People's Own Savings Bank

Unaudited Financial Results

FOR THE HALF YEAR ENDED 30 JUNE 2019

CHAIRPERSON'S STATEMENT

INTRODUCTION

I have great pleasure in presenting the financial statements of the Bank for the six months ended 30 June 2019.

OPERATING ENVIRONMENT

The period under review was characterized by severe macro-economic instability as well as several economic challenges - the major ones being foreign currency scarcity, rising inflation, erosion of disposable incomes, power cuts and fuel shortages. The situation was further worsened by the rapid depreciation of the Zimbabwe dollar coupled with low productivity in the agriculture sector due to lower than anticipated rainfall received in the year 2018/19 farming season.

Inflationary pressure driven by the parallel market exchange premiums remains a cause of concern. During the period under review annual inflation as measured by the all items Consumer Price Index accelerated from 42.06% in December 2018 to 175.66% by June 2019, a situation that impacts negatively on financial planning, even in the short term. We are however, confident that measures taken by the Central Bank aimed at curbing money supply growth, will stabilize the exchange rate of the recently introduced Zimbabwe dollar against major currencies and that inflation will decline in the medium term.

As part of the ongoing currency reforms, the monetary and fiscal authorities promulgated Statutory Instrument 142 of 2019, which ended the multi – currency system and at the same time prescribed the Zimbabwe dollar as the sole legal tender in the country. The decision by the authorities to end the multi – currency regime is a welcome intervention that we fully support. Going forward it is our fervent hope that government will continue to pursue and implement policies that restore business confidence for the good of the economy.

FINANCIAL HIGHLIGHTS

The Bank posted a net profit of $24.70 million during the six months ended 30 June 2019, up from $8.11 million recorded in the comparative period ended 30 June 2018. The following summarizes the Bank's financial performance;

- Net operating income for the half year increased by 99% to $43.33 million from $21.74 million achieved in 2018, attributed to fair value gain on investment properties; a significant increase in interest income as well as effective utilization of new and existing products.
- Operating expenses increased by 37% to $18.63 million in 2019 from $13.63 million in 2018 in line with inflation and the Bank's business growth model.
- The cost to income ratio improved to 43% from 63% in 2018, attributed to effective cost management on the back of growth in revenue.
- Shareholders' funds increased by 59% to $138.96 million up from $87.83 million as at 31 December 2018 attributed mainly to organic growth and revaluation of properties as well as other non-current assets.

The Board is optimistic that the performance of the Bank in the second half of the year 2019 will remain solid as the Bank continues to strengthen its position in the market by growing its customer base as well as introducing new and innovative products.

In light of the above impressive performance, the Board will maintain its focus on the implementation of the Bank's Five Year Strategic Plan to ensure operational stability, growth, delivery of strong business results, and unwavering commitment to financial inclusion and customer service. The Bank believes that being the only national savings bank in the country, it has to provide the necessary stimulus for domestic production and rebuilding as well as transforming the rural and urban economies.

PARTIAL PRIVATISATION UPDATE

In order to unlock shareholder value, the Government decided that a number of parastatals including POSB will meaningfully contribute towards the revival of Zimbabwe's economic fortunes if they are partially privatised. In light of the above the Government earmarked the Bank for Partial Privatisation by the end of the fourth Quarter in 2019. I am happy to report that the Bank has made significant progress in the procurement of a Transaction Advisory Services Consultant. Meanwhile, a consultant to assist in the partial privatisation process has been identified and the recommendation in this regard is under review by the Special Procurement Oversight Committee at the Procurement Regulatory Authority in Zimbabwe.

CORPORATE GOVERNANCE

The Public Entities and Corporate Governance Act sets out the minimum corporate governance standards to be observed by public entities. As a parastatal, POSB is now legally obliged to comply with the corporate governance principles enshrined in the Constitution, to conduct its business operations in a commercially viable manner and in so doing, to abide by generally accepted standards of good corporate governance.

In line with its commitment to build the correct corporate governance culture, POSB has realigned its practices with the Public Entities and Corporate Governance Act framework, with the status of compliance to be reported at the end of December 2019. As attainment of good corporate governance practices remains a key strategic objective of the Bank, the year-end review process is expected to improve compliance standards to a higher level.

ANNUAL GENERAL MEETING

The Bank held its 5th Annual General Meeting on the 17th of June 2019 and a dividend of $4 222 209 was declared.

CORPORATE DEVELOPMENTS

The following were significant developments in the Bank during the six months ended 30 June 2019:

New products, services and delivery channels

The following products, services and delivery channels were introduced during the period under review:

• Introduction of Individual Farmer's Nostro Account

The Bank introduced the Individual Farmer's Nostro Account in March 2019. This account enables all individual farmers such as tobacco and cotton farmers who sell their produce in foreign currency to conveniently receive their funds.

• Launch of the Revamped POSB 'On the Go' App

During the month of April 2019, the Bank successfully launched its upgraded 'On the Go' app. The app features new transaction sets, enhanced functionality and aesthetics and is readily available for free download on the Google Play and App stores.

• "Going Paperless" Campaign

POSB went paperless on selected transactions effective 1 August 2019. In preparation for this milestone, the Bank launched the 'Going Paperless' campaign during the month of June 2019 in order to create awareness aimed at advising all clients of this new development in the Bank and the alternative ways that will be used to transact as from the 1st of August 2019.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Guided by its Corporate Social Responsibility policy, the Bank participated in several transformational programmes which were aimed at improving the lives of socially and economically vulnerable segments of the society during the period under review. Annually the Bank allocates 5% of its marketing budget towards the undertaking of CSR activities in the broad areas of Education and Financial Literacy as well as Health and Philanthropy.

In the first six months of the year 2019, POSB conducted the following CSR initiatives:

• **Financial Literacy** – From the 25th to the 31st of March 2019, POSB took part in the annual Global Money Week (GMW) celebrations by conducting a series of activities in line with GMW's primary objective of inspiring children and youths to learn about money matters, saving and entrepreneurship. To this end, the Bank conducted financial literacy presentations at 66 primary and secondary schools around Zimbabwe, invited students from the same schools to POSB Banking halls where they experienced Banking operations first hand. The bank also hosted teams from 16 universities in the 3rd edition of the POSB Global Money Week Inter-University Debate Tournament.

• **Education** – Through its ongoing Scholarship programme, POSB supported ten high school and university students from financially disadvantaged backgrounds with tuition, boarding fees, groceries, transport fare and uniforms. The Bank also sponsored prizes at several university graduation ceremonies rewarding students who distinguished themselves by graduating top of their classes in Banking and Finance, Retail Banking or related financial degree programs.

• **Health and Philanthropy** – In March 2019, POSB donated 200 blankets and several tonnes of groceries as part of its disaster relief efforts to communities affected by Cyclone Idai. Since February 2019, the Bank has also been actively participating in the monthly National Environment Cleaning Days as part of its commitment towards a clean and healthy Zimbabwe for all.

• **Other Social Responsibilities** – In addition to the above mentioned initiatives, POSB also supported other noble causes during the first half of 2019 including; joining the World Kidney Association of Zimbabwe in commemorating World Kidney Awareness Day, the Institute of Chartered Secretaries and Administrators, in the Zimbabwe Charity Golf Tournament, the Institute of Golf Africa Kanzatu Kanzatu Cyclone Idai Fundraising Golf Tournament and ISACA Harare Chapter Fundraising Golf Day.

OUTLOOK

The financial performance for the six months ended 30 June 2019 shows that the Bank is determined to continue creating value for its stakeholders. Going forward the underlying objective of our business model is to continue transforming the Bank processes through digitalization and achieve operational effectiveness as well as low costs of serving our customers. Our desire is to see systems that are;

- Scalable, flexible and geared towards continuous change enabling our clients to bank anytime, anywhere.
- Customer driven, highly personalized and constantly evolving.

Our expectation is that some of the proceeds from the privatization process will be channeled towards the digitalization of the Bank over and above the government meeting its fiscal requirements.

APPRECIATION

The results for the half year ended 30 June 2019, are a reflection of the commitment and dedication of the management team and members of staff. On behalf of the Board, I therefore wish to extend my sincere appreciation to the Chief Executive Officer and his team for achieving these results in the otherwise challenging operating environment. Let me also take this opportunity to express my profound gratitude to my colleagues on the board for their unwavering support and wise counsel. My appreciation would be incomplete without thanking all other stakeholders particularly our clients for their loyalty and trust in our business.

M. DZUMBUNU (MRS)
BOARD CHAIRPERSON

CORPORATE GOVERNANCE REPORT

As a parastatal, POSB is legally obliged to comply with the corporate governance principles enshrined in the Zimbabwean Constitution and in so doing shall conduct its business operations in a commercially viable manner and abide by generally accepted standards of good corporate governance as prescribed under the Public Entities Corporate Governance (PECG) Act (Chapter 10:31) that came into force in June 2018. As a player in the financial sector, it also has to comply with applicable provisions of the Banking Act and regulatory directives.

In line with its commitment to build the correct corporate governance culture, POSB embarked on aligning its practices with the standards set under the Public Entities Corporate Governance Act framework in the 4th Quarter of 2018. The initiated process is still ongoing in line with the gradual issue of policy guidelines and or directives envisaged in the implementation of the PECG Act. The realignment process continues to improve the corporate governance standards of the Bank which are in tandem with its strategic objectives.

The Board held its Annual General Meeting on the 17th of June 2019 and declared a dividend of ZWL$4,222,209. The bank is one of those state entities targeted for partial privatization. The groundwork for the partial privatization was commenced in 2018 through the setting up of a Technical Committee to spearhead the process. The Bank has progressed in the procurement of Transaction Advisory Services Consultants with the recommendation of the Evaluation Committee under review by PRAZ. The Technical Committee's recommendations are expected to be submitted in the last quarter of the year, 2019.

The Bank conducts its business through the governance structures that were reviewed in the course of 2019 for compliance with the prescribed governance framework as detailed below:

The Board

The Board comprises of seven (7) independent non-executive directors and two (2) executive directors, the Chief Executive Officer and the Chief Accounting Officer.

The detailed responsibilities of the Bank's Board include the following;

- To set the Bank's strategic direction/objectives,
- To approve the Bank's policies,
- To protect the interest of depositors and other stakeholders,
- To align activities and behaviour to ensure the Bank operates in a safe and sound manner, in compliance with applicable laws and regulations,
- To articulate the strategy against which the success of the overall Bank and the contribution of individuals is measured, and
- To assign responsibilities and decision making authorities, incorporating a hierarchy of required approvals from management to the Board, and
- To ensure good return to the shareholder's investment.

The Board as a whole is responsible for the oversight of Management on behalf of the shareholder, the Government of Zimbabwe. To exercise its duties, the Board meets quarterly through scheduled meetings and additionally as and when the need arises. To assist the Board in its oversight function, a number of Board Committees were established in accordance with section 14(i) of the People's Own Savings Bank Act {Chapter 24:22} and the PECG Act as read with PECG General Regulations, SI 168 of 2018.

In addition, the Board has scheduled report back meetings with the Minister of Finance and Economic Development. The meetings provide an important feedback window where critical issues are discussed and guidance given.

Board Committees and Meetings

Details of the Board Committees as at 30 June 2019 are outlined below:

1. Board Audit Committee

The Board Audit Committee's role is to assist the Board in its oversight of:

(i) the integrity of the Bank's financial statements,
(ii) the Bank's external auditor's qualifications and independence,
(iii) the performance of the Bank's external auditors and the internal audit function,
(iv) the Bank systems of disclosure controls and procedures and internal controls over financial reporting ,
(v) to review and assess recommendations and reports of the finances, financial controls of the Bank and the internal audit function and make appropriate recommendations of its own to the Board regarding the foregoing,
(vi) ensure the Bank's compliance with applicable laws, regulatory requirements and financial reporting and accounting standards, and where appropriate, make recommendations of its own to the Board regarding the financial administration of the Bank.

Composition

I. Ndlovu	(Non- Executive Committee Chairman)
I. Mvere	(Non- Executive Member)
M. Mureriwa	(Non- Executive Member)

The Board Chairperson, the Chief Executive Officer, the Chief Accounting Officer, Head-Internal Audit and External Auditors attend the Board Audit Committee meetings by invitation..

2. 1. Board Finance Committee

The function of the Board Finance Committee is to guide, oversee and support the financial and tax practices of the Bank including the approval, conformance of financial policies and procedures and the development of the annual strategy, budget and procurement plan, monitor adherence to the strategy, and ensuring conformance to relevant regulations and where appropriate, make recommendations of its own to the Board regarding the financial administration of the Bank.

Composition

I. Mvere	(Non- Executive Committee Chairman)
I. Ndlovu	(Non- Executive Member)
M.Dzumbunu	(Non- Executive Member)
A. Kandlela	(Executive Director) Chief Executive Officer,
G. Changunda	(Executive Director) Chief Accounting Officer

The Head-Procurement Management Unit attends the Board Finance Committee meetings by invitation.

3. Board Credit and Investments Committee

The fundamental function of the Committee is to oversee the Bank's operations relating to credit, market and liquidity risk, and in particular to ensure that the Bank has adequate funds to meet its obligations. The Committee also approves all lending and investment policies. Furthermore, the Committee ensures that the approved policies are adequate and that lending and investment activities are conducted in accordance with the established policies and regulations.

The Committee has the mandate over risks underwritten by the Bank in as far as they affect its overall performance including particularly market risks and credit risks. The Committee is also responsible for approval of loans to customers within its limit.

Composition

M. Mureriwa	(Non- Executive Committee Chairperson)
I. Mvere	(Non- Executive Member)
A. Kandlela	(Executive Member)
G. Changunda	(Executive Member)

The General Manager Banking Operations, the Corporate & Investment Banking Executive, the Information Technology Executive, the Marketing Manager and the Head of Mortgages and Property Development attend the Board Credit and Investments Committee meetings by invitation.

4. Board Human Resources and Governance Committee

The Board Human Resources Committee is tasked to look into issues relating to the formulation and approval of strategies and policies pertaining to the remuneration and terms and conditions of services of all Bank staff. The Committee is also mandated to consider and approve management recommendations on succession planning, management and development of human resources as well as reviewing the Bank's organisational structure.

It additionally has oversight on governance and in that regard assists the Board to accomplish the objectives of good governance through the evaluation and development of the Bank's governance practices, addressing transparency, independence, accountability, fiduciary responsibilities and management oversight. The Governance mandate was added with effect from the 1st of June 2017.

Composition

O. Jambwa	(Non- Executive Committee Chairman)
N. C. Chindomu	(Non- Executive Member)
C. Nyamutswa	(Non- Executive Member)
M. Dzumbunu	(Non- Executive Member)
A. Kandlela	(Executive Member)
G. Changunda	(Executive Member)

The Human Resources Executive attends the Board Human Resources and Governance Committee meetings by invitation.

5. Board Risk Committee

The Committee is responsible for overall identification, measurement, management and monitoring of all risks facing the Bank. In the main, the Risk Management Committee is responsible for the formulation of high level risk management policies and for inculcating a risk management culture throughout the Bank. The Committee is also responsible for overseeing the harmonization and integration of IT processes; for ensuring that the Disaster Recovery Plan is in place and to ensure that other issues relating to IT requirements of the Bank are timeously addressed.

The Committee is also tasked with the primary responsibility of monitoring the performance of the loan book and ensuring that it is proficiently managed and appropriately diversified to manage concentration risk. It also has the broad responsibility of ensuring that the Bank's potential and specific bad debts are adequately provided for and that the total loan book is in compliance with the lending guidelines and the Bank's Credit policy.

The Board reviewed this Committee in line with the changes to the Banking Act (Chapter 22:24) resulting in its split. With effect from the 1st of June, 2017, the Board now has a Risk Committee and Credit Review Committee as separate Committees.

Composition

N. C. Chindomu	(Non-Executive Committee Chairperson)
I. Ndlovu	(Non- Executive Member)
C. Nyamutswa	(Non-Executive Member)

The Chief Executive Officer, the General Manager Finance & Administration, the General Manager Risk, Security and Investigations, the Information Technology Executive and the Compliance Officer attend the Board Risk Committee meetings by invitation.

6. Board Credit Review Committee

The Board Credit Review Committee was established as a separate Committee in line with changes to the Banking Act with effect from the 1st of June, 2017.

The primary responsibility of the Committee is to assist the Board in discharging its oversight responsibility on the overall lending policies and lending activities of the Bank. The Committee reviews all lending by the Bank enabling it to monitor the performance of the Bank's loan book and that it is proficiently managed and appropriately diversified to manage concentration risk. It is also broadly responsible for ensuring that the Bank's potential and specific bad debts are adequately provided for and that the total loan book is in compliance with the lending guidelines and the Bank's Credit Policy.

Composition

C. Nyamutswa	(Non-Executive Committee Chairperson)
I. P. Ndlovu	(Non- Executive Member)
O. Jambwa	(Non-Executive Member)

The Chief Executive Officer and the General Manger Risk, Security & Investigations attend the Board Credit Review Committee meetings by invitation.

7. Statement of Compliance

The Bank complied with all statutes regulating its operations. However, there are still some gaps relating to compliance with the PECG Act. The Board thus continues to engage the shareholder on the Public Entities Corporate Governance Act compliance and its implications in some areas. The Bank also complied with RBZ directives on IFRS 9 implementation, liquidity management, capital adequacy as well as prudential lending guidelines.

8. Directors' attendance at Board and Committee meetings

8.1 Directors' attendance at Board and Committee meetings for the period 1 January to 30 June 2019

	BOARD MEETINGS (4)	AUDIT COMMITTEE (3)	CREDIT & INVESTMENTS COMMITTEE (2)	CREDIT REVIEW COMMITTEE (2)	HUMAN RESOURCES & GOVERNANCE COMMITTEE (2)	RISK COMMITTEE (2)	MININSTY OF FINANCE (1)	ANNUAL GENERAL MEETING (1)
M. DZUMBUNU	4	3	N/A	N/A	2	N/A	1	1
I.P. NDLOVU	3**	3	N/A	1	N/A	2	0**	1
O. JAMBWA	4	1	N/A	2	2	N/A	1	1
N. C. CHINDOMU	4	1	N/A	N/A	2	2	1	1
I. MVERE	4	3	2	N/A	N/A	N/A	1	1
M. MURERIWA	4	3	2	N/A	N/A	N/A	1	1
C. NYAMUTSWA	4	1	N/A	2	2	2	1	0**
A. KANDLELA*	4	3	2	2	2	2	1	1
G. CHANGUNDA *	4	3	2	N/A	2	2	1	1

Key
** - Leave of Absence granted| * - Executive Directors| N/A - Not applicable

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Notes	Unaudited Jun 19 ZWL$	Unaudited Jun 18 ZWL$
Interest income	5	10,250,098	8,431,336
Interest expense	6	(1,537,807)	(1,433,929)
Net interest income		**8,712,291**	**6,997,407**
Impairment of financial assets	10.6	2,342,374	536,388
Net interest income after impairment of financial assets		**11,054,665**	**7,533,795**
Fees and commission income	7	14,531,167	12,998,155
Dividend income		2,679	25,627
Loss on disposal of financial assets at fair value through other comprehensive income		(120,819)	-
Fair value gain on investment properties		10,971,568	-
Other operating income	8	6,889,568	1,183,948
Net operating income		**43,328,828**	**21,741,525**
Operating expenses	9	(18,629,698)	(13,627,827)
Profit for the period		**24,699,130**	**8,113,698**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Fair value gain on financial assets at fair value through other comprehensive income	12.1	1,504,738	331,667
Fair value gain on revaluation of non-current assets		29,144,708	-
Items that will be reclassified to profit or loss		-	-
Total comprehensive income for the period		**55,348,576**	**8,445,365**

DIRECTORS: M Dzumbunu (Chairperson) , I P Ndlovu (Deputy Chairperson), O Jambwa, I Mvere, M Mureriwa, C Nyamutswa, N C Chindomu, A Kandlela*, G Changunda* * Executive Directors

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Notes	Unaudited Jun 19 ZWL$	Restated Dec 18 ZWL$
ASSETS			
Cash and balances with banks		9,866,269	3,869,636
Balances with the Central Bank		39,112,614	52,589,708
Financial assets at amortised cost	10	193,030,669	189,173,621
Other assets	11	13,720,659	9,976,710
Financial assets at fair value through other comprehensive income	12.1	6,766,089	6,327,098
Investment properties	12.2	17,668,200	6,692,500
Property, plant and equipment	13	37,243,290	15,584,852
Intangible assets	14	10,672,472	4,131,844
TOTAL ASSETS		**328,080,262**	**288,345,969**
EQUITY AND LIABILITIES			
LIABILITIES			
Customer deposits	15	160,378,229	185,489,042
Other liabilities	16	28,741,581	15,022,843
TOTAL LIABILITIES		**189,119,810**	**200,511,885**
EQUITY			
Share capital	17.1	23,349,746	23,349,746
Mark-to-market reserves		5,846,511	5,045,828
Revaluation reserve		29,551,540	406,832
Revenue reserves	17.2	62,153,925	40,972,948
Functional currency translation reserve	17.3	18,058,730	18,058,730
TOTAL EQUITY		**138,960,452**	**87,834,084**
TOTAL EQUITY AND LIABILITIES		**328,080,262**	**288,345,969**

STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 30 JUNE 2019

	Share capital ZWL$	Capital contribution reserve ZWL$	Revenue reserve ZWL$	Mark-to-market reserve ZWL$	Revaluation reserves ZWL$	Functional currency translation reserve ZWL$	Total ZWL$
Balance at January 01, 2018	**21,428,770**	-	**31,188,062**	**1,422,348**	**406,832**	-	**54,446,012**
Impact of adopting IFRS 9	-		(5,182,973)				(5,182,973)
Profit for the year		-	16,888,835	-	-	-	16,888,835
Other comprehensive income							
Fair value gain on financial assets at fair value through other comprehensive income	-	-	-	3,623,480	-	-	3,623,480
Total other comprehensive income	-	-	**-**	**3,623,480**	-	-	**3,623,480**
Sub-totals	**21,428,770**	-	**42,893,924**	**5,045,828**	**406,832**	**-**	**69,775,354**
Change in functional currency	-	-	-	-	-	18,058,730	18,058,730
Dividend	-	-	(1,920,976)	-	-	-	(1,920,976)
Increase in share capital	1,920,976	-	-	-	-	-	1,920,976
Transfer to distributable reserves	-	-	-	-	-	-	-
Transfer to share capital	-	-	-	-	-	-	-
Balance at December 31, 2018	**23,349,746**	-	**40,972,948**	**5,045,828**	**406,832**	**18,058,730**	**87,834,084**
Profit for the period	-		24,699,130	-	-	-	24,699,130
Other comprehensive income							
Fair value gain on financial assets at fair value through other comprehensive income	-	-	-	1,504,739	29,144,707	-	30,649,447
Total other comprehensive income			-	**1,504,739**	**29,144,707**	**-**	**30,449,647**
Sub-totals	**23,349,746**	-	**65,672,078**	**6,550,567**	**29,551,540**	**-**	**143,182,661**
Dividend	-	-	(4,222,209)	-	-	-	(4,222,209)
Transfer to distributable reserves	-	-	704,056	(704,056)	-	-	-
Balance at June 30, 2019	**23,349,746**	**-**	**62,153,925**	**5,846,511**	**29,551,540**	**18,058,730**	**138,960,452**

ABRIDGED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Unaudited Jun 19 ZWL$	Unaudited Jun 18 ZWL$
Cash flow from Operating activities		
Profit for the period	24,699,130	8,113,698
Adjustments for non- cash items	(17,913,540)	272,213
Operating cash flow before changes in operating assets and liabilities	**6,785,590**	**8,385,911**
Changes in operating assets and liabilities	(15,130,805)	(12,668,652)
Net cash flows from operating activities	**(8,345,215)**	**(4,282,741)**
Cash flows from investing activities	864,754	(842,083)
Cash flows from financing activities	-	-
Net decrease in cash and cash equivalents	**(7,480,461)**	**(5,124,824)**
Cash and cash equivalents at the beginning of the period	56,459,344	47,740,064
Cash and cash equivalents at the end of the period	**48,978,883**	**42,615,240**

Notes to the Financial Statements
For the half year ended June 30, 2019

1. REPORTING ENTITY AND ITS NATURE OF BUSINESS

The People's Own Savings Bank is a corporate body established in terms of section 3 of the People's Own Savings Bank of Zimbabwe Act, [Chapter 24:22] of 1999, to provide savings, banking and financial services in Zimbabwe. The Bank accepts deposits that will accumulate interest for the benefit of the depositors and all deposits are government guaranteed. The Bank is also a member of the Deposit Protection Board. The Bank's head office is at Causeway Building, Corner 3rd Street/Central Avenue, Harare, Zimbabwe.

2. BASIS OF PREPARATION

2.1 Basis of preparation

The interim financial statements for the six months ended 30 June 2019 have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Bank's annual financial statements as at 31 December 2018.

The interim financial statements of the Bank for the six months ended 30 June 2019 were authorized for issue in accordance with a resolution of the directors on 21 August 2019.

2.2 Basis of measurement and Compliance with Legislation

These interim financial statements prepared on a historical cost basis (except for financial assets measured at fair value with changes presented in other comprehensive income, investment properties measured at fair value and revalued property, plant and equipment), agree with the underlying statutory records, in accordance with the accounting policies of POSB and in compliance with the disclosure requirements of the POSB Act (Chapter 24:22) and the Banking Act (Chapter 24:20).

2.3 Functional and presentation currency

These financial statements are presented in Zimbabwe dollars (ZWL$) being the currency of the primary economic environment in which the Bank operates.

Assets and liabilities denominated in foreign currencies are converted to ZWL$ at the rates of exchange ruling at the end of the reporting date. Transactions in other currencies are translated to ZWL$ at rates of exchange ruling at the time of the transactions.

In February 2019, the Government of Zimbabwe issued Statutory Instrument 33 of 2019, which directed that all assets and liabilities that were in United States dollars immediately before 20 February 2019 are deemed to have been in ZWL$ at a rate of 1:1 to the US$. The guidance issued by the Public Accountants and Auditors Board (PAAB) notes that this is contrary to IAS 21 on foreign currency translation. The government went on to issue Statutory Instrument 142 of 2009 which removed the multi-currency regime and re-introduced the Zimbabwe dollar. The Bank has reported the Statement of Profit or Loss and Other Comprehensive Income on the basis of the 1:1 in compliance with S.I.33 and in recognition of the multi exchange rates that were imputed in commercial transactions.

In order to comply with IAS 21 into the future, the Bank translated and restated the Statement of Financial Position as at 31 December 2018 at the commencement rate of ZWL2.5 to the US$. All foreign denominated transactions post this date are translated in accordance with IAS 21 at the official interbank rate. The Bank has recognised a net increase in assets of ZWL$ 18,058,730 arising from the rebasing to ZWL$ as at 31 December 2018 which has been recorded as a functional currency translation reserve.

2.3.1 Impact of change in functional currency

	Total Assets ZWL$	Total Liabilities ZWL$	Total Equity ZWL$
As previously stated as at 31 December 2018	269,297,131	199,521,777	69,775,354
Change in functional currency adjustments	19,048,838	990,108	18,058,730
Restated balance as at 31 December 2018	**288,345,969**	**200,511,885**	**87,834,084**

Restatement of Statement of Financial Position was necessitated by monetary policy changes brought about by SI 33 of 22 February 2019 and SI 142 of 24 June 2019. In view of the provisions of IAS 21, the indicators for a change in functional currency were there prior to 31 December 2018, and accordingly management has restated the Statement of Financial Position as at that date.

2.4 New and amended accounting standards

2.4.1 IFRS 16- Leases

The bank adopted IFRS 16, as issued by the International Accounting Standard Board (IASB) in January 2016. The standard came into effect on 01 January 2019. IFRS 16 replaced International Accounting Standard 17-Leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

3.0 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the financial statements are consistent with the ones used in the previous year, unless stated otherwise. A full set of the Bank's accounting policies are available in the Annual report, which is ready for inspection at the Bank's registered office.

Notes to the Financial Statements
For the half year ended June 30, 2019 (continued)

3.1 Going concern
The Board has reassessed the operations of the Bank and is confident that the Bank continues to be a going concern. Accordingly the financial statements continue to be prepared on a going concern basis.

3.2 Inventories
Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

3.3 Taxation
The Bank is exempt from income tax in terms of the Third Schedule 1(e) of the Income Tax Act, [Chapter 23:06].

3.4 Interest income and interest expense

3.4.1 Effective interest rate (EIR)
Interest income and expense are recognised in the statement of profit or loss and other comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments to:

- The gross carrying amount of the financial asset; or
- The amortised cost of the financial liability

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

3.4.2 Amortised cost and gross carrying amount
The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance or impairment allowance before 01 January 2018.

3.4.3 Calculation of interest income and expense
In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

3.5 Fees and commission income and expense
Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

The Bank earns fees and commission from a diverse range of services it provides to its customers. Fees earned for the provision of services over a period of time are accrued over that period of time.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees, for example loan establishment fees, are deferred and recognized over the duration of the loan. When it is unlikely that the loan will be drawn down, the loan commitment fees are recognized over the commitment period on a straight line basis. Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

3.6 Dividends
Dividend income is recognized when the Bank's right to receive income is established. Usually this is the ex-dividend date for equity securities. The Bank also recognises a liability to make cash or non-cash dividend distributions to equity holders when the distribution is authorized and approved by the shareholders. A corresponding amount is recognized directly in equity.

3.7 Financial Instruments: Financial assets and liabilities

3.7.1 Date of recognition
Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e. the date that the bank 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. Loans and advances to customers are recognised when funds are transferred to the customer's accounts. The bank recognises balances due to customers, when funds are transferred to the bank.

3.7.2 Initial measurement of financial instruments
The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at fair value through profit and loss, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price the Bank accounts for the profit or loss as described below.

When the transaction price of the financial instrument differs from fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the bank recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable or when the instrument is de-recognised.

3.7.3 Classification
The Bank has classified its financial assets in the following categories:

- Cash and cash equivalents,
- Financial assets measured at amortised cost and,
- Financial assets at fair value through other comprehensive income.

3.7.3.1 Cash and cash equivalents
Cash and cash equivalents include cash and balances with banks, unrestricted balances held with the Central Bank, unrestricted balances held with other banks and any highly liquid financial asset used by the Bank in the management of its short term commitments.

3.7.3.2 Financial assets at amortised cost
Financial assets at amortised cost include, loans and advances, money market assets and other receivables.

Loans and advances
Loans and advances include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

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

After initial measurement, loans and advances are subsequently measured at amortised cost using the effective interest rate 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 effective interest rate. The amortization is included in 'Interest income'.

The Bank reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the statement of comprehensive income.

Treasury bills and other money market assets
Treasury bills and other money market assets are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, money market assets are subsequently measured at amortised cost using effective interest rate, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The losses arising from impairment of such investments are recognized in the statement of profit or loss and other comprehensive income.

3.7.3.3 Financial assets at fair value through other comprehensive income
Equity investments classified as financial assets at fair value through other comprehensive income are those which are neither classified as held for trading nor designated at fair value through profit or loss.

At initial recognition, the Bank made an irrevocable election to present changes in fair value in "Other Comprehensive Income" rather than "Profit or loss." All fair value changes, excluding dividends that are a return on investment were included in "Other comprehensive income". There is no recycling of amount from "Other comprehensive income" to "Profit or loss" (e.g. on sale of an equity investment) nor are there any impairment requirements. However the entity might transfer the cumulative gain/loss within equity.

3.8 Property, plant and equipment

3.8.1 Recognition and measurement
An item of property, plant and equipment is initially recorded at cost and this includes all costs necessary to bring the asset to working condition for its intended use. This includes not only its original purchase price, but also cost of site preparation, delivery and handling, installation, related professional fees for architects and engineers and the estimated cost of dismantling and removing the asset and restoring the site.

Subsequent to initial recognition, IAS 16 provides entities with the option of accounting for its property, plant and equipment using the cost model or the revaluation model. Using the cost model, the asset is carried at cost less accumulated depreciation and impairment whereas using the revaluation model, the asset is carried at a revalued amount, being its fair value at the date of revaluation less subsequent depreciation and impairment, provided that fair value can be measured reliably.

When an item of property, plant and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the accumulated depreciation of the asset is eliminated against its gross carrying amount. The revaluation model is a fair value based model within the scope of IFRS 13. IAS 16, paragraph 34 still allows an entity to continue with the policy of determining revalued amounts at regular intervals even after adoption of IFRS 13.

The Bank is only required to apply IFRS 13 if the fair value of a revalued asset differs materially from its carrying amount. Frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. As such, the Bank's items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Land and buildings is measured at its revalued amounts regularly.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property, plant and equipment, and is recognized in the statement of profit or loss and other comprehensive income.

3.8.2 Depreciation
Depreciation is recognized in the statement of profit or loss and other comprehensive income on a straight line basis over the estimated useful lives of each part of item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives are as follows:

Motor Vehicles	5 years
Computer Equipment	3 years
Furniture, Fittings and Fixtures	10 years
Office Equipment	4 years
Buildings	40 years

Land is not depreciated. Depreciation methods, useful lives and residual values are re-assessed at each reporting date and adjusted if appropriate.

3.8.3 Reclassification to investment property
When the use of property changes from owner-occupied to investment property, the property is re-measured to fair value and re-classified as investment property. Any gain arising on re-measurement is recognized in the statement of profit or loss and other comprehensive income to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognized in other comprehensive income and presented in revaluation reserve in equity. Any loss is recognized immediately in the statement of profit or loss and other comprehensive income.

3.8.4 Derecognition
An item of property, plant and equipment is derecognized 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 the Statement of Comprehensive income in the year the asset is derecognised.

3.8.5 Subsequent costs
The cost of replacing a component of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day to day servicing of property, plant and equipment are recognized in the statement of profit or loss and other comprehensive income.

3.9 Investment properties
Investment properties are held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in production or supply of goods or services or for administrative purposes.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflect market conditions at the reporting date. Gains and losses arising from changes in the fair values of investment properties are included in the statement of profit or loss and other comprehensive income in the period in which they arise. Fair values are evaluated annually by an accredited external, independent valuer, applying a valuation model recommended by the International valuation standards committee.

Investment properties are derecognized 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. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the statement of profit or loss and other comprehensive income in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to

Notes to the Financial Statements
For the half year ended June 30, 2019 (continued)

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 Bank accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

3.10 Intangible assets - computer software

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. Software acquired separately is measured on initial recognition at cost. Following initial recognition, it is carried at cost less any accumulated amortization and accumulated impairment losses.

The nature of intangible assets is such that, in many cases, there are no additions to such an asset or replacement of part of it. Accordingly, most subsequent expenditures are likely to maintain the expected future economic benefits embodied in an existing intangible asset rather than meet the definition of an intangible asset and the recognition criteria in IAS 38. However in the case where a subsequent expenditure can be attributed directly to a particular intangible asset i.e. upgrade or enhancement of the core banking system, such expenditure is recognised in the carrying amount of the intangible asset.

The useful lives of intangible assets are assessed as either finite or infinite. The Bank only has intangible assets with finite useful lives. These assets are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss and other comprehensive income.

Amortisation is recognized in the statement of profit or loss and other comprehensive income on a straight line basis over the useful life of the software, from the date it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Amortisation methods, useful lives and residual lives are reviewed at each financial year-end and adjusted if appropriate. The estimated economic useful life applied is as follows:

Ethix core banking system	10 years
Risk and Treasury systems	10 years
Other software	3 years

3.11 Leases

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset. The Bank is not exposed to finance leases, neither as a lessee, nor as a lessor.

3.11.1 Bank as a lessee

Leases that do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which it is incurred.

3.11.2 Bank as a lessor

Leases where the Bank does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental income is recorded as earned based on the contractual terms of the lease in "Other Operating Income". Contingent rent is recognised as revenue in the period in which it is earned.

3.12 Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation and reliable estimate can be made of the amount of the obligation. The expenses relating to any provision is presented in the statement of profit or loss and other comprehensive income.

3.13 Employee benefits

3.13.1 Defined benefit plans

The Bank contributes to a defined benefit plan which is a post-employment benefit plan other than a defined contribution plan. The Bank's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for the service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted.

When sufficient information is not available to use defined benefit accounting for a multi-employer defined benefit plan, an entity accounts for the plan as if it were a defined contribution plan and discloses the following additional information:

- The fact that the plan is a defined benefit plan;
- The reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan;
- The expected contributions to the plan for the next annual reporting period;
- Information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any and
- An indication of the level of participation of the entity in the plan compared with other participating entities. Examples of measures that might provide such an indication include the entity's proportion of the total contributions to the plan or the entity's proportion of the total number of active members, retired members and former members entitled to benefits, if that information is available.

The Bank has accounted for the plan as if it were a defined contribution plan because of non- availability of sufficient information to use for defined benefit accounting.

3.13.2 Termination benefits

Termination benefits are recognized as an expense when the Bank is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

3.13.3 Short term employee benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus if the Bank 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.

3.14 Share capital and reserves

3.14.1 Share capital

The Bank's authorized share capital is determined by the board which can increase or decrease the number of shares authorized with the approval of the Minister of Finance and Economic Development. Where the board has fixed or increased the authorized share capital, it is published in the Government gazette with the approval of the Minister.

3.14.2 Other equity Reserves

Other equity reserves of the Bank comprise changes in fair value of financial assets at fair value through other comprehensive income and revaluation of non-current assets.

4.0 SEGMENT REPORTING

An operating segment is a component of the bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by management to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

4.1. Segment information

For management purposes, the Bank 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

Treasury banking services including money market and equities market investments. Products include repurchase agreements, certificates of deposits and call accounts for individuals and corporate clients.

Head office function

This is predominantly a central service function to the entire Bank and has departments such as Risk Management, Internal Audit, Human Resources, Finance and Administration, Information Technology and other central functions. All executive management are based at head office.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

The following table presents income and profit as well as certain asset and liability information regarding the Bank`s operating segments.

	HEAD OFFICE 2019 ZWL$	TREASURY 2019 ZWL$	CORPORATE BANKING 2019 ZWL$	RETAIL BANKING 2019 ZWL$	TOTAL 2019 ZWL$
Income					
Third party	9,311,989	2,242,131	281,817	29,150,516	40,986,453
Inter-segment	-	-	278,183	(278,183)	-
	9,311,989	**2,242,131**	**560,000**	**28,872,333**	**40,986,453**
Provision for impairment loss	64,644	(27,149)	79,496	2,225,384	2,342,375
Net operating income	**9,376,634**	**2,214,982**	**639,496**	**31,097,716**	**43,328,828**
Interest income	137,575	1,805,634	278,183	8,028,706	10,250,098
Interest expense	-	(1,019,913)	(71,628)	(446,266)	(1,537,807)
Net interest income	**137,575**	**785,721**	**206,555**	**7,582,440**	**8,712,291**
Provision for impairment loss	64,644	(27,149)	79,496	2,225,384	2,342,375
Fees, commission and other income	**9,174,414**	**1,456,410**	**75,263**	**21,568,075**	**32,274,162**
Total income	**9,376,634**	**2,214,982**	**361,313**	**31,375,899**	**43,328,828**
Segment Profit	**8,221,555**	**1,613,771**	**224,742**	**14,639,062**	**24,699,130**
Assets					
Additions to property, plant and equipment	176,586	-	-	41,495	218,081
Additions to intangible assets	-	-	-	-	-
Total assets	**96,026,798**	**109,717,297**	**249,684**	**122,086,483**	**328,080,262**
Total liabilities	**28,306,320**	**43,929,649**	**12,841,070**	**104,042,771**	**189,119,810**

	HEAD OFFICE 2018 ZWL$	TREASURY 2018 ZWL$	CORPORATE BANKING 2018 ZWL$	RETAIL BANKING 2018 ZWL$	TOTAL 2018 ZWL$
Income					
Third party	138,726	2,314,779	101,547	18,650,085	21,205,137
Inter-segment	-	-	106,470	(106,470)	-
	138,726	**2,314,779**	**208,017**	**18,543,615**	**21,205,137**
Provision for impairment loss	(240,625)	(321,027)	53,928	1,044,112	536,388
Net operating income	**(101,899)**	**1,993,752**	**261,945**	**19,587,727**	**21,741,525**
Interest income	142,412	1,671,637	106,470	6,510,817	8,431,336
Interest expense	-	(896,242)	(71,042)	(466,645)	(1,433,929)
Net interest income	**142,412**	**775,395**	**35,428**	**6,044,172**	**6,997,407**
Provision for impairment loss	(240,625)	(321,027)	53,928	1,044,112	536,388
Fees, commission and other income	**(3,686)**	**1,539,384**	**66,119**	**12,605,913**	**14,207,730**
Total income	**(101,899)**	1,993,752	155,475	19,694,197	21,741,525
Segment profit (Loss)	**(101,899)**	**1,552,346**	**129,374**	**6,533,877**	**8,113,698**
Assets					
Additions to property, plant and equipment		-	-	387,164	742,925
Additions to intangible assets	355,761	-	-	-	29,201
	29,201				
Total assets	**92,563,842**	**96,094,000**	**1,115,029**	**98,573,098**	**288,345,969**
Total liabilities	**40,544,986**	**42,092,277**	**11,515,003**	**106,359,619**	**200,511,885**

Notes to the Financial Statements
For the half year ended June 30, 2019 (continued)

	Jun-19 ZWL$	Jun-18 ZWL$
5. INTEREST INCOME		
Money market assets	1,805,634	1,671,637
Corporate loans	278,285	104,184
Individual loans	6,862,969	5,282,123
Mortgage loans	178,184	121,614
SME loans	15,532	18,051
Microfinance loans	803,941	868,233
Other Interest income	305,553	365,494
	10,250,098	**8,431,336**
6. INTEREST EXPENSE		
Individual accounts	433,524	420,325
Corporate accounts	67,346	69,510
Term deposits	1,032,655	942,561
SME deposits	4,282	1,533
	1,537,807	**1,433,929**
7. FEES AND COMMISSION INCOME		
Retail banking fees and commission	12,820,134	11,600,443
Credit related fees	1,516,088	1,292,254
Money Transfer Agency commission	194,946	105,458
	14,531,167	**12,998,155**
8. OTHER OPERATING INCOME		
Foreign exchange gain	5,854,190	28,467
Profit/ (Loss) on disposal of property, plant and equipment	29,950	(3,686)
Discount income on treasury bills	912,456	1,105,689
Miscellaneous income	92,972	53,478
	6,889,568	**1,183,948**
9. OPERATING EXPENSES		
Staff costs	8,506,107	5,794,569
Agency fees	544,718	662,004
Administration costs	8,105,282	6,314,466
Audit fees	309,868	23,406
Depreciation of property, plant and equipment	948,279	586,939
Amortisation of intangible assets	215,444	246,443
	18,629,698	**13,627,827**

Included in administration expenses are operating rental expenses amounting to $644,256 (2018: $586,297) relating to properties which the Bank leases under Operating lease agreements.

10. FINANCIAL ASSETS MEASURED AT AMORTISED COST

	Jun 19 ZWL$	Dec 18 ZWL$
10.1 LOANS AND ADVANCES		
Individual loans	116,872,773	113,371,835
Corporate loans	2,018,912	2,543,436
Mortgage loans	3,542,631	3,948,269
Microfinance loans	3,622,300	2,906,023
SME and Agribusiness loans	192,248	291,471
	126,248,866	**122,061,034**
Interest accrued	1,098,285	1,163,329
Gross total	**127,347,151**	**123,224,363**
Provision for impairment losses	(10,979,786)	(10,855,358)
	116,367,364	**112,369,005**
10.2 MONEY MARKET ASSETS		
Treasury bills	38,108,725	41,339,804
Debentures	41,878	41,878
Interbank placements	4,793,333	4,957,523
Government bonds	12,000,000	12,000,000
	54,943,936	**58,339,205**
Interest accrued	2,656,968	1,882,347
Gross total	**57,600,904**	**60,221,552**
Provision for impairment losses	(1,630,285)	(1,657,434)
	55,970,619	**58,564,118**
10.3 CAPITALISATION TREASURY BILLS		
Treasury bills	14,220,000	14,220,000
Interest accrued	678,333	577,778
Gross total	**14,898,333**	**14,797,778**
Provision for impairment losses	-	-
	14,898,333	**14,797,778**
10.4 OTHER RECEIVABLES (Agency outstanding settlements)		
Outstanding net settlements	6,070,664	6,158,686
Provision for impairment losses	(276,312)	(2,715,966)
	5,794,352	**3,442,720**
TOTAL FINANCIAL ASSETS AT AMORTISED COST	**193,030,670**	**189,173,621**

10.5 MATURITY ANALYSIS

	Jun-19 ZWL$	Dec-18 ZWL$
10.5.1 LOANS AND ADVANCES		
Maturing within 1 year	67,175,509	78,839,439
Maturing after 1 year but within 5 years	55,136,430	39,393,139
Maturing after 5 years	5,035,212	4,991,785
	127,347,151	**123,224,363**
10.5.2 MONEY MARKET ASSETS		
Maturing within 1 year	51,456,084	30,719,134
Maturing after 1 year but within 5 years	5,261,935	28,474,618
Maturing after 5 years	882,885	1,027,800
	57,600,904	**60,221,552**
10.5.3 OTHER RECEIVABLES		
Maturing within 1 year	1,200,000	1,200,000
Maturing after 1 year but within 5 years	4,870,664	4,958,686
Maturing after 5 years	-	-
	6,070,664	**6,158,686**

The maturity analysis is based on the remaining periods to contractual maturity from half year end.

10.6 PROVISION FOR IMPAIRMENT ALLOWANCES FOR FINANCIAL ASSETS AT AMORTISED COST

	Jun-19 ZWL$	Dec-18 ZWL$
At January 1	15,228,758	7,918,286
Impairment allowance of other receivables	-	1,690,465
Impact of adopting IFRS 9	-	5,182,973
Increase\(Decrease) in impairment losses	(2,342,375)	564,240
Bad debts written off	-	(127,206)
As at end of period	**12,886,383**	**15,228,758**
Specific provisions	12,886,383	15,228,758
General provisions	-	-
	12,886,383	**15,228,758**

10.6.1 PROVISION FOR IMPAIRMENT ALLOWANCES ON LOANS AND ADVANCES

	Corporate lending ZWL$	Individual Lending ZWL$	Total ZWL$
Jun-19			
At 1 January	7,954,361	2,900,997	10,855,358
Charge for the period	(5,848,323)	5,972,752	124,429
Bad debts written off	-	-	-
As at end of period	**2,106,038**	**8,873,749**	**10,979,787**
Specific provisions	2,106,038	8,873,749	10,979,787
General provisions	-	-	-
	2,106,038	**8,873,749**	**10,979,787**
Dec-18			
At 1 January	2,802,791	4,116,040	6,918,831
Impact of adopting IFRS 9	(1,419,868)	1,575,934	156,066
Adjusted balance as at 1 January	**1,382,923**	**5,691,974**	**7,074,897**
Charge for the year	6,698,644	(2,790,977)	3,907,667
Bad debts written off	(127,206)	-	(127,206)
As at end of period	**7,954,361**	**2,900,997**	**10,855,358**
Specific provisions	7,954,361	2,900,997	10,855,358
	7,954,361	**2,900,997**	**10,855,358**

10.6.2 PROVISION FOR IMPAIRMENT ALLOWANCES ON MONEY MARKET ASSETS

	Jun-19 ZWL$	Dec-18 ZWL$
At 1 January	1,657,434	999,455
Impact of adopting IFRS 9	-	877,276
Adjusted balance as at 1 Jan	**1,657,434**	**1,876,731**
Charge for the period	(27,149)	(219,297)
As at end of period	**1,630,285**	**1,657,434**
Specific provisions	1,630,285	1,657,434
	1,630,285	**1,657,434**

10.6.3 PROVISION FOR IMPAIRMENT ALLOWANCES ON OTHER RECEIVABLES

	Jun-19 ZWL$	Dec-18 ZWL$
At 1 January	2,715,966	1,690,465
Impact of adopting IFRS 9	-	4,149,631
Adjusted balance as at 1 Jan	**2,715,966**	**5,840,096**
Charge for the period	(2,439,654)	(3,124,130)
As at end of period	**276,312**	**2,715,966**
Specific provisions	276,312	2,715,966
	276,312	**2,715,966**

11. OTHER ASSETS

	Jun-19 ZWL$	Dec-18 ZWL$
Accounts receivable	8,819,432	7,349,499
Prepayments	2,961,720	338,658
Inventory	1,939,507	2,288,553
Agency outstanding net deposits	-	-
	13,720,659	**9,976,710**

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For the half year ended June 30, 2019 (continued)

12. ASSETS MEASURED AT FAIR VALUE

Jun-19	Quoted prices in active markets for identical assets (Level 1) ZWL$	Significant other observable inputs (Level 2) ZWL$	Significant unobservable inputs (Level 3) ZWL$	Total ZWL$
Recurring fair value measurements				
Equity securities:				
Communication	6,082,825	-	-	6,082,825
Financial services industry	-	-	180,680	180,680
Manufacturing industry	229,941	-	-	229,941
Other	272,644	-	-	272,644
Total equity securities	**6,585,410**	-	**180,680**	**6,766,090**
Investment properties:				
Residential - Bulawayo	-	594,000	-	594,000
Commercial - Kwekwe	-	594,000		594,000
Residential - Harare	-	1,584,000	-	1,584,000
Commercial - Masvingo	-	1,221,000	-	1,221,000
Commercial - Harare	-	13,675,000	-	13,675,000
	-	**17,668,200**	-	**17,668,200**
Total recurring fair value measurement	**6,585,410**	**17,668,200**	**180,680**	**24,434,290**

Dec-18	Quoted prices in active markets for identical assets (Level 1) ZWL$	Significant other observable inputs (Level 2) ZWL$	Significant unobservable inputs (Level 3) ZWL$	Total ZWL$
Recurring fair value measurements				
Equity securities:				
Communication	4,721,712	-	-	4,721,712
Financial services industry	-	-	68,590	68,590
Manufacturing industry	446,853	-	-	446,853
Other	1,089,943	-	-	1,089,943
Total equity securities	**6,258,508**	-	**68,590**	**6,327,098**
Investment properties:				
Residential - Bulawayo	-	225,000	-	225,000
Commercial - Kwekwe	-	225,000		225,000
Residential - Harare	-	600,000	-	600,000
Commercial - Masvingo	-	462,500	-	462,500
Commercial - Harare		5,180,000		5,180,000
	-	**6,692,500**	-	**6,692,500**
Total recurring fair value measurement	**6,258,508**	**6,692,500**	**68,590**	**13,019,598**

12.1 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Jun-19 ZWL$	Dec 18 ZWL$
Opening balance	6,285,944	2,663,708
Additions	-	-
Disposals	(1,177,837)	-
Fair value gain	1,504,739	3,623,480
Foreign exchange gain/(loss) on foreign shares	153,244	39,910
Closing balance	**6,766,089**	**6,327,098**

All quoted financial assets at fair value through other comprehensive income are recorded at fair value as at the reporting period. Unquoted financial assets at fair value through other comprehensive income are recorded at fair value using a valuation technique based on unobservable inputs and/ or assumptions.

12.2 INVESTMENT PROPERTIES

	Jun-19 ZWL$	Dec 18 ZWL$
Opening balance	6,692,500	430,000
Adjustment	4,133	755,138
Additions	-	72,625
Fair value gain	10,971,567	5,434,737
Closing balance	**17,668,200**	**6,692,500**

Investment properties were accounted for using the fair value model. Land from Barrington has been classified to Investment Property and is recorded at fair value.

13. SUMMARY OF PROPERTY, PLANT AND EQUIPMENT

	Jun-19 ZWL$	Dec-18 ZWL$
Opening carrying amount	15,584,852	5,606,670
Gross carrying amount	15,584,852	11,326,031
Accumulated depreciation	-	(5,719,361)
Revaluation Gain	22,388,636	9,274,593
Disposals	-	(15,890)
Additions at cost	218,081	1,915,219
Depreciation	(948,279)	(1,195,740)
Closing carrying amount	37,243,290	15,584,852
Gross carrying amount	37,243,290	15,584,852
Accumulated depreciation	-	-

14. INTANGIBLE ASSETS

	Jun-19 ZWL$	Dec-18 ZWL$
Opening carrying amount	**4,131,844**	**2,452,057**
Gross carrying amount	4,131,844	5,026,872
Accumulated amortisation	-	(2,574,815)
Revaluation Gain	6,756,072	1,977,270
Additions	-	204,645
Amortisation charge during the period	(215,444)	(502,128)
Closing carrying amount	**10,672,472**	**4,131,844**
Gross carrying amount	10,672,472	4,131,844
Accumulated amortisation	-	-

15. CUSTOMER DEPOSITS

	Jun-19 ZWL$	Dec-18 ZWL$
Individual accounts	85,033,847	91,063,058
Corporate accounts	29,791,406	41,586,687
Term deposits	45,552,976	52,717,593
	160,378,229	**185,489,042**

16. OTHER LIABILITIES

	Note	Jun-19 ZWL$	Dec-18 ZWL$
Interest payable on deposits	16.1	452,924	701,661
Accounts payable		25,133,662	11,798,033
Provisions		1,246,654	452,178
Deferred fee income		1,908,341	2,070,971
		28,741,581	**15,022,843**

16.1 INTEREST PAYABLE ON DEPOSITS

	Jun-19 ZWL$	Dec-18 ZWL$
Individual accounts	242,862	183,818
Corporate accounts	33,482	20,604
Term deposits	176,580	497,239
	452,924	**701,661**

17. SHARE CAPITAL AND RESERVES

17.1 Share capital

	Jun-19 ZWL$	Dec-18 ZWL$
Authorised		
50 million Ordinary shares at $1 each	50,000,000	50,000,000
Issued and fully paid		
Opening balance	23,349,746	21,428,770
Increase in share capital	-	1,920,976
Transfer from distributable reserves	-	-
Closing balance (Ordinary shares at $1 each)	**23,349,746**	**23,349,746**

Issued and fully paid share capital comprised of 23,349,746 (2018: 23,349,746) ordinary shares at $1 each.

17.2 Revenue reserve

Revenue reserves are created from retained earnings or accumulated profits of the Bank. Any dividend paid has the effect of reducing revenue reserves.

	Jun-19 ZWL$	Dec 18 ZWL$
Opening balance	40,972,948	31,188,062
Impact of adopting IFRS 9	-	(5,182,973)
Profit for the period	24,699,130	16,888,835
Dividend paid	(4,222,209)	(1,920,976)
Transfer from Mark-to-Market Reserve	704,056	-
Closing balance	**62,153,925**	**40,972,948**

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For the half year ended June 30, 2019 (continued)

17.3 Functional currency translation reserve

	Jun-19 ZWL$	Dec 18 ZWL$
Opening balance	18,058,730	-
Change in functional currency	-	18,058,730
Closing balance	**18,058,730**	**18,058,730**

17.4 Dividend
The Board of Directors approved a dividend of 18.08 ZWL cents per share in the half year of 2019 (2018: 8.22697 cents per share).

	Jun-19 ZWL$	Dec 18 ZWL$
Opening balance	-	-
Dividend declared	4,222,209	1,920,976
Dividend paid	-	(1,920,976)
Dividend payable as at June 30	**4,222,209**	**-**

18. EMPLOYMENT BENEFITS
The following pension contributions were made by the Bank during the reporting period:

	Jun-19 ZWL$	Jun 18 ZWL$
Communication and Allied Pension Fund	994,118	593,834
National Social Security Authority	61,911	63,937
	1,056,029	**657,771**

19. EMPLOYEES
The total number of persons permanently employed by the Bank during the reporting period was 330 (June 2018 - 334).

20. RELATED PARTY DISCLOSURES
The remuneration and loans of executive directors and other key management personnel during the period under review were as follows:

20.1.1 Compensation of key management personnel of the Bank

	Jun-19 ZWL$	Jun 18 ZWL$
Short-term employee benefits	676,704	705,072
Termination benefits	134,071	-
Post-employment benefits	96,418	86,763
	907,193	**791,835**

20.1.2 Loans to key management personnel of the Bank

	Jun-19 ZWL$	Dec 18 ZWL$
Mortgage loans	1,458,629	799,129
Personal loans	109,779	135,135
	1,568,408	**934,264**

Key management personnel refers to the Bank's executive management team which consists of the Chief Executive Officer, the General Manager Finance and Administration, the General Manager Banking Operations, the General Manager Risk, Security and Investigations, the Human Resources Executive, the Treasury Executive, the Information Technology Executive, the Head of Internal Audit, the Marketing Manager, the Compliance Officer, the Head of Mortgages and Property Development and the Company Secretary and Legal advisor.

Mortgage and personal loans are contractual and their repayments are up to date.

20.2 Non-executive directors' fees

	Jun-19 ZWL$	June 18 ZWL$
Fees and other emoluments	39,070	81,458

The above Board fees relate to retainer and sitting fees paid to seven non-executive directors.

20.3 Loans to non-executive directors
The Bank had no outstanding loans to non-executive directors (2018: Nil).

20.4 Terms and conditions of related party transactions
The above mentioned outstanding balances arose from the ordinary course of business. There were no loans to non-executive directors as at 30 June 2019 (2018: Nil).

21 FINANCIAL ASSETS AND LIABILITIES

21.1. IFRS 9 Financial instruments: Classification and measurement
In July 2014, the IASB issued IFRS 9 Financial Instruments, the standard which replaced IAS 39 for annual periods beginning on or after 1 January 2018, with early adoption being permitted. From a classification and measurement perspective, the new standard requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The Bank fully adopted IFRS 9: Financial Instruments with a date of initial application of 1 January 2018.

21.1.1 Business model assessment
The bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objectives.

The banks business model is not assessed on an instrument by instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business and the financial assets held within that business model are evaluated and reported to the entity's key management personnel.
- The risks that affect the performance of the business model (and the financial assets held within that business model) and in particular, the way those risks are managed.
- How managers of the business are compensated e.g., whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected.
- The expected frequency, value and timing of sales are also important aspects of the bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking worst case or stress case scenarios into account. If cash flows after initial recognition are realised in a way that is different from the bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information in assessing newly originated or newly purchased financial assets going forward.

21.1.2 The Solely Payment of Principal and Interest (SPPI) Test
As a second step of its classification process the bank assesses the contractual terms of financial instruments to identify whether they meet the SPPI test. Principal for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

21.1.3 Measurement
The Bank has classified all its financial assets based on the business model for managing the assets and the assets' contractual terms, measured at either

- Amortized cost,
- FVOCI, and
- FVPL

The Bank only measures loans and advances to customers, amounts due from banks, treasury bills, and other money market investments at amortized cost if both of the following conditions are met;

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The Bank measures its equity investments at fair value through other comprehensive income.

21.1.4 Impairment of financial assets
The Bank applies a three stage approach to measuring expected credit losses (ECLs) for the following categories of financial assets that are not measured at fair value through profit or loss:

- Debt instruments measured at amortised cost; and
- Loan commitments;
- Financial guarantee contracts; and
- Treasury investments held at amortised cost

No ECL is recognised on equity investments.
Financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

Stage 1: 12-months ECL
For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Lifetime ECL – Not credit impaired
For exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial assets) is recognised.

Stage 3: Lifetime ECL – Credit impaired
Exposures are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

21.1.5 Determining the stage for impairment
At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk

Notes to the Financial Statements
For the half year ended June 30, 2019 (continued)

of default occurring over the expected life between the reporting date and the date of recognition. The Bank considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward looking analysis.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Bank's investment grade criteria, or which are less than 30 days past due, are considered to have a low credit risk. The provision for doubtful debts for these financial assets is based on a 12-months ECL. When an asset is uncollectible, it is written off against the related provision. Such assets are written off after the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the Statement of Profit or loss.

21.1.6 Measurement of ECLs
ECLs are derived from unbiased and probability-weighted estimates of expected credit loss and are measured as follows:

- **Financial assets that are not credit-impaired at the reporting date:** as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows /due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive.

- **Financial assets that are credit impaired at the reporting date:** as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the Credit- adjusted effective interest rate.

- **Undrawn loan commitments:** as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive.

- **Financial guarantee contracts:** as the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

- ECLs are recognised using a provision for doubtful debts account in profit or loss. The Bank recognises the provision charge in the Statement of profit or loss, with the corresponding amount recognised in the Statement of financial position, with a reduction in the carrying amount of the asset in the Statement of financial position.

21.1.7 Derecognition of financial assets and liabilities due to substantial modification of terms and conditions
The Bank derecognizes a financial asset, such as a loan to a customer when the terms and conditions have been renegotiated to the extent that, substantially it becomes a new loan, with the difference recognised as a de-recognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as stage 1 for ECL measurement purposes unless the new loan is deemed Purchased or Originated Credit Impaired. When assessing whether or not to de-recognise a loan to a customer amongst others, the Bank considers the following factors;

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterpart

If the modification does not result in cash flows that are substantially different, the modification does not result in de-recognition. Based on the change in cash flows discounted at the original EIR the bank records a modification gain/loss to the extent that an impairment loss has not already been recorded.

21.1.8 Derecognition other than for substantial modification

Financial assets
A financial asset is derecognised when the rights to receive cash flows from the financial assets have expired. The Bank also derecognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition. The bank will have transferred the financial assets if and only if either the Bank has transferred its contractual rights to receive cash flows from the financial assets, or it retains the rights to the cash flows but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement. Pass through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial assets (the original assets) but assumes a contractual obligation to pay those cash flows to one or more entities.

Financial Liabilities
A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of the 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.

22. RISK MANAGEMENT AND CONTROL

22.1 Overview of the Bank's risk philosophy
The Bank methodically analyses and addresses all risks perceived to have a significant bearing on its operations with the ultimate goal of achieving sustained benefits. To this end, the Bank has embraced the Enterprise Wide Risk Management approach to ensure risks are holistically managed. Continued compliance with Basel requirements promotes stronger risk management and governance practices. In addition, periodic stress tests are conducted to assess the Bank's vulnerability to severe market conditions with the view of coming up with proactive measures to mitigate risk. In this regard, the Bank has a Quantitative Analysis Section to facilitate in-depth modelling and analysis.

In line with the anti-money laundering and counter financing of terrorism (AML/ CFT) standards, the bank is mandated to carry out periodic risk assessments. In this regard, the bank carried out AML/ CFT risk assessment to identify and assess the risks it is exposed to with the view of determining the appropriate risk based control measures. The Bank also conducts periodic risk management campaigns to continuously remind and equip staff on money laundering and other risk issues.

To assure continuation of the bank's core activities before, during, and most importantly after a major crisis event, the Bank has a comprehensive business continuity and disaster recovery plan that is periodically tested and enhanced.

The Bank has independent compliance and audit functions to ensure compliance with regulatory and statutory requirements. Through relevant Committees, the Board plays an important oversight role in ensuring a robust risk management philosophy.

22.2 Risk measurement and reporting systems
Risk assessment is based on probability of occurrence and severity of impact with the view of coming up with appropriate remedial actions.

The bank's risk management process encompasses the following dimensions:
- Identification;
- Measurement;
- Controlling and
- Monitoring.

22.3 Compliance
The Bank has an independent compliance function that ensures the bank complies with regulatory and statutory requirements. To this end, a comprehensive compliance matrix has been put in place to ensure all compliance issues are closely monitored and enforced. Through periodic risk management campaigns, the Bank continuously reminds and equips staff on anti-money laundering and other risky issues.

22.4 Excessive risk concentration
Concentration risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. In order to avoid excessive concentration risk, the Bank has set limits for its lending to ensure that an acceptable ratio is maintained between customer deposits and lending. These lending limits are also broken down into business sector limits to ensure the Bank is not over-exposed in any single business sector. Exposures are monitored on a daily basis and monthly using monthly management reports. Prudent sanctioning of any new lending is also a key mitigating factor.

22.5 Credit risk
Credit risk is principally controlled by establishing and enforcing authorization limits and by defining exposure levels to counterparties. Periodic monitoring of positions ensures that both prudential and internal thresholds are not exceeded thereby managing concentration risk. The Bank also remains cautious in its lending business to minimize exposure.

22.5.1 Exposure to credit risk
The bank's total exposure to credit risk as of June 30, 2019 was $205.92 million (Dec 2018: $204.40 million) before taking account of collateral of $18.76 million (Dec 2018: $10.94 million) net of such protection.

The following table shows the total exposure to credit risk for money market investments as well as loans and advances to customers by industry sector before the effect of mitigation through collateral agreements. Amounts shown are gross of impairment allowance.

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For the half year ended June 30, 2019 (continued)

SECTORAL ANALYSIS BY INDUSTRY

	Jun-19 ZWL$	%	Dec-18 ZWL$	%
Loans and advances to customers				
Individuals	123,487,857	59.98%	118,856,509	58.16%
Distribution	642,213	0.31%	1,253,971	0.61%
Manufacturing	1,261,702	0.61%	1,010,839	0.49%
Finance	619,994	0.30%	548,926	0.27%
Agriculture	262,547	0.13%	207,838	0.10%
Mining	-	0.00%	-	0.00%
Other services	1,072,837	0.52%	1,346,280	0.66%
	127,347,151	**61.84%**	**123,224,363**	**60.29%**
Money market Assets				
Financial Institutions	57,600,904	27.97%	60,221,552	29.46%
Capitalisation Treasury Bills				
Financial Institutions	14,898,333	7.24%	14,797,778	7.24%
Other receivables				
Outstanding Agency settlements	6,070,664	2.95%	6,158,686	3.01%
Total credit risk exposure	**205,917,054**	**100.00%**	**204,402,379**	**100.00%**

22.5.2 Credit quality by class of financial asset

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class for all financial assets exposed to credit risk, based on the Bank's internal credit rating system. The amount represented is gross of impairment allowances.

June - 19	Neither past due nor impaired					
	High grade	Standard Grade	Substandard Grade	Past due but not impaired	Impaired	Total
Type of financial asset	ZWL$	ZWL$	ZWL$	ZWL$	ZWL$	ZWL$
Loans and advances	112,519,794	7,177,053	635,989	650,605	6,363,710	127,347,151
Interbank placements	4,038,762	-	-	-	793,332	4,832,095
Treasury bills	55,366,802	-	-	-	-	55,366,802
Government bonds	12,256,388					12,256,388
Debentures	43,953	-	-	-	-	43,953
Other receivables	-	6,070,664	-	-	-	6,070,664
Total Credit exposure	**184,225,698**	**13,247,717**	**635,989**	**650,605**	**7,157,043**	**205,917,052**

Dec - 18	Neither past due nor impaired					
	High grade	Standard Grade	Substandard Grade	Past due but not impaired	Impaired	Total
Type of financial asset	ZWL$	ZWL$	ZWL$	ZWL$	ZWL$	ZWL$
Loans and advances	112,380,805	3,715,782	547,699	484,675	6,095,402	123,224,363
Interbank placements	4,030,725	-	-	-	957,553	4,988,248
Treasury bills	57,818,721	-	-	-	-	57,818,721
Government bonds	12,169,533					12,169,533
Debentures	42,828	-	-	-	-	42,828
Other receivables	-	-	-	-	6,158,686	6,158,686
Total Credit exposure	**186,442,612**	**3,715,782**	**547,699**	**484,675**	**13,211,611**	**204,402,379**

22.5.2.1 Concentrations of credit risk

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk by class of financial assets is shown in the table below:

	Loans and advances	Treasury investments	Other receivables
Carrying amount	127,347,151	57,600,904	6,070,664
Amount committed	127,347,151	57,600,904	6,070,664
Concentration by sector			
Corporate	2,535,658	-	6,070,664
Individual	117,844,751	-	-
Mortgage	4,009,345	-	-
Microfinance	2,604,422	-	-
SME and Agribusiness	352,975	-	-
Government	-	13,072,211	-
Central Bank	-	39,274,978	-
Other Banks	-	5,253,715	-
Total	**127,347,151**	**57,600,904**	**6,070,664**

Treasury investments excludes Capitalisation treasury bills.

22.5.2.2 Significant Increase in Credit Risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and credit assessment and including forward-looking information.

The objective is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- The risk of default occurring at origination of the financial asset, with
- The risk of default occurring at the reporting date.

The Bank applies the 30 days past due rebuttable presumption to measure significant increase in credit risk , thus credit risk on a financial asset is assumed to have increased significantly since initial recognition when contractual payments are more than 30 days past due.

Using its credit judgment and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

The Bank has not used the low credit risk exemption for any financial instruments in the half year ended 30 June 2019.

22.5.2.3 Credit Risk Grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring of the respective exposures involves the following:

- Client audited financial statements, management accounts and budgets
- Client's past performance of other previously availed facilities to determine repayment behaviour
- Client's source of income to assess ability to repay loan
- Client's trade reference checks
- Client's credit rating using credit rating score card and
- Client's employment status, duration of employment and position

22.5.2.4 Modified Financial Assets

The contractual terms of a loan may be modified for a number of reasons, some of which are;

- Re-financing of an existing impaired loan as means of rehabilitating the obligor where it is concluded that there is strong evidence the obligor requires more funding for operations to break even, make positive cash flows and enable repayment of the loan. This is mostly performed in instances where additional collateral from the borrower has been identified and is pledged on the loan.
- Issuing of a new loan to a known delinquent obligor based on the fact that the new loan has adequate collateral although there is strong evidence the obligor may default based on past performance.

An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out below:

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- The risk of default occurring at origination based on the original contractual terms, with
- The risk of default occurring at the reporting date based on the modified terms. At the reporting date, the Bank recognises the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit impaired financial assets. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the Bank shall measure the loss allowance for that financial instrument at an amount equal to 12 month expected credit losses.

If the credit risk on that financial instrument has increased significantly since initial recognition, the Bank shall measure the loss allowance for such a financial instrument at an amount equal to the lifetime expected credit losses.

A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

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22.5.2.5 Definition of Default

In line with regulatory requirement, the Bank considers a financial asset to be in default when the obligor is past due more than 90 days on any material credit obligation to the Bank. In assessing whether a borrower is in default, the Bank considers the following elements:

- The credit obligation has been put on a non-accrued interest status;
- The Bank has recognised a specific credit adjustment resulting from a significant perceived decline in credit quality subsequent to the Bank taking on the exposure;
- The Bank consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness or postponement of principal, interest or relevant fees;
- The Bank has filed for the obligor's bankruptcy or a similar order in respect of an obligor's credit obligation to the Bank and
- The obligor has sought or has been placed in bankruptcy or similar protection where this would avoid or delay repayment of a credit obligation to the Bank.

22.5.2.6 Incorporation of Forward Looking Information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

Forward looking information in the form of macroeconomic forecasts was not considered in the determination of ECL and in the determination of significant increase in credit risk as the forward looking information failed to pass the statistical tests that would enable the Bank to accurately determine the correlations between probability of default changes and changes in macro-economic conditions.

The following macro variables were taken into consideration, but failed to pass the statistical test;

- Inflation
- Gross domestic product
- Unemployment
- Corporate tax
- Personal income tax

22.5.2.7 Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

22.5.2.7.1 Basis of inputs and assumptions and the estimation techniques used to measure ECL

- **Stage 1:** A 12 month expected loss provision is held by the Bank for all performing assets which have not deteriorated significantly in quality since origination.
- **Stage 2:** A lifetime expected loss provision is held by the Bank against assets that have experienced significant increase in credit risk but for which there is not yet objective evidence of impairment
- **Stage 3:** A lifetime expected loss provision is held by the Bank for assets for which there is objective evidence of impairment, similar to the provision under the incurred loss model.

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

The table below shows the PD percentages which were applied to each internal credit risk grade as at 30 June 2019.

Internal credit rating table

Internal Credit Rating	Description	Average 12 Months PDs
1	Pass- Prime Grade	0.06
2	Pass - Strong	0.05
3	Pass - Satisfactory	1.00
4	Special Mention - Moderate	0.14
5	Special Mention - Fair	1.00
6	Special Mention - Speculative	0.15
7	Special Mention - Speculative	1.00
8	Substandard	1.00
9	Doubtful	1.00
10	Loss	1.00

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

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

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for overdrafts that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Where ECL assessments are carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include instrument type and risk grading. The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

22.5.2.8 Reconciliation of loss allowance relating to financial assets subsequently measured at amortised cost

The following table presents a reconciliation from the opening balance to the closing balance of the loss allowance for loans and advances at amortised cost and how significant changes in gross carrying amount contributed to changes in the loss allowance:

22.5.2.8.1 Expected Credit loss allowances for loans and advances measured at amortised cost

	12 month ECL		Lifetime ECL Not credit impaired		Lifetime ECL Credit Impaired		Total	
	Gross carrying amount	ECL Allowance	Gross carrying amount	ECL Allowance	Gross carrying amount	ECL Allowance	Gross carrying amount	ECL Allowance
At 1 January 2019	**112,380,804**	**4,740,310**	**1,697,576**	**215,226**	**9,145,983**	**5,899,822**	**123,224,363**	**10,855,358**
Transfer to Lifetime ECL (Not Credit- Impaired)	(5,022,776)	(236,451)	4,534,575	513,151	(212,848)	(9,893)	(701,049)	266,807
Transfer to Lifetime ECL (Credit-Impaired)	(1,471,425)	(48,206)	(221,635)	(23,083)	885,647	59,346	(807,413)	(11,943)
Changes due to Modifications that did not result in Derecognition	(17,692,127)	(840,552)	(588,183)	(94,161)	(1,812,058)	(1,003,203)	(20,092,368)	(1,937,916)
Changes in Models or Risk Parameters	-	-	-	-	-	-	-	-
New Financial Assets or originated purchase	39,736,644	1,662,898	999,237	145,170	1,619,358	1,555,905	42,355,239	3,363,973
Derecognition	(15,411,326)	(592,123)	(116,875)	(11,228)	(1,103,420)	(953,141)	(16,631,621)	(1,556,492)
Unwinding discount	-	-	-	-	-	-	-	-
Write-offs	(80,050)	(80,050)	(17,308)	(17,308)	(31,228)	(31,228)	(128,586)	(128,586)
Recoveries of amounts previously written off	80,050	80,050	17,308	17,308	31,228	31,228	128,586	128,586
At 30 June 2019	**112,519,794**	**4,685,876**	**6,304,695**	**745,075**	**8,522,662**	**5,548,835**	**127,347,151**	**10,979,787**

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The following table presents a reconciliation from the opening balance to the closing balance of the loss allowance for treasury investments at amortised cost and how significant changes in gross carrying amount contributed to changes in the loss allowance:

22.5.2.8.2 Expected Credit loss allowances for treasury investments measured at amortised cost

	12 month ECL		Lifetime ECL Not credit impaired		Lifetime ECL Credit Impaired		Total	
	Gross carrying amount	ECL Allowance	Gross carrying amount	ECL Allowance	Gross carrying amount	ECL Allowance	Gross carrying amount	ECL Allowance
At 1 January 2019	**59,264,029**	**877,276**	-	-	**957,523**	**957,523**	**60,221,552**	**1,657,434**
Transfer to Lifetime ECL (Not Credit- Impaired)	-	-	-	-	-	-	-	-
Transfer to Lifetime ECL (Credit-Impaired)	-	-	-	-	-	-	-	-
Changes due to Modifications that did not result in Derecognition	1,275,583	183,693	-	-	(164,190)	(164,190)	1,111,393	19,503
Changes in Models or Risk Parameters	-	-	-	-	-	-	-	-
New Financial Assets or originated purchase	10,252,081	128,151	-	-	-	-	10,252,081	128,151
Derecognition	(13,984,121)	(174,802)	-	-	-	-	(13,984,121)	(174,802)
Unwinding discount	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-	-	-	-	-
At 30 June 2019	**56,807,571**	**836,952**	-	-	**793,333**	**793,333**	**57,600,904**	**1,630,285**

Capitalisation treasury bills were not subjected to the ECL allowance calculation.

The following table presents a reconciliation from the opening balance to the closing balance of the loss allowance for other receivables (Agency outstanding net deposits) measured at amortised cost and how significant changes in gross carrying amount contributed to changes in the loss allowance:

22.5.2.8.3 Expected Credit loss allowances for other receivables measured at amortised cost

	12 month ECL		Lifetime ECL Not credit impaired		Lifetime ECL Credit Impaired		Total	
	Gross carrying amount	ECL Allowance	Gross carrying amount	ECL Allowance	Gross carrying amount	ECL Allowance	Gross carrying amount	ECL Allowance
At 1 January 2019	-	-	-	-	**6,158,686**	**2,715,967**	**6,158,686**	**2,715,967**
Transfer to Lifetime ECL (Not Credit- Impaired)	-	-	-	-	-	-	-	-
Transfer to Lifetime ECL (Credit-Impaired)	-	-	-	-	-	-	-	-
Changes due to Modifications that did not result in Derecognition	-	-	-	-	(88,022)	(4,755)	(88,022)	(4,755)
Changes in Models or Risk Parameters	-	-	-	-	-	(2,434,900)	-	(2,434,900)
New Financial Assets or originated purchase	-	-	-	-	-	-	-	-
Derecognition	-	-	-	-	-	-	-	-
Unwinding discount	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-	-	-	-	-
At 30 June 2019	-	-	-	-	**6,070,664**	**276,312**	**6,070,664**	**276,312**

22.5.2.8.4 Allowances for Credit losses on financial assets measured at fair value through other comprehensive income

The following loss allowances have been accumulated in other comprehensive income for financial assets measured at fair value through other comprehensive income

Category	2019
Loss allowance for financial assets measured at fair value through other comprehensive income	Nil

22.5.3 Credit quality Analysis

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class for all financial assets exposed to credit risk, based on the Bank's internal credit rating system. The amount represented is gross of impairment allowances.

22.5.3.1 Credit quality of financial assets measured at amortised cost

	12- Month ECL	Lifetime ECL Not credit impaired	Lifetime ECL Credit impaired	Purchased/ originated Credit impaired	Total
Financial assets at amortised cost (loans and advances) Grades					
Grade 1: Standard	112,519,794	-	-	-	112,519,794
Grade 2: Special mention	-	6,304,695	872,358	-	7,177,053
Grade 3: Substandard	-	-	635,989	-	635,989
Grade 4: Doubtful	-	-	650,605	-	650,605
Grade 5: Loss	-	-	6,363,710	-	6,363,710
Carrying amount	**112,519,794**	**6,304,695**	**8,522,662**	-	**127,347,151**

	12- Month ECL	Lifetime ECL Not credit impaired	Lifetime ECL Credit impaired	Purchased/ originated Credit impaired	Total
Financial assets at amortised cost (Treasury investments)					
Grade 1: Standard	56,807,571	-	-	-	56,807,571
Grade 2: Special mention	-	-	-	-	-
Grade 3: Substandard	-	-	-	-	-
Grade 4: Doubtful	-	-	-	-	-
Grade 5: Loss	-	-	793,333	-	793,333
Carrying amount	**56,807,571**	**-**	**793,333**	-	**57,600,904**

	12- Month ECL	Lifetime ECL Not credit impaired	Lifetime ECL Credit impaired	Purchased/ originated Credit impaired	Total
Financial assets at amortised cost (Agency outstanding net deposits)1:					
Grade 1: Standard	-	-	-	-	-
Grade 2: Special mention	-	-	-	-	-
Grade 3: Substandard	-	-	-	-	-
Grade 4: Doubtful	-	-	-	-	-
Grade 5: Loss	-	-	6,070,664	-	6,070,664
Carrying amount	-	-	**6,070,664**	-	**6,070,664**

Treasury investments excludes Capitalisation treasury bills.

22.5.4 Collateral held

The Bank holds collateral and other credit enhancements against its credit exposures.

The following table sets out the maximum exposure on financial instruments within the scope of IFRS 9's impairment model to credit risk as well as the impact of collateral and other credit enhancements on credit risk.

Credit exposure per class of financial instrument	Maximum exposure to credit risk	Recognised loss allowance	Collateral held as security	Other credit enhancements	Principal type of collateral held
Loans and advances	127,347,151	10,979,786	6,368,051	-	Mortgage bond over immovable property
Treasury investments	72,499,237	1,630,285	4,192,259	-	Treasury bills
Other receivables	6,070,644	276,312	8,200,000	-	Mortgage bond

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For money market assets, treasury bills are held
- For loans and advances, mortgage bonds over immovable properties, cash covers, treasury bills and notarial general covering bonds are held.

The Bank held collateral as detailed below:

	Jun-19 ZWL$	Dec 18 ZWL$
Mortgage bonds over immovable property	14,568,051	6,538,246
Treasury bills	4,192,259	4,400,000
	18,760,310	**10,938,246**

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

22.5.5 Collateral Repossessed
The Bank did not take possession of collateral in the form of immovable property during the period ending 30 June 2019 (2018: $37,379).

22.5.6 Assets Renegotiated
There were nil renegotiated loans during the 6 months to 30 June 2019.

22.5.7 Commitments and guarantees
To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the bank.

As at June 30, 2019, the Bank had extended guarantees of $2,000 (2018: $158,893).

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the bank would pay if the guarantee is called upon. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment. In both cases, the maximum risk exposure is significantly greater than the amount recognised as a liability in the statement of financial position.

22.6 Liquidity risk
This is the risk of the Bank being unable to meet its current and future financial obligations timely. Liquidity risk is inherent in the mismatch caused by borrowing short and lending long. In acute situations, it is evidenced by failure to repay depositors on demand or inability to fund proceeds of credit that has been extended.

In the management of this risk, the Bank endeavors to preserve reliable, stable and cost effective sources of funds in order to timely meet all financial obligations as they fall due. The Bank considers high quality assets, strong earnings and solid capital adequacy ratios as key for its success. The Bank also maintains a portfolio of liquid assets comprising inter-Bank placements and marketable securities that are easily convertible into cash, in its readiness for unforeseen and short term demands on liquidity.

The Bank's management of liquid assets is designed to ensure adequate liquidity even in very highly stressed scenarios. The Bank also manages this risk through adherence to assets and liability management processes and requirements which are driven by the relevant management and Board committees.

22.6.1 Liquidity Ratio
The Bank is required to keep a minimum regulatory liquidity ratio of 30%, according to the Reserve Bank of Zimbabwe guidelines. The liquid asset ratio was 62% as at 30 June 2019 (60%: December 2018). Capitalisation treasury bills are excluded from liquid assets.

22.6.2 Liquidity Gap Analysis
The following liquidity gap analysis shows the extent to which the Bank was exposed to liquidity risk as at June 30, 2019;

June - 19	Up to 1 month ZWL$	1 to 3 months ZWL$	3 months to 1 year ZWL$	1 year to 5 years ZWL$	Above 5 years ZWL$	Total ZWL$
ASSETS						
Cash and cash equivalents	48,978,882	-	-	-	-	48,978,882
Advances	7,960,010	17,808,091	41,407,409	55,136,430	5,035,212	127,347,151
Investments	8,385,785	6,289,339	36,780,960	5,261,935	15,781,218	72,499,238
	65,324,678	**24,097,430**	**78,188,369**	**60,398,365**	**20,816,430**	**248,825,272**
LIABILITIES						
Deposits	63,785,233	11,275,198	52,272,969	33,044,830	-	160,378,229
	63,785,233	**11,275,198**	**52,272,969**	**33,044,830**	-	**160,378,229**
Liquidity gap	1,539,444	12,822,232	25,915,400	27,353,535	20,816,430	88,447,043
Cumulative gap	1,539,444	14,361,676	40,277,075	67,630,611	88,447,041	88,447,043

Dec - 18	Up to 1 month ZWL$	1 to 3 months ZWL$	3 months to 1 year ZWL$	1 year to 5 years ZWL$	Above 5 years ZWL$	Total ZWL$
ASSETS						
Cash and cash equivalents	56,459,344	-	-	-	-	56,459,344
Advances	8,725,730	21,148,703	48,965,005	39,393,139	4,991,786	123,224,363
Investments	2,972,784	2,015,458	25,730,893	28,474,618	15,825,577	75,019,330
	68,157,858	**23,164,161**	**74,695,898**	**67,867,757**	**20,818,363**	**254,703,037**
LIABILITIES						
Deposits	18,228,165	40,709,674	60,225,630	66,325,573	-	185,489,042
	18,228,165	**40,709,674**	**60,225,630**	**66,325,573**	-	**185,489,042**
Liquidity gap	49,929,693	(17,545,512)	14,470,269	1,542,184	20,817,363	69,213,995
Cumulative gap	49,929,693	32,384,180	46,854,449	48,396,633	69,213,995	69,213,995

22.7 Market risk
Market risk is the potential impact on earnings caused by unfavorable changes in market prices, interest rates and foreign exchange rates.

22.8 Price risk
Equity price risk is the possibility of loss arising from adverse movements in equity prices due to market volatility. This has the effect of affecting the fair value of scrip investments and hence the size of the Bank's statement of financial position and shareholder's value. Changes on the equity market would have effect on financial assets at fair value through other comprehensive income and mark-to-market reserves on the Statement of financial position through fluctuations in the fair values of the equities as shown in the information below

Jun - 19	Fair value as at 30-06-2019 ZWL$	10% increase in price ZWL$	5% Decrease in price ZWL$
Financial assets at fair value through other comprehensive income	6,766,089	7,442,698	6,427,785
Increase/(decrease)		676,609	(338,305)

Dec - 18	Fair value as at 31-12-2018 ZWL$	10% increase in price ZWL$	5% Decrease in price ZWL$
Financial assets at fair value through other comprehensive income	6,327,098	6,959,807	6,010,743
Increase/(decrease)		632,710	(316,356)

22.9 Interest rate risk
This mostly emanates from re-pricing risk. This risk relates to the timing differences between the ability to adjust rates earned on assets or those paid on liabilities to changes in market interest rates, which would result in a negative impact on interest income.

While there are no absolute measures to control the effects of interest rate movements, protection is offered by managing the maturity profile of customer balances and investment holdings and maintaining margins, wherever possible, as changes occur. The Bank manages interest rate exposures through limits, policy guidelines and control mechanisms as well as tools and techniques formulated by the Assets and Liability committee. Amongst the tools used to measure and manage interest rate risk exposures are the gap analysis, duration matching and use of the rate sensitive assets to rate sensitive liabilities (RSA/RSL).

The following interest rate re-pricing gap analysis shows the extent to which the Bank was exposed to interest rate risk as at June 30, 2019;

June - 19	Up to 1 month ZWL$	1 to 3 months ZWL$	3 months to 1 year ZWL$	1 year to 5 years ZWL$	Above 5 years ZWL$	Non- interest bearing ZWL$	Total ZWL$
ASSETS							
Cash and cash equivalents	-	-	-	-	-	48,978,882	48,978,882
Advances and other assets	7,960,010	17,808,091	41,407,409	55,136,430	5,035,212	8,535,225	135,882,376
Investments	8,385,785	6,289,339	36,780,960	5,261,935	15,781,218	22,804,004	95,303,242
Property, plant and equipment	-	-	-	-	-	37,243,290	37,243,290
Intangible assets	-	-	-	-	-	10,672,472	10,672,472
	16,345,795	**24,097,430**	**78,188,369**	**60,398,365**	**20,816,430**	**128,233,873**	**238,080,262**
EQUITY AND LIABILITIES							
Deposits and other liabilities	63,785,233	11,275,198	52,272,969	33,044,830	-	28,741,581	189,119,812
Capital and Reserves	-	-	-	-	-	138,960,452	138,960,452
	63,785,233	**11,275,198**	**52,272,969**	**33,044,830**	-	**167,702,033**	**238,080,262**
Interest rate							-
re-pricing gap	(47,439,438)	(12,822,232)	25,915,400	27,353,535	20,816,430	(39,468,159)	-
Cumulative gap	(47,439,438)	(34,617,206)	(8,701,806)	18,651,729	39,468,159	-	

Dec - 18	Up to 1 month ZWL$	1 to 3 months ZWL$	3 months to 1 year ZWL$	1 year to 5 years ZWL$	Above 5 years ZWL$	Non- interest bearing ZWL$	Total ZWL$
ASSETS							
Cash and cash equivalents	-	-	-	-	-	56,459,344	56,459,344
Advances and Other assets	8,725,730	21,148,703	48,965,005	39,393,139	4,991,786	2,564,072	125,788,435
Investments	2,972,784	2,015,458	25,730,893	28,474,618	15,825,577	11,362,164	86,381,494
Property, plant and equipment	-	-	-	-	-	15,584,852	15,584,852
Intangible assets	-	-	-	-	-	4,131,844	4,131,844
	11,698,514	**23,164,161**	**74,695,898**	**67,867,757**	**20,817,363**	**90,102,276**	**288,345,969**
EQUITY AND LIABILITIES							
Deposits and other liabilities	18,228,165	40,709,674	60,225,630	66,325,573	-	15,429,800	200,918,842
Capital and Reserves	-	-	-	-	-	87,427,127	87,427,127
	18,228,165	**40,709,674**	**60,225,630**	**66,235,573**	-	**102,856,927**	288,345,969
Interest rate re-pricing gap	(6,529,651)	(17,545,512)	14,470,269	1,542,184	20,817,363	(12,754,651)	-
Cumulative gap	(6,529,651)	(24,075,164)	(9,604,895)	(8,062,712)	12,754,651	-	-

Notes to the Financial Statements
For the half year ended June 30, 2019 (continued)

22.10 Foreign exchange risk
Foreign exchange risk is the risk that arises from adverse changes or movements in foreign exchange rates and emanates from a mismatch between foreign currency inflows and outflows.

The foreign currency position of the Bank expressed in ZWL$ as at June 30, 2019 was as follows;

Jun - 19	TOTAL (ZWL$)	ZWL	USD	ZAR	BWP	GBP	EURO	JPY
Total assets	**328,080,261**	312,275,682	12,767,126	2,678,907	4,387	18,909	332,464	2,787
Total equity and liabilities	**328,080,261**	325,079,726	2,575,051	579,884	730	3,104	(158,234)	-

Dec - 18	TOTAL (ZWL$)	ZWL	USD	ZAR	BWP	GBP	EURO	JPY
Total assets	**288,345,969**	284,236,354	2,119,920	1,823,117	1,547	56,606	107,400	1,026
Total equity and liabilities	**288,345,969**	288,109,866	33,684	265,422	286	1,169	(64,459)	-

The exchange rates applicable at the end of the half year were as follows:

	Jun-19
USD	6.6220
ZAR	2,1403
PULA	1.6038
GBP	8.3914
EURO	7.5252
JPY	16.2581

22.11 Operational risk
Operational risk is inherent to the Bank, and is over and above, credit, interest rate exposure and capital risks. Operational risk relates specifically to fraud, unauthorised transactions by employees, by persons outside the Bank; errors, omissions and commissions in transaction processing, system and process failure and breaches on the Bank's system of internal control.

The operational control environment of the Bank is extremely important, especially given high volumes of transactions that pass through the system each day. This gives rise to the need for substantial and effective controls to be complied with at all times.

The Bank manages operational risk through risk transfer (insurance cover), procedural guidelines, policies, staff training, segregation of duties, internal audits and business continuity management that includes business continuity and disaster recovery plans.

22.12 Reputational risk
Reputational risk is the risk of loss arising from the adverse perception of the image of the Bank by customers, counterparties, investors or regulators. This is particularly relevant on two fronts; Firstly, with the ethical stance that the Bank takes and, secondly, the fact that competition entails that the Bank has to convince customers that it is credible and can offer at least the basic, secure services expected of high quality banks. The Bank is also susceptible to the reputation of its wider structural organisation, and its mandate of ensuring financial inclusion.

The Bank sees this risk as a knock-on effect of other risks materializing. Reputational risk is seen as compounding the effect of other risks, such as strategy, fraud and regulatory risk. Thus it has not been modeled in isolation but is considered throughout the Bank's ongoing risk review process, and is built into the assessment of other risks.

The operational systems and controls in place help to mitigate this risk. The loyal customer base also provides some immunity although this could be challenged in the event of the Bank's reputation suffering.

22.13 Capital risk
This refers to the risk that the Bank's capital may not be adequate to absorb all the losses that it may incur. In this regard, the Bank embarks on risk based capital planning through the internal capital adequacy assessment process (ICAAP) to come up with a capital level that is commensurate with the nature and extent of risk it faces. The Bank's capital has invariably been above the ICAAP determined capital level over the years, an indication that the Bank maintains a healthy capital base.

For assessing capital risk, the loss is assessed in terms of the impact on anticipated earnings (profit) and capital (reserves). The knock-on effects of all other risks that impact on the Bank are also considered.

22.14 Compliance and legal risk
This refers to the risk on earnings and capital arising from violations of or non-compliance with laws, rules, regulations, internal policies and authority levels, prescribed practices and ethical standards.

The Bank manages this risk by having a compliance policy framework, aligned to the Bank's business model. The policy is regularly reviewed by the Bank risk management department and incidents of non-compliance are reported to the Board for the requisite corrective action.

22.15 Strategic risk
Strategic risk arises from business decisions made in conditions of uncertainty over actions of competitors and service providers and more importantly through exogenous variables to the Bank.

The Bank recognises that the rapidly changing nature of financial markets and the economic environment is such that long term planning is often disturbed by fundamental changes which the Bank should rapidly respond to for sustainable growth and operational and strategic competitiveness. The change over to the monocurrency economic dispensation and negative economic growth, have brought about instability that undermines proper business planning, even in the short term.

The Bank's Board of directors provides oversight for strategic risk through an approved strategic plan and operational strategy framework including scheduled periodic board and executive management meetings.

23. CAPITAL MANAGEMENT
Capital management is considered key for the Bank as a going concern. The Bank's capital management framework serves to ensure that the Bank is capitalized in line with the requirements of its business lines and also in compliance with the recommendations of the Reserve Bank of Zimbabwe and International standards. The Bank's capital management objectives are to:

- Maintain sufficient capital resources to meet board set standards in accordance with regulatory requirements.
- Maintain sufficient capital resources to support the Bank's risk profile.
- Allocate capital to business lines to support the Bank's strategic objectives including optimizing return on investment.
- Ensure the Bank holds adequate capital in order to achieve the target capital to withstand the impact of potential stress events.

The Bank manages its capital base to achieve a prudent balance between maintaining ideal capital ratios to support business growth and depositors' confidence as well as providing competitive returns.

In 2015, the Bank received additional capital from the shareholder worth $12.28 million in the form of 10 year treasury bills with a maturity value of $20 million.

23.1 Capital Adequacy Ratio
The capital adequacy ratio of the Bank as at 30 June 2019 was as follows:

	Jun-19 ZWL$	Dec 18 ZWL$
Share Capital	23,349,746	23,349,746
Mark- to- market reserves	5,846,511	5,045,828
Revenue reserves	62,153,925	40,972,948
Advances to insiders	-	-
Capital allocated to market and operational risk	-	-
Tier 1 Capital	**91,350,182**	**69,368,522**
Revaluation Reserves	29,881,540	406,832
Functional currency translation reserve	18,058,730	18,058,730
General provisions	-	-
Tier 1 & 2 Capital	**138,960,452**	**87,834,084**
Tier 3 Capital allocated for market and operational risk	-	-
Risk weighted assets	**233,557,951**	**207,556,067**
Tier 1%	39.11%	33.42%
Tier 2%	20.38%	8.90%
Capital adequacy ratio	**59.49%**	**42.32%**
RBZ Minimum required capital adequacy ratio	**12%**	**12%**