yet to be confirmed, or when the Bank has a present obligation that could lead to an outflow of economic benefits or instances where a present obligation does not meet the recognition criteria for a liability.

## 4. ASSUMPTIONS AND ESTIMATION UNCERTAINTIES

In preparing these financial statements, management made estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

### 4.1 Fair values of available for sale investments

The Bank has equity investments in unlisted entities disclosed in Note 22. These are carried at fair value. The cost of these equities reasonably approximates their fair value. These are measured at fair value through other comprehensive income.

### 4.2 Revaluation of property

Land and Buildings are measured at the revalued carrying amount refer to note 26.

## 5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standard/Interpretation	Date issued by IASB3	Effective date Periods beginning on or after
Conceptual Framework amendments	Amendments to References to Conceptual Framework in IFRS Standard March 2018	1 January 2020
IFRS 3 Amendment	Definition of a business October 2018	1 January 2020
IAS 1 and 8	Amendment to the definition of Material October 2018	1 January 2020
IFRS 9, IAS 39 and IFRS 7	Amendments to interest rate benchmark reform August 2018	1 January 2020
IFRS 17	Insurance Contracts May 2017	1 January 2021
IFRS 10 and IAS 28 amendment	Sale and contribution of Assets between an Investor and its Associate or its Joint Venture September 2014	Deferred indefinitely

The directors are still in the process of assessing the impact of the new standards. However they do not expect that the adoption of the standards above have any material impact on the financial statements in the year of initial application.

## 6. FINANCIAL RISK MANAGEMENT

The Bank has exposure to the following key risks:

- **Credit risk**
  - Credit quality analysis
  - Collateral held and other credit enhancement
  - Offsetting financial assets and financial liabilities
  - Concentration of credit risk
  - Impaired loans and advances

- **Liquidity risk**
  - Exposure to liquidity risk
  - Maturity analysis of financial assets and financial liabilities
  - Liquidity reserves
  - Financial asset available to support future funding
  - Financial assets pledged as collateral
- **Market risk**
  - Exposure to market risk-trading and non-trading portfolio
  - Exposure to currency risks
  - Exposure to interest rate risks
- **Operational risk**
  - Strategic risk
  - Reputation risk
- **Capital Management**
  - Regulatory capital
  - Capital allocation

This note presents financial information on the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk and the management of capital.

### 6.1 Risk Management Framework

The Board of directors oversees the Bank's risk management framework and is ultimately responsible for setting risk tolerance limits and ensuring the existence of a robust risk governance framework incorporating:

- **First Line of Defence** - an accountable and responsible management together with the Board;
- **Second Line of Defence** - an effective independent risk oversight function led by the Chief Risk Officer as well as an Enterprise Governance and Compliance function; and
- **Third Line of Defence** - independent assurance provided by Internal Audit and External Audit.

The Bank has a strong risk management culture that is embedded in the Nedbank Group's strategic framework. The Bank's Enterprise-wide Risk Management Framework (ERMF) contains the risk universe, which lists 18 risk categories with their respective risk management policies. Enterprise Risk Management (ERM) is a structured and integrated approach to risk management, aligning strategy, processes, people, technology and knowledge with the purpose of evaluating and managing the opportunities, threats and uncertainties that the Bank faces as it strives to create shareholder value. It involves integrating risk and capital management effectively through the Bank's risk universe, business units and operating divisions.

The Bank's risk exposure remained within acceptable levels in all risk categories. The Bank continues to strengthen its risk management systems in order to remain abreast of the challenges that are presented by changes in the economic and regulatory environment.

### 6.2 Credit risk

The risk arising from the probability of borrowers and/or counterparties failing to meet their repayment commitments (including accumulated interest) and in particular risks arising from impaired or problem assets and the Bank's related impairments, provisions or reserves. It also includes risk arising from exposure to related persons. Credit risk has the following sub-risks:

- Collateral risk;
- Concentration risk;
- Counterparty risk;
- Country risk;
- Issuer risk;
- Industry risk;
- Settlement risk;
- Transfer (sovereign) risk;
- Underwriting (lending) risk; and
- Securitisation risk or re-securitisation structures.

Credit risk is managed through a comprehensive system of credit analysis, credit approval, credit monitoring and review, and credit loss control. The Bank's Credit policy, which is subject to annual review, regulates the granting of all credit facilities and aspects of credit risk management. Decisions are made through formal meetings of the Board Lendings Committee and the Management Credit Committees.

All facilities are risk rated whether they are on-balance sheet, off-balance sheet, retail or corporate. The Bank maintains an expected credit loss charge to cushion the financial asset against objective evidence of impairment as a result of one or more loss events if that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The ratio of non-performing loans decreased from 4.84% recorded in December 2018 to 0.28% in December 2019 mainly due to effects of exchange rate deterioration on foreign denominated loans. Country risk and credit counterparty risk are still perceived high, making it difficult for the banking sector to secure credit on favourable terms.

#### 6.2.1 Credit quality analysis

Note(s)	Loans and advances to customers	Loans and advances to customers	Bank balances	Bank balances	Investment securities at amortised	Investment securities at amortised	Financial guarantees	Financial guarantees
	2019 ZWL\$'000	2018 ZWL\$'000	2019 ZWL\$'000	2018 ZWL\$'000	2019 ZWL\$'000	2018 ZWL\$'000	2019 ZWL\$'000	2018 ZWL\$'000
<b>Maximum exposure to credit risk</b>								
<b>Carrying amount</b>	<b>450 384</b>	<b>111 174</b>	<b>1 642 161</b>	<b>80 456</b>	<b>172 633</b>	<b>196 605</b>	<b>333 683</b>	<b>29 362</b>
Grade 1-3 Pass	271 928	68 542	1 643 041	80 556	173 212	197 234	333 683	29 362
Grade 4-7 Special Mention	187 910	36 039	-	-	-	-	-	-
Grade 8 -Substandard	587	6 231	-	-	-	-	-	-
Grade 9- Doubtful	303	6 176	-	-	-	-	-	-
Grade 10- Loss	146	-	-	-	-	-	-	-
<b>Total gross amount</b>	<b>460 874</b>	<b>116 988</b>	<b>1 643 041</b>	<b>80 556</b>	<b>173 212</b>	<b>197 234</b>	<b>333 683</b>	<b>29 362</b>
Stage 1-12 Months ECL	(7 260)	(1 640)	(880)	(100)	(579)	(629)	-	-
Stage 2-Life time ECL	(2 061)	(247)	-	-	-	-	-	-
Stage 3-Life time ECL-impaired	(1 169)	(3 927)	-	-	-	-	-	-
<b>Net carrying amount</b>	<b>450 384</b>	<b>111 174</b>	<b>1 642 161</b>	<b>80 456</b>	<b>172 633</b>	<b>196 605</b>	<b>333 683</b>	<b>29 247</b>

There has not been any material transfers of financial assets between the different Stages for calculation of Expected Credit Losses.

#### 6.2.1.1 Concentration of credit risk

The Bank monitors concentration of credit risk by sector. All loans and advances to customers are for customers operating within Zimbabwe. An analysis of the concentration of credit risk from gross loans and advances at the reporting date is shown below.

	AUDITED INFLATION ADJUSTED			UNAUDITED HISTORICAL		
	2019 ZWL\$ '000	2018 ZWL\$ '000	%	2019 ZWL\$ '000	2018 ZWL\$ '000	%
Agriculture and horticulture	146 580	165 969	32	146 580	26 726	23
Mining	142 589	46 550	31	142 589	7 496	7
Retail and wholesale	74 278	174 902	16	74 278	23 591	20
Manufacturing	43 114	149 428	9	43 114	24 062	21
Individuals	29 514	138 818	6	29 514	22 354	19
Transport	11 954	31 469	3	11 954	5 067	4
Services	8 375	17 952	2	8 375	7 465	6
Construction	4 470	1 413	1	4 470	228	-
	<b>460 874</b>	<b>726 501</b>	<b>100</b>	<b>460 874</b>	<b>116 989</b>	<b>100</b>

#### 6.2.1.2 Investment securities measured at amortised cost.

The Bank held investment measured at amortised cost of ZWL\$172.633 million (2018: ZWL\$196.605 million).

#### 6.2.1.3 Cash and cash equivalents

The Bank held cash and cash equivalents of ZWL\$1.747 billion net carrying amount as at 31 December 2019 (2018: ZWL\$80.456 million).

#### 6.2.1.4 Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honor its obligations to deliver cash, securities or other assets as contractually agreed. Settlement limits form part of the credit approval/ limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires specific transaction and/or specific counterparty approval from the Risk Department.

#### 6.2.1.5 Offsetting financial assets and financial liabilities

The Bank does not have financial assets and financial liabilities that are subject to offsetting in the statement of financial position.

### 6.3 Liquidity risk

There are two types of liquidity risk, namely funding liquidity risk and market liquidity risk. Funding liquidity risk is the risk that the Bank is unable to meet its payment obligations as they fall due. These payment obligations could emanate from depositor withdrawals, the inability to roll over maturing debt or meet contractual commitments to lend. Market liquidity risk is the risk that the bank will be unable to sell assets, without incurring an unacceptable loss, in order to generate cash required to meet payment obligations under a stress liquidity event.

The primary role of the Bank in terms of financial intermediation is the conversion of short-term deposits into longer-term loans. By fulfilling this role, Banks are inherently susceptible to liquidity mismatches and consequently funding and market liquidity risks.

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### 6.3 Liquidity risk (Contd)

Concentration risk is a sub-risk of liquidity risk.

Liquidity risk management strategy is determined by the Asset and Liabilities Committee ("ALCO") which reviews liquidity on a monthly basis in addition to assessing daily funding requirements through the Treasury Department, with the Market Risk function providing ongoing independent oversight.

The Bank remained in a sound liquidity position and was able to comfortably meet funding commitments as they fell due. The Bank was compliant with all liquidity risk limits with a prudential liquidity ratio of 93% as at 31 December 2019 and above the prudential minimum of 30%. Whilst market deposits remained generally short term and transitory in nature, management continued to be conservative in deploying these into assets with sufficient buffers to support lending.

The Bank continues to put in place strategies to manage concentration risk in its deposit base refer to note 28.4. Stress testing results revealed that the Bank has sufficient sources of funding to meet liquidity requirements under various short term stress scenarios. The stress test results also provide a tool for testing the adequacy of the Bank's contingent liquidity management plan in the event of adverse shocks.

#### 6.3.1 Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the liquidity ratio of net liquid assets to deposits from customers. For this purpose the liquidity ratio looks at the relationships between all liquid assets versus demand deposits from customers and other Banks. The table below shows the maximum, minimum and average for the year:

	2019	2018
At 31 December	93%	83%
Average	85%	83%
Minimum for the year	76%	80%
Maximum for the year	93%	87%

#### 6.3.2 Liquidity gap analysis

Below is a table with an analysis of the liquidity gap between financial assets and financial liabilities. All other non-financial assets and liabilities shown on the statement of financial position are expected to be recovered or settled more than 12 months after the reporting date. This liquidity gap analysis is based on the contractual carrying amounts of the financial assets and financial liabilities.

Audited Inflation adjusted	Carrying amount ZWL\$ '000	Less than 1 month ZWL\$ '000	1-3 months ZWL\$ '000	3 months to 1 year ZWL\$ '000	1-5 years ZWL\$ '000	Over 5 years ZWL\$ '000	Non Determinable ZWL\$ '000
31 December 2019							
<b>Financial assets</b>							
Cash and cash equivalents	1 642 161	1 642 161	-	-	-	-	-
Loans and advances to customers	450 384	6 894	211 152	161 633	65 133	5 572	-
Investment securities at Fair value through OCI	10 461	-	-	-	-	-	10 461
Investments securities at amortised cost	172 633	-	-	-	172 633	-	-
Other assets	276 473	276 473	-	-	-	-	-
	<b>2 552 112</b>	<b>1 925 528</b>	<b>211 152</b>	<b>161 633</b>	<b>237 766</b>	<b>5 572</b>	<b>10 461</b>
<b>Financial liabilities</b>							
Demand deposits	1 826 926	1 826 926	-	-	-	-	-
Term deposits	210 511	84 786	123 050	2 675	-	-	-
Savings deposits	16 076	16 076	-	-	-	-	-
Other liabilities - Current	173 472	173 472	-	-	-	-	-
Other liabilities - Non Current	105 861	-	-	-	-	-	105 861
Lease liability - Current	11 574	3 858	3 858	3 858	-	-	-
Lease liability - Non Current	12 540	2 508	2 508	2 508	2 508	2 508	-
	<b>2 356 960</b>	<b>2 107 626</b>	<b>129 146</b>	<b>9 041</b>	<b>2 508</b>	<b>2 508</b>	<b>105 861</b>
<b>Liquidity gap</b>	<b>195 152</b>	<b>(182 098)</b>	<b>81 736</b>	<b>152 592</b>	<b>235 258</b>	<b>3 064</b>	<b>(95 400)</b>
<b>Cumulative gap</b>	<b>-</b>	<b>(182 098)</b>	<b>(100 362)</b>	<b>52 230</b>	<b>287 488</b>	<b>290 552</b>	<b>195 152</b>

Unaudited Historical	Carrying amount ZWL\$ '000	Less than 1 month ZWL\$ '000	1-3 months ZWL\$ '000	3 months to 1 year ZWL\$ '000	1-5 years ZWL\$ '000	Over 5 years ZWL\$ '000	Non Determinable ZWL\$ '000
31 December 2019							
<b>Financial assets</b>							
Cash and cash equivalents	1 642 161	1 642 161	-	-	-	-	-
Loans and advances to customers	450 384	6 894	211 152	161 633	65 133	5 572	-
Investment securities at Fair value through OCI	10 461	-	-	-	-	-	10 461
Investments securities at amortised cost	172 633	-	-	-	172 633	-	-
Other assets	275 198	275 198	-	-	-	-	-
	<b>2 550 837</b>	<b>1 924 253</b>	<b>211 152</b>	<b>161 633</b>	<b>237 766</b>	<b>5 572</b>	<b>10 461</b>
<b>Financial liabilities</b>							
Demand deposits	1 826 926	1 826 926	-	-	-	-	-
Term deposits	210 511	84 786	123 050	2 675	-	-	-
Savings deposits	16 076	16 076	-	-	-	-	-
Other liabilities - Current	173 472	173 472	-	-	-	-	-
Other liabilities - Non Current	105 861	-	-	-	-	-	105 861
Lease liability - Current	11 574	3 858	3 858	3 858	-	-	-
Lease liability - Non Current	12 540	2 508	2 508	2 508	2 508	2 508	-
	<b>2 356 960</b>	<b>2 107 262</b>	<b>129 416</b>	<b>9 041</b>	<b>2 508</b>	<b>2 508</b>	<b>105 861</b>
<b>Liquidity gap</b>	<b>193 877</b>	<b>(183 373)</b>	<b>81 736</b>	<b>152 592</b>	<b>235 258</b>	<b>3 064</b>	<b>(95 400)</b>
<b>Cumulative gap</b>	<b>-</b>	<b>(183 373)</b>	<b>(101 637)</b>	<b>50 955</b>	<b>286 213</b>	<b>289 277</b>	<b>193 877</b>

Audited Inflation adjusted	Carrying amount ZWL\$ '000	Less than 1 month ZWL\$ '000	1-3 months ZWL\$ '000	3 months to 1 year ZWL\$ '000	1-5 years ZWL\$ '000	Over 5 years ZWL\$ '000	Non Determinable ZWL\$ '000
31 December 2018							
<b>Financial assets</b>							
Cash and cash equivalents	499 629	462 239	37 390	-	-	-	-
Loans and advances to customers	690 390	61 252	137 508	247 213	207 742	36 675	-
Investment securities at Fair value through OCI	6 838	-	-	-	-	-	6 838
Investments securities at amortised cost	1 220 915	-	505 066	715 849	-	-	-
Current tax assets	3 032	-	3 032	-	-	-	-
Other assets	175 192	136 574	13 966	10 338	14 314	-	-
	<b>2 595 996</b>	<b>660 065</b>	<b>696 962</b>	<b>973 400</b>	<b>222 056</b>	<b>36 675</b>	<b>6 838</b>
<b>Financial liabilities</b>							
Demand deposits	1 533 996	1 533 996	-	-	-	-	-
Term deposits	512 560	206 442	299 608	6 510	-	-	-
Savings deposits	88 430	88 430	-	-	-	-	-
Other Liabilities	122 262	56 554	-	20 405	45 303	-	-
	<b>2 257 248</b>	<b>1 885 422</b>	<b>299 608</b>	<b>26 915</b>	<b>45 303</b>	<b>-</b>	<b>-</b>
<b>Liquidity gap</b>	<b>338 748</b>	<b>(1 225 357)</b>	<b>397 354</b>	<b>946 485</b>	<b>176 753</b>	<b>36 675</b>	<b>6 838</b>
<b>Cumulative gap</b>	<b>-</b>	<b>(1 225 357)</b>	<b>(828 003)</b>	<b>118 482</b>	<b>295 235</b>	<b>331 910</b>	<b>338 748</b>

### 6.3 Liquidity risk (Contd)

Unaudited Historical	Carrying amount ZWL\$ '000	Less than 1 month ZWL\$ '000	1-3 months ZWL\$ '000	3 months to 1 year ZWL\$ '000	1-5 years ZWL\$ '000	Over 5 years ZWL\$ '000	Non Determinable ZWL\$ '000
31 December 2018							
<b>Financial assets</b>							
Cash and cash equivalents	80 456	74 435	6 021	-	-	-	-
Loans and advances to customers	111 174	10 676	22 143	39 808	33 452	5 095	-
Investment securities at fair value through OCI	777	-	-	-	-	-	777
Investments securities at amortised cost	196 605	-	81 332	115 273	-	-	-
Current tax assets	489	-	489	-	-	-	-
Other assets	27 887	21 669	2 249	1 664	2 305	-	-
	<b>417 388</b>	<b>106 780</b>	<b>112 234</b>	<b>156 745</b>	<b>35 757</b>	<b>5 905</b>	<b>777</b>
<b>Financial liabilities</b>							
Demand deposits	247 020	247 020	-	-	-	-	-
Term deposits	82 538	33 243	48 246	1 049	-	-	-
Savings deposits	14 240	14 240	-	-	-	-	-
Other liabilities	19 688	9 108	-	3 285	7 295	-	-
	<b>363 486</b>	<b>303 611</b>	<b>48 246</b>	<b>4 334</b>	<b>7 295</b>	<b>-</b>	<b>-</b>
<b>Liquidity gap</b>	<b>53 902</b>	<b>(196 831)</b>	<b>63 988</b>	<b>152 411</b>	<b>28 462</b>	<b>5 905</b>	<b>777</b>
<b>Cumulative gap</b>	<b>-</b>	<b>(196 831)</b>	<b>(132 843)</b>	<b>19 568</b>	<b>48 030</b>	<b>53 125</b>	<b>53 902</b>

#### 6.3.3 Maturity analysis for financial liabilities and financial assets

The non-derivative financial liabilities and assets amounts have been shown using the discounted cash flows methodology and the related accrued interest.

The Bank's expected cash flows on some financial assets and financial liabilities vary significantly from the contractual cash flows. The principal differences are:

- Demand deposits from customers are expected to remain stable or gradually run out in line with customer spending behavior;
- Retail home loans have original contractual maturity of between 10 and 20 years but may have an average duration of 7 years should customers exercise their rights given the embedded option in the product.

Unrecognised loan commitments have not been included in the liquidity analysis because these are revocable. The Bank reserves the right to allow a drawdown depending on whether certain contractual conditions have been satisfied. However the Bank maintains a sufficiently healthy liquidity buffer to accommodate such drawdown requirements.

Issued financial guarantees have also not been included in this liquidity analysis because all are cash covered and have already been included in term deposits.

#### 6.3.4 Liquidity reserves

As part of the management of liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents, debts securities issued by Government and equity investments which can be readily sold to meet liquidity requirements.

The table below sets out the components of the Bank's liquidity reserves:

	AUDITED INFLATION ADJUSTED				UNAUDITED HISTORICAL			
	2019	2019	2018	2018	2019	2019	2018	2018
	Carrying Amount ZWL\$ '000	Fair Value ZWL\$ '000	Carrying Amount ZWL\$ '000	Fair Value ZWL\$ '000	Carrying Amount ZWL\$ '000	Fair Value ZWL\$ '000	Carrying Amount ZWL\$ '000	Fair Value ZWL\$ '000
Balances with Central Bank	523 047	523 047	318 482	318 482	523 047	523 047	51 285	51 285
Cash and cash equivalents	1 119 994	1 119 994	181 768	181 768	1 119 994	1 119 994	29 270	29 270
Afreximbank Trade Debt-backed Securities	-	-	414 025	414 025	-	-	66 671	66 671
RBZ Afreximbank Commission Treasury Bills	22 642	22 642	3 896	3 896	22 642	22 642	627	627
RBZ- Savings bond	150 570	150 570	806 902	806 902	150 570	150 570	129 936	129 936
	<b>1 816 253</b>	<b>1 816 253</b>	<b>1 725 073</b>	<b>1 725 073</b>	<b>1 816 253</b>	<b>1 816 253</b>	<b>277 789</b>	<b>277 789</b>

#### 6.3.5 Financial assets pledged as collateral

Assets are pledged as collateral for the Bank's major activities, such as cash withdrawals, clearing, and real time gross settlement.

	AUDITED INFLATION ADJUSTED		UNAUDITED HISTORICAL	
	2019	2018	2019	2018
	ZWL\$ '000	ZWL\$ '000	ZWL\$ '000	ZWL\$ '000
Cash collateral to Zimswitch	19 341	14 314	19 341	2 305
Cash collateral to Mastercard	2 516	-	2 516	-
	<b>21 857</b>	<b>14 314</b>	<b>21 857</b>	<b>2 305</b>

#### 6.4 Market risk

Market risk in the banking book is the risk of loss as a result of adverse changes in foreign exchange rates and interest rates. The sub-risks of market risk are:

- interest rate risk in the banking book;
- foreign exchange translation risk; and
- foreign exchange transaction risk in the banking book.

The Bank is continually improving the technologies that support the market risk management process and is now working on modeling the behavioural aspects of the balance sheet portfolio.

#### 6.4.1 Exposure to interest rate risk

Interest rate risk in the banking book is the risk that the Bank's earnings or economic value will decline as a result of changes in interest rates. The sources of interest rate risk in the banking book are:

- Repricing risk (mismatch risk): timing differences in the maturity/ repricing of Bank assets, liabilities, and off balance sheet positions; and
- Basis risk: imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar repricing characteristics.

To maximise profitability, the Bank manages the mismatch of its assets and liabilities in line with interest rate forecasts established by ALCO. The management of this exposure is monitored through a gap and sensitivity analysis for which specific limits are set in line with the Bank's interest rate risk appetite.

#### Exposure to interest rate risk-non trading portfolios

Audited Inflation adjusted	Carrying amount ZWL\$ '000	Less than 1 month ZWL\$ '000	1-3 months ZWL\$ '000	3 months to 1 year ZWL\$ '000	1-5 years ZWL\$ '000	Over 5 years ZWL\$ '000	Non Determinable ZWL\$ '000
31 December 2019							
<b>Financial assets</b>							
Cash and cash equivalents	1 764 216	1 096 482	-	-	-	-	545 679
Loans and advances to customers	450 384	6 894	211 152	161 633	65 133	5 572	-
Investment securities at Fair value through OCI	10 461	-	-	-	-	-	10 461
Investments securities at amortised cost	172 633	-	-	-	172 633	-	-
Other assets	276 473	-	-	-	-	-	276 473
	<b>2 552 112</b>	<b>1 103 379</b>	<b>211 152</b>	<b>161 633</b>	<b>237 766</b>	<b>5 572</b>	<b>832 610</b>
<b>Financial liabilities</b>							
Demand deposits	1 826 926	-	-	-	-	-	1 826 926
Term deposits	210 511	84 786	123 050	2 675	-	-	-
Savings deposits	16 076	16 076	-	-	-	-	-
Other liabilities- Current	173 472	-	-	-	-	-	173 472
Other liabilities- Non Current	105 861	-	-	-	-	-	105 861
Lease liability- Current	11 574	3					

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Unaudited Historical	Carrying amount	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non Det-erminable
	ZWL\$ '000	ZWL\$ '000	ZWL\$ '000	ZWL\$ '000	ZWL\$ '000	ZWL\$ '000	ZWL\$ '000
31 December 2019							
<b>Financial assets</b>							
Cash and cash equivalents	1 642 161	1 096 482	-	-	-	-	545 679
Loans and advances to customers	450 384	6 894	211 152	161 633	65 133	5 572	-
Investment securities at Fair value through OCI	10 461	-	-	-	-	-	10 461
Investments securities at amortised cost	172 633	-	-	-	172 633	-	-
Other assets	275 198	-	-	-	-	-	275 198
	<b>2 550 837</b>	<b>1 103 376</b>	<b>211 152</b>	<b>161 633</b>	<b>237 766</b>	<b>5 572</b>	<b>831 338</b>
<b>Financial liabilities</b>							
Demand deposits	1 826 926	-	-	-	-	-	1 826 926
Term deposits	210 511	84 786	123 050	2 675	-	-	-
Savings deposits	16 076	16 076	-	-	-	-	-
Other liabilities- Current	173 472	-	-	-	-	-	173 472
Other liabilities- Non Current	105 861	-	-	-	-	-	105 861
Lease liability- Current	11 574	3 858	3 858	3 858	-	-	-
Lease liability- Non Current	12 540	2 508	2 508	2 508	2 508	2 508	-
	<b>2 356 960</b>	<b>107 228</b>	<b>129 416</b>	<b>9 041</b>	<b>2 508</b>	<b>2 508</b>	<b>2 106 259</b>
<b>Interest rate repricing gap</b>	<b>193 877</b>	<b>996 148</b>	<b>81 736</b>	<b>152 952</b>	<b>235 258</b>	<b>3 064</b>	<b>(1 274 921)</b>
<b>Cumulative gap</b>	<b>-</b>	<b>996 148</b>	<b>1 077 884</b>	<b>1 230 476</b>	<b>1 465 734</b>	<b>1 468 798</b>	<b>193 877</b>

Audited Inflation adjusted	Carrying amount	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non Det-erminable
	ZWL\$ '000	ZWL\$ '000	ZWL\$ '000	ZWL\$ '000	ZWL\$ '000	ZWL\$ '000	ZWL\$ '000
31 December 2018							
<b>Financial assets</b>							
Cash and cash equivalents	499 629	-	37 390	-	-	-	462 239
Loans and advances to customers	690 390	61 252	137 508	247 213	207 742	36 675	-
Investment securities at Fair value through OCI	6 838	-	-	-	-	-	6 838
Investments securities at amortised cost	1 220 915	-	505 066	715 849	-	-	-
Current tax assets	3 032	-	-	-	-	-	3 032
Other assets	175 192	-	-	-	-	-	175 192
	<b>2 595 996</b>	<b>61 252</b>	<b>679 964</b>	<b>963 062</b>	<b>207 742</b>	<b>36 675</b>	<b>647 301</b>
<b>Financial liabilities</b>							
Demand deposits	1 533 996	-	-	-	-	-	1 533 996
Term deposits	512 560	206 442	299 608	6 510	-	-	-
Savings deposits	88 430	88 430	-	-	-	-	-
Other liabilities	122 262	-	-	-	-	-	122 262
	<b>2 257 248</b>	<b>294 873</b>	<b>299 608</b>	<b>6 510</b>	<b>-</b>	<b>-</b>	<b>1 656 258</b>
<b>Interest rate repricing gap</b>	<b>338 748</b>	<b>(233 620)</b>	<b>380 356</b>	<b>956 552</b>	<b>207 742</b>	<b>36 675</b>	<b>(1 008 957)</b>
<b>Cumulative gap</b>	<b>-</b>	<b>(233 620)</b>	<b>146 736</b>	<b>1 103 288</b>	<b>1 311 030</b>	<b>1 347 705</b>	<b>338 748</b>

Unaudited Historical	Carrying amount	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non Det-erminable
	ZWL\$ '000	ZWL\$ '000	ZWL\$ '000	ZWL\$ '000	ZWL\$ '000	ZWL\$ '000	ZWL\$ '000
31 December 2018							
<b>Financial assets</b>							
Cash and cash equivalents	80 456	-	6 021	-	-	-	74 435
Loans and advances to customers	111 174	9 863	22 143	39 809	33 453	5 906	-
Investment securities at Fair value through OCI	777	-	-	-	-	-	777
Investments securities at amortised cost	196 605	-	81 331	115 274	-	-	-
Current tax assets	47	-	-	-	-	-	47
Other assets	27 887	-	-	-	-	-	27 887
	<b>416 946</b>	<b>9 863</b>	<b>109 495</b>	<b>155 083</b>	<b>33 453</b>	<b>5 906</b>	<b>103 146</b>
<b>Financial liabilities</b>							
Demand deposits	247 020	-	-	-	-	-	247 020
Term deposits	82 538	33 243	48 246	1 048	-	-	-
Savings deposits	14 240	14 240	-	-	-	-	-
Other liabilities	19 688	-	-	-	-	-	19 688
	<b>363 486</b>	<b>47 483</b>	<b>48 246</b>	<b>1 048</b>	<b>-</b>	<b>-</b>	<b>266 708</b>
<b>Interest rate repricing gap</b>	<b>53 460</b>	<b>(37 620)</b>	<b>61 249</b>	<b>154 034</b>	<b>33 453</b>	<b>5 906</b>	<b>(163 562)</b>
<b>Cumulative gap</b>	<b>-</b>	<b>(37 620)</b>	<b>23 629</b>	<b>177 663</b>	<b>211 116</b>	<b>217 022</b>	<b>53 460</b>

### 6.5 Enterprise Wide Risk Management Framework

Nedbank Zimbabwe follows a policy of Enterprise wide Risk Management (ERM), which aligns strategy, policies, charters, people, processes, technology and knowledge in order to evaluate and manage the opportunities, threats and uncertainties that the Bank may face in its on-going efforts to create shareholder value. ERM integrates risk, finance and balance sheet management across the Bank's entire risk universe, including business units and operating divisions, geographical locations and legal entities.

Against this backdrop, all risks – including those associated with sustainability – are managed according to a 'three lines of defence model with the Board of Directors being ultimately responsible for setting the Bank's Risk appetite, approving Risk Management Strategy and ensuring an effective system of internal control. The Bank's Executive Management reviews the Risk Profile on a regular basis and ensures that there is sufficient monitoring of the control environment and timely remediation of issues. The Bank has independent Risk as well as Governance and Compliance functions whose primary role is to develop and monitor implementation of the overall robust risk framework while Internal Audit and External Audit provides independent objective assurance on the adequacy and effectiveness of the risk management framework and implementation across the bank.

It is the Bank's view that a strong risk governance process is the foundation for successful risk management, which is why this model represents the core of the business' Enterprise wide Risk Management Framework (ERMF). The ERMF places emphasis on accountability, responsibility, independence, reporting, communications and transparency, and comprises 18 risk categories, one being Operational Risk that is managed, monitored, measured and reported on by the first, second and third line of defence functions.

The Bank registered a marked improvement in its overall risk profile in 2019 with notable positive movements recorded for Governance & Compliance Risk, Reputational Risk, Credit Risk and Operational Risk.

### 6.6 Operational risk

This is the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This includes legal risk but excludes strategic risk and reputational risk. The event types of operational risk are:

- business disruption and system failures;
- clients, products and business practices;
- damage to physical assets;
- employment practices and workplace safety;
- execution, delivery and process management;
- external fraud;
- internal fraud;

The Bank takes cognizance of the pervasive nature of Operational risk and its impact on all the risks within the Risk Universe hence the adoption of an integrated approach in managing it. One of the Bank's Operational Risk Management Framework (ORMF) objectives is to integrate the operational risk management program to performance metrics and incentives of the Bank. By managing operational risk through an integrated approach where all the key elements of the ORMF are viewed together in a holistic manner, the Bank was able to proactively manage risk and realize significant business and ultimately financial benefits.

The Bank's Operational Risk Framework includes strategies articulated in concise operational risk policies, an operational risk governance structure, operational risk monitoring, loss recording, reporting and escalation processes and risk reporting structure. Operational risk loss tolerance thresholds are set on an annual basis based on 5 years historic loss experience and management's view about the future operating environment, given controls in place. Operational risk management is embedded in the day to day activities of business units and operational departments and supported by independent risk monitoring and audit and assurance functions.

A significant part of the Bank's operations are automated and processed in the core banking system. Key banking operations in wholesale and retail banking, and treasury services are heavily dependent on the Bank's core banking system. The core banking system also supports key accounting processes for financial assets, financial liabilities and revenue including customer interface on mobile, internet banking and related electronic platforms

The Bank's Executive Committee, Enterprise Risk Committee ("ERCO") and the various operational committees meet on a regular basis to review and ensure line functions are effectively managing this risk. The IT Steering Committee monitors and

plans all issues pertaining to information technology risk (both operational and strategic) and manages the Bank's business continuity capability.

Theme based Risk and Control Self Assessments ("RCSA") are now well embedded across business units. The RCSA Methodology is designed to enable focused assessment of the managed risk profile. It is a methodology for identifying and assessing, monitoring and managing key risks within the business and evaluating the effectiveness of the controls that are in place to manage these risks. Controls within the Bank's environment are largely adequate and effective.

Key Risk Indicators form an integral part of our framework. They provide insight into the bank's risk exposure/profile and provide early warning signals of potential events that may harm continuity of business activity or may result in losses. The Bank's Key Risk Indicators are also used to evaluate the risk profile of the business and are paired with escalation triggers that provide alerts when risk levels approach or exceed thresholds or limits hence prompting for mitigation plans.

The Bank is satisfied with the quality of operational loss recording and control in line with Basel II requirements. Collection and analysis of internal loss data has assisted the Bank to manage the cost to income ratio through improved efficiencies and reduced operational losses, improve processes by identifying systemic control failures and causes, reduce earnings volatility and validate control effectiveness and risk management activities. The Bank is within its Gross expected operational loss thresholds for the year under review.

The Bank uses Statistical Analysis System (SAS), an integrated solution that enables online capturing of losses, risks, key risk indicators and other related components, thus providing a holistic view of the Bank's operational risk management components. The solution also allows Business to make optimal decisions.

### 6.7 Compliance risk

This is the risk of legal or regulatory sanctions, material financial loss, or loss of reputation the Bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its banking and other activities. It may also expose the Bank to loss of authorisation to operate and an inability to enforce contracts.

An independent Governance and Compliance function is in place. Whilst individual business and operating functions are responsible and accountable for compliance management in their environments, the unit monitors and guides the Bank on compliance matters ensuring the Bank achieves full compliance in line with the Board's attitude of zero tolerance to compliance breaches.

### 6.8 Strategic risk

The risk of an adverse impact on capital and earnings due to business policy decisions (made or not made), changes in the economic environment, deficient or insufficient implementation of decisions, or a failure to adapt to changes in the environment. Strategic risk is either the failure to do the right thing, doing the right thing poorly, or doing the wrong thing. Strategic risk includes:

- the risk associated with the deployment of large pieces of capital into strategic investments that subsequently fail to meet stakeholders expectations;
- the risk that the strategic processes to perform the environmental scan, align various strategies, formulate a vision, strategies, goals and objectives and allocate resources for achieving, implementing, monitoring and measuring the strategic objectives are not properly in place or are defective; and
- failure to adequately review and understand the environment in which the Bank operates leading to underperformance of its strategic and business objectives.

The Board is ultimately responsible for the development, approval and application of the Bank's strategic risk principles. The Board approves the Bank's strategy, whilst management is responsible for implementation and ensuring that regular reviews are undertaken in line with changes in operating conditions. There are various ongoing strategy review initiatives at country and Group level, with the Bank's Managing Director providing leadership.

### 6.9 Reputational risk

The risk of impairment of the Bank's image in the community or the long-term trust placed in the Bank by its shareholders as a result of a variety of factors, such as the Bank's performance, strategy execution, brand positioning and competitiveness, ability to create shareholder value, or an activity, action or stance taken by the Bank. This may result in loss of business and/or legal action.

### 6.10 Basel II Implementation

The Bank has satisfactorily embraced Basel II standards in the day to day running of the business. The Bank continues to be reporting on both prudential Returns under Basel I and II as per the RBZ requirements. The Bank's operations are principally guided by its internal capital adequacy assessment process. Stress testing has become an integral component of the business decision making process, and in the determination, and subsequent regular reviews of the Bank's risk appetite thresholds. The Bank's risk strategy hinges on stress testing results among other key risk factors. The Bank has substantially adopted the new RBZ guidelines in developing its 2018 Internal Capital Adequacy Assessment Process (ICAAP) document which undergoes a rigorous review process as per internal governance processes and was subsequently submitted to RBZ on March 31, 2019. All the key models have gone through the annual validation process as per the Board approved model validation framework and the results were satisfactory. Risk-adjusted performance measurements and value-based management will remain the guiding philosophy in the consolidation of Basel II implementation, and optimise the otherwise competing interests of our stakeholders.

Management's focus is now in closing a few identified gaps and is ready to embrace components of Basel III standards as will be guided by RBZ.

### 6.11 Capital management

#### 6.11.1 Regulatory capital

The Bank's objectives when managing capital, which is a broader concept than 'equity' on the face of the statement of financial position are:

- To comply with the capital requirements set by the Reserve Bank of Zimbabwe (RBZ);
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To maintain a strong capital base to support the development of its business; and
- To implement an effective Internal Capital Adequacy Assessment Process that regularly aligns available financial resources to actual regulatory and economic capital, in order to meet the Bank's current and future capital requirements given its total risk exposure and risk under writing behavior going forward.

Capital adequacy and the use of regulatory capital are monitored monthly by the Bank's management, employing techniques based on guidelines developed by the Basel Committee, as implemented by the RBZ for supervisory purposes. The required information is filed with the RBZ on a quarterly basis.

The Bank maintains a ratio of total regulatory capital to its risk-weighted assets of not less than 12%, in line with guidelines provided by the RBZ as disclosed in this note. The weighting seeks to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Bank has sufficient economic capital to support the risks the Bank is carrying.

The regulatory capital requirements are strictly observed when managing economic capital. The Bank's regulatory capital is managed by the Finance Department and comprises three tiers:

- Tier 1 capital: ordinary share capital, share premium and retained earnings after deductions for loans to insiders and other regulatory adjustments relating to allocation of capital for market and operational risk;
- Tier 2 capital: asset revaluation reserves and collective impairment allowance; and
- Tier 3 capital: amounts of tier 1 capital allocated to market and operational risks.

The Bank's policy is to maintain a strong capital base that will not limit new business development.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the year ended 31 December 2019. Over the past two years, the Bank complied with all the externally imposed capital requirements to which it is subject.

	AUDITED HISTORICAL	
	2019 ZWL\$ '000	2018 ZWL\$ '000
<b>Tier 1 capital</b>		
Share capital	93	93
Share premium	17 785	17 785
Retained earnings	50 391	36 735
Profit for the year	146 872	14 339
Regulatory reserve	-	-
Revaluation and fair value reserves	50 248	210
Less: Insider loans	-	-
Less: Revaluation and fair value reserves	(50 248)	(210)
Less: Regulatory reserve	-	-
Less: Tier 1 capital allocated to market risk	(9 452)	(347)
Less: Tier 1 capital allocated to operational risk	(27 479)	(5 050)
<b>Total qualifying Tier 1 capital</b>	<b>178 210</b>	<b>63 555</b>
<b>Tier 2 capital</b>		
Regulatory reserve	-	-
Revaluation and fair value reserves	50 248	210
Portfolio provision for impairment	8 462	2 936
<b>Total qualifying Tier 2 capital</b>	<b>58 710</b>	<b>3 146</b>
<b>Tier 3 capital</b>		
Allocation of capital to market risk	9 452	347
Allocation of capital to operational risk	27 479	5 050
<b>Total qualifying Tier 3 capital</b>	<b>36 931</b>	<b>5 397</b>
<b>Total regulatory capital</b>	<b>273 851</b>	<b>72 098</b>
<b>Total risk-weighted assets</b>	<b>1 295 273</b>	<b>244 820</b>
Total regulatory capital ratio	21%	32%
Tier 1 capital ratio	14%	28%
Minimum RBZ regulatory ratio	12%	12%

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### 6.11 Capital management (Contd)

#### 6.11.2 External ratings

The Bank is assessed by Global Credit Rating Company Limited (GCR), a credit rating agency accredited by the Reserve Bank of Zimbabwe. The following are the ratings by GCR of the Bank for the past three years.

Security Class	Rating Scale	Rating	Expiry Date
Long Term	National	A	April 2020
Long Term	National	A	April 2019
Long Term	National	A	April 2018

Long term debt rating scale

A: High credit quality. Protection factors are good

#### 6.11.3 Reserve Bank of Zimbabwe ratings

The Reserve Bank of Zimbabwe conducted a risk-based on-site examination in May 2014. The results per the CAMELS rating scale with comparison against previous on-site examination are summarised below:

##### 6.11.3.1 CAMELS Ratings

CAMELS component	May 2014	September 2008
Capital adequacy	1-Strong	3-Fair
Asset quality	2-Satisfactory	2-Satisfactory
Management	3-Fair	3-Fair
Earnings	3-Fair	3-Fair
Liquidity	1-Strong	2-Satisfactory
Sensitivity to market risk	2-Satisfactory	2-Satisfactory
Composite Rating	2-Satisfactory	2-Satisfactory

##### 6.11.3.2 Risk Assessment System (RAS) Ratings

RAS component	May 2014
Overall Inherent Risk	Moderate
Overall Risk Management System	Acceptable
Overall Composite Risk	Moderate
Direction of Overall Composite Risk	Stable

##### 6.11.3.3 Summary risk matrix

Type of risk	Level of Inherent Risk	Adequacy of risk management	Overall Composite risk	Direction of Overall composite risk
Credit	Moderate	Acceptable	Moderate	Stable
Liquidity	Low	Acceptable	Low	Stable
Interest Rate	Moderate	Acceptable	Moderate	Stable
Foreign exchange	Low	Acceptable	Low	Stable
Strategic	Moderate	Acceptable	Moderate	Stable
Operational	High	Acceptable	High	Increasing
Legal and compliance	Moderate	Acceptable	Moderate	Stable
Reputation	Low	Strong	Low	Stable
Overall	Moderate	Acceptable	Moderate	Stable

#### Key Level of inherent risk

Reflects a lower than average probability of an adverse impact on a Banking institution's capital earnings. Losses in a functional area with low inherent risk would have little negative impact on the Banking institutions' overall financial condition.

Could reasonably be expected to result in a loss which could be absorbed by a Banking institution in the normal course of business.

Reflects a higher than average probability of potential loss. High inherent risk could reasonably be expected to result in a significant and harmful loss to the Banking institution.

#### Adequacy of Risk Management Systems

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

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

#### Overall Composite Risk

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

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

Risk management systems do not significantly mitigate the high inherent risk.

#### Direction of Overall Composite risk

Based on the current information, risk is expected to be stable in the next twelve months.  
Based on the current information, risk is expected to increase in the next twelve months.

#### 6.11.3.4 Overall rating

The composite CAMELS rating assigned to the Bank is "2" i.e. "satisfactory". Institutions in this group are fundamentally sound. For an institution to receive this rating, generally, no component rating should be more severe than 3. Only moderate weaknesses are present and are well within the Board of Directors' and management's capabilities and willingness to correct. These institutions are stable and are capable of withstanding business fluctuations. These institutions are in substantial compliance with laws and regulations. Overall risk management practices are satisfactory relative to the institution's size, complexity and risk profile. There are no material supervisory concerns and, as a result, the supervisory response is informal and limited.

## 7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotation. For all other financial instruments, the Bank determines fair values using other valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

### 7.1 Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of inputs used in making the measurements. The fair values of financial assets and financial liabilities that are traded in active market are based on quoted market prices or dealer price quotation. For all other financial instruments, the Bank determines fair values using other valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

<b>Level 1</b>	<b>Quoted prices (unadjusted)</b> in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, the Zimbabwe Stock Exchange).
<b>Level 2</b>	<b>Valuation techniques based on observable inputs</b> , either directly (i.e. as prices) or indirectly (i.e. derived from quoted prices). This category includes instruments valued using: quoted market prices for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
<b>Level 3</b>	<b>Valuation techniques using unobservable inputs</b> . This category includes all instruments where the valuation technique inputs are not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect the differences between instruments.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised.

### 7.1 Valuation models (Contd)

	Note	Level 1 ZWL\$ '000	Level 2 ZWL\$ '000	Level 3 ZWL\$ '000	Total ZWL\$ '000
<b>2019</b>					
Investment securities designated at fair value through OCI:	21	-	-	10 461	10 461
		-	-	10 461	10 461
<b>2018</b>					
Investment securities designated at fair value through OCI:	21	-	-	777	777
		-	-	777	777

The investment securities are the only financial instruments measured at fair value and there have been no transferred between level 1, level 2 and level 3 in the fair value hierarchy.

#### Measurement of fair value

##### Fair value hierarchy

##### Level 3

The fair value of investment securities at fair value through Other Comprehensive has been categorised under level 3 in the fair value hierarchy based on the inputs to the valuation technique used.

The following is reconciliation from the opening balances to the closing balances for the level 3 fair values.

<b>Balance at 1 January 2019</b>	<b>6 838</b>
Exchange gain through the Profit and Loss	3 623
<b>Balance at 31 December 2019</b>	<b>10 461</b>

#### Valuation technique and significant unobservable inputs

The costs of these financial statements approximates the fair value.

### 7.2 Financial instruments not measured at fair value

The following tables set out the fair value of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

	Level 1 ZWL\$ '000	Level 2 ZWL\$ '000	Level 3 ZWL\$ '000	Total ZWL\$ '000	Fair Value ZWL\$ '000
<b>Audited Inflation adjusted 2019</b>					
<b>Assets</b>					
Cash and cash equivalents	-	1 642 161	-	1 642 161	1 642 161
Loans and advances to customers	-	-	450 384	450 384	450 384
Investment securities	-	-	172 633	172 633	172 633
Other assets	-	-	276 473	276 473	276 473
<b>Total assets</b>	-	<b>1 642 161</b>	<b>899 490</b>	<b>2 541 651</b>	<b>2 541 651</b>
<b>Liabilities</b>					
Deposits from customers	-	2 053 513	-	2 053 513	2 053 513
Other liabilities	-	-	173 472	173 472	173 472
Lease liability	-	-	24 114	24 114	24 114
<b>Total liabilities</b>	-	<b>2 053 513</b>	<b>197 586</b>	<b>2 251 099</b>	<b>2 251 099</b>
<b>Net (liabilities)/ asset position</b>	-	<b>(411 352)</b>	<b>701 904</b>	<b>290 552</b>	<b>290 552</b>

	Level 1 ZWL\$ '000	Level 2 ZWL\$ '000	Level 3 ZWL\$ '000	Total ZWL\$ '000	Fair Value ZWL\$ '000
<b>Unaudited Historical 2019</b>					
<b>Assets</b>					
Cash and cash equivalents	-	1 642 161	-	1 642 161	1 642 161
Loans and advances to customers	-	-	450 384	450 384	450 384
Investment securities	-	-	172 633	172 633	172 633
Other assets	-	-	275 198	275 198	169 458
<b>Total assets</b>	-	<b>1 642 161</b>	<b>898 215</b>	<b>2 540 376</b>	<b>2 540 376</b>
<b>Liabilities</b>					
Deposits from customers	-	2 053 513	-	2 053 513	2 053 513
Other liabilities	-	-	173 472	173 472	173 472
Lease liability	-	-	24 114	24 114	24 114
<b>Total liabilities</b>	-	<b>2 053 513</b>	<b>197 586</b>	<b>2 251 099</b>	<b>2 251 099</b>
<b>Net (liabilities)/ asset position</b>	-	<b>(305 612)</b>	<b>700 629</b>	<b>289 277</b>	<b>289 277</b>

	Level 1 ZWL\$ '000	Level 2 ZWL\$ '000	Level 3 ZWL\$ '000	Total ZWL\$ '000	Fair Value ZWL\$ '000
<b>Audited Inflation adjusted 2018</b>					
<b>Assets</b>					
Cash and cash equivalents	-	499 629	-	499 629	499 629
Loans and advances to customers	-	-	690 390	690 390	690 390
Investment securities	-	-	1 220 917	1 220 917	1 220 917
Other assets	-	-	175 192	175 192	175 192
<b>Total assets</b>	-	<b>499 629</b>	<b>2 086 499</b>	<b>2 586 128</b>	<b>2 586 128</b>
<b>Liabilities</b>					
Deposits from customers	-	2 134 986	-	2 134 986	2 134 986
Other liabilities	-	-	122 262	122 262	122 262
<b>Total liabilities</b>	-	<b>2 134 986</b>	<b>122 262</b>	<b>2 257 248</b>	<b>2 257 248</b>
<b>Net (liabilities)/ asset position</b>	-	<b>(1 635 357)</b>	<b>1 964 237</b>	<b>328 880</b>	<b>328 880</b>

	Level 1 ZWL\$ '000	Level 2 ZWL\$ '000	Level 3 ZWL\$ '000	Total ZWL\$ '000	Fair Value ZWL\$ '000
<b>Unaudited Historical 2018</b>					
<b>Assets</b>					
Cash and cash equivalents	-	80 456	-	80 456	80 456
Loans and advances to customers	-	-	111 174	111 174	111 174
Investment securities	-	-	196 605	196 605	196 605
Other assets	-	-	27 887	27 887	27 887
<b>Total assets</b>	-	<b>80 456</b>	<b>335 666</b>	<b>416 122</b>	<b>416 122</b>
<b>Liabilities</b>					
Deposits from customers	-	343 798	-	343 798	343 798
Other liabilities	-	-	19 688	19 688	19 688
<b>Total liabilities</b>	-	<b>343 798</b>	<b>19 688</b>	<b>363 486</b>	<b>363 486</b>
<b>Net (liabilities)/ asset position</b>	-	<b>(263 342)</b>	<b>315 978</b>	<b>52 636</b>	<b>52 636</b>

#### Cash and cash equivalents

Cash and cash equivalents consists of notes and coins on hand, unrestricted balances in local and foreign banks, liquid financial assets with original maturities of 3 months or less. These balances are subject to insignificant risk of change in their fair value. It is the directors' assessment that the carrying amount of these balances approximates their fair value at any given time.

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### 7.2 Financial instruments not measured at fair value (Contd)

#### Loans and advances to customers

These financial assets are net of impairment provisions. The estimated fair value of loans and advances is estimated to approximate the carrying amount due to non-availability of benchmark interest rates to discount the expected future cash flows thereof.

Management believe that current interest rates are market related and would re-issue the loans at the same interest rate if needed. Discounting the future cash flows for the significant portion of the balance would approximate the carrying amount. It is from this assessment that the directors believe that the carrying amount of these balances reasonably approximate fair value as discounting the future cash flow using market interest rates would not result in significant differences from the carrying amount.

#### Investment securities measured at amortised cost

These financial assets consist of open market treasury bills bought to support the Government of Zimbabwe and Afreximbank Trade Debt Backed Securities. These are all maturing in the next 2 years. There is currently no observable active market for these instruments, or a reliable proxy to discount the expected future cash flows. Directors believe that the carrying amount approximates fair value on these instruments. In performing this assessment, the directors have determined that interest rates are consistent with the latest transactions that the Bank entered into and the average tenor of the portfolio was short-term in nature.

#### 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. The estimated fair value of fixed interest-bearing deposits approximates the carrying amount as interest rates quoted are market related. It is the view of the directors that the carrying amounts of these assets and liabilities reasonably approximate fair values.

#### Other assets and other liabilities

Other assets have maturity profiles within 1 year, which means that the effect of discounting the future cash flows of the balance approximate the carrying amount.

A significant portion of the contractual maturity profile of other liabilities is within 1 year implying that the effect of discounting is immaterial.

It is the view of the directors that the carrying amounts of other assets and other liabilities reasonably approximate fair values.

#### Accounting classifications and fair values

Audited Inflation adjusted	Designated at fair value through OCI ZWL\$	Financial asset/ Liabilities at amortised cost ZWL\$	Total carrying amount ZWL\$	Fair value ZWL\$
<b>2019</b>				
<b>Financial assets</b>				
Cash and cash equivalents	-	1 642 161	1 642 161	1 642 161
Loans and advances to customers	-	450 384	450 384	450 384
Investment securities at fair value through OCI	10 461	-	10 461	10 461
Investment securities	-	172 633	172 633	172 633
Other assets	-	276 473	276 473	276 473
<b>Total</b>	<b>10 461</b>	<b>2 541 651</b>	<b>2 552 112</b>	<b>2 552 112</b>
<b>Financial liabilities</b>				
Demand deposits	-	1 826 926	1 826 926	1 826 926
Term deposits	-	210 511	210 511	210 511
Savings deposits	-	16 076	16 076	16 076
Other liabilities	-	279 333	279 333	279 333
<b>Total</b>	<b>-</b>	<b>2 332 846</b>	<b>2 332 846</b>	<b>2 332 846</b>

Unaudited Historical	Designated at fair value through OCI ZWL\$	Financial asset/ Liabilities at amortised cost ZWL\$	Total carrying amount ZWL\$	Fair value ZWL\$
<b>2019</b>				
<b>Financial assets</b>				
Cash and cash equivalents	-	1 642 161	1 642 161	1 642 161
Loans and advances to customers	-	450 384	450 384	450 384
Investment securities at fair value through OCI	10 461	-	10 461	10 461
Investment securities	-	172 633	172 633	172 633
Other assets	-	275 198	275 198	169 458
<b>Total</b>	<b>10 461</b>	<b>2 540 376</b>	<b>2 550 837</b>	<b>2 550 837</b>
<b>Financial liabilities</b>				
Demand deposits	-	1 826 926	1 826 926	1 826 926
Term deposits	-	210 511	210 511	210 511
Savings deposits	-	16 076	16 076	16 076
Other liabilities	-	277 625	277 625	277 625
<b>Total</b>	<b>-</b>	<b>2 331 138</b>	<b>2 331 138</b>	<b>2 331 138</b>

Audited Inflation adjusted	Designated at fair value through OCI ZWL\$	Financial asset/ Liabilities at amortised cost ZWL\$	Total carrying amount ZWL\$	Fair value ZWL\$
<b>2018</b>				
<b>Financial assets</b>				
Cash and cash equivalents	-	499 629	499 629	499 629
Loans and advances to customers	-	690 390	690 390	690 390
Investment securities at fair value through OCI	6 838	-	6 838	6 838
Investment securities	-	1 220 917	1 220 917	1 220 917
Other assets	-	175 192	175 192	175 192
<b>Total</b>	<b>6 838</b>	<b>2 586 128</b>	<b>2 592 966</b>	<b>2 592 966</b>
<b>Financial liabilities</b>				
Demand deposits	-	1 533 994	1 533 994	1 533 994
Term deposits	-	512 561	512 561	512 561
Savings deposits	-	88 430	88 430	88 430
Other liabilities	-	122 262	122 262	122 262
<b>Total</b>	<b>-</b>	<b>2 257 247</b>	<b>2 257 247</b>	<b>2 257 247</b>

Unaudited Historical	Designated at fair value through OCI ZWL\$	Financial asset/ Liabilities at amortised cost ZWL\$	Total carrying amount ZWL\$	Fair value ZWL\$
<b>2018</b>				
<b>Financial assets</b>				
Cash and cash equivalents	-	80 456	80 456	80 456
Loans and advances to customers	-	111 174	111 174	111 174
Investment securities at fair value through OCI	777	-	777	777
Investment securities	-	196 605	196 605	196 605
Other assets	-	27 887	27 887	27 887
<b>Total</b>	<b>777</b>	<b>416 122</b>	<b>416 899</b>	<b>416 899</b>
<b>Financial liabilities</b>				
Demand deposits	-	247 020	247 020	247 020
Term deposits	-	82 538	82 538	82 538
Savings deposits	-	14 240	14 240	14 240
Other liabilities	-	19 688	19 688	19 688
<b>Total</b>	<b>-</b>	<b>363 486</b>	<b>363 486</b>	<b>363 486</b>

### 8. NET INTEREST INCOME

Interest income from:	2019	2018	2019	2018
	ZWL\$ '000	ZWL\$ '000	ZWL\$ '000	ZWL\$ '000
<b>Interest income from:</b>				
Investment securities at amortised cost	41 512	43 016	13 035	10 107
Loans and advances to business banking clients	51 117	43 602	24 109	5 847
Loans and advances to large corporates	51 155	27 355	27 199	3 545
Loans and advances to individuals	10 616	12 903	4 920	2 068
Placements with foreign and local banks	3 015	18 132	1 693	1 068
Home loans	2 420	4 859	761	782
Loans and advances to Small to Medium Enterprises	5 074	3 995	2 406	626
Staff loans	1 289	2 588	405	557
Cash and cash equivalents	479	961	151	62
<b>Total</b>	<b>166 677</b>	<b>157 411</b>	<b>74 679</b>	<b>24 662</b>
<b>Interest expense on:</b>				
Deposits from banks	(23 234)	(5 548)	(11 452)	(1 262)
Deposits from corporates	(7 299)	(6 461)	(1 815)	(753)
Deposits from individuals	(701)	(1 921)	(187)	(145)
<b>Total</b>	<b>(31 234)</b>	<b>(13 930)</b>	<b>(13 454)</b>	<b>(2 160)</b>
<b>Total</b>	<b>135 443</b>	<b>143 481</b>	<b>61 225</b>	<b>22 502</b>

Interest income and expenses recognised is calculated using the effective interest rate method.

### 9. FEES AND COMMISSION INCOME

	AUDITED INFLATION ADJUSTED		UNAUDITED HISTORICAL	
	2019 ZWL\$ '000	2018 ZWL\$ '000	2019 ZWL\$ '000	2018 ZWL\$ '000
Digital banking platforms revenue	94 486	53 159	49 788	8 321
International banking fees	50 730	24 698	32 827	3 089
Account maintenance fees	67 098	19 552	21 735	3 865
Cash withdrawal fees	28 237	12 867	11 304	1 993
RTGS processing fees	13 451	12 200	7 340	1 923
Other income	9 650	5 370	8 826	768
Agency commission	-	1 214	-	196
<b>Total</b>	<b>263 652</b>	<b>129 060</b>	<b>131 820</b>	<b>20 155</b>

### 10. NET TRADING AND DEALING INCOME

Trading and dealing income	AUDITED INFLATION ADJUSTED		UNAUDITED HISTORICAL	
	2019 ZWL\$ '000	2018 ZWL\$ '000	2019 ZWL\$ '000	2018 ZWL\$ '000
Exchange and dealing income	72 826	32 678	36 298	5 148
Other treasury income	58 414	820	34 829	84
<b>Total</b>	<b>131 240</b>	<b>33 498</b>	<b>71 127</b>	<b>5 232</b>

### 11. FOREIGN EXCHANGE GAIN / (LOSS)

Revaluation of foreign balances	2019 ZWL\$ '000	2018 ZWL\$ '000	2019 ZWL\$ '000	2018 ZWL\$ '000
Revaluation of foreign balances	113 561	(933)	95 960	(44)
<b>Total</b>	<b>113 561</b>	<b>(933)</b>	<b>95 960</b>	<b>(44)</b>

Foreign exchange gains resulted from the exchange rate movement between ZWL\$ and US\$. The rate started on 22 February 2019 at US\$1: ZWL\$2.5. At year end the rate was US\$1: ZWL\$16.78

### 12. NET IMPAIRMENT LOSS / GAIN ON FINANCIAL ASSETS

Net loan impairment write back/charge	AUDITED INFLATION ADJUSTED		UNAUDITED HISTORICAL	
	2019 ZWL\$ '000	2018 ZWL\$ '000	2019 ZWL\$ '000	2018 ZWL\$ '000
Loan impairment charge				
Stage 1- 12 Months Expected Credit Loss Allowance charge	31 623	2 763	6 574	421
Stage 2- Lifetime Expected Credit Loss Allowance not credit impaired charge	8 243	372	1 714	57
Stage 3- Lifetime Expected Credit Loss Allowance credit impaired write back	(6 980)	(8 372)	(1 451)	(1 275)
<b>Gross impairment write back</b>	<b>32 886</b>	<b>(5 237)</b>	<b>6 837</b>	<b>(797)</b>
Bad debts recovered	(6 638)	(3 132)	(1 380)	(478)
<b>Net loan impairment charge/ (write back)</b>	<b>26 248</b>	<b>(8 369)</b>	<b>5 457</b>	<b>(1 275)</b>

### 13. EMPLOYEES AND DIRECTORS' COSTS

	AUDITED INFLATION ADJUSTED		UNAUDITED HISTORICAL	
	2019 ZWL\$ '000	2018 ZWL\$ '000	2019 ZWL\$ '000	2018 ZWL\$ '000
Payroll related costs	70 372	62 505	31 583	10 416
Staff bonus	39 045	8 273	17 524	1 260
Short term benefits	14 363	3 741	6 446	570
Other staff costs	9 276	4 899	4 163	746
Long term benefits	5 093	13 942	2 286	2 124
Directors' fees and emoluments	2 171	1 417	975	216
Education fund	1 011	476	454	73
Employee Share Ownership Scheme	-	9 286	-	1 414
<b>Total</b>	<b>141 331</b>	<b>104 539</b>	<b>63 431</b>	<b>16 819</b>

#### Nedbank Zimbabwe Limited Pension Fund

The Bank operates a defined contribution retirement benefit plan for all qualifying employees. The assets of the plan are held separately from those of the Bank in funds under the control of trustees. Total contribution for the year included in long term benefits was ZWL\$1.307 million (2018: ZWL\$0.807 million).

#### National Social Security Authority

The National Social Security scheme was introduced on 1 October 1994 and with effect from that date, all eligible employees became members of the scheme, to which the Bank and the employees contribute. The Bank is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Bank with respect to the retirement benefit plan is to make the specified contributions. Total contributions for the year included in long term benefits were ZWL\$0.119 million (2018: ZWL\$0.102 million).



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### 20. LOANS AND ADVANCES TO CUSTOMERS (continued)

#### 20.2 Analysis of gross loans and advances (continued)

Unaudited Historical	Retail		SME*		BBU**		Wholesale		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Term loans	17	4 052	96 052	211 079	311 200					
Overdrafts	2 262	6 661	50 724	36 539	96 186					
Personal loans	29 514	-	-	-	29 514					
Instalment credit loans	2 415	2 570	11 538	2 492	19 015					
Home loans	3 309	-	456	-	3 765					
Equity release	1 194	-	-	-	1 194					
	<b>38 711</b>	<b>13 283</b>	<b>158 770</b>	<b>250 110</b>	<b>460 874</b>					

\*SME - Small to Medium Enterprises  
\*\*BBU - Business Banking Units

### 21. INVESTMENT SECURITIES MEASURED AT AMORTISED COST

	AUDITED INFLATION ADJUSTED		UNAUDITED HISTORICAL	
	2019	2018	2019	2018
RBZ Savings bonds	150 572	806 902	150 572	129 936
RBZ Afreximbank Commission - Treasury Bills	-	3 896	-	627
RBZ 90 days open market - Treasury Bills	22 642	-	22 642	-
Afreximbank trade debt backed Securities	-	414 025	-	66 671
	<b>173 214</b>	<b>1 224 823</b>	<b>173 214</b>	<b>197 234</b>
Stage 1- 2 (12 Months Expected Credit Loss Allowance)	(581)	(3 908)	(581)	(629)
	<b>172 633</b>	<b>1 220 915</b>	<b>172 633</b>	<b>196 605</b>

### 22. INVESTMENT SECURITIES DESIGNATED AT FAIR VALUE THROUGH OCI- Equity Investment

	AUDITED INFLATION ADJUSTED		UNAUDITED HISTORICAL	
	2019	2018	2019	2018
Local denominated investments	163	1 434	163	163
Foreign denominated investment	614	5 404	614	614
Effects of changes in foreign exchange rates	9 684	-	9 684	-
	<b>10 461</b>	<b>6 838</b>	<b>10 461</b>	<b>777</b>

Exchange rate movements related to foreign investments which were denominated in US\$. The movement has been processed through the profit and loss and these shares are carried at fair value.

### 23. OTHER ASSETS

	Notes	AUDITED INFLATION ADJUSTED		UNAUDITED HISTORICAL	
		2019	2018	2019	2018
Clearing accounts		115 203	105 153	115 203	16 933
RBZ Legacy debt	23.1	105 740	-	105 740	-
Intercompany balances		49 544	40 589	49 544	6 536
Prepayments		2 965	12 387	1 690	1 670
Security deposits-collateral accounts		2 516	14 314	2 516	2 305
Stationery inventory		505	2 749	505	443
		<b>276 473</b>	<b>175 192</b>	<b>275 198</b>	<b>27 887</b>

\*The significant increase in clearing accounts is due to the increase in volume of transactions on electronic platforms. These balances are subsequently cleared in a short period of time.

	note 23.1	2019	2018	2019	2018
Non-current		105 740	-	105 740	-
Current		170 733	175 192	169 458	27 887
		<b>276 473</b>	<b>175 192</b>	<b>275 198</b>	<b>27 887</b>

### 23.1 Legacy debt

	AUDITED INFLATION ADJUSTED		UNAUDITED HISTORICAL	
	2019	2018	2019	2018
RBZ deposit paid	5 694	-	5 694	-
Exchange rate gain	100 167	-	100 167	-
	<b>105 861</b>	<b>-</b>	<b>105 861</b>	<b>-</b>
Fair value at initial recognition	64 575	-	64 575	-
Deferred day one loss	41 286	-	41 286	-
	<b>(121)</b>	<b>-</b>	<b>(121)</b>	<b>-</b>
Stage 1 Expected credit loss				
	<b>105 740</b>	<b>-</b>	<b>105 740</b>	<b>-</b>

This is a receivable from RBZ to settle outstanding foreign invoices for the period January 2009 to February 2019 amounting to ZAR89.211 million (ZWL\$105.861million) from Nedbank Group in respect of services rendered to the Bank. The Bank could not settle these invoices due to shortage of foreign currency.

### 23.1 Legacy debt Continued

The Bank registered this debt with the RBZ as Blocked Funds in line with the Exchange Control Directive RU28 dated 21 February 2019 and Exchange Control Circular No 8 of July 24 2019. A payment of ZWL\$5.694m representing the ZAR89.211 million at an exchange of 1US\$:12ZWL\$ was paid to the RBZ on 30 August 2019.

In December 2019, the Bank received confirmation that the registration of the liabilities had been approved and qualified to be treated as Blocked Funds in accordance with the Exchange Control Directive RU 28. Management concluded that, from this communication and the deposit paid, they had completed all the steps necessary to receive RBZ support for the repayment of the registered liabilities in accordance with the regulations. Management recognised the deposit made to the RBZ as a foreign currency receivable asset.

A fair value of this receivable on initial recognition was determined as the present value of future cash flows assuming quarterly repayment starting in 2021. The Bank used a rate of 12.38% after adjusting the South African Reserve Bank capital market rate as a proxy to discount the future cash flows. This resulted in a present value of ZWL\$64.575m and potential day 1 loss of ZWL\$41.286m to be amortised over the life of the receivable starting in 2021 in order to match with expected quarterly repayments.

The settlement of this receivable by the RBZ will enable the Bank to settle the outstanding ZAR\$89.211million obligation to Nedbank Group recognized under note 29

### 24. INTANGIBLE ASSETS

This comprises externally acquired computer software used in the Bank's operations and is amortised over a useful life of 3 years using the straight line method. The amortisation expense for the year of ZWL\$8 673 (2018: ZWL\$7 228) has been included in 'Depreciation and amortisation expenses' in the statement of profit or loss.

	AUDITED INFLATION ADJUSTED		UNAUDITED HISTORICAL	
	2019	2018	2019	2018
Cost at 1 January	10 861	2 081	1 469	1 469
Additions	1 208	-	445	-
	<b>12 069</b>	<b>2 081</b>	<b>1 914</b>	<b>1 469</b>
Accumulated amortisation at 1 January	9 675	1 844	1 308	1 301
Current year amortization (Note 15)	2 394	237	9	7
	<b>12 069</b>	<b>2 080</b>	<b>1 317</b>	<b>1 308</b>
Carrying amount as at 31 December	-	-	597	161

### 25. DEFERRED TAX ASSET

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate of 25.75% (2018: 25.75%).

The movement on the deferred tax balance is as follows:

	AUDITED INFLATION ADJUSTED		UNAUDITED HISTORICAL	
	2019	2018	2019	2018
At 1 January	19 134	12 023	2 174	1 366
(Charge)/ Credit recognised in profit or loss (Note 17)	(45 696)	(528)	(26 085)	(60)
Movement through Statement of changes in equity	(5 856)	7 639	(5 856)	868
	<b>(32 418)</b>	<b>19 134</b>	<b>(29 767)</b>	<b>2 174</b>
Temporary differences are attributable to the following items:				
	AUDITED INFLATION ADJUSTED		UNAUDITED HISTORICAL	
	2019	2018	2019	2018
<b>Taxable temporary differences</b>				
Property and equipment	9 798	10 680	7 459	1 214
Unrealised exchange loss	23 720	99	23 721	11
Other	5 856	-	5 856	-
	<b>39 374</b>	<b>10 779</b>	<b>37 036</b>	<b>1 225</b>
<b>Deductible temporary differences</b>				
Loan impairment provisions	(2 984)	(24 950)	7 132	(2 553)
Deferred income	-	(4 131)	-	(469)
Other	(4 242)	(832)	93	(388)
Effects of changes in tax rate	270	-	44	-
	<b>(6 956)</b>	<b>(29 913)</b>	<b>7 269</b>	<b>(3 399)</b>
	<b>32 418</b>	<b>(19 134)</b>	<b>29 767</b>	<b>(2 174)</b>

Recognition of the deferred tax liability of ZWL\$32.418million and deferred tax asset of ZWL\$2.174 million is based on management's profit forecasts which are based on the available evidence, including historical levels of profitability, indicating that it is probable that the Bank will generate sufficient future taxable profits against which these assets can be utilised.

### 26. PROPERTY AND EQUIPMENT

Audited inflation adjusted	Land	Buildings	Motor vehicles	Compute equipment	Furniture & fittings	Leasehold improvements	Hardware	Total
	ZWL \$'000'	ZWL \$'000'	ZWL \$'000'	ZWL \$'000'	ZWL \$'000'	ZWL \$'000'	ZWL \$'000'	ZWL \$'000'
Restated cost/valuation at 1 January 2019	5 233	2 047	6 761	42 818	27 667	10 334	6 195	101 055
Additions	-	-	131	8 791	740	4 887	-	14 549
Revaluation surplus	29 350	26 544	-	-	-	-	-	55 894
	<b>34 583</b>	<b>28 591</b>	<b>6 892</b>	<b>51 609</b>	<b>28 407</b>	<b>15 221</b>	<b>6 195</b>	<b>171 498</b>
Accumulated depreciation at 1 January 2019	-	233	4 177	6 201	16 538	7 152	6 020	40 321
Current year depreciation	-	41	1 368	9 337	6 572	2 694	175	20 187
	<b>-</b>	<b>274</b>	<b>5 545</b>	<b>15 538</b>	<b>23 110</b>	<b>9 846</b>	<b>6 195</b>	<b>60 508</b>
Carrying amount at 31 December 2019	<b>34 583</b>	<b>28 317</b>	<b>1 347</b>	<b>36 071</b>	<b>5 297</b>	<b>5 375</b>	<b>-</b>	<b>110 990</b>

A full valuation on Land and Buildings was performed by an independent valuation expert, Integrated Properties Consultants (Private) Limited as at 31 December 2019.

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	Land ZWL \$'000'	Buildings ZWL\$ '000	Motor vehicles ZWL\$ '000	Computer equipment ZWL\$ '000	Furniture & fittings ZWL\$ '000	Leasehold improvements ZWL '000	Hardware ZWL\$ \$'000'	Total ZWL\$ '000
<b>Audited Inflation adjusted</b>								
Cost/valuation as at 1 January 2018	4 241	18 015	6 264	37 926	15 928	12 304	7 375	102 054
Additions	35 133	-	1 497	10 944	3 409	-	-	50 983
Cost/valuation at 31 December 2018	39 374	18 015	7 761	48 870	19 337	12 304	7 375	153 036
Accumulated depreciation at 1 January 2018	-	1 678	4 186	17 016	4 713	8 340	5 900	41 833
Current year depreciation	-	450	1 328	8 132	3 356	2 461	1 475	17 202
Accumulated depreciation at 31 December 2018	-	2 128	5 514	25 148	8 069	10 801	7 375	59 035
<b>Carrying amount at 31 December 2018</b>	<b>39 374</b>	<b>15 887</b>	<b>2 247</b>	<b>23 722</b>	<b>11 268</b>	<b>1 503</b>	<b>-</b>	<b>94 001</b>

	Land ZWL \$'000'	Buildings ZWL\$ '000	Motor vehicles ZWL\$ '000	Computer equipment ZWL\$ '000	Furniture & fittings ZWL\$ '000	Leasehold improvements ZWL '000	Hardware ZWL\$ \$'000'	Total ZWL\$ '000
<b>Unaudited Historical</b>								
Cost/valuation as at 1 January 2019	5 233	2 047	914	5 790	2 271	1 398	838	18 491
Additions	-	-	38	4 005	1 807	1 756	-	7 606
Revaluation surplus	29 350	26 544	-	-	-	-	-	55 894
Cost/valuation at 31 December 2019	34 583	28 591	952	9 795	4 078	3 154	838	81 991
Accumulated depreciation at 1 January 2019	-	233	565	2 385	599	967	814	5 563
Current year depreciation	-	41	89	523	94	140	24	911
Accumulated depreciation at 31 December 2019	-	274	654	2 908	693	1 107	838	6 474
<b>Carrying amount at 31 December 2019</b>	<b>34 583</b>	<b>28 317</b>	<b>298</b>	<b>6 887</b>	<b>3 385</b>	<b>2 047</b>	<b>-</b>	<b>75 517</b>

A full valuation on Land and Buildings was performed by an independent valuation expert, Integrated Properties Consultants (Private) Limited as at 31 December 2019 and had these not been revalued, their carrying amounts in 2019 would have been as follows:

Land	ZWL\$ 5 232 845
Buildings	ZWL\$ 1 773 654

	Land ZWL \$'000'	Buildings ZWL\$ '000	Motor vehicles ZWL\$ '000	Computer equipment ZWL\$ '000	Furniture & fittings ZWL\$ '000	Leasehold improvements ZWL\$ '000	Hardware ZWL\$ \$'000'	Total ZWL\$ '000
<b>Unaudited Historical</b>								
Cost/valuation as at 1 January 2018	482	2 047	712	4 310	1 810	1 398	838	11 597
Additions	4 751	-	202	1 480	461	-	-	6 894
Cost/valuation at 31 December 2018	5 233	2 047	914	5 790	2 271	1 398	838	18 491
Accumulated depreciation at 1 January 2018	-	190	476	1 934	536	861	758	4 755
Current year depreciation	-	42	89	452	64	106	57	810
Accumulated depreciation at 31 December 2018	-	232	565	2 386	600	967	815	5 565
<b>Carrying amount at 31 December 2018</b>	<b>5 233</b>	<b>1 815</b>	<b>349</b>	<b>3 404</b>	<b>1 671</b>	<b>431</b>	<b>23</b>	<b>12 926</b>

### 27. RIGHT OF USE ASSET

	AUDITED INFLATION ADJUSTED		UNAUDITED HISTORICAL	
	2019 ZWL\$ '000'	2018 ZWL\$ '000'	2019 ZWL\$ '000'	2018 ZWL\$ '000'
Opening balance		9 025	-	1 453
Lease modification		17 555	-	25 127
Additions		23	-	23
Depreciation		(754)	-	(754)
	<b>25 849</b>	<b>-</b>	<b>25 849</b>	<b>-</b>

### 27.1 Portfolio classification (Historical and Inflation)

The Bank grouped the leases into two portfolios with similar characteristics.

	Branches ZWL\$ '000	Office & campus ZWL\$ '000	Total ZWL\$ '000
Opening balance	7 087	1 938	9 025
Lease modification	9 493	8 062	17 555
Additions	23	-	23
Depreciation	(491)	(263)	(754)
<b>Balance at 31 December</b>	<b>16 112</b>	<b>9 737</b>	<b>25 849</b>

The Bank has applied IFRS 16 with effect from 1 January 2019 by using the modified retrospective approach. IFRS 16 requires the recognition of right of use assets and future lease payment liabilities where the Bank is a lessee under a lease term that exceeds 12 months. The Bank recognised the right-of-use at cost and the Bank will recognise the lease liability at the present value of the lease payments not paid at that date. Right-of-use assets are depreciated in accordance with the accounting policy applicable to property, plant and equipment.

### 28. DEPOSITS FROM CUSTOMERS

#### 28.1 Customer deposits

	AUDITED INFLATION ADJUSTED		UNAUDITED HISTORICAL	
	2019 ZWL\$ '000'	2018 ZWL\$ '000'	2019 ZWL\$ '000'	2018 ZWL\$ '000'
Demand deposits	1 826 926	1 533 996	1 826 926	247 020
Term deposits	210 511	512 560	210 511	82 538
Savings deposits	16 076	88 430	16 076	14 240
	<b>2 053 513</b>	<b>2 134 986</b>	<b>2 053 513</b>	<b>343 798</b>

### 28.2 Deposit analysis

	Demand ZWL\$ '000	Term ZWL\$ '000	Savings ZWL\$ '000	Total ZWL\$ '000
<b>Audited Inflation adjusted 2019</b>				
Business Banking clients	790 580	7 308	-	797 888
Large Corporates	642 808	5 097	-	647 905
Small to Medium Enterprises	263 812	4 905	-	268 717
Foreign Banks	-	193 108	-	193 108
Individuals	111 722	93	16 033	127 848
Local Banks	12 989	-	-	12 989
Staff	5 015	-	43	5 058
	<b>1 826 926</b>	<b>210 511</b>	<b>16 076</b>	<b>2 053 513</b>

	Demand ZWL\$ '000'	Term ZWL\$ '000'	Savings ZWL\$ '000'	Total US\$ '000'
<b>Audited Inflation adjusted 2018</b>				
Large Corporates	620 938	74 831	2 255	698 024
Business Banking clients	495 370	93 968	16 025	605 363
Small to Medium Enterprises	261 088	49 937	20 148	331 173
Individuals	137 905	577	49 851	188 333
Foreign Banks	-	6 050	-	6 050
Local Banks	18 033	286 893	-	304 926
Staff	662	304	151	1 117
	<b>1 533 996</b>	<b>512 560</b>	<b>88 430</b>	<b>2 134 986</b>

### Deposit analysis

	Demand ZWL\$ '000	Term ZWL\$ '000	Savings ZWL\$ '000	Total ZWL\$ '000
<b>Unaudited Historical 2019</b>				
Business Banking clients	790 580	7 308	-	797 888
Large Corporates	642 808	5 097	-	647 905
Small to Medium Enterprises	263 812	4 905	-	268 717
Foreign Banks	-	193 108	-	193 108
Individuals	111 722	93	16 033	127 848
Local Banks	12 989	-	-	12 989
Staff	5 015	-	43	5 058
	<b>1 826 926</b>	<b>210 511</b>	<b>16 076</b>	<b>2 053 513</b>

### Unaudited Historical 2018

	Demand ZWL\$ '000	Term ZWL\$ '000	Savings ZWL\$ '000	Total ZWL\$ '000
Large Corporates	99 990	12 049	363	112 402
Business Banking clients	79 770	15 132	2 581	97 483
Small to Medium Enterprises	42 043	8 041	3 244	53 328
Individuals	22 207	92	8 028	30 327
Foreign Banks	-	974	-	974
Local Banks	2 904	46 198	-	49 102
Staff	106	52	24	182
	<b>247 020</b>	<b>82 538</b>	<b>14 240</b>	<b>343 798</b>

### 28.3 Sectoral analysis of deposits

	AUDITED INFLATION ADJUSTED		%	UNAUDITED HISTORICAL		%
	2019 ZWL\$ '000	2018 ZWL\$ '000		2019 ZWL\$ '000	2018 ZWL\$ '000	
Agriculture, forestry and fishing	321 371	133 406	16	321 371	21 483	6
Manufacturing	304 758	321 755	15	304 758	51 812	15
Wholesale and trade	284 855	134 402	14	284 855	21 643	6
Mining and quarrying	258 248	91 361	13	258 248	14 712	4
Banks – local and foreign	206 097	310 977	10	206 097	50 077	15
Retailers	187 705	92 128	9	187 705	14 835	4
Financial services, insurance	148 757	276 274	7	148 757	44 489	13
Individuals	133 272	189 450	6	133 272	30 507	9
Government and public sector	60 481	28 606	3	60 481	4 606	1
Transport	53 448	296 717	3	53 448	47 780	14
Building and property development	50 987	99 086	2	50 987	15 956	5
Other	43 534	160 824	2	43 534	25 898	8
	<b>2 053 513</b>	<b>2 134 986</b>	<b>100</b>	<b>2 053 513</b>	<b>343 798</b>	<b>100</b>

### 29 OTHER LIABILITIES

	AUDITED INFLATION ADJUSTED		UNAUDITED HISTORICAL	
	2019 ZWL\$ '000'	2018 ZWL\$ '000'	2019 ZWL\$ '000'	2018 ZWL\$ '000'
Intercompany creditors	145 206	33 981	145 206	5 472
Clearing accounts	60 188	31 605	60 188	5 102
Accrued expenses	26 178	17 762	26 178	2 860
Tax related liabilities	36 617	24 873	36 617	4 005
Deferred income	5 517	11 322	5 517	1 823
Staff related accruals and provisions	5 627	2 643	5 627	426
	<b>279 333</b>	<b>122 186</b>	<b>279 333</b>	<b>19 688</b>
Non current	105 861	24 549	105 861	3 952
Current	173 472	97 637	173 472	15 736
	<b>279 333</b>	<b>122 186</b>	<b>279 333</b>	<b>19 688</b>

Included in non-current liability is intercompany creditors of ZAR89,208 million (ZWL\$105, 861 million) due to Nedbank Group. This amount has been registered and approved as Blocked Fund by the Central Bank as provided in Exchange Control Directive RU28 dated 21 February 2019 and Exchange Control Circular No 8 of July 24 2019. The Central bank has communicated that they intend to issue US\$ Savings Bond at zero percent interest rate. The tenure is yet to be communicated nor has a specific instrument yet been issued. The settlement of ZAR89,208 million to Nedbank Group will be done upon receipt of the asset of ZWL\$105, 861 million recognized against the RBZ as disclosed in note 23

### 30. LEASE LIABILITY

	AUDITED INFLATION ADJUSTED		UNAUDITED HISTORICAL	
	2019 ZWL\$ '000'	2018 ZWL\$ '000'	2019 ZWL\$ '000'	2018 ZWL\$ '000'
Opening balance	9 025	-	1 453	-
Interest expenses	47	-	47	-
Additions	23	-	23	-
Lease modification	17 562	-	25 134	-
Lease payments	(2 543)	-	(2 543)	-
	<b>24 114</b>	<b>-</b>	<b>24 114</b>	<b>-</b>

The Bank has applied IFRS 16 with effect from 1 January 2019 by using the modified retrospective approach. IFRS 16 requires the recognition of right-of-use assets and future lease payment liabilities where the Bank is a lessee under a lease term that exceeds 12 months. The right-of-use at initial recognition will be recognised at cost and the company will recognise the lease liability at the present value of the lease payments not paid at that date. Right-of-use assets are depreciated in accordance with the accounting policy applicable to property, plant and equipment Lease finance costs are amortised to profit or loss (unless they are directly attributable to qualifying assets) over the duration of the leases so as to achieve a constant rate of interest on the remaining balance of the liability.

# AUDITED CONDENSED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 30.1 Reconciliation of the lease liability

The Bank had grouped the leases into two portfolios which similar characteristics.

	Branches ZWL\$ '000	Office & campus ZWL\$ '000	Total ZWL\$ '000
Opening balance	7 087	1 938	9 025
Interest expenses	40	7	47
Additions	23	-	23
Lease modification	10 793	6 769	17 562
Lease payment	(1 896)	(647)	(2 543)
<b>Closing balance</b>	<b>14 755</b>	<b>8 067</b>	<b>24 114</b>

### 30.2 Analysis of current and non-current lease liability

	Branches ZWL\$ '000	Office & campus ZWL\$ '000	Total ZWL\$ '000
Current	7 702	3 872	11 574
Non current	8 345	4 195	12 540
	<b>16 047</b>	<b>8 067</b>	<b>24 114</b>

### 30.3 Analysis of Operating Lease commitment under IAS 17 and IFRS 16

	ZWL\$ '000
Discounted lease commitment under IAS 17 as at 31 December 2018	1 293 291
Lease liability as at 01 January after adoption of IFRS 16	1 453 191
<b>Difference</b>	<b>159 900</b>

The difference emanates from use of the incremental borrowing rate under IFRS 16. In IAS 17, the lease commitment had assumed an inflationary growth in the cost of the lease

### 30.4 Maturity analysis of lease payments

	Branches ZWL\$ '000	Office & campus ZWL\$ '000	Total ZWL\$ '000
Future lease payments (undiscounted)			
2020	4 017	1 265	5 282
2021	4 017	1 265	5 282
2022	4 017	1 265	5 282
2023	4 017	1 265	5 282
Remaining years	80 324	6 235	86 559
	<b>96 392</b>	<b>11 295</b>	<b>107 687</b>

### 31. EQUITY

<b>31.1 Authorised share capital</b>	
Number of shares	10 000 000
Nominal value per share	ZWL\$0.01
Share capital (ZWL\$)	ZWL\$100 000

### 31.2 Issued and fully paid up share capital and share premium

	Number of Shares ZWL\$ '000	Share capital ZWL\$ '000	Share premium ZWL\$ '000
<b>Audited Inflation adjusted</b>			
<b>Balance at 1 January 2019</b>	<b>9 346 676</b>	<b>223</b>	<b>42 980</b>
Restatement of owners' equity	-	1 162	223 982
<b>Balance at 31 December 2019</b>	<b>9 346 676</b>	<b>1385</b>	<b>266 962</b>

No new shares were issued in 2019.

### 31.3 Revaluation reserve

	2019 ZWL\$ '000	2018 ZWL\$ '000
<b>Balance at 1 January</b>	<b>-</b>	<b>298</b>
Transfer of opening revaluation to retained earnings	-	(298)
<b>Closing balance</b>	<b>-</b>	<b>-</b>

The revaluation reserve includes all amounts arising from an increase in an asset's carrying amount and accumulating under this heading. The amount recognised in the revaluation reserve, is the amount by which an asset's revalued amount exceeds the initial carrying amount due to the revaluation.

### 31.4 Regulatory reserve

	2019 ZWL\$ '000	2018 ZWL\$ '000
<b>Balance at 1 January</b>	<b>-</b>	<b>1 752</b>
Transfer of opening revaluation to retained earnings	-	(1 752)
<b>Closing balance</b>	<b>-</b>	<b>-</b>

The regulatory reserve recognized the differences on impairment as required by the IAS 39 and as required by the Reserve Bank of Zimbabwe. Following the implementation of the IFRS 9 Financial Instruments (which replaced IAS 39) the Reserve Bank adopted to align with IFRS. In that respect the regulatory reserve was eliminated and transferred to retained earnings.

### 32. RELATED-PARTY DISCLOSURES

#### 32.1 Relationships with NEDBANK ZIMBABWE LIMITED:

The related parties disclosed above have the following relationship with Nedbank Zimbabwe Limited.

Company	Relationship - 2019	Relationship - 2018
Nedbank Limited	Holding company of Nedbank Zimbabwe Limited	Holding company of Nedbank Zimbabwe Limited
Old Mutual Zimbabwe Limited (OMZIL)	Minority interest in Nedbank Zimbabwe Limited	Minority interest in Nedbank Zimbabwe Limited
Old Mutual Life Assurance Company (OMLAC)	A subsidiary of Old Mutual Zimbabwe Limited	A subsidiary of Old Mutual Zimbabwe Limited
CABS	A subsidiary of Old Mutual Zimbabwe Limited	A subsidiary of Old Mutual Zimbabwe Limited
Nedbank Zimbabwe Limited Pension Fund	A Pension Fund for the Bank's employees	A Pension Fund for the Bank's employees
Nedbank London	A London Branch of Nedbank Group Limited	A London Branch of Nedbank Group Limited

### 33. CONTINGENCIES AND COMMITMENTS

#### 33.1 Capital expenditure commitments

The Bank has capital expenditure commitments amounting to ZWL\$1.568 million (2018: ZWL\$0.244million) for equipment that had been approved and ordered as at 31 December 2019.

#### 33.2 Guarantees

	AUDITED INFLATION ADJUSTED		UNAUDITED HISTORICAL	
	2019 ZWL\$	2018 ZWL\$	2019 ZWL\$	2018 ZWL\$
Letters of credit	327 959	163 347	327 959	26 304
Guarantees to third parties	5 724	18 990	5 724	3 058
	<b>333 683</b>	<b>182 337</b>	<b>333 683</b>	<b>29 362</b>

Letters of credit consists of US\$19 million for petroleum facilities negotiated between the RBZ and Afreximbank. These are off balance sheet transactions where the Bank acts as an agent.

### 34. AGENCY FACILITIES

Nedbank Group Limited has put in place a US\$75 million facility for on-lending to the Bank's customers. This facility was utilised as at year end.

### 35. BORROWING POWERS

The directors may exercise all the powers of the Bank to borrow money, to mortgage property or to change its undertaking. They may issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of the Bank.

### 36. GOING CONCERN

As disclosed in Note 39, the Reserve Bank of Zimbabwe set new capital requirements for the banking sector applicable from 31 December 2020. For the Bank the required minimum capital is US\$30 million in ZWL\$ equivalent. As at 31 December 2019, the Bank had a shortfall on the required capital. It is unlikely that the bank would achieve the required minimum capital through ordinary trading in that time frame. In addition, Note 39.1 discusses the impact of the ongoing Covid19 pandemic on Bank's operations.

The directors have made an assessment of the Bank's ability to continue as a going concern. The assessment included consideration of the impact of Covid19 and the new minimum capital requirements amongst other factors. The Directors have obtained assurance and commitment from the major shareholder that the Bank will receive adequate support to achieve minimum capital requirements. From the assessment and availability of shareholder support, the Directors have no reason to believe the business will not be a going concern in the foreseeable future. These financial statements have therefore been prepared on a going concern basis.

### 37. ASSETS UNDER CUSTODY

The Bank is holding under custody on behalf of various clients Savings Bonds amounting to ZWL\$0.13 million (2018:ZWL\$4.062 million), issued by the Government of Zimbabwe through the RBZ.

### 38. RATES OF EXCHANGE

The following ZWL\$ closing cross rates with major transacting currencies for the Bank were applied as at 31 December 2019:

	Average for the year	Closing
ZWL\$/ US\$	0.12216	0.0596
ZWL\$/ EURO	0.08596	0.0532
ZWL\$/ GBP	0.07489	0.0455
ZWL\$/ ZAR	0.61173	0.8427

### 39. SUBSEQUENT EVENTS

The Reserve Bank of Zimbabwe issued a circular No 1 2020/BSD: Minimum Capital Requirements on 28 January 2020. The circular sets new minimum capital requirements for the Bank of US\$30 million in equivalent ZWL\$. Although as at 31 December 2019, the Bank has a shortfall on the required capital and unlikely to recoup the shortfall through ordinary trade, directors are working together with the shareholders to ensure the Bank is compliant by 31 December 2020. The majority shareholder has provided the Bank with adequate assurance and commitment that they will support the Bank to achieve the required capital by due date. The Reserve Bank of Zimbabwe has also given the banking sector up to 30 June 2020 to submit capital plan.

### 39.1 COVID-19 PANDEMIC

The World Health Organisation (WHO) declared COVID-19 to be a pandemic on 11 March 2020. The first cases in Zimbabwe were diagnosed on the 20th and 21st of March 2020 with the first fatality being announced on 23 March 2020. The Bank considers this outbreak to be a non-adjusting event occurring after the reporting date.

The Bank has invoked its Business Continuity Plan (BCP) which ensures that the Bank continues to offer essential services to customers, regulators, staff and other important stakeholders. This entails allowing staff members working from home in order to decongest the work place. The Bank has insisted on mandatory self-quarantine for staff members who had recently travelled out of the country, as well as those who feel unwell or may have been exposed to individuals exposed to the virus. To date the Bank has no confirmed infections amongst its staff members, and a weekly return of staff movements and register of those working from offices is maintained.

The initial assessment of the Bank is that the current COVID-19 pandemic will not affect the ability of the business to continue as a going concern due to the BCP measures being implemented and support from the majority shareholder. The Bank is still offering virtually a full service suite through its digital channels (i.e. mobile banking, internet banking). Non-digital channels like Real Time Gross Settlement (RTGS) and International receipts and payments are also operational with limited staff to support the efforts of medical and food payments within the value chain as the nation fights the COVID 19 pandemic. The Bank's main suppliers, which are internet service providers especially during this time when our delivery channel has shifted to largely digital, are listed as critical services and are therefore able to provide these services. The global economy is likely to be negatively impacted by the pandemic and Zimbabwe will not be an exception to this. However, we are confident that the Bank's traditional prudent approach to risk and capital management will allow the business to mitigate the difficult environment.

The Bank's assessment is that demand for the banking products offered has not substantially changed; in fact, in terms of unaudited management accounts, it has actually been observed to be going up as more customers are inclined to use digital channels instead of physically visiting the branches. As a Bank, we are still collecting our fees and commission as customers transact on the digital channels with their accounts and or make international payments, as these facilities are still available. We have not yet witnessed any significant deterioration of credit risk on our customers.

The area of most significant concern is in terms of credit risk especially those that were closed or affected by the closures during the lock down periods. It is however very difficult to quantify the extent of possible risk of default at this stage. It is also important to note that any possible defaults are likely to be mitigated by security held against the facilities.

The above notwithstanding, as a result of the many unknowns relating to the current pace, spread and containment of the COVID-19 pandemic, it may result in an adverse impact on the Bank's financial position, operations, financial results and cash flows. The duration of business disruption and the related financial effect and impact cannot be reasonably estimated at this time.

Our current assessment as at 31 December 2019 financial reporting information is that COVID-19 virus will not significantly impact key assumptions already made in valuation and measurement of financial assets presented as at that date.

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