NMBZ HOLDINGS LIMITED

# 2013 | ANNUAL REPORT

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# FINANCIAL HIGHLIGHTS

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Total income (US$) | 50 135 302 | 45 055 751 |
| Operating profit before impairment charge (US$) | 12 693 945 | 13 987 286 |
| Attributable (loss)/profit (US$) | (3 321 823) | 7 570 502 |
| Basic (loss)/earnings per share (US cents) | (1.00) | 2.70 |
| Total deposits (US$) | 211 215 066 | 191 422 066 |
| Total gross loans and advances (US$) | 189 990 724 | 152 417 375 |
| Total shareholders' funds (US$) | 43 441 403 | 30 942 083 |

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# GROUP PROFILE

**for the year ended 31 December 2013**

The NMBZ Holdings Group (the Group) comprises the company (NMBZ Holdings Limited) and the operating subsidiaries, NMB Bank Limited (the Bank) and Stewart Holdings Limited (equity holdings).

The Bank was established in 1993 as a bank incorporated under the Companies Act (Chapter 24:03) and is registered as a commercial bank in terms of the Banking Act (Chapter 24:20). It operates through a branch network in Harare, Bulawayo, Mutare and Gweru. The Bank's branch network is constantly growing to service customers and meet demands in suitable and convenient locations. Set out below are the Bank's branch locations:

| | | |
|---|---|---|
| **Head Office** | – | Unity Court, Corner Kwame Nkrumah Avenue/First Street, Harare |
| **Angwa City** | – | Corner Kwame Nkrumah Avenue/Angwa Street, Harare |
| **Borrowdale** | – | Shops 37 & 38, Sam Levy's Village, Harare |
| **Eastgate** | – | Shop 24, Eastgate Mall, Corner Sam Nujoma Street/Robert Mugabe Road, Harare |
| **Joina City** | – | Corner Jason Moyo / Innez Terrace, Harare |
| **Msasa** | – | 77 Amby Drive, Harare |
| **Southerton** | – | 7 - 9 Plymouth Road, Harare |
| **Avondale** | – | 20 King George Road, Avondale, Harare |
| **Bulawayo** | – | NMB Centre, Corner George Silundika Street/Leopold Takawira Street, Bulawayo |
| **Mutare** | – | Embassy Building, Corner Aerodrome Road/Second Street, Mutare |
| **Gweru** | – | 36 Robert Mugabe Road, Gweru |

The Bank's ATM network, which accepts VISA cards, covers the following locations:

- Angwa City – Harare
- Avondale – Harare
- Borrowdale – Harare
- Card Centre – Harare
- Eastgate – Harare
- Joina City – Harare
- Msasa – Harare
- Southerton – Harare
- Bulawayo
- Gweru
- Mutare

# CHAIRMAN'S STATEMENT

**for the year ended 31 December 2013**

## INTRODUCTION

The Group's capital raising initiatives resulted in the Group receiving a total of US$14 831 145 capital from three strategic foreign partners in June 2013. The net amount was used to recapitalise the banking subsidiary in order to contribute to the minimum capital requirements set by the Reserve Bank of Zimbabwe. The increased capital will allow the Bank to underwrite more business; a prerequisite for the financial services sector to continue its key role of helping develop the economy.

## GROUP RESULTS

### Compliance with International Financial Reporting Standards

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared in compliance with the provisions of the Companies Act (Chapter 24:03) and the Banking Act (Chapter 24:20).

### Assessment of the Economic Environment

The Zimbabwean economy in the last two quarters of 2013 and replicated in the first quarter of 2014 has been characterised by slow economic growth primarily as a result of reduced operating margins and tight liquidity. The slow- down in the economic growth has led to increased default risk and the banking sector non performing loans have consequently risen to 15.92% as at 31 December 2013 as per the recent Monetary Policy Statement. Credit risk has become the critical area that banks and corporates have to deal with.

### Commentary on Operating Results

The loss before taxation was US$3 951 865 during the period under review and this gave rise to an attributable loss of US$3 321 823. Total income for the period increased by 11% from a prior year of US$45 055 751 to US$50 135 302 which is split into interest income of US$33 181 704, fee and commission income of US$14 673 834, net foreign exchange gains of US$1 502 044 and non-interest income of US$777 720.

Operating expenses amounted to US$25 232 756 and these were 18% up from prior year and comprise largely of administration expenses, depreciation and staff related expenditure.

Impairment losses on loans and advances amounted to US$16 645 810 for the current period from a prior year of US$3 985 062. The Board of Directors took a decision to write off loans and advances amounting to US$12 230 408 during the year under review after recovery efforts had not yielded the anticipated results.

In February 2013, the Reserve Bank of Zimbabwe and participating members of the Bankers Association of Zimbabwe (BAZ) signed a Memorandum of Understanding (MoU) which provided limits on bank charges and interest rates. The measures took effect from 1 February 2013 and the MoU was not renewed in December 2013. Whilst we recognise the need to keep fees and interest rates as low as possible, this MoU has had a pronounced effect on the Bank's profitability for the period under review, as the risk has not been reduced in line with the controlled returns.

### Statement of financial position

The Group's total assets grew by 15% from US$226 533 682 as at 31 December 2012 to US$259 483 112 as at 31 December 2013. The assets comprised mainly of loans, advances and other assets (US$181 316 271), investment securities held to maturity (US$4 685 471), investment in debentures (US$3 984 723), cash and short term funds (US$48 871 983), investment properties (US$4 385 300), non-current assets held for sale (US$2 303 300) and property and equipment (US$7 372 943). Gross loans and advances increased by 25% from US$152 417 375 as at 31 December 2012 to US$189 990 724 as at 31 December 2013. The Bank's liquidity ratio closed the period at 32.52% and this was above the statutory requirement of 30% at 31 December 2013.

# CHAIRMAN'S STATEMENT (Cont'd)

**for the year ended 31 December 2013**

## Capital

The banking subsidiary's capital adequacy ratio at 31 December 2013 calculated in accordance with the guidelines of the Reserve Bank of Zimbabwe (RBZ) was 17.28% (31 December 2012 – 15.50%). The minimum required by the RBZ is 12%.
The Group's shareholders' funds have increased by 40% from US$30 942 083 as at 31 December 2012 to US$43 441 403 as at 31 December 2013 primarily as a result of the new capital injected into the Group.

## Dividend

In view of the attributable loss position for the year and need to retain cash in the business and to strengthen the statutory capital requirements for the banking subsidiary, the Board has proposed not to declare a dividend.

## CORPORATE SOCIAL INVESTMENTS

The Group is committed to playing an active role in the communities it serves. Our community investments are channeled into education, the disadvantaged, vulnerable groups, protection of the environment, wild life conservation, the arts and various sporting disciplines.

## CORPORATE DEVELOPMENTS

In line with our strategic thrust to offer service excellence to our valued high net worth individuals and businesses, we successfully launched the Mobile Banking, Internet Banking, Teller POS, Aptra Promote and EcoCash integration during the year under review.

## OUTLOOK AND STRATEGY

The Group has since dollarisation secured lines of credit amounting to US$57 million and these have allowed the Bank to underwrite more lending business for the benefit of our clients. Subsequent to year end, the Bank secured a US$10 million line of credit from a European Development Financial Institution (Proparco) and the Bank will continue to scout for more international lines of credit. The Group continues to pursue market opportunities which take advantage of strong liquidity, without exacerbating credit risk.

## DIRECTORATE

Ms. L. Majonga, Mr. B. Ndachena, Mr. F. Zimuto and Mr. J. de la Fargue resigned as directors of NMBZ Holdings Limited and NMB Bank Limited with effect from 20 November 2013. Mr. L. Chinyamutangira and Mr. F. S. Mangozho resigned from the NMB Bank Limited Board with effect from 20 November 2013. Mr. B. Ndachena, Mr. F. Zimuto, Mr. L. Chinyamutangira and Mr. F. S. Mangozho remain employees of the Group. I would like to thank them all for their invaluable contribution to the respective Board over the years.

Subsequent to year end, Mr. B. Zwinkels, Ms. M. Svova, Mr. B. Chikwanha, Mr. C. Ndiaye and Mr. D. Malik were appointed to the Board with effect from 31 January 2014. I would like to welcome the new board members and wish them a fruitful tenure on the Board.

## APPRECIATION

I would like to express my profound gratitude and appreciation to our valued clients, shareholders and the regulatory authorities for their unwavering support during the period under review. I would also like to thank my fellow Board members, management and staff for their steadfast commitment and dedication in the face of an increasingly difficult operating environment.

**T N MUNDAWARARA**
**CHAIRMAN**
**27 March 2014**

# REPORT OF THE DIRECTORS

**for the year ended 31 December 2013**

We have pleasure in presenting to shareholders our report and the audited financial statements of the Group for the year ended 31 December 2013.

## 1. SHARE CAPITAL

The authorised and issued share capital of the Company are as follows:-

1.1 Authorised: 600 000 000 ordinary shares of US$0.00028 each.

1.2 Issued and fully paid: 384 427 401 ordinary shares of US$0.00028 each.

No share options were exercised either by directors or managerial staff during the year.

## 2. GROUP ACTIVITIES AND RESULTS

After providing for depreciation and taxation, the Group posted an attributable loss of US$3 321 823 for the year ended 31 December 2013 (2012 – profit of US$7 570 502).

## 3. CAPITAL ADEQUACY

As at 31 December 2013, the Bank's capital adequacy ratio computed under Bank for International Settlements (BIS) rules was 17.28% (2012 – 15.50 %).

## 4. DIRECTORATE

### 4.1 Board of Directors

| | |
|---|---|
| Mr. T. N. Mundawarara | (Chairman and Independent Non-executive Director) |
| Mr. A. M. T. Mutsonziwa | (Deputy Chairman and Independent Non-Executive Director) |
| Mr. J. A. Mushore | (Group Chief Executive Officer) |
| Mr. F. Zimuto* | (Deputy Group Chief Executive Officer) |
| Mr. B. Ndachena* | (Chief Financial Officer) |
| Dr. J. T. Makoni | (Non-Executive Director) |
| Mr. B. W. Madzivire | (Independent Non-Executive Director) |
| Ms. L. Majonga* | (Independent Non-Executive Director) |
| Mr. J. Chigwedere | (Independent Non-Executive Director) |
| Mr. J. de la Fargue* | (Non-Executive Director) |
| Mr. J. Chenevix-Trench | (Non-Executive Director) |

*Resigned from the Board with effect from 20 November 2013. Mr. F. Zimuto and Mr. B. Ndachena remain employees of the group. Mr. J. de la Fargue became an alternate director to Mr. J. Chenevix-Trench with effect from 20 November 2013.

In accordance with the Articles of Association, Mr. J. A. Mushore, Dr. J. T. Makoni and Mr. T. N. Mundawarara will retire by rotation at the forthcoming Annual General Meeting (AGM). All retiring directors, being eligible, offer themselves for re-election.

# REPORT OF THE DIRECTORS (Cont'd)

**for the year ended 31 December 2013**

## 4. DIRECTORATE (continued)

### 4.2 Directors' Interests

As at 31 December 2013 the Directors of the Group (NMBZ Holdings Limited and the Bank) held the following direct and indirect beneficial interests in the shares of the Company:-

| | 31 December 2013 Shares | 31 December 2012 Shares |
|---|---|---|
| Mr. T. N. Mundawarara | 3 993 | 3 990 |
| Mr. A. M. T. Mutsonziwa | 5 571 | 5 569 |
| Mr. B. Ndachena | 77 652 | 35 000 |
| Mr. J. A. Mushore** | 162 529 | 164 697 |
| Dr. J. T. Makoni** | 483 567 | 644 790 |
| Mr. F. Zimuto** | - | - |
| Mr. B W Madzivire | - | - |
| Ms. L. Majonga | - | - |
| Mr. J. Chigwedere | - | - |
| Mr. J. de la Fargue*** | - | - |
| Mr. J. Chenevix-Trench*** | - | - |
| Mr. B. P. Washaya* | 2 070 | 2 069 |
| | 735 382 | 856 115 |

* Mr. B. P. Washaya is the Managing Director of NMB Bank Limited.

**Dr. J. T. Makoni, Mr. J. A. Mushore and Mr. F. Zimuto hold non-beneficial interests in Cornerstone Trust, Alsace Trust and Wamambo Investments Trust, respectively.

***Mr. J. Chenevix-Trench and Mr. J. de la Fargue represent interests in African Century Financial Services Investments.

Ms. L. Majonga, Mr. F. Zimuto, Mr. J. de la Fargue and Mr. B. Ndachena resigned from the Board with effect from 20 November 2013. Mr. F. Zimuto and Mr. B. Ndachena remain employees of the Group.

### 4.3 Directors' attendance at meetings

#### 4.3.1 Board of Directors

| Name | Meetings held | Meetings attended |
|---|---|---|
| Mr. T. N. Mundawarara | 4 | 4 |
| Mr. A. M. T. Mutsonziwa | 4 | 4 |
| Mr. J. A. Mushore | 4 | 4 |
| Mr. F. Zimuto | 4 | 4 |
| Mr. B. Ndachena* | 4 | 4 |
| Mr. B. W. Madzivire | 4 | 4 |
| Ms. L. Majonga* | 4 | 4 |
| Dr. J. T. Makoni | 4 | 3 |
| Mr. J. Chigwedere | 4 | 4 |
| Mr. J. de la Fargue* | 4 | 4 |
| Mr. J. Chenevix-Trench | 4 | 4 |

* Resigned from the Board of NMBZ Holdings Limited with effect from 20 November 2013.

### 4.3.2 Audit Committee

| Name | Meetings held | Meetings attended |
|---|---|---|
| Mr. B. W. Madzivire | 4 | 4 |
| Mr. A. M. T. Mutsonziwa | 4 | 3 |
| Ms. L. Majonga* | 4 | 4 |

* Resigned from the NMBZ Holdings Limited Board with effect from 20 November 2013.

### 4.3.3 Risk Management Committee

| Name | Meetings held | Meetings attended |
|---|---|---|
| Mr. J. Chigwedere | 4 | 4 |
| Ms. L. Majonga* | 4 | 4 |
| Mr. B. P. Washaya | 4 | 4 |
| Mr. J. de la Fargue* | 4 | 3 |
| Mr. J. A. Mushore | 4 | 3 |
| Mr. F. Zimuto | 4 | 4 |
| Mr. F. Mangozho** | 4 | 4 |

* Resigned from the NMBZ Holdings Limited Board with effect from 20 November 2013
** Resigned from the NMB Bank Limited Board with effect from 20 November 2013.

### 4.3.4 Asset and Liability Management Committee (ALCO), Finance & Strategy Committee

| Name | Meetings held | Meetings attended |
|---|---|---|
| Mr. T. N. Mundawarara | 4 | 4 |
| Mr. B. P. Washaya | 4 | 4 |
| Mr. B. Ndachena* | 4 | 4 |
| Mr. J. A. Mushore | 4 | 4 |
| Mr. J. Chenevix-Trench (alternate J. de la Fargue) | 4 | 4 |
| Mr. J. Chigwedere | 4 | 4 |
| Mr. F. Zimuto* | 4 | 4 |
| Mr. F. S. Mangozho** | 4 | 4 |
| Mr. L. Chinyamutangira** | 4 | 4 |

* Resigned from the NMBZ Holdings Limited Board with effect from 20 November 2013.
** Resigned from the NMB Bank Limited Board with effect from 20 November 2013.

### 4.3.5 Loans Review Committee

| Name | Meetings held | Meetings attended |
|---|---|---|
| Mr. A. M. T. Mutsonziwa | 4 | 4 |
| Ms. L. Majonga* | 4 | 4 |
| Mr. B. Ndachena* | 4 | 4 |

* Resigned from the NMBZ Holdings Limited Board with effect from 20 November 2013.

# REPORT OF THE DIRECTORS (Cont'd)

**for the year ended 31 December 2013**

### 4.3.6 Human Resources, Remuneration and Nominations Committee

| Name | Meetings held | Meetings attended |
|---|---|---|
| Mr. A. M. T. Mutsonziwa | 6 | 6 |
| Mr. T. N. Mundawarara | 6 | 6 |
| Mr. J. Chenevix – Trench | 6 | 6 |
| Dr. J. T. Makoni | 6 | 6 |
| Mr. J. A. Mushore | 6 | 6 |
| Mr. B. Madzivire | 6 | 5 |
| Mr. B. P. Washaya | 6 | 4 |
| Mr. F. Zimuto* | 6 | 4 |

* Resigned from the NMBZ Holdings Limited Board with effect from 20 November 2013.

### 4.3.7 Credit Committee

| Name | Meetings held | Meetings attended |
|---|---|---|
| Mr. T. N. Mundawarara | 5 | 5 |
| Mr. J. de la Fargue* | 5 | 5 |
| Mr. J. A. Mushore | 5 | 5 |
| Mr. F. Zimuto* | 5 | 5 |
| Mr. B. P. Washaya | 5 | 5 |
| Mr. L. Chinyamutangira** | 5 | 4 |

* Resigned from the NMBZ Holdings Limited Board with effect from 20 November 2013.
** Resigned from the NMB Bank Limited Board with effect from 20 November 2013.

## 5. CORPORATE GOVERNANCE

NMBZ Holdings Limited adheres to international best practice with regards to corporate governance. In particular, the group emulates corporate governance principles set out in the Combined Code of the United Kingdom, the King III report of South Africa and the Reserve Bank of Zimbabwe (RBZ) Corporate Governance Guideline. The Board has set up the Audit Committee, Human Resources and Remuneration Committee, ALCO, Finance and Strategy Committee, Credit Committee, Loans Review Committee and the Risk Management Committee to assist in the discharge of its duties and responsibilities.

### 5.1 The Board of Directors

Following the re-organisation of the Board, the NMBZ Holdings Limited and NMB Bank Limited boards comprise of twelve directors each. The boards of the holding company and the Bank are almost identical as they share eleven directors. The Group obtained regulatory approval to have similar boards for the Group and the banking subsidiary as the Bank was the Group's only operating subsidiary. Both NMBZ Holdings and the Bank boards comprises of one executive and eleven non-executive directors. The Chairpersons of the boards and all the board committees are independent non-executive directors. The boards and the board committees meet at least four times a year.

### 5.2 Audit Committee

The committee oversees the Group's financial reporting process, monitoring the integrity and appropriateness of the Group's financial statements; evaluating the adequacy of the Group's financial and operational processes, compliance, internal controls and risk management processes and the selection, compensation, independence and performance of the Group's external and internal auditors. The Committee meets at least four times a year. The Committee meets regularly with the company's internal and external auditors. Both the internal and external auditors have unrestricted access to the audit committee to ensure their independence and objectivity.

**Membership:**

| | |
|---|---|
| Mr. B. W. Madzivire | Chairman - Independent Non-Executive Director |
| Ms. L. Majonga* | Independent Non-Executive Director |
| Mr. A. M. T. Mutsonziwa | Independent Non-Executive Director |

* Resigned from the Committee with effect from 20 November 2013.

### 5.3 Human Resources, Remuneration and Nominations Committee

The committee is responsible for setting the Group's remuneration philosophy and reviews the overall remuneration structures of the Group, including all material remuneration proposals and packages for Executive Directors and senior personnel.

**Membership:**

| | |
|---|---|
| Mr. A. M .T Mutsonziwa | Chairman - Independent Non-Executive Director |
| Mr. T. N. Mundawarara | Independent Non-Executive Director |
| Mr. B. W. Madzivire | Independent Non-Executive Director |
| Mr. J. A. Mushore | Group Chief Executive Officer |
| Mr. F. Zimuto* | Deputy Group Chief Executive Officer |
| Mr. J. Chenevix –Trench | Non-Executive Director |
| Dr. J. T. Makoni | Non-Executive Director |
| Mr. B. P Washaya | Managing Director |

* Resigned from the Committee with effect from 20 November 2013.

### 5.4 Loans Review Committee

The Loans Review Committee assesses compliance of the loan book with the lending policy and the Banking Regulations. The committee conducts loan reviews independent of any person or committee responsible for sanctioning credit.

**Membership:**

| | |
|---|---|
| Mr. A.M.T Mutsonziwa | Chairman - Independent Non-Executive Director |
| Ms. L. Majonga* | Independent Non-Executive Director |
| Mr. B. Ndachena * | Chief Finance Officer |

* Resigned from the Committee with effect from 20 November 2013.

# REPORT OF THE DIRECTORS (Cont'd)

**for the year ended 31 December 2013**

### 5.5 Credit Committee

The Credit Committee's main responsibilities are to consider loan applications beyond the discretionary limits of the Management Credit Committee and to direct the formulation of, review and monitor the credit principles and policies of the Group.

**Membership:**

| | |
|---|---|
| Mr. T. N. Mundawarara | Chairman - Independent Non-Executive Director |
| Mr. J. A. Mushore | Group Chief Executive Officer |
| Mr. F. Zimuto* | Deputy Group Chief Executive Officer |
| Mr J. de la Fargue* | Non-Executive Director |
| Mr. B. P Washaya | Managing Director |
| Mr. L. Chinyamutangira* | Executive Director - Banking |

* Resigned from the Committee with effect from 20 November 2013.

### 5.6 Asset and Liability Management Committee (ALCO), Finance and Strategy Committee

The ALCO, Finance & Strategy Committee is responsible for deriving the most appropriate strategy for the group in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of interest-rate movements, liquidity constraints, foreign exchange exposure and capital adequacy. The committee also ensures that such strategy is in line with the Group's risk appetite. In addition, the committee monitors the business and financial strategies of the Company.

**Membership:**

| | |
|---|---|
| Mr. T. N. Mundawarara | Chairman-Independent Non-Executive Director |
| Mr. J. Chigwedere | Independent Non-Executive Director |
| Mr. J. Mushore | Group Chief Executive Officer |
| Mr. F. Zimuto* | Deputy Group Chief Executive Officer |
| Mr. B. P. Washaya | Managing Director |
| Mr. B. Ndachena* | Chief Finance Officer |
| Mr. F. S. Mangozho* | Executive Director -Treasury |
| Mr. L. Chinyamutangira* | Executive Director - Banking |
| Mr. J. Chenevix-Trench<br>(alternate J. de la Fargue) | Non - Executive Director |
| Dr. J. T. Makoni | Non - Executive Director |

* Resigned from the Committee with effect from 20 November 2013.

## 5. CORPORATE GOVERNANCE (continued)

### 5.7 Risk Management Committee

The Risk Management Committee oversees the quality, integrity and reliability of the Group's risk management systems and reviews all group-wide risks.

**Membership:**

| | |
|---|---|
| Mr. J. Chigwedere | Chairman-Independent Non-Executive Director |
| Mr. J. de la Fargue* | Non-Executive Director |
| Ms. L. Majonga* | Independent Non-Executive Director |
| Mr. J. Mushore | Chief Executive Officer |
| Mr. F. Zimuto* | Deputy Chief Executive Officer |
| Mr. B. P. Washaya | Managing Director |
| Mr. F. Mangozho* | Executive Director - Treasury |

* Resigned from the Committee with effect from 20 November 2013.

### 5.8 Professional Advice

The non-executive directors have access to independent professional advice at the Group's expense.

## 6. AUDITORS

At the forthcoming Annual General Meeting shareholders will be asked to authorise the directors to approve the auditor's remuneration for the year ended 31 December 2013 and to appoint auditors of the Company for the ensuing year.

By order of the Board

**V Mutandwa**
**Company Secretary**
**Harare**

**27 March 2014**

# STATEMENT OF DIRECTORS' RESPONSIBILITY

**for the year ended 31 December 2013**

## 1. RESPONSIBILITY

The Directors of the Company are mandated by the Companies Act to maintain adequate accounting records and to prepare financial statements that present a true and fair view of the state of affairs of the Company at the end of each financial year. The information contained in these financial statements has been prepared on a going concern basis and is in accordance with the provisions of the Companies Act [Chapter 24:03]; the Banking Act [Chapter 24:20]; and International Financial Reporting Standards (IFRSs).

## 2. CORPORATE GOVERNANCE

In its operations, the Group is guided by principles of corporate governance derived from the King III Report, the United Kingdom Combined Code and the Reserve Bank of Zimbabwe Corporate Governance Guideline. The directors of the Group are cognisant of their responsibility to exercise the duty of care and act in good faith in order to safeguard all stakeholders' interests.

## 3. BOARD OF DIRECTORS

Board appointments are made in a manner that ensures an adequate mix of skills and expertise on the board. The majority of the Group's non-executive directors are independent and thus provide the necessary checks and balances on the board and ensure that the interests of all stakeholders are taken into account in the decision making process. The Chairman of the board is an independent non-executive director. The board is assisted by various committees in executing its responsibilities. The board meets at least quarterly to assess risk, review financial performance, and provide guidance to management on operational and policy issues.

The board conducts an annual evaluation to assess its effectiveness and develop remedial action plans to address weaknesses noted from the evaluation. The evaluation involves an assessment of collective board performance, the chairperson's performance and individual directors' performance.

## 4. INTERNAL FINANCIAL CONTROLS

The board is responsible for ensuring that effective internal control systems are implemented within the group. The group maintains internal controls and systems designed to provide reasonable assurance of the integrity and reliability of its records, safeguard the assets of the group and prevent and detect fraud and errors. The Audit Committee in conjunction with the external auditors of the group reviews and assesses the internal control systems of the group in key risk areas.

## 5. GOING CONCERN

The Directors have assessed the ability of the Group and its subsidiaries to continue operating as a going concern and believe that the preparation of these financial statements on a going concern is still appropriate.

## 6. INTERNAL AUDIT

The internal audit function has formally defined objectives, authority, and responsibilities enshrined in the Internal Audit Charter, which principles are consistent with those of the Institute of Internal Auditors. The function is guided by the Internal Audit Manual and the Reserve Bank of Zimbabwe's Guideline on Minimum Internal Audit Standards in Banking Institutions, in conducting its activities. The internal audit function is independent of business lines and has unrestricted access to the Audit Committee. The internal audit functions include evaluating the effectiveness of the risk management systems, reviewing the systems of internal controls including internal financial controls and the conduct of the Group's operations.

## 7. REMUNERATION

The Remuneration Committee determines the remuneration policy for the Group. The remuneration policy is designed to reward performance and retain highly skilled individuals. Accordingly, a discretionary performance related bonus is offered in addition to a basic salary package.

# STATEMENT OF DIRECTORS' RESPONSIBILITY (Cont'd)

**for the year ended 31 December 2013**

## 8. EMPLOYEE PARTICIPATION AND DEVELOPMENT

The Group encourages active participation by its employees in its ownership. In line with this commitment, managerial employees have in the past participated in the Company's share option scheme. The Group is working on operationalising a new share option scheme for staff members approved in the 2012 Annual General Meeting. The Group is also committed to enhancing the skills of staff and sponsors attendance of courses at reputable local and international institutions.

## 9. SOCIAL RESPONSIBILITY

The Group recognises its responsibility in the society within which it operates. Pursuant to this, the Group sponsors the arts and sports and also donates to deserving charities from time to time. Activities and charities supported during the year ended 31 December 2013 included special education needs, health and social services, the environment and the arts.

## 10. REGULATION

The banking subsidiary of the Group is subject to regulation and supervision by the Reserve Bank of Zimbabwe, which conducts the functions of the Registrar of Banking Institutions and is also the supervisor of banking institutions. Where appropriate, the Group participates in industry-consultative meetings and discussion groups aimed at enhancing the business environment.

## 11. ETHICS

As a Group, we aim to ensure that we adhere to the highest standards of responsible business practice. In that regard, the Group's values include integrity and excellence. The Group's employees are thus expected to adhere to the highest standards of personal integrity and professional conduct. The Group monitors its staff conduct through the code of conduct and ensures through its anti-money-laundering policies that it does not conduct business with entities whose activities are unethical.

## 12. FINANCIAL STATEMENTS

The Company's directors are responsible for the preparation and fair presentation of the financial statements, comprising the statement of financial position, statement of comprehensive income, statement of changes in equity and the statement cash flows as at 31 December 2013, together with the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and legislative and regulatory requirements.

The directors' responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

### Approval of the financial statements

The financial statements of the Company and Group appearing on pages 18 to 89 were approved by the board of directors and are signed on their behalf by:

| | |
|---|---|
| ...................................... | ............................ |
| **T. N. Mundawarara** | **J. A. Mushore** |
| **Chairman** | **Group Chief Executive Officer** |
| **27 March 2014** | **27 March 2014** |


NMBZ HOLDINGS LIMITED

**KPMG**
Mutual Gardens
100 The Chase (West)
Emerald Hill
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Zimbabwe

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## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NMBZ HOLDINGS LIMITED

### Report on the financial statements

We have audited the accompanying financial statements of NMBZ Holdings Limited as set out on page 18 to 89 which comprise the Group and Company statements of financial position as at 31 December 2013, and the Group and Company statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act (Chapter 24:03), the Banking Act (Chapter 24:20) and relevant regulations made thereunder; and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group and Company as at 31 December 2013, and that of the Group's and Company's financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in a manner required by the Companies Act (Chapter 24:03) and the Banking Act (Chapter 24:20) and relevant regulations made thereunder.

KPMG

**KPMG**
**CHARTERED ACCOUNTANTS (ZIMBABWE)**

27 March 2014

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

**for the year ended 31 December 2013**

| | Note | GROUP 2013 US$ | GROUP 2012 US$ | COMPANY 2013 US$ | COMPANY 2012 US$ |
|---|---|---|---|---|---|
| Interest income | 4 | 33 181 704 | 27 543 784 | 1 | 240 741 |
| Interest expense | 5 | (13 006 505) | (10 050 003) | - | - |
| **Net interest income** | | **20 175 199** | **17 493 781** | **1** | **240 741** |
| Net foreign exchange gains | 6.3 | 1 502 044 | 1 902 337 | - | - |
| Fee and commission income | 6.1 | 14 673 834 | 13 016 115 | - | - |
| **Revenue** | | **36 351 077** | **32 412 233** | **1** | **240 741** |
| Non interest income | 6.2 | 777 720 | 2 593 515 | 719 837 | 13 259 |
| Share of profit of associate | 24.1 | 217 768 | 434 252 | - | - |
| Profit on disposal of associate | | 580 136 | - | 1 324 286 | - |
| Operating expenditure | 7 | (25 232 756) | (21 452 714) | (691 502) | (797 333) |
| Impairment losses on loans and advances | 21.3 | (16 645 810) | (3 985 062) | - | - |
| **(Loss)/profit before taxation** | | **(3 951 865)** | **10 002 224** | **1 352 622** | **(543 333)** |
| Taxation | 8.1 | 630 042 | (2 431 722) | (371 010) | 21 198 |
| **(Loss)/profit for the year** | | **(3 321 823)** | **7 570 502** | **981 612** | **(522 135)** |
| Other comprehensive (loss)/ income for the year, net of tax | | - | - | - | - |
| **Total comprehensive (loss)/income for the year** | | **(3 321 823)** | **7 570 502** | **981 612** | **(522 135)** |
| **Attributable to:** | | | | | |
| Owners of the parent | | (3 321 823) | 7 570 502 | 981 612 | (522 135) |
| | | (3 321 823) | 7 570 502 | 981 612 | (522 135) |

| | Note | GROUP 2013 | GROUP 2012 |
|---|---|---|---|
| (Loss)/earnings per share (US cents) | | | |
| - Basic | 9.3 | (1.00) | 2.70 |
| - Diluted basic | 9.3 | (0.86) | 2.69 |

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

**for the year ended 31 December 2013**

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | Note | 2013 US$ | 2012 US$ | 2013 US$ | 2012 US$ |
| **SHAREHOLDERS' FUNDS** | | | | | |
| Share capital | 10 | 78 598 | 78 598 | 78 598 | 78 598 |
| Capital reserves | 11 | 17 937 471 | 18 084 902 | 15 783 219 | 15 783 219 |
| Retained earnings | 12 | 9 604 191 | 12 778 583 | 752 994 | (228 618) |
| **Total equity** | | **27 620 260** | **30 942 083** | **16 614 811** | **15 633 199** |
| Redeemable ordinary shares | 13 | 14 335 253 | - | 14 335 253 | - |
| Subordinated loan | 14 | 1 485 890 | - | - | - |
| **Total shareholders' funds** | **15** | **43 441 403** | **30 942 083** | **30 950 064** | **15 633 199** |
| **LIABILITIES** | | | | | |
| Deposits and other liabilities | 16 | 216 041 709 | 195 002 633 | 784 819 | 993 958 |
| Current tax liabilities | 8.4 | - | 588 966 | - | - |
| Deferred tax liabilities | | - | - | 6 846 | - |
| **Total liabilities** | | **216 041 709** | **195 591 599** | **791 665** | **993 958** |
| **Total shareholders' funds and liabilities** | | **259 483 112** | **226 533 682** | **31 741 729** | **16 627 157** |
| **ASSETS** | | | | | |
| Cash and cash equivalents | 20 | 48 871 983 | 58 171 045 | 52 | 51 |
| Current tax assets | 8.4 | 1 739 210 | - | 91 722 | 179 129 |
| Investment securities held to maturity | 17 | 4 685 471 | 5 501 963 | - | - |
| Loans, advances and other assets | 21 | 181 316 271 | 146 599 994 | 7 385 | 177 486 |
| Investment in debentures | 18 | 3 984 723 | - | - | - |
| Non-current assets held for sale | 22 | 2 303 300 | 2 225 300 | - | - |
| Investments:- | | | | | |
| - Trade investments | 23 | 190 148 | 195 790 | 113 946 | 113 277 |
| - Associates | 24.1 | - | 1 025 919 | - | 499 538 |
| - Group companies | 25 | - | - | 31 505 686 | 15 609 111 |
| - Quoted and other investments | 26 | 145 850 | 130 316 | 22 938 | 34 408 |
| Investment properties | 27 | 4 385 300 | 3 115 300 | - | - |
| Intangible assets | 28 | 1 664 369 | - | - | - |
| Property and equipment | 29 | 7 372 943 | 8 187 459 | - | - |
| Deferred tax assets | 19 | 2 823 544 | 1 380 596 | - | 14 157 |
| **Total assets** | | **259 483 112** | **226 533 682** | **31 741 729** | **16 627 157** |

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**T. N. Mundawarara**
**Chairman**
**27 March 2014**

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**J. A. Mushore**
**Group Chief Executive Officer**
**27 March 2014**

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**V. Mutandwa**
**Company Secretary**
**27 March 2014**

# STATEMENTS OF CHANGES IN EQUITY

**for the year ended 31 December 2013**

| GROUP | Share Capital US$ | Share Premium US$ | Option Reserve US$ | Regulatory Reserve US$ | Retained Earnings US$ | Total US$ |
|---|---|---|---|---|---|---|
| Balances at 1 January 2012 | 78 598 | 15 737 548 | 45 671 | 1 023 431 | 6 486 333 | 23 371 581 |
| Total comprehensive income for the year | - | - | - | - | 7 570 502 | 7 570 502 |
| Transfer to regulatory reserve | - | - | - | 1 278 252 | (1 278 252) | - |
| Balances at 31 December 2012 | 78 598 | 15 737 548 | 45 671 | 2 301 683 | 12 778 583 | 30 942 083 |
| Total comprehensive loss for the year | - | - | - | - | (3 321 823) | (3 321 823) |
| Impairment allowance for loan and advances | - | - | - | (147 431) | 147 431 | - |
| Balances at 31 December 2013 | 78 598 | 15 737 548 | 45 671 | 2 154 252 | 9 604 191 | 27 620 260 |

| COMPANY | Share Capital US$ | Share Premium US$ | Option Reserve US$ | Regulatory Reserve US$ | Retained Earnings US$ | Total US$ |
|---|---|---|---|---|---|---|
| Balances at 1 January 2012 | 78 598 | 15 737 548 | 45 671 | - | 293 516 | 16 155 333 |
| Total comprehensive loss for the year | - | - | - | - | (522 134) | (522 134) |
| Balances at 31 December 2012 | 78 598 | 15 737 548 | 45 671 | - | (228 618) | 15 633 199 |
| Total comprehensive income for the year | - | - | - | - | 981 612 | 981 612 |
| Balances at 31 December 2013 | 78 598 | 15 737 548 | 45 671 | - | 752 994 | 16 614 811 |

# STATEMENTS OF CASH FLOWS

**for the year ended 31 December 2013**

| | GROUP 2013 US$ | GROUP 2012 US$ | COMPANY 2013 US$ | COMPANY 2012 US$ |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| (Loss)/profit before taxation | (3 951 865) | 10 002 224 | 1 352 622 | (543 333) |
| **Non-cash items** | | | | |
| - Impairment losses on loans and advances | 16 645 810 | 3 985 062 | - | - |
| - Investment properties fair value adjustment | (595 450) | (2 538 710) | - | - |
| - Profit on disposal of property and equipment | (30 022) | (725) | - | - |
| - Quoted and other investments fair value adjustment | 9 892) | (17 078) | 10 801 | (6 836) |
| - Profit on disposal of quoted and other investments | - | - | - | - |
| - Impairment reversal on land and buildings | (4 803) | (77 472) | - | - |
| - Depreciation | 1 695 856 | 1 430 956 | - | - |
| - Non current assets held for sale fair value adjustment | (21 000) | - | - | - |
| - Profit on disposal of non current asset held for sale | (1 500) | - | - | - |
| - Amortisation of intangible asset | 130 716 | | | |
| - Share of associate's profit | (217 768) | (434 252) | - | - |
| - Profit on disposal of associate | (580 136) | - | (1 324 286) | - |
| Operating cash flows before changes in operating assets and liabilities | 13 059 946 | 12 350 005 | 39 137 | (550 169) |
| **Changes in operating assets and liabilities** | | | | |
| Deposits and other liabilities | 21 039 076 | 52 244 855 | (209 142) | 993 829 |
| Loans, advances and other assets | (51 362 087) | (28 324 393) | 170 101 | 1 571 687 |
| Investment in debentures | (3 984 723) | - | - | - |
| Net cash (outflow)/inflow generated from operations | (21 247 788) | 36 270 467 | 96 | 2 015 347 |
| **Taxation** | | | | |
| Corporate tax paid (note 8.4) | (2 876 507) | (3 959 943) | (262 599) | (223 927) |
| Capital gains tax paid (note 8.4) | (264 574) | - | - | - |
| Net cash (outflow)/inflow from operating activities | (24 388 869) | 32 310 524 | (262 503) | 1 791 420 |

# STATEMENTS OF CASH FLOWS (Cont'd)

**for the year ended 31 December 2013**

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2013<br>US$ | 2012<br>US$ | 2013<br>US$ | 2012<br>US$ |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Proceeds on disposal of property and equipment | 35 634 | 6 443 | - | - |
| Purchase of property and equipment | (1 506 369) | (2 744 679) | - | - |
| Acquisition of investment property | (769 550) | (291 890) | - | - |
| Proceeds on disposal of associate | 1 850 000 | - | 1 850 000 | - |
| Expenses on disposal of associate | (26 175) | - | (26 175) | - |
| Proceeds on disposal of non-current assets held for sale | 39 500 | - | - | - |
| Acquisition of intangible asset | (1 170 868) | - | - | - |
| Increase in investment in subsidiary | - | - | (15 896 574) | (1 887 000) |
| Investment securities held to maturity | 816 492 | (3 375 306) | - | - |
| Net cash (outflow)/inflow from investing activities | (731 336) | (6 405 432) | (14 072 749) | (1 887 000) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Proceeds from redeemable ordinary shares | 14 831 145 | - | 14 831 145 | - |
| Share issue expenses | (495 892) | - | (495 892) | - |
| Proceeds from subordinated loan | 1 400 000 | - | - | - |
| Interest capitalised on subordinated term loan | 85 890 | - | - | - |
| Net (decrease)/increase in cash and cash equivalents | (9 299 062) | 25 905 092 | 1 | (95 580) |
| Cash and cash equivalents at the beginning of the year | 58 171 045 | 32 265 953 | 51 | 95 631 |
| Cash and cash equivalents at the end of the year (note 20) | 48 871 983 | 58 171 045 | 52 | 51 |

## BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. All companies in the Group have a December year end.  Inter-group transactions, balances, income and expenses are eliminated on consolidation.

## BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired.

### Subsidiaries

Subsidiaries are those investees controlled by the Group.  The Group controls an investee if it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the subsidiary.  The financial statements of subsidiaries are included in the consolidated financial statements, using the Acquisition Method, from the date that control effectively commences until the date that control effectively ceases.  All intra –group balances, transactions, unrealised gains and losses resulting from intra – group transactions and dividends are eliminated in full.

In the holding company's separate financial statements investment in subsidiaries are accounted for at cost.

Any goodwill that arises is tested annually for impairment.  Any gain on a bargain purchase is recognised in profit or loss immediately.  Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contigent consideration is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

### Associates

An associate is an entity over which the Group has significant influence, as evidenced by the Group holding directly or indirectly 20% or more of the voting power of the investee representation on the Board and direct involvement with the policy making processes of the investee.  The Group's investment in its associate is accounted for using the equity method. Under the equity method, the investment in the associate is measured in the statement of financial position at cost plus post acquisition changes in the Group's share of the profit or loss and other comprehensive income of the associate until the date on which significant influences ceases. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

Unrealised gains resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.  Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is evidence of impairment.  The financial statements of the associate are prepared for the same reporting period as the Group.

Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.  After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the 'share of profit of an associate' in the income statement. Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in profit or loss.

# SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**for the year ended 31 December 2013**

In the holding company's separate financial statements investments in associates are accounted for at cost.

### Loss of Control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

### Non-controlling interests (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.
Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

### Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

## FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated into United States Dollars (US$), which is the respective functional currency of Group entities at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss.

## TAXATION

### Income tax

Income tax expenses comprise current, capital gains, deferred tax and AIDS levy.  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.

### Current tax

Current tax comprises 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 rates enacted or substantively enacted at the reporting date in the country where the Group operates and generates taxable income and any adjustment to tax payable in respect of previous years.

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities.

### Deferred taxation

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences 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 differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences 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 benefit will be realised. 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 Group 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 Group has not rebutted this presumption.

Deferred tax assets and liabilities are offset if there is a legally 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 tax assets and liabilities will be realised simultaneously.

Additional taxes that arise from the distribution of dividends by the Group are recognised at the same time as the liability to pay the related dividend is recognised. These amounts are generally recognised in profit or loss because they generally relate to income arising from transactions that were originally recognised in profit or loss.

## DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the period in which the dividends are approved by the Company's shareholders.

## FINANCIAL INSTRUMENTS

### Financial instruments – initial recognition and subsequent measurement

*(i) Date of recognition*

All financial assets and financial liabilities are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

*(ii) Initial measurement of financial instruments*

The classification of financial instruments at initial recognition depends on their purpose and characteristics and management's intention in acquiring them. All financial instruments are measured initially at fair value plus transaction costs, except in the case of financial assets and financial liabilities recognised at fair value through profit or loss.

# SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**for the year ended 31 December 2013**

## Financial instruments – initial recognition and subsequent measurement (continued)

***(iii) Financial assets or financial liabilities held for trading***

Financial assets or financial liabilities held for trading are recognised in the statement of financial position at fair value. Changes in fair value are recognised in non-interest income. Interest and dividend income or expense is recorded in 'Interest income or expense' and "Non-interest income" respectively according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are debt securities, equities, short positions and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

***(iv) Financial assets and financial liabilities designated at fair value through profit or loss***

Financial assets and financial liabilities classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument-by-instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that would otherwise be required by the contract.

Financial assets and financial liabilities at fair value through profit or loss are recognised in the statement of financial position at fair value. Changes in fair value are recognised in 'Net gain or loss on financial assets and liabilities designated at fair value through profit or loss'. Interest earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively, using the effective interest rate (EIR), while dividend income is recorded in 'Non-interest income' when the right to the payment has been established.

***(v) 'Day 1' profit or loss***

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Net trading income'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the profit or loss statement when the inputs become observable, or when the instrument is derecognised.

***(vi) Due from banks and loans and advances to customers***

'Due from banks' and 'Loans and advances to customers' include non–derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Group intends to sell immediately or in the near term and those that the Group, upon initial recognition, designates as at fair value through profit or loss.
- Those that the Group, upon initial recognition, designates as available for sale.
- Those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, amounts 'Due from banks' and 'Loans and advances to customers' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR.

**Financial instruments – initial recognition and subsequent measurement (continued)**

**Due from banks and loans and advances to customers (continued)**

The amortisation is included in 'Interest income' in the profit or loss. The losses arising from impairment are recognised in the profit or loss in 'Impairment losses on loans and advances'.

The Group may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as held for trading because the intent is to sell the loans in the short term. These commitments to lend are recorded as derivatives and measured at fair value through profit or loss.

Where the loan, on drawdown, is expected to be retained by the Group, and not sold in the short term, the commitment is recorded only when it is an onerous contract that is likely to give rise to a loss (for example, due to a counterparty credit event).

***(vii) Deposits and other liabilities***

Deposits and other liabilities are non-trading financial liabilities payable on demand and at variable interest rates.

Subsequent to initial measurement deposits and other liabilities are measured at amortised cost applying the effective interest method.

***(viii) Quoted and trade investments***

Quoted investments comprise interests in equities listed on a public exchange and are accounted for at fair value. The fair value is determined using quoted market prices in active markets.

Trade investments comprise interests in unquoted equities and are accounted for at fair value. The fair value is determined using valuation techniques or pricing models.

***(ix) Reclassification of financial assets***

Effective from 1 July 2008, the Group was permitted to reclassify, in certain circumstances, non–derivative financial assets out of the 'held for trading' category and into the 'available for sale', 'loans and receivables', or 'held to maturity' categories. From this date, it was also permitted to reclassify, in certain circumstances, financial instruments out of the 'available for sale' category and into the 'loans and receivables' category.

Reclassifications are recognised at fair value at the date of reclassification, which becomes the new amortised cost. For a financial asset reclassified out of the 'available for sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recognised in equity is recycled to the profit and loss.

The Group may reclassify a non–derivative trading asset out of the 'held for trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Group does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

# SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**for the year ended 31 December 2013**

## FINANCIAL INSTRUMENTS (continued)

### Derecognition of financial assets and financial liabilities

***(i) Financial assets***

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either,
- The Group has transferred substantially all the risks and rewards of the asset or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

***(ii) Financial liabilities***

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

### Fair value measurement

***Policy applicable from 1 January 2013***

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

**FINANCIAL INSTRUMENTS (continued)**

**Fair value measurement (continued)**

***Policy applicable from 1 January 2013 (continued)***
The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

***Policy applicable before 1 January 2013***
'Fair value' is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Group establishes fair value using a valuation technique. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price – i.e. the fair value of the consideration given or received. However, in some cases the initial estimate of fair value of a financial instrument on initial recognition may be different from its transaction price. If this estimated fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognised in profit or loss on initial recognition of the instrument. In other cases, the fair value at initial recognition is considered to be the transaction price and the difference is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

# SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**for the year ended 31 December 2013**

## FINANCIAL INSTRUMENTS (continued)

### Fair value measurement (continued)

***Policy applicable before 1 January 2013 (continued)***

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or ask price adjustment is applied only to the net open position as appropriate.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 17.

### Identification and measurement of impairment

At each reporting date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Group on terms that the Bank would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. However, in specific circumstances a smaller decline or a shorter period may be appropriate.

The Group considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment, the Group uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

**FINANCIAL INSTRUMENTS (continued)**

**Identification and measurement of impairment (continued)**

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances or held-to-maturity investment securities. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

The Group writes off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when the Bank Credit Committee and the Board of Directors determines that there is no realistic prospect of recovery.

**Regulatory Guidelines And International Financial Reporting Standards Requirement in Respect of the Group Banking Activities**

The Banking Regulations 2000 issued by the Reserve Bank of Zimbabwe (RBZ) give guidance on allowance for doubtful debts and stipulate certain minimum percentages to be applied to the respective categories of the loan book.

International Accounting Standard 39 (IAS 39), *Financial Instruments: Recognition and Measurement (IAS39)* prescribes the allowance for impairment losses based on the actual loan losses incurred in the past applied to the sectoral analysis of book debts and the discounting of expected cash flows on specific problem accounts.

The two prescriptions are likely to give different results. The Board has taken the view that where the IAS 39 charge is less than the amount provided for in the Banking Regulations, the difference is recognised directly in equity as a transfer from retained earnings to a regulatory reserve and where it is more; the full amount will be recognised in profit or loss.

***Non-performing loans***

Interest on loans and advances is accrued as income until such time as reasonable doubt exists about its recoverability, thereafter and until all or part of the loan is written off, interest continues to accrue on customer's accounts but is not included in income. Such suspended interest is deducted from loans and advances in the statement of financial position. This policy meets the requirements of the Banking Regulations, 2000.

# SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**for the year ended 31 December 2013**

### Identification and measurement of impairment (continued)

### Regulatory Guidelines And International Financial Reporting Standards Requirements In Respect Of The Group's Banking Activities (continued)

***Renegotiated loans and advances***

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been re-negotiated, any impairment is measured using the original effective interest rate (EIR) as calculated before the modification of terms and the loan is no longer considered past due. Management continuously renews re-negotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loans original EIR.

***Collateral valuation***

The Group seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Group's quarterly reporting schedule, however, some collateral, for example, cash or securities relating to margining requirements, is valued daily. To the extent possible, the Group uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources. (See note 40.1.4 for further analysis of collateral).

***Collateral repossessed***

The Group's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets that are determined better to be sold, are immediately transferred to assets held for sale at their value at the repossession date in line with the Group's policy.

***Offsetting financial instruments***

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the statement of financial position.

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

## PROPERTY AND EQUIPMENT

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the equipment when that cost is incurred, if the recognition criteria are met. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. The previous remaining carrying amount is derecognized. All other repair and maintenance costs are recognised in the profit or loss as incurred.

## PROPERTY AND EQUIPMENT (continued)

Land and buildings are measured at revalued amount less accumulated depreciation on buildings and impairment losses recognised after the date of the revaluation. Revaluation of property is done half yearly and at the end of each reporting period, by a registered professional valuer.

Any revaluation surplus is recognised in other comprehensive income and accumulated in the revaluation reserve included in the equity section of the statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve, the decrease in other comprehensive income reduces the amount accumulated in equity as the asset revaluation reserve, the decrease in other comprehensive income reduces the amount accumulated in equity as the asset revaluation reserve. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Residual values and the useful life of assets are reviewed at least at each financial year end. Where the residual value of an asset increases to an amount that is equal to or exceeds its carrying amount, then the depreciation of the asset ceases. Depreciation will resume only when the residual value decreases to an amount below the asset's carrying amount.

### Owned assets

The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of attributable overheads which are directly attributable to the assets.

### Depreciation

Depreciable amount is the cost of an asset or other amount substituted for cost less its residual value. Depreciation is provided to write off the depreciable amount of property and equipment over their estimated useful lives to their estimated residual values at the following rates per annum, on a straight-line basis.

| | |
|---|---|
| Computers | 20% |
| Motor Vehicles | 25% |
| Furniture and Equipment | 20% |
| Buildings | 2% |

Land and capital work-in-progress are not depreciated.

### Amortisation of intangible assets

The depreciable amount of an intangible asset with a finite useful life is allocated on a straight line basis over its useful life. The amortisation rate is as follows:

| | |
|---|---|
| Computer software | 20% |

# SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**for the year ended 31 December 2013**

## PROPERTY AND EQUIPMENT (continued)

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The Group capitalises borrowing costs for all qualifying assets.

### Leasing

The determination of whether an arrangement is a lease, or it contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

### As a lessee

Leases which do not transfer to the Group substantially all the risks and rewards incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term. Contingent rentals payable are recognised as an expense in the period in which they are incurred.

### As lessor

Leases where the Group does not transfer substantially all the risks and rewards of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

## IMPAIRMENT OF NON FINANCIAL ASSETS

The carrying amounts of the Group's non financial assets other than consumables and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of assets is the greater of their fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the functions of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist, or may have decreased. If such an indication exists the Group estimates the assets or CGU's recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the assets recoverable amount since the last impairment loss was recognised.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

# SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**for the year ended 31 December 2013**

## INVESTMENT PROPERTIES

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise. Revaluation is done half yearly and at the end of each reporting period by a registered professional valuer.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

## FINANCIAL GUARANTEES

In the ordinary course of business, the banking subsidiary give financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less, where appropriate, cumulative amortisation recognised in profit or loss, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recognised in the profit or loss. The premium received is recognised in profit or loss on a straight line basis over the life of the guarantee, or in full, depending on the conditions attached to the guarantee.

## REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The specific recognition criteria described below must also be met before revenue is recognised.

## INTEREST INCOME

For all financial instruments measured at amortised cost and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

Interest income includes income arising out of the banking activities of lending and investing.

## INTEREST EXPENSE

Interest expense arises from deposit taking. The expense is recognised in profit or loss as it accrues, taking into account the effective interest cost of the liability.

# SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**for the year ended 31 December 2013**

## NON-INTEREST INCOME

Other income comprises of income such as revenue derived from service fees, commission, facility arrangement fees, bad debts recoveries and profit/losses on disposals of property and equipment. Commission income is brought to account on an accrual basis and bad debts recoveries on a receipt basis. Service fee income is recognised on settlement date, or where determinable, by stage of completion. Arrangement fee income is deferred and recognised over the tenure of the facility.

## EMPLOYEE BENEFITS

Retirement benefits are provided for the Group's employees through a defined contribution plan and the National Social Security Authority Scheme.

### Defined Contribution Plan

Obligations for contribution to the defined contribution pension plan are recognised as an expense in profit or loss as they are incurred.

### National Social Security Authority Scheme

The cost of retirement benefits applicable to the National Social Security Authority, which commenced operations on 1 October 1994 is determined by the systematic recognition of legislated contributions.

### Short term employee benefits

Short term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

### Share based payments

The Group issues share options to certain employees in terms of the Employee Share Option Scheme which is an equity settled share-based payment scheme. Share options are measured at fair value of the equity instruments at the grant date. The fair value determined at the grant date of the options is expensed over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured using the Black-Scholes option pricing model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, excise restrictions and other behavioural considerations.

## INVENTORY

Inventory is accounted for at weighted average cost.

## PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in profit or loss net of any reimbursements.

## SHAREHOLDERS' FUNDS

Shareholders' funds refers to the total investment made by the shareholders to the Group and it consists of share capital, share premium, share options reserve, retained earnings, redeemable ordinary shares and subordinated term loans.

# NOTES TO THE FINANCIAL STATEMENTS

**for the year ended 31 December 2013**

## 1. REPORTING ENTITY

The holding company is incorporated and domiciled in Zimbabwe and is an investment holding company. Its registered office is 64 Kwame Nkrumah Avenue, Harare. Its principal operating subsidiary is engaged in banking and other companies hold investments.

## 2. ACCOUNTING CONVENTION

### Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and have been prepared in compliance with the provisions of Companies Act (Chapter 24:03) and the Banking Act (Chapter 24:20).

The financial statements were approved by the Board of Directors.

### 2.1 Basis of preparation

The financial statements have been prepared under the historical cost convention except for quoted and other investments, investment properties and financial instruments which are carried at fair value and land and buildings which are stated at revalued amount. These consolidated financial statements are reported in United States of America dollars and rounded to the nearest dollar.

### 2.2 Basis of consolidation

The Group financial results incorporate the financial results of the Company, its subsidiaries and associate company. Subsidiaries are investees controlled by the Group. The Group controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until date when control ceases. The financial results of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, income and expenses; profits and losses resulting from intra-group transactions that are recognised in assets and liabilities are eliminated in full. When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

An associate is an entity over which the Group has significant influence, as evidenced by the Group holding directly or indirectly 20% or more of the voting power of the investee, representation on the Board, and direct involvement with the policy making processes of the investee. The investment in Associate is accounted for using the equity method.

### 2.3 Comparative financial information

The consolidated financial statements comprise consolidated statements of financial position, comprehensive income, changes in equity and cash flows. The comparative consolidated statements of comprehensive income, changes in equity and cash flows are for twelve months.

### 2.4 Use of estimates, judgements and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of 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 accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In the process of applying the Group's accounting policies, management has made the following judgements which have the most significant effect on the amounts recognised in the consolidated financial statements:

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**for the year ended 31 December 2013**

## 2. ACCOUNTING CONVENTION (continued)

### 2.4.1 Deferred tax

Deferred taxation is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences arising out of the initial recognition of assets or liabilities and temporary differences on initial recognition of business combinations that affect neither accounting nor taxable profit are not recognised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deffered income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

In determining the amounts used for taxation purposes for assets purchased (in ZWD) prior to 1 January 2009 the directors referred to applicable effective exchange rates at the date of acquisition of assets or incurring of liabilities. The Zimbabwe Revenue Authority (ZIMRA), announced methods to be used to account for the deferred tax arising on assets purchased in ZWD. These methods require the preparer to first estimate the equivalent USD value of those assets at the time of purchase. Since the measurement of transactions in Zimbabwe dollars in the prior periods is affected by several economic variables such as mode of payment and hyperinflation this is an area where the directors have had to apply their judgement and acknowledge there could be significant variations in the results achieved depending on assumptions made.

### 2.4.2 Land and buildings

The properties were valued by a professional valuer. The valuer applied the rental yield method to assess fair value of land and buildings. The determined fair value of land and buildings is most sensitive to the estimated yield as well as the long term vacancy rate. In addition, the property market is currently not stable due to liquidity constraints and hence comparable values are also not stable.

### 2.4.3 Intangible assets

Intangible assets are initially recognised at cost. Subsequently the assets are measured at cost less accumulated amortisation and any accumulated impairment loss.

### 2.4.4 Investment properties

Investment property were valued by professional valuers. The professional valuers considered comparable market evidence of recent sale transactions and those transactions where firm offers had been made but awaiting acceptance. In addition, the property market is currently not stable due to liquidity constraints and hence comparable values are also not stable.

The directors exercised their judgement in determining the residual values of the other property and equipment which have been determined as nil.

### 2.4.5 Non-current assets held for sale

Non-current assets or disposal group are held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. These are measured at the lower of carrying amount and fair value less costs to sell and they are not depreciated.

Non-current assets were valued by professional valuers who considered comparable market evidence of recent sale transaction and those transactions where firm offers had been made but waiting acceptance.

### 2.4.6 RBZ Forex Bond

The RBZ Bond was valued at cost as there is no market information to facilitate the application of fair value principles. There is currently no active market for these bonds.

## 2. ACCOUNTING CONVENTION (continued)

### 2.4.7 Impairment losses on loans and advances

The Group reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in profit or loss. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgements about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), concentrations of risks and economic data.

The impairment loss on loans and advances is disclosed in more detail *under Significant Accounting Policies – identification measurement of impairment.*

### 2.4.8 Fair value adjustments on unquoted investments

Fair value adjustment of unquoted investments is established with reference to the net asset value and the earnings capacity of the business. Valuations on the earnings basis is calculated as the sustainable earnings for the entity multiplied by discounted Price Earnings Ratio of a quoted Company with similar operations in a similar environment.

The valuation of investment in unlisted companies has been carried in the statement of financial position of the Group based on the audited net asset values of the investee companies.

### 2.4.9 Going concern

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

## 2. 5 Changes in accounting policy and disclosures

### 2.5.1 Standards, amendments and interpretations, effective on or after 1 January 2013

The following standards, amendments and interpretations are effective for accounting periods beginning on or after 1 January 2013 and are relevant to the Group.

| Standard/ Interpretation | Content | Applicable for financial years beginning on/after |
|---|---|---|
| IAS 19 | Employee Benefits (2011) | 1 January 2013 |
| IAS 28 | Investments in Associates and Joint Ventures (2011) | 1 January 2013 |
| IFRS 7 | Disclosures – Offsetting of Financial Assets and Financial Liabilities (Amendments to IFRS 7) | 1 January 2013 |
| IFRS 13 | Fair Value Measurement | 1 January 2013 |
| IFRS 11 | Joint Arrangements | 1 January 2013 |
| IFRS 12 | Disclosure of Interests in Other Entities | 1 January 2013 |
| IFRS 10 | Consolidated Financial Statements | 1 January 2013 |

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**for the year ended 31 December 2013**

## 2. ACCOUNTING CONVENTION (continued)

### 2. 5 Changes in accounting policy and disclosures (continued)

### 2.5.1 Standards, amendments and interpretations, effective on or after 1 January 2013 (continued)

***(i) IAS 19 Employee Benefits (2011)***

Under IAS 19 (2011), the Group determines the net interest expense (income) on the net defined benefit liability (asset) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) as a result of contributions and benefit payments. Consequently, the net interest on the net defined benefit liability (asset) now comprises:

- Interest cost on the defined benefit obligation;
- Interest income on plan assets; and
- Interest on the effect of asset ceiling.

The change did not have any material impact on the Group`s financial statements.

***(ii) IFRS 7: Disclosures – Offsetting of Financial Assets and Financial Liabilities***

Amendments to IFRS 7: Disclosures – Offsetting of Financial Assets and Financial Liabilities sets out more extensive disclosures about offsetting (also known as netting) of financial instruments. The objective of the new disclosures is to enable users of financial statements to evaluate the effect or potential effect of netting on the Group`s financial position.

The new rules requires the Group to identify and disclose not only the financial assets and liabilities that have been offset in the statement of financial position but also those assets and liabilities that would be offset if future events, such as bankruptcy or termination of contracts, were to arise. The Group has adopted this new standard and the change did not have any material impact to its financial statements for the year ending 31 December 2013.

***(iii) IFRS 11 Joint arrangements***

IFRS 11 Joint arrangements establishes principles for financial reporting by parties to a joint arrangement and it supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities-Non monetary contributions by Ventures and is effective for annual periods beginning on or after 1 January 2013. It requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement. The IFRS classifies joint arrangements into two types-joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint ventures) have rights to the net assets of the arrangement. The Group has adopted this new standard and the change did not have any material impact to its financial statements for the year ending 31 December 2013.

***(iv) IFRS 12 Disclosure of Interests in Other Entities***

IFRS 12 Disclosure of Interests in Other Entities applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It is effective for annual periods beginning on or after 1 January 2013.

IFRS 12 combines, in a single standard, the disclosure requirements for subsidiaries, associates and joint arrangements, as well as unconsolidated structured entities. The required disclosures aim to provide information to enable user to evaluate:

- The nature of, and risks associated with, an entity's interests in other entities; and
- The effects of those interests on the entity's financial position, financial performance and cash flows.

The Group has adopted this new standard in its financial statements for the year ending 31 December 2013.

## 2. ACCOUNTING CONVENTION (continued)

### 2.5 Changes in accounting policy and disclosures (continued)

### 2.5.1 Standards, amendments and interpretations, effective on or after 1 January 2013 (continued)

***(v) IFRS 13 Fair Value Measurement***

IFRS 13 introduces a single source of guidance on fair value measurement for both financial and non-financial assets and liabilities by defining fair value, establishing a framework for measuring fair value and setting out disclosure requirements for fair value measurements. The key principles in IFRS 13 are as follows:

- Fair value is an exit price
- Measurement considers characteristics of the asset or liability and not entity-specific characteristics
- Measurement assumes a transaction in the entity's principle (or most advantageous) market between market participants
- Price is not adjusted for transaction costs
- Measurement maximises the use of relevant observable inputs and minimises the use of unobservable inputs
- The three-level fair value hierarchy is extended to all fair value measurements

The standard has been applied prospectively and comparatives have not been restated.

***(vi) IAS 28 (2011) Investments in Associates and Joint Ventures***

IAS 28 (2011) supersedes IAS 28 (2008) and carries forward the existing accounting and disclosure requirements with limited amendments. These include:

- IFRS 5 is applicable to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held-for-sale; and
- On cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or vice versa, the company does not re-measure the retained interest.

***(vii) IFRS 10 Consolidated Financial Statements 2011***

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates other entities. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns.

In accordance with the transitional provisions of IFRS10 (2011), the Group reassessed its control conclusions as of 1 January 2013, and the change did not have a material impact on the Group's financial statements.

The group has adopted this new standard in its financial statements for the year ending 31 December 2013.

### 2.5.2 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are stated out below. The Group does not plan to adopt these standards early.

***(i) IAS 32 Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities***

The amendments clarify when an entity can offset financial assets and financial liabilities. This amendment will result in the Group no longer offsetting two of its master netting arrangements. This amendment is effective for annual periods beginning on or after 1 January 2014 with early adoption permitted.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**for the year ended 31 December 2013**

## 2. ACCOUNTING CONVENTION (continued)

### 2.5 Changes in accounting policy and disclosures (continued)

### 2.5.2 New standards and interpretations not yet adopted (continued)

***(ii) IFRS 10, IFRS 12 and IAS 27 :Investment entities )***

The amendments clarify that a qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss; the only exception would be subsidiaries that are considered an extension of the investment entity's investment activities. The consolidation exemption is mandatory and not optional.

This amendment will result in the Group having to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss. This amendment is effective for annual periods beginning on or after 1 January 2014 with early adoption permitted.

***(iii) IAS 36 : Impairment of assets :Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)***

The amendments reverse the unintended requirement in IFRS 13 Fair Value Measurement to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2014 with early adoption permitted. The Group will adopt the amendments for the year ending 31 December 2014.

***(iv) IFRIC 21 Levies***

Levies have become more common in recent years, with governments in a number of jurisdictions introducing levies to raise additional income. Current practice on how to account for these levies is mixed. IFRIC 21 provides guidance on accounting for levies in accordance with IAS 37 *Provisions, Contingent Liabilities and Assets.* The Interpretation is effective for annual periods commencing on or after 1 January 2014 with retrospective application.

***(v) IAS 39 Financial Instruments: Recognition and Measurement Novation of Derivatives and Continuation of Hedge Accounting***

IAS 39 *Financial Instruments*: Recognition and Measurement requires an entity to discontinue hedge accounting if the derivative hedging instrument is novated to a clearing counterparty, unless the hedging instrument is being replaced as part of the entity's original documented hedging strategy.

The amendments add a limited exception to IAS 39, to provide relief from discounting an existing hedging relationship, when a novation was not contemplated in the original hedging documentation specific criteria. The amendments apply retrospectively for annual periods beginning on or after 1 January 2014 with early adoption permitted.

***(vi) IAS 19 Employee Benefits: Defined Benefit Plans: Employee Contributions***

The amendments introduce relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. Such contributions are eligible for practical expedient if they are:

- set out in the formal terms of the plan;
- linked to service; and
- independent of the number of years of service.

When contributions are eligible for the practical expedient, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered. The Group has a defined benefit plan that requires employees to contribute to the plan, if the Group chooses to apply this amendment, the Group will recognise the contributions as reduction of the service costs in the period in which the related service is rendered. The amendments apply retrospectively for annual periods beginning on or after 1 January 2015 with early adoption permitted.

## 2. ACCOUNTING CONVENTION (continued)

### 2.5 Changes in accounting policy and disclosures (continued)

### 2.5.2 New standards and interpretations not yet adopted (continued)

***(vii) IFRS 9 Financial Instruments***

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

The effective date of IFRS 9 was 1 January 2015. The effective date has now been set as 1 January 2018. The Bank will adopt the standard for the year ending 31 December 2018. The impact of the adoption of IFRS 9 has not yet been estimated as the standard is still being revised and impairment and macro-hedge accounting guidance is still outstanding. The Bank will assess the impact once the standard has been finalised.

## 3. SEGMENT INFORMATION

For management purposes, the Group is organised into four operating segments based on products and services as follows:

**Retail banking** - Individual customers deposits and consumer loans, overdrafts, credit card facilities and funds transfer facilities.

**Corporate banking** - Loans and other credit facilities and deposit and current accounts for corporate and institutional customers.

**Treasury** - Money market investment, securities trading, accepting and discounting of instruments and foreign currency trading.

**International banking** - Handles the Group's foreign currency denominated banking business and manages relationships with correspondent banks.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the consolidated financial statements. Income taxes are managed on a Group basis and are not allocated to operating segments.

Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not the gross income and expense.

Transfer prices between operating segments are on arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2013 or 2012.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**for the year ended 31 December 2013**

## 3. SEGMENT INFORMATION (cont'd)

The following table presents income and profit and certain asset and liability information regarding the Group's operating segments and service units:

| 31 December 2013 | Retail Banking US$ | Corporate Banking US$ | Treasury Banking US$ | International Banking US$ | Unallocated US$ | Total US$ |
|---|---|---|---|---|---|---|
| **Income** | | | | | | |
| Third party | 21 444 523 | 21 749 625 | 4 006 239 | 1 756 443 | 1 162 331 | 50 119 161 |
| Impairment losses on loans and advances | (658 002) | (15 987 808) | - | - | - | (16 645 810) |
| **Net operating income** | **20 786 521** | **5 761 817** | **4 006 239** | **1 756 443** | **1 162 331** | **33 473 351** |
| **Results** | | | | | | |
| Interest and similar income | 7 363 929 | 22 925 394 | 2 504 195 | - | 388 186 | 33 181 704 |
| Interest and similar expense | (2 368 543) | (9 120 157) | (1 517 805) | - | - | (13 006 505) |
| Net interest income | 4 995 386 | 13 805 237 | 986 390 | - | 388 186 | 20 175 199 |
| Fee and commission income | 12 342 153 | 566 915 | - | 1 756 199 | 8 567 | 14 673 834 |
| Depreciation of property and equipment | 744 735 | 135 675 | 41 694 | 46 718 | 727 034 | 1 695 856 |
| **Segment profit/ (loss)** | **8 423 563** | **(11 457 558)** | **1 965 903** | **381 721** | **(3 265 494)** | **(3 951 865)** |
| Income tax credit | - | | - | - | 630 042 | 630 042 |
| **Profit/(loss) for the year** | **8 423 563** | **(11 457 558)** | **1 965 903** | **381 721** | **(2 635 452)** | **(3 321 823)** |
| **Assets and liabilities** | | | | | | |
| Capital expenditure | 1 058 456 | 133 532 | 132 113 | 12 027 | 1 341 108 | 2 677 236 |
| **Total assets** | **54 124 890** | **144 028 356** | **41 326 313** | **121 897** | **19 881 656** | **259 483 112** |
| **Total liabilities** | **72 525 463** | **77 182 723** | **61 092 072** | **-** | **5 241 451** | **216 041 709** |

## 3. SEGMENT INFORMATION (cont'd)

The following table presents income and profit and certain asset and liability information regarding the Group's operating segments and service units:

| 31 December 2012 | Retail Banking US$ | Corporate Banking US$ | Treasury Banking US$ | International Banking US$ | Unallocated US$ | Total US$ |
|---|---|---|---|---|---|---|
| **Income** | | | | | | |
| Third party | 17 420 843 | 20 054 690 | 2 806 291 | 1 441 235 | 3 766 943 | 45 490 002 |
| Impairment losses on loans and advances | (631 814) | (3 353 248) | - | - | - | (3 985 062) |
| Net operating income | 16 789 029 | 16 701 442 | 2 806 291 | 1 441 235 | 3 766 943 | 41 504 940 |
| **Results** | | | | | | |
| Interest income | 6 178 887 | 19 669 296 | 1 695 601 | - | - | 27 543 784 |
| Interest expense | (1 921 638) | (7 335 899) | (792 466) | - | - | (10 050 003) |
| Net interest income | 4 257 249 | 12 333 397 | 903 135 | - | - | 17 493 781 |
| Share of profit of associate | - | - | - | - | 434 252 | 434 252 |
| Fee and commission income | 11 136 085 | 450 746 | - | 1 429 285 | 22 036 | 13 038 152 |
| Depreciation of property and equipment | 615 387 | 127 980 | 20 727 | 27 064 | 639 798 | 1 430 956 |
| **Segment profit/ (loss) before tax** | **4 885 798** | **7 907 300** | **2 431 151** | **416 494** | **(5 638 519)** | **10 002 224** |
| Income tax expense | - | - | - | - | (2 431 722) | (2 431 722) |
| **Profit/(loss) for the year** | **4 885 798** | **7 907 300** | **2 431 151** | **416 494** | **(8 070 241)** | **7 570 502** |
| **Assets and Liabilities** | | | | | | |
| Capital expenditure | 974 520 | 107 131 | 450 | 160 829 | 1 501 749 | 2 744 679 |
| **Total assets** | **41 315 622** | **116 785 290** | **48 849 157** | **160 829** | **19 422 784** | **226 533 682** |
| **Total liabilities** | **75 893 282** | **76 327 413** | **40 146 035** | **-** | **3 224 869** | **195 591 599** |

## 4. INTEREST INCOME

| | GROUP 2013 US$ | GROUP 2012 US$ | COMPANY 2013 US$ | COMPANY 2012 US$ |
|---|---|---|---|---|
| Loans and advances to banks | 2 252 247 | 1 448 696 | - | - |
| Loans and advances to customers | 30 615 147 | 25 554 697 | - | - |
| Investment securities | 251 949 | 246 905 | - | - |
| Other | 62 361 | 293 486 | 1 | 240 741 |
| | 33 181 704 | 27 543 784 | 1 | 240 741 |

## 5. INTEREST EXPENSE

| | GROUP 2013 US$ | GROUP 2012 US$ |
|---|---|---|
| Due to banks | 4 637 619 | 3 168 308 |
| Due to customers | 7 960 563 | 6 731 855 |
| Other borrowed funds | 408 323 | 149 840 |
| | 13 006 505 | 10 050 003 |

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**for the year ended 31 December 2013**

## 6. NON-INTEREST INCOME AND NET FOREIGN EXCHANGE GAINS

### 6.1 Fee and commission income

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2013 US$ | 2012 US$ | 2013 US$ | 2012 US$ |
| Retail Banking customer fees | 12 342 153 | 11 136 084 | - | - |
| Corporate Banking credit related fees | 358 712 | 256 444 | - | - |
| Financial guarantee income | 208 203 | 194 302 | - | - |
| International Banking commissions | 1 756 199 | 1 429 285 | - | - |
| Other | 8 567 | - | - | - |
| | 14 673 834 | 13 016 115 | - | - |

### 6.2 Non interest income

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2013 US$ | 2012 US$ | 2013 US$ | 2012 US$ |
| Quoted and other investments fair value adjustments | 9 892 | 17 078 | (10 801) | 6 836 |
| Profit/(loss) on disposal of property and equipment | 30 022 | 725 | - | - |
| Fair value adjustment on investment properties | 595 450 | 2 538 710 | - | - |
| Profit on disposal of quoted and other investments | - | - | - | - |
| Profit on disposal on non-current assets held for sale | 1 500 | - | - | - |
| Fair value adjustment on non-current assets held for sale | 21 000 | | | |
| Other operating income | 119 856 | 37 002 | 730 638 | 6 423 |
| | 777 720 | 2 593 515 | 719 837 | 13 259 |

### 6.3 Net foreign exchange gains

| | GROUP | |
|---|---|---|
| | 2013 US$ | 2012 US$ |
| Net foreign exchange gains | 1 502 044 | 1 902 337 |

Net foreign exchange income includes gains and losses from spot and forward contracts and other currency derivatives.

## 7. OPERATING EXPENDITURE

| | GROUP 2013 US$ | GROUP 2012 US$ | COMPANY 2013 US$ | COMPANY 2012 US$ |
|---|---|---|---|---|
| The operating profit is after charging the following:- | | | | |
| Administration costs | 11 496 337 | 9 540 865 | 16 285 | - |
| Audit fees: | | | | |
| - Current year | 77 337 | 51 885 | - | - |
| - Prior year | 128 938 | 199 356 | - | - |
| Impairment reversal on land and buildings | (4 803) | (77 472) | - | - |
| Amortisation of intangible assets | 130 716 | - | - | - |
| Depreciation | 1 695 856 | 1 430 956 | - | - |
| Directors' remuneration | 2 567 513 | 2 532 313 | - | - |
| - Fees for services as directors | 105 190 | 64 990 | - | - |
| - Other emoluments | 2 462 323 | 2 467 323 | 675 217 | 797 333 |
| Staff costs | | | | |
| – salaries, allowances and related costs | 9 140 862 | 7 774 811 | - | - |
| | 25 232 756 | 21 452 714 | 691 502 | 797 333 |

## 8. TAXATION

### 8.1 Income tax (credit)/expense

| | GROUP 2013 US$ | GROUP 2012 US$ | COMPANY 2013 US$ | COMPANY 2012 US$ |
|---|---|---|---|---|
| Current tax | 533 722 | 3 292 170 | 84 865 | - |
| Aids levy | 14 610 | 98 765 | 2 546 | - |
| Capital gains tax | 264 574 | - | 262 599 | - |
| Deferred tax | (1 442 948) | (959 213) | 21 000 | (21 198) |
| | (630 042) | 2 431 722 | 371 010 | (21 198) |

### 8.2 Reconciliation of income tax (credit)/ charge

| | GROUP 2013 US$ | GROUP 2012 US$ | COMPANY 2013 US$ | COMPANY 2012 US$ |
|---|---|---|---|---|
| Based on results for the period at a rate of 25.75% | (1 017 605) | 2 575 573 | 348 300 | (139 908) |
| Arising due to: | | | | |
| Income not subject to tax | (240 965) | - | (146 604) | - |
| Non-deductible expenses | 542 108 | 385 259 | 8 962 | 118 761 |
| Tax rate differential on capital gains | (178 154) | (529 110) | (102 247) | (51) |
| Capital gains tax | 264 574 | - | 262 599 | - |
| | (630 042) | 2 431 722 | 371 010 | (21 198) |

### 8.3 Total taxation (credit)/charge analysed by company

| | GROUP 2013 US$ | GROUP 2012 US$ | COMPANY 2013 US$ | COMPANY 2012 US$ |
|---|---|---|---|---|
| Stewart Holdings (Private) Limited | 1 365 | 598 | - | - |
| NMB Bank Limited | (973 175) | 2 452 323 | - | - |
| NMBZ Holdings Limited | 341 768 | (21 199) | 371 010 | (21 198) |
| | (630 042) | 2 431 722 | 371 010 | (21 198) |

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**for the year ended 31 December 2013**

| | GROUP 2013 US$ | GROUP 2012 US$ | COMPANY 2013 US$ | COMPANY 2012 US$ |
|---|---|---|---|---|
| **8.4 Current tax (assets)/ liabilities (income tax and aids levy)** | | | | |
| At 1 January | 588 966 | 1 157 974 | (179 129) | 44 798 |
| Charge for the year | 812 905 | 3 390 935 | 350 006 | - |
| Payments during the year | | | | |
| – Corporate tax | (2 876 507) | (3 959 943) | (262 599) | (223 927) |
| – Capital gains tax | (264 574) | - | - | - |
| | (1 739 210) | 588 966 | (91 722) | (179 129) |

## 9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of NMBZ Holdings Limited by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the profit attributable to ordinary equity holders of NMBZ Holdings Limited adjusted for the after tax effect of: (a) any dividends or other items related to dilutive potential ordinary shares deducted in arriving at profit or loss attributable to ordinary equity holders of the parent entity; (b) any interest recognised in the period related to dilute potential ordinary shares; (c) any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares, by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

| | GROUP 2013 US$ | GROUP 2012 US$ |
|---|---|---|
| **9.1 (Loss)/earnings** | | |
| Attributable (loss)/ earnings | (3 321 823) | 7 570 502 |
| **9.2 Number of shares** | | |
| Weighted average shares in issue | 332 569 065 | 280 710 729 |
| Diluted weighted average number of shares | 385 501 688 | 281 785 016 |
| Number of shares at beginning of period | 280 710 729 | 280 710 729 |
| Shares issued | 103 716 672 | - |
| Redeemable ordinary shares issued | | |
| – private placement | 103 714 287 | - |
| Shares issued on consolidation | 2 385 | - |
| **Effect of dilution:** | | |
| Share options granted but not issued | 907 200 | 907 200 |
| Share options approved but not granted | 167 087 | 167 087 |
| | 385 501 688 | 281 785 016 |
| **9.3 (Loss)/earnings per share (US$ cents)** | | |
| Basic (loss)/earnings per share | (1.00) | 2.70 |
| Diluted (loss)/earnings per share | (0.86) | 2.69 |

## 10. SHARE CAPITAL

### 10.1 Authorised

| | GROUP AND COMPANY | | | |
|---|---|---|---|---|
| | 31 December 2013 Shares million | 31 December 2012 Shares million | 31 December 2013 US$ | 31 December 2012 US$ |
| Ordinary shares of US$0.00028 each | 600 | 350 | 168 000 | 98 000 |

At an Extraordinary General Meeting held on 19 February 2013, the Company approved a share consolidation exercise at a ratio of 10 : 1 and consolidated 3 500 000 000 (3.5 billion) shares with a nominal value of US$0.000028 per share to 350 000 000 (350 million) shares with a nominal value of US$0.00028 per share. The Company also approved an increase in the authorised share capital from 350 million shares with a nominal value of $0.00028 per share to 600 million shares with a nominal value of $0.00028 per share.

| | GROUP AND COMPANY | | | |
|---|---|---|---|---|
| | 31 December 2013 Shares million | 31 December 2012 Shares million | 31 December 2013 US$ | 31 December 2012 US$ |
| **10.2 Issued and fully paid** | | | | |
| **10.2.1 Ordinary shares** | | | | |
| Ordinary shares | 281 | 281 | 78 598 | 78 598 |
| | 281 | 281 | 78 598 | 78 598 |
| **10.2.2 Redeemable ordinary shares** | | | | |
| At 1 January | - | - | - | - |
| Shares issued (note 13) | 104 | - | 29 040 | - |
| | 104 | - | 29 040 | - |

Of the unissued ordinary shares of 215 million shares (2012– 69 million), options which may be granted in terms of the NMBZ 2005 Employee Share Option Scheme (ESOS) amounted to nil (2012 – 8 536 096) and out of these nil (2012 – 167 087) had not been issued. As at 31 December 2013, 907 200 (2012 – 907 200) share options out of the issued had not been exercised.

Share options which may be granted in terms of the 2012 ESOS amount to 28 071 073 and as at 31 December 2013 no share options had been allocated from the Scheme.

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

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**for the year ended 31 December 2013**

## 11. CAPITAL RESERVES

| | GROUP 2013 US$ | GROUP 2012 US$ | COMPANY 2013 US$ | COMPANY 2012 US$ |
|---|---|---|---|---|
| Share premium | 15 737 548 | 15 737 548 | 15 737 548 | 15 737 548 |
| Share option reserve | 45 671 | 45 671 | 45 671 | 45 671 |
| Regulatory reserve | 2 154 252 | 2 301 683 | - | - |
| Total capital reserves | 17 937 471 | 18 084 902 | 15 783 219 | 15 783 219 |

### Capital reserves

#### Share premium

This reserve represents the excess amount paid for the shares over and above the nominal value of the shares.

#### Share option reserve

The share option reserve is used to recognise the value of equity settled share based payment transactions provided to employees, including key management personnel, as part of their remuneration. Refer to note 38.3 for further details of these plans.

#### Regulatory reserve

This reserve represents the excess of the Banking Regulations allowance for impairment losses on loans and advances amount compared to the IAS 39 allowance for impairment losses on loan and advances.

## 12. RETAINED EARNINGS/(LOSS)

### Analysis of retained earnings/(loss) by company

| | GROUP 2013 US$ | GROUP 2012 US$ | COMPANY 2013 US$ | COMPANY 2012 US$ |
|---|---|---|---|---|
| NMBZ Holdings Limited | 752 994 | 268 522 | 752 994 | (228 618) |
| NMB Bank Limited | 8 802 981 | 12 487 547 | - | |
| Stewart Holdings (Private) Limited | 48 216 | 22 514 | - | - |
| Total | 9 604 191 | 12 778 583 | 752 994 | (228 618) |

## 13. REDEEMABLE ORDINARY SHARES

| | GROUP | |
|---|---|---|
| | 2013 US$ | 2012 US$ |
| Redeemable ordinary share capital (note 10.2.2) | 29 040 | - |
| Share premium | 14 306 213 | - |
| | 14 335 253 | - |

The Company received US$14 831 145 capital from Nederlandse Financierings-Maatschappij Voor Ontiwikkelingslanden N.V. (FMO), Norwegian Investment Fund for Developing Countries (Norfund) and AfricInvest Financial Sector Holdings (AfricInvest) who were allocated 34 571 429 shares each for a (total 103 714 287) individually investing US$4 943 715. This amount, net of share issue expenses, was used to recapitalise the Bank in order to contribute towards the minimum capital requirements set by the Reserve Bank of Zimbabwe of US$100 million by 31 December 2020.

NMBZ Holdings Limited (NMBZ) entered into a share buy-back agreement with Norfund, FMO and AfricInvest, where these three strategic investors have a right on their own discretion at any time after the 5th anniversary but before the 9th anniversary of its first subscription date, to request NMBZ to buy back all or part of its NMBZ shares at a price to be determined using the agreed terms as entailed in the share buy-back agreement. It is a condition precedent that at any point when the share buy-back is being considered, the proceeds used to finance the buy-back should come from the distributable reserves which are over and above the minimum regulatory capital requirements. Further, no buy-back option can be exercised by any investor after the 9th anniversary of the effective date.

The share buy -back agreement creates a potential obligation for NMBZ Holdings Limited to purchase its own instruments. The shares issued gave rise to a potential financial liability and are classified as redeemable ordinary shares.

## 14. SUBORDINATED TERM LOAN

| | GROUP | |
|---|---|---|
| | 2013 US$ | 2012 US$ |
| Subordinated loan | 1 400 000 | - |
| Interest capitalised | 85 890 | - |
| | 1 485 890 | - |

During the year, the Bank received a subordinated term loan amounting to US$1.4 million from Norfund which attracts an interest rate of LIBOR plus 10% and has a seven year maturity date from the first disbursement date.

The above liability would, in the event of the winding up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer. The Group has not had any defaults of the principal and interest with respect to this subordinated loan during the year ended 31 December 2013.

## 15. TOTAL SHAREHOLDERS' FUNDS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2013 US$ | 2012 US$ | 2013 US$ | 2012 US$ |
| Shareholders' funds | 43 441 403 | 30 942 083 | 30 950 064 | 15 633 199 |
| | 43 441 403 | 30 942 083 | 30 950 064 | 15 633 199 |

Shareholders' funds refer to the total investments made by the shareholders into the Group and it consists of share capital (refer to Note 10), capital reserves (refer to Note 11), retained earnings (refer to Note 12), redeemable ordinary shares (refer to Note 13) and subordinated term loan (refer to Note 14).

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**for the year ended 31 December 2013**

## 16. DEPOSITS AND OTHER LIABILITIES

### 16.1 Deposits and other liabilities by type

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2013 US$ | 2012 US$ | 2013 US$ | 2012 US$ |
| Deposits from banks and other financial institutions* | 52 338 708 | 38 969 071 | - | - |
| Current and deposit accounts from customers* | 158 876 358 | 152 452 995 | - | - |
| Total deposits | 211 215 066 | 191 422 066 | - | - |
| Trade and other payables* | 4 826 643 | 3 580 567 | 784 819 | 993 958 |
| | 216 041 709 | 195 002 633 | 784 819 | 993 958 |

*Deposits and other payables approximate the related carrying amount due to their short term nature.

### 16.2 Maturity analysis

| | GROUP | |
|---|---|---|
| | 2013 US$ | 2012 US$ |
| Less than 1 month | 160 919 521 | 159 048 090 |
| 1 to 3 months | 28 819 465 | 8 388 210 |
| 3 to 6 months | 2 163 310 | 5 686 674 |
| 6 months to 1 year | 1 697 507 | 1 675 259 |
| 1 to 5 years | 17 615 263 | 16 623 833 |
| Over 5 years | - | - |
| | 211 215 066 | 191 422 066 |

### 16.3 Sectoral analysis of deposits

| | GROUP | | | |
|---|---|---|---|---|
| | 2013 US$ | % | 2012 US$ | % |
| Banks and other financial institutions | 52 338 708 | 25 | 38 969 071 | 20 |
| Transport and telecommunications | 5 697 396 | 3 | 6 040 981 | 3 |
| Agriculture | 9 731 279 | 4 | 9 085 971 | 5 |
| Mining companies | 3 035 997 | 1 | 3 221 341 | 2 |
| Manufacturing | 26 723 790 | 13 | 23 888 559 | 12 |
| Distribution | 21 091 778 | 10 | 17 912 925 | 9 |
| Services | 32 933 385 | 16 | 28 199 595 | 15 |
| Individuals | 28 425 938 | 13 | 29 115 145 | 15 |
| Other deposits | 20 727 019 | 10 | 16 220 303 | 9 |
| Municipalities and parastatals | 10 509 776 | 5 | 18 768 175 | 10 |
| | 211 215 066 | 100 | 191 422 066 | 100 |

## 17. FINANCIAL INSTRUMENTS

| | GROUP | |
|---|---|---|
| | Cost 2013 US$ | Cost 2012 US$ |
| **17.1 Investment securities held to maturity** | | |
| Government and public sector securities | 4 685 471 | 5 501 963 |
| RBZ Bond | 4 685 471 | 5 501 963 |
| | 4 685 471 | 5 501 963 |

The RBZ Bond is valued at cost as there is no market information to facilitate application of fair value principles.

| | GROUP | |
|---|---|---|
| | 2013 US$ | 2012 US$ |
| **17.2 Maturity analysis of investment securities held to maturity** | | |
| Less than 1 month | - | - |
| 1 to 3 months | - | - |
| 3 to 6 months | 2 424 461 | 2 271 949 |
| 6 months to 1 year | 969 004 | 969 004 |
| 1 year to 5 years | 1 292 006 | 2 261 010 |
| Over 5 years | - | - |
| | 4 685 471 | 5 501 693 |

### 17.3 Fair values 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 quotations. For all other financial instruments, the Group 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 judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

#### Valuation models

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- **Level 1:** inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- **Level 2:** inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- **Level 3**: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

for the year ended 31 December 2013

## 17. FINANCIAL INSTRUMENTS (continued)

### Financial instruments measured at fair value – fair value hierarchy

| | GROUP | | | |
|---|---|---|---|---|
| | 31 Dec 2013 | Level 1 | Level 2 | Level 3 |
| | US$ | US$ | US$ | US$ |
| Trade investments | 190 148 | - | - | 190 148 |
| Quoted investments | 145 850 | 145 850 | - | - |
| | 335 998 | 145 850 | - | 190 148 |

During the reporting period ended 31 December 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements. The trade investments were valued using the net asset value method.

| | GROUP | | | |
|---|---|---|---|---|
| | 31 Dec 2012 | Level 1 | Level 2 | Level 3 |
| | US$ | US$ | US$ | US$ |
| Trade investments | 195 790 | - | - | 195 790 |
| Quoted investments | 130 316 | 130 316 | - | - |
| | 326 106 | 130 316 | - | 195 790 |

During the reporting period ended 31 December 2012, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

### Level 3 fair value measurements

### Reconciliation

| 31 December 2013 | GROUP US$ |
|---|---|
| **Trade investments** | |
| Balance at 1 January | 195 790 |
| Total loss in profit or loss | (5 642) |
| Balance at 31 December | 190 148 |

| 31 December 2012 | GROUP US$ |
|---|---|
| **Trade investments** | |
| Balance at 1 January | 190 980 |
| Total profit in profit or loss | 4 810 |
| Balance at 31 December | 195 790 |

## 17. FINANCIAL INSTRUMENTS (continued)

### Financial instruments not measured at fair value

The below table sets out the fair values 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.

| 31 December 2013 | GROUP | | | |
|---|---|---|---|---|
| Assets | Level 1 US$ | Level 2 US$ | Level 3 US$ | Total carrying amount US$ |
| Cash and cash equivalents | - | 48 871 983 | - | 48 871 983 |
| Advances and other assets | - | 181 316 271 | - | 181 316 271 |
| Investment in debentures | - | 3 984 723 | - | 3 984 723 |
| Investment securities held to maturity | - | 4 685 781 | - | 4 685 781 |
| Total | - | 238 858 758 | - | 238 858 758 |
| **Liabilities** | | | | |
| Deposits and other liabilities | - | 216 041 709 | - | 216 041 709 |
| | - | 216 041 709 | - | 216 041 709 |

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- The fair values of cash and cash equivalents, advances and other assets and deposits and other liabilities carrying amounts approximate their fair values largely due to the short – term maturities of these instruments.
- Fair value of financial assets and liabilities at fair value through profit or loss is derived from quoted market prices in active markets. If quoted market prices are not available the fair value is estimated using pricing models or discounted cash flow techniques.

## 18. INVESTMENT IN DEBENTURES

| | GROUP 2013 US$ | 2012 US$ |
|---|---|---|
| Debentures | 4 787 074 | - |
| Provision for impairment loss | (802 351) | - |
| | 3 948 723 | - |

During the period under review, a loan with a carrying amount of US$4 787 074 was converted to convertible debentures of US$4 787 074 with a maturity period of 5 years. The debentures are at an interest rate of 10% per annum. The Bank has an option to convert the debentures to equity or redeem the debentures at par on or before the maturity date of 9 March 2018.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**for the year ended 31 December 2013**

## 19. DEFERRED TAX

| | GROUP 2013 US$ | GROUP 2012 US$ | COMPANY 2013 US$ | COMPANY 2012 US$ |
|---|---|---|---|---|
| Allowance for impairment losses on loans and advances | (3 008 939) | (1 871 973) | - | - |
| Quoted and other investments | 11 106 | 10 640 | 1 147 | 1 721 |
| Investments:-Trade investments | 5 697 | 5 664 | 5 697 | 5 664 |
| Non-current assets held for sale | 115 165 | 111 265 | - | - |
| Investment properties | 257 081 | 142 387 | - | - |
| Property and equipment | 432 934 | 424 649 | - | - |
| Marking to market adjustments IAS 39 | (51 225) | (45 583) | - | - |
| Unrealised foreign exchange gains | 65 951 | 321 153 | - | - |
| Suspended interest | (243 061) | (145 613) | - | - |
| Deferred income | (405 463) | (308 840) | - | - |
| Assessed losses | (2 790) | (24 345) | - | (21 541) |
| Closing deferred tax (asset)/liability | (2 823 544) | (1 380 596) | 6 844 | (14 156) |
| Deferred tax liability at the beginning of the year | 1 380 596 | 421 383 | 14 156 | (7 042) |
| Current year credit (note 8.1) | (1 442 948) | (959 213) | 21 000 | (21 198) |

## 20. CASH AND CASH EQUIVALENTS

### 20.1 Balances with Reserve Bank of Zimbabwe

| | GROUP 2013 US$ | GROUP 2012 US$ | COMPANY 2013 US$ | COMPANY 2012 US$ |
|---|---|---|---|---|
| Balances with the Central Bank | 13 480 628 | 22 671 712 | - | - |
| **20.2 Balances with other banks and cash** | | | | |
| Current, nostro accounts and cash | 31 391 355 | 14 999 333 | 52 | 51 |
| Interbank placements | 4 000 000 | 20 500 000 | - | - |
| | 48 871 983 | 58 171 045 | 52 | 51 |

## 21. LOANS, ADVANCES AND OTHER ASSETS

### 21.1 Total loans, advances and other assets

#### 21.1.1 Advances

| | GROUP 2013 US$ | GROUP 2012 US$ | COMPANY 2013 US$ | COMPANY 2012 US$ |
|---|---|---|---|---|
| Fixed term loans | 21 711 476 | 57 124 283 | - | - |
| Local loans and overdrafts | 155 821 785 | 86 823 914 | - | - |
| | 177 533 261 | 143 948 197 | - | - |
| Other assets | 3 783 010 | 2 651 797 | 7 385 | 177 486 |
| | 181 316 271 | 146 599 994 | 7 385 | 177 486 |

## 21. LOANS, ADVANCES AND OTHER ASSETS (Continued)

### 21.1 Total loans, advances and other assets (continued)

#### 21.1.2. Maturity analysis

| | GROUP 2013 US$ | GROUP 2012 US$ | COMPANY 2013 US$ | COMPANY 2012 US$ |
|---|---|---|---|---|
| Less than 1 month | 118 711 869 | 92 386 313 | - | - |
| 1 to 3 months | 18 082 940 | 19 352 134 | - | - |
| 3 to 6 months | 3 826 276 | 3 271 119 | - | - |
| 6 months to 1 year | 2 869 815 | 4 968 635 | - | - |
| 1 to 5 years | 46 499 824 | 32 439 174 | - | - |
| Over 5 years - | - | - | - | |
| **Total advances** | 189 990 724 | 152 417 375 | - | - |
| Allowance for impairment losses on loans and advances | (11 685 201) | (7 269 799) | - | - |
| Allowance for impairment loss on debentures (note 18) | 802 351 | - | - | - |
| Provision for suspended interest | (1 574 613) | (1 199 379) | - | - |
| | 177 533 261 | 143 948 197 | - | - |
| Other assets (note 21.5) | 3 783 010 | 2 651 797 | 7 385 | 177 486 |
| | 181 316 271 | 146 599 994 | 7 385 | 177 486 |

### 21.2 Sectoral analysis of utilisations

| GROUP | 2013 US$ | 2013 % | 2012 US$ | 2012 % |
|---|---|---|---|---|
| Manufacturing | 32 093 128 | 17 | 29 008 475 | 19 |
| Distribution | 46 458 831 | 24 | 46 673 432 | 31 |
| Agriculture and horticulture | 11 208 448 | 6 | 9 894 729 | 6 |
| Conglomerates | 9 190 491 | 5 | 4 683 682 | 3 |
| Services | 42 475 414 | 23 | 30 216 258 | 20 |
| Mining | 1 584 085 | 1 | 1 347 402 | 1 |
| Food & beverages | 480 502 | - | 214 163 | - |
| Individuals | 46 499 825 | 24 | 30 379 234 | 20 |
| | 189 990 724 | 100 | 152 417 375 | 100 |

The material concentration of loans and advances are in the distribution sector at 24% (2012- 31%) and individuals at 24% (2012 – 20%).

### 21.3 Allowances for impairment losses on loans, advances and debentures

| GROUP | 2013 Specific US$ | 2013 Portfolio US$ | 2013 Total US$ | 2012 Specific US$ | 2012 Portfolio US$ | 2012 Total US$ |
|---|---|---|---|---|---|---|
| At 1 January | 7 164 064 | 105 735 | 7 269 799 | 3 354 088 | - | 3 354 088 |
| Recognised in profit or loss | 16 493 700 | 152 110 | 16 645 810 | 3 879 327 | 105 735 | 3 985 062 |
| Bad debts written off | (12 230 408) | - | (12 230 408) | (69 351) | - | (69 351) |
| At 31 December | 11 427 356 | 257 845 | 11 685 201 | 7 164 064 | 105 735 | 7 269 799 |

## 21. LOANS, ADVANCES AND OTHER ASSETS (continued)

### 21.4 Non-performing loans and advances

| | GROUP 2013 US$ | GROUP 2012 US$ |
|---|---|---|
| Total non-performing loans and advances | 38 730 878 | 23 996 312 |
| Allowance for impairment loss on loans, advances and debentures | (11 427 356) | (7 164 064) |
| Allowance for impairment losses on debentures (note 18) | 802 351 | - |
| Interest in suspense | (1 574 613) | (1 199 379) |
| | 26 531 260 | 15 632 869 |

The residue on these accounts represents recoverable portions covered by realisable security, which includes guarantees, cessation of debtors, mortgages over residential properties, equities and Promissory Notes all fair valued at US$27 308 066 (2012: US$15 916 654).

### 21.5 Other assets

| | GROUP 2013 US$ | GROUP 2012 US$ | COMPANY 2013 US$ | COMPANY 2012 US$ |
|---|---|---|---|---|
| Service deposits | 698 460 | 552 875 | - | - |
| Prepayments and stocks | 1 668 244 | 1 793 025 | - | - |
| Other receivables | 1 416 306 | 305 897 | 7 385 | 177 486 |
| | 3 783 010 | 2 651 797 | 7 385 | 177 486 |

### 21.6 Loans to officers

| | GROUP 2013 US$ | GROUP 2012 US$ |
|---|---|---|
| Included in advances and other accounts (note 21.1) are loans to officers:- | | |
| At 1 January | 1 879 479 | 1 055 223 |
| Additions during the year | 832 595 | 1 001 278 |
| | 2 712 074 | 2 056 501 |
| Fair value adjustment | (198 931) | (177 022) |
| Balance at 31 December | 2 513 143 | 1 879 479 |
| Of which housing loans comprised | - | - |

Loans to officers are granted at a preferential rate of 6% per annum as part of their overall remuneration agreements.

### 21.7 The terms and conditions applicable to advances are as follows:

| Type of Loan | Tenure | Interest Rate |
|---|---|---|
| Overdraft | Payable on demand | Penalty interest rate of ten percentage points above loan rate. |
| Loans | Loan payable over a maximum period of 36 months. | Weighted average cost of funds + 12.5% margin. Loans to employees and directors are at discounted interest rates. |
| Bankers Acceptances | Loan payable over a minimum period of 30 days up to 90 days. | Average rate of 16% per annum. |

## 22. NON-CURRENT ASSETS HELD FOR SALE

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2013 US$ | 2012 US$ | 2013 US$ | 2012 US$ |
| At 1 January 2013 | 2 225 300 | - | - | - |
| Transfer from investment property | 95 000 | 2 225 300 | - | - |
| Disposals | (38 000) | - | - | - |
| Fair value adjustment | 21 000 | - | - | - |
| | 2 303 300 | 2 225 300 | - | - |

The Group is in possession of land with a fair value of US$2 225 300 at year end. The Group entered into a sale agreement for a portion of land in 2012, however the execution and finalisation of the sale under this contract has been pending throughout 2013, due to unexpected delays in obtaining certain regulatory approvals. The disposal process is now expected to be completed within the next twelve months after the reporting date. The disposal will improve the Group's cash flows. The fair value adjustment on recognition as non-current asset held for sale is included under non-interest income (note 6).

### Measurement of fair value

### Fair value hierarchy

The fair value of non-current assets held for sale was determined by independent professional valuers, PMA Real Estate (Private) Limited. The valuation which conforms to International Valuation Standards, was in terms of the policy as set out in the accounting policies section and was derived with reference to market information close to the date of the valuation. All non-current assets held for sale are measured at their fair values.

The values were arrived at by applying a weighted average rate of $84 per square metre.

### Level 2

The fair value of non-current assets held for sale of U$2 303 300 has been categorised under level 2 in fair value hierarchy based on the inputs used for the valuation technique highlighted above. (see note 2.4.5 use of judgement and estimates).

## 23. TRADE INVESTMENTS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2013 US$ | 2012 US$ | 2013 US$ | 2012 US$ |
| Unlisted | | | | |
| Other | 190 148 | 195 790 | 113 946 | 113 277 |
| | 190 148 | 195 790 | 113 946 | 113 277 |
| Directors' valuation | 190 148 | 195 790 | 113 946 | 113 277 |

Other investments represent equity investment in SWIFT and Medical Investments (Private) Limited t/a Avenues Clinic. The trade investments were valued using the net asset value method at 31 December 2013 (see note 17.3 on fair value measurement).

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**for the year ended 31 December 2013**

## 24. INVESTMENT IN ASSOCIATE

### 24.1 Investment in African Century Limited

The Group had a 24.79% interest in African Century Limited, which is involved in the provision of lease finance. The investment was disposed of on the 29th of May 2013 for a consideration of US$1 850 000.

African Century Limited is a company that is not listed on any public exchange. The following table illustrates summarised audited financial information of the Group's investment in African Century Limited.

**Associate's statement of financial position**

| | GROUP | |
|---|---|---|
| | 31 December 2013 US$ | 31 December 2012 US$ |
| Current assets | - | 20 317 075 |
| Non-current assets | - | 228 923 |
| Current liabilities | - | (1 845 208) |
| Non-current liabilities | - | (14 562 352) |
| **Equity** | **-** | **4 138 438** |
| **Share of associate's equity (24.79%)** | **-** | **1 025 919** |
| **Associate's revenue and profit** | | |
| Revenue as at 29 May 2013 | 2 208 806 | 3 648 431 |
| Profit as at 29 May 2013 | 878 451 | 1 751 722 |
| **Share of associate's profit (24.79%)** | **217 768** | **434 252** |
| **Carrying amount of the investment** | **-** | **1 025 919** |

**Reconciliation of carrying amount of investment in associate**

| | GROUP | |
|---|---|---|
| | 31 December 2013 US$ | 31 December 2012 US$ |
| Balance at 1 January | 1 025 919 | 591 667 |
| Share of profit of associate | 217 768 | 434 252 |
| Disposal of investment | (1 243 687) | - |
| Balance at 31 December | - | 1 025 919 |

### 24.2. Investment in Altiwave Investments (Private) Limited

The Group has a 25.5 % interest in Altiwave Investments (Private) Limited which is the holding company of Lobels (Private) Limited. The investment arose from a Scheme of Arrangement agreed to by Lobels Holdings (Private) Limited shareholders and creditors (banks, suppliers and employees). Lobels Holdings (Private) Limited is in the bread and confectionery business.

Altiwave Investments (Private) Limited is a company that is not listed on any public exchange. The following table illustrates the summarised unaudited financial information of the Group's investment in Altiwave (Private) Limited.

## 24. INVESTMENT IN ASSOCIATE

### 24.2 Investment in Altiwave Investments (Private) Limited

**Associate's unaudited statement of financial position summary**

| | GROUP | |
|---|---|---|
| | 31 December 2013 | 31 December 2012 |
| Current assets | 7 867 222 | - |
| Non-current assets | 15 487 433 | - |
| Current liabilities | (10 717 574) | - |
| Non-current liabilities | (30 857 571) | - |
| **Equity** | **(18 220 490)** | **-** |
| **Share of associate's equity (25.5%)** | **(4 646 225)** | **-** |
| **Associate's revenue and profit** | | |
| Revenue | 64 753 584 | - |
| Profit | 1 759 363 | - |
| Share of associate's profit (25.5%) | 448 638 | - |
| **Reconcilliation of carrying amount** | | |
| 1 January | - | - |
| Increase in investment | 510 | - |
| Share of profit in associate | 448 638 | - |
| Allowance for impairment | (449 148) | - |
| | - | - |

The investment in Altiwave Investments (Private) Limited has been fully impaired as the company was technically insolvent as at 31 December 2013.

### 25.1 Subsidiaries

| | COMPANY | |
|---|---|---|
| | 2013 US$ | 2012 US$ |
| Investments in subsidiaries: | | |
| -NMB Bank Limited | 31 491 006 | 15 594 431 |
| -Stewart Holdings Limited | 14 680 | 14 680 |
| | 31 505 686 | 15 609 111 |

### 25.2 Shareholding

The subsidiaries and associates, all of which are registered in Zimbabwe, and the extent of the Group's beneficial interest therein and their principal business activities are listed below:-

| | 2013 | 2012 |
|---|---|---|
| NMB Bank Limited | 100% (Banking) | 100% (Banking) |
| Brixtun (Private) Limited | 100% (Dormant) | 100% (Dormant) |
| NMB Fund Management (Private) Limited | 100% (Dormant) | 100% (Dormant) |
| Stewart Holdings (Private) Limited | 100% (Equity Holdings) | 100% (Equity Holdings) |
| Invariant (Private) Limited | 100% (Dormant) | 100% (Dormant) |
| Darksan (Private) Limited | 100% (Dormant) | 100% (Dormant) |
| Altiwave Investments (Private) Limited | 25.5% (Baking) | Nil |

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**for the year ended 31 December 2013**

## 26. QUOTED AND OTHER INVESTMENTS

| | GROUP 2013 US$ | GROUP 2012 US$ | COMPANY 2013 US$ | COMPANY 2012 US$ |
|---|---|---|---|---|
| Quoted investments | 145 850 | 130 316 | 22 938 | 34 408 |

The quoted investments comprise shares stated for year end purposes at the last trading date of 31 December 2013.

## 27. INVESTMENT PROPERTIES

| | GROUP 2013 US$ | GROUP 2012 US$ |
|---|---|---|
| At 1 January | 3 115 300 | 2 510 000 |
| Improvements | 769 550 | 291 890 |
| Transfer to non-current assets held for sale (note 22) | (95 000) | (2 225 300) |
| Fair value adjustments | 595 450 | 2 538 710 |
| At 31 December | 4 385 300 | 3 115 300 |

Investment properties comprise a commercial property and residential properties that are leased out to third parties and land held for future development.

### Measurement of fair value

**Fair value hierarchy**

The fair value of the Group's investment properties as at 31 December 2013 has been arrived at on the basis of valuations carried out by independent professional valuers, PMA Real Estate (Private) Limited. The valuation which conforms to International Valuation Standards, was in terms of the policy as set out in the accounting policies section and was derived with reference to market information close to the date of the valuation.

The Group has no restrictions on the realisability of all investment properties and no contractual obligations to purchase, construct or develop the investment properties or for repairs, maintenance and enhancements.

Rental income amounting to US$47 618 (2012 – US$12 408) was received and no operating expenses were incurred on the investment properties in the current year due to the net leasing arrangement on the properties.

**Level 2**

The fair value for investment properties of US$2 575 300 has been categorised under level 2 in fair value hierarchy based on the inputs used for the valuation technique highlighted above.

The following table shows reconciliation between the opening and closing balances for level fair values:

| | GROUP US$ |
|---|---|
| At 1 January 2013 | 2 670 300 |
| Transfer to non-current assets held for sale | (95 000) |
| Fair value adjustments | - |
| Balance at 31 December 2013 | 2 575 300 |

The values were arrived at applying market rates of US$36 per square metre.

## 27. INVESTMENT PROPERTIES (continued)

### Level 3

The fair value for investment properties of US$1 810 000 has been categorised under level 3 in fair value hierarchy based on the inputs used for the valuation technique highlighted above.

The following table shows reconciliation between the opening and closing balances for level fair values:

| | GROUP US$ |
|---|---|
| At 1 January 2013 | 445 000 |
| Improvements | 769 550 |
| Fair value adjustments | 595 450 |
| Balance at 31 December 2013 | 1 810 000 |

The values were arrived at applying yield rates of 9.5% on rental levels of between US$6 – US$8 per square metre. The properties are leased out under operating lease to various tenants.

### Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investments properties, as well as the significant unobservable inputs used.

| Valuation technique | Significant unobservable inputs | Inter-relationship between key unobservable inputs and fair value measurement |
|---|---|---|
| • Discounted cash flows: The discounting method considers the present value of the net cash flows to be generated from the property, taking into account expected growth rate, void periods and occupancy rate.<br>• The expected net cash flows are discounted using risk adjusted discount rates.<br>• Among other factors the discount rate estimation considers the quality of the building and its location (prime vs secondary), tenant credit quality and lease terms. | - Expected market rental growth (weighted average 5%).<br>- Void period (average 2 months after the end of each lease).<br>- Occupancy rate (70-100%), weighted average 95%).<br>- Risk adjusted discount rates (9.5% - 11.5%, weighted average 9.5%). | The estimated fair value would increase (decrease) if:<br>- expected market rental growth were higher (lower);<br>- void periods were shorter (longer);<br>- the occupancy rates were higher (lower);<br>- the risk adjusted discount rates were lower (higher). |

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**for the year ended 31 December 2013**

## 28. INTANGIBLE ASSETS

| | GROUP 2013 US$ |
|---|---|
| **Cost** | |
| Balance at 1 January 2013 | - |
| Reclassification from property, plant and equipment | 740 615 |
| Acquisitions | 1 170 868 |
| Balance at 31 December 2013 | 1 911 483 |
| **Accumulated amortisation and impairment** | |
| Balance at 1 January 2013 | - |
| Reclassification from property, plant and equipment | 116 398 |
| Amortisation for the year | 130 716 |
| | 247 114 |
| **Balance at 31 December 2013** | **1 664 369** |

During the year, computer software amounting to US$740 615 was reclassified from computer equipment to intangible assets in order to achieve fair presentation.

## 29. PROPERTY AND EQUIPMENT

| | Computers US$ | Motor vehicles US$ | Furniture & equipment US$ | Freehold Land & buildings US$ | Total US$ |
|---|---|---|---|---|---|
| ***Cost*** | | | | | |
| At 1 January 2012 | 1 524 271 | 1 766 515 | 2 478 701 | 2 738 252 | 8 507 739 |
| Additions | 920 559 | 1 556 092 | 268 028 | - | 2 744 679 |
| Revaluation gain | - | - | - | 77 472 | 77 472 |
| Disposals | - | (250) | (10 825) | - | (11 075) |
| Reclassification | 251 703 | - | (251 703) | - | - |
| At 1 January 2013 | 2 696 533 | 3 322 357 | 2 484 201 | 2 815 724 | 11 318 815 |
| Additions | 340 606 | 682 969 | 459 413 | 23 381 | 1 506 369 |
| Revaluation gain | - | - | - | 4 803 | 4 803 |
| Transfer to intangible assets | (740 615) | - | - | - | (740 615) |
| Disposals | (9 862) | (2 198) | (29 250) | - | (41 310) |
| At 31 December 2013 | 2 286 662 | 4 003 128 | 2 914 364 | 2 843 908 | 12 048 062 |
| ***Accumulated depreciation*** | | | | | |
| At 1 January 2012 | 469 976 | 323 201 | 912 287 | 293 | 1 705 757 |
| Charge for the year | 310 381 | 662 445 | 412 700 | 45 430 | 1 430 956 |
| Disposals | - | (250) | (5 107) | - | (5 357) |
| Transfer to intangible assets | 65 826 | - | (65 826) | - | - |
| At 1 January 2013 | 846 183 | 985 396 | 1 254 054 | 45 723 | 3 131 356 |
| Charge for the year | 308 164 | 910 994 | 435 589 | 41 109 | 1 695 856 |
| Transfer to intangible assets | (116 398) | - | - | - | (116 398) |
| Disposals | (8 637) | (1 966) | (25 092) | - | (35 695) |
| At 31 December 2013 | 1 029 312 | 1 894 424 | 1 664 551 | 86 832 | 4 675 119 |
| ***Carrying amount*** | | | | | |
| At 31 December 2013 | 1 257 350 | 2 108 704 | 1 249 813 | 2 757 076 | 7 372 943 |
| At 1 January 2013 | 1 850 350 | 2 336 961 | 1 230 147 | 2 770 001 | 8 187 459 |
| At 1 January 2012 | 1 054 295 | 1 443 314 | 1 566 414 | 2 737 959 | 6 801 982 |

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**for the year ended 31 December 2013**

## 29. PROPERTY AND EQUIPMENT (continued)

### Measurement of fair value

### Fair value hierarchy

Immovable properties were revalued as at 31 December 2013 on the basis of valuations carried out by independent professional valuers, PMA Real Estate (Private) Limited. The valuation which conforms to International Valuation Standards, was in terms of the policy as set out in the accounting policies section. All movable assets are measured at their carrying amounts which are arrived at by the application of a depreciation charge on their cost values over the useful lives of the assets.

The valuation of land and buildings was arrived by applying yield rates of 9.5% on rental levels of between US$6 - US$8 per square metre.

The carrying cost less accumulated depreciation of the land and buildings had revaluations not been performed would be US$3 419 586 as at 31 December 2013 (2012 – US$3 471 179).

**Level 3**

The fair value of immovable properties of US$2 757 076 has been categorised under level 3 in fair value hierarchy based on the inputs used for the valuation technique highlighted above.

The following table shows reconciliation between the opening and closing balances for level fair values:

| | GROUP US$ |
|---|---|
| At 1 January 2013 | 2 770 001 |
| Additions | 23 381 |
| Revaluation gain | 4 803 |
| Depreciation | (41 109) |
| Balance at 31 December 2013 | 2 757 076 |

### Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment properties, as well as the significant unobservable inputs used.

| Valuation technique | Significant unobservable inputs | Inter-relationship between key unobservable inputs and fair value measurement |
|---|---|---|
| • Discounted cash flows:<br>• The discounting method considers the present value of the net cash flows to be generated from the property, taking into account expected growth rate, void periods and occupancy rate.<br><br>• The expected net cash flows are discounted using risk adjusted discount rates.<br><br>• Among other factors the discount rate estimation considers the quality of the building and its location (prime vs secondary), tenant credit quality and lease terms. | - Expected market rental growth<br>-<br>(weighted average 5%)<br><br>- Void period (average 2 months after the end of each lease)<br><br>- Occupancy rate (70-100%), weighted average 95%)<br><br>- Risk adjusted discount rates (9.5% -11.5%, weighted average 9.5%) | The estimated fair value would increase (decrease) if:<br>- expected market rental growth were higher (lower);<br><br>- void periods were shorter (longer);<br><br>- the occupancy rates were higher (lower);<br><br>- the risk adjusted discount rates were lower (higher). |

## 30. INTEREST RATE REPRICING AND GAP ANALYSIS

The table below analyses the Group's interest rate risk exposure on assets and liabilities. The financial assets and financial liabilities are categorised by the earlier of contractual repricing or maturity dates.

### 30.1 Total position

**At 31 December 2013**

| | GROUP | | | | | |
|---|---|---|---|---|---|---|
| | Up to 1 month US$ | 1 month to 3 months US$ | 3 months to 1 year US$ | 1 year to 5 years US$ | Non-interest bearing US$ | Total US$ |
| ***Assets*** | | | | | | |
| Cash and cash equivalents | 48 871 983 | - | - | - | - | 48 871 983 |
| Current tax assets | - | - | - | - | 1 739 210 | 1 739 210 |
| Investment securities held to maturity | - | - | 3 393 465 | 1 292 006 | - | 4 685 471 |
| Investment in debentures | - | - | - | 3 984 723 | - | 3 984 723 |
| Quoted and other investments | - | - | - | - | 335 998 | 335 998 |
| Loans, advances and other assets | 106 254 406 | 18 082 940 | 6 696 091 | 46 499 824 | 3 783 010 | 181 316 271 |
| Deferred tax | - | - | - | - | 2 823 544 | 2 823 544 |
| Non-current assets held for sale | - | - | - | - | 2 303 300 | 2 303 300 |
| Intangible assets | - | - | - | - | 1 664 369 | 1 664 369 |
| Property, plant and equipment | - | - | - | - | 7 372 943 | 7 372 943 |
| Investment properties | - | - | - | - | 4 385 300 | 4 385 300 |
| | 155 126 389 | 18 082 940 | 10 089 556 | 51 776 553 | 24 407 674 | 259 483 112 |
| ***Liabilities and equity*** | | | | | | |
| Deposits and other liabilities | 160 919 521 | 28 819 465 | 3 860 817 | 17 615 263 | 4 826 643 | 216 041 709 |
| Redeemable ordinary shares | - | - | - | - | 14 335 253 | 14 335 253 |
| Equity | - | - | - | - | 27 620 260 | 27 620 260 |
| Subordinated term loan | - | - | - | 1 485 890 | - | 1 485 890 |
| | 160 919 521 | 28 819 465 | 3 860 817 | 19 101 153 | 46 782 156 | 259 483 112 |
| Interest rate repricing gap | (5 793 132) | (10 736 525) | 6 228 739 | 32 675 400 | (22 374 482) | - |
| Cumulative gap | (5 793 132) | (16 529 657) | (10 300 918) | 22 374 482 | - | - |

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**for the year ended 31 December 2013**

## 30.1 INTEREST RATE REPRICING AND GAP ANALYSIS (continued)

The table below analyses the Group's interest rate risk exposure on assets and liabilities. The financial assets and financial liabilities are categorised by the earlier of contractual repricing or maturity date.

### 30.1 Total position (continued)

### At 31 December 2012

| | GROUP | | | | | |
|---|---|---|---|---|---|---|
| | Up to 1 month US$ | 1 month to 3 months US$ | 3 months to 1 year US$ | 1 year to 5 years US$ | Non-interest bearing US$ | Total US$ |
| ***Assets*** | | | | | | |
| Cash and cash equivalents | 58 171 045 | - | - | - | - | 58 171 045 |
| Investment securities held to maturity | - | - | 3 240 953 | 2 261 010 | - | 5 501 963 |
| Investment in associate | - | - | - | - | 1 025 919 | 1 025 919 |
| Quoted and other investments | - | - | - | - | 326 106 | 326 106 |
| Loans, advances and other assets | 83 917 136 | 19 352 134 | 8 239 754 | 32 439 173 | 2 651 797 | 146 599 994 |
| Non-current assets held for sale | - | - | - | - | 2 225 300 | 2 225 300 |
| Property, plant and equipment | - | - | - | - | 8 187 459 | 8 187 459 |
| Investment properties | - | - | - | - | 3 115 300 | 3 115 300 |
| Deferred tax | - | - | - | - | 1 380 596 | 1 380 596 |
| | 142 088 181 | 19 352 134 | 11 480 707 | 34 700 183 | 18 912 477 | 226 533 682 |
| ***Liabilities and equity*** | | | | | | |
| Deposits and other liabilities | 159 048 090 | 8 388 210 | 7 361 933 | 16 623 833 | 3 580 567 | 195 002 633 |
| Current tax liabilities | - | - | - | - | 588 966 | 588 966 |
| Deferred tax liabilities | - | - | - | - | - | - |
| Loan from Holding Company | - | - | - | - | - | - |
| Equity | - | - | - | - | 30 942 083 | 30 942 083 |
| | 159 048 090 | 8 388 210 | 7 361 933 | 16 623 833 | 35 111 616 | 226 533 682 |
| Interest rate repricing gap | (16 959 909) | 10 963 924 | 4 118 774 | 18 076 350 | (16 199 139) | - |
| Cumulative gap | (16 959 909) | (5 995 985) | (1 877 211) | 16 199 139 | - | - |

## 31. INTEREST RATE REPRICING AND GAP ANALYSIS (continued)

The table below analyses the Group's interest rate risk exposure on assets and liabilities denominated in United States Dollars only. The financial assets and liabilities are categorised by the earlier of contractual repricing or maturity dates.

### 31.1 United States dollar

**At 31 December 2013**

| | GROUP | | | | | |
|---|---|---|---|---|---|---|
| | Up to 1 month US$ | 1 month to 3 months US$ | 3 months to 1 year US$ | 1 year to 5 years US$ | Non-interest bearing US$ | Total US$ |
| ***Assets*** | | | | | | |
| Cash and cash equivalents | 45 502 565 | - | - | - | - | 45 502 565 |
| Investment securities held to maturity | - | - | 3 393 465 | 1 292 006 | - | 4 685 471 |
| Investment in debentures | - | - | | 3 984 723 | - | 3 984 723 |
| Quoted and other investments | - | - | - | - | 259 796 | 259 796 |
| Loans, advances and Other assets | 105 979 379 | 18 082 940 | 6 696 091 | 46 499 824 | 3 783 010 | 181 041 244 |
| Non-current assets held for sale | - | - | - | - | 2 303 300 | 2 303 300 |
| Property, plant and equipment | - | - | - | - | 7 372 943 | 7 372 943 |
| Investment properties | - | - | - | - | 4 385 300 | 4 385 300 |
| Current tax assets | - | - | - | - | 1 739 210 | 1 739 210 |
| Deferred tax | | | | | 2 823 544 | 2 823 544 |
| Intangible assets | - | - | - | - | 1 664 369 | 1 664 369 |
| | 151 481 944 | 18 082 940 | 10 089 556 | 51 776 553 | 24 331 472 | 255 762 465 |
| ***Liabilities and equity*** | | | | | | |
| Deposits and other liabilities | 156 542 459 | 28 819 465 | 3 860 817 | 17 615 263 | 4 826 643 | 211 664 647 |
| Current tax liabilities | - | - | - | - | - | - |
| Subordinated term loan | - | - | - | 1 485 890 | - | 1 485 890 |
| Redeemable Ordinary shares | - | - | - | - | 14 335 253 | 14 335 253 |
| Equity | - | - | - | - | 27 620 260 | 27 620 260 |
| | 156 542 459 | 28 819 465 | 3 860 817 | 19 101 153 | 46 782 156 | 255 106 050 |
| Interest rate repricing gap | (5 060 515) | (10 736 525) | 6 228 739 | 32 675 400 | (22 450 684) | 656 415 |
| Cumulative gap | (5 060 515) | (15 797 040) | (9 568 301) | 23 107 099 | 656 415 | - |

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**for the year ended 31 December 2013**

## 31. INTEREST RATE REPRICING AND GAP ANALYSIS (continued)

The table below analyses the Group's interest rate risk exposure on assets and liabilities. The financial assets and financial liabilities are categorised by the earlier of contractual repricing or maturity date.

### 31.1. United States dollar

**At 31 December 2012**

| | GROUP | | | | | |
|---|---|---|---|---|---|---|
| | Up to 1 month US$ | 1 month to 3 months US$ | 3 months to 1 year US$ | 1 year to 5 years US$ | Non-interest bearing US$ | Total US$ |
| ***Assets*** | | | | | | |
| Cash and cash equivalents | 54 256 160 | - | - | - | - | 54 256 160 |
| Investment securities held to maturity | - | - | 3 240 953 | 2 261 010 | - | 5 501 963 |
| Investment in associate | - | - | - | - | 1 025 919 | 1 025 919 |
| Quoted and other investments | - | - | - | - | 243 593 | 243 593 |
| Loans, advances and Other assets | 83 736 075 | 19 352 134 | 8 239 754 | 32 439 173 | 2 651 797 | 146 418 933 |
| Non-current assets held for sale | - | - | - | - | 2 225 300 | 2 225 300 |
| Property, plant and equipment | - | - | - | - | 8 187 459 | 8 187 459 |
| Investment properties | - | - | - | - | 3 115 300 | 3 115 300 |
| Deferred tax | - | - | - | - | 1 380 596 | 1 380 596 |
| | 137 992 235 | 19 352 134 | 11 480 707 | 34 700 183 | 18 829 964 | 222 355 223 |
| ***Liabilities and equity*** | | | | | | |
| Deposits and other liabilities | 155 270 761 | 8 388 210 | 7 361 933 | 16 623 833 | 3 580 567 | 191 225 304 |
| Current tax liabilities | - | - | - | - | 588 966 | 588 966 |
| Deferred tax liabilities | - | - | - | - | - | - |
| Loan from Holding Company | - | - | - | - | - | - |
| Equity | - | - | - | - | 30 942 083 | 30 942 083 |
| | 155 270 761 | 8 388 210 | 7 361 933 | 16 623 833 | 35 111 616 | 222 756 353 |
| Interest rate repricing gap | (17 278 526) | 10 963 924 | 4 118 774 | 18 076 350 | (16 281 652) | (401 130) |
| Cumulative gap | (17 278 526) | (6 314 602) | (2 195 858) | 15 880 522 | (401 130) | - |

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**for the year ended 31 December 2013**

## 32. INTEREST RATE REPRICING AND GAP ANALYSIS (continued)

The table below analyses the Group's interest rate risk exposure on assets and liabilities denominated in currencies other than United States Dollars. The amounts are shown at the equivalent values in United States Dollars, the presentation currency. The financial assets and liabilities are categorised by the earlier of contractual repricing or maturity dates.

### 32.1. Other foreign currencies

**At 31 December 2013**

| | GROUP | | | | | |
|---|---|---|---|---|---|---|
| | Up to 1 month US$ | 1 month to 3 months US$ | 3 months to 1 year US$ | 1 year to 5 years US$ | Non-interest bearing US$ | Total US$ |
| ***Assets*** | | | | | | |
| Cash and cash equivalents | 3 369 418 | - | - | - | - | 3 369 418 |
| Investment securities held to maturity | - | - | - | - | - | - |
| Quoted and other investments | - | - | - | - | 76 202 | 76 202 |
| Loans, advances and other assets | 275 027 | - | - | - | - | 257 027 |
| Non-current assets held for sale | - | - | - | - | - | - |
| Property, plant and equipment | - | - | - | - | - | - |
| Investment properties | - | - | - | - | - | - |
| Deferred tax | - | - | - | - | - | - |
| | 3 644 445 | - | - | - | 76 202 | 3 720 647 |
| ***Liabilities and equity*** | | | | | | |
| Deposits and other liabilities | 4 377 062 | - | - | - | - | 4 377 062 |
| Current tax liabilities | - | - | - | - | - | - |
| Deferred tax liabilities | - | - | - | - | - | - |
| Loan from Holding Company | - | - | - | - | - | - |
| Equity | - | - | - | - | - | - |
| | 4 377 062 | - | - | - | - | 4 377 062 |
| Interest rate repricing gap | (732 617) | - | - | | 76 202 | (656 415) |
| Cumulative gap | (732 617) | (732 617) | (732 617) | (732 617) | (656 415) | - |

## 32. NTEREST RATE REPRICING AND GAP ANALYSIS (continued)

The table below analyses the Group's interest rate risk exposure on assets and liabilities denominated in currencies other than United States Dollars. The amounts are shown at the equivalent values in United States Dollars, the presentation currency. The financial assets and liabilities are categorised by the earlier of contractual repricing or maturity dates.

### 32.1 Other foreign currencies

| At 31 December 2012 | GROUP | | | | | |
|---|---|---|---|---|---|---|
| | Up to 1 month US$ | 1 month to 3 months US$ | 3 months to 1 year US$ | 1 year to 5 years US$ | Non-interest bearing US$ | Total US$ |
| ***Assets*** | | | | | | |
| Cash and cash equivalents | 3 914 885 | - | - | - | - | 3 914 885 |
| Investment securities held to maturity | - | - | - | - | - | - |
| Investment in associate | - | - | - | - | - | - |
| Quoted and other investments | - | - | - | - | 82 513 | 82 513 |
| Loans, advances and other assets | 181 061 | - | - | - | - | 181 061 |
| Property, plant and equipment | - | - | - | - | - | - |
| Investment properties | - | - | - | - | - | - |
| Deferred tax | - | - | - | - | - | - |
| | 4 095 946 | - | - | - | 82 513 | 4 178 459 |
| ***Liabilities and equity*** | | | | | | |
| Deposits and other liabilities | 3 777 329 | - | - | - | - | 3 777 329 |
| Current tax liabilities | - | - | - | - | - | - |
| Deferred tax liabilities | - | - | - | - | - | - |
| Loan from Holding Company | - | - | - | - | - | - |
| Equity | - | - | - | - | - | - |
| | 3 777 329 | - | - | - | - | 3 777 329 |
| Interest rate repricing gap | 318 617 | - | - | - | 82 513 | 401 130 |
| Cumulative gap | 318 617 | 318 617 | 318 617 | 318 617 | 401 130 | - |

## 33. FOREIGN EXCHANGE POSITIONS

The table below indicates the currencies to which the Group had significant exposure at 31 December on all its assets and liabilities. The analysis reflects the mismatch by currency. The amounts are shown at the equivalent values in United States Dollars, the presentation currency.

### At 31 December 2013

| | GROUP | | | | | |
|---|---|---|---|---|---|---|
| | US$ | RAND | GBP | EUR | BWP | TOTAL |
| *Assets* | US$ | US$ | US$ | US$ | US$ | US$ |
| Cash and cash equivalents | 45 502 565 | 2 830 024 | 66 194 | 537 176 | (63 976) | 48 871 983 |
| Investment securities held to maturity | 4 685 471 | - | - | - | - | 4 685 471 |
| Investment in debentures | 3 984 723 | - | - | - | - | 3 984 723 |
| Quoted and other investments | 259 796 | - | - | 76 202 | - | 335 998 |
| Loans, advances and other assets | 181 041 244 | 152 361 | 1 783 | 118 458 | 2 425 | 181 316 271 |
| Non-current assets held for sale | 2 303 300 | - | - | - | - | 2 303 300 |
| Property, plant and equipment | 7 372 943 | - | - | - | - | 7 372 943 |
| Investment properties | 4 385 300 | - | - | - | - | 4 385 300 |
| Deferred tax | 2 823 544 | - | - | - | - | 2 823 544 |
| Current tax assets | 1 739 210 | | | | | 1 739 210 |
| Intangible assets | 1 664 369 | | | | | 1 664 369 |
| | 255 762 465 | 2 982 385 | 67 977 | 731 836 | (61 551) | 259 483 112 |
| *Liabilities and equity* | | | | | | |
| Deposits and other liabilities | 211 664 647 | 3 960 848 | 40 174 | 371 645 | 4 395 | 216 041 709 |
| Subordinated term loan | 1 485 890 | - | - | - | - | 1 485 890 |
| Deferred tax liabilities | - | - | - | - | - | - |
| Redeemable Ordinary Shares | 14 335 253 | - | - | - | - | 14 335 253 |
| Equity | 27 620 260 | - | - | - | - | 27 620 260 |
| | 255 106 050 | 3 960 848 | 40 174 | 371 645 | 4 395 | 259 483 112 |
| Net foreign exchange position | 656 415 | (978 463) | 27 803 | 360 191 | (65 946) | - |

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**for the year ended 31 December 2013**

## 33. FOREIGN EXCHANGE POSITIONS (continued)

The table below indicates the currencies to which the Group had significant exposure at 31 December on all its assets and liabilities. The analysis reflects the mismatch by currency. The amounts are shown at the equivalent values in United States Dollars, the presentation currency.

**At 31 December 2012**

| | GROUP | | | | | |
|---|---|---|---|---|---|---|
| | **US$ US$** | **RAND US$** | **GBP US$** | **EUR US$** | **BWP US$** | **TOTAL US$** |
| ***Assets*** | | | | | | |
| Cash and cash equivalents | 54 256 160 | 2 363 652 | 62 750 | 1 466 870 | 21 613 | 58 171 045 |
| Investment securities held to maturity | 5 501 963 | - | - | - | - | 5 501 963 |
| Investment in associate | 1 025 919 | - | - | - | - | 1 025 919 |
| Quoted and other investments | 243 593 | - | - | 82 513 | - | 326 106 |
| Loans, Advances and other accounts | 146 418 933 | 173 952 | 2 742 | 1 213 | 3 154 | 146 599 994 |
| Non-current assets held for sale | 2 225 300 | - | - | - | - | 2 225 300 |
| Property, plant and equipment | 8 187 459 | - | - | - | - | 8 187 459 |
| Investment properties | 3 115 300 | - | - | - | - | 3 115 300 |
| Deferred tax | 1 380 596 | - | - | - | - | 1 380 596 |
| | 222 355 223 | 2 537 604 | 65 492 | 1 550 596 | 24 767 | 226 533 682 |
| ***Liabilities and equity*** | | | | | | |
| Deposits and other liabilities | 191 225 304 | 2 483 554 | 48 090 | 1 239 777 | 5 908 | 195 002 633 |
| Amount owing to Holding Company | - | - | - | - | - | - |
| Current tax liabilities | 588 966 | - | - | - | - | 588 966 |
| Deferred tax liabilities | - | - | - | - | - | - |
| Equity | 30 942 083 | - | - | - | - | 30 942 083 |
| | 222 756 353 | 2 483 554 | 48 090 | 1 239 777 | 5 908 | 226 533 682 |
| Net foreign exchange position | (401 130) | 54 050 | 17 402 | 310 819 | 18 859 | - |

## 34. CONTINGENT LIABILITIES

| | GROUP 2013 US$ | GROUP 2012 US$ |
|---|---|---|
| Guarantees | 869 778 | 7 827 744 |
| Commitments to lend | 41 195 923 | 29 326 528 |
| | 42 065 701 | 37 154 272 |

The Group enters into various irrevocable commitments and contingent liabilities in its normal course of business in order to meet financial needs of customers. These obligations are not recognised on the statement of financial position, but contain credit risk and are therefore part of the overall risk of the Group.

Guarantees commit the Group to make payments on behalf of clients in the event of a specified act. Guarantees carry the same credit risk as loans.

Commitments to lend represent contractual commitments to advance loans and revolving credits. Commitments have fixed expiry dates and may expire without being drawn upon, hence total contract amounts do not necessarily represent future cash requirements.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**for the year ended 31 December 2013**

## 35. CAPITAL COMMITMENTS

| | GROUP 2013 US$ | GROUP 2012 US$ |
|---|---|---|
| Capital expenditure contracted for | 1 157 882 | - |
| Capital expenditure authorised but not yet contracted for | 2 294 978 | 5 739 655 |
| | 3 452 860 | 5 739 655 |

Capital commitments will be financed from the Group's own resources.

## 36. OPERATING LEASE COMMITMENTS

| | GROUP 2013 US$ | GROUP 2012 US$ |
|---|---|---|
| Lease commitments | 5 697 814 | 4 923 042 |
| Up to 1 year | 1 139 563 | 984 608 |
| 1 – 5 years | 4 558 251 | 3 938 434 |

Lease commitments relate to future rental commitments up to the expiry of the lease agreements. The amount of operating lease expenses recognised in profit or loss is USD$1 139 563.

## 37. RELATED PARTIES

As required by IAS 24, *Related Party Disclosures*, the Board's view is that non-executive and executive directors constitute the key management of the Group. Accordingly, key management remuneration is disclosed below.

### 37.1 Compensation of key management personnel of the Group

| | GROUP 2013 US$ | GROUP 2012 US$ |
|---|---|---|
| Short – term employee benefits | 2 449 436 | 2 481 063 |
| Post-employment benefits | 118 077 | 51 250 |
| | 2 576 513 | 2 532 313 |

### 37.2 Key management interest in employee share options

At 31 December 2013, key management held no options to purchase ordinary shares of the Company.

### 37.3 Balances of loans to directors, officers and others

Loans to directors and officers or their companies are included in advances and other accounts (note 21.1).

| | GROUP 2013 US$ | GROUP 2012 US$ |
|---|---|---|
| Non - executive directors | 7 000 | 28 497 |
| Executive directors | 723 140 | 471 352 |
| Officers (Note 21.6) | 2 712 934 | 2 056 501 |
| Directors' companies | 4 727 129 | 2 192 452 |
| Officers' companies | 26 320 | 10 179 |
| | 8 196 523 | 4 758 981 |
| Fair value adjustment | (198 931) | (177 022) |
| | 7 997 592 | 4 581 959 |

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**for the year ended 31 December 2013**

## 37. RELATED PARTIES (continued)

### 37.4 Other related party disclosures

The following amounts were owed to the Group by related parties.

| Name of Company | 2013 | 2012 | Nature of exposure |
|---|---|---|---|
| Lake Harvest (Private) Limited | 1 960 535 | 116 176 | Working Capital Loan |
| Corner Stone Trust | 893 127 | 567 140 | Working Capital Loan |
| Frupac Holdings (Private) Limited | 827 636 | 524 427 | Working Capital Loan |
| Wamambo Investment Trust | 296 993 | 359 620 | Working Capital Loan |
| Greyton Marketing (Private) Limited | 183 842 | - | Working Capital Loan |
| Rokoptrone (Private) Limited | 148 233 | 350 000 | Working Capital Loan |
| ABS TCM (Private) Limited | 100 785 | - | Working Capital Loan |
| Zvongombe (Private) Limited | 97 922 | 24 039 | Working Capital Loan |
| Finguide (Private) Limited | 84 771 | - | Working Capital Loan |
| Entertainment Now (Private) Limited | 56 515 | - | Working Capital Loan |
| Tholcan Trading (Private) Limited | 45 369 | - | Working Capital Loan |
| Innisfree (Private) Limited | 30 329 | - | Working Capital Loan |
| Fadry Transport (Private) Limited | 1 072 | - | Working Capital Loan |
| Mr James Chigwedere | 7 000 | - | Working Capital Loan |
| Ms Locadia Majonga | - | 28 497 | Working Capital Loan |
| GEC Zimbabwe (Private) Limited | - | 261 229 | Working Capital Loan |
| **Total** | **4 734 129** | **2 231 128** | |

### 37.5 BORROWING POWERS

**Holding Company**
In terms of the existing Articles of Association, Article 102, the directors may from time to time, at their discretion, borrow or secure the payment of any sum or sums of money for the purposes of the company without any limitation.

**Banking subsidiary**
In terms of the existing Articles of Association, Article 55, the directors may from time to time, at their discretion, borrow or secure the payment of any sum or sums of money for the purposes of the company without any limitation.

## 38. EMPLOYEE BENEFITS

### 38.1 Pension Fund

All eligible employees contribute to the NMB Bank Pension Fund, which is a defined contribution plan.

The assets of the Pension Fund are held separately from those of the Group in funds under the control of Trustees. The pension fund assets included 661 416 shares in NMBZ Holdings Limited as at 31 December 2013.

## 38. EMPLOYEE BENEFITS

### 38.2 Expense recognised in profit or loss

| | GROUP | |
|---|---|---|
| | 2013 US$ | 2012 US$ |
| Defined Contribution Plan - NSSA | 155 991 | 98 045 |
| Defined Contribution Plan - NMB Bank Pension Fund | 651 947 | 575 594 |
| | 807 938 | 673 639 |

The expense is recognised in profit or loss as part of staff costs under operating expenses (note 7).

### 38.3 Employee Share Option Scheme

In terms of the Employee Share Option Scheme, up to a maximum of 10% of the issued share capital may be granted by the directors to senior employees by way of options. Each set of options is exercisable at any time within a period of five years from the date the options are granted and the issue price is based on the higher of nominal value of the shares and the middle market price derived from the Zimbabwe Stock Exchange prices for the trading day immediately preceding the date of offer. The options vest immediately from date of issue and the fair value of the options is estimated at the grant date using the Black – Scholes option pricing model, taking into account the terms and conditions upon which the instruments were granted.

**Movements in the year**

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in share options during the year.

| | GROUP and COMPANY | | | | |
|---|---|---|---|---|---|
| | 2013 | | 2012 | | |
| | No. 000's | WAEP$ | No. 000's | WAEP$ | |
| Outstanding as at 1 January | 907 | 0.005 | 907 | 0.005 | |
| Lapsed | | - | - | - | - |
| Issued | | - | - | - | - |
| Exercised | | - | - | - | - |
| Outstanding as at 31 December | 907 | 0.005 | 907 | 0.005 | |

**Terms of options outstanding at 31 December 2013**

| GROUP & COMPANY | | |
|---|---|---|
| | | 2013 |
| Expiry date | Exercise price US$ | Shares 000's |
| 7 January 2014 | nil | 907 |
| 12 March 2014 | nil | - |
| | | 907 |

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**for the year ended 31 December 2013**

## 38. EMPLOYEE BENEFITS (continued)

### 38.4 National Social Security Authority Scheme

All employees of the Group are members of the National Social Security Authority Scheme, a defined contribution plan to which both the employer and the employees contribute.

Contributions by the employer are recognised in profit or loss account and during the period amounted to US$155 991 (2012 – US$98 045).

## 39. EXCHANGE RATES

The following exchange rates have been used to translate the foreign currency balances to United States dollars at year end:

| | | GROUP AND COMPANY | |
|---|---|---|---|
| | | 31 December 2013 Mid - rate US$ | 31 December 2012 Mid - rate US$ |
| British Sterling | GBP | 1.6014 | 1.6156 |
| South African Rand | ZAR | 9.9487 | 8.4776 |
| European Euro | EUR | 1.3697 | 1.3200 |
| Botswana Pula | BWP | 8.5034 | 7.7721 |

## 40. RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Board Asset and Liability Management Committee (ALCO) and Board Risk Committee, which are responsible for defining the Group's risk universe, developing policies and monitoring implementation. The Group strengthened its risk management function by appointing a Chief Risk Officer in September 2013 with overall responsibility over all risks in the Group. The Group has complied with Basel II implementation timelines set by the Reserve Bank of Zimbabwe.

Risk management is linked logically from the level of individual transactions to the Group level. Risk management activities broadly take place simultaneously at the following different hierarchy levels:

a) Strategic Level: This involves risk management functions performed by senior management and the board of directors. It includes the definition of risk, ascertaining the Group's risk appetite, formulating strategy and policy for managing risk and establishes adequate systems and controls to ensure overall risk remains within acceptable levels and is adequately compensated.
b) Macro Level: It encompasses risk management within a business area or across business lines. These risk management functions are performed by middle management.
c) Micro Level: This involves "On-the-line" risk management where risks are actually created. These are the risk management activities performed by individuals who assume risk on behalf of the organization such as Treasury Front Office, Corporate Banking, Retail banking etc. The risk management in these areas is confined to operational procedures set by management.

Risk management is premised on four (4) mutually reinforcing pillars, namely:
a) adequate board and senior management oversight;
b) adequate strategy, policies, procedures and limits;
c) adequate risk identification, measurement, monitoring and information systems; and
d) comprehensive internal controls and independent reviews.

## 40. RISK MANAGEMENT (continued)

### 40.1 Credit risk

The Group is in the process of implementing a Credit Management System and this will entail an automated end to end management of credit from the loan origination to recoveries. The system should be in place by the first half of 2014.

Management of credit risk is the responsibility of Credit Management, Credit Monitoring, Credit Administration and Recoveries departments with the following responsibilities:

#### Credit Management

- Responsible for evaluating & approving credit proposals from the business units.
- Together with business units, has primary responsibility on the quality of the loan book.
- Reviewing credit policy for approval by the Board Credit Committee.
- Reviewing business unit level credit portfolios to ascertain changes in the credit quality of individual customers or other counterparties as well as the overall portfolio and detect unusual developments.
- Approve initial customer internal credit grades or recommend to the Credit Committees for approval.
- Setting the credit risk appetite parameters.
- Ensure the Group adheres to limits, mandates and its credit policy.
- Ensure adherence to facility covenants and conditions of sanction e.g. annual audits, gearing levels, management accounts.
- Manage trends in asset and portfolio composition, quality and growth and non-performing loans.
- Manage concentration risk both in terms of single borrowers or group as well as sector concentrations and the review of such limits.

#### Credit Monitoring and Financial Modelling

- Independent Credit Risk Management.
- Independent on-going monitoring of individual credit and portfolios.
- Triggers remedial actions to protect the interests of the Group, if appropriate (e.g. in relation to deteriorated credits).
- Monitors the on-going development and enhancement of credit risk management across the Group.
- Reviews the Internal Credit Rating System.
- On-going championing of the Basel II methodologies across the Group.
- Ensures consistency in the rating processes and performs independent review of credit grades to ensure they conform to the rating standards.
- Confirm the appropriateness of the credit risk strategy and policy or recommends necessary revisions in response to changes/trends identified.

#### Credit Administration

- Prepares and keeps custody of all facility letters.
- Security registration.
- Safe custody of security documents.
- Ensures all conditions of sanction are fulfilled before allowing drawdown or limit marking.
- Review of credit files for documentation compliance e.g. call reports, management accounts.

#### Recoveries

The recoveries unit is responsible for all collections and ensures that the Group maximizes recoveries from Non-Performing Loans (NPLs).

The table below shows the maximum exposure to credit for the components of the statement of financial position. The maximum exposure is shown as gross.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

for the year ended 31 December 2013

## 40. RISK MANAGEMENT (continued)

### 40.1.2 Maximum exposure to credit risk without taking account of any collateral

| | Note | GROUP 2013 US$ | GROUP 2012 US$ |
|---|---|---|---|
| Cash and cash equivalents (excluding cash on hand) | | 37 478 596 | 47 966 102 |
| Investment securities held to maturity | 17 | 4 685 471 | 5 501 963 |
| Investment in debentures | | 3 984 723 | - |
| Loans and advances | 21 | 177 533 261 | 143 948 197 |
| Total | | 223 682 051 | 197 416 262 |
| Guarantees | 34 | 869 778 | 7 827 744 |
| Commitments to lend | 34 | 41 195 923 | 29 326 528 |
| Total | | 42 065 701 | 37 154 272 |
| Total credit risk exposure | | 265 747 752 | 234 570 534 |

Where financial instruments are recorded at fair value the amounts shown above represent the current risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values. The effect of collateral and other risk mitigation techniques is shown below.

### 40.1.3 Risk concentrations of maximum exposure to credit risk

| | GROUP | | | |
|---|---|---|---|---|
| | 31 December 2013 Gross Maximum Exposure US$ | 31 December 2013 Net Maximum Exposure US$ | 31 December 2012 Gross Maximum Exposure US$ | 31 December 2012 Net Maximum Exposure US$ |
| Agriculture and horticulture | 11 208 448 | 2 700 448 | 9 894 729 | 1 386 729 |
| Conglomerates | 9 190 491 | 9 190 491 | 4 683 682 | 4 683 682 |
| Manufacturing | 32 093 128 | 7 666 628 | 29 008 475 | 4 581 975 |
| Distribution | 46 458 831 | 18 027 082 | 46 673 432 | 18 241 682 |
| Services | 42 475 414 | 6 845 411 | 30 216 258 | 4 869 704 |
| Mining | 1 584 085 | 534 086 | 1 347 402 | 297 402 |
| Food and beverages | 480 502 | 311 208 | 214 163 | 176 663 |
| Individuals | 46 499 825 | 41 849 843 | 30 379 234 | 26 021 587 |
| | 189 990 724 | 87 125 197 | 152 417 375 | 60 259 424 |
| Allowance for impairment losses on loans and advances | (11 685 201) | (11 685 201) | (7 269 799) | (7 269 799) |
| Allowance for impairment loss on debenture | 802 351 | 802 351 | - | - |
| Net exposure | 179 107 874 | 76 242 347 | 145 147 576 | 52 989 625 |

## 40. RISK MANAGEMENT (continued)

### 40.1 Credit risk (continued)

### 40.1.4 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of credit risk of the counterparty. There are guidelines regarding the acceptability of types of collateral. The main types of collateral obtained are guarantees, cession of debtors, mortgages over residential properties, equities, subordination of shareholder loans and promissory notes. The fair value of all collateral held by the Group at the reporting date is US$102 865 527 (2012 –US$92 157 951).

### 40.1.5 Credit quality per sector

**At 31 December 2013**

| | GROUP | | | | | |
|---|---|---|---|---|---|---|
| | Grade A Pass US$ | Grade B Special Mention US$ | Grade C Substandard US$ | Grade D Doubtful US$ | Grade E Loss US$ | Total US$ |
| Manufacturing | 4 625 812 | 18 046 476 | 3 738 489 | 3 028 849 | 2 653 502 | 32 093 128 |
| Distribution | 11 524 681 | 23 018 401 | 1 820 472 | 4 991 584 | 5 103 693 | 46 458 831 |
| Agriculture and horticulture | 5 309 230 | 2 901 992 | 63 905 | 71 912 | 2 861 409 | 11 208 448 |
| Conglomerates | 6 516 690 | 2 673 801 | - | - | - | 9 190 491 |
| Services | 18 073 321 | 14 813 649 | 3 639 346 | 4 597 298 | 1 351 800 | 42 475 414 |
| Mining | - | 140 783 | 1 425 465 | 17 837 | - | 1 584 085 |
| Food and Beverage | 352 346 | 76 795 | 51 361 | - | - | 480 502 |
| Individuals | 41 156 506 | 2 029 363 | 2 972 153 | 341 803 | - | 46 499 825 |
| **Total** | **87 558 586** | **63 701 260** | **13 711 191** | **13 049 283** | **11 970 404** | **189 990 724** |

**At 31 December 2012**

| | GROUP | | | | | |
|---|---|---|---|---|---|---|
| | Grade A Pass US$ | Grade B Special Mention US$ | Grade C Substandard US$ | Grade D Doubtful US$ | Grade E Loss US$ | Total US$ |
| Manufacturing | 20 664 326 | 5 514 298 | 137 621 | - | 2 692 230 | 29 008 475 |
| Distribution | 26 955 454 | 5 231 224 | 7 074 318 | 1 044 287 | 6 368 149 | 46 673 432 |
| Agriculture and horticulture | 6 886 323 | - | 37 510 | - | 2 970 896 | 9 894 729 |
| Conglomerates | 4 683 682 | - | - | - | - | 4 683 682 |
| Services | 24 389 591 | 2 729 470 | 748 973 | 398 709 | 1 949 515 | 30 216 258 |
| Mining | 170 590 | 1 157 915 | - | - | 18 897 | 1 347 402 |
| Food and Beverage | 214 163 | - | - | - | - | 214 163 |
| Individuals | 29 780 934 | 43 094 | 327 284 | 181 449 | 46 473 | 30 379 234 |
| **Total** | **113 745 063** | **14 676 001** | **8 325 706** | **1 624 445** | **14 046 160** | **152 417 375** |

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**for the year ended 31 December 2013**

## 40. RISK MANAGEMENT (continued)

### 40.1 Credit risk (continued)

### 40.1.6 Credit quality analysis per grade

| Loans and advances to customers | GROUP | |
|---|---|---|
| | 31 December 2013 US$ | 31 December 2012 US$ |
| **Carrying amount** (Note 21.1.1) | **177 533 261** | **143 948 197** |
| <u>**Assets at amortised cost**</u> | | |
| **Individually impaired** | | |
| Grade 8 | 13 711 191 | 8 325 706 |
| Grade 9 | 13 049 283 | 1 624 445 |
| Grade 10 | 11 970 404 | 14 046 160 |
| **Gross amount** | **38 730 878** | **23 996 311** |
| **Allowance for impairment** | | |
| Impairment | (10 625 005) | (7 164 064) |
| Suspended interest | (1 574 613) | (1 199 379) |
| **Carrying amount** | **26 531 260** | **15 632 868** |
| **Collectively impaired** | | |
| 1 to 5 low fair risk | 134 300 212 | 113 745 063 |
| 6 to 7 watch list | 16 959 634 | 14 676 001 |
| **Gross amount** | **151 259 846** | **128 421 064** |
| **Allowance for impairment** | | |
| Impairment | (257 845) | (105 735) |
| Suspended interest | - | - |
| **Carrying amount** | **151 002 001** | **128 315 329** |
| **Total carrying amount amortised cost** | **177 533 261** | **143 948 197** |

## 40. RISK MANAGEMENT (continued)

### 40.2 Market risk

This is the exposure of the Group's on and off balance sheet positions to adverse movement in market prices resulting in a loss in earnings and capital. The market prices will range from money market (interest rate risk), foreign exchange and equity markets in which the bank operates. The Group has in place a Management Asset and Liability Committee (ALCO) which monitors market risk and recommends the appropriate levels to which the Group should be exposed at any time. Net Interest Margin is the primary measure of interest rate risk, supported by periodic stress tests to assess the Group's ability to withstand stressed market conditions. On foreign exchange risk, the bank monitors currency mismatches and make adjustments depending on exchange rate movement forecast. The mismatches are also contained within 10% of the Group's capital position.

ALCO meets on a monthly basis and operates within the prudential guidelines and policies established by the Board ALCO. The board ALCO is responsible for setting exposure thresholds and limits, and meets on a quarterly basis.

The following table demonstrates the sensitivity to a reasonable change in interest rates, with all other variables held constant, of the Group's statement of comprehensive income.

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the profit or loss for the year, based on the variable and fixed interest rate financial assets and liabilities held at 31 December.

For interest rate repricing and gap analysis refer note 30.1.

**Sensitivity of net interest income**

| | GROUP | | | | | |
|---|---|---|---|---|---|---|
| Currency | Increase/(decrease) in interest rates % | 0 to 1 months US$ | 1 to 3 months US$ | 3months to 1 year US$ | 1 year to 5 years US$ | Total US$ |
| **At 31 December 2013** | | | | | | |
| USD | 5% | (289 657) | (536 826) | 311 437 | 1 633 770 | 1 118 724 |
| USD | 3% | (173 794) | (322 096) | 186 862 | 980 262 | 671 234 |
| USD | 1% | (57 931) | (107 365) | 62 287 | 326 754 | 223 745 |
| USD | (1%) | 57 931 | 107 365 | (62 287) | (326 754) | (223 745) |
| USD | (3%) | 173 794 | 322 096 | (186 862) | (980 262) | (671 234) |
| USD | (5%) | 289 657 | 536 826 | (311 437) | (1 633 770) | (1 118 724) |
| **At 31 December 2012** | | | | | | |
| USD | 5% | (847 995) | 548 196 | 205 939 | 903 818 | 809 958 |
| USD | 3% | (508 797) | 328 918 | 123 563 | 542 291 | 485 975 |
| USD | 1% | (169 599) | 109 639 | 41 188 | 180 764 | 161 992 |
| USD | (1%) | 169 599 | (109 639) | (41 188) | (180 764) | (161 992) |
| USD | (3%) | 508 797 | (328 918) | (123 563) | (542 291) | (485 975) |
| USD | (5%) | 847 995 | (548 196) | (205 939) | (903 818) | (809 958) |

## 40. RISK MANAGEMENT (continued)

### 40.3 Foreign currency exchange rate risk

The table below calculates the effect of a reasonable possible movement of the significant currency rate against the United States Dollar, with all other variables held constant. A negative amount in the table reflects a potential net reduction in the statement of comprehensive income or equity while a positive amount reflects a net potential increase.

| At 31 December 2013 | GROUP | | |
|---|---|---|---|
| | % Change in currency rate | Effect on profit before tax US$ | Effect on equity US$ |
| **Currency** | | | |
| ZAR | 5 | (48 925) | (36 327) |
| ZAR | 3 | (29 355) | (21 796) |
| ZAR | 1 | (9 785) | (7 265) |
| ZAR | (1) | 9 785 | 7 265 |
| ZAR | (3) | 29 355 | 21 796 |
| ZAR | (5) | 48 925 | 36 327 |
| **At 31 December 2012** | | | |
| **Currency** | | | |
| ZAR | 5 | 2 705 | 2 008 |
| ZAR | 3 | 1 623 | 1 205 |
| ZAR | 1 | 541 | 402 |
| ZAR | (1) | (541) | (402) |
| ZAR | (3) | (1 623) | (1 205) |
| ZAR | (5) | (2 705) | (2 008) |

### 40.4 Liquidity risk

Liquidity risk is the risk of financial loss arising from the inability of the Group to fund asset increases or meet obligations as they fall due without incurring unacceptable costs or losses. The Group identifies this risk through maturity profiling of assets and liabilities and assessment of expected cash flows and the availability of collateral which could be used if additional funding is required.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Board ALCO.

The key measure used by the bank for managing liquidity risk is the ratio of net liquid assets to deposits to customers. The Group also actively monitors its loans to deposit ratio against a set threshold in a bid to monitor and limit funding risk. Liquidity risk is monitored through a daily treasury strategy meeting. This is augmented by a monthly management ALCO and a quarterly board ALCO.

The contractual maturities of undiscounted cash flows of financial assets and liabilities are disclosed in note 30.1.

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. The Group monitors its liquidity ratio in compliance with Banking Regulations to ensure that it is not less than 30% of the liabilities to the public. Liquid assets consist of cash and cash equivalents, short term bank deposits and liquid investment securities available for immediate sale.

## 40. RISK MANAGEMENT (continued)

### 40.4 Liquidity risk (continued)

Maturity profile for contingent liabilities

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments to lend:

| | GROUP | | | | | |
|---|---|---|---|---|---|---|
| **At 31 December 2013** | **On Demand US$** | **0 to 1 months US$** | **1 to 3 months US$** | **3 months to 1 year US$** | **1 year to to 5 years US$** | **Total US$** |
| Guarantees | - | - | 199 778 | 670 000 | - | 869 778 |
| Commitments to lend | - | - | 28 223 147 | 11 478 076 | 1 494 700 | 41 195 923 |
| | - | - | 28 422 925 | 12 148 076 | 1 494 700 | 42 065 701 |
| **At 31 December 2012** | | | | | | |
| Guarantees | - | 4 001 505 | - | 3 826 239 | - | 7 827 744 |
| Commitments to lend | - | - | - | 15 526 528 | 13 800 000 | 29 326 528 |
| | - | 4 001 505 | - | 19 352 767 | 13 800 000 | 37 154 272 |

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments

### 40.5 Operational risk

This risk is inherent in all business activities and is the risk of loss arising from inadequate or failed internal processes, people, systems or from external events. The Group utilises monthly Key Risk Indicators to monitor operational risk in all units. Further to this, the Group has an elaborate Operational Loss reporting system in which all incidents with a material impact on the well-being of the Group are reported to risk management. The risk department conducts periodic risk assessments on all the units within the Group aimed at identifying the top risks and ways to minimise their impact. There is a Board Risk Committee whose function is to ensure that this risk is minimized. The Risk Committee with the assistance of the internal audit function and the Risk Management department assesses the adequacy of the internal controls and makes the necessary recommendations to the Board

### 40.6 Legal and compliance risk

Legal risk is risk from uncertainty due to legal actions or uncertainty in the applicability or interpretation of contracts, laws or regulations. Legal risk may entail such issues as contract formation, capacity and contract frustration. Compliance risk is the risk arising from non – compliance with laws and regulations. To manage this risk permanent relationships are maintained with firms of legal practitioners and access to legal advice is readily available to all departments. The Group has an independent compliance function which is responsible for identifying and monitoring all compliance issues and ensures the Group complies with all regulatory and statutory requirements.

### 40.7 Reputational risk

Reputation risk is the risk of loss of business as a result of negative publicity or negative perceptions by the market with regards to the way the Group conducts its business. To manage this risk, the Group strictly monitors customers' complaints, continuously train staff at all levels, conducts market surveys and periodic reviews of business practices through its Internal Audit department. The directors are satisfied with the risk management processes in the Group as these have contributed to the minimisation of losses arising from risky exposures.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**for the year ended 31 December 2013**

## 40. RISK MANAGEMENT (continued)

### 40.8 Strategic risk

This refers to current and prospective impact on a Group's earnings and capital arising from adverse business decisions or implementing strategies that are not consistent with the internal and external environment. To manage this risk, the Group always has a strategic plan that is adopted by the Board of Directors. Further, attainment of strategic objectives by the various departments is monitored periodically at management level. Further, there is an ALCO, Finance and Strategy Committee at board level responsible for monitoring overall progress towards attaining strategic objectives for the Group.

### 40.9 Risk ratings

### 40.9.1 Reserve Bank of Zimbabwe ratings

During the year the Reserve Bank of Zimbabwe conducted an onsite inspection on the Group's banking subsidiary and detailed below were the final ratings.

### 40.9.1.1 CAMELS* ratings

| CAMELS Component | Latest RBS** Ratings 30/06/2013 | Previous RAS Ratings 31/01/2008 | Previous RAS Ratings 30/06/2007 |
|---|---|---|---|
| Capital Adequacy | 2 | 4 | 4 |
| Asset Quality | 4 | 2 | 3 |
| Management | 3 | 3 | 3 |
| Earnings | 2 | 3 | 3 |
| Liquidity | 2 | 3 | 3 |
| Sensitivity to Market Risk | 2 | 3 | 3 |
| Composite Rating | 3 | 3 | 4 |

*CAMELS is an acronym for Capital Adequacy, **A**sset quality, **M**anagement, **E**arnings, **L**iquidity and **S**ensitivity to Market Risk. CAMELS rating system uses a rating scale of 1 - 5, where '1' is Strong, '2' is Satisfactory, '3' is Fair, '4' is Weak and '5' is Critical.

**RBS stands for Risk-Based Supervision

### 40.9.1.2 Summary RAS ratings

| RAS Component | Latest RAS*** Ratings 30/06/2013 | Previous RBS Ratings 31/01/2008 | Previous RBS Ratings 30/06/2007 |
|---|---|---|---|
| Overall Inherent Risk | Moderate | Moderate | High |
| Overall Risk Management Systems | Acceptable | Acceptable | Weak |
| Overall Composite Risk | Moderate | Moderate | High |
| Direction of Overall Composite Risk | Stable | Stable | Increasing |

*** RAS stands for **R**isk **A**ssessment **S**ystem.

## 40.RISK MANAGEMENT (continued)

### 40.9.1.2 Summary RAS ratings (continued)

### 40.9.1.3 Summary risk matrix -30 June 2013 on – site examination

| Type of Risk | Level of Inherent Risk | Adequacy of Risk Management Systems | Overall Composite Risk | Direction of Overall Composite Risk |
|---|---|---|---|---|
| Credit | High | Weak | High | Increasing |
| Liquidity | Moderate | Acceptable | Moderate | Stable |
| Interest Rate | Moderate | Acceptable | Moderate | Stable |
| Foreign Exchange | Low | Acceptable | Low | Stable |
| Strategic Risk | Moderate | Acceptable | Moderate | Stable |
| Operational Risk | Moderate | Acceptable | Moderate | Stable |
| Legal & Compliance | Moderate | Strong | Moderate | Stable |
| Reputation | Moderate | Strong | Moderate | Stable |
| Overall | Moderate | Acceptable | Moderate | Stable |

**KEY**

**Level of Inherent Risk**

**Low** – reflects a lower than average probability of an adverse impact on a banking institution's capital and earnings. Losses in a functional area with low inherent risk would have little negative impact on the banking institution's overall financial condition.

**Moderate** – could reasonably be expected to result in a loss which could be absorbed by a banking institution in the normal course of business.

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

**Adequacy of Risk Management Systems**

**Weak** – risk management systems are inadequate or inappropriate given the size, complexity and risk profile of the banking institution. Institution's risk management systems are lacking in important ways and therefore a cause of more than normal supervisory attention. The internal control systems will be lacking in important aspects particularly as indicated by continued control exceptions or by the failure to adhere to written policies and procedures.

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

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

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

for the year ended 31 December 2013

## 40. RISK MANAGEMENT (continued)

### 40.9.1.2 Summary RAS ratings (continued)

**Overall Composite Risk**

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

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

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

**Direction of Overall Composite Risk**

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

### 40.9.2 External credit ratings

The external credit ratings were given by Global Credit Rating (GCR), a credit rating agency accredited with the Reserve Bank of Zimbabwe.

| Security class | 2013 | 2012 |
|---|---|---|
| Long term | BBB- | BBB- |

### 40.10 Regulatory compliance

There were no instances of regulatory non compliance in the period under review. The Bank remains committed to complying with and adhering to all regulatory requirements.

### 40.11 Capital management

### 40.11.1 Holding company

The capital allocation to the subsidiary units is in accordance with the regulatory requirements of the business undertaken by the subsidiary.

### 40.11.2 Banking subsidiary

The primary objective of the Bank's capital management is to ensure that the Bank complies with the RBZ requirements. In implementing the current capital requirements, the RBZ requires the Banking subsidiary to maintain a prescribed ratio of total capital to total risk weighted assets.

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings (including current year profit), statutory reserve and other equity reserves.

The other component of regulatory capital is Tier 2 capital, which includes subordinated term debt, revaluation reserves and portfolio provisions.

Tier 3 capital relates to an allocation of capital to market and operational risk.

Various limits are applied to elements of the capital base. The core capital (Tier 1) shall compromise not less than 50% of the capital base and portfolio provisions are limited to 1.25% of total risk weighted assets.

## 40. RISK MANAGEMENT (continued)

### 40.1 Core capital (continued)

### 40.11.2 Banking subsidiary (continued)

The Bank's regulatory capital position at 31 December 2013 was as follows

| | 2013 US$ | 2012 US$ |
|---|---|---|
| Share capital | 16 506 | 16 502 |
| Share premium | 31 474 502 | 15 577 932 |
| Retained earnings | 8 802 979 | 12 487 547 |
| Fair value gain on investment properties | (2 925 868) | (2 411 775) |
| | 37 368 119 | 25 670 206 |
| Less: capital allocated for market and operational risk | (1 240 678) | (1 198 520) |
| Credit to insiders | (4 734 129) | (2 231 128) |
| Tier 1 capital | 31 393 312 | 22 240 558 |
| Tier 2 capital (subject to limit as per Banking Regulations) | 6 823 855 | 4 819 193 |
| Fair value gain on investment properties | 2 925 868 | 2 411 775 |
| Subordinated debt | 1 485 890 | - |
| Regulatory reserve - (limited to 1.25% of risk weighted assets) | 2 154 252 | 2 301 683 |
| Portfolio provisions - (limited to 1.25% of risk weighted assets) | 257 845 | 105 735 |
| Total Tier 1 & 2 capital | 38 217 167 | 27 059 751 |
| Tier 3 capital (sum of market and operational risk capital) | 1 240 678 | 1 198 520 |
| Total capital base | 39 457 845 | 28 258 271 |
| Total risk weighted assets | 228 275 322 | 182 361 802 |
| Tier 1 ratio | 13.75% | 12.20% |
| Tier 2 ratio | 2.99% | 2.64% |
| Tier 3 ratio | 0.54% | 0.66% |
| Total capital adequacy ratio | 17.28% | 15.50% |
| RBZ minimum required | 12.00% | 12.00% |

## 41. EVENTS AFTER REPORTING DATE

### 41.1 Monetary Policy Statement

The Reserve Bank of Zimbabwe announced the extension of the period for complying with the minimum capital of US$100 million for commercial banks to 31 December 2020 in the Monetary Policy Statement that was presented on 29 January 2014. However, all banking institutions are required to submit to the Reserve Bank of Zimbabwe their comprehensive recapitalisation plans to meet the new deadline by 30 June 2014.

# HISTORICAL FIVE YEAR FINANCIAL SUMMARY

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | 2013<br>US$ | 2012<br>US$ | 2011<br>US$ | 2010<br>US$ | 2009<br>US$<br>Restated |
|---|---|---|---|---|---|
| Interest income | 33 181 704 | 27 543 784 | 20 158 766 | 10 014 636 | 1 526 722 |
| Interest expense | (13 006 505) | (10 050 003) | (8 257 254) | (3 143 168) | (723 626) |
| **Net interest income** | **20 175 199** | **17 493 781** | **11 901 512** | **6 871 468** | **803 096** |
| Net foreign exchange gains | 1 502 044 | 1 902 337 | 1 289 729 | 1 055 307 | 379 236 |
| Fee and commission income | 14 673 834 | 13 016 115 | 11 958 029 | 9 691 069 | 4 888 077 |
| **Revenue** | **36 351 077** | **32 412 233** | **25 149 270** | **17 617 844** | **6 070 409** |
| Share of profit/(loss) associate | 217 768 | 434 252 | 113 573 | (21 444) | - |
| Non-interest income | 777 720 | 2 593 515 | 206 662 | (316 273) | 2 348 872 |
| Profit on disposal of associate | 580 136 | - | - | - | - |
| Operating expenditure | (25 232 756) | (21 452 714) | (16 979 741) | (15 365 768) | (7 385 212) |
| Impairment losses on loans and advances | (16 645 810) | (3 985 062) | (2 296 111) | (971 803) | (92 887) |
| **Profit before taxation** | **(3 951 865)** | **10 002 224** | **6 193 653** | **942 556** | **941 182** |
| Financial institutions levy | - | - | - | - | (44 661) |
| Taxation | 630 042 | (2 431 722) | (1 655 197) | (250 322) | 1 381 766 |
| **Profit after taxation** | **(3 321 823)** | **7 570 502** | **4 538 456** | **692 234** | **2 278 287** |
| Other comprehensive income for the year, net of tax | - | - | - | - | - |
| **Total comprehensive (loss)/ income for the year** | **(3 321 823)** | **7 570 502** | **4 538 456** | **692 234** | **2 278 287** |

# HISTORICAL FIVE YEAR FINANCIAL SUMMARY (Cont'd)

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | 2013 US$ | 2012 US$ | 2011 US$ | 2010 US$ | 2009 US$ Restated |
|---|---|---|---|---|---|
| **SHAREHOLDERS' FUNDS** | | | | | |
| Share capital | 78 598 | 78 598 | 78 598 | 78 598 | - |
| Reserves | 27 541 662 | 30 863 485 | 23 292 983 | 18 754 527 | 8 568 005 |
| Equity | 27 620 260 | 30 942 083 | 23 371 581 | 18 833 125 | 8 568 005 |
| Subordinated term loan | 1 485 890 | - | - | - | - |
| Redeemable ordinary shares | 14 335 253 | - | - | - | - |
| **Total shareholders' funds** | **43 441 403** | **30 942 083** | **23 371 581** | **18 833 125** | **8 568 005** |
| **LIABILITIES** | | | | | |
| Deposits and other liabilities | 216 041 709 | 195 002 633 | 142 757 778 | 83 156 444 | 30 094 657 |
| Current tax liabilities | - | 588 966 | 1 157 974 | 641 969 | 299 162 |
| Deferred tax liabilities | - | - | - | 207 966 | 746 107 |
| **Total shareholders' funds and liabilities** | **259 483 112** | **226 533 682** | **167 287 333** | **102 839 504** | **39 707 931** |
| **ASSETS** | | | | | |
| Cash and cash equivalents | 48 871 983 | 58 171 045 | 32 265 953 | 18 346 939 | 12 203 181 |
| Investments securities held to maturity | 4 685 471 | 5 501 963 | 2 126 657 | 1 994 585 | 1 789 836 |
| Investments in debentures | 3 984 723 | - | - | - | - |
| Deferred tax assets | 2 823 544 | 1 380 596 | 421 383 | - | - |
| Current tax assets | 1 739 210 | - | - | - | - |
| Loans, advances and other assets | 181 316 271 | 146 599 994 | 122 260 663 | 75 620 404 | 18 349 286 |
| Non-current assets held for sale | 2 303 300 | 2 225 300 | - | - | - |
| Quoted and other investments | 145 850 | 130 316 | 118 048 | 134 461 | 455 638 |
| Trade investments | 190 148 | 195 790 | 190 980 | 201 666 | 108 003 |
| Investment in associate | - | 1 025 919 | 591 667 | 228 556 | |
| Investment properties | 4 385 300 | 3 115 300 | 2 510 000 | 2 615 000 | 3 219 600 |
| Property and equipment | 7 372 943 | 8 187 459 | 6 801 982 | 3 697 893 | 3 582 387 |
| Intangible assets | 1 664 369 | - | - | - | - |
| **Total Assets** | **259 483 112** | **226 533 682** | **167 287 333** | **102 839 504** | **39 707** |

# HISTORICAL FIVE YEAR FINANCIAL SUMMARY (Cont'd)

| | 2013 US$ | 2012 US$ | 2011 US$ | 2010 US$ | 2009 US$ |
|---|---|---|---|---|---|
| **CLOSING NUMBER OF SHARES** | **384 427 401 | 2 807 107 289 | 2 807 107 289 | 2 807 107 289 | 1 641 225 424* |
| **Share performance** | | | | | |
| Net asset value per share (US cents) | 11.30 | 1.12 | 0.83 | 0.67 | 0.52 |
| Basic earnings per share (US cents) | (1.00) | 0.29 | 0.16 | 0.03 | 0.14 |
| Dividend per share (US cents) | - | - | - | - | - |
| Dividend cover (times) | - | - | - | - | - |
| Price/earnings ratio | (6.50) | 2.24 | 7.19 | 37 | 5.71 |
| Closing price per share (US cents) | 6.50 | 0.65 | 1.15 | 1.1 | 0.80 |
| Market capitalisation (US$) | 24 987 781 | 18 246 197 | 32 281 734 | 30 878 180 | 13 185 402 |
| **Financial performance** | | | | | |
| Return on shareholders' funds (%)[1] | 8 | 26 | 19 | 3.7 | 26 |
| Return on assets (%) | (1) | 4 | 3 | 3 | 0.70 |
| Cost/net income ratio (%)[2] | 110 | 70 | 76 | 95 | 89 |
| Non-interest income/total income (%) | 47 | 34 | 36 | 46 | 79 |
| Effective tax rate (%) | (16) | 23 | 27.1 | 26.6 | (142) |

1. The return on shareholders' funds is based on shareholders' funds at the end of the year.
2. Includes charge for impairment of losses on loans and advances.

* excludes own equity instruments amounting to 1 028 172 shares.

** At an Extraordinary General Meeting held on 19 February 2013, the company approved a share consolidation exercise at a ratio of 10:1 and consolidated 3 500 000 000 (3.5 billion) shares with a nominal value of US$0.000028 per share to 350 000 000 (350 million) shares with a nominal value of US$0.00028 per share. The company also approved an increase in the authorized share capital from 350 000 000 shares with a nominal value of US$0.00028 per share to 600 000 000 shares with a nominal value US$0.00028 per share.

# NOTICE TO MEMBERS

Notice is hereby given that the 19th Annual General Meeting of Members of NMBZ Holdings Limited will be held at the Registered Office of the Company at 4th Floor, Unity Court, Corner 1st Street/ Kwame Nkrumah Avenue, Harare on **Tuesday 17 June 2014** at **1000 hours** for the following purposes:

## ORDINARY BUSINESS

1. To receive and adopt the Financial Statements for the year ended 31 December 2013, together with the reports of the Directors and Auditors thereon.
2. To appoint Directors.
   a. In accordance with the Articles of Association, Mr. J.A. Mushore, Mr. T. N. Mundawarara and Dr. J. T. Makoni retire by rotation. Being eligible, the retiring directors offer themselves for re-election.
   b. Mr. B. Zwinkels, Ms. M. Svova, Mr. B. Chikwanha, Mr. C. Ndiaye and Mr. D. Malik were appointed as directors during the year and in accordance with the Articles of Association retire from office. They being eligible the retiring directors offer themselves for re-election.
3. To appoint Auditors.
4. To approve Messrs KPMG's remuneration for the year ended 31 December 2013.

## SPECIAL BUSINESS

1. That the Board is hereby authorised to amend the Articles of Association of the Company by the insertion in Article 2, after the definition of "Secretary", of the following definition –

   "Securities Act" means the Securities Act of Zimbabwe [Chapter 24:25]; and

2. That the Board is hereby authorised to amend the Articles of Association of the Company by the insertion after Article 16.4 of the following Article –

   "16.5 Notwithstanding the preceding provisions of this Article, the Directors shall be empowered to resolve that the company shall issue shares in dematerialised form, and convert certificated shares to dematerialised shares, all as envisaged by the Securities Act: provided that no certificated share shall be converted to a dematerialised share without the consent of the current holder thereof."

3. That the Board is hereby authorised to amend the Articles of Association of the Company by the by the addition of the following Article 128.2 (a) after Article 128.2.

   "Electronic copies of the Directors' Report, Statements of Financial Position, Comprehensive Income, Changes in Equity and Cash Flow and all other documents required to be annexed thereto, publicised on the Company's website and delivered by electronic means to every member shall be deemed to be sufficient delivery to members."

4. That the Board is hereby authorized to amend the Articles of Association of the Company by the deletion of the words "Balance Sheet, Profit and Loss Account" wherever they appear and substitution thereof with the words "Statement of Financial Position and Statement of Comprehensive Income" respectively in accordance with International Accounting Standard (IAS 1).

## SPECIAL RESOLUTION

To consider, and if deemed fit, to pass, with or without modification, the resolution set out below:

a. "That the Company, being duly authorised thereto by Article 10 of its Articles of Association, may undertake general repurchases by way of open market transactions on the Zimbabwe Stock Exchange ("ZSE") of any of its own ordinary shares in such manner or on such terms as the directors may from time to time determine provided that:

b. the maximum number of shares authorized to be acquired is no more than 10% of the Company's ordinary issued share capital.

c. for each share, the minimum price shall not be lower than the nominal value of the Company's shares and the maximum price that may be paid is 5% above the weighted average market price for the ordinary shares in the Company as derived from the Zimbabwe Stock Exchange (ZSE) Daily Price Sheet for the five business days immediately preceding the date on which such ordinary shares are contracted to be purchased.

# NOTICE TO MEMBERS (Cont'd)

d. the authority in terms of this special resolution shall unless renewed prior to such time, expire on the first anniversary of this resolution or at the conclusion of the next Annual General Meeting of the Company, whichever is later, save that the Company, may before such expiry, enter into a contract or contracts to purchase its ordinary shares which would or might be completed wholly or partly after the expiry and may purchase its ordinary shares in pursuance of such contract or contracts.''

**Notes:**

1. *A member of the company entitled to attend and vote at this meeting is entitled to appoint a proxy to attend, speak and on a poll, vote in his stead. A proxy need not be a member of the company. Proxy forms should be forwarded to the Registered Office of the company at least 48 hours before the commencement of the meeting.*
2. *A Special Resolution is required to be passed by a majority of seventy five per cent of those present and voting (including proxy votes), representing not less than twenty five per cent of the total number of votes in the Company.*
3. *In terms of special resolution 5, the directors are seeking authority to allow the use of the Company's available cash resources to purchase its own shares in the market in terms of the Companies Act and the regulations of the ZSE. The directors will only exercise the authority if they believe that to do so would be in the best interests of shareholders generally. In exercising this authority, the directors will duly take into account following such repurchase for the next 12 months, the ability of the Company to pay its debts in the ordinary course of business, the maintenance of an excess of assets over liabilities, and for the Company and Group, the adequacy of ordinary capital and reserves as well as working capital.*

By Order of the Board

Mutandwa

V. Mutandwa
Company Secretary

# EXPLANATIONS REGARDING THE NOTICE OF THE ANNUAL GENERAL MEETING

**Resolution 1**
The Directors of the Company are obliged to present their Report and Accounts to shareholders of the Company at an Annual General Meeting. This is a standard form of resolution common to all Annual General Meetings.

**Resolution 2**
The Company's Articles of Association require a third of the Directors to stand down at each Annual General Meeting and if they are eligible, they may offer themselves for re-election. The Directors standing down are Messrs J. A. Mushore, T. N. Mundawarara and Dr. J. T. Makoni. All the retiring directors being eligible offer themselves for re-election. Information about these directors is shown below:

**Mr. Tendayi Nelson Mundawarara**
A qualified banker by profession, Tendayi holds Masters degrees in Banking and Finance (Milan, Italy) and Public and International Affairs (Pittsburgh, USA), having obtained his first degree, a BA in Political Science, from George Washington University (Washington DC, USA). He joined the Group as a Non-Executive Director in February 2008. He headed the Corporate Banking Divisions of ZB Bank Limited and Leasing Company of Zimbabwe, before heading UKI Limited, an unquoted public investment company with interests in financial services, insurance, communications and manufacturing. Tendayi was instrumental in the establishment of a stock broking company, UKI Securities, which he chaired; he also chaired the Boards of Fidelity Life Asset Management Company (FLAM), Firstel Cellular and Schweppes Zimbabwe Limited, and was a Director of Nicoz Diamond Insurance, Fidelity Life Assurance, Zimbabwe Insurance Brokers, First Banking Corporation, CFI Holdings Limited, ZIMRE Limited and CFX Bank Limited. Tendayi established Furniture Paradise, a furniture retail chain, with partners, and ran the company until 2008, when he then left to take up his current position as Director of Newfield Trading, a company involved in trading and business consultancy in the fields of procurement and investment promotion.

**Mr James Andrew Mushore**
James, a Chartered Accountant by profession, rejoined NMBZ on 1 April 2010 following his appointment as the Group Chief Executive Officer. James is a founder member and former Deputy Managing Director of NMB Bank Limited where he headed Corporate Finance, Information Technology, and Internal Audit and Marketing departments until February 2004. Prior to joining NMBZ, he spent 14 years with Coopers & Lybrand, two of those in London and twelve years in Zimbabwe and Zambia where he was partner in charge of the Corporate Finance practice. James is a former president of the Institute of Chartered Accountants of Zimbabwe and has served on the Boards of the Zimbabwe Tourism Authority and the Zimbabwe Revenue Authority.

**Dr. Julius Tawona Makoni**
Julius a holder of a Doctorate in International Finance and a Chartered Financial Analyst, is a founder member and the former Chief Executive Officer of NMBZ. He is currently the Bishop for Manicaland Province in the Province of Central Africa Anglican Church. Julius has extensive experience in banking, having worked for Bankers Trust Company in London for two years as Vice President and Head of the Africa Merchant Banking Division. Prior to that, he worked for eight years with the World Bank in Washington DC as an Economist in the Industry Division, and as a Senior Investments Officer in the Capital Markets Department and the International Finance Corporation's International Securities Group. Previously, Julius was employed as a Corporate Finance Analyst with Morgan Grenfell in London. Julius is a member of the Institute of Management based in the United Kingdom and the American Management Association.

**Mr. Ben Zwinkels**
Mr. Zwinkels is the Executive Chairman of AfricInvest Capital Partners. He has over 35 years of experience in Financial Sector Development in Africa of which 30 years were spent working for FMO (the Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. from the Netherlands) where he retired as an employee as of July 1st 2012.

**Mr. Cheikh Ndiaye**
Mr. Ndiaye has over 30 years of commercial banking experience of which 28 years were spent with Citibank. Mr. Ndiaye rose from a Credit Analyst position to Regional Director of Operations and Technology for 12 countries in Africa and Middle East managing over 1500 people. At Ecobank, Mr. Ndiaye managed Operations and Technology in 30 countries with over 7 000 staff. Currently Mr. Ndiaye is an independent bank consultant.

# EXPLANATIONS REGARDING THE NOTICE OF THE ANNUAL GENERAL MEETING (Cont'd)

**Mr. Deepak Malik**
Mr. Malik is a Chartered Accountant and has over 30 years' experience more than 15 years of which he has spent in the financial services sector. Currently Mr. Malik is the Head of the Southern Africa Office and Head of Department - Financial Institutions for Norfund.

**Ms. Maureen Svova**
Ms. Svova is one of the pioneer black female Chartered Accountants with over 25 years' experience in Finance and Accountancy. Currently Ms. Svova is managing a business consultancy company.

**Mr. Ben Chikwanha**
Mr. Ben Chikwanha is an experienced banker, with close to 50 years working experience in the banking sector in various areas including Risk, Retail, Corporate Banking and Corporate Finance. Mr. Chikwanha has held various management roles in the banking sector including being a Managing Director, Executive Director and Non-executive Director. Currently Mr. Chikwanha is an Executive Director of the Leonard Cheshire Zimbabwe Trust.

**Resolution 3**
All public companies are required to appoint Auditors at each Annual General Meeting at which financial statements are presented, to hold office until the next such meeting in terms of section 150 (2) of the Companies Act [ Chapter 24:03]. This resolution therefore proposes the appointment of auditors in accordance with usual practice and the Banking Act [Chapter 24:20]. The current auditors of the Group are KPMG Chartered Accountants and it is proposed that KPMG be re-appointed as auditors of the Group.

**Resolution 4**
The remuneration of the auditors is required to be fixed by the Company in a General Meeting in terms of section 150 (6) of the Companies Act [Chapter 24:20]. Accordingly, Members will be requested to approve the remuneration paid to the external auditors of the Group, KPMG for the year ended 31 December 2013.

**Special Business Resolution 1**
The Securities Act [Chapter 24:25] was enacted after the Articles of Association of the Company were created. As a listed company the Company is subject to the provisions of the Securities Act hence the amendment.

**Special Business Resolution 2**
The amendment is necessitated by the impending implementation of the Central Securities Depository System.

**Special Business Resolution 3**
The amendment is to enable the Company to deliver electronic copies of the Directors' Report, Statements of Financial Position, Comprehensive Income, Changes in Equity and Cash Flows.

**Special Business Resolution 4**
The amendment is to enable the Articles of Association to be in line with International Financial Reporting Standards.

**Special Resolution**
In terms of this resolution, the Directors are seeking authority to allow the purchase of the Company's own shares in the market in terms of the Companies Act and the regulations of the ZSE. The Director's will only exercise the authority if they believe that to do so would be in the best interest of shareholders generally. In exercising this authority, the Directors will duly take into account, following such repurchase for the next 12 months, the ability of the Company to pay its debts in the ordinary course of business, the maintenance of an excess of assets over liabilities and, for the Company and Group, the adequacy of ordinary capital and reserves as well as working capital. The Directors have no present intention of acquiring the company's own shares.

# SHAREHOLDERS' ANALYSIS

## SHAREHOLDERS' ANALYSIS

| Size of shareholding | 2013 Number of Shareholders | % of Holders | 2013 Issued Shares | % Shareholding |
|---|---|---|---|---|
| 0 - 5000 | 3 559 | 91.21 | 2,182,415 | 0.57 |
| 5,001 - 10,000 | 104 | 2.67 | 755,014 | 0.20 |
| 10,001 - 50,000 | 155 | 3.97 | 3,381,855 | 0.88 |
| 50,001 - 100,000 | 26 | 0.67 | 1,958,965 | 0.51 |
| 100,001 - 500,000 | 25 | 0.64 | 5,142,480 | 1.34 |
| 500,001 - 1,000,000 | 4 | 0.10 | 2,812,588 | 0.73 |
| 1,000,001 - 10,000,000 | 18 | 0.46 | 55,674,814 | 14.48 |
| 10,000,001 and above | 11 | 0.28 | 312,519,220 | 81.29 |
| **Total** | **3,902** | **100.00** | **384,427,351** | **100.00** |

| Size of shareholding | 2012 Number of Shareholders | % of Holders | 2012 Issued Shares | % Shareholding |
|---|---|---|---|---|
| 0 - 5,000 | 2 324 | 58.96 | 3,822,178 | 0.14 |
| 5,001 - 10,000 | 593 | 15.05 | 4,372,488 | 0.15 |
| 10,001 - 50,000 | 684 | 17.36 | 14,474,231 | 0.51 |
| 50,001 - 100,000 | 108 | 2.74 | 7,822,368 | 0.28 |
| 100,001 - 500,000 | 157 | 3.98 | 34,563,027 | 1.23 |
| 500,001 - 1,000,000 | 25 | 0.63 | 18,986,040 | 0.68 |
| 1,000,001 - 10,000,000 | 24 | 0.61 | 70,714,057 | 2.52 |
| 10,000,001 and above | 26 | 0.67 | 2,652,352,900 | 94.49 |
| **Total** | **3,941** | **100.00** | **2,807,107,289** | **100.00** |

| Industry | 2013 Holders | % of Holders | 2013 Shares | % Shareholding |
|---|---|---|---|---|
| Bank | 1 | 0.03 | 4,290 | 0.00 |
| Corporates | 354 | 9.07 | 45,430,001 | 11.82 |
| Employee | 247 | 6.33 | 966,863 | 0.25 |
| EST | 3 | 0.08 | 2,221 | 0.00 |
| External Companies | 7 | 0.18 | 98,231,598 | 25.55 |
| Fund Managers | 4 | 0.10 | 2,700 | 0.00 |
| Insurance Companies | 12 | 0.31 | 58,693,340 | 15.27 |
| Investment Trusts And Property | 34 | 0.87 | 52,375,430 | 13.62 |
| Local Resident | 3123 | 80.03 | 9,829,341 | 2.57 |
| Nominees Local | 60 | 1.54 | 672,643 | 0.17 |
| Non Residents | 9 | 0.23 | 110,257,664 | 28.68 |
| Non Resident Individual | 29 | 0.74 | 2,119,600 | 0.55 |
| Other Corporate Holdings | 3 | 0.08 | 3,369 | 0.00 |
| Pension Fund | 16 | 0.41 | 5,838,291 | 1.52 |
| **Total** | **3,902** | **100.00** | **384,427,351** | **100.00** |

# SHAREHOLDERS' ANALYSIS (Cont'd)

| Industry | 2012 Holders | % of Holders | 2012 Shares | % of Shares |
|---|---|---|---|---|
| Bank | 1 | 0.03 | 42,900 | 0.00 |
| Corporates | 357 | 9.06 | 456,312,527 | 16.26 |
| Employees | 487 | 12.36 | 40,528,741 | 1.44 |
| Deceased Estates | 4 | 0.10 | 10,521,350 | 0.38 |
| External Companies | 7 | 0.18 | 982,315,941 | 34.99 |
| Fund Managers | 5 | 0.13 | 40,053 | 0.00 |
| Insurance Companies | 12 | 0.30 | 586,943,544 | 20.91 |
| Investment Trusts And Property | 38 | 0.96 | 533,713,511 | 19.01 |
| Local Residents | 2 925 | 74.22 | 60,046,945 | 2.14 |
| Local Nominees | 58 | 1.47 | 4,749,183 | 0.17 |
| Non Residents | 31 | 0.78 | 78,680,392 | 2.80 |
| Other Corporate Holdings | 3 | 0.08 | 8,440 | 0.00 |
| Pension Funds | 13 | 0.33 | 53,203,762 | 1.90 |
| **Total** | **3,941** | **100.00** | **2,807,107,289** | **100.00** |

| Top Ten Shareholders | | 2012 Number Of Shares | % Shareholding |
|---|---|---|---|
| 1 | African Century Financial Investments Limited | 703 243 692 | 24.98 |
| 2 | Old Mutual Zimbabwe Limited | 586 855 157 | 20.84 |
| 3 | Lalibela Limited | 215 266 942 | 7.65 |
| 4 | Alsace Trust | 168 853 795 | 6.02 |
| 5 | Cornerstone Trust | 168 755 799 | 6.01 |
| 6 | Wamambo Investments Trust | 142 260 092 | 5.07 |
| 7 | Drakmore Investments (Private) Limited | 109 627 112 | 3.89 |
| 8 | Martcap Investments (Private) Limited | 77 282 178 | 2.74 |
| 9 | Stanbic Nominees(Private) Limited | 76 834 507 | 2.72 |
| 10 | Tamlidge Investments (Private) Limited | 70 534 276 | 2.51 |

| Top Ten Shareholders | | 2013 Number Of Shares | % Shareholding |
|---|---|---|---|
| 1 | African Century Financial Investments Limited | 70,324,370 | 18.29 |
| 2 | Africinvest Financial Sector Holdings (Africinvest) | 34,571,429 | 8.99 |
| 3 | Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N V (FMO) | 34,571,429 | 8.99 |
| 4 | Norwegian Investment Fund For Developing Countries (NORFUND) | 34,571,429 | 8.99 |
| 5 | Old Mutual Life Assurance Company Of Zimbabwe Limited | 32,128,043 | 8.36 |
| 6 | Old Mutual Zimbabwe Limited | 26,557,498 | 6.91 |
| 7 | Lalibela Limited | 21,526,695 | 5.60 |
| 8 | Alsace Trust | 16,885,381 | 4.39 |
| 9 | Cornerstone Trust | 16,875,582 | 4.39 |
| 10 | Wamambo Investments Trust | 13,545,247 | 3.52 |

# SHAREHOLDERS' INFORMATION

## MEMBERS' DIARY

| | |
|---|---|
| Financial year end | 31 December 2013 |
| Reports:- | |
| - Announcement of annual results | 27 March 2014 |
| - Annual financial statements posted to shareholders | May 2014 |
| - Annual General Meeting | 17 June 2014 |
| - Announcement of the 2014 half-year results | August 2014 |
| Dividend payments: | n/a |
| - Interim | n/a |
| - Final | |

# SECRETARY AND REGISTERED OFFICE

**Company Secretary** V. Mutandwa

**Registered Offices**
4th Floor
Unity Court
Corner 1st/ Kwame Nkrumah Avenue
**Harare**
**Zimbabwe**

Telephone: +263 4 759651-9 / 759601-6
Facsimile +263 4 759648
**Website:** **http://www.nmbz.co.zw**
Email: enquiries@nmbz.co.zw

**NMB Centre**
Corner George Silundika Avenue/
Leopold Takawira Street
**Bulawayo**
**Zimbabwe**

+263 9 70169
+263 9 68535

**Auditors**
KPMG
Mutual Gardens
100 The Chase (West)
Emerald Hill
Harare
**Zimbabwe**

**Transfer Secretaries**
In Zimbabwe
First Transfer Secretaries
1 Armagh Avenue, Eastlea
**Harare**
**Zimbabwe**

In UK
Computershare Investor Services PLC
The Pavilion
Bridgewater Road
Bristol
BS599 6ZZ
**United Kingdom**

**Legal Advisors**
In Zimbabwe
Gill, Godlonton & Gerrans
7th Floor, Beverley Court
100 Nelson Mandela Avenue
Harare
**Zimbabwe**

In UK
Dechert
160 Queen Victoria Street
London
EC4 V4 QQ
**UK**

# ANNUAL GENERAL MEETING FORM OF PROXY

I/We,...........................................................................................................................................

of...............................................................................................................................................

being a member of the above company and entitled to vote, hereby appoint

of...............................................................................................................................................

or failing him..............................................................................................................................

of...............................................................................................................................................

or failing him, the Chairman of the meeting as my/our proxy to vote for me/us on my/our behalf at the

ANNUAL GENERAL MEETING of the Company to be held on 17 June 2014 at 10:00 hours and at any

adjournment thereof.

Signed this ................................................................ day of ...........................................................2014.

Signature of member .......................................................................

Note

(i) In terms of Section 129 of the Companies Act (Chapter 24:03) a member of the company is entitled to appoint one or more proxies to act in the alternative to attend, vote and speak in his stead. A proxy need not be a member of the Company.

(ii) Sections 75 and 76 of the Company's Articles of Association provide that instruments of proxy must be signed and returned to reach the Registered Office of the Company not less than forty-eight hours before the time for holding the meeting.

NMBZ HOLDINGS LIMITED

**NMBZ Holdings Limited**
Fourth Floor, Unity Court,
Cnr Kwame Nkrumah Ave/First Street,
Harare, Zimbabwe
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