



RESERVE BANK OF ZIMBABWE



2010 FINANCIAL STATEMENTS



THE RESERVE BANK OF ZIMBABWE

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

**RESERVE BANK OF ZIMBABWE
FINANCIAL STATEMENTS**

for the year ended 31 December 2010

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**RESERVE BANK OF ZIMBABWE
DIRECTORS' REPORT
For the year ended 31 December 2010**

The Directors of the Reserve Bank of Zimbabwe ("the Bank") have pleasure in submitting their report for the financial year ended 31 December 2010.

1. NATURE OF BUSINESS

1.1 The Reserve Bank of Zimbabwe ("the Bank") was established under the Reserve Bank of Zimbabwe Act [Chapter 22:15]. The functions of the Bank are as follows:

- a) to regulate Zimbabwe's monetary system;
- b) to achieve and maintain the stability of the Zimbabwe dollar;
- c) to foster the liquidity, solvency, stability and proper functions of Zimbabwe's financial system;
- d) to supervise banking institutions and to promote the smooth operations of the payment system;
- e) to formulate and execute the monetary policy;
- f) to act as Banker, financial advisor to, and fiscal agent of, the State;
- g) Whenever appropriate and subject to any written directions given to it by the Finance Minister, to represent the interests of Zimbabwe in international or inter-governmental meetings, multilateral agencies and other organizations in matters concerning monetary policy;
- h) to provide banking services for the benefit of:
 - (i) Foreign governments;
 - (ii) Foreign central banks or other monetary authorities; and
 - (iii) International organisations of which Zimbabwe is a party;
- i) to participate in international organisations whose objectives are to pursue financial and economic stability through international monetary co-operation;
- j) subject to any written directions given to it by the Finance Minister to undertake responsibilities and perform transactions concerning the State's participation in or membership of international organisations;
- k) to exercise any functions conferred or imposed upon it by or in terms of any other enactment.

1.2 The main subsidiaries and joint ventures of the Bank and their activities are listed below:-

- i) **Fidelity Printers and Refiners (Private) Limited**
 - printers of currency and securities.
 - gold refining.
- ii) **Homelink (Private) Limited**
 - mobilizes foreign currency from Zimbabweans in the diaspora.
- iii) **Finance Trust of Zimbabwe (Private) Limited**
 - investment company.
- iv) **Aurex (Private) Limited**
 - production of gold jewellery.
- v) **Export Credit Guarantee Corporation**
 - insures Zimbabwe's exports.
- vi) **Fiscorp (Private) Limited**
 - administration of quasi fiscal activities.
- vii) **Tuli Coal (Private) Limited**
 - mining, processing and exportation of coal from Beitbridge.
- viii) **Sirtech Investments (Private) Limited**
 - home-grown technologies.
- ix) **St Lucia Park (Private) Limited**
 - training and conference centre.
- x) **Transload (Private) Limited**
 - production of bio-diesel from Jatropha.
- xi) **Venture Capital Company of Zimbabwe (Private) Limited**
 - financing of small to medium size private sector enterprises.

**RESERVE BANK OF ZIMBABWE
DIRECTORS' REPORT**

for the year ended 31 December 2010

1.2 The main subsidiaries and joint ventures of the Bank and their activities (continued)

- xii) Carslone (Private) Limited
- mining of gold.

The Bank does not consolidate the results of its subsidiary companies. Please refer to note 2.1.2 on the Bank's basis of preparation of financial statements.

2. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for the preparation and integrity of financial statements that present the state of affairs of the Bank as at 31 December 2010, and the statements of comprehensive income, cash flows and changes in equity for the year then ended and information contained in this report.

In order to meet the above requirements, the Directors are responsible for maintaining adequate accounting records and internal controls to safeguard the assets of the Bank and to prevent and detect fraudulent activities. The internal control systems are implemented and monitored by suitably trained personnel with appropriate segregation of authority and duties. Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The financial statements of the Bank are prepared and presented in accordance with the requirements of the Reserve Bank of Zimbabwe Act [Chapter 22:15]. Accordingly, these financial statements have been prepared in accordance with the accounting policies, as determined by the Directors, as set out in Note 3 to the financial statements. The Directors consider the accounting policies adopted to be suitable for the intended users of the financial statements. The financial statements are prepared under the historical cost convention except for the revaluation of freehold land and buildings, investment properties and listed shares. The accounting policies are prepared on the basis of International Financial Reporting Standards, except as described in Note 2.1.

The audited financial statements are presented in United States dollars. These were audited by our independent auditors, KPMG and BDO Zimbabwe, who were given unrestricted access to all the accounting records and supporting documentation.

The following are the Audit and Oversight Committee members:-

- Mr. C.T. Kuwaza (Chairperson and Non-Executive Director)
- Dr. D. Ndlela (Non-Executive Director)
- Mr. W.L. Manungo (Non-Executive Director)
- Mr. N.P.S. Zhou (Non-Executive Director)
- Mr. M.P. Mahlangu (Non-Executive Director)

This committee met regularly with the Bank's external auditors and executive management to review accounting, auditing, internal control and financial reporting matters. The internal and external auditors have unrestricted access to the Audit and Oversight Committee.

**RESERVE BANK OF ZIMBABWE
DIRECTORS' REPORT**

for the year ended 31 December 2010

3. BOARD MEMBERS

The following is the composition of the Board of the Bank as provided for in terms of the revised Reserve Bank of Zimbabwe Act [Chapter 22:15]:-

- Dr. G. Gono*
- Dr. C.L. Dhliwayo**
- Dr. K. Mlambo**
- Prof. A. M. Hawkins***
- Dr. G. Kanyenze***
- Dr. P. Kurasha***
- Mr. C.T. Kuwaza***
- Mr. M.P. Mahlangu***
- Mr. W.L. Manungo***
- Dr. D. Ndlela ***
- Justice (Rtd), L.G. Smith***
- Mr. N.P.S. Zhou ***

Note

- * Chairman and Governor
** Deputy Governor (appointed on 14 March 2012)
*** Non-Executive Director

4. ACCOUNTING POLICIES

The accounting policies adopted by the Bank are set out in the notes to the financial statements.

5. RESULTS OF THE BANK'S OPERATIONS

The Bank incurred a deficit for the year of US\$ 166,674,412 (2009: US\$247,609,441), as indicated below:

	2010 US\$	2009 US\$
Deficit for the year before impairment of financial assets	103,667,209	161,808,288
Impairment of financial assets	63,007,203	85,801,153
Deficit after impairment of financial assets	166,674,412	247,609,441

The deficit is after taking into account a provision for retrenchment costs of US\$ 26 million that was approved in 2010 and effected in January 2011.

**RESERVE BANK OF ZIMBABWE
DIRECTORS' REPORT**

for the year ended 31 December 2010

6. LOANS AND ADVANCES TO GOVERNMENT AND TO STATUTORY BODIES

As at 31 December 2010, loans and advances to Government and to Statutory Bodies were US\$ 1.5 billion (2009: US\$1.4 billion) before impairment. The Bank has adopted the Banking Regulations Statutory Instrument, (SI) 205 of 2000, which requires that an analysis of a loan's performance be made to determine the level of impairment. After the introduction of multi-currencies, the performance of these loans to Government and Statutory Bodies was not satisfactory thus making recoverability of these loans uncertain. Accordingly, the Directors decided to fully impair the Government and Statutory Bodies debts.

7. GOING CONCERN

The Bank incurred a deficit of US\$167 million (2009: US\$248 million) for the year ended 31 December 2010 and as of that date its total liabilities exceeded its total assets by \$1.29 billion (2009: US\$1.13 billion), as reflected in these financial statements.

The Bank is wholly owned by the Government of Zimbabwe through the Ministry of Finance and remains core to the Government functions, being the custodian of monetary policy. Subsequent to the 2010 financial year end, the Board and management have worked to ensure that the Bank remains a going concern through decisive implementation of the following interventions:

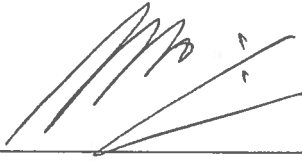
- Reducing operating costs through a 75% retrenchment exercise that resulted in 1 445 employees leaving the Bank. This left the Bank with a headcount of only 530;
- Disposing its major subsidiaries and non-core investments to raise supplementary resources to meet the Bank's financial obligations;
- Charging service fees for its major services to the market in the areas of Exchange Control and National Payments System Management;

The Ministry of Finance, through a letter of support signed by the Honorable Minister, confirmed the Bank's strategic significance to the Government's operations and pledged to continue supporting the Bank as necessary to ensure that it remains a going concern. Accordingly, the financial statements are prepared on the basis of accounting policies applicable to a going concern.

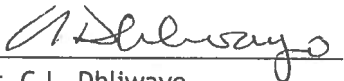
8. APPROVAL OF FINANCIAL STATEMENTS

The financial statements which appear on pages 9 to 40 were approved by the Board of Directors on 28 August 2012. In line with the Reserve Bank of Zimbabwe Act [Chapter 22:15], the Directors approved the following officials to sign the financial statements:

Dr. G. Gono	Governor
Dr. C.L. Dhlwayo	Deputy Governor
Dr. K. Mlambo	Deputy Governor
Mr. A.J. Manase	Bank Secretary
Mr. C.T. Kuwaza	Audit Committee Chairman and Deputy Chairman of the Board



Dr. G. Gono
Chairman and Governor



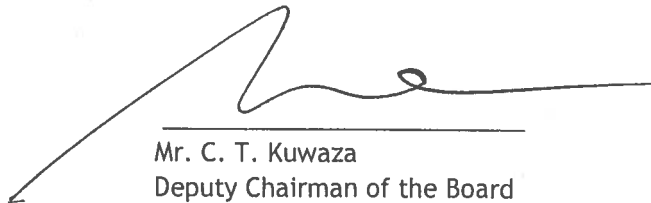
Dr. C.L. Dhlwayo
Deputy Governor



Dr. K. Mlambo
Deputy Governor



Mr. A.J. Manase
Bank Secretary



Mr. C. T. Kuwaza
Deputy Chairman of the Board

Date: 28 August 2012



INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF THE RESERVE BANK OF ZIMBABWE AND THE MINISTER OF FINANCE

Report on the financial statements

We have audited the accompanying financial statements of **THE RESERVE BANK OF ZIMBABWE** as set out on pages 9 to 40 which comprise the statement of financial position as at 31 December 2010, statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements which include a summary of the significant accounting policies and other explanatory notes. These financial statements are prepared in compliance with the requirements of the Reserve Bank of Zimbabwe Act (Chapter 22:15).

The Directors' responsibility for the financial statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with the Reserve Bank of Zimbabwe Act (Chapter 22:15) as described in notes 2 and 3. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Basis for Qualified Opinion

Disputed liabilities

As part of our audit, we received a third party confirmation that there were liabilities amounting to US\$22,235,622 that were not recognised and disclosed in the Bank's financial statements. Management are disputing that these amounts are, in fact, liabilities of the Bank. This matter is currently unresolved. Accordingly, we were unable to obtain sufficient appropriate audit evidence to confirm or dispel whether any adjustments are required to the financial statements in this regard.

Qualified Opinion

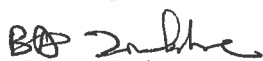
In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph above, the financial statements of the **RESERVE BANK OF ZIMBABWE** for the year ended 31 December 2010, have been prepared, in all material respects, in accordance with the Reserve Bank of Zimbabwe Act (Chapter 22:15) as described in notes 2 and 3.

Report on Other Legal and Regulatory Requirements

In accordance with Section 36 (4) (c) of the Reserve Bank of Zimbabwe Act (Chapter 22:15), we report the following area of non compliance with that Act:

- The Bank does not have issued share capital to an amount of US\$ 2 million or its equivalent in other currencies as stipulated in Section 31 of the Act.

Except for the non compliance mentioned above, the financial statements have, in all material respects been prepared properly in compliance with the requirements of the Reserve Bank of Zimbabwe Act (Chapter 22:15).


BDO Zimbabwe

Chartered Accountants

28 August 2012

KPMG
KPMG

Chartered Accountants (Zimbabwe)

28 August 2012

RESERVE BANK OF ZIMBABWE
STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2010

	<u>Notes</u>	<u>2010 US\$</u>	<u>2009 US\$</u>
Interest and commission income	5.1	4,639,710	1,090,235
Interest expense	5.2	(42,660,575)	(41,346,878)
Net interest and commission expense		<u>(38,020,865)</u>	<u>(40,256,643)</u>
Other income	5.3	19,348,331	13,709,328
Net interest and commission expense after other income		<u>(18,672,534)</u>	<u>(26,547,315)</u>
Operating costs	5.4	(84,994,675)	(135,260,973)
Deficit for the year before impairment of financial assets		<u>(103,667,209)</u>	<u>(161,808,288)</u>
Impairment of financial assets	6	(63,007,203)	(85,801,153)
Deficit for the year		<u>(166,674,412)</u>	<u>(247,609,441)</u>
Other comprehensive income			
Revaluation gain on properties		1,442,863	214,000
Fair value gain on available for sale equity investments		2,988,870	18,605,194
Total deficit for the year		<u>(162,242,679)</u>	<u>(228,790,247)</u>

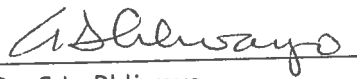
RESERVE BANK OF ZIMBABWE
STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

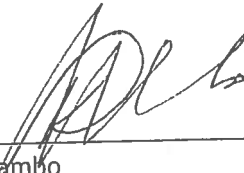
	Notes	2010 US\$	2009 US\$
Assets			
Property and equipment	7	56,782,229	54,902,070
Investment property	8	7,600,000	9,100,000
Investments in subsidiaries at cost	9	26,477,559	26,477,559
Other investments	10	15,566,394	23,749,059
Loans and advances to Government and Statutory bodies	11	-	-
Non-current assets classified as held for sale	12	450,000	-
Other loans and advances	13	156,089	159,362
Other receivables	14	168,113,820	76,368,092
Gold and foreign assets	15	44,671,861	40,723,928
Cash and bank balances	16	455,428,443	432,935,493
Total assets		775,246,395	664,415,563
Equity and liabilities			
Capital and reserves			
Share capital	17	-	-
Revaluation reserve	18	1,656,863	214,000
Equity fair value adjustment reserve	19	21,594,064	18,605,194
Non distributable reserve	20	(903,715,388)	(903,842,225)
General reserve fund	21	-	-
Accumulated deficit		(414,283,853)	(247,609,441)
Total capital and reserves		(1,294,748,314)	(1,132,632,472)
Liabilities			
Bills payable	22	4,130,405	3,945,852
Currency in circulation	23	-	-
International Monetary Fund facilities	24	554,710,444	566,460,331
Foreign liabilities	25	560,071,439	544,012,432
Domestic loans	26	152,630,318	125,078,117
Deposit accounts	27	642,516,934	468,987,344
Payables	28	155,935,169	88,563,959
Total liabilities		2,069,994,709	1,797,048,035
Total equity and liabilities		775,246,395	664,415,563



Dr. G. Gono
Chairman and Governor



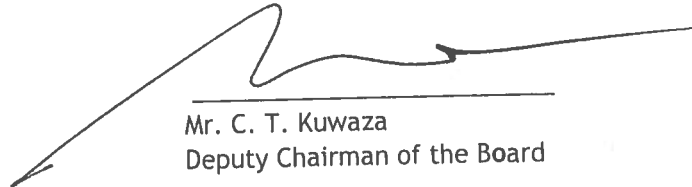
Dr. C.L. Dhlwayo
Deputy Governor



Dr. K. Mlambo
Deputy Governor



Mr. A.J. Manase
Bank Secretary



Mr. C. T. Kuwaza
Deputy Chairman of the Board

Date: 28 August 2012

RESERVE BANK OF ZIMBABWE
STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2010

	Share capital US\$	Revaluation reserve US\$	Equity fair value adjustment reserve US\$	Non distributable reserve US\$	General reserve fund US\$	Accumulated deficit US\$	Total US\$
Balance at 1 January 2009	-	-	-	(903,842,225)	-	-	(903,842,225)
Deficit for the year	-	-	-	-	-	(247,609,441)	(247,609,441)
Mark to market reserve	-	-	18,605,194	-	-	-	18,605,194
Revaluation surplus on immovable property	-	214,000	-	-	-	-	214,000
Balance at 31 December 2009	-	214,000	18,605,194	(903,842,225)	-	(247,609,441)	(1,132,632,472)
Deficit for the year	-	-	-	-	-	(166,674,412)	(166,674,412)
Adjustment -take on balance	-	-	-	126,837	-	-	126,837
Mark to market reserve	-	-	2,988,870	-	-	-	2,988,870
Revaluation surplus on immovable property	-	1,442,863	-	-	-	-	1,442,863
Balance at 31 December 2010	-	1,656,863	21,594,064	(903,715,388)	-	(414,283,853)	(1,294,748,314)

**RESERVE BANK OF ZIMBABWE
STATEMENT OF CASH FLOWS**

for the year ended 31 December 2010

	2010 US\$	2009 US\$
NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating cash flows		
Operating loss before Government grants	(180,674,412)	(249,109,441)
Adjustment for items not affecting cash flows		
-Depreciation	8,468,898	13,003,808
-Impairment (reversal)/loss	(9,765,193)	41,891,471
-Fair value loss on investment property	1,500,000	36,540,000
-(Profit)/loss on disposal of shares	2,959,085	(10,717,529)
-Insurance claims	(38,500)	-
-Profit on disposal of property & equipment	219,563	(57,927)
-Provision for doubtful debts	63,007,203	85,801,153
-Other accrued income receivable	(2,840,163)	-
-Interest expense	42,660,575	41,346,878
-Provision for payments due-accrued expenses	61,143,538	20,867,049
-Accrued rent receivable	28,132	(167,406)
-Dividend received	(593,380)	(1,050,072)
Operating cash flows before movements in working capital	(13,924,654)	(21,652,016)
Increase in prepayments	(6,945)	(416,408)
Increase/(decrease) in SDR holdings	(105,989,397)	409,966,002
Increase in Statutory Reserves	11,900,487	63,192,987
Increase in RTGS Settlement Account	120,322,526	55,315,226
Increase in deposits -Government	2,413,853	1,857,584
Increase in deposits -FCA	(494,759)	5,551,922
Decrease in FCA Deposits - other	(352,758)	(2,089,182)
Decrease in FCA diplomatic missions	(278,418)	(3,512,169)
Decrease in currency in transit	102,818	-
Increase in loans to staff	-	(178,700)
Increase in debtors Federal Reserve Bank of New York	-	(1,500,000)
Increase in amounts due from Government-IMF	-	(50,000,000)
Increase in amounts due from Government	(12,724,625)	(40,300,018)
Fees paid foreign banks	(1,346,054)	-
Increase in cash and cash equivalents due to revaluation	114,604	-
Net cash inflow from operations	13,661,332	437,887,244
Net cash inflow from operating activities	(263,322)	416,235,228

RESERVE BANK OF ZIMBABWE
STATEMENT OF CASH FLOWS (continued)

for the year ended 31 December 2010

	2010	2009
	US\$	US\$
Investing activities		
Proceeds from disposal of quoted shares	3,490,950	24,160,937
Receipts from debtors	471,381	-
Afreximbank dividend received	593,380	1,050,072
Proceeds from property and equipment	1,239,105	-
Purchase of property and equipment	(102,300)	(1,255,869)
Decrease in debtors - Federal Reserve Bank	1,500,000	-
Transfers to reduce overdraft facility, South African Reserve Bank	(406,140)	-
Investment in Homelink	-	(2,519,150)
Net cash from investing activities	6,786,376	21,435,990
NET CASH FLOWS FROM FINANCING ACTIVITIES		
Government grant received	14,000,000	1,500,000
Government grant (2011) received in advance	7,500,000	-
Lender of last resort	7,000,000	-
Settlement of short term foreign loans	(7,841,018)	(14,228,019)
Settlement of accrued bank liabilities	(4,684,564)	(6,962,139)
Net cash from financing activities	15,974,418	(19,690,158)
INCREASE IN CASH AND CASH EQUIVALENTS	22,497,472	417,981,060
Cash balances at beginning of the year	434,054,151	16,073,091
-Balances with foreign banks	54,610,618	1,733,375
-Foreign currency	18,359,604	1,140,385
-Committed funds	1,118,658	12,995,874
-SDR holdings	359,965,271	203,457
Cash balances at end of the year	456,551,623	434,054,151
-Balances with foreign banks	184,078,932	54,610,618
-Foreign currency	17,371,121	18,359,604
-Committed Funds	1,125,695	1,118,658
-SDR holdings	253,975,875	359,965,271

**RESERVE BANK OF ZIMBABWE
NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2010

1. REPORTING ENTITY

The Reserve Bank of Zimbabwe is a statutory body enacted by the Reserve Bank of Zimbabwe Act (Chapter 22:15). It is incorporated and domiciled in Zimbabwe. The address of the Bank's registered office is 80 Samora Machel Avenue Harare.

1.1. Nature of business

The Reserve Bank of Zimbabwe ("the Bank") was established under the Reserve Bank of Zimbabwe Act (Chapter 22:15) ("the Act"). The functions of the Bank are as follows:

- a) to regulate Zimbabwe's monetary system;
- b) to achieve and maintain the stability of the Zimbabwe dollar;
- c) to foster the liquidity, solvency, stability and proper functions of Zimbabwe's financial system;
- d) to supervise banking institutions and to promote the smooth operations of the payment system;
- e) to formulate and execute the monetary policy;
- f) to act as Banker, financial advisor to, and fiscal agent of, the State;
- g) whenever appropriate and subject to any written directions given to it by the Finance Minister, to represent the interests of Zimbabwe in international or inter-governmental meetings, multilateral agencies and other organizations in matters concerning monetary policy;
- h) to provide banking services for the benefit of:
 - (i) Foreign governments;
 - (ii) Foreign central banks or other monetary authorities; and
 - (iii) International organisations of which Zimbabwe is a party;
- i) to participate in international organisations whose objectives is to pursue financial and economic stability through international monetary co-operation;
- j) subject to any written directions given to it by the Finance Minister to undertake responsibilities and perform transactions concerning the State's participation in or membership of international organisations;
- k) to exercise any functions conferred or imposed upon it by or in terms of any other enactment.

2. BASIS OF PREPARATION

The financial statements of the Bank are prepared and presented in accordance with the requirements of the Reserve Bank of Zimbabwe Act (Chapter 22:15). Accordingly, these financial statements have been prepared in accordance with the accounting policies, as determined by the Directors as set out in Note 3 to the financial statements. The Directors consider the accounting policies adopted to be suitable for the intended users of the financial statements.

The financial statements are prepared under the historical cost except for the revaluation of freehold land and buildings, investment properties and listed shares.

2.1 Financial Reporting Framework

The accounting policies are prepared on the basis of International Financial Reporting Standards, except as described below.

2.1.1 IAS 24 Related Party Disclosures

The Bank has not fully complied with this standard. The Directors have deemed it inappropriate to fully disclose all transactions with the related parties which were mainly between the Bank and the State.

**RESERVE BANK OF ZIMBABWE
NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2010

2. BASIS OF PREPARATION (Continued)

2.1 Financial Reporting Framework (Continued)

2.1.2 IAS 27 (Revised) Consolidated and Separate Financial Statements and IFRS 3 Business Combinations

The financial statements of the subsidiary companies of the Bank are not consolidated. Similarly, associate companies are not accounted for on an equity basis. The Directors of the Bank are of the opinion that the nature of the activities of the Bank and its subsidiaries are so diverse that consolidation would not result in meaningful presentation of the results of the Bank and its subsidiaries and associates. This is however, not in accordance with International Accounting Standard 27 (IAS 27) Consolidation and Separate Financial Statements and IFRS 3 Business Combinations.

2.1.3 IAS 39 (Revised) Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instrument: Disclosures

The Bank has not complied fully with IAS 39 (Revised) and IFRS 7, which require the disclosure of risks associated with the Bank's involvement in financial instruments. The objective of IAS 39 is to establish principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. The Bank has recognised most of its financial instruments at cost, which is not in accordance with the requirements of IAS 39 (Revised) as a majority of these debt instruments, were issued at interest rates that are significantly below prevailing market interest rates.

2.1.4 IAS 21 Effects of changes in foreign exchange rates

The Bank has not recognised realised and unrealised exchange gains and losses on monetary items in the statement of comprehensive income in accordance with International Accounting Standard 21 (IAS21) - Effects of changes in foreign exchange rates, which requires that all realised and unrealised exchange gains and losses on monetary items be recognised in the statement of comprehensive income. The exchange gains and losses are either recoverable from or payable to the Government of Zimbabwe in accordance with the provisions of Section 34 of the Reserve Bank of Zimbabwe Act (Chapter 22:15). The 2010 net unrealised exchange losses have been debited to the statement of financial position as other receivables.

2.2 Use of estimates and judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of revision and future years if the revision affects both current and future years.

Management judgment was used in the application of accounting policies that have a significant effect on the financial statements and on estimates with a significant risk of material of adjustments in the subsequent year.

**RESERVE BANK OF ZIMBABWE
NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2010

2. BASIS OF PREPARATION (Continued)

2.2 Use of estimates and judgments (Continued)

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 4, to the financial statements.

2.3 Changes in accounting policies

There was no change in accounting policies in the 2010 financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Revenue recognition

3.1.1 Interest income

Interest income arises from the Bank's lending and money market activities. It is accrued on a time proportion basis, by reference to the principal outstanding and at the interest rate applicable to the instrument.

3.1.2 Fee and commission income

The Bank recognises fees on an accrual basis in accordance with the substance of the underlying transaction. Commission income is recognised from services offered to the financial institutions that are supervised by the Bank.

3.1.3 Dividend income

Dividend income from investments is recognised when the Bank's rights to receive the dividend have been established.

3.1.4 Other income

Other income arising from the provision of services to clients is recognised on the accrual basis in accordance with the substance of the underlying transaction.

3.1.5 Rental

Rental income from investment property is recognised on the accrual basis on a monthly basis.

3.2 Foreign currency translation

These financial statements are expressed in United States dollars (US\$).

Transactions in currencies other than the US\$ are recorded at the spot exchange rate on the transaction date.

Monetary assets and liabilities carried at amounts that are denominated in currencies other than the US\$ are translated at the spot exchange rate on the reporting date.

**RESERVE BANK OF ZIMBABWE
NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2010

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Foreign currency translation (Continued)

Realised and unrealised exchange gains and losses arising on the translation of non-monetary foreign assets and liabilities are transferred to the Unrealised Exchange Gain or Losses accounts which are disclosed under either other receivables or other payables respectively on the Statement of Financial Position. Once realised, these unrealised exchange gains and losses are transferred to the realised Gold and Foreign Currency Adjustment account.

In terms of Section 34(1) of the Reserve Bank of Zimbabwe Act (Chapter 22:15), any realized exchange gains and losses arising on the retranslation of monetary foreign assets and liabilities and or the settlement of non-monetary foreign assets and liabilities are for the account of the Government of Zimbabwe and are recorded in the Gold and Foreign Currency Adjustment account which is disclosed under "Loans and Advances Government and to Statutory Bodies" on the Statement of financial position.

3.3 Employee benefits

3.3.1 Retirement benefit costs

The Bank contributes towards defined contribution plans. Contributions to these plans are recognised as an expense in the statement of comprehensive income in the periods in which services are rendered by the employees.

3.3.2 Pension Scheme

The Bank and its employees contribute to the Finance Trust of Zimbabwe Pension Fund. The Fund is a defined contribution fund, the assets of which are held in a separate trustee administered Fund. The Bank contributes 15% and the employees 6% of pensionable earnings.

3.3.3 Termination benefits

Termination benefits are recognised as an expense when the Bank is committed, without realistic possibility of withdrawal, to a formal detailed plan to 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 recognised as an expense if the Bank has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

3.3.4 Short term benefits

Short term benefits consist of salaries, accumulated leave payments and any non-monetary benefits such as medical aid contributions.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under accumulated leave 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.

3.4 Taxation

The Bank is exempt from income tax in terms of the Income Tax Act (Chapter 23:06).

**RESERVE BANK OF ZIMBABWE
NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2010

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Property and equipment

Land and buildings held for use in the provision and supply of services, or for administrative purposes, are initially measured at cost and subsequently stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by independent professional valuers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from the fair value determined at the reporting date. Any revaluation increase arising on the revaluation of buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same assets previously recognised as an expense, in which case the increase is credited to profit or loss to the extent of the decrease previously charged.

A decrease in carrying amount is charged as an expense to the extent that it exceeds the balance if any held in revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to the accumulated fund.

Furniture, equipment and motor vehicles are stated at deemed cost less accumulated depreciation.

Depreciation is charged so as to write-off the deemed cost or valuation of assets, other than land and buildings under construction, over their estimated useful lives to their residual values, using the straight line method, on the following basis:

Buildings	25 years
Machinery	4 years
Furniture and equipment	4 -10 years
Motor vehicles	5 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised as income or expense in profit or loss.

3.6 Investment property

Investment property, which is property held to earn rentals and or for capital appreciation, is initially measured at cost and subsequently at its fair value at the reporting date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self constructed investment property includes the cost of materials and direct labour, any other costs attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

**RESERVE BANK OF ZIMBABWE
NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2010

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Investment property (Continued)

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

3.7. Financial instruments

3.7.1 Financial assets and financial liabilities

Financial assets and financial liabilities are recognised on the Bank's statement of financial position when it becomes a party to the contractual provisions of the instrument. Management determines the appropriate classification at initial recognition of the financial instrument.

3.7.2 Financial assets

Financial assets are classified into the following categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'held to maturity investments', 'available for sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and it is determined at the time of initial recognition.

The Bank's main financial assets are debtors and other receivables, amounts due from subsidiaries, foreign assets, amounts due from the Government of Zimbabwe and Statutory Bodies, investments, loans and advances.

3.7.3 Loans and receivables

Trade receivables, loans and advances to Government and to Statutory bodies, other loans and advances that are not quoted on an active market are classified as loans and receivables. These include loans to subsidiaries as well as amounts due from the Government of Zimbabwe and Statutory Bodies. Loans and receivables do not have fixed or determinable payments due to the nature of the activities of the Bank and are therefore initially measured at cost and subsequently at cost less any impairment losses.

3.7.4 Gold and foreign assets

Gold and foreign assets are recognised at the rate of exchange ruling when they are acquired and subsequently restated using the spot exchange rate at reporting date. Gains and losses arising from movements in fair value of foreign assets and gold are for the account of the Government of Zimbabwe as stipulated in Section 34 (1) of the Reserve Bank of Zimbabwe Act [Chapter 22:15].

3.7.5 Other investments

Investments are recognised and derecognized at a trade date value where the purchase or sale of an investment under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value. Investments have been classified as either, available-for-sale or held to maturity.

Investments that are classified as available-for-sale are measured at fair value. For available-for-sale investments, gains and losses arising from changes in fair value are recognised in other comprehensive income; until the security is disposed of at which time the cumulative gain or loss previously recognised in other comprehensive income is included in the statement of comprehensive income.

**RESERVE BANK OF ZIMBABWE
NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2010

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7.5 Other investments

Investments that have a fixed maturity date and the Bank has the intention and ability to hold them until maturity have been classified as held-to-maturity investments. Held-to-maturity investments are carried at historical cost.

3.7.6 Financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. Financial liabilities are recognised when the Bank becomes party to the contractual provisions of the instrument. Financial liabilities are initially recognised at fair value, generally being their issue proceeds net of transaction costs incurred.

The best evidence of fair value on initial recognition is the transaction price, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on discounted cash flow models and option-pricing valuation techniques whose variables include only data from observable markets.

The Bank's main financial liabilities include International Monetary Fund ("IMF") facility, domestic loans, payables, foreign loans, bills payable and deposit accounts.

Currency in circulation and payables

Currency in circulation and payables are subsequently measured at cost.

IMF facility, foreign loans, domestic loans, bills payable and interest bearing deposit accounts

IMF facility, foreign loans, domestic loans, bills payable and interest bearing deposit accounts are subsequently measured at cost plus any accrued interest.

3.7.7 Offsetting financial instruments

The Bank offsets financial assets and financial liabilities and reports the net balance in the statement of financial position where there is a legally enforceable right to set off and there is an intention to settle on a net basis or to realise the financial assets and settle the financial liability simultaneously and the maturity date for the financial assets and liabilities are the same and the financial assets and liabilities are denominated in the same currency.

3.7.8 Impairment of financial assets

At each reporting date, the Bank assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired.

The Bank considers objective evidence of impairment as;

- (i) Insolvency/financial difficulties on the part of a debtor.
- (ii) Delinquency by a counterparty.
- (iii) Renegotiation of loans to be on terms that the Bank would not otherwise consider. A financial asset or group of financial assets is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that loss event had a negative effect on the estimated future cash flows of the financial asset or group of financial assets that can be estimated reliably.

**RESERVE BANK OF ZIMBABWE
NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2010

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7.8 Impairment of financial assets (Continued)

The Bank first assesses whether there is objective evidence of impairment individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Loans and advances are analysed on a case by case basis taking into account breaches of key loan conditions in accordance with the Banking Regulations Statutory Instrument, (SI 205 of 2000).

Increases in loan impairments and any subsequent reversals thereof, or recoveries of amounts previously impaired, are reflected in profit or loss. Previously impaired advances are written off once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts. Any subsequent reductions in amounts previously impaired are reversed by adjusting the allowance account with the amount of the reversal recognised as a reduction in impairment for credit losses in profit or loss. Subsequent recoveries of previously written off advances are recognised in profit or loss.

3.7.9 Derecognition of financial assets and financial liabilities

The Bank derecognises a financial asset when it loses control over the contractual rights that comprise the financial assets and transfers substantially all the risks and benefits associated with the financial asset. This arises when the rights are either realised, or they expire or are surrendered.

The Bank derecognises a financial liability when the obligation specified in the contract is either discharged or cancelled or expired.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount of the portion of the asset to be transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed, and (ii) any cumulative gain that had been recorded in other comprehensive income is recognised in profit or loss.

3.8 Investments in subsidiaries and joint ventures

A subsidiary is an investment in an entity wherein the Bank has power to govern the financial and operating policies so as to obtain benefits from the entity's activities.

A joint venture is a contractual arrangement entered into by the Bank and other parties to share control of an economic activity. The strategic financial and operating decisions relating to the economic activity require the consent of the Bank and other parties.

Investments in subsidiaries and joint ventures are stated at deemed cost. Subsequent to initial recognition, the investments in subsidiaries of joint ventures are carried at cost less any accumulated impairment.

3.9 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

**RESERVE BANK OF ZIMBABWE
NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2010

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Operating leases

Leases where substantially all the rewards and risks of ownership remain with the lessor are accounted for as operating leases.

Rental income and expenditure under operating leases is accounted for through profit or loss on the accrual basis according to when the respective receipts and payments are due.

3.11 Non-current assets held for sale

Non-current assets are classified as held for sale when:

- a) they are available for immediate sale
- b) management is committed to plan to sell
- c) it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn
- d) an active programme to locate a buyer has been initiated;
- e) the asset is being marketed at a reasonable price in relation to its fair value; and
- f) the sale is expected to complete within 12 months from the date of classification.

Non-current assets classified as held for sale are measured at the lower of:

- a) their carrying amount immediately prior to being classified as held for sale in accordance with the Bank's accounting policy
- b) fair value less costs to sale.

Following their classification as held for sale, non-current assets are not depreciated.

4 CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION IN APPLYING THE BANK'S ACCOUNTING POLICIES

In the process of applying the Bank's accounting policies, the Directors have made the following judgments and estimations that have a significant effect on the amounts recognised in the financial statements.

4.1 Property and equipment values, useful lives, residual values and depreciation rates

The Bank's property and equipment are depreciated using depreciation rates, useful lives and residual values estimated by the Directors. The Bank's buildings have been independently revalued based on open market values at 31 December 2010, by external property valuers. The Directors have reviewed the results of the independent valuation for reasonableness and they believe the buildings have been fairly valued.

4.2 Fair valuation of investment properties

The fair value of investment properties at year-end was independently determined by the Bank's property valuers, Knight Frank and GMP Real Estate. This resulted in a fair value decline of US\$1.5million. The Directors have reviewed the results of the independent valuation for reasonableness and they believe the investment properties have been fairly valued.

4.3 Impairment of loans and advances

At each reporting date, the Bank reviews the carrying amount of its loans and advances against estimations of the recoverable amount. The Bank has estimated impairment for loans and advances in accordance with the Banking Regulations Statutory Instrument, (SI 205 of 2000), as set out in note 6.

RESERVE BANK OF ZIMBABWE
NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

4.4. Investment in unquoted shares

These are stated at deemed cost which was determined through the use of independent valuers' reports in the preparation of 2009 financial statements, except for the investment in Fidelity Printers and Refineries (Fidelity) whose deemed cost was determined on the basis of a Directors' valuation. The Directors have reviewed the results of the independent valuation for reasonableness and they believe the investments in unquoted shares have been fairly valued. The Directors determined the fair value of the investment in Fidelity by using the Net Asset Value per 31 December 2008 audited financial statements.

RESERVE BANK OF ZIMBABWE
NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

5 INCOME AND EXPENDITURE

5.1 Interest and commission income comprise:

	2010 US\$	2009 US\$
Interest income		
- bills	766,124	609,357
- bank charges (RTGS)	2,715,756	314,251
- foreign bank balances	1,157,830	166,627
	<u>4,639,710</u>	<u>1,090,235</u>

Interest income is interest earned on RTGS, investment in South African Treasury Bills and overnight interest on Nostro accounts.

Interest earning assets as at 31 December 2010 were US\$13.14 million (2009: US\$11.7 million). The weighted average interest rate on assets was 5.8% per annum (2009: 5.8%).

5.2 Interest expense comprise:

	2010 US\$	2009 US\$
- interest expense on loans and advances	41,565,516	38,797,550
- other	1,095,059	2,549,328
	<u>42,660,575</u>	<u>41,346,878</u>

Interest expense consists mainly of interest on bills, bonds, loans and advances. Interest bearing liabilities as at 31 December 2010 were US\$759 million (2009: US\$722 million). The weighted average interest rate charged on liabilities was 6.5% per annum (2009: 5.4%).

5.3 Other income comprise:

	2010 US\$	2009 US\$
Profit from sale of local shares	-	10,717,529
Dividends from foreign shares	593,380	1,050,072
Profit on disposal of property and equipment	38,500	22,810
Government grant	14,000,000	1,500,000
Sundry	4,716,451	418,917
	<u>19,348,331</u>	<u>13,709,328</u>

RESERVE BANK OF ZIMBABWE
NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

	2010 US\$	2009 US\$
5.4 Operating expenses		
Operating expenses include:		
Auditors' remuneration	467,505	650,937
Depreciation of property and equipment	8,468,898	13,002,972
Impairment (reversal)/loss on property and equipment	(9,765,193)	41,891,471
Fair value loss on investment property	1,500,000	36,540,000
Loss on sale of local shares	2,959,085	-
Directors' fees	87,702	17,250
Notes and coins	-	1,435,321
Retrenchment costs (Provisions)	26,139,895	-
Staff costs	41,407,087	25,743,106
- salaries	35,673,843	21,960,522
- medical expenses	1,264,886	625,132
- National Social Security Authority contributions	328,751	452,298
- other	4,139,607	2,705,154

6 PROVISION FOR DOUBTFUL DEBTS

Movements in provision for doubtful debts comprise:

Provision for doubtful debts (Government) (see note 11.2)	(59,734,682)	(77,849,980)
Provision for doubtful debts (other)	(3,272,521)	(7,951,173)
	<u>(63,007,203)</u>	<u>(85,801,153)</u>

RESERVE BANK OF ZIMBABWE
NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2010

7 PROPERTY AND EQUIPMENT

	Land	Buildings	Furniture, equipment and machinery	Motor vehicles	Total
	US\$	US\$	US\$	US\$	US\$
Deemed cost at 1 January 2010	180,503	46,470,459	1,229,186	7,021,922	54,902,070
Gross carrying amount	180,503	54,079,740	2,443,150	20,836,281	77,539,674
Accumulated depreciation	-	(7,609,281)	(1,213,964)	(13,814,359)	(22,637,604)
Additions	-	-	49,400	270,448	319,848
Depreciation charge	-	(4,381,515)	(1,223,566)	(2,863,817)	(8,468,898)
Adjustment - take on balances	-	-	-	(97,001)	(97,001)
Disposal Cost	-	-	(16,501)	(1,384,449)	(1,400,950)
Disposal - Accumulated depreciation	-	-	16,904	752,200	769,104
Reclassified to non-current assets held for sale	-	(450,000)	-	-	(450,000)
Revaluation	-	1,442,863	-	-	1,442,863
Reversal of impairment	-	9,765,193	-	-	9,765,193
Carrying amount at 31 December 2010	180,503	52,847,000	55,423	3,699,303	56,782,229
Deemed cost	180,503	52,887,000	2,476,049	19,721,879	75,265,431
Accumulated depreciation	-	(40,000)	(2,420,626)	(16,022,576)	(18,483,202)

Buildings were revalued at 31 December 2010 by independent professional valuers on the basis of market value. The valuations were conducted in accordance with International Valuation Standards using the following assumptions:

- The properties are still in the same state of repair and development as when they were inspected during the previous valuation exercise.
- Each property is not contaminated and is not adversely affected by any existing or proposed environmental law.
- There are no abnormal ground conditions, nor archaeological remains present which might adversely affect the present or future occupation development or value of the properties, each property is free from rot, infestation, structural or latent defect.
- No currently known deleterious or hazardous materials or suspect techniques have been used in the construction of, or subsequent alterations or additions to each of the properties.

The residual values and remaining useful lives of property and equipment were not reassessed in the current year due to the fact that the effect of the reassessment would not have had a material impact on the Bank's statements of financial position and comprehensive income. Had the buildings been carried at the historical cost the carrying amount would have been \$41,874,943 (2009: \$46,256,458).

RESERVE BANK OF ZIMBABWE
NOTES TO THE FINANCIAL STATEMENT
for the year ended 31 December 2010

	2010 US\$	2009 US\$
8 INVESTMENT PROPERTY		
Opening balance	9,100,000	45,640,000
Fair value adjustment	(1,500,000)	(36,540,000)
Closing balance	<u>7,600,000</u>	<u>9,100,000</u>

The Bank's investment property was valued at 31 December 2010 by independent professional valuers, who have recognised and relevant professional qualifications and have recent experience in the locations and categories of the investment properties that were valued. The valuations were performed on the basis of open market value. The valuations were conducted in accordance with International Valuation Standards and were based on prevailing arm's length market transactions. Please refer to Note 7 for the key valuations assumptions and estimates.

The following amounts were recognised in the Statement of Comprehensive Income as a result of rentals from the investment property held:

	2010 US\$	2009 US\$
Rental income	462,034	262,956
Direct operating expenses from property that generated rental income	(74,115)	(120,361)
	<u>387,919</u>	<u>142,595</u>

9 INVESTMENT IN SUBSIDIARIES

9.1 Investment in subsidiaries at deemed cost	Shareholding		
Fidelity Printers & Refiners (Private) Limited	100%	16,647,587	16,647,587
Aurex (Private) Limited	100%	2,021,855	2,021,855
Homelink (Private) Limited	100%	6,720,522	6,720,522
Tuli Coal (Private) Limited	70%	840,000	840,000
Export Credit Guarantee Company	100%	-	-
Sirtech (Private) Limited	50%	247,595	247,595
Fiscorp (Private) Limited	100%	-	-
Transload (Private) Limited	50%	-	-
St Lucia Park (Private) Limited	50%	-	-
Carlson (Private) Limited	100%	-	-
Venture Capital Company of Zimbabwe	50%	-	-
		<u>26,477,559</u>	<u>26,477,559</u>

Investment in subsidiaries and joint ventures are carried at deemed cost.

All the above subsidiaries and joint ventures are incorporated in Zimbabwe and their functions are stated below.

- Fidelity Printers & Refiners (Private) Limited refines gold and prints currency notes and securities.
- Aurex (Private) Limited manufactures gold jewellery.
- Export Credit Guarantee Company guarantees export credit facilities.
- Homelink (Private) Limited mobilises foreign currency from Zimbabweans in the diaspora.
- Tuli Coal (Private) Limited mines and export coal from Beitbridge.
- Fiscorp (Private) Limited manages quasi fiscal activities on behalf of the Reserve Bank Zimbabwe.
- St Lucia Park (Private) Limited is a training and conference centre.
- Venture Capital Company of Zimbabwe (Private) Limited is involved in financing of small to medium sized private sector enterprises.

RESERVE BANK OF ZIMBABWE
NOTES TO THE FINANCIAL STATEMENT

for the year ended 31 December 2010

9. INVESTMENTS IN SUBSIDIARIES (Continued)

- Sirtech Investments (Private) Limited is involved in home-grown technologies.
- Transload (Private) Limited is involved in the production of bio-diesel from jatropha.
- Carslone (Private) Limited is involved in mining of gold.

	2010 US\$	2009 US\$
10. OTHER INVESTMENTS		
Unquoted shares	6,212,818	8,731,968
Market value of quoted shares	9,353,576	15,017,091
Total	<u>15,566,394</u>	<u>23,749,059</u>

Quoted shares consist of local shares listed on the Zimbabwe Stock Exchange.
The fair value of quoted shares was determined using the Zimbabwe Stock Exchange market values as at 31 December 2010.

11. LOANS AND ADVANCES TO GOVERNMENT AND STATUTORY BODIES

	2010 US\$	2009 US\$
11.1 Loans and advances		
Loans and advances	1,453,838,579	1,394,103,897
Impairment loss	<u>(1,453,838,579)</u>	<u>(1,394,103,897)</u>
	<u>-</u>	<u>-</u>

The Bank has adopted the provisions of the Banking Regulations Statutory Instrument, (SI 205 of 2000). All loans and advances to the Government and Statutory Bodies have been provided for 100%.

11.2 Movement of impairment of loans and advances

	2010 US\$	2009 US\$
Balance at the beginning of the year	(1,394,103,897)	(1,316,253,917)
Additional charge	<u>(59,734,682)</u>	<u>(77,849,980)</u>
Balance at the end of the year	<u>(1,453,838,579)</u>	<u>(1,394,103,897)</u>

RESERVE BANK OF ZIMBABWE
NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

12 NON CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

In September of 2010 the Board announced its intention to dispose some of the Bank's buildings. Buildings with net book value of USD450,000 were sold in August 2011. Some of the buildings put for sale were not sold within one year hence they were classified as property and equipment. The Board has since revised their intention to sale investment property. The buildings are no longer for sale.

	2010 US\$	2009 US\$
13 OTHER LOANS AND ADVANCES		
Private sector loans	15,011	98,600
-Swift charges	80,502	-
-MBCA Bank Limited recoverable	679,222	616,864
-Zimbabwe Industry Tobacco Auction Centre (ZITAC)	2,840,163	-
-Fertilizer Debtors	7,394,885	7,395,071
-Export Support Fund	11,009,783	8,110,535
	(10,853,694)	(7,951,173)
Impairment of other loans and advances	<u>156,089</u>	<u>159,362</u>
 Movement in impairment of other loans and advances		
Balance at the beginning of the year	(7,951,173)	-
Charge for the year	(2,902,521)	(7,951,173)
Amounts provided for that have been recovered	-	-
Balance at the end of the year	<u>(10,853,694)</u>	<u>(7,951,173)</u>

13.1 Advances to Private Sector

Advances to the Private Sector represent amounts due from fertilizer companies, (Zimbabwe Fertilizer Company Limited and Windmill (Private) Limited) which relate to stock balances on toll manufacturing deals during the Zimbabwe dollar era, support granted to tobacco farmers and ZITAC.

	2010 US\$	2009 US\$
14 OTHER RECEIVABLES		
Unrealised exchange gains & losses	4,311,548	6,019,930
Receivables	1,420,499	1,798,889
Prepayments	409,463	416,408
	6,141,510	8,235,227
Government IMF drawdowns	161,882,400	66,105,257
Other	459 910	2,027,608
Impairment loss	(370,000)	-
	<u>168,113,820</u>	<u>76,368,092</u>

RESERVE BANK OF ZIMBABWE
NOTES TO THE FINANCIAL STATEMENT

for the year ended 31 December 2010

14 OTHER RECEIVABLES (continued)

Other receivables are made up mostly of SDR 107 million withdrawn by the Government of Zimbabwe from their IMF allocation converted at an exchange rate of US\$1.54003/SDR1 (2009 :SDR31.5 million US\$1.5863 / SDR1). The Bank hold SDRs on behalf of Government Of Zimbabwe. On receipt of the funds the Bank recognizes cash and a liability, while utilization will result in reclassification of cash to Government recoverable.

Unrealised exchange gains and losses

The balance on the Gold & Foreign Currency Adjustment (GFCA) account is either recoverable from or payable to the Government. Any payment to the Bank of the balance in this account shall be made upon the request of the Bank and any payment by the Bank shall be made in accordance with arrangements approved by the Minister of Finance. Net unrealized foreign exchange losses incurred by the Bank are transferred to the realized GFCA account, once they are realized. The balances of GFCA accounts do not accrue any interest.

	2010 US\$	2009 US\$
15 GOLD AND FOREIGN ASSETS		
Gold	970,486	759,735
Foreign investments	30,313,295	27,960,708
	31,283,781	28,720,443
Committed Funds	13,388,080	12,003,485
African Export-Import Bank	1,125,695	1,118,658
South African treasury bills (Held to maturity)	12,262,385	10,884,827
	44,671,861	40,723,928

South African Treasury Bills of ZAR 82.5 million are held to maturity investments, at the South African Reserve Bank. These treasury bills were pledged as security for the South African overdraft facility of ZAR 75 million.

16 CASH AND BANK BALANCES

	2010 US\$	2009 US\$
Nostro account balances	438,057,322	414,575,889
Cash balances	17,371,121	18,359,604
	455,428,443	432,935,493

Included in the Nostro account balances are BHF Bank accounts which were blocked by a court order in 2009. The balances in these accounts were US\$ 1,817 and EUR 317,237. These amounts were finally garnished in 2011 to settle a loan guaranteed by the Reserve Bank of Zimbabwe.

RESERVE BANK OF ZIMBABWE
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for the year ended 31 December 2010

17 SHARE CAPITAL

	2010 US\$	2009 US\$
Authorised, issued and fully paid 2,000,000 ordinary shares of ZW\$0.0000 each.	-	-

The entire issued share capital of the Bank is held by the Government of Zimbabwe.

The share capital of the Bank is denominated in Zimbabwe dollars and disclosed as nil as the Bank has not yet redenominated its share capital to United State Dollars.

In terms of Section 31 of the Reserve Bank of Zimbabwe Act (Chapter 22:15), the Bank's capital stock shall be in the amount of two million United States dollars or its equivalent in other currencies all of which shall be issued to the State.

	2010 US\$	2009 US\$
18 REVALUATION RESERVE		
Opening balance	214,000	-
Movement for the year	1,442,863	214,000
Closing balance	<u>1,656,863</u>	<u>214,000</u>

19 EQUITY FAIR VALUE ADJUSTMENT RESERVE

Opening balance	18,605,194	-
Movement for the year	2,988,870	18,605,194
Closing balance	<u>21,594,064</u>	<u>18,605,194</u>

20 NON DISTRIBUTABLE RESERVES

Arising from restatement process	<u>(903,715,388)</u>	<u>(903,842,225)</u>
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The amount comprises the overall net effect of the restatement process on the translation from Zimbabwe dollar balance that gave rise to United States dollar denominated Statement of financial position.

21 GENERAL RESERVE FUND

Balance at the end of the year	-	-
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In terms of Section 31 of the Reserve Bank of Zimbabwe Act (Chapter 22:15), the Bank is required to maintain a general reserve fund. Once the balance of the fund exceeds three times the issued share capital of the Bank, any operating surplus, after providing for bad and doubtful debts, depreciation, staff costs and any such items as are usually provided by financial institutions, shall ultimately be paid to the Government of Zimbabwe. The Bank had no General reserve as at 31 December 2010 as the Bank has not made any profit since the change in functional currency.

RESERVE BANK OF ZIMBABWE
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for the year ended 31 December 2010

22 BILLS PAYABLE

	2010 US\$	2009 US\$
Local bonds	4,130,405	3,945,852

The local bonds were issued by the Bank in United States of America dollars prior to the multicurrency system to raise funds to finance the nation's critical foreign currency requirements. The bonds were issued for a period of two years at 6% plus the ruling London-Interbank Offer Rate. These have since matured and the Bank is treating them as creditors.

23 CURRENCY IN CIRCULATION

	2010 US\$	2009 US\$
Notes	-	-
Coins	-	-

24 INTERNATIONAL MONETARY FUND FACILITIES

	2010 US\$	2009 US\$
SDR allocation (2009)	419,163,339	425,316,271
Poverty Reduction and Growth Fund (PRGF)	134,220,381	139,817,336
IMF NO.1 and 2	1,326,724	1,326,724
	554,710,444	566,460,331

The SDR allocation was allocated to the Government of Zimbabwe by IMF, and was deposited into the Bank's offshore account.

The Special Drawing Rights (SDR) amount equivalent owed by the Bank under the PRGF was as follows:

	2010	2009
PRGF	SDR 71,144,594	SDR 73,754,569
Accrued charges	SDR 16,009,753	SDR 15,757,170
	SDR 87,154,347	SDR 89,511,739

RESERVE BANK OF ZIMBABWE
NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

	2010 US\$	2009 US\$
25 FOREIGN LIABILITIES		
Aggregated foreign loans	<u>560,071,439</u>	<u>544,012,432</u>
<p>The Bank's foreign loans are loans owed to non-resident companies, and were drawn down in foreign currencies during the Zimbabwe dollar era. The foreign loans attract interest rates of between 1.25% and 11% per annum.</p> <p>Included in foreign loans is the South African Reserve Bank overdraft of ZAR 73 million, USD equivalent of US\$ 11 million which is secured by encumbered assets in the form of South African Treasury Bills held at the South African Reserve Bank amounting to ZAR 82.5 million, US\$ equivalent of US\$ 12.5 million.</p>		
	2010 US\$	2009 US\$
26 DOMESTIC LOANS	<u>152,630,318</u>	<u>125,078,117</u>
<p>The Bank's domestic loans are loans owed to resident companies. These loans were drawn down in foreign currencies during the Zimbabwe dollar era. The domestic loans attract interest rates of between 1.25% and 12% per annum of the funds advanced.</p>		
	2010 US\$	2009 US\$
27 DEPOSIT ACCOUNTS		
Local		
Financial institutions		
- statutory reserves	83,891,999	71,605,666
- Bankers RTGS	175,422,077	55,216,826
- Parastatals	205,348,887	193,248,204
- Corporates	89,339,444	69,127,270
Other	1,864,146	1,108,310
	<u>555,866,553</u>	<u>390,306,276</u>
Government of Zimbabwe	4,178,365	1,857,584
Short term deposits	59,167,544	56,629,396
	<u>619,212,462</u>	<u>448,793,256</u>
Foreign		
Non Governmental Organisation (FCAs)	20,336,019	17,235,322
PTA accounts	2,968,453	2,958,766
	<u>23,304,472</u>	<u>20,194,088</u>
	<u>642,516,934</u>	<u>468,987,344</u>

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for the year ended 31 December 2010

28	PAYABLES	2010	2009
		US\$	US\$
	Payables	147,976,665	88,085,740
	Government Grant (2011) paid in advance	7,500,000	-
	Other	458,504	478,219
		155,935,169	88,563,959

Included under payables is a provision of US\$ 26 million for retrenchment packages and US\$ 19 million overdue to Zimbabwe Revenue Authority (ZIMRA). Under Zimbabwean tax legislation, amounts overdue to ZIMRA attract interest and penalties.

The Government grant was advanced to cater for the payment of retrenchment packages.

29 CONTINGENT LIABILITIES, COMMITMENTS AND OTHER CONTINGENCIES

A contingent liability of US\$2,800,478 is expected. Included in the figure is an amount of US\$1,814,493 relating to potential interest and penalties on tax exposures. The balance of US\$985,985 relates to court cases involving creditors and other labour issues. The Bank is being sued by various creditors and has accrued for litigation it believes there is a high likelihood that judgment would be passed against it.

A contingent asset of US\$2,863,724 is expected in respect of cases in courts for assets which were bought during the Zimbabwe dollar era and not yet delivered. These cases are for motor vehicles, computers and equipment, which were not delivered to the Bank by various suppliers.

30	CAPITAL COMMITMENTS	2010	2009
		US\$	US\$
	Expenditure authorised and contracted for:	-	-
	Expenditure authorised but not yet contracted for:	-	-

31 RETIREMENT BENEFIT SCHEMES

31.1 Private scheme

The Bank and its employees contribute to the Finance Trust of Zimbabwe Pension Fund. The fund is a defined contribution fund, the assets of which are held in a separate trustee administered fund. The Bank contributes 15% and the employees 6% of pensionable earnings. During the year under review the Bank did not contribute to this fund due to under capitalisation.

31.2 National Social Security Authority (NSSA) scheme

The employees are also members of a state-managed retirement benefit plan, NSSA, and the contributions to the scheme are made in terms of the National Social Security Authority Act (Chapter 17:04). During the year the Bank contributed US\$ 328,751 (2009: US\$451,298) towards this plan and the cost is included in the staff costs.

**RESERVE BANK OF ZIMBABWE
NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2010

31.3 Recognition of contributions

The Bank's obligation with respect to the retirement benefit plan is to make the specific contributions. The contributions to the pension funds are recognised as an expense when they fall due.

	2010 US\$	2009 US\$
31.4 Contributions recognised as an expense during the year		
Finance Trust of Zimbabwe Pension Fund	-	-
National Social Security Authority Scheme	328,751	451,298
	<u>328,751</u>	<u>451,298</u>

The Bank did not contribute to the Finance Trust of Zimbabwe Pension Fund as it received a waiver for 2009 and 2010.

32 FINANCIAL RISK MANAGEMENT

The Bank has various policies and procedures to manage its risk. Certain aspects of its risk management specific to financial instruments are described in more detail below.

32.1 Interest rate risk

The majority of the Bank's loan and advances facilities are at concessionary rates and some are at nil interest which is not market linked.

32.2 Market price risk

Market price risk is the risk of loss resulting from changes in market conditions and prices. In its monetary policy operations, the Bank is obliged to accept certain market-related risks which would not be fully compatible with pure commercial practice. The Bank nevertheless manages its market risks responsibly, utilising modern technology and appropriate organisational structures and procedures. Exposures and limits are measured continuously and strategies are routinely reviewed by management on a daily basis and, when circumstances require, throughout the day.

32.3 Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its contractual obligations. Credit risk arises from such activities of the Reserve Bank of Zimbabwe as advances to and deposits made with other institutions and the settlement of financial market transactions. The Bank manages its credit risk by specifically securing advances to financial institutions with negotiable securities.

32.4 Liquidity risk

Liquidity risk is the risk that an entity may not be able to accommodate decreases in liabilities or to fund increases in assets in full at the time that a commitment or transaction is due for settlement. The Bank faces liquidity risk in respect of foreign assets and liabilities and its risk is further compounded by the fact that the Bank is undercapitalised. Due to these challenges, it has been difficult for the Bank to settle its liabilities as they fall due. However, the Government through the Ministry of Finance has pledged continued support to the Bank. The Government is also working on modalities to take over RBZ liabilities.

RESERVE BANK OF ZIMBABWE
NOTES TO THE FINANCIAL STATEMENT

as at 31 December 2010

33. ASSETS AND LIABILITIES MATURITY ANALYSIS (2010)

	Overdue US\$	On demand US\$	Within 12 months US\$	Other US\$	Total US\$
Assets					
Loans and advances to Government and Statutory Bodies	-	-	-	-	-
Loans and advances	60,576	95,513	-	-	156,089
Investments	-	15,566,394	-	-	15,566,394
Gold and foreign assets	-	44,671,861	-	-	44,671,861
Other:					
- Financial	-	619,230,714	-	-	619,230,714
- Non-financial	-	4,311,548	-	-	4,311,548
Total assets	60,576	683,876,030	-	-	683,936,606
Liabilities					
Currency in circulation	-	-	-	-	-
Bills payable	4,130,405	-	-	-	4,130,405
International Monetary Fund facility	135,547,104	419,163,339	-	-	554,710,443
Foreign loans	560,071,439	-	-	-	560,071,439
Local loans	152,630,318	-	-	-	152,630,318
Deposit accounts	467,094,857	175,422,077	-	-	642,516,934
Other					
- Financial	155,935,170	-	-	-	155,935,170
Total liabilities	1,475,409,293	594,585,416	-	-	2,069,994,709
Sensitivity gap	(1,475,348,717)	89,290,614	-	-	(1,386,058,103)
Cumulative gap	(1,475,348,717)	(1,386,058,103)	(1,386,058,103)	(1,386,058,103)	(1,386,058,103)

RESERVE BANK OF ZIMBABWE
NOTES TO THE FINANCIAL STATEMENT

as at 31 December 2010

33. ASSETS AND LIABILITIES MATURITY ANALYSIS (2009)

	Overdue US\$	On demand US\$	Within 12 months US\$	Other US\$	Total US\$
Assets					
Loans and advances to Government and Statutory Bodies	-	-	-	-	-
Loans and advances	60,762	98,600	-	-	159,362
Investments	-	50,226,617	-	-	50,226,617
Gold and foreign assets	-	40,723,928	-	-	40,723,928
Other:					
- Financial	-	503,283,652	-	-	503,283,652
- Non-financial	-	6,019,933	-	-	6,019,933
Total assets	60,762	600,352,730	-	-	600,413,492
Liabilities					
Currency in circulation	-	-	-	-	-
Bills payable	3,945,851	-	-	-	3,945,851
International Monetary Fund facility	141,144,061	425,316,271	-	-	566,460,332
Foreign loans	544,012,432	-	-	-	544,012,432
Local loans	125,078,117	-	-	-	125,078,117
Deposit accounts	413,770,519	55,216,826	-	-	468,987,345
Other					
- Financial	88,563,959	-	-	-	88,563,959
Total liabilities	1,316,514,939	480,533,097	-	-	1,797,048,036
Sensitivity gap	(1,316,454,177)	119,819,633	-	-	(1,196,634,544)
Cumulative gap	(1,316,454,177)	(1,196,634,544)	(1,196,634,544)	(1,196,634,544)	(1,196,634,544)

RESERVE BANK OF ZIMBABWE
NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2010

34. RELATED PARTY INFORMATION

The Bank is wholly owned by the Government of Zimbabwe. The Bank holds equity interests in the companies listed below as indicated:

Ownership interest and voting power

Fidelity Printers & Refiners (Private) Limited	100%
Aurex (Private) Limited	100%
Export Credit Guarantee Company	100%
Finance Trust of Zimbabwe	100%
Homelink (Private) Limited	100%
Tuli Coal (Private) limited	70%
Sirtech (Private) limited	50%
Transload (Private) limited	50%
St Lucia Park (Private) limited	50%
Venture Capital Company of Zimbabwe	50%
Carslone (Private) Limited	100%

The related party transactions and balances that occurred /arose during the year are not disclosed due to nature of the Bank's operations.

35. COMPARATIVE FIGURES

Comparative figures are based on the 2009 audited financial statements.

36. EVENTS AFTER THE BALANCE SHEET DATE

A significant period has elapsed between the reporting date and the date of finalisation of these financial statements. The following events occurred after the reporting date and did not result in any adjustment to these financial statements.

- a) In line with the requirements of the revised Reserve Bank Act, the Bank embarked on a restructuring exercise where contracts for 1 455 employees were terminated.
- b) Due to the various litigation cases against the Bank, there were numerous incidences in which the Bank's assets were forcibly sold. Creditors attached assets of the Bank and forcibly sold these assets realizing US\$ 1,239,105.
- c) As at 31 July 2012, the Government through the Ministry of Finance had paid a total of US\$ 29.6 million to Afreximbank for the grain loan and US\$ 9.1 million towards the IMF Poverty Reduction Growth Fund, a liability in the Bank's books.
- d) Appointment of two deputy Governors.
- e) Constitution of the Monetary policy committee.
- f) Statutory Reserves were converted to Government paper.

RESERVE BANK OF ZIMBABWE
NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2010

36. EVENTS AFTER THE BALANCE SHEET DATE (continued)

- g) Disposal of the entire shareholding in Tractive Power Holdings.

37. GOING CONCERN

The Bank incurred a deficit for the year ended 31 December 2010 of US\$ 167 million (2009: US\$ 248 million) and as of that date its total liabilities exceeded its total assets by US\$ 1,29 billion (2009: US\$ 1,13 billion), as reflected in these financial statements.

The Bank is wholly owned by the Government of Zimbabwe through the Ministry of Finance and remains core to the Government functions, being the custodian of monetary policy.

Subsequent to the 2010 financial year end, the Board and management have worked to ensure that the Bank remains a going concern through decisive implementation of the following interventions:

- i) Reducing operating costs through a 75% retrenchment exercise that resulted in 1 445 employees leaving the Bank. This left the Bank with a headcount of only 530;
- ii) Disposing its major subsidiaries and non-core investments to raise supplementary resources to meet the Bank's financial obligations;
- iii) Charging service fees for its major services to the market in the areas of Exchange Control and National Payments System Management;

The Ministry of Finance, through a letter of support signed by the Honorable Minister, confirmed the Bank's strategic significance to the Government's operations and pledged to continue supporting the Bank as necessary to ensure that it remains a going concern.

Accordingly, the financial statements are prepared on the basis of accounting policies applicable to a going concern.